

RAILROAD WEEK IN REVIEW

November 18, 2022

“Cindy joined Norfolk Southern during the pandemic and helped us navigate a global supply chain disruption. She strengthened our culture, served as an effective ambassador with our outside stakeholders, and was part of a team effort that has achieved significant improvements in service.” — Norfolk Southern President & CEO Alan H. Shaw

“Poultry and livestock feed make up 97 percent of soybean meal used in the U.S. The other three percent of soybean meal used in the U.S. is in food products like protein alternatives and soy milk. — <https://ussoy.org/uses-for-soybeans/>

“The primary driver of our ADM fair value estimate increase is our improved near-term outlook as we expect grain merchandising conditions will remain favorable for the rest of 2022 and into 2023. Accordingly, we have raised our near-term outlook for its ag services and oil seeds business, which generates the majority of companywide profits.” — Morningstar Analyst Report, October 25

Cindy Sanborn is departing NS as Chief Operating Officer effective the end of this year. Her successor is Paul Duncan, currently Senior Vice President Transportation & Network Operations.

Sanborn came over to NS in September, 2020, succeeding Michael Wheeler, who was on the cusp of retirement. On her watch NS weathered the Covid pandemic and increased freight revenue nearly a third, even as revenue units gained just five percent thanks to the 2022 economic slowdown. The OR shed ten points to a very respectable 61.8 and RPU jumped 26 percent as service improvements increased in value to customers.

Duncan joined Norfolk Southern in March 2022 as VP for Network Planning and Operations and was promoted in September 2022 to SVP Transportation and Network Operations. He led the implementation of Norfolk Southern's TOP|SPG operating plan and played a central role in the company's service recovery effort.

Prior to joining Norfolk Southern, Duncan served as VP Service Design and Performance at BNSF. He also served AVP for Capacity Planning, where he oversaw the company's physical infrastructure capital planning and led the network strategy team.

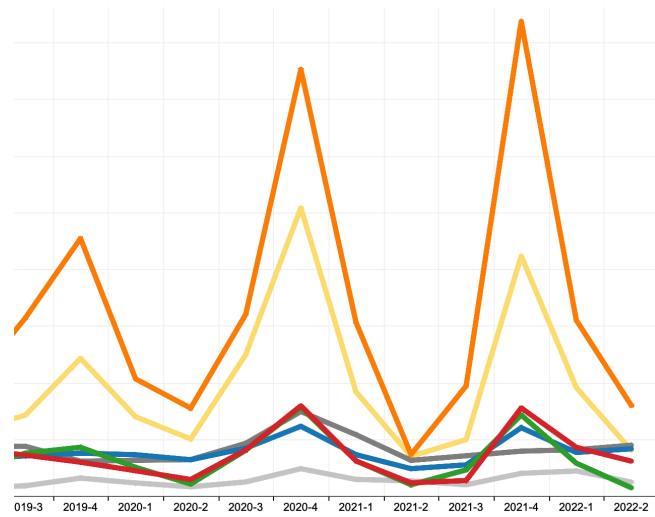
Just as Sanborn brought a long operating lineage to NS, Duncan brings to NS the BNSF network operating discipline pioneered by such notables as Rollin Bredenberg and Carl

Ice. As you know, BNSF has played down the PSR hype partly because — in my opinion at least — PSR as practiced in the US was primarily a means for deep cost-cutting, omitting three of the five basic PSR tenets. In fact, Hunter Harrison laid out the first processes for car scheduling over train scheduling during his Burlington Northern tenure in the 1980s, so the PSR basics are very much embedded in today’s BNSF.

I’m glad Sanborn went to NS and helped sort things out following Wheeler’s less than illustrious COO stint. She clearly set the stage for NS to improve the service product to reach its true potential. And Duncan can oversee the process admirably.

Beans in the Teens! For 35 years, that was the rallying cry for soybean bulls. Every time prices got above \$10 a bushel, somebody would be on TV or the newspaper convinced that this was the year the milestone would be reached. Happily, beans are and have been comfortably in the teens since Jan 2022.

This carload chart¹ typically lags actual moves by a quarter, but you can see the trend. BNSF (orange) and UP are the biggest players and volumes tend to peak in the third and fourth quarters.



The AAR monthly carload reports don’t break out the “grains” category yet — as one might expect — ag products for both were up low single-digits on their third quarter earnings calls.

ADM, Bunge and Cargill are the biggest bean processors and their facilities are concentrated east and south of Chicago with a handful in the Carolinas and Georgia, so NS and CSX do well here. The 2022 bean harvest is 96 percent done with most states reporting above average results, per *Successful Farming*.

Soybean crop condition was rated 57 percent good/excellent, just two points over the five-year average. All three processors are in the Consumer Staples sector, XLP, which is enjoying a strong recovery from its October lows after hitting a three-year high in April. The Street must see more growth for staples, which will be good for beans.

¹ source: https://usrailimpact.com/tableau/getreport?path=/views/MarketAnalysisQCS_CT/CommodityTrendsDB

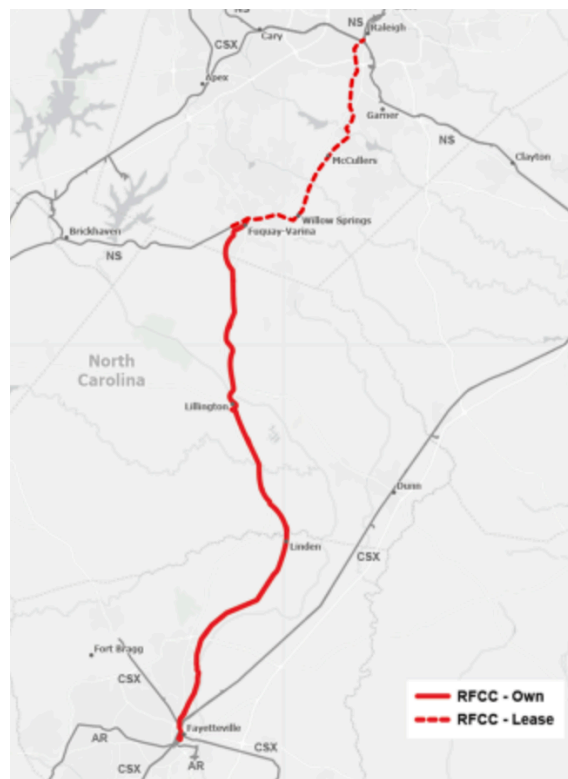
Roughly half the crop is projected to be exported. China is the largest importer of beans by a wide margin, which helps explain why UP and BNSF dominate the soybean carload universe with their access to both the Soybean Bowl in the plains states and the west coast ports. To give you an idea of the spread, UP and BNSF between them moved about 120,000 loads of beans at last year's peak. Roughly one-sixth of that total went to NS and CSX combined.

R.J. Corman Railroad is set to begin operations on the NS Raleigh-Fayetteville line through a lease-purchase arrangement effective next month. This 43-mile line segment will be the Raleigh & Fayetteville Railroad LLC and will be Corman's 19th property.

Commodities range from chemicals, metals, and construction materials to forest, consumer, and agricultural products. The R&F will interchange with NS in Raleigh and both CSX and the Aberdeen & Rockfish Railroad in Fayetteville.

The acquisition expands the Corman Carolina footprint. The "Carolina Lines" have 103 miles of former CSX trackage, forming a T east and south of Mullins, SC. Operations here started in August, 2015.

R.J. Corman Railroad Group is a privately owned holding company that operates short line railroads, provides railroad construction services, railroad emergency response services, signaling, track materials and warehousing. It was founded in 1973 by the late R.J. "Rick" Corman.



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