RAILROAD WEEK IN REVIEW
August 22, 2025

“We wrapped up 2Q earnings season last week and finished with 23 beats vs. 7 misses and 1 in-line report. But looking past 2Q, Street estimates for 3Q have moved higher for 12 companies and lower for 18. Looking out to next year, we’ve seen Street estimates for full-year 2026 move higher for just 10 companies and lower for 21.” —Scott Group, Wolfe Research, August 18

“We expect favorable railcar leasing conditions to continue into 2026, supported by a high-priced but volume-constrained supply side. More specifically, steel and components costs are keeping new car prices elevated and, while weak new car orders have likely bottomed, we expect production to remain below replacement levels through 2026 (i.e., fleet more likely to shrink than grow). Absolute lease rates are stable.” — Bascome Majors, Susquehanna Financial Group, August 18

The Wheeling &Lake Erie Railroad acquisition at a glance:

*The W&LE is an 840-mile Class II regional railroad with 250+ customers and railroad interchange locations throughout Ohio, West Virginia, Pennsylvania and Maryland. As the largest Ohio-based railroad, it interchanges with CSX, NS, CN, and numerous short lines.

* Buyer: FTAI Infrastructure Inc., an affiliate of Fortress Investment Group.
* Seller: The Wheeling Corporation, controlled by W&LE CEO Larry R. Parsons.
* Price: $1.05 billion in cash.

According to their website, FTAI (Fortress Investment Group), “invests in critical infrastructure with high barriers to entry across the rail, ports and terminals, and power and gas sectors.” As such, the firm develops, acquires, owns, and operates critical infrastructure assets across multiple sectors. The common thread is targeting assets with high barriers to entry.

The deal is backed by $2.25 billion in committed capital — $1.25 billion in new debt and $1 billion in preferred equity from Ares Management. FTAI projects this purchase will generate approximately $200 million in adjusted EBITDA by end-2026. [One must ask why EBITDA rather than GAAP. Hiding something?]

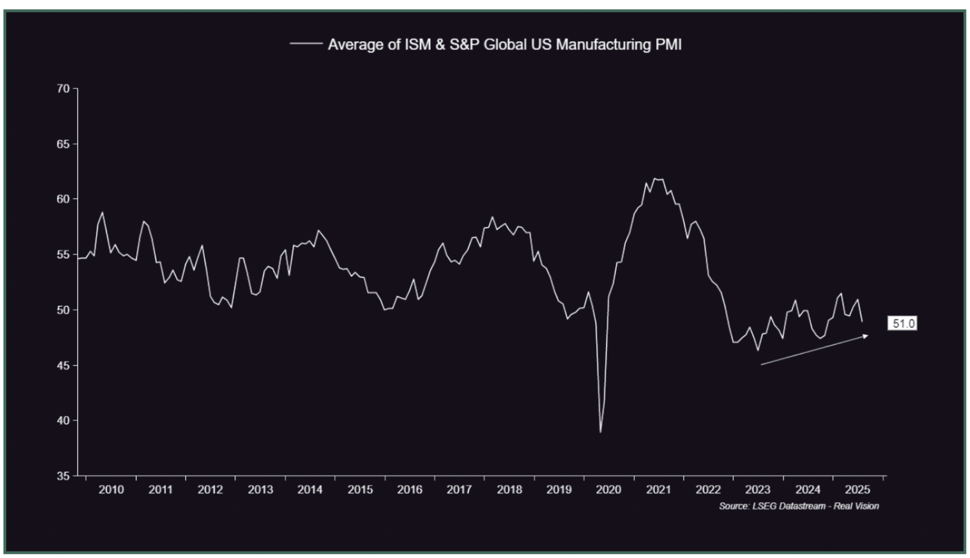
Leading the deal is Ken Nicholson, FTAI’s CEO and President (and Managing Director at Fortress), a Wharton graduate with 30+ years in transportation and infrastructure investing, including stints at UBS and DLJ Transportation Group. Upon closing, W&LE will be folded into FTAI's Transtar platform, unlocking expected synergies while preserving W&LE's identity and legacy.

The transaction is structured to close in 3Q2025, when FTAI takes control of W&LE through a voting trust arrangement as per STB rules. Final approval by the STB is required to complete control transfer.

We may be starting to see a broader market for transportation services. As I've pointed out previously, I think the best way to gauge overall manufacturing sentiment in the US is to take a simple average of both the ISM and the S&P Global US Manufacturing PMI.

In July, we clearly pushed a little lower, but we remain in expansion territory at 51.0, and the upward trend is still intact (see chart below). Visually speaking, this slow and choppy, albeit steady, push higher looks very similar to what we saw back in 2013–2014 and 2016–2018, though the slope is obviously much less steep. This could be due to the general perception that interest rates at the Fed rates remain too high.

Even so, this really isn't a bad look. The way I see it, a slow grind higher is exactly what we want to see here, as a sharp move up like we saw coming out of Covid actually shortened the business cycle, catching many off-guard when it comes to being overexposed to risk. This curve shows a slowing rate of change, still up and to the right.



Feedback from my UP+NS merger comments last week have been edifying and instructional. The mechanics of the transaction aside, the consensus seems to be that much ink will be spilled on how a UP+NS combination might affect service metrics, interchange dynamics, and first-mile/last-mile performance. Shippers will line up to argue their case; economists will model the efficiencies; regulators at the STB will weigh the filings with the careful neutrality that has long been their charge.

But step back. All of this presumes that the institutions themselves remain intact—that evidence still matters more than allegiance, and that rules-bound agencies still act as referees rather than rubber stamps. If the political climate continues to drift toward strong-man rule, what confidence can any of us have that a merger review is about carload flows instead of partisan fealty?

In that light, the UP+NS proceeding may prove to be a test of more than railroad economics. It could become a marker of whether we still have a government that can regulate railroads at all — or whether such questions will soon be moot.

Meanwhile, Activist investor Ancora Holdings told CSX it should pursue a merger deal or replace CEO Joe Hinrichs if it doesn't, according to a letter reviewed by the WSJ. The hedge fund said it is prepared to launch a proxy fight for board seats later this year if CSX doesn't heed its advice. And Ancora wants CSX to hire an investment bank to evaluate strategic options without delay. (CSX had already called Goldman.)

If CSX fails to act, Ancora threatens to mount a proxy fight, aiming to replace the CEO and gain board control, claiming that the railroad has delivered "anemic shareholder returns" and assembled a leadership team of "junior varsity executives." Ancora's campaign mirrors its earlier effort at NS that may have set the stage for the proposed merger with UP. The Street sees a minor uptick in CSX share prices but warns that proxy battles and regulatory hurdles could also bring volatility.

And, not to be outdone, Toms Capital Investment Management, a New York–based hedge fund, known for quietly building stakes and pushing for strategic shifts, has entered the fray. The firm hasn't made any public statements about their plans for CSX, though they had bought ~5.6 million CSX shares in Q2 — about a 5–6% stake.