OliverWyman

RailTrends 2024

THE NEXT HORIZON

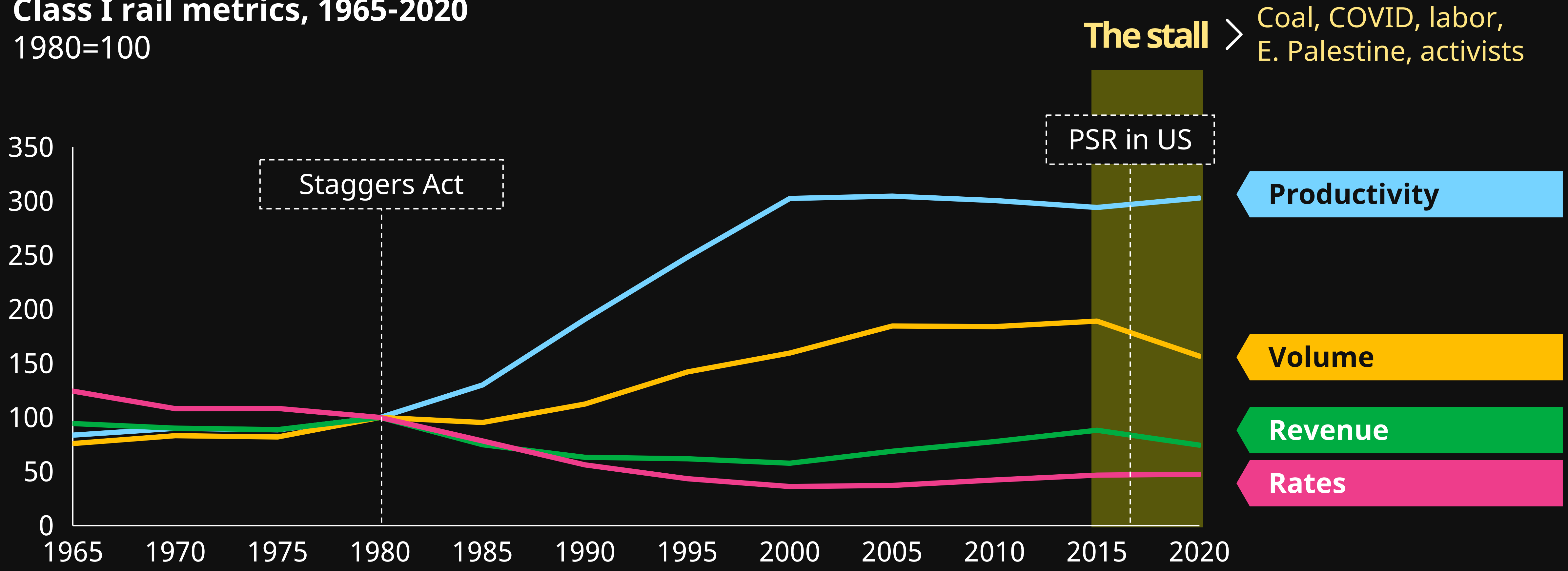
Adriene Bailey
Partner, North American Rail Practice Lead

November 14, 2024

A business of Marsh McLennan

RAIL'S RENAISSANCE HAS ENDED, AND WE HAVE BEEN STUCK IN PURGATORY

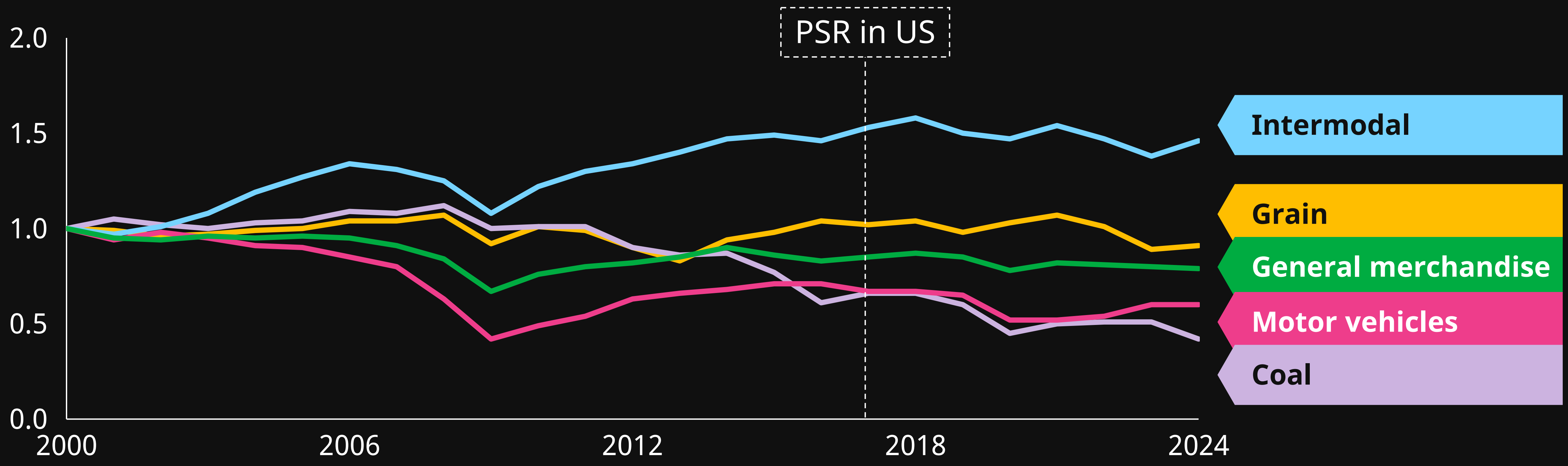
Class I rail metrics, 1965-2020
1980=100



Note: Rates = inflation-adjusted revenue per ton-mile, volume = ton-miles, productivity = revenue ton-miles per constant dollar operating expense, revenue = operating revenue in 2022 dollars
Source: Association of American Railroads

IT'S NOT JUST ABOUT COAL DECLINE – RAIL IS LOSING MARKET SHARE ACROSS ALL COMMODITY GROUPS

Average annual weekly Class I rail traffic
2000-2024 (2000 = 1.0)

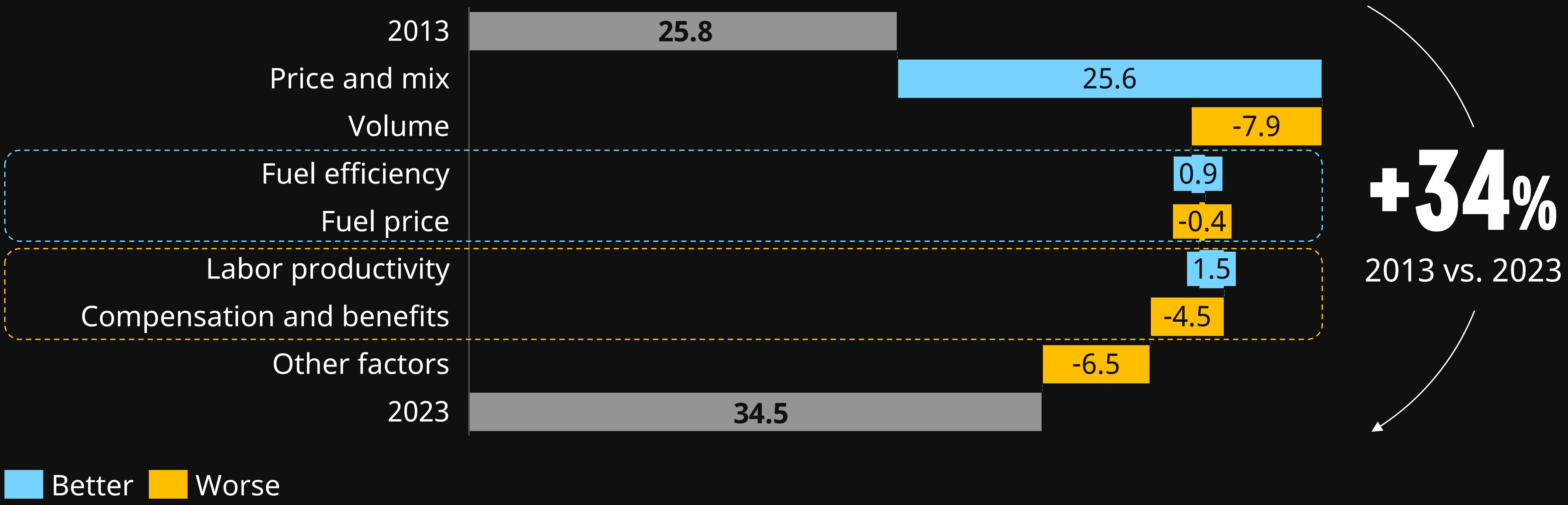


Note: Weekly traffic in carloads, except containers/units for intermodal. General merchandise is all traffic not included in intermodal, coal, grain, or motor vehicles
Source: Association of American Railroads, US Weekly Railroad Traffic, 12/31/99-8/2/2024

THE PSR ERA DELIVERED IMPROVEMENTS IN RAIL RETURNS

With the lion's share of benefits coming from pricing and mix shifts

North American railroad industry EBIT: estimated impact of key factors
2013 vs. 2023, $ billions



Note: No adjustment for extraordinary items
Source: BNSF, CN, CP, CPKC CSX, KCS, NS, UP financial reports, Surface Transportation Board, Oliver Wyman analysis

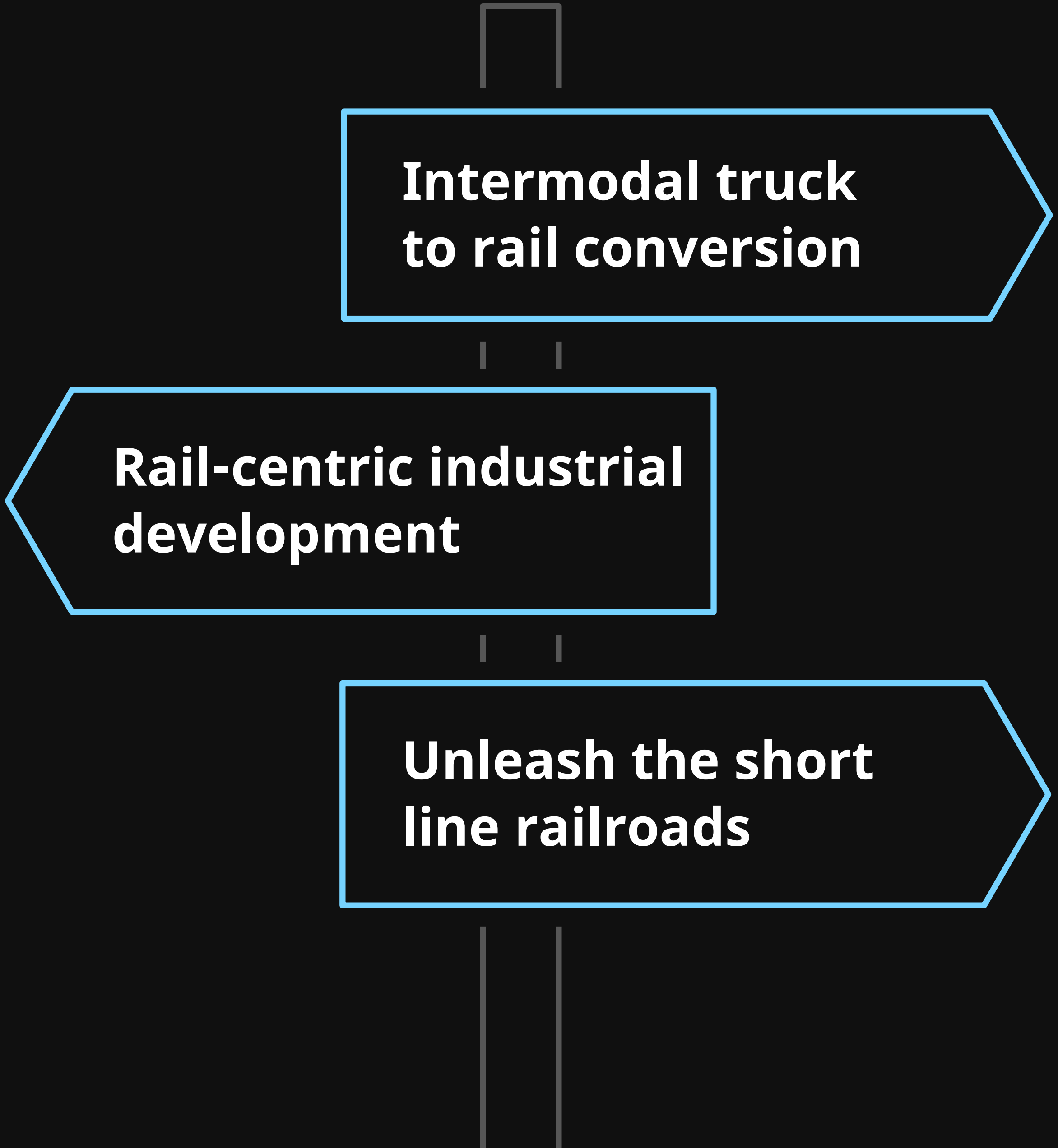
ON ALL DIMENSIONS, HOLDING SHARE OR GAINING SHARE WOULD PROVIDE RAILROADS WITH SUBSTANTIALLY BETTER OUTCOMES

		CHANGE BY 2030		
	2022 Actuals	BAU	Hold Share	Increase Share
Revenue	$95B	+$7B	+$21B	+$29B
EBIT	$36B	+$1B	+$10B	+$13B
OR	61%	3 pts worse	No change	No change
ROIC	12%	No change	3 pts better	4 pts better

SO WHERE WILL GROWTH COME FROM?
AND IS IT EVEN POSSIBLE?

THREE ROUTES TO RAIL GROWTH

Oliver Wyman research highlights three strategies for achieving growth through service improvement



THREE ROUTES TO RAIL GROWTH

Intermodal truck to rail conversion

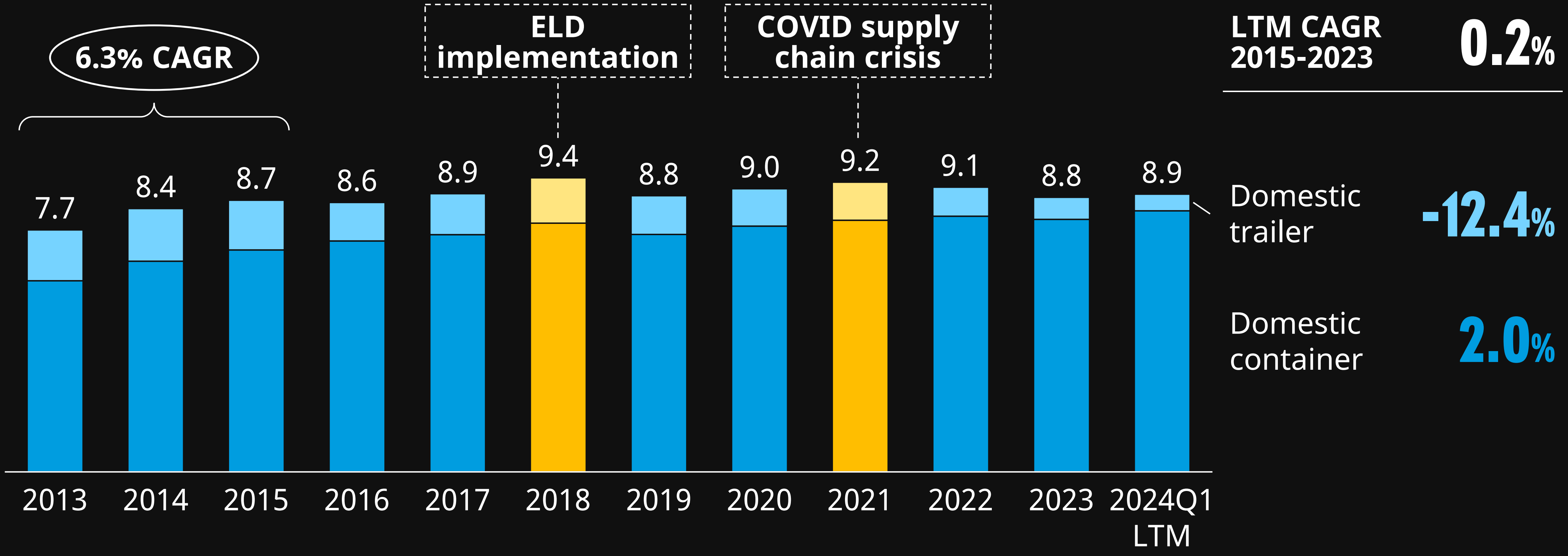
Rail-centric industrial development

Unleash the short line railroads

DOMESTIC INTERMODAL VOLUMES HAVE PLATEAUED SINCE 2015

External factors led to peaks in 2018 and 2021

North American domestic intermodal market, 2013-Q1 2024
Million domestic loads

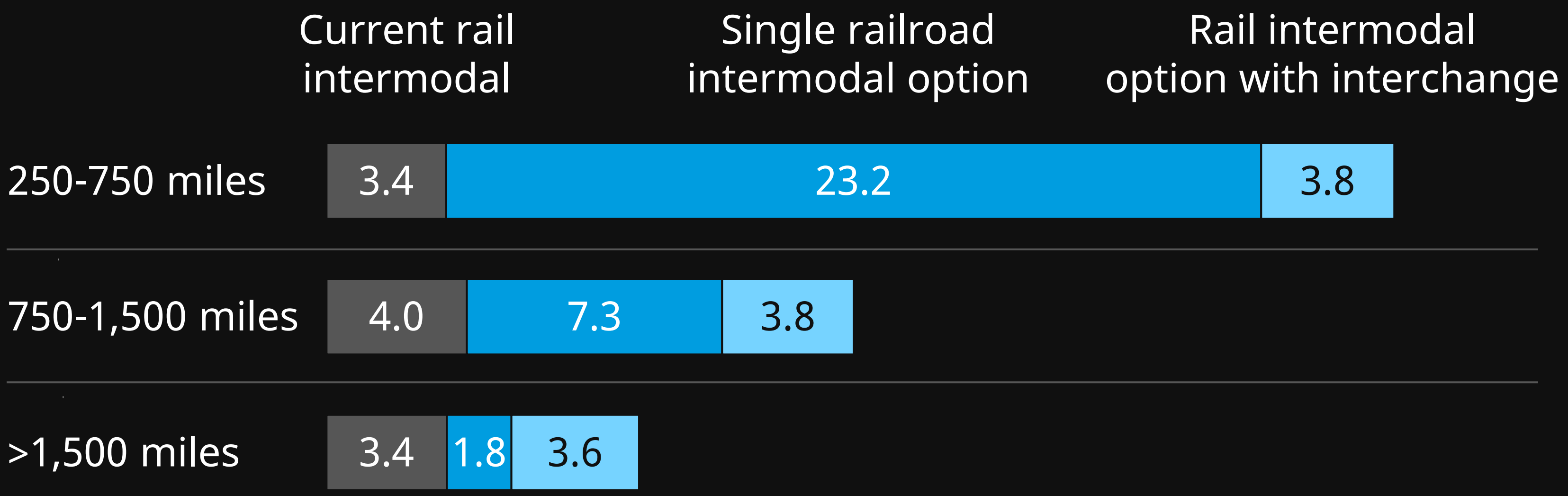


Source: Intermodal In Depth: IANA Market Statistics – 2013-2024; Oliver Wyman analysis

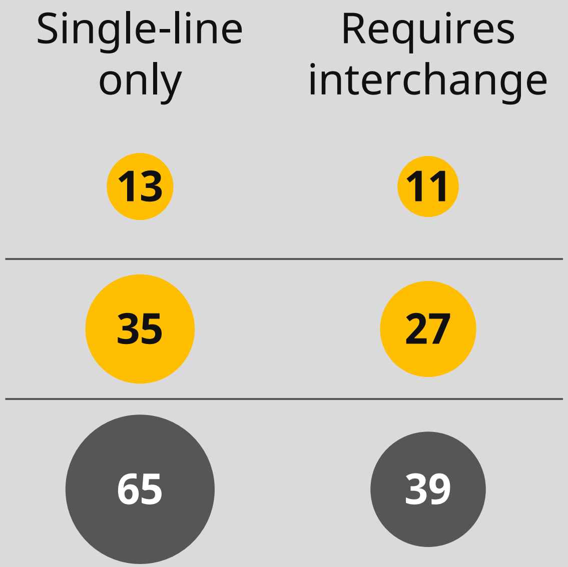
RAILROADS SERVE A LARGE SHARE OF THE >1,500-MILE DOMESTIC INTERMODAL MARKET

Growth opportunities are shorter haul, interchange markets

Est. addressable US domestic intermodal market
>250-mile length of haul, million equivalent loads

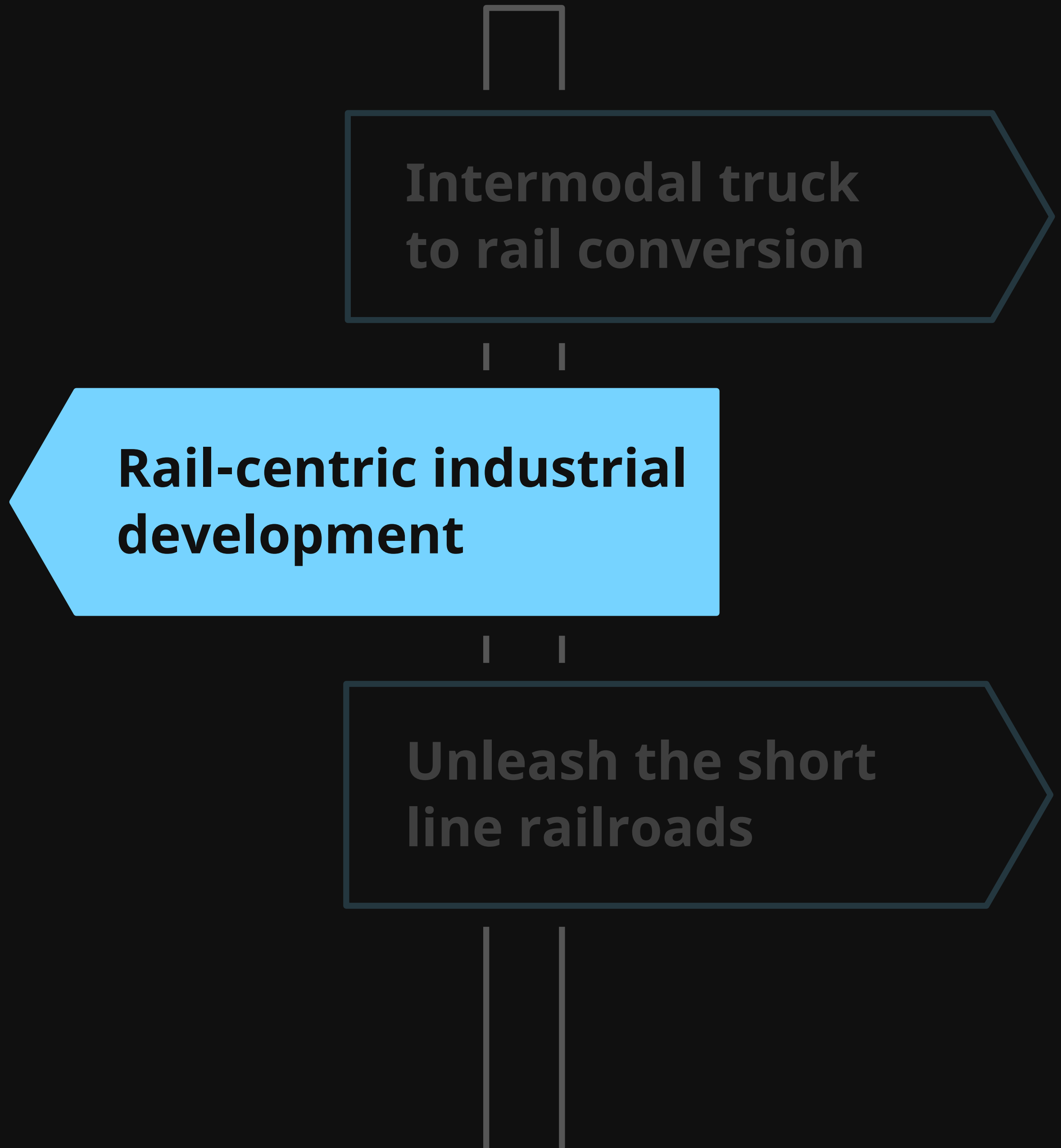


Current rail share
Percent



Note: Intermodal compatible, mode-flexible freight commodities only, excludes revenue empties
Source: US DOT Freight Analysis Framework FAF 5.5.1; Oliver Wyman analysis

THREE ROUTES TO RAIL GROWTH



RAIL HAS ALWAYS GROWN THROUGH INDUSTRIAL DEVELOPMENT...

Traditional model

Railroads

- Adjacent land
- Market to shippers

Single site
50-1K acres

Shippers

- Buy land
- Build facility

Emerging model

Railroads

- Adjacent land
- Market to shippers
- Rail-ready certification

Public sector

- Provides land, funding
- Takes to site readiness
- Incentives (in exchange for jobs)

Single site
50-1K acres

Shippers

- Buy land
- Build facility

...BUT RAMPING UP SCALE REQUIRES A NEW PLAYBOOK

Future model

Investors
- Capital at scale
- Longer investment horizon appetite

Public sector
- Permitting, funding, land, approvals, roads
- Incentives (to deliver jobs)

Real estate expertise
- Site selection
- Land entitlement
- Site design, marketing, development

Rail industrial hub
>1K acres

Class I railroads
- Service, rates
- Rail design
- Commitments > certainty

Utilities
- Water, gas, electricity
- Possible on site generation

Shippers
- Future tenants

THREE ROUTES TO RAIL GROWTH

Intermodal truck to rail conversion

Rail-centric industrial development

Unleash the short line railroads

SHORT LINES SEE MORE GROWTH AVAILABLE FROM WORKING WITH CLASS I'S

But only if Class I railroads solve for two things:

Elevating short line strategy

More responsive processes, deeper collaboration

THE GOOD NEWS IS THAT PROGRESS IS BEING MADE IN ALL THREE AREAS

Intermodal truck to rail conversion

Improved service and new offerings, more interline collaboration

Rail-centric industrial development

Seven-fold increase in mentions on US Class I earnings calls, 2024 vs. 2019

Unleash the short line railroads

New and renewed efforts to elevate short line growth strategy

The bad news is...

RAILROADS ARE NOT YET ADDRESSING SHIPPERS' CORE ISSUES

RAILROADS MUST BECOME MORE CUSTOMER-CENTRIC

Service reliability must reach acceptable levels and be maintained

100%

of surveyed executives found **truck superior to rail** on all attributes of customer experience

The rail industry needs step-function improvements:

Transit reliability

- Consistent service
- Proactive problem resolution
- Railroad accountability

Customer experience
Ease of doing business

- Responsiveness at speed
- Simpler transactions
- Deeper shipper relationships

SIGNS OF LIFE

Transparency and rigor around true service performance

Demonstrated improvement in service reliability and commitment to scheduled railroading

Reinvigorating sales

Demos of new customer-facing features and functionality, with testimonials about ease of doing business

But what if this all fails...

OR WORSE, INVESTOR PRESSURE BLOCKS THE INDUSTRY FROM EVEN TRYING

IF GROWTH FAILS ONLY TWO OPTIONS WILL PROVIDE SATISFACTORY RETURNS FOR INVESTORS

1. Two transcontinental mergers
2. Substantially more shared infrastructure

1 TWO TRANSCONTINENTAL MERGERS

Historically, large mergers = improvement in SG&A as a percentage of revenue

Improves OR for surviving RRs by ~125-250 basis points

Big Four 2023 SG&A expense of $6.2B, of which $1.3B is labor, fringes, material, supplies

Eliminates ~10% of SG&A expense (saves $140M per year)

- Potential reduction in route options, as railroads would favor their own long-haul lanes
- Eliminating East/West interchange friction could increase market share, reduce operating costs
- Customers would deal with only ONE enterprise end-to-end much more often

The ultimate net impact on customers and overall rail volumes is unclear – but there are some tangible benefits

2 MORE SHARED INFRASTRUCTURE

Railroads share infrastructure today for operating efficiency, cost savings

For example:

Route	Railroads	Distance
Twin Cities, MN to Superior, WI	BNSF CP UP	~150 miles
Denver, CO to Pueblo, CO	BNSF UP	~100 miles
Vancouver, BC to Ashcroft, BC	CN CPKC	~200 miles

- If railroads cannot **GROW** volume, shrinking infrastructure could reduce capex and opex
- Competing railroads might have to share more in commonly served lanes

Would this work at scale?

- Requires sharing of control without impacting transit time reliability
- Benefits for customers: lower costs

CONCLUSION

A **GROWTH** strategy maximizes EBIT, ROIC, and minimizes OR

Plenty of **GROWTH** is available via intermodal, industrial development, and short lines

GROWTH requires a step change in service reliability and customer experience

Failure to grow will require drastic actions and ultimately shrink railroad employment, ton-miles, and infrastructure

Railroads **must get on with the work** of making themselves more customer-centric

OliverWyman

VISIT OUR WEBSITE FOR MORE DETAILS

OliverWyman

A business of Marsh McLennan