



# Watco Companies

“Preparing for the Harvest”

SWARS Meeting – 10/01/09 – The Woodlands, TX

# Watco Companies

## A Customer Relationship Company

### ■ Foundation Principles

- Improved Customer Satisfaction
- Improved Value Creation
- Long-term Vision

*Watco will provide the right car, at the right time,  
at the right price in the right condition with value added.*



# Watco Companies Overview

## Services Provided by Watco's 2,000+ Team Members

### Transportation

- 3<sup>rd</sup> Largest Short Line Operator
- 22 Short Line Railroads
  - 322 Locomotives
  - 3,667 Track Miles
  - 2,503 Railcars
- 3<sup>rd</sup> Largest Switching Provider
- 21 Switching Operations



### Mechanical

- Largest Car Repair Shop Service Provider
- 14 Rail Car Repair Facilities
- 19 Mobile Car Repair Operations
- Fleet Management

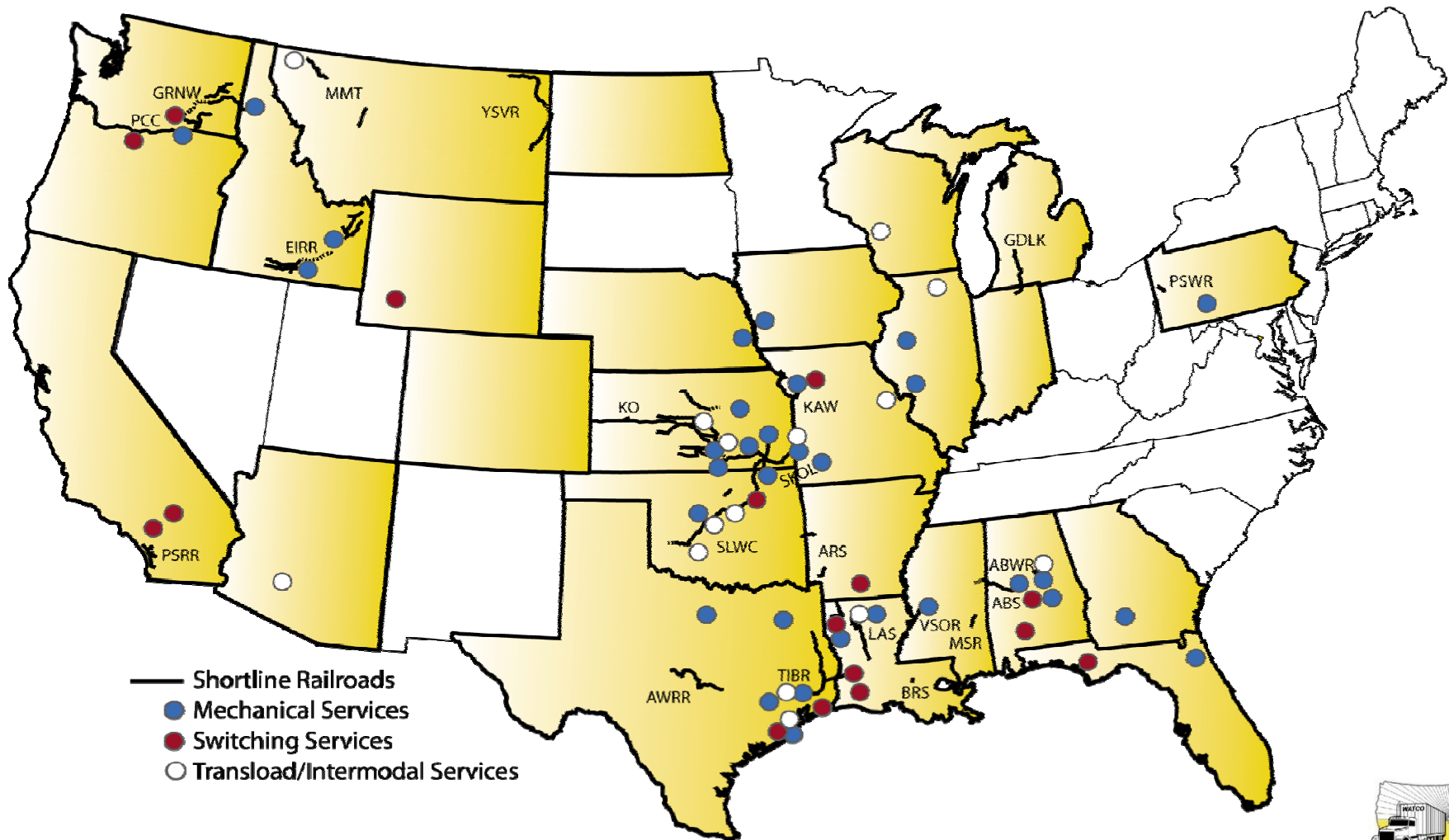


### Transload / Intermodal

- 12 Transload Operations
- 1 Intermodal Operation
- 7 Warehousing Operations



# Watco Companies System Map



# Watco Companies

## Recent Trends

### Transportation Division

- Carload volumes down YOY but better than industry average
  - Through 7/31/09: Class I carloads -18.2%, Watco carloads -6.5%
  - Weakest segments: forest products, metals, agriculture
  - Strongest segments: chemicals, minerals, food products
- Pricing has partially offset volume declines
- Railcar storage business continues to be strong
- Tremendous activity in contract switching business
- Truck pricing is still very competitive in some markets



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## Recent Trends

### Mechanical Division

- Stored cars, fleet reductions, and deferred maintenance have negatively impacted volumes
- Increased interest in fleet management and other services

### Transload / Intermodal Division

- Volumes down due in part to exposure to housing and energy
- Expertise has driven business to railroads
- Substantial opportunities for intermodal operations



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## Recent Trends

### Safety

- Continued improvements in RPI ratio, human-factor incidents, and track-caused derailments
- According to ASLRRA data, Watco's safety record is among the best in the shortline industry

### Operations

- Transportation: improved on-time delivery and days on line
- Mechanical: improved cycle time and quality rework
- T/IM: improved inventory accuracy and on-time delivery



# Watco Companies

## Recent Trends

### Productivity / Efficiency

- Focus on cost-cutting...cutting fat but not muscle
- Improved fuel efficiency
- Improved parts inventory management
- Reduction in employee turnover
- Robust capital investment...thanks in part to shortline tax credit
- Focus on economic value added (“EVA”)



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## Preparing for the Harvest

### Organic Growth

- Continuous improvement in customer service
- Move business from truck to rail
- Contract switching services
- Cross-selling and bundled services

### Acquisitions

- Expect substantial acquisition opportunities in shortline business
- Consolidation in highly-fragmented mechanical business
- Focus on key markets for transload/intermodal tuck-ins



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## Preparing for the Harvest

### New Revenue Sources

- Maximize value from real estate assets
- Key partnerships in warehousing / logistics parks
- Expanded service offerings in mechanical business

### Other Items

- Tremendous opportunity to attract new talent
- Incentive plans for safety and EVA
- Continued focus on Class I relationships
- Optimize capital sources to maximize opportunities
- Shortline tax credit



# Questions?

