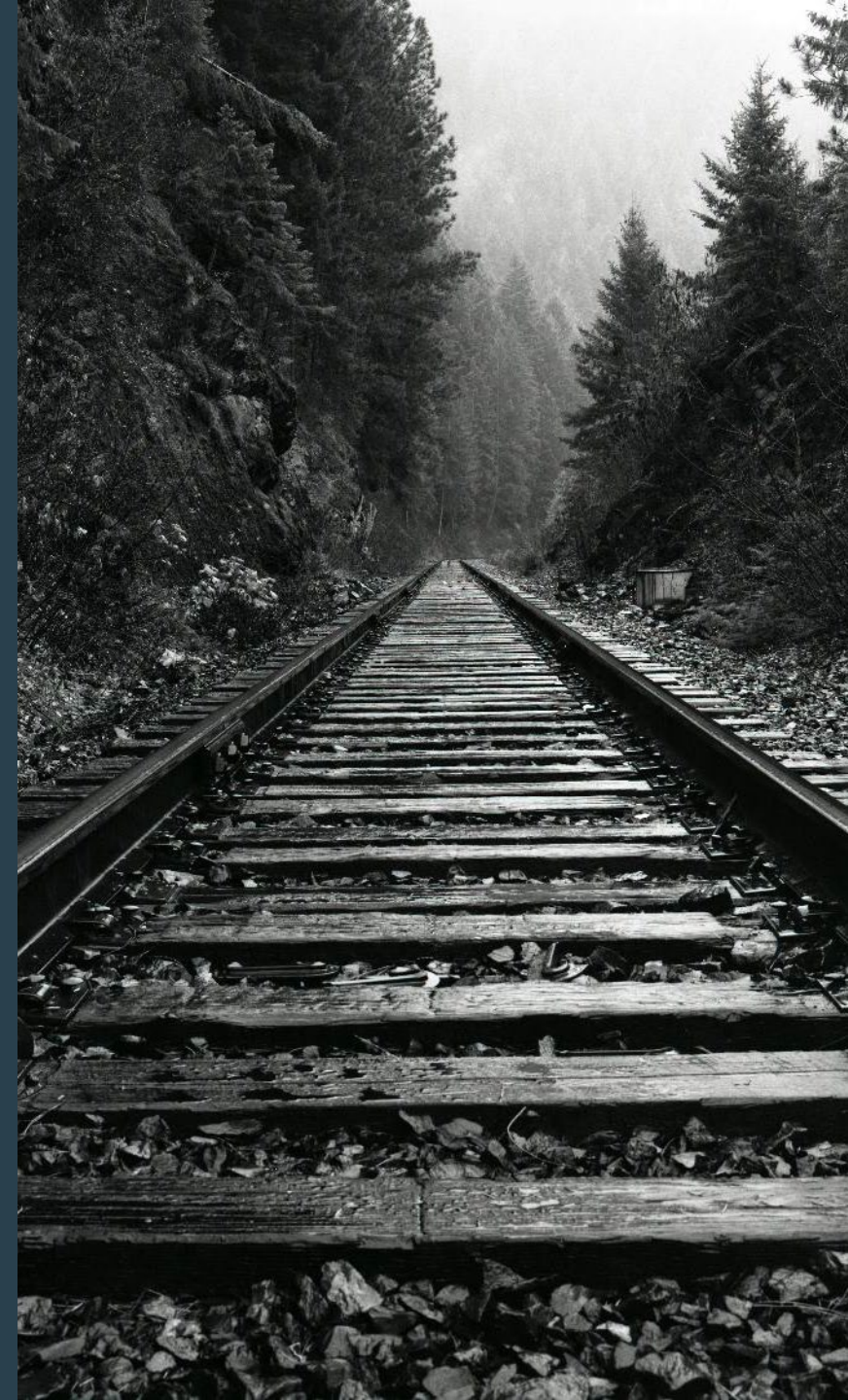

Will 2025 Finally be the Pivotal Year for North American Freight Rail?

Trends and Insights

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December 2024



5+ Enduring (?) Railroad Competitive Advantages

01

Labor Advantage

(ex: Double-stack LA-Chi – or Rupert-Toronto)¹

02

Fuel Advantage (2A)

(4:1 ton/mile; AAR)² – So 2B is **EMISSIONS**/Environmental Advantage (see...WMRT, Unilever, etc.)

03

04

Infrastructure Advantage

(after the IHS buildout; user-pay and capex to support changing logistics patterns – ex: transcon)³

05

Railroads' Excellent Financial Condition, Liquidity, Free Cash flow

??

Railroads' Historic Ability to Reduce Expenses in a Known Slowdown (2009, 2020)⁴

1. AV trucking?; 2. EV Trucking?; 3. Infrastructure Bill? (LOL); 4. Newly Added (in response to C19)

Can Rails Change the Narrative After the 3 Big Blows?

Rails suffer # (3, at least) Big Body-blows over the last 18-24 months (some wounds self-inflicted but not all)

- Supply Chain Crisis/STB Hearings
- *Regular* labor round goes the distance
- East Palestine and ramifications
- (Ancora etc)

So - Are Rails Inept, Greedy & Dangerous?

- NSC Investor Conference (joined by CSX new CEO) – “The Great Experiment”, change in incentives, furlough policy, investment
- CNI Investor Conference – Growth through Investment
- CPKC Debutant's Ball – Growth through Competition
- Slow but *steady* progress on service consistency & *resiliency*

Will 2025 Finally be the *Pivotal* Year for North American Freight Rail?

- Recent results/events bode well; seeing the end of the Freight Recession
- Years of Drama – over? (Not likely but....)
- Labor Peace (in the US)?
- Decent Q3/24 Results
- Two solid Investor Days (UP then CSX) promise growth
- Catch-up in OR* by NS & BNSF
- The election impact uncertain – not as wildly bullish as November 6 reaction
 - On the one hand improved regulatory relations, energy, permitting
 - On the other hand, *tariffs (Reshoring for traditional industry? Good luck!)*
- *Growth pivot is the only option*
- *This time it's different*

RailTrends 2024: All Systems Grow?

- KC of CPKC first ever two-time winner of the Railroad Innovator of the Year
- *Growth* was the theme from all 6 Class Ones and all 5 short lines that presented
- Yes, that theme is a repeat...
- Underpinning the **renewed growth focus** were a few major sub-themes (and their most vocal proponents):
 - Aways in DNA (BNSF, CPKC)
 - Culture Change (CSX)
 - (related) Labor challenges/opportunities (CSX, UP, CN & CPKC)
 - Collaboration (short line panel, Falcon, CPKC-CSX)
 - Technology (start-up panel, RailPulse Wabtec)
 - Urgency (GWR, Oliver Wyman, STB)
 - Skepticism (analysts panel)
- *Changing governments at all three USMCA brings more risk than potential reward* (contrarian opinion?)
 - Wither Smoot & Hawley? Thune a positive (President's Panel)
 - Canadian election, impact on labor
 - Benefits in changing regulations (positive in FRA; neutral in STB; positive in permitting, neutral in energy policy); benefits in tax
 - (Possible) Tariffs on Canada & Mexico very disruptive to existing and future rail growth; retaliation?ear shoring at risk, re-shoring a pipe-dream?

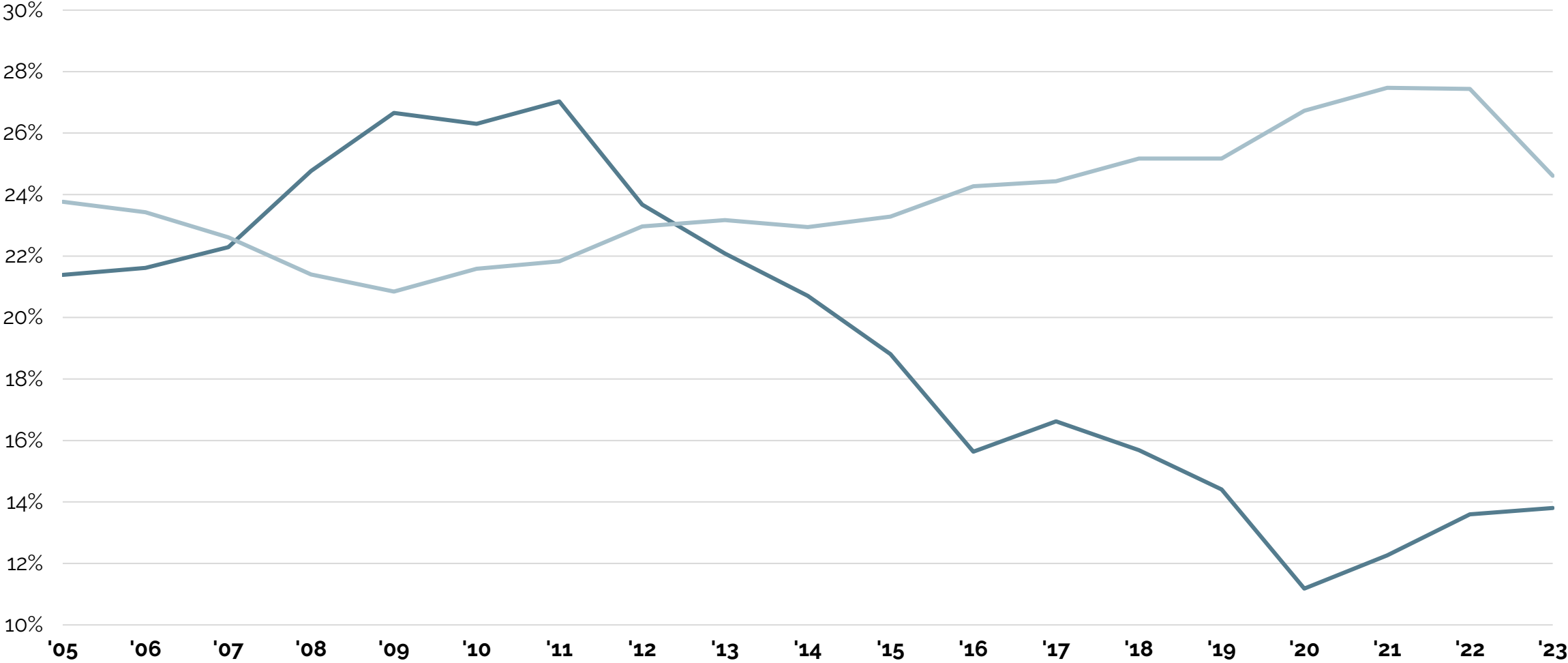
The CN Mothership and the Diaspora

- Vena the man at UP
 - after UP's regulatory relationship deteriorated, its messaging unclear, and disappointing results/not fulfilling "greatest franchise" potential
 - Initial improvements obvious
 - September Investor Day!
- Cory replaces Boychuck at CSX COO
 - "Culture change" & team building
 - Similar pattern as at CN
- Orr at CPKC then....
- Orr at NSC! Building a team
- The return then retirement of the Old Guard at CN
- Ed Harris on the BNSF Board
- Oh, yeah....Keith....forever CPKC?
- Still out there: Boychuck, others....

Barbarians kept at the Gate this time (for now?) NSC wins on a TKO – Will there be a Rematch??

- *Existential fight for the Great Experiment vs. the counter-revolution of the Cult of the OR*
- Ancora loses the popular vote and the electoral college – the insurgents wins three Board seats (Fahmy, Lamphere, Clyburn)
- Alan Shaw, not Jim Barber, remains CEO
- John Orr, not Jamie Boychuck, remains COO
- Rail HoFer Claude Mongeau becomes Chairman!
- This was a huge battle won, but the status of the war remains uncertain – can be revisited possibly in November and definitely in May, 2025
- NSC cannot lose focus; must show progress – *and improve messaging!!* (Not off to a great start in that regard....)
- The future of the Great Experiment and the policies of other railroads remains threatened, even as this batch of Barbarians held at the gates....

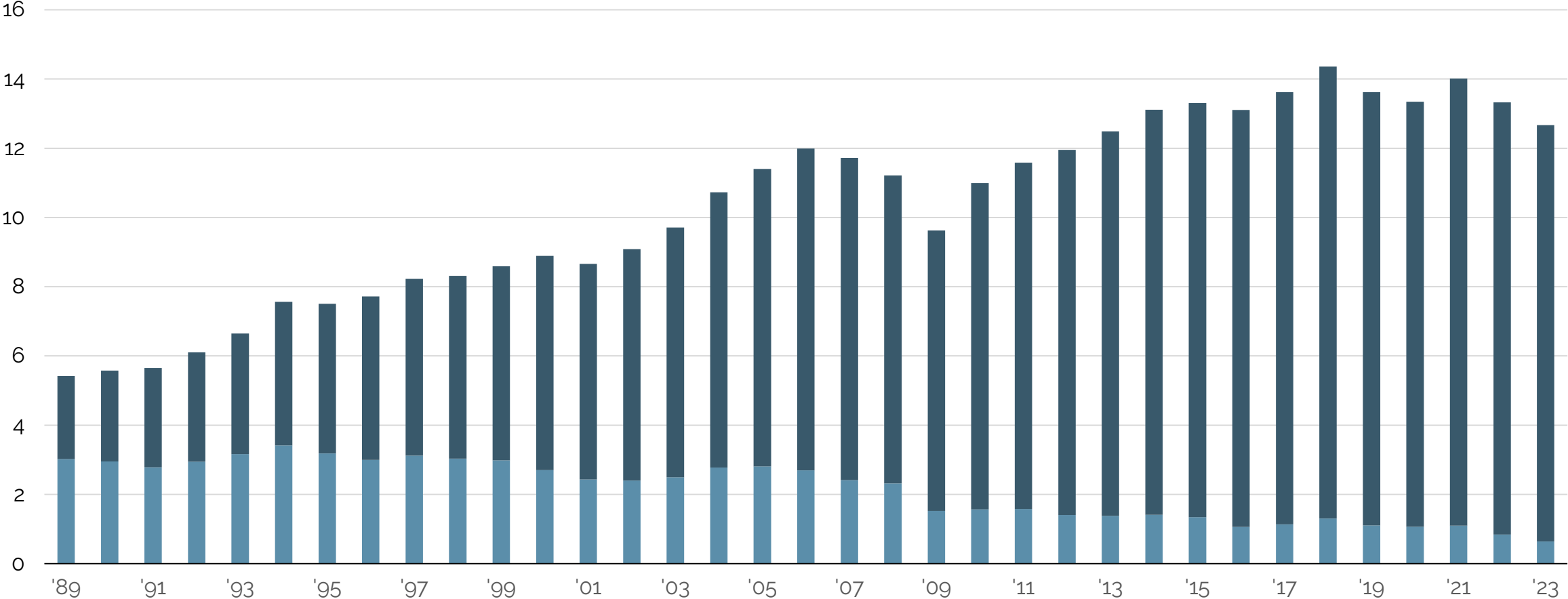
Coal vs. Intermodal as % of U.S. Rail Revenue



Data are for BNSF, CSX, NS, and UP combined. Source: company reports

Huge Intermodal Growth

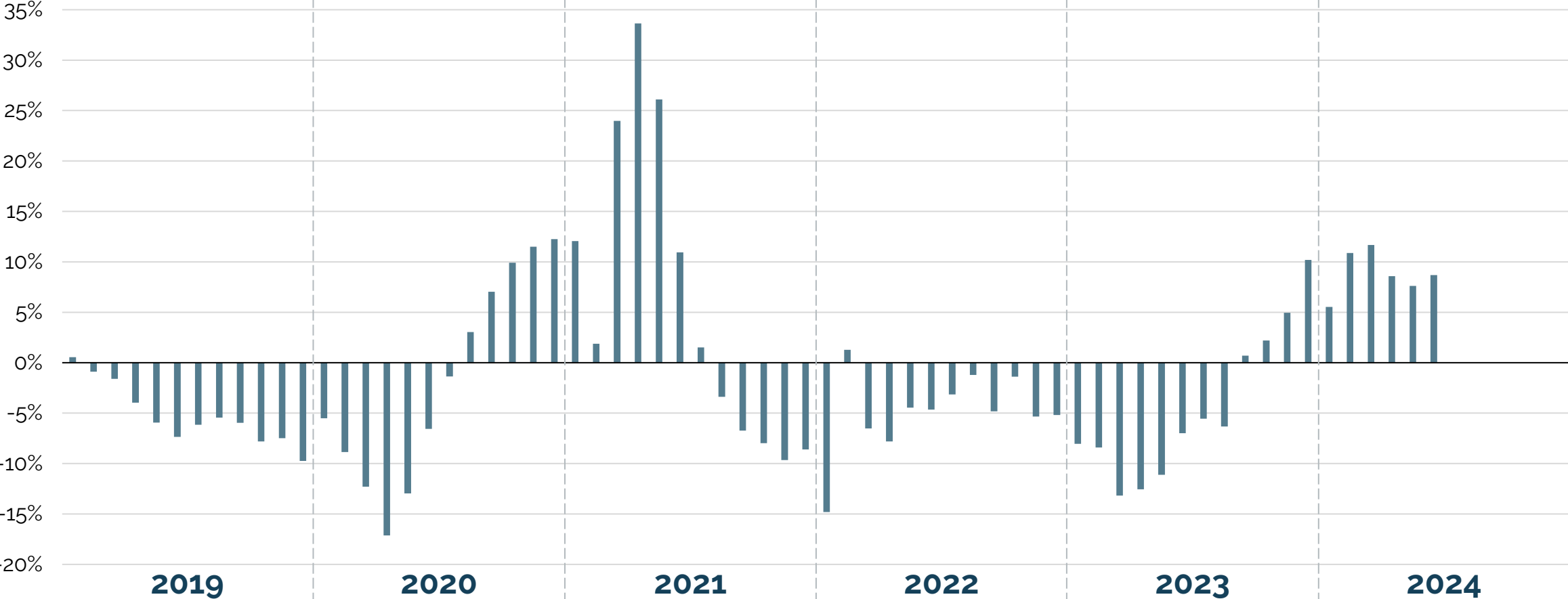
Millions of containers and trailers



Data are originations and do not include the U.S. operations of CN, CPKC, and GMXT. Source: AAR Rail Time Indicators

U.S. Rail Intermodal

% change from same month previous year



Data are based on originations, are not seasonally adjusted, and do not include the U.S. operations of CN, CPKC, and GMXT. Source: AAR Rail Time Indicators

Why Has Intermodal Underperformed 2014 Optimism Levels?

Externalities

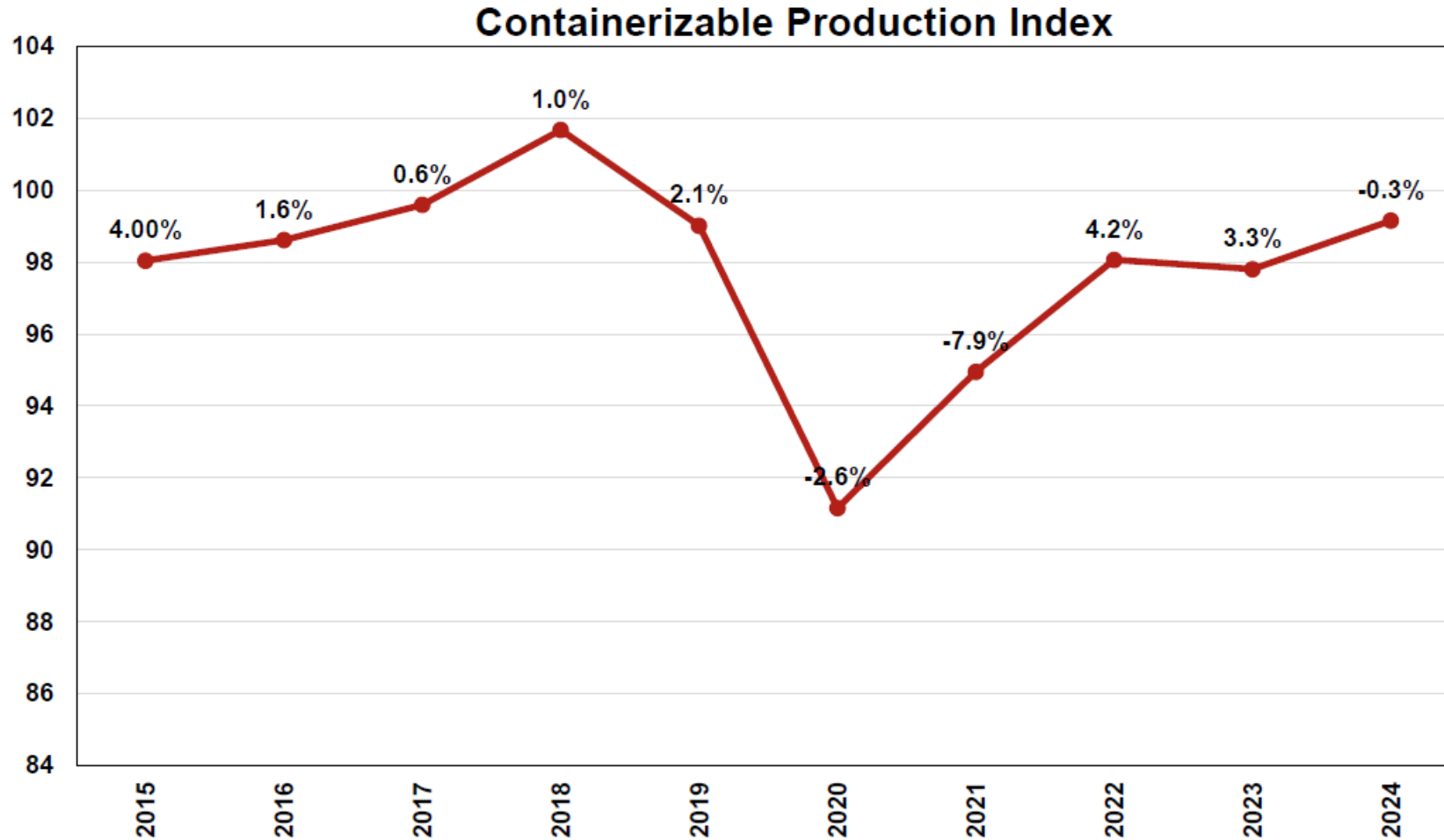
- Port Share Shift East
- Tariffs & Trade Wars
- De-globalization (and recently decoupling)
- Ecommerce/decline of the Big Box (at first)
- THE PANDEMIC!
- The multi-year freight recession/truck capacity and pricing

Why Has Intermodal Underperformed Expectations (part 2); Rail Errors

2018-23 Volume CAGR -1.7% (2014-18 it was +2.5%) Rail IM Market Share dropped from 2018 peak 12.5% to 10.7%⁸ (L.Gross)

- Service & Execution
- Missed opportunities (2018, 2021)
- PSR, initially installed to *improve service & reliability*
 - *Planned reductions (CSX, UNP, ?)*
 - *Speed of implementation at CSX*
 - *Political/shipper/labor reaction*
- The Cult of the OR
- Activists – attacking Intermodal specifically
- NOTE: Canada relatively immune to the US/OR story

TTX “CPI” Tracks Over & Under-Performance of NA Domestic Intermodal



Source: Federal Reserve, TTX

Rail Service Cycles – Resilient or Traditional

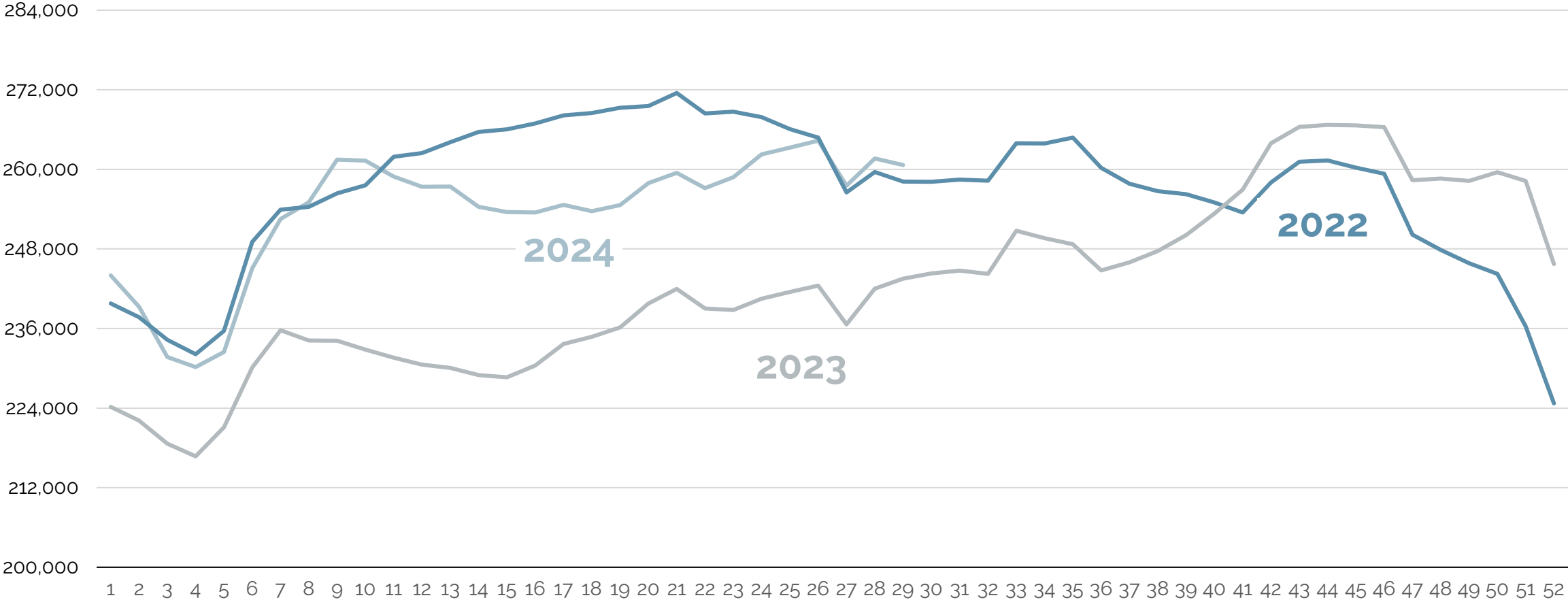
- Is the recent improvement in the metrics sustainable? Systemic?
- Can rails maintain new services through a cycle?
- Can rails break the pattern of increased volume=decreased metrics performance
- Is it a product of huge capex injection and IT?
- Can rails improve interline connections? Terminal performance?
- Or, is it merely a product of lower volumes/less stress on the network...
- Can rails perform in short-to-intermediate LOH lanes?
- Will they be graced with the time to invest in service improvements?

The Growth Pivot vs the Cult of the OR

- Rails are back to stability in operations
- Two outliers returning to the pack
- High 50s OR may be new peak performance given new labor contracts
- Gains from improvement from peak margin are increasingly de minimis in terms of earnings/cash flow....
- The ONLY option is Growth
- But gaining share will lead to improvements in revenues, EBITDA – and ROIC
- And maybe even in OR (per Oliver Wyman/STB testimony)
- AND, the OR is “the outcome of a process” (Keith Creel, CPKC, 2014 and 2024 **RailTrends** *Innovator of the Year*)
- Short-term investors and activists have targeted Intermodal as an inflator of the OR
- Railroads pivoting to growth in the longest *freight recession in living memory*
- Proxy fights, management pressures and change-outs a threat to long term thinking, resiliency
- The Race is ON!

U.S. Rail Intermodal

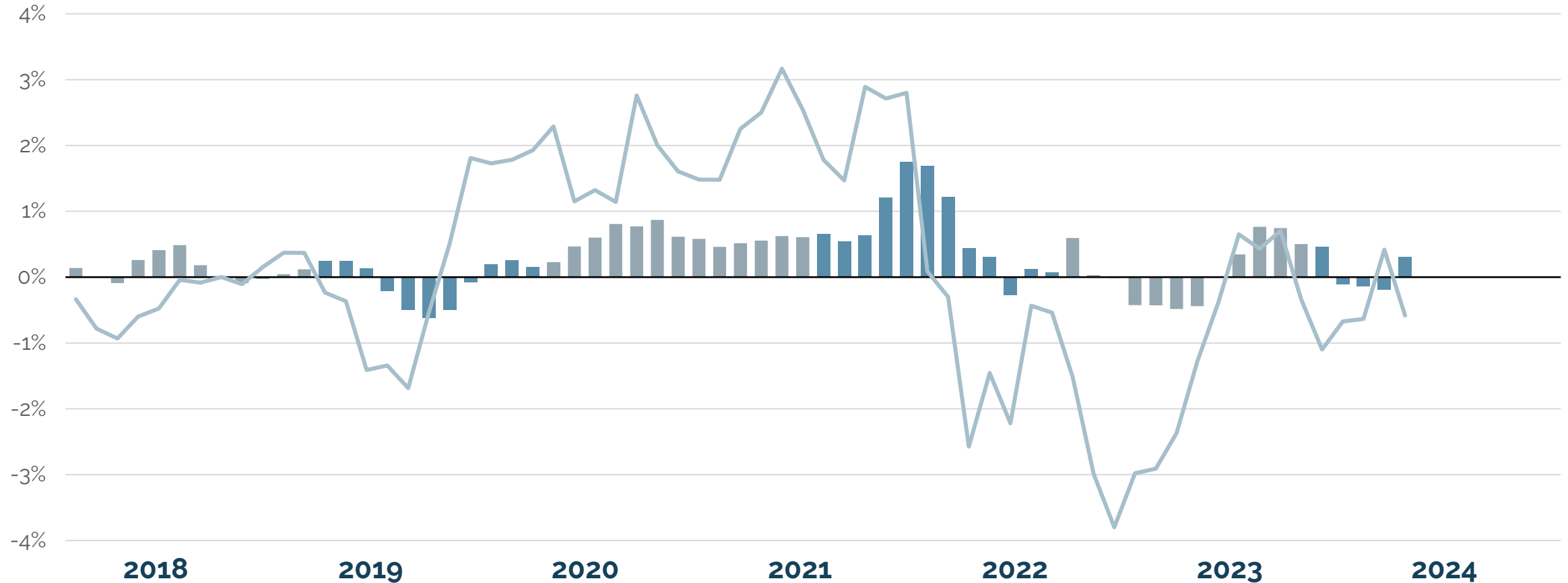
Originated units per week, 6-week moving average



Data are not seasonally adjusted, and do not include the U.S. operations of CN, CPKC, and GMXT. Source: AAR Rail Time Indicators

Truck Rates Are Down, Part 1

Month-to-Month Change in the Producer Price Index*

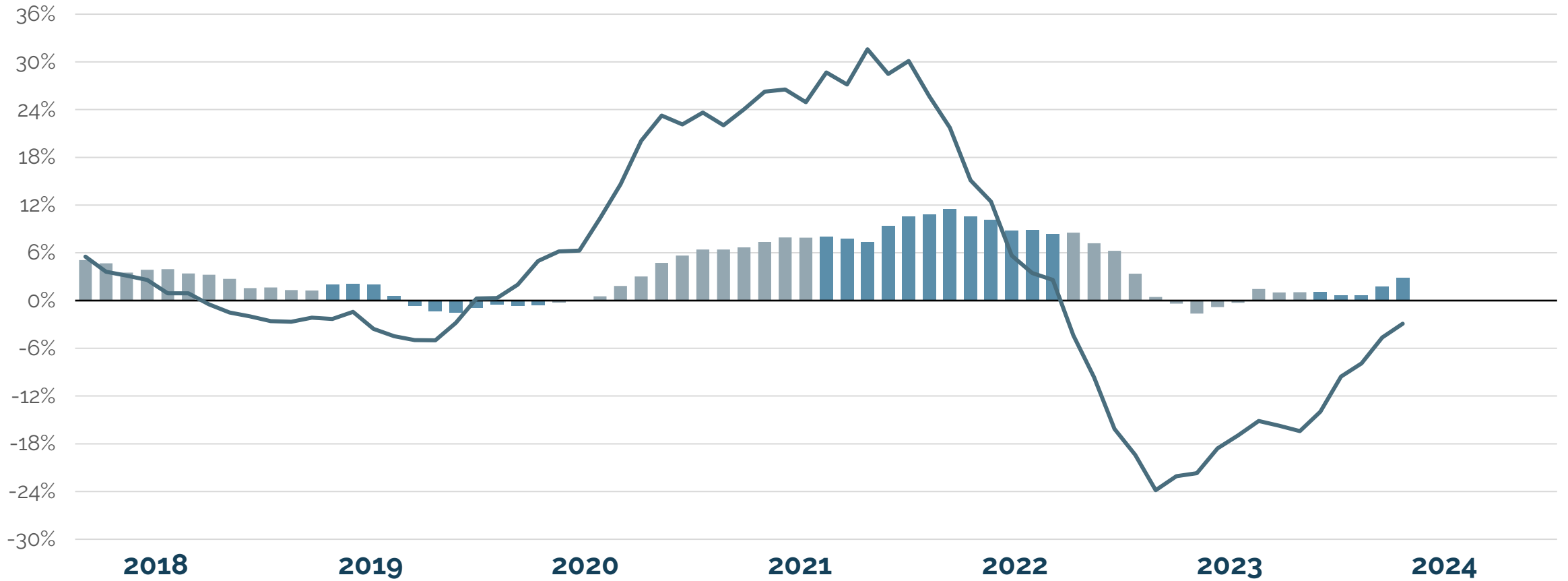


*3-month moving average
Source: Bureau of Labor Statistics

■ Line-Haul Railroads — TL Trucks

Truck Rates Are Down, Part 2

Year-Over-Year Change in the Producer Price Index



Source: Bureau of Labor Statistics

Turn it up to 11 – what can be done to (re)turn the tide to IM Growth?

1. Perfect the IMC relationship/Flexible pricing
2. Continue to develop Mega-Projects like “BIG”
3. Constant Capex
4. Simplify Supply Chains
5. OR, make more complex by...
6. Opening new lanes and O/D pairs – reversing the PSR/OR reductions
7. Maintain trade-lane flexibility (example: Halifax/St John)
8. Add speed?
9. Consider new products – reefers, tanktainers, short line extensions, QUANTUM!
10. Look at Length of Haul – BINGO!
 - Singe-line extension – CPKC
 - Or look to shorter LOH
 - Partnerships
 - Inland Ports
 - Watershed opportunities
11. Improve interline service – Falcon etc

Growth Pivot Requirements

- Operational stability
- Patience for the Freight Recession's eventual end
- Detail Plans, strategy & goals, in the meantime – reliable stats (TPC, etc) – Investor Days – Messaging is CRITICAL to all stakeholders
- Employ existing & developing technology!
 - Safety, predictive maintenance
 - AV in terminals (see Box Bay
 - AV for short hauls (Parallel Systems, Intramotev)
 - Burnish rails' solid Green Credentials
- ***Rails must grow or manage decline – the OR era is or should be over. IM is key to growth, and can be achieved – from GDP+ to 2-3X GDP***

Risks to the 2nd Intermodal Revolution

- Execution! Talking the talk, now there needs to be walking the walk
- Cooperation friction! Alliances are hard!
- Staying Power! Building trust!
- Changing Supply Chains/Black swans
- Government/Regulation!
 - Tariffs
 - Immigration & Gateway policies Rule of Law (Mexico)
 - Environmental policies not *rewarding* rail – CARB (and “BIG”)
 - Local NIMBY (SCIG, Milton, etc)
 - Commercial regulation
 - Modal fairness – 2-man crews vs AV Trucks
- Weather
- Technology
- *The race between the long & the short term – the CULT OF THE OR*

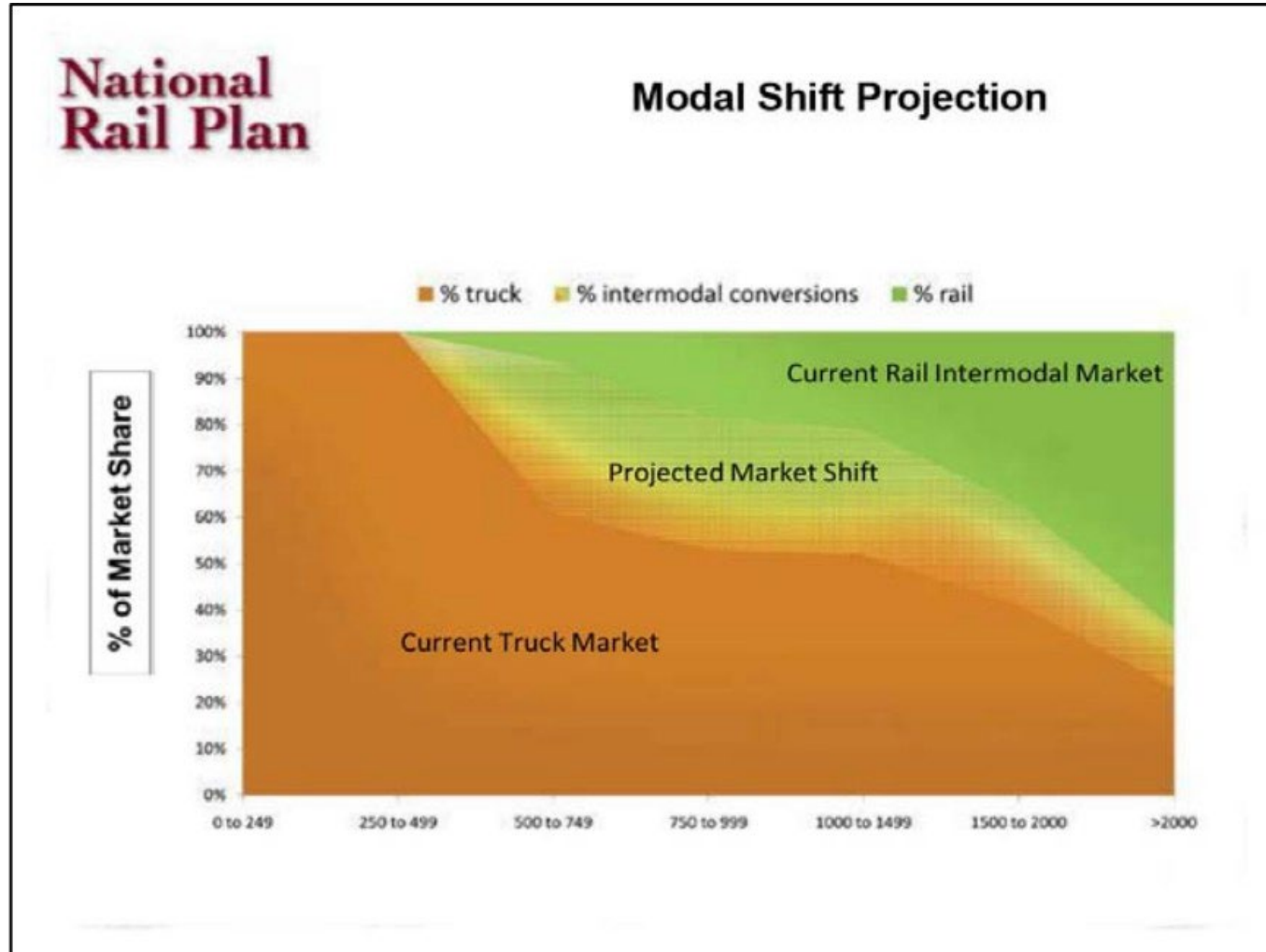
Rails Practicing Competition & Cooperation

- Increased rail-to-rail competition (CPKC)...IoY '24 Keith Creel/The power of *single-line service (MMX)*
- *The last merger?*
- *And the first merger to plan on 80% of the benefits from the top line;*
- *In response, the CPKC formation....*
 - ...has unleashed new levels of cooperation and alliances (Falcon) in response
 - ...and new levels of (planned) entrepreneurialism (ex Quantum)
 - ...and, hopefully, more partnerships with short lines (despite CN/IN?) – see IAIS, FEC, Meridian/GWR
- All examples of the Great Experiment – IoY Alan Shaw (and others)
- Intermodal is an OR inflator (but not by that much); investor focus should be on growth and ROIC
- But the “Growth Pivot” faces healthy skepticism – requiring a level of faith trust regained
- RAILTRENDS Registration open – November 14-15 NYC www.railtrends.com

Mexico's Moment?

- For rails, since NAFTA it has *always* been momentous (yet – it's 2-3% NA IM total units!)
- Near-Shoring is (was?)the headline grabber – if for real? FDI into Mexico reached an 11-year low in '24
- 1) Reasons for concern/South of the border:
 - Pemex support (impact on cost, emissions)
 - KKR example in refined products – in general the concern over the rule of (contract) law
 - Passenger traffic forced on the freights?
 - Border shutdowns
 - Election landslide, repercussions (COFECE)
 - 25% of Latam GDP; 17% FDI – Near-shoring always was more hype than reality (Tesla!)
- But – Huge Rail/Intermodal efforts: CPKC; Meridian, Falcon, especially now BNSF/JBHunt
- 2) Reasons for concern/NORTH of the border: Tariffs!! Immigration!! And USMCA “review” in 2026
- Canadian election, response
- Modelo Especial!

Market Share is Still Out There



Short Lines To the Rescue of Class Ones?

Class One service crisis and the impact on/of regulators (STB/FRA) and Legislators

- New focus, data on First Mile/Last Mile (and it ain't pretty!) – made more intense with Reciprocal Switching?
- Service failures are manna to STB concerned about rail market power (price)
- STB use of *common carrier obligations* as a lever (UP/Foster Farms), focused on weekly switches
- Declining Class One carload growth since the 2008-9 Financial Crisis

SOLUTION?

Increased use/creation of Short Lines!!

- Short lines have consistently out-grown C1 in carloads
- Short lines offer tailored, customizable switching services
- Short Lines have better work rules, less severe labor shortages
- Short Lines are looked upon quite favorably by regulators and legislators!
- Watco's Dow and especially Dutchtown Southern (Louisiana/CN) increased weekly switching from 3-5 to 7+ and grew carloads by over *one third* in the first year of operations – win (customer switches)/*win* (Watco new business)/win for C1 partner CN (more cars for its long-haul business)
- All SLHCs have logistics/switching arms etc

So why is the momentum of C1 strategy seemingly to buy or retake SLs

See DMQ/Pan Am/MRL??

- I support a “feed the beast” strategy (looking to extend a C1 market reach – ex CN 2018-21)
- However that should not preclude thoughtful C1-SL partnerships (that solve customer problems!) – ex RailPulse
- *Nonetheless, I see no evidence of C1 leadership taking these steps (yet?)*
- *There have been more C1 SL Meetings, discussions (ASLRRRA)*

Problem: These Are Coming



ASSOCIATION OF AMERICAN RAILROADS



NARS recognizes

Tony Hatch

with the

**NARS 2019 Person of the Year Award
for his steadfast support of NARS and
its regional associations.**

*Thank you Tony for your guidance, dedication and service
to NARS and its regional association!*

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Characteristics of the U.S. Intermodal Network

1

Must accommodate both domestic and international business

2

Focused on high volume origin-destination pairs

3

Best when operated as single origin to single destination trains

4

Cost control and service reliability are critical



Why Has Intermodal Grown in the 21st Century?

- 1 Better service
- 2 Huge RR investment/Railroad Renaissance
- 3 Truck problems – fuel, driver shortages, congestion
- 4 Switch from other freight cars
- 5 Globalization, Near Shoring, growing economy and trade
- 6
 - Environmental benefits



Characteristics of Strong Intermodal Corridors

- 1 Sufficient capacity to keep trains moving
- 2 Long enough to compete with trucks
- 3 Sufficient volume to keep unit costs competitive
- 4 Strong highway feeder system at each end and at intermediate terminals



Characteristics of New Intermodal Terminals

- 1 Usually outside urban areas
- 2 Easy highway access
- 3 Able to accommodate nearby distribution and production centers
- 4 Land for future growth
- 5 Minimize on terminal truck movements

