

The Blanchard Company
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Todd Hunter of the North Shore Railroad Group in Pennsylvania writes, “Not to be outdone by the Portland & Western, attached are photos of our brand new (The paint is still wet!) Rickenbaugh lumber reload center-PA Distribution of West Milton, PA on the UCIR. This 8-acre facility includes warehousing and a center beam transload pad. The double-ended siding was funded in part by the State of Pennsylvania's RFAP Program. We estimate it will see about 600 inbound loads in its first year of operation.

“Dimensional stock arrives on center beams, and OSB and Plywood in boxcars. A brief history is this: Tim Rickenbaugh worked for his family's retail hardware & lumber business in McAllisterville, PA until he got hurt in a bad accident. While recuperating, he started to trade lumber. He found a ready market in the JIT oriented manufactured housing industry clustered in north central PA.

“He started receiving lumber at a team track in Mifflin, PA on Conrail and later, Norfolk Southern (proof again that marginal volume team track business can build to something else!). Tim wanted to expand further into the manufactured housing market and needed a location that he could build a warehouse and have his own siding. We found him the pictured site on our UCIR in West Milton, PA.” And that's what keeps railroads big in value-added services.

Further west BNSF is taking steps to pull its merchandise carload marketing and sales groups into a more cohesive whole. According to a press release, Dave Garin, group vice president, Industrial Products, says, “We have historically approached the carload business through separate and distinct commodity groups. The new organization will be more focused what's shared in common-train capacity and service.”

In other words, it amounts to getting the metals sales team to know what the forest products experts are marketing and the chemicals marketing goorooos to know what the aggregates pushing, and so forth. When I put this to Garin, he e-mailed back, “We need to begin optimizing our resources and sharing our collective experiences across the carload businesses.

“In my opinion, what has historically made us (carload) different from Coal, Ag and Intermodal is that they understand the sale, service and economics of the product they sell---which I would suggest at minimum is the capacity and service of their trains/network. The carload business has historically been marketed and sold on a car by car basis by commodity groups that were trying to optimize their specific goals. There has not always been a clear understanding as to the impact on the carload network and assets being employed.”

Though Dave Garin is the only one who has codified it as such for me, he is not alone. It's just that some class 1s are farther up the learning curve than others. At least everybody is finally treading the same curve.

The New England railroad scene is undergoing some turmoil as the Bangor & Aroostook (BAR) appears to be in play. There was something in the AP about it in January but there's been nothing further. Sources were quoted as saying there had been some difficulty paying utility bills, and

COO Dan Sabin confirmed to the press they were “seeking a suitor.” As recently as Feb 20 Dan Machalaba wrote in the WSJ, “Dan Sabin says he has been talking with some groups, including RailAmerica, whose lines in New England are ‘very natural partners to our operations.’”

By way of background, BAR is part of the Iron Road Railways (IRR) holding company, formed in 1993. It owns more than 1,000 miles of track, of which BAR is 85%. According to *Moody’s Transportation Manual* for 1977, prior to coming to the IRR the railroad had been controlled by the Amoskeag Co. which had in turned purchased it from the Bangor Punta Corp. in 1969. The BAR proper, prior to amalgamation into the IRR family, operated about 400 miles of road entirely in Maine.

Washington Group International issued a press release last week to say that the company faces a cash crunch thanks to certain aspects of its recent acquisition of Raytheon Engineers & Constructors (RE&C). Right away my e-mailbox began buzzing with questions about the impact this action could have on The Washington Company’s Rail Group, comprised of I&M Rail Link, Montana Rail Link, and Southern Railway of British Columbia (see <http://www.washcorp.com/rail.htm>).

If you’ll go to the Media portion of the website you’ll find this succinct announcement: “The Washington Group International’s liquidity problems have no impact on the privately held Washington Companies. For further information contact Washington Group International in Boise.” So I did that and learned that though Dennis Washington’s name appears on both mastheads the fact that one is traded on the NYSE and the other is privately held effectively walls the one off from the other. Whew.

Last week I promised a look at the other NYSE carbuilder, Greenbrier (GBX). Looks like they’re joining the Early Warning crowd, saying that Q2 (ending 2/28) will break even and the FY (ending 8/31) will come in at 40 to 60 cents a share. Last year’s results were 30 cents and \$1.01 respectively. GBX cites a reduction in its North American new railcar production due to the continued softness in the marketplace. Also, there were timing differences in revenue recognition on certain railcars that were produced during the quarter. These cars will be sold and related revenues and earnings recognized later in the fiscal year.

Q4 is expected to return to higher levels of earnings. There will be some layoffs in Canada and Mexico but not in Oregon as production lines are consolidated. GBX stock is up 10% YTD compared to a 5% decline at Trinity (TRN). The former’s 50- and 200 day averages are heading generally north, though just this week TRN crossed the 50-day line on the up side. Among key metrics, TRN has sales of \$2.7 bn to \$600 mm for GBX, yet the latter manages to generate slightly more sales per employee. The bottom line, however, is the carbuilding biz is tough.

And for dessert, here’s one for the Will They Ever Learn file, albeit one with a happy ending. The Germans want to privatize their Deutsche Bahn rail system. The head of the DB supervisory wanted to keep the infrastructure under government control and let the Train Operating Companies run the service. With DB running \$480 mm a year in the red, the Chairman said “Nein!” The supervisory head has resigned.

Roy Blanchard

Disclosure: Blanchard may from time to time hold long, short, or debt positions in the companies mentioned here. A list of such holdings is available on request.

Union County Industrial Railroad inbound lumber transload site in West Milton, Penna.



Union County Industrial Railroad Transload
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