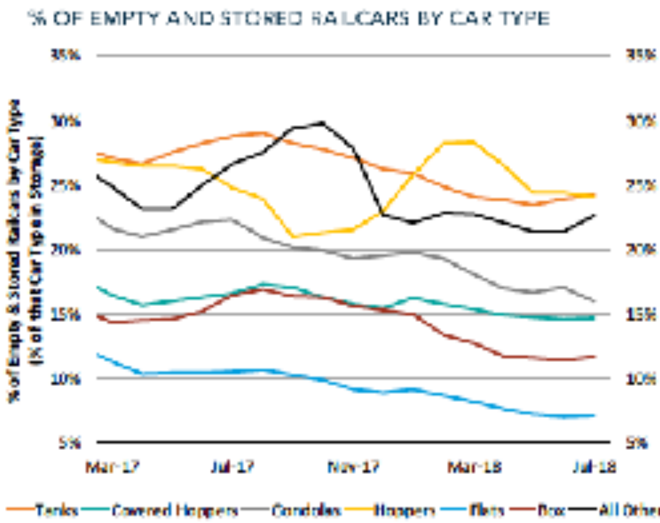
RAILROAD WEEK IN REVIEW

July 13, 2018

"The 2017 study found that the correlation strengthens over time: the more a country increases railway investment, the greater the improvement in network performance,." — Boston Consulting Group on Railway Performance Index, International Railway Journal, June, 2018

Cars-in-storage trends can give some insight as to what's coming in terms of merch carload volumes. Susquehanna's Bascome Majors writes that, as a percentage of car-type fleets, tank cars and open-top hoppers vie for the top spot for cars idled. On the other hand, cars-in-storage for other types are trending down. I find it particularly encouraging to see see boxcars, mill gons and covered hoppers being kept busy — a positive sign for the merch sector.



Scott Group at Wolfe Research supports Bascome's findings with his commodity volume analysis. He finds positive sequential quarter-to-quarter volume changes for all STCC groups, and intermodal volume increases flat. (Now THATS's a change worth noting.) Moreover; Scott expects "accelerated pricing" for two years out. Looks like a good time to get handling line fees up. I think ISS roads ought to be OK.

Regarding the economic outlook, Schwab Vice President of Trading and Derivatives Randy Frederick tweets July 10, "There is no lack of optimism in small businesses, despite the trade war. The June NFIB (National Federation of Independent Business) survey came it at 107.2, very near a 35-year high."

SCHWA, the Schwab small business ETF, indexed to the small-cap portion of the Dow Jones U.S. Total Stock Market Index actually available to investors in the marketplace, has been trending steadily lower left to upper right for a year. In fact, share prices have stayed above the 20-day SMA for most of that time. I mention this because short lines, by and large, concentrate on smaller businesses and can support their ability to stay nimble in changing markets.

Morningstar's July Mid-Cap list gives us some names. Owens-Corning makes the list for its potential "to earn economic profits over the coming decade as the U.S. residential construction activity strengthens and growing demand for glass fiber composites is met with limited capacity additions, which should support better pricing." I can think of several non-Class I railroads that support roofers.

The packager Bemis also gets a Morningstar nod for its narrow moat, defined as having sustainable competitive advantages and attractive valuations.

> Bemis' main competitive advantage lies in its intangible assets associated with the production of meat, cheese, and dairy packaging. The process to manufacture a candy wrapper or bread bag differs substantially from producing a flexible package for bacon or cheese. Most dry goods can be packaged using wide-application resins or films from Dow or DuPont, while meat and cheese typically have characteristics that require specialized packaging.

Energy driller Range Resources is recognized for its Marcellus and Louisiana footprints. The company's early entrance into these markets generated significant competitive advantages, including blocked-up acreage positions that allow for longer lateral drilling. Additionally, the company's existing well pads should boost returns on future wells drilled in the company's liquids-rich areas.

The message here is that going out and talking to prospects about their relative competitive advantages and how to expand them can yield additional carloads.

It's an old adage that any company will lose ten percent of its customers every year, so replenishment of the customer base is essential. And for the railroad to win new customers, those targets have to know where your railroad runs and the markets it serves. The Gulf & Ohio's Lancaster & Chester industrial development program is a textbook example of where to start.

The line is less than an hour's drive from the Charlotte airport just off I-77, has access to more than 3,000 acres of industrially-zoned property, and connects with both CSX and NS. Transload facilities are located in Chester, Fort Lawn, and Lancaster, and handle a range of products from liquid chemicals, plastics, agricultural products, and lumber.

Click on the *Industrial Sites* link on the L&C page and go directly to aerial photographs of seven sites, each of which provides acreage, soil type, utility specs, and transportation options — the L&C and I-77 being at the top of the list. And if the center of the Charlotte-Columbia-Greenville industrial triangle isn't to your liking, the G&O has three other railroads to choose from, each with its own robust ID planning tools.

OmniTRAX has closed with CSX to assume full ownership of the Alabama & Tennessee River Railway and Fulton County Railway. The ATN, based in Gadsden, AL, operates 120 miles track used to transport cement, pulp board, food products, canned goods, steel and more. The line extends from Birmingham, Alabama to the rail barge terminal at the Port of Guntersville, interchanging with CSX at Birmingham's Boyles Yard and the NS at Alabama City.

The FCR, based in Atlanta, operates 25 miles of track in the Fulton County Industrial Park, providing service to warehouses and light manufacturing companies transporting food products, metals, building materials, paper, and packaging products. The park is located adjacent to I-20 just six miles west of downtown Atlanta, and currently has rail-served properties available; customers include Americold Logistics, Amware, Saddlecreek Logistics, CKS Packaging and Owens Corning.

The ATN started operation in 2004, running on the CSX-owned ex-L&N line, whereas the FCR also dates from 2004 and runs over former ACL tracks southwest of Atlanta. OmniTRAX takes title to these properties through a wholly-owned affiliate, HGS Railway Holdings Inc. These segments are not included in the 8,000 miles CSX has under review.

Elsewhere, The Panhandle Northern, an OmniTRAX shortline, will be the beneficiary of a federal grant sponsored by the City of Borger, the western terminus of the railroad. The city has submitted a federal grant request under the 2018 FRA "Consolidated Rail Infrastructure and Safety Improvements" (CRISI) program. PNR connects with BNSF at Panhandle, Texas, 30 miles east of Amarillo and ten miles north of the nearest I-40 connection.

If awarded, the project will provide $4.3 billion for some 14,000 new ties plus more than 13,000 tons of ballast for its 32-mile right-of-way. The property now handles roughly 11,000 cars a year, with commodities ranging from anhydrous ammonia and a number of NGLs, to sulfuric acid, refined gasoline, crude oil, and toxic corrosive liquids; transload site are available, too. This will truly be money well invested and I would like to see the grant request successful.