

September 30, 2009

# Southeast Association of Rail Shippers

**Bank of America**  
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## Rails - Leading the way to economic recovery

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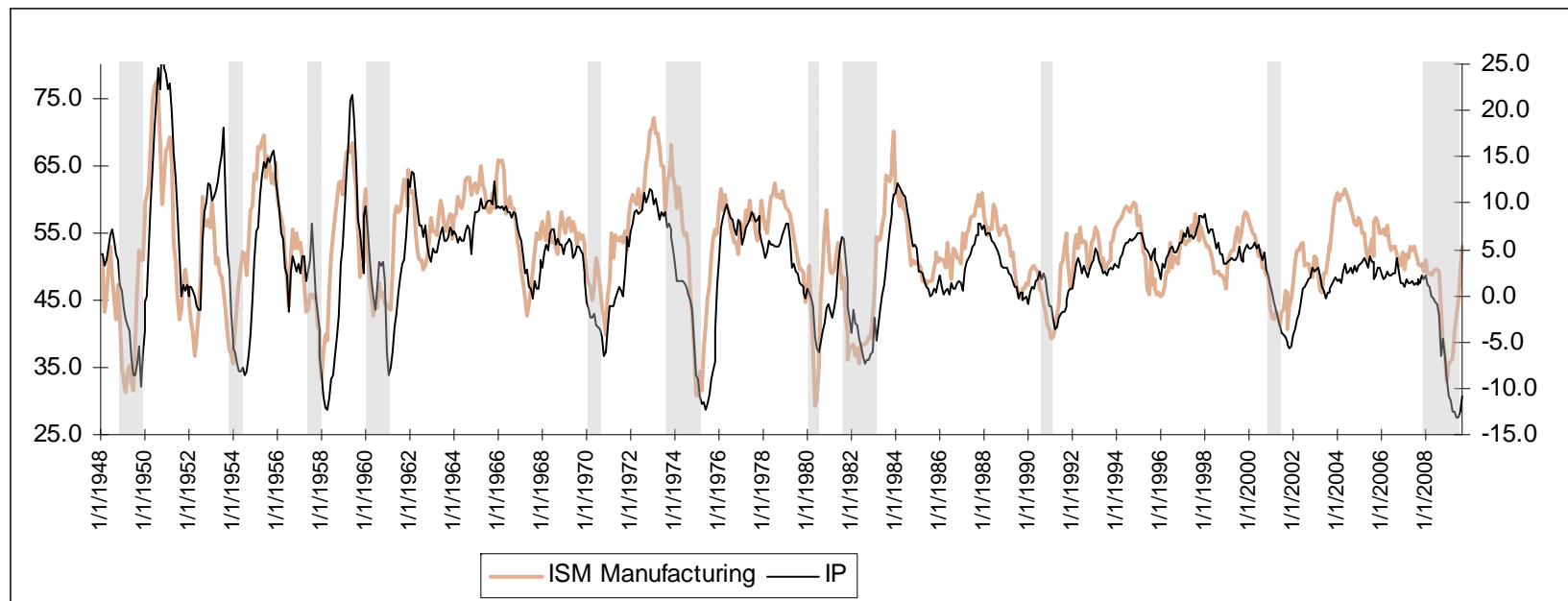


## Leading the way to recovery

- Economic update
- Truck, Port, and Rail volumes passing second derivative, moving to first
- Pricing renaissance moves into latter stages - “inflation plus”
- Rails proved to be more variable than anticipated - big question is what is permanent
- Capex still above maintenance levels
- Legislative overhang remains
- Returns on invested capital below cost of capital levels
- Stock performance - recent, past out-performance, and ahead of turns
  - Outperformed S&P 500 for 9 consecutive years
  - Trading range remains within historical boundaries
  - Typically early cycle investment

## Economic update

- Normal cycle - Trucks, Rails, LTL, Airfreight...
- ISM leads Industrial Production...which leads...



Source: Institute for Supply Management, Federal Reserve Board, and BofA Merrill Lynch Global Securities

## Economic update

- Inventory to Sales ratches up despite “de-stocking” expectations



Source: Census Bureau/Haver Analytics and BofA Merrill Lynch Global Securities

## Truck, Rail, Port data are past second derivative improvements

### Truck Tonnage moving out of depths

- Truck tonnage declines have decelerated for the past 3 mos, traditionally signals an improving economy by 9 mos.
- We have entered an extended period of easier compares
- ~5.7 million trucks; 500,000+ registered companies with DOT
- 45% of cos own only 1 truck, 82% own fewer than 20
- Bankruptcies have passed 40,000, larger than 33,000 in '01

#### Adjusted Truck Tonnage

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
JAN	110.8	121.2	117.1	112.2	117.4	104.6
FEB	113.2	116.3	115.2	113.2	117.4	106.2
MAR	112.2	112.9	112.3	113.8	115.5	101.4
APR	113.5	116.2	114.9	112.2	114.2	99.2
MAY	113.6	114.2	114.9	110.6	114.9	102.3
JUN	112.8	113.4	114.1	110.4	115.6	99.8
JUL	114.1	115.0	115.1	110.5	113.8	102.0
AUG	112.3	114.1	108.9	110.1	112.6	104.1
SEP	112.6	114.9	114.4	111.4	112.0	
OCT	113.1	115.5	112.5	111.5	109.3	
NOV	113.6	117.5	109.4	112.7	110.3	
DEC	113.4	116.9	115.0	116.2	101.7	

#### Year-Over-Year

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
JAN	4.8%	9.4%	-3.4%	-4.2%	4.6%	-10.8%
FEB	7.4%	2.7%	-1.0%	-1.7%	3.7%	-9.5%
MAR	5.6%	0.6%	-0.5%	1.3%	1.5%	-12.2%
APR	6.9%	2.4%	-1.2%	-2.3%	1.8%	-13.2%
MAY	8.0%	0.5%	0.6%	-3.8%	3.9%	-11.0%
JUN	7.2%	0.5%	0.6%	-3.3%	4.7%	-13.6%
JUL	7.2%	0.8%	0.0%	-3.9%	3.0%	-10.4%
AUG	6.0%	1.6%	-4.5%	1.0%	2.3%	-7.5%
SEP	5.8%	2.1%	-0.4%	-2.6%	0.6%	
OCT	5.0%	2.1%	-2.5%	-0.9%	-2.0%	
NOV	3.4%	3.4%	-6.9%	3.0%	-2.1%	
DEC	<u>2.8%</u>	<u>3.1%</u>	<u>-1.6%</u>	<u>1.1%</u>	<u>-12.5%</u>	
Average	5.8%	2.4%	-1.7%	-1.4%	0.8%	-11.0%

Source: ATA and BofA Merrill Lynch Global Securities

# Truck, Rail, Port data are past second derivative improvements

## Port Volumes and Air Cargo also moving out of depths

- Ports move from -21% in June to down -14% in August
- Airfreight ended nearly 9 months of accelerating declines and has improved for 3-4 months

Top 10 U.S. Ports	2008	Jun-09 Y-O-Y %	Jul-09 Y-O-Y %	Aug-09 Y-O-Y %	Aug-09 TEU's
Los Angeles (19% of total US)	-2%	-15%	-18%	-18%	473,971
Long Beach (17%)	<u>-8%</u>	<u>-29%</u>	<u>-22%</u>	<u>-13%</u>	<u>380,543</u>
<i>Total LA/LB (36% of total)</i>	-4%	-21%	-20%	-16%	854,514
New York (12%)	3%	-19%	-14%	n/a	n/a
Oakland (6%)	-4%	-7%	-6%	1%	148,292
Norfolk (6%)	0%	n/a	n/a	n/a	n/a
Charleston (5%)	-5%	-36%	-25%	-36%	79,898
Seattle (5%)	-15%	-26%	-2%	12%	125,812
Savannah (6%)	4%	-16%	-12%	-12%	170,782
Houston (4%)	0%	-19%	-12%	-11%	106,466
Tacoma (4%)	2%	-28%	-18%	-24%	62,851
<b>Total Top Ten (84% of total)</b>	<b>-4%</b>	<b>-21%</b>	<b>-16%</b>	<b>-14%</b>	<b>1,548,615</b>
Vancouver	6%	-15%	n/a	n/a	n/a

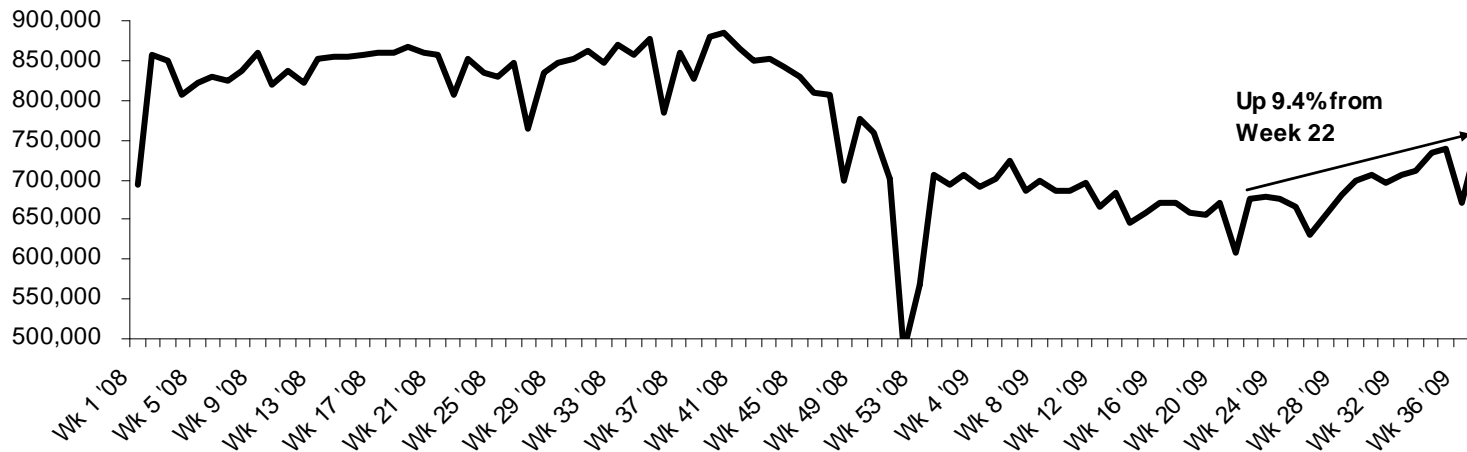
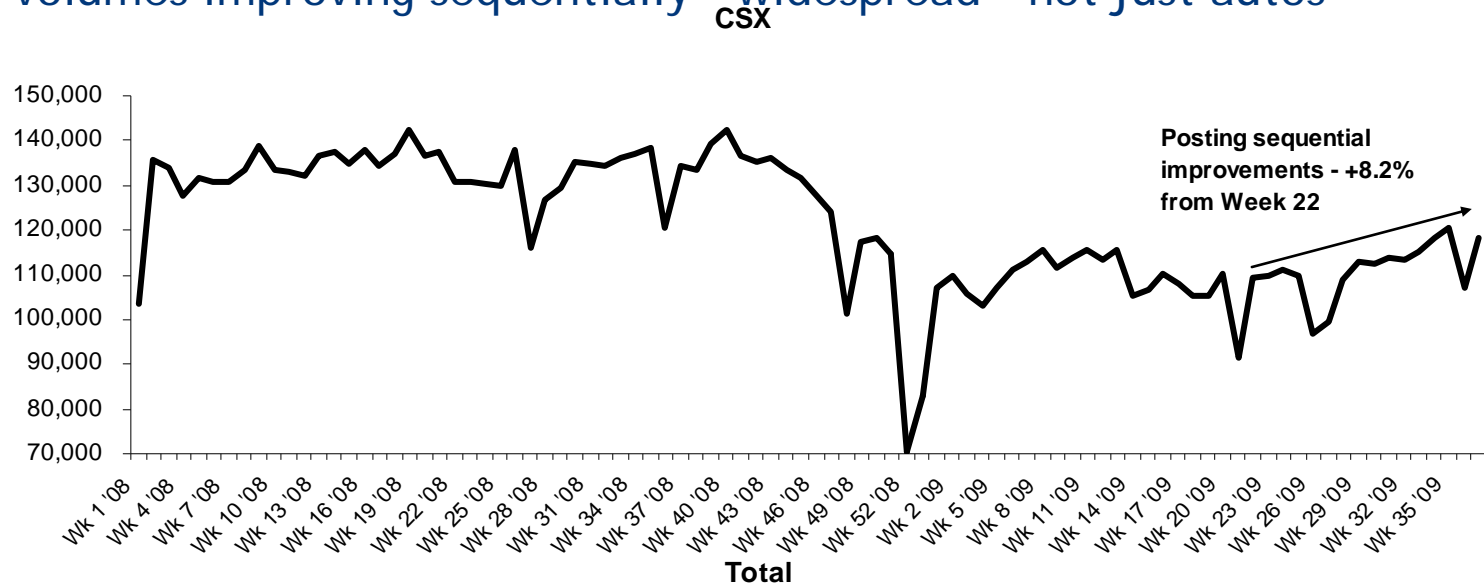
Source: Ports of LA, LB, Charleston, Savannah, Norfolk, Oakland, Houston, Seattle, Tacoma, Department of Transportation, and Merrill Lynch estimates. February 2008 total growth rate excludes New York, Tacoma, and Norfolk. Top 10 US Ports ~ 84% of All US Ports.

## Airfreight Tonnage (% change)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b>JAN</b>	12.2%	1.7%	(7.9%)	6.9%	0.6%	6.7%	1.2%	2.1%	5.9%	(21.2%)
<b>FEB</b>	15.8%	(5.8%)	(8.5%)	4.4%	9.3%	(1.3%)	2.1%	0.7%	6.0%	(21.1%)
<b>MAR</b>	12.5%	(4.7%)	(7.2%)	2.5%	6.6%	3.5%	6.0%	(2.0%)	(1.1%)	(20.8%)
<b>APR</b>	8.9%	(8.6%)	0.2%	1.9%	6.9%	0.3%	5.4%	(2.0%)	8.2%	(21.5%)
<b>MAY</b>	9.1%	(5.7%)	0.5%	(2.8%)	7.5%	(3.8%)	9.9%	2.1%	1.5%	(20.0%)
<b>JUN</b>	7.9%	(9.6%)	1.8%	(4.6%)	10.1%	2.4%	6.3%	(0.3%)	(2.9%)	(15.0%)
<b>JUL</b>	2.7%	(9.6%)	5.3%	0.9%	6.7%	(1.7%)	4.7%	1.8%	2.9%	(13.3%)
<b>AUG</b>	9.6%	(10.4%)	2.6%	(2.6%)	5.6%	1.6%	9.7%	1.8%	(6.6%)	
<b>SEP</b>	4.0%	(25.3%)	19.9%	(0.4%)	11.1%	2.7%	3.8%	0.0%	(7.1%)	
<b>OCT</b>	3.7%	(24.5%)	19.0%	(6.1%)	7.2%	0.2%	0.7%	2.8%	(6.2%)	
<b>NOV</b>	5.6%	(15.7%)	14.2%	(4.2%)	7.9%	3.5%	2.8%	3.5%	(17.2%)	
<b>DEC</b>	<u>(4.7%)</u>	<u>(16.7%)</u>	<u>8.4%</u>	<u>4.7%</u>	<u>11.4%</u>	<u>1.8%</u>	<u>(2.3%)</u>	<u>3.1%</u>	<u>(17.0%)</u>	
<b>Full Year</b>	8.1%	(11.5%)	4.6%	(0.2%)	7.6%	1.3%	4.1%	1.1%	(3.2%)	(51.4%)
<b>YTD</b>									2.6%	(14.2%)

# Truck, Rail, Port data are past second derivative improvements

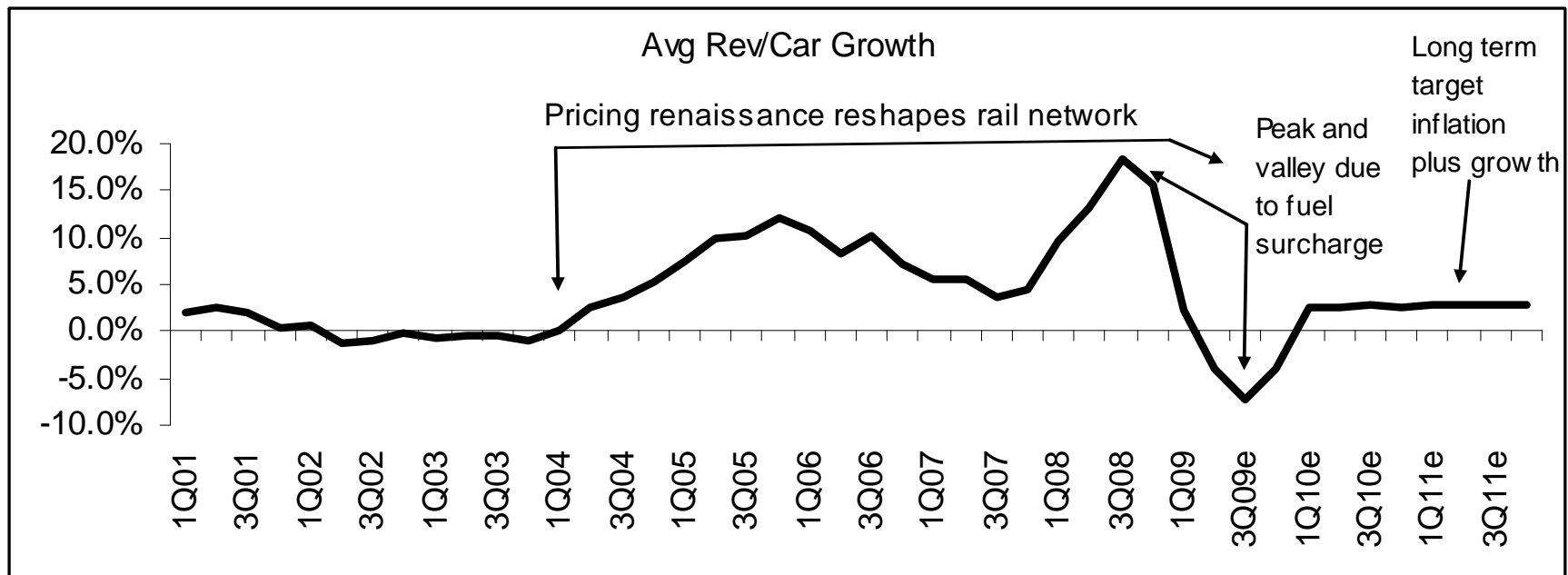
- Rail volumes improving sequentially - widespread - not just autos



Source: AAR and BofA Merrill Lynch Global Securities

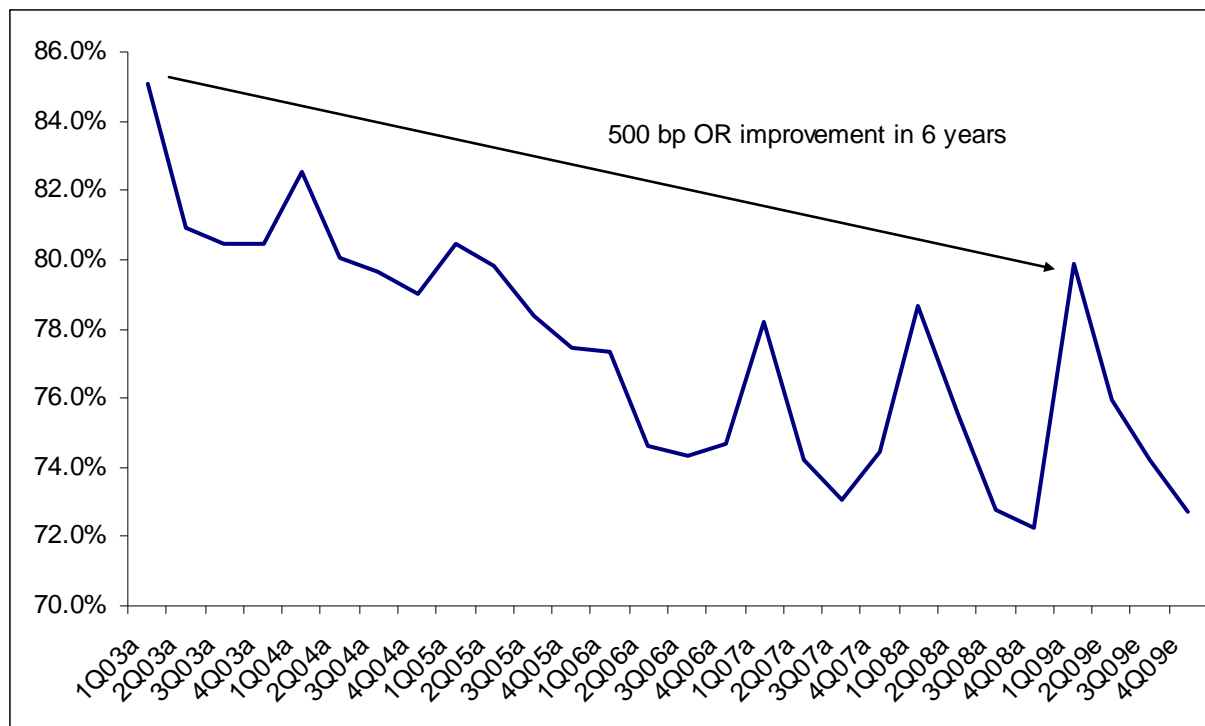
## Pricing renaissance moves into latter stages - "inflation plus"

- Pricing commentary
  - Pricing renaissance that began in 2004 continues
  - However, expect future pricing increases at inflation plus (+100-200 bps)
  - Need to achieve proper returns in order to reinvest



## Rails proved to be more variable than anticipated - what is fixed?

- What the rails have done to soften the downturn - cost and equipment
  - - Parked >~20% of locomotives and cars
  - Furloughed employees
  - Reduced structural costs - closed yards, enhanced operations

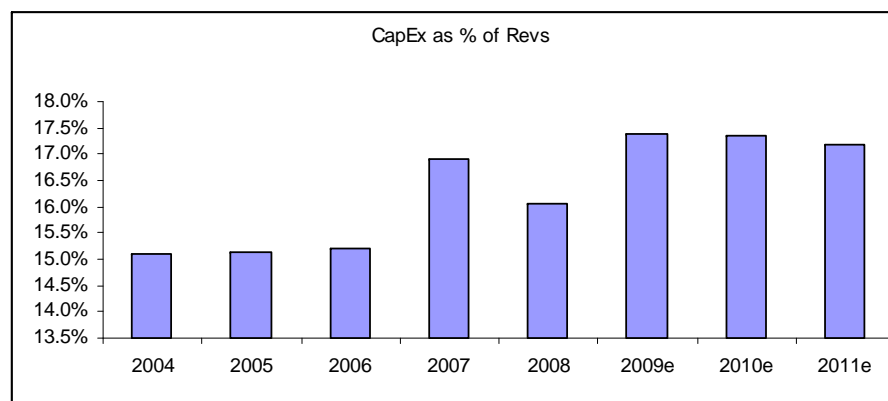
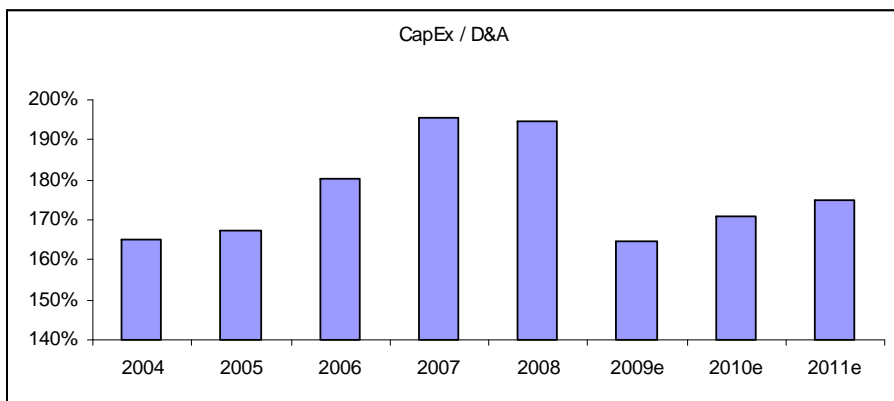
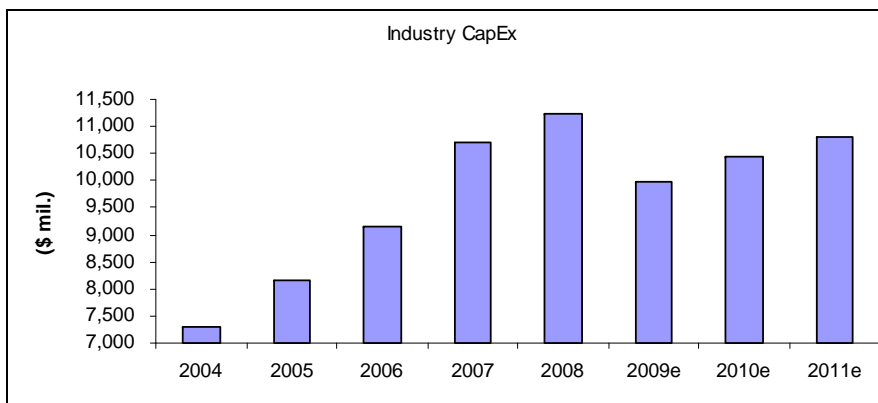


Source: BofA Merrill Lynch Global Securities and company reports

## Capex still above maintenance levels

- Capex trends

	2004	2005	2006	2007	2008	2009e	2010e	2011e
CapEx	7,306	8,144	9,165	10,690	11,244	9,985	10,439	10,817
		11%	13%	17%	5%	-11%	5%	4%



Source: BofA Merrill Lynch Global Securities and company reports

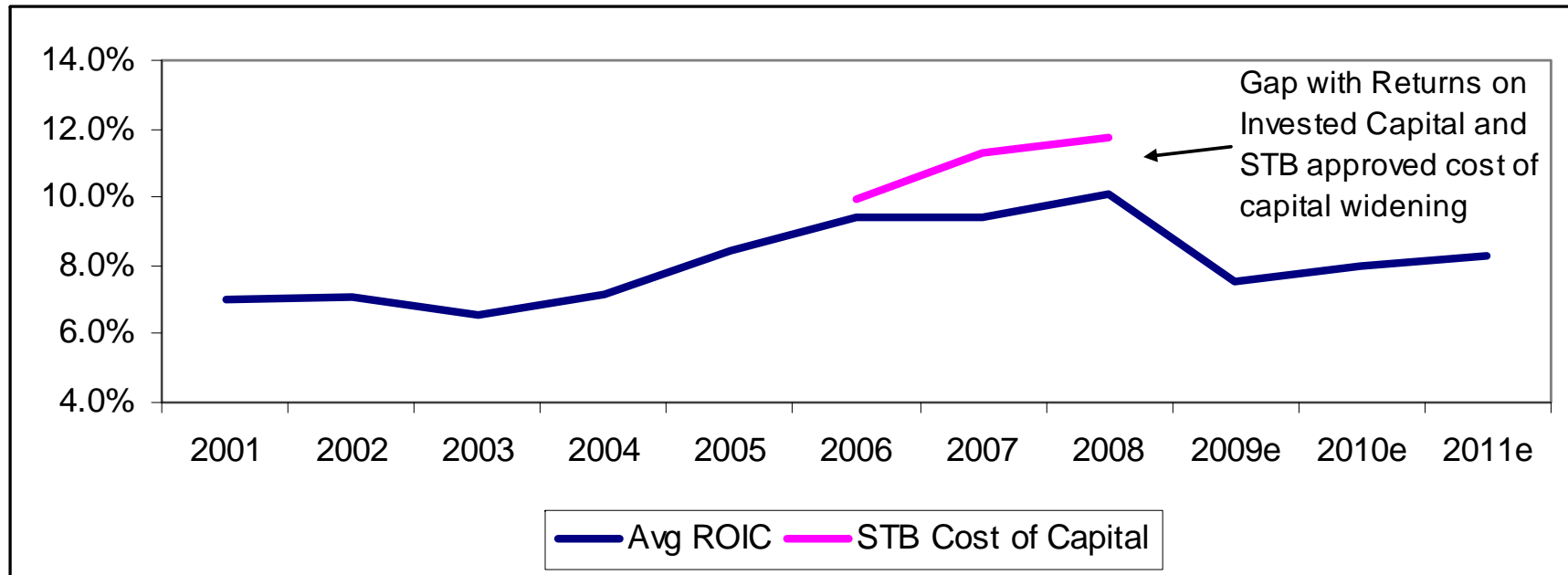


## Legislative overhang remains

- Legislation overhang
  - Judiciary
    - Senator Kohl - Anti-trust
    - House passed bill
  - Commerce
    - Await Sen. Rockefeller's bill
    - Rep. Oberstar focused on Highway reauthorization

## Returns on invested capital below cost of capital levels

- Returns on invested capital - falling below cost of capital levels
  - Average ROIC has increased 300 bps to 10.1% over past 7 years
  - Returns expected to fall 250 bps in 2009
  - STB Cost of Capital was set at 11.75% for 2008, well above current 7% return avgs



Source: BofA Merrill Lynch Global Securities, STB, and company reports



## Stock performance - out of downturns

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- Stock performance - recent, past outperformance, and ahead of turns
- Outperformed S&P 500 for 9 consecutive years
- Trading range remains within historical boundaries
- Early cycle investment

# Stock performance - out of downturns

- Stock performance peak to trough leaves upside for rail stocks

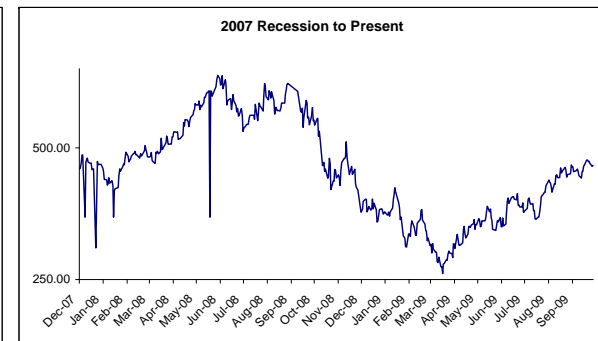
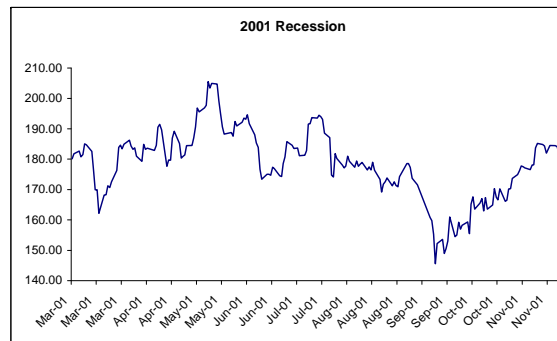
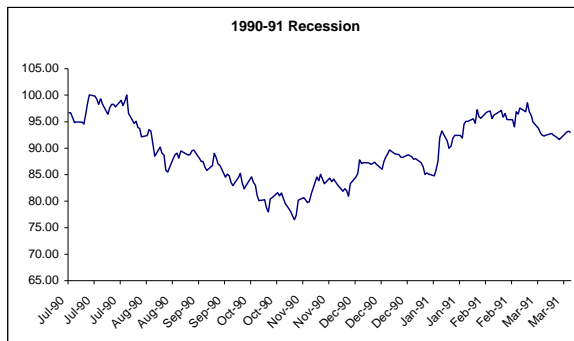
<b>1990-1991 Recession</b>	<b>Date</b>	<b>Index</b>	<b>% chg</b>	<b>Days</b>
Peak	7/13/90	100.04		
Trough	11/1/90	77.32	-23%	111.00
Prior Peak	4/17/91	100.37	30%	167.00

<b>2001 Recession</b>	<b>Date</b>	<b>Index</b>	<b>% chg</b>	<b>Days</b>
Peak	5/16/01	205.53		
Trough	9/20/01	145.59	-29%	127.00
Prior Peak	3/4/02	206.70	42%	165.00

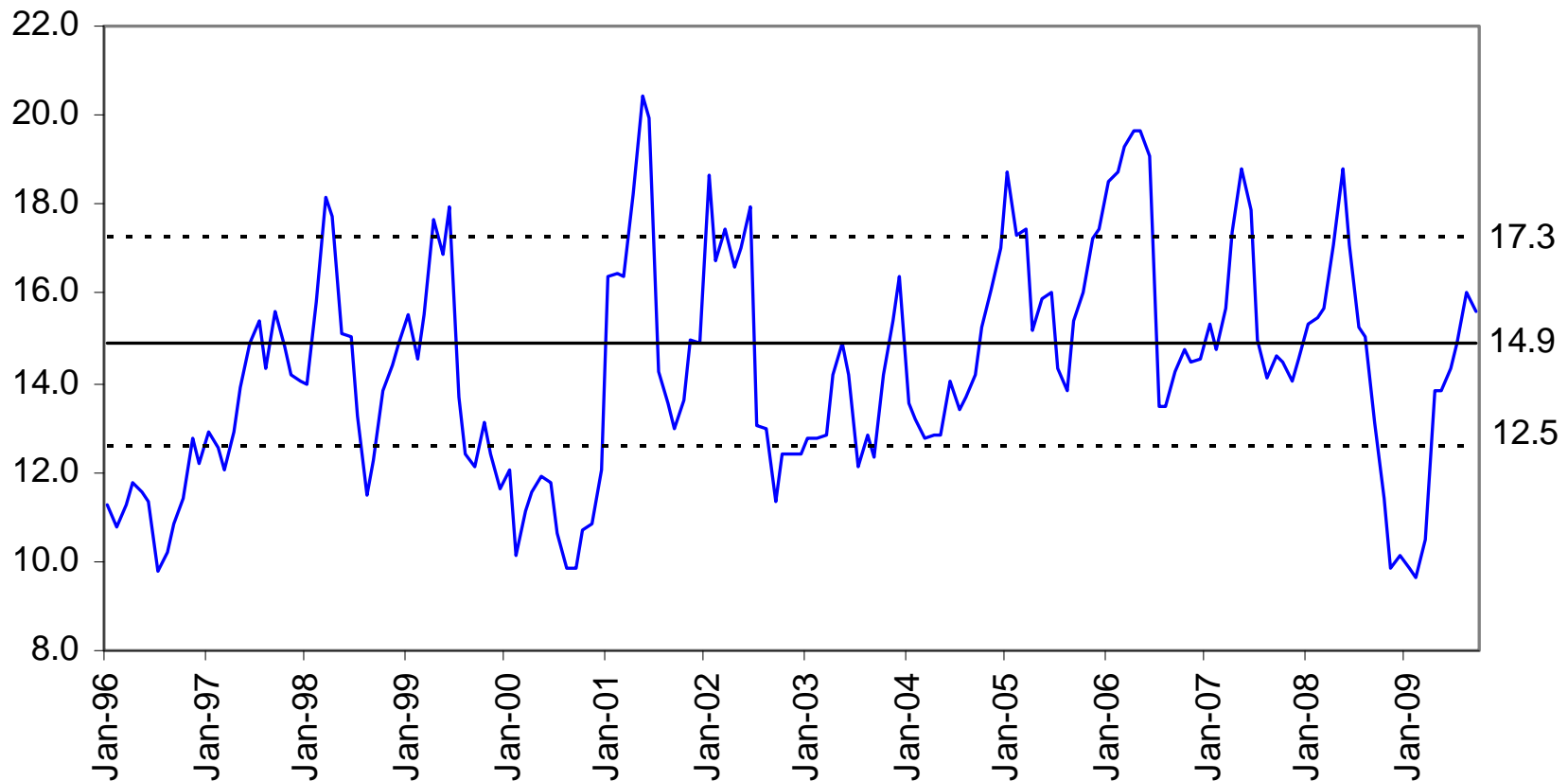
<b>2008-current Recession</b>	<b>Date</b>	<b>Index</b>	<b>% chg</b>	<b>Days</b>
Peak	6/2/08	631.01		
Trough	3/18/09	261.55	-59%	289.00
Prior Peak*	9/29/09	451.88	73%	195.00
* Upside still left to match peak		-28%		



Source: BofA Merrill Lynch Global Securities and Reuters. Index includes U.S. Class I rails excluding KSU.

## Stock performance - out of downturns

- Rails remain within one standard deviation of historical forward P/E avg



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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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