

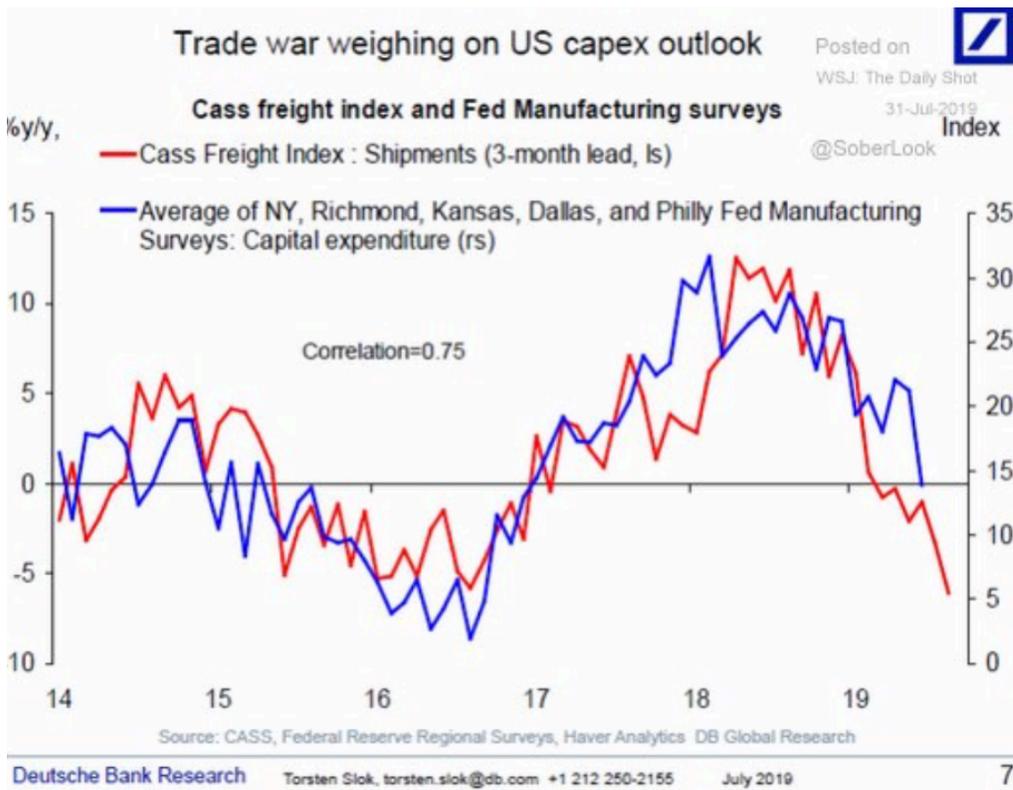
RAILROAD WEEK IN REVIEW

August 2, 2019

“We saw government spending rise at a 5.0% rate. We saw consumption rise at a 4.3% rate, compared to paychecks that are growing at 2.8%, and borrowing that is growing at 5%. Something doesn't figure.” — Danielle DiMartino Booth

“U.S. manufacturers suspended nearly half their investment projects valued above \$250 million because of uncertainty in U.S.-China trade relations. Powell acknowledged that some companies have delayed investments because of the tariffs.” — South China American CoFC

It appears the Class Is are spending more on share buy-backs than on capex. I think I've found the reason:



Freight is a leading economic indicator and, as you can see from the red line above, the downward trend started in the second half of last year. The blue line followed the red line's LEI lead and, if the Cass Index is true to form, the blue line will follow, keeping railroad volume changes month-to-month heading south. So much for the happy talk on the earnings calls.

OmniTRAX has entered into a definitive agreement to acquire the 101 year-old Winchester & Western Railroad (WW) from Covia Holdings Corporation (NYSE:CVIA). The \$105 million acquisition is expected to close during the third quarter of 2019 and is subject to customary closing conditions, including Surface Transportation Board review. WW operates in Maryland, New Jersey, West Virginia and Virginia.

The acquisition expands the OmniTRAX-managed short line portfolio into key new distribution locations in multiple east coast markets, providing OmniTRAX's customers access to 100 million people within a day's transit. By becoming part of the OmniTRAX family, WW gains the support and leadership guidance that will allow it to implement improved operational strategies with the speed and agility that a logistics company can deliver.

OmniTRAX has led the field in bringing PSR principles to the shortline arena and as such will provide an environment in which WW can build further on its close relationship with the Conrail Shared Assets Organization, jointly owned by NS and CSX. Says OmniTRAX president Kevin Shuba, "OmniTRAX has been growing at an average annual rate of 20+ percent for the past five years and the acquisition of this strategic distribution hub is a deliberate step toward enhancing the continued growth and strength of our thriving network."

Covia is a leading provider of products including high-purity silica sand, nepheline syenite, feldspar, clay, kaolin, lime, resin systems and coated materials for industrial end energy-related customers. Covia merged with Unimin — the original owner of the WW — and Fairmont Santrol just last year.

California's Santa Maria Valley Railroad turns 108 this year. The 14-mile line on the Central Coast of California interchanges with the Union Pacific at Guadalupe and serves the Santa Maria Valley, some 250 miles south of San Francisco and 175 miles north of Los Angeles. Commodities include petroleum products, processed foods, lumber, and fertilizer. The railroad serves the Betteravia Industrial Park as well as providing transloading and warehousing facilities.

The Santa Maria Valley Railway was organized in July, 1911, to build a rail line from Betteravia to Roadamite, at the time the world's largest asphalt plant. After years of struggle, new owners came in, renamed it the Santa Maria Valley Railroad and prospered hauling sugar beets, crude oil, consumer products, industrial materials, and building materials. Together with the railroad, the city of Santa Maria and the Santa Maria Valley grew and prospered.

By the mid sixties the original benefactor had passed away and the traffic base started eroding. But the big blow to the railroad was the closing of the Union Sugar Plant in 1993. Over 75% of the traffic was lost. The railroad languished until October, 2006 when the Coast Belle Corporation was formed to acquire the railroad.

Since then SMVR has completely rebuilt the railroad after many years of neglect, rebuilt the customer base, and has an aggressive and ongoing program to regain customers and rebuild and improve the infrastructure. The railroad now handles roughly 3,000 cars a year for its two dozen customers. Happy birthday, SMVR. Well done!

Pioneer Railcorp, the Illinois-based shortline operator, has agreed to be acquired by BRX Transportation Holdings LLC. BRX is a newly-formed entity between Brookhaven Rail Partners, an affiliate of Denver-based Brookhaven Capital Partners, and Related Infrastructure in New York City. NOTE: Brookhaven Rail Partners is not to be confused with GWR acquirer Brookhaven Infrastructure Partners (NYSE: BIP) and based in Toronto.

Pioneer Railcorp owns more than a dozen rail lines. Some of the familiar names include the Elkhart & Western, the Keokuk Junction, the Gettysburg & Northern, Indiana Southwestern, and the Michigan Southern Railroad. The transaction was completed July 31, though the total value of the acquisition was not provided. It is still subject to approval by the STB.

Anonymous “deal maker” seeks \$10 million to acquire a group of three unidentified short lines. Pro forma revenues are \$9.0 million; ebitda \$2.7 million. At the typical shortline allowance of \$300 per car, this implies 30,000 cars/year.

The ebitda target is 30 percent of sales, which seems low. Adding back my cost model number for depreciation on a line this size with an 80 OR brings ops income to \$1.8 million and the model ebitda closer to \$2.5 million. Moreover, 30,000 cars year could support 300 miles of railroad, per my Rule of 100. The maintenance bill just to keep 300 miles of FRA class 2 track up to spec would be on the order of \$1.5 million, nearly half the ebitda.

As I see it, the lack of information about the would-be acquirer of these three lines plus the numbers provided raise more questions than they answer. The Peakstone Group in Chicago has been engaged to assist with the purchase and I hear they’re backing UnitedRail, another would-be acquirer, as well.

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