The Railroad Week in Review
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The shortline business is essentially a carload business and **Genesee & Wyoming** does it quite well, if their recent year-end and quarterly reports are any indication. North American rail revenue (US, Canada, Mexico) rose 10% to $61 mm in 4Q03 and 17% to $245 mm for the full year. Merchandise carloads accounted for 59% of full-year sales with RaiLink, the company's industrial-switching arm bringing in 25%. Coal had all but one percent of the balance. There were double-digit yoy revenue increases for most commodity groups with forest products, chemicals, farm and food taking the lead.

Roughly 60% of the increase was same-railroad growth, 20% came from the new Oregon property and 20% was foreign exchange related – Canadian dollar up and the Mexican peso down against the green-back. CFO Jack Hellman and I spoke about same-railroad vs. acquisition revenue when he was in town for a conference two weeks ago. We seem to be in agreement that shortline growth is like a sideways hockey stick with the blade down and to the left: a sharp up when the new owner takes over and a slower rate of increase thereafter.

CEO Mort Fuller also said as much when he told the earnings conference call crowd that GWR's acquisition strategy is to build on its five regional cores plus the RaiLink switching operations. Lay down the regional core, make the acquisitions, take the inevitable early revenue gains, and then lever the new, larger combo to consistent if slower growth. Of course this also implies economies of scale as previously separate overheads are combined for further bottom-line leverage.

Getting back to the financials, again looking at North America only, every expense category but equipment rents was up double-digits for the full year over year. The total was up 15% before the gain on sale and impairment of assets. In 4Q03 most lines were up 7-9% yoy though the 68% jump in casualties and insurance was a one-time event. Quarterly fuel, thankfully, held to a 7% increase vs. 37% increase for the year. A 10% move either way could mean a 5-10% eps swing.

For the corporation as a whole quarterly net income was up 37% to $8 mm yoy and EPS increased 30% even though the share count went up by half a million. Not shown in the financials is a nickel a share non-cash charge relating to recent reorganization of the Australian properties. For the year net income hit a record $29 mm, up 12%. North American operations accounted for 63% and Australia 36%. Diluted EPS increased 10% yoy to $1.61 on no appreciable change in share count.

GWR was refreshingly unrestrained in sharing its outlook for 2004. While acknowledging there are risks everywhere, the Australian wheat picture is encouraging and neither the open access regime nor port constraints are likely to loom large. Recovery in the US will generally follow what's expected for the economy as a whole. The common stock will split three-for-two on Mar 18 for owners of record on Feb 27 and the pre-split outlook for 2004 is in the range of $2.10-$2.30 pre-split led by Australia and the GP acquisitions.

Union Pacific dwell times continue to resist efforts to increase system fluidity. For the week ending Feb 6 (the latest available on the www.aar.org Performance Measures Page) dwell times compared to the 1Q03 average increased at eleven of 13 yards listed. Of the eleven there were eight with double-digit increases and five with increases of 25% or more. A year ago the average dwell for the sample was 29.3 hours. The Feb 6 sample was 36.4 hours, up 19%. The most egregious offender was West Colton, up 57.8% to 48.6 hours.

That said, UP has to be given an "A" for the effort and energy invested in improvement. You've read about the big bites – more new power, crew hiring, etc. But where it really matters is in customer interface. Recall UP's "Customer Satisfaction Index" was flat at 78% for 2003 vs. 2002 following successive years of improvement (see slide 14 from the most recent earnings presentation).

At the moment I have four client projects that center on UP and the cooperation and creativity to find work-arounds has been impressive. Perhaps the reason is that in every case and at at every level we've sought ways to keep cars moving. For shortlines we've looked at managing the interchange process better. For customers we've looked for places we could free up track space. We've used Trip Plan Compliance records to identify opportunities for shippers and shortlines to increase fluidity at their respective ends of the move. In short, I think once we get past this block UP performance will be better than ever and the CSI will rise again.

January car counts are in at **RailAmerica**. System-wide loads excluding Chile due to the pending sale, increased 10% yoy; on a "same railroad" basis it was a 7% gain. Total North American carloads for January 2004 were up 6% to nearly 98,000 units. Same-railroad units were up 3% yoy to more than 94,000. Strong bridge traffic, agricultural & farm products, and metallic/non-metallic ore shipments were partially offset by lower auto and intermodal carloads. Australian carloads jumped a whopping 34% to more than 17,000 units as yoy grain shipments more than doubled.

The NA traffic mix is a bit worrisome. Bridge traffic was up 38% yoy and accounted for 17.5% of revenue units up from 13.4% in Jan 2003. In 3Q03 it was 15.2% of revenue units vs. 16.2% in 3Q02 and generated about 7% of revenues. Both periods ran about $130 a car, half the average RPU. The Sep 30 RRA car count reports shows the line as "Railroad equipment/Bridge Traffic," indicating a mix of empties being repositioned for loading and overhead loads.

This could be either good news or bad news, depending. If RRA is being paid to reposition cars for loads that they will originate, then it's good news. Or if they're doing empty back hauls for a Class I and have the train capacity to do it for no incremental cost then it's still a plus. But if it's counted as a revenue move and trains are built and scheduled to handle it then maybe it's not so good. RRA reports 4Q03 and full year results this coming Thursday at 1100. Let's ask.

Canadian National CEO Hunter Harrison, speaking at Thursday's Deutche Bank Transportation Conference, told the assembled multitudes that congestion at the Port of Vancouver may well steer some rail business north to Price Rupert. The Prince Rupert port has the shortest sailing time to Asia and CN's recent agreement with the BC provincial government re operation of BC rail makes the port that much more accessible. Like the Great Lakes buy, BC Rail extends the reach of CN immediately and the shareholder benefits ought to be seen in short order.

Table 1. This GWR worksheet is the format I use for all my railroad analysis. With all the reports in the same format one can readily compare properties. The entire 10-railroad report in PDF format is available for $25. Individual railroad analyses are $5.

GNWR Carload Revenue analysis

Periods ending December 31

Fourth Quarter 2003	Fourth Quarter 2002	Pct Chg		Year-to-Date 2003	Year-to-Date 2002	Pct Chg
North America Commodity Revenue ($mm)						
$ 7.6	$ 6.8	11.8%	Paper	$ 30.9	$ 25.7	20.2%
$ 5.7	$ 5.0	14.0%	Pet Prods	$ 24.5	$ 20.7	18.4%
$ 5.5	$ 4.5	22.2%	Mins & stone	$ 22.4	$ 21.2	5.7%
$ 4.3	$ 3.4	26.5%	Lumber & FP	$ 17.1	$ 12.8	33.6%
$ 4.5	$ 4.0	12.5%	Metals	$ 17.1	$ 16.0	6.9%
$ 2.9	$ 2.5	16.0%	Chemicals	$ 11.1	$ 9.5	16.8%
$ 3.9	$ 3.0	30.0%	Farm & Food	$ 12.1	$ 10.2	18.6%
$ 1.4	$ 1.6	-12.5%	Automotive	$ 5.8	$ 7.0	-17.1%
$ 0.7	$ 0.9	-22.2%	Other	$ 2.2	$ 4.2	-47.6%
$ 36.50	$ 31.70	15.1%	Total	$ 143.2	$ 127.3	12.5%
$ 9.0	$ 9.3	-3.2%	Coal Coke & Ores	$ 37.9	$ 28.7	32.1%
$ 0.4	$ 0.3	33.3%	Intermodal	$ 1.6	$ 1.3	23.1%
Revenue Carloads (000)						
18.3	16.9	8.3%	Paper	74.6	64.5	15.7%
7.8	7.2	8.3%	Pet Prods	31.8	29.5	7.8%
13.9	12.0	15.8%	Mins & stone	57.8	50.8	13.8%
13.3	9.7	37.1%	Lumber & FP	53.8	36.3	48.2%
14.5	14.7	-1.4%	Metals	58.1	57.8	0.5%
5.9	5.6	5.4%	Chemicals	23.5	19.9	18.1%
10.9	8.3	31.3%	Farm & Food	32.6	27.4	19.0%
3.5	4.0	-12.5%	Automotive	14.2	17.1	-17.0%
2.8	3.4	-17.6%	Other	10.3	15.5	-33.5%
90.9	81.8	11.1%	Total	356.7	318.8	11.9%
41.9	44.0	-4.8%	Coal Coke & Ores	167.4	136.0	23.1%
1.2	1.3	-7.7%	Intermodal	5.5	5.4	1.9%
0.7	0.8		Mdse CL Equiv			
Avg. Revenue per Carload						
$ 415	$ 402	3.2%	Paper	$ 414	$ 398	4.0%
$ 731	$ 694	5.2%	Pet Prods	$ 770	$ 702	9.8%
$ 396	$ 375	5.5%	Mins & stone	$ 388	$ 417	-7.1%
$ 323	$ 351	-7.8%	Lumber & FP	$ 318	$ 353	-9.9%
$ 310	$ 272	14.1%	Metals	$ 294	$ 277	6.3%
$ 492	$ 446	10.1%	Chemicals	$ 472	$ 477	-1.1%
$ 358	$ 361	-1.0%	Farm & Food	$ 371	$ 372	-0.3%
$ 400	$ 400	0.0%	Automotive	$ 408	$ 409	-0.2%
$ 250	$ 265	-5.6%	Other	$ 214	$ 271	-21.2%
$ 402	**$ 388**	**3.6%**	**Total**	**$ 401**	**$ 399**	**0.5%**
$ 215	$ 211	1.6%	Coal Coke & Ores	$ 226	$ 211	7.3%
$ 333	$ 231	44.4%	Intermodal	$ 291	$ 241	20.8%
$ 567	**$ 392**		**Msde CL Equiv**	**$ 495**	**$ 409**	

Total NA Railroad Revenue

$	36.5	$	31.7	15.1%	Carload	$	143.2	$	127.3	12.5%
$	9.0	$	9.3	-3.2%	Coal coke ore	$	37.9	$	28.7	32.1%
$	0.4	$	0.3	33.3%	Intermodal	$	1.6	$	1.3	23.1%
	15.7	$	14.8	6.1%	non-freight		62.2	$	52.2	19.2%
$	61.6	$	56.1	9.8%	Total	$	244.9	$	209.5	16.9%
	59.3%		56.5%		Pct carload		58.5%		60.8%	
	14.6%		16.6%		Pct coal coke ore		15.5%		13.7%	
	0.6%		0.5%		Pct Intermodal		0.7%		0.6%	
	25.5%		26.4%		Pct non-freight		25.4%		24.9%	
	100.0%		100.0%				100.0%		100.0%	

GWR Corporate Income Statement

(Dollars in mms except per share)

		Fourth Quarter								
	2003		**2002**	**Pct Chg**			**2003**		**2002**	**Pct Chg**
$	61.6	$	56.1	10%	Revenues	$	244.9	$	209.5	17%
$	53.3	$	46.3	15%	Expenses	$	208.5	$	177.6	17%
$	8.3	$	9.8	-15%	Ops Income	$	36.4	$	31.9	14%
$	0.2	$	0.2		Other Income	$	1.0	$	0.7	
					Equity Earnings					
$	3.5	$	1.2	192%	ARG	$	10.4	$	8.5	22%
$	0.2	$	0.3	-33%	South America	$	0.3	$	1.3	-77%
$	(2.0)	$	(3.0)	-33%	Interest Exp	$	(8.6)	$	(8.1)	6%
$	(2.3)	$	(2.8)		Income Tax Prov	$	(10.6)	$	(8.8)	20%
$	(0.3)	$	(0.3)		Pref Shares	$	(1.3)	$	(1.2)	8%
$	7.6	$	5.4	41%	Net Income	$	27.6	$	24.3	14%
	18.7		17.7	6%	Dil. Shares		17.8		17.6	1%
$	0.41	$	0.31	33%	Dil. EPS*	$	1.55	$	1.38	12%
$	0.43	$	0.33	30%	Reported EPS	$	1.61	$	1.46	10%
	86.5%		82.5%	3.99	Op Ratio**		85.1%		84.8%	0.36

* May differ due to rounding

** Change in points

NA Expense analysis				Pct Chg						Pct Chg
$	22.5	$	20.7	9%	Comp & benefits	$	87.3	$	77.8	12%
$	5.2	$	4.8	8%	Equip rents	$	18.4	$	17.8	3%
$	4.0	$	4.5	-11%	Purch Svc	$	17.8	$	15.5	15%
$	4.0	$	3.7	8%	Depr & Amort	$	15.5	$	13.6	14%
$	4.6	$	4.3	7%	Fuel	$	18.3	$	13.4	37%
$	4.2	$	2.5	68%	Cas & Ins	$	13.8	$	10.5	31%
$	3.4	$	3.8	-11%	Materials	$	15.2	$	13.0	17%
$	(0.2)	$	(2.8)	-93%	Gain on assets	$	(0.1)	$	(3.1)	-97%
$	5.6	$	4.8	17%	Other	$	22.3	$	19.1	17%
$	53.3	$	46.3	15%	Total	$	208.5	$	177.6	17%
	53.5		49.1	9%	Total ex-gain		208.6		180.7	15%