RAILROAD WEEK IN REVIEW

August 20, 2021

"We are very pleased with the start to 2021 in this demand-driven agriculture rally. These results are our best first quarter performance since 2014 and reflect good execution coupled with the results of our multi-year cost reduction project." — The Anderson's, Inc., 2Q2021 Earnings Release

"Over the last year, we have talked extensively about the transformational journey that we are on and that our investors should measure us by the progress we make each quarter. I'm proud to say that the second quarter was a very strong example of making progress and also in continuing to build momentum." — FreightCar America CEO James Meyer

The Anderson's, Inc. (ticker ANDE), the agricultural powerhouse out of Maumee, Ohio, is selling its railcar leasing business to American Industrial Transport (AIT) for about $550 million in cash. It has also put on the block the remaining remaining railcar repair business, including 29 facilities throughout the US, according to the press release. The June 30, 2021 10-Q tells us there are some 22,000 cars are in the fleet.

The Q also reports rail results increased "driven by the opportunistic sale of older railcars due to favorable scrap prices." Moreover, lease rates are expected to stay relatively flat for much of the year, "even though the North American railcar industry is showing signs of a slow recovery." In other words, we're not making any money from the lease fleet so let's let somebody else run it.

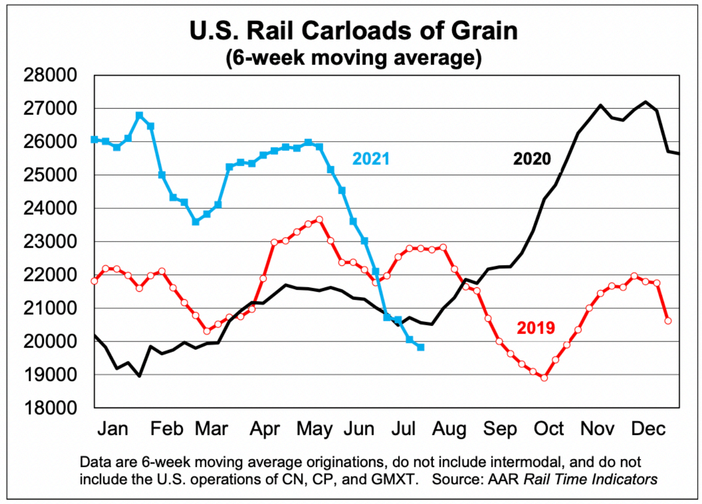
Not that it's a bad business. Average utilization rates increased from 88.3 percent in the second quarter of 2020 to 89.7 percent in the second quarter of 2021. Still, exiting the lease business lets ANDE put its resources against its core business — dominance in grains, fertilizer, and ethanol — and "enables further debt reduction, increases financial flexibility for investment in future strategic growth opportunities."

For its part, the buyer now has a fleet of some 60,000 units "across a diverse offering of car-types, equipment life-cycles, and commodities." The company is an affiliate of ITE Management L.P., an asset manager targeting transportation and industrial assets, companies, and related industries and services.

The trend in ag carloadings is down, according to the AAR. That suggests to me the larger fleet owners are better positioned to absorb near-term ups and downs in order to position themselves for better times. This transaction effectively doubles the AIT grain car fleet and adds to the load of its repair and rehabilitation facilities.

Says the AAR, U.S. carloads of grain were down 7.3 percent in July 2021 from July 2020, their first year-over-year monthly decline in a year. U.S. grain carloads averaged 19,274 per week in

July 2021, their lowest weekly average since September 2019.



Exports are the problem. According to data collected by the USDA, U.S. rail movements of grain to ports and across the border to Mexico in July were less than half what they were at the end of 2020 and early 2021. Carloads to ports have been falling steadily for several months.

Moreover, the shortfall seems to be continuing. Bascome Majors of Susquehanna Financial reports that "intermodal volumes are driving the seasonal weakness with carload grain also at the lower end of typical seasonality."

Clearly, the sale of the railcar lease fleet is a timely move for ANDE. And I think consolidation of grain car fleets can only be good for farmers who depend on the railroads to move their grain to market.

FreightCar America (ticker RAIL) seems to have turned a corner. Second quarter revenue was $32 million, more than double what it was a year ago as deliveries tripled to 313 units over last year's 100 units. RAIL is increasing guidance for rail car deliveries to be between 1,750 and 1,850 rail cars in fiscal 2021. This is up 20 percent at the midpoint, compared to the original outlook of 1400 to 1600 rail cars at the start of the year.

During the quarter, the company continued work on its fabrication shop as well as the new Castonas (Mexico) wheel and axle shop. These work streams are expected to be completed in early 2022, allowing RAIL to take a large majority of its fabrications in-house. The timing couldn't be better. The quarter just closed represented their third consecutive quarter of positive gross margin, positive operating income at the manufacturing level, and a solid mix of new business awarded. Turning a corner, indeed.

The state of Kansas will invest some $5.2 million in local carriers and customers through its Shortline Rail Improvement Fund program. Six projects were awarded to shippers and four went to short lines, ranging from $56,000 for new scales for a grain merchant to nearly $2 million for industry track extensions to add capacity.

State funding for these projects will be enhanced by a 30 percent match from each recipient. The total investment now exceeds $7.4 million. Short lines include the Kansas & Oklahoma, $536,000; Kyle, $700,000; South Kansas & Oklahoma, $115,000.

Well, August 17 has come and gone with Kansas City Southern following through on plans to delay its vote on Canadian National's merger offer, pending the STB decision on the CN Voting Trust. KCS stockholders were set to vote on the deal Thursday, but instead pushed the shareholder meeting out to September 3.

As of noon Wednesday KCS (ticker KSU) shares were virtually unchanged over the past five trading sessions. The feeling is that financial interests are beginning to outweigh the interests of railroad operators and customers. We've seen it before as share price increases seem to trump commercial gains. There is a whole nest of so-called hedge funds and private equity operators who live for a penny spread in share price between ask and offer, and they could win the day.

CN (ticker CNI) shares dropped below the 200-day moving average in mid June and have been there so long they are now languishing below the 50. Looks like somebody is voting against CN success with its Voting Trust. (FWIW, CP shares are in the same boat.)

AAR North American Rail Traffic increased 10.3 percent over the corresponding Week 32 total a year ago. As expected, intermodal containers continue to be strong, up 12.8 percent, but on a sheer percentage basis, met ores/metals jumped 17.6 percent, automotive increased 15.6 percent, and coal (!) gained 12.2 percent.

Among merchandise commodities, only "farm products" (mostly STCC 20 processed foods) lost ground, and that by a mere one percentage point. More important, from a shortline point of view, chemicals increased five percent and grain (corn, beans, wheat) increased 10 percent.

That carloads are increasing suggests two things: that demand for the end products is picking up, and that the railroads are recovering share by providing a better transportation value in the eyes of the customer. The Class Is are calculating Trip Plan Compliance on the date of shortline interchange, but the customer is looking at release-to-place days and hours. Thus the regional carrier that can move cars on and off the railroad in a sprightly manner will enhance the customer's competitive advantage vis-a-vis his competition.