RAILROAD WEEK IN REVIEW

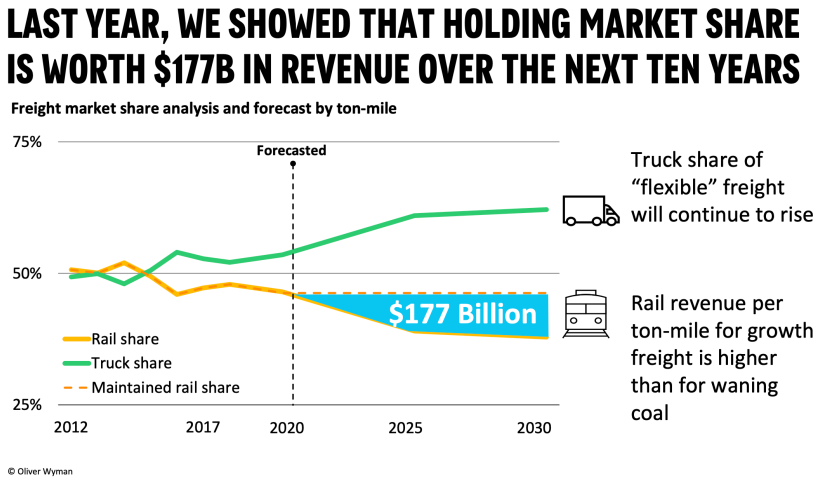
December 3, 2021

The 2021 RailTrends edition was live and in person at the Times Square Marriott Marquis in NY the week before Thanksgiving. The event, as always, is sponsored by *Progressive Railroading* magazine and organized/hosted by 30-year Wall Street transportation analyst Tony Hatch. This year marked RT's 14th birthday, making it the longest running show of its ilk.

Once again the program served up a Who's Who roster of name-brand speakers. To name a few, CP's Keith Creel, STB's Marty Oberman, UP's Kenny Rocker, and CN's Jean-Jacques Ruest, tapped as the *Progressive Railroadin*g/RailTrends Railroad Innovator of the year, which recognizes an individual's outstanding achievement in the rail industry.

Though RailTrends always serves up a tasty banquet of what IS, there is real value in the what CAN BE conversations. In this regard, Oliver Wyman's Transportation and Logistics practice is always quite prescient in its presentations. This year was no different, with the story eloquently laid out by Partner Adriene Bailey.

Her argument is that in order to create the "Customer-Centric Rail of the Future," the industry must "provide a service product that meets customer needs." It's worth real money, too. Just stopping the loss of market share is worth 177 $billion in new revenue over the next ten years.



Delivering the winning transportation product requires just three things, says Bailey. First, designing the service to serve modern supply chain requirements mainly through integrating service offerings with the customer's goods flow. Second, by eliminating "unplanned events" and other service variables by making reliability and asset velocity operating priorities. Third, by maintaining the customer focus across the entire railroad, especially for those who interact directly with customers — train crews, terminal managers, dispatchers, and market managers.

I'm sorry to say that railroad operations managers continue to make the same mistakes that degrade the transportation product over and over again. Exactly a year ago Bailey lamented the lack of customer-centricity in her remarks, citing a customer saying, "Railroads have no sense of accountability for their own operations. As an example, when demurrage occurs, they are immune to the fact that their own operation caused the need for the cars to have an extended dwell."

Five years ago Oliver Wyman partner Rod Case told the RailTrends the railroads need a new operating model, one based on service reliability and resilience: "Over 500,000 unexpected train-based delays impacted one in four Class I road trains in 2013." He cites re-crews and unscheduled work as the leading unplanned events and concludes, "The majority of the failures are outputs of network management decisions."

So even as JJ Ruest, Kenny Rocker, the AAR's Ian Jeffries, and others extol the successes of the industry, one has to wonder why these "unplanned events" keep recurring at such a rate that Wyman's Bailey felt compelled to mention them in her RT2021 remarks. I think it's time to get off this repetitive cycles of making the same service-degrading mistakes and get on with creating a value-adding quality product..

The CP-KCS merger now has the blessings of the STB having "accepted for consideration" the October 29 merger application. According to the STB press release, "The Board finds that the application is complete as it contains all information required by the Board's regulations. In today's decision, following public comment, the Board adopts a procedural schedule that sets deadlines for comments, responsive applications, final briefs, and other filings."

The transaction remains subject to satisfaction of customary closing conditions, including approval from stockholders of both companies. CP's and KCS' stockholders are scheduled to vote on the proposed transaction on Dec. 8 and 10, 2021, respectively. Provided the transaction is approved by CP and KCS stockholders on December 12, the deal will close the 14th. And, closing the circle, the transaction was blessed by the Mexican Federal Economic Competition Commission (COFECE) and Mexican Federal Telecommunications Institute (IFT) on Nov. 26.

RailUSA and its subsidiaries Grenada Railroad (GRYR) and Florida Gulf & Atlantic (FGA) are being sold to the MIP Rail entity wholly owned by Macquarie Infrastructure Partners V Group (MIP V), part of the Macquarie Asset Management division of Australia's Macquarie Group Limited. MIP V is a $US 6.9 billion infrastructure fund and is Macquarie Asset Management's sixth Americas-focused, unlisted infrastructure fund.

According to the November 24 STB filing, FD 36566, "MIP Rail has agreed to acquire 100 percent of the equity interests of RailUSA from its parent, American Rail Partners, LLC." Further, "MIP Rail was selected by ARP from a number of interested purchasers," which tells me RailUSA set up the auction. The filing also states that the present RailUSA, GRYR and FGE

management teams will remain in place, which is a good thing as it assures continuity to customers and connecting Class Is alike. No target closing date is suggested.

By way of review, GRYR is 228 miles of the former IC main line in Mississippi south of Memphis which once hosted the premier *City of New Orleans* and *Panama Limited* passenger trains. When CN bought the IC in 1998, most traffic was diverted to the parallel Yazoo District and much of the original railroad was sold to a scrapper. The communities objected and formed the North Central Mississippi Regional Rail Authority. After a brief stint of Iowa Pacific management, the operating lease went to RailUSA in October, 2018. In 2021 *Railway Age* awarded GRYR the short line railroad of the year honorable mention award.

FGA operates 430 miles of the former L&N/CSX line across the Florida Panhandle between Baldwin and Pensacola, Florida. This was the route of the L&N *Gulf Wind* streamliner between Jacksonville and New Orleans. That service ended in April, 1971, but was resumed in 1993 as an extension of the Amtrak *Sunset Limited* operating over the former SP out of Los Angeles. Amtrak service was suspended in 2005 due to damage to track and trestles by Hurricane Katrina, and has never resumed east of New Orleans.

FGA began operation on June 1, 2019, after RailUSA acquired the line at auction from CSX Transportation, as the second RailUSA property. Now, after new management has begun to breathe new life into these railroads, this change in ownership is very welcome as it enables the present management team to continue to grow and invest in the existing railroads and to look for expansion opportunities.

Whereas the last three years have zeroed in on repair, stabilization, and rebuilding the customer base, the Macquarie acquisition transfers ownership from private equity (target investment term of 3-5 years) to Macquarie and its ten-year outlook. I am most encouraged by this long-term commitment with its focus on infrastructure and new revenue streams.

This just in: NS Chief Marketing Officer Alan Shaw will assume the role of CEO when Jim Squires pulls the pin May 1, 2022. As part of the company's planned succession process, the board of directors has elected Shaw to the role of president, effective immediately. The company's executive leadership team now reports to Shaw.

Shaw is clearly the right guy in the right place at the right time. NS has never been a leader in customer-centric railroading, and that must change. That said, Shaw's quarterly earnings calls presentation remarks have become increasingly customer value oriented over the past few years. IMHO it's the right move, customers will benefit, and operating income will reflect the change.