

# THE RAILROAD WEEK IN REVIEW

August 15, 2014

*“We are working hard to provide a value proposition that supports growth with high level of service.” Lance Fritz, Union Pacific President & COO*

**Providence & Worcester’s second quarter** operating ratio was 90.0 after backing out capitalized expenses and other reimbursements, down three full points year-over-year. Operating income was \$932,000, up 55 percent as ops expense was held to a five percent gain against revenues, up nine percent to \$9.3 million. The quarter’s results suggest P&W is gaining on labor, now 47 percent of operating revenues, down from the past pattern of 50 percent or more.

P&W breaks out revenues and revenue-unit counts to carloads and intermodal only, with the former accounting for 95 percent of revenue and only 64 percent of volume. The railroad gets nearly \$900 a car for conventional freight vs \$72 per box in intermodal, dragging system average RPU down to \$550 thanks in part to the 30 percent intermodal volume jump due, says the 10-Q, to “changes in trucking regulations.”

First six months capex was \$2.5 million against \$1.3 million cash from operations. Free cash-flow was minus \$940,000 after asset sales of \$250,000 vs a positive \$609,000 FCF a year ago. The railroad continues to burn capital, with retained earnings about where they were a year ago and down roughly three percent over seven years. Every other rail we’ve looked at over the years consistently grows retained earnings every year, and at a rate of multiple dollars per share per dollar of market cap.

**Genesee & Wyoming July carloads** increased nearly ten percent year-over-year to 157,261; excluding 5,372 RCP&E cars, same-store vols increased six percent. Year-to-date total units are up 6.6 percent, comparing favorably to AAR’s total revenue-units up 4.4 percent year-to-date. RCP&E loads were 61 percent ag products, 23 percent minerals & stone (I’m guessing bentonite, STCC 14 511, is in here) and 12 percent chems (based on the customer list I derived, I suspect ethanol, plastics, ferts). I’d say the RCP&E is off to a good start: Month One annualizes to nearly 65,000 cars a year; the Feb earnings call estimate was 52,500 (WIR Feb 14, 2014).

The RCP&E has changed the GWR mix slightly, moving minerals and stone to 12 percent of vols from six percent, up 31 percent year-over-year. Coal, ag products, metals, forest products and straight chems (no petrol or crude oil) make up the balance of the commodities comprising 80 percent of GWR revenue units. The “Other” commodity group, mainly Class I overhead coal, was up ten percent, though I don’t expect that trend to last.

**With the Union Pacific shortline meeting** now hard upon us (Omaha, Aug 25-27), Bill Greene’s note, “Union Pacific is the New King of the Hill” comes at an opportune moment.

At \$89.4B, Transport Champion Union Pacific is now the largest US freight transport stock by market cap, recently eclipsing UPS's market cap of \$88.3B. We expect UP to enjoy accelerating pricing growth, solid volume and further productivity gains, all of which suggests this train has plenty of momentum left.

Can't argue with that. Among the five US Class I's reporting second quarter results, UP took first place in percentage change in total revenue units, total merch carloads and revenues, percent change in merch carload vols, total operating income, having the lowest operating ratio, and in operating expense ex-fuel per GTM (BNSF excluded as they do not report RTMs).

**The American Short Line and Regional Railroad Association (ASLRRA)** has selected Linda Bauer Darr to succeed Richard Timmons as the Association's President. Darr is now the President and CEO of the American Moving and Storage Association, serving in that capacity since 2007. She has held senior positions in the American Bus Association and the American Trucking Associations, so she's well-versed in the business of moving people and *stuff*.

From 1998 to 2000 Darr served in the Clinton Administration as the Deputy Assistant Secretary for Budget and Programs at the U.S. Department of Transportation, a position which involved budget and programmatic oversight over the FRA. AAR President Ed Hamberger approves, saying, "I have known and worked with Linda over many years. She is a smart, energetic leader with a wealth of experience in the transportation industry. I look forward to maintaining the strong partnership we have enjoyed with ASLRRA under Rich Timmons' leadership."

Timmons' tour ends Dec 31, 2014 after having served 12 years. I've known him for the entire time, and always found him approachable, open to new ideas as long as you'd done your homework, and ready to read you out in the best military tradition if you hadn't. ASLRRA Chair Ed McKechnie gets exactly right: "General Timmons made us a stronger, more effective and more member-focused organization and we are sincerely grateful for the energy and enthusiasm he gave us during his tenure." Roger that.

**Book Review Dept.** *The Twilight of Steam*, Voyageur Press, by Brian Solomon.

You're a laddie of ten waiting on the platform at the Hartford, Conn. Station. It's early December, 1948 and you're on your annual pilgrimage to the Radio City Music Hall Christmas Show with your parents and little brother. Your train is the New Haven Railroad "Nathan Hale," the early morning accommodation with a string of the New Haven's ubiquitous 1938 Pullman Standard "American Flyer" coaches, a parlor car and, best of all, a grill car with sideways seating, hot chocolate with tiny marshmallows, and a train coloring book (crayons supplied).

Here comes the train! Out of the short tunnel, around a brief left-hand curve and into the station behind a USRA heavy Pacific. Unfortunately, these 1400s were gone in a few years, replaced by Alco DL109s and Fairbanks Morse C-liners as the great steam locos of my childhood headed

into the twilight of their years, never to be experienced by today's ten year olds or their younger brothers.

Happily, Brian Solomon's newest book, *The Twilight of Steam*, a handsome coffee-table tome, serves two notable purposes. It lets me relive what I saw in steam, and it helps me show my kids and grand kids what went before the SD70MACS, Geep 38s, and Amtrak P42DC units that frequent the same rails today.

As a railroad practitioner who works mainly with short lines and regional railroads, I find it immensely helpful to know what worked in the past and how it relates to what works today. To be sure, the trains have changed, but where they go and what they do hasn't. *The Twilight of Steam* sets the scene for today's railroad renaissance, letting us geezers recall some favorite moments and at the same time letting today's fans and professionals learn from the past and carry the traditions forward.

For example, after you take your grandson to the Strasburg Railroad you can turn to pages 132-133 in Solomon's book to show him what their 2-10-0 Number 90 looked like back in the day when it worked the sugar beet fields of Colorado. Or turn to page 23 to see a Pennsylvania K-4 on the present-day Amtrak stone arch bridge across Philadelphia's Schuylkill River. Not all looks back are pleasant, however. The Quebec Central 4-6-0 in the snow at Lac Megantic, Quebec in 1960 recalls a more placid time, before the unfortunate events of July, 2013.

The big volume (10x12 inches, 192 pages) is a black-and-white photographer's dream. Solomon introduces each chapter (arranged geographically) with recollections of the photographers themselves. Captions for each image are clear and precise, with a full index of photo thumbnails and more details on how, when and why the exposure was made.

Those of us who were chasing the last of steam at the time can certainly relate to what Solomon has assembled. Others less fortunate can relate nearly as well, thanks to the superb photographic reproduction and thoughtful text. No serious student of the industry can afford to be without this exceptional volume.

**Next Week:** Why don't Class Is put the same pressure on their employees to follow ISAs as they put on the short lines for signing them? A look at car-builder's quarterlies.

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