RAILROAD WEEK IN REVIEW

June 26, 2020

"Bellevue Yard is the right asset in the right place at the right time," Jim Squires, NS President and CEO, September, 2014

"Coming from Union Pacific, I recognize OmniTRAX's unique ability to work with Class I railroad partners to generate growth using proven methods that have resulted in its current position in the marketplace." — Cameron Scott, incoming Board Chair, OmniTRAX,

Norfolk Southern will flatten the double hump at Bellevue due to "declining car volumes." Opened in late 2014, the class yard — the biggest on NS — represented an investment of about $160 million. NS hosted an Investors' Day in September to showcase the facility, and I was there. As I wrote in WIR (9/26/2014), "The Bellevue expansion is really all about the merchandise carload franchise — which at this moment, including automotive and crude oil, accounts for 33 percent of NS revenue units. The project will nearly double the daily car volume at Bellevue and increase train starts and trains terminated by 75 percent."

This is looking west from the brand new hump control tower. The tank car is heading for the working original half of the yard with all those cars in the distance. The new class yard extending out of the frame on the left effectively doubles the size of the "bowl" and the tank car is atop the double crossover that will allow cars from either of the two hump tracks reach any track in the bowl. All very state of the art then. Soon to be very gone now.

AAR revenue units for May (call it Week 24) are down 12 percent year-over-year. On the surface, this numbers are pretty grim. Until you skin it and clean it. Looking strictly at the merchandise carload trade — the bread-and-butter commodities for the short lines and regionals — the commodity mix has remained fairly constant.

With the exception of coal, auto, and intermodal — places where there isn't much non-Class I play anyway — volume changes are mostly in single digits. The big exception is non-metallic minerals and the big driver there is the fall-off in frac sand due to the oil patch pullback. The first three don't affect that many short lines; frac sand likewise touches only a few short lines.

AAR Week 24 Commodity Comps TYD May 30 2019-2020

Commodity	2,020	2,019	YOY Chg	2020 Pct Total	2019 Pct Total	YOY Point Change
Ag & Food	1,144,941	1,173,134	-2.4%	18.0%	16.0%	2.0%
Chems & Petrol	1,413,654	1,475,843	-4.2%	22.2%	20.1%	2.1%
Coal	1,417,350	1,891,652	-25.1%	22.3%	25.8%	-3.6%
Forest Prods	344,659	374,936	-8.1%	5.4%	5.1%	0.3%
Met Ores & Mins	741,785	813,343	-8.8%	11.6%	11.1%	0.5%
Motor veh & Parts	293,901	480,684	-38.9%	4.6%	6.6%	-1.9%
Non-met Mins	772,416	875,409	-11.8%	12.1%	11.9%	0.2%
Waste non-ferrous	77,795	81,939	-5.1%	1.2%	1.1%	0.1%
Other	163,246	162,302	0.6%	2.6%	2.2%	0.3%
CARLOADS	6,369,747	7,329,242	-13.1%	100.0%	100.0%	0.0%
Intermodal	6,590,357	7,348,868	-10.3%			0
CL+IM	12,960,104	14,678,110	-11.7%			0
Source: AAR						

The real story is the commodity mix, and that's encouragingly consistent. The 2019 and 2020 percent total columns shows the percent of non-intermodal carloads; the YOY percent change column shows how much commodity group has changed its percentage the whole. For example, Ag and Food (grains and processed foods) were 18 percent of shortline carloads Jan-May this year. For the same timeframe a year ago, it was 16 percent of carloads —a two point change.

In other words, it looks to me like the mix in shortline carloads is not likely to see much variation year-to-year. Moreover, the more aggressive, customer-oriented short lines are actually seeing carload increases. And I wouldn't be surprised if short line gains were actually masking Class I organic losses.

Take the full year 2019. AAR revenue units were off 3.8 percent and Railinc non-Class I carloads were down 0.8 percent. If you subtract shortline carloads from Class I carloads, net Class I carloads are down 4.1 percent, 30 bips worse. And the feeder 2019 line share of AAR revenue units was 9.7 percent in 2018. However, to be fair, Class I coal and intermodal are much bigger a percent of the pie than they are for the feeder lines.

Shortline coal, for example, is five percent of total Dec 2019 units. Railinc doesn't provide YTD by commodity but there's no reason to believe the Dec 2019 mix will be much different from the other months. Intermodal is 12 percent of the Railinc total, but that includes regionals like FEC, PAR, IAIS where there are distinct intermodal franchises. Suffice to say, non-Class Is as a group, with limited exposure to intermodal, coal, and automotive, ought to weather the COVID storm relatively unscathed.

I was pleased to see that Cameron Scott, ex UP Chief Operating Officer, has been tapped as OmniTRAX Board Chair. I think as OmniTRAX grows and extends into new markets — acquired the Winchester & Western of New Jersey, and northern Virginia just last September — adding operations heft makes sense. Scott and I overlapped just slightly in my UP short line work, but I found his attention to detail and ability to get right to the point most refreshing.

Says Scott, "Coming from Union Pacific, I recognize OmniTRAX's unique ability to work with Class I railroad partners to generate growth. The company's deep industrial development capabilities and unparalleled expertise delivering complete rail-based solutions makes OmniTRAX uniquely positioned to grow American communities." CEO Kevin Shuba, who is not a railroader by trade, adds, "Cam's record of optimizing rail operations and his extensive network of contacts provide the ideal guidance to meet the needs of a changing marketplace."

OmniTRAX runs 23 railroads in the US and Canada, connecting with seven Class Is. The company's motto is "Rail Made Easy," and I got a taste of that when I wrote a feature article on OmniTRAX for the June, 2017, *Trains*. An excerpt:

> Having multiple railroads with strengths in multiple commodities gives OmniTRAX the ability to play "pitch and catch." First, with with themselves, as with frac sand from Illinois to Colorado with BNSF as the overhead carrier. Second, OmniTRAX seeks to pitch and catch with other short lines because it's a good way for the small carriers to drive growth. Doing do benefits the Class Is because, as Shuba puts it, "We live and breathe with their customers. We're on site with them every day as we do the switching work, our crews are talking to their plant guys, establishing and firming relationships. As a result, OmniTRAX short lines have a good sense for the pulse of the customer base. Rail Made Easy."