**Blanchard's Week in Review**
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Genesee & Wyoming (GWR) posted 1Q03 net income of $5.4 mm, about even with 1Q02. North American railroad sales rose 22% to $58.9 mm mostly on acquisitions; same railroad sales were up 2.5%. Operating income for NA was also up 22% to $8.1 mm and the OR held at 86.4 yoy, a notable feat given the 54% same-rail fuel expense increase. Australian Rail Group (ARG) sales were up 9% to $US53.4 mm even though grain sales fell by 10% on 43% fewer carloads and the Australian dollar appreciated 14%. Operating income grew by 7% to $US12.1 mm while the OR added 70 BP to 77.4.

Recall that GWR uses the equity accounting method for off-shore results and the corporate top line revenue is NA sales and operating income is from NA entities. Usually the below-the line equity earnings are enough to offset taxes and interest making corporate net income roughly equal to NA operating income. Not so this quarter. ARG paid out $8.8 mm in taxes and interest knocking ops income down to $4 mm and that was split with the in-country co-owners. Thus eps to common shareholders was unchanged yoy at 31 cents.

NA merchandise carload revenues rose 12% on 14% more loads. Mix changes were evident in lumber and forest products (ex-paper), minerals and stone taking double-digit hits in revenue-per-carload. Worse, minerals and stone carloads were up 26% and revenue was off 2% yoy. One would hope that the change was a function of shorter hauls and better car cycles in this commodity group, increasing the revenue per asset – more turns per month per car means more revenue per box-on-wheels.

Rich Timmons, ASLRRA President, told those assembled for Tuesday's Transportation Week Luncheon at Philadelphia's Union League, "Trucks have some great things going for them, things that the railroad industry quite frankly doesn't have." He then drilled down through an impressive list from free rights of way (no DBOM, no taxes on improvements) to no FELA to paying 15% Social Security vs 35% Railroad Retirement.

From there Rich went on to enumerate the many public benefits of rail transportation: rail freight rates down 29% over 20 years in constant dollars; shifting today's rail shipments to truck would cost $69 bn more; environmental benefits; fuel efficiency; roadway construction costs. Trouble is, he concludes, for the RRs to accommodate future traffic growth will take more money than they will ever have. Ergo state and federal governments might well reconsider how much they spend on truck-roads and starting putting more into rail-roads.

IMHO it's an image problem. The Man in the Street is surprised to learn railroads are profitable and move more freight now than ever before. From a business sense there's another reason the rails are under-appreciated and under-utilized. Class 1 railroad sales coverage stinks. Reps' business cards invariably say "Account Manager," and that means managing every aspect on every account from drumming up new business to making sure trip plans are met to dealing with demurrage.

At three separate shipper meetings in as many weeks I've asked beneficial owners and TPLPs who use rail when they last saw a sales rep. None could remember. Yet each faced some rail-related disincentive from billing errors to equipment supply, demurrage, and random events. What's wrong with this picture?

Account managers aren't taking care of their customers. In any other business the best sales reps have been calling on the same customers for years, and those customers have a common thread. Same industry, same geography, same size in annual sales, e.g. The best sales reps know the only way to ask for the order is to go see the people. The best sales managers also know this and keep the best reps in the field and pay them handsomely for the bacon they bring home.

**R**ail stock investors are in a bit of a dilemma. As noted here last week, more than a few are overpriced if you look at the fundamentals: the estimated forward growth rate lags the price-earnings multiple by 50% or more. Yet in the present market rebound the majors are trading above their 50- and 200-day averages, a positive for technical analysts.

Now comes Barron's On Line (May 11) to say, "We continue to express extreme caution with regards to the equities markets." The argument is that stock prices already reflect a better 2H02 based on the Q1's encouraging returns. On the other hand, quoth Barron's, "The emergence of new heights in bond prices has been a result of the apparent weakening economy as report after report suggests that the economy, in general, is not going to recover in time this year." The writer concludes that the present "overbought" levels of many names must diminish before any renewed series of upticks is likely to be seen.

So, yes, the trend-watchers see trends they like. But the moment any stock dips below the 50-day average the exits may be mobbed. And that takes me back to sales reps asking for the order. You can't have income without sales, and more sales with decent yields (some commodity lanes *are* worth more than others) means lower operating ratios and higher operating margins. In other words, account managers have to manage all their accounts and every call must conclude by asking for the order (or some commitment to do something in the next X days).

**R**ailAmerica's newly formed subsidiary, Rail New Zealand, intends to commence a tender offer for 100% of the equity securities of Tranz Rail Holdings Limited (TRZ). Recall this was one of Ed Burkhardt's WCLX holdings shed by CN last year along with ATN on Tasmania. TRZ is the sole provider of rail freight services in New Zealand and operates metro passenger services in Auckland and Wellington. Total revs for FY 2002 were $US 331mm.

The total offer value for the equity is approximately NZ$0.75 or US$90 mm and represents a 44% premium over the 5/14 close. Gary Marino said in the conference call that there could be non-core asset sales to accelerate the process and rebuilding the carload business will be a central theme. The very next day TRZ shares closed at $NZ0.77, up 48%. Moreover, there are indications in the press that the current owners said they intend to keep their own asset sales program in place even as negotiations continue with RRA.

**W**hat is a shortline? We hear that shortline yoy carload growth runs double that of the class 1s. We also know every class 1 lists switching roads like BRC and TRRA on its map, and some even include class 2s like FLA and (we suspect, though the numbers are not public) Guilford. What I'd like to know is Class I yoy changes in merchandise carload (everything but coal and intermodal) traffic that originates or terminates on an AAR Class II or Class III or switching railroad with the other end of the move on a direct connection Class I railroad. Anybody?

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