

RAILROAD WEEK IN REVIEW

February 16, 2024

Terex Corp's primary exposure is the US non-residential construction market, which we believe has downshifted to a phase of slow growth. We don't expect a re-acceleration in non-res spending over the next 1-2 years. — UBS Daily Briefing, Feb 12

"The S&P 500 is populated with great companies, but this is a market that is way overpriced and being driven by momentum and performance chasers. Valuations are beyond expensive, relative strength indices are showing a move back to overbought terrain, and sentiment is off the charts" — Breakfast with Dave, Feb 13

"Supporting better safety outcomes is running a more predictable operation. Predictability is what underpins our velocity and our resiliency. CN's scheduled operating model has delivered seven consecutive quarters of operational and service excellence." — Patrick Whitehead, CN EVP and Chief Network Operating Officer

"Many customers rely upon us to take the lead in developing superior through-rated service proposals for their shipments. Because the LA&L participates in the rail industry's Interline Settlement System, we are a full party to the rate-making process — knowledge that ensures that the LA&L often can be your most competitive option." — [Livonia, Avon, & Lakeville RR website](#)

CNBC headline: “**Activist Ancora *may*** turn to a reliable tactic to enhance value at Norfolk Southern” (emphasis added). Don't you hate it when a columnist puts a guess in his headline? The writer posits that “the PSR roadmap has already been drawn at Canadian Pacific and CSX. Ancora is likely to follow the same strategy here.”

Clearly the writer doesn't understand the essential principals of running a scheduled railroad: schedule cars, not trains, and have those cars running to plan. It's *not* all about cost-cutting. Which is precisely where folks like Jim Foote (CSX) and Lance Fritz (UP) got it wrong. I have Opinions, which I will spend most of the next page outlining.

The writer maintains, “In a railroad company, there is one key metric to look at, which drives railroad profitability and shareholder return: the operating ratio, which shows the company's operating expenses as a percentage of revenue.” From here he argues that because NS has a higher operating ratio than anybody else it's ripe for takeover.

Norfolk share prices popped on the announcement, hitting the 3-sigma Bollinger band (top blue line) that very day, Feb 1. Since then, cooler minds have prevailed, with the 20-day statistical moving average (red line) looking like support, a pattern shared by all the Class Is. Serves the writer right.

He denigrates NS for using “a resiliency model that does not prioritize cost reductions; they are the only publicly traded Class I rail company that does not utilize the PSR strategy.”



He misses the fact that more than a year ago NS CEO Alan Shaw made this precise point in his Investors’ Day remarks: “With everything we do, we will focus on long-term priorities and value rather than just the short-term.” In other words, NS is leaving the *Cult of the OR* and looking to build the customer base in the process.

Moreover, Shaw reinforced this commitment in his January, 2023, earnings call remarks for FY 2022: “We have charted a new course for sustainable long-term value creation. We were the first railroad to launch a strategy that starts with safe, reliable, and resilient service for our customers, balanced with smart sustainable growth and productivity improvements.”

Back to the columnist’s PSR argument. He’s wrong because, in the first place, PSR as implemented by CSX and others was mainly to cut costs whereas Hunter's original focus of PSR was to create more customers that could be served at lower cost per customer. His goal was always running a smarter railroad that scheduled cars, not trains. The focus of PSR in the US has been to reduce the operating ratio, not to create more customers.

As for “resiliency,” see the Patrick Whitehead quote in italics above. Remember it was Hunter Harrison and CN that made Precision Scheduled Railroading a household word. One of his successors was COO Ed Harris, who recently retired after putting that railroad on a secure scheduled basis, passing the baton to Tracy Robinson. She clearly gets it.

Norfolk and others are now waking up to the fact that a low OR is not the answer to running a more successful railroad. I think Joe Hinrichs at CSX is beginning to get it, and I'm sure Jim Vena at UP will take the appropriate steps. After all, Vena was a Harrison acolyte and knows how PSR is really supposed to work.

In the second place, I think Shaw wants to head in the right direction with his “resilience” theme. It is now a matter of getting the rank and file to walk his talk. I am not encouraged in the least by this activist move to replace Shaw and company. As was shown in the years leading up to the Conrail transaction, Norfolk has a great franchise, and properly run can create customers and make money at the same time.

Jim Squires was not the leader they needed a few years ago and his cost-cutting measures did a lot to squander the Norfolk Southern competitive advantage. The only question now is whether Shaw can make it work. Sometimes it seems he may be too nice a guy when you need a Tobias-like person who makes the railroad run right. End of rant.

This just in: Jim Bowers, chief accountant and bookkeeper for just about everybody who's anybody in the shortline business, has earned the ASLRRRA's 2024 Schlosser Distinguished Service Award. The Award, named for former ASLRRRA Chairman Thomas L. Schlosser, is the highest individual honor bestowed by the ASLRRRA, recognizing long-term and significant service to the ASLRRRA and the short line industry.

I've known Jim for about as long as I've been involved with short lines, and have always tagged him as the go-to accountant for my client short lines. He's spent decades serving the shortline railroad industry through his work as a certified public accountant (CPA) in the accounting firm he founded – Bowers and Company CPAs, now called Bowers CPAs & Advisors.

Bowers chaired the ASLRRRA Finance & Administration Committee and has presented regularly at Association events. In addition, Bowers has encouraged employees of the firm to participate in the ASLRRRA, with several chairing committees such as the Finance Committee and the Young Professional's Committee, guiding the work of the association.

Well, done, Jim, and congratulations.

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