



# Midwest Association of Rail Shippers Winter Meeting: *A New Age of Railroading*

Jack Hellmann, Chairman and CEO  
January 16, 2019



# Forward Looking Statements

This presentation contains forward-looking statements regarding future events and the future performance of Genesee & Wyoming Inc. (G&W) that are based on current expectations, estimates and projections about our industry, management's beliefs and assumptions made by management. Words such as "anticipates," "intends," "plans," "believes," "could," "should," "seeks," "expects," "will," "estimates," "trends," "outlook," variations of these words and similar expressions are intended to identify these forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to forecast, including the following: risks related to the operation of our railroads; severe weather conditions and other natural occurrences, which could result in shutdowns, derailments, railroad network and port congestion or other substantial disruption of operations; customer demand and changes in our operations or loss of important customers; exposure to the credit risk of customers and counterparties; changes in commodity prices; consummation and integration of acquisitions; economic, political and industry conditions, including employee strikes or work stoppages; retention and contract continuation; legislative and regulatory developments, including changes in environmental and other laws and regulations to which we or our customers are subject; increased competition in relevant markets; funding needs and financing sources, including our ability to obtain government funding for capital projects; international complexities of operations, currency fluctuations, finance, tax and decentralized management; challenges of managing rapid growth, including retention and development of senior leadership; unpredictability of fuel costs; susceptibility to and outcome of various legal claims, lawsuits and arbitrations; increase in, or volatility associated with, expenses related to estimated claims, self-insured retention amounts and insurance coverage limits; consummation of new business opportunities; decrease in revenues and/or increase in costs and expenses; susceptibility to the risks of doing business in foreign countries; uncertainties arising from a referendum in which voters in the United Kingdom (U.K.) approved an exit from the European Union (E.U.), commonly referred to as Brexit; our ability to integrate acquired businesses successfully or to realize the expected synergies associated with acquisitions; risks associated with our substantial indebtedness; failure to maintain satisfactory working relationships with partners in Australia; failure to maintain an effective system of internal control over financial reporting as well as disclosure controls and procedures and other risks including, but not limited to, those noted in our 2017 Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q under "Risk Factors." Therefore, actual results may differ materially from those expressed or forecasted in any such forward-looking statements. Forward-looking statements speak only as of the date of this presentation or as of the date they were made. G&W does not undertake, and expressly disclaims, any duty to publicly update any forward-looking statement, whether as a result of new information, future events, or otherwise, except as required by law.



# Agenda

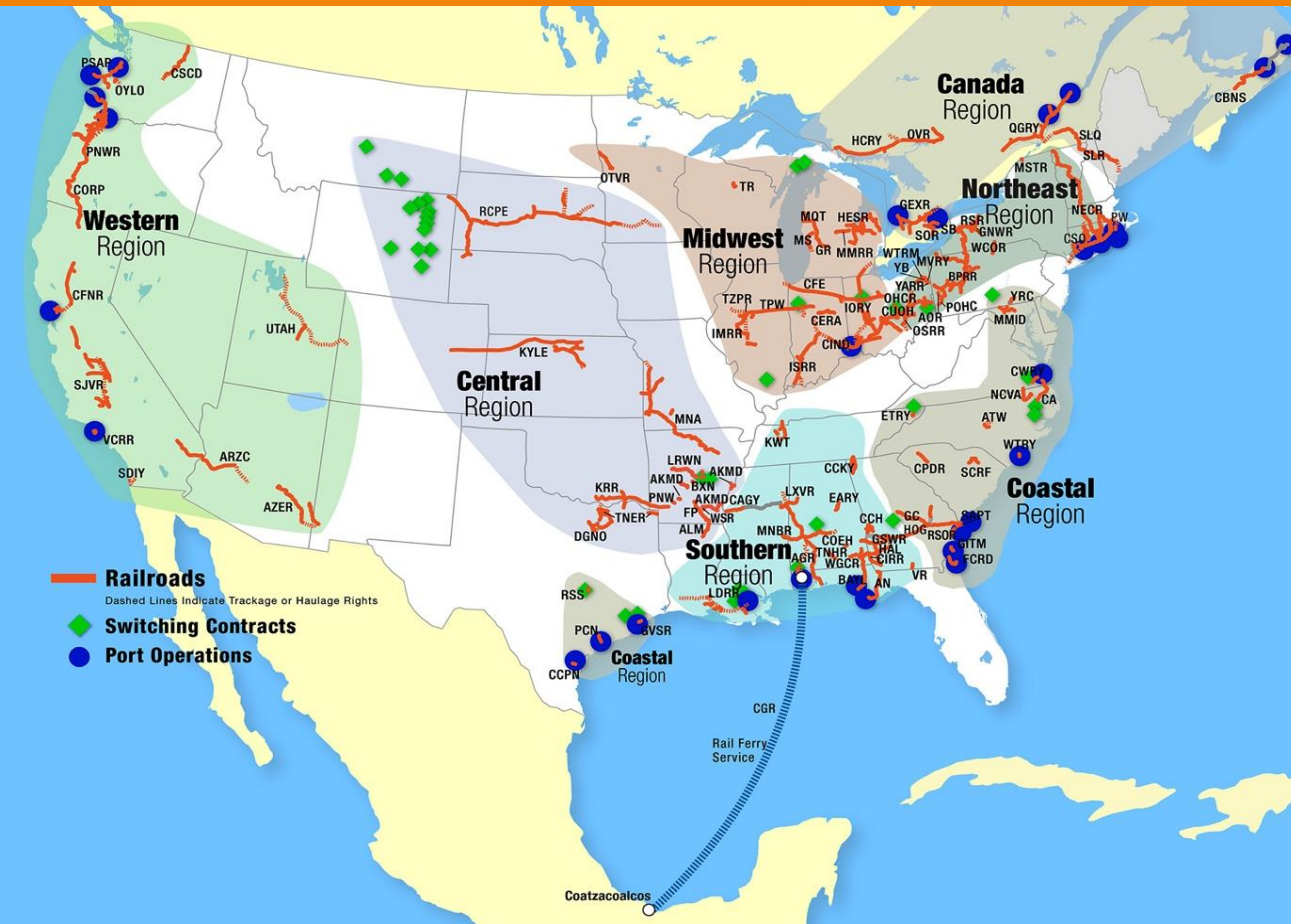
1. G&W Business Update
2. Precision Scheduled Railroading (PSR)
  - Short- and Long-Term Impact
  - G&W Roots Reset Program
3. Case Studies:
  - Kiamichi Railroad (Class III)
  - Rapid City, Pierre & Eastern (Class II)



# Who We Are

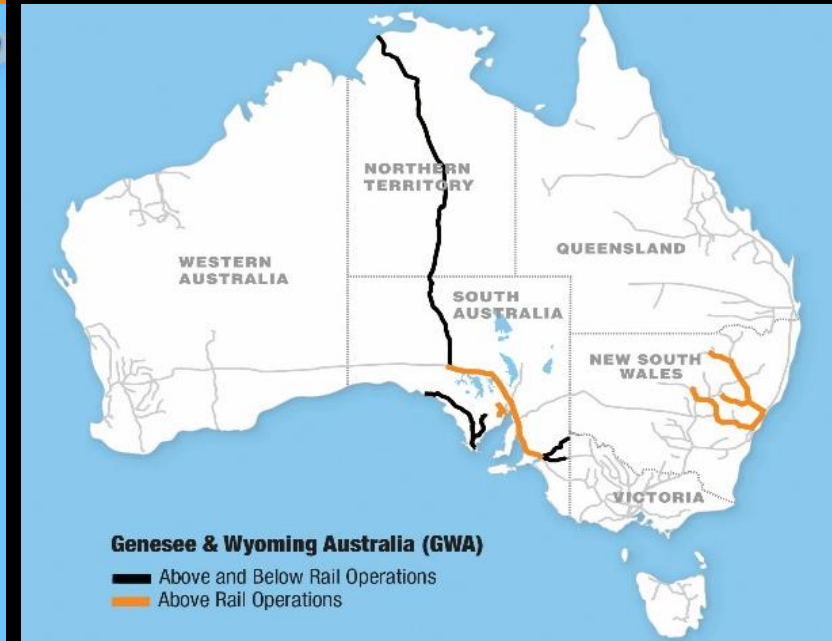
120 Railroads - 8,000 Employees - 3,000 Customers - 16,000 Miles - 3.3 Million Carloads

## North America (85% of Operating Income)



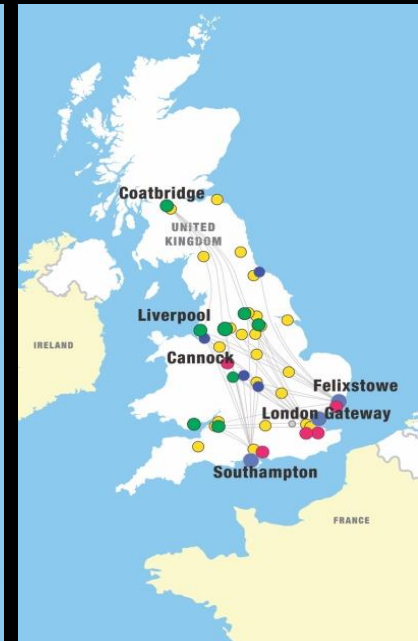
## Australia

(51% owned; 10% Operating Income)



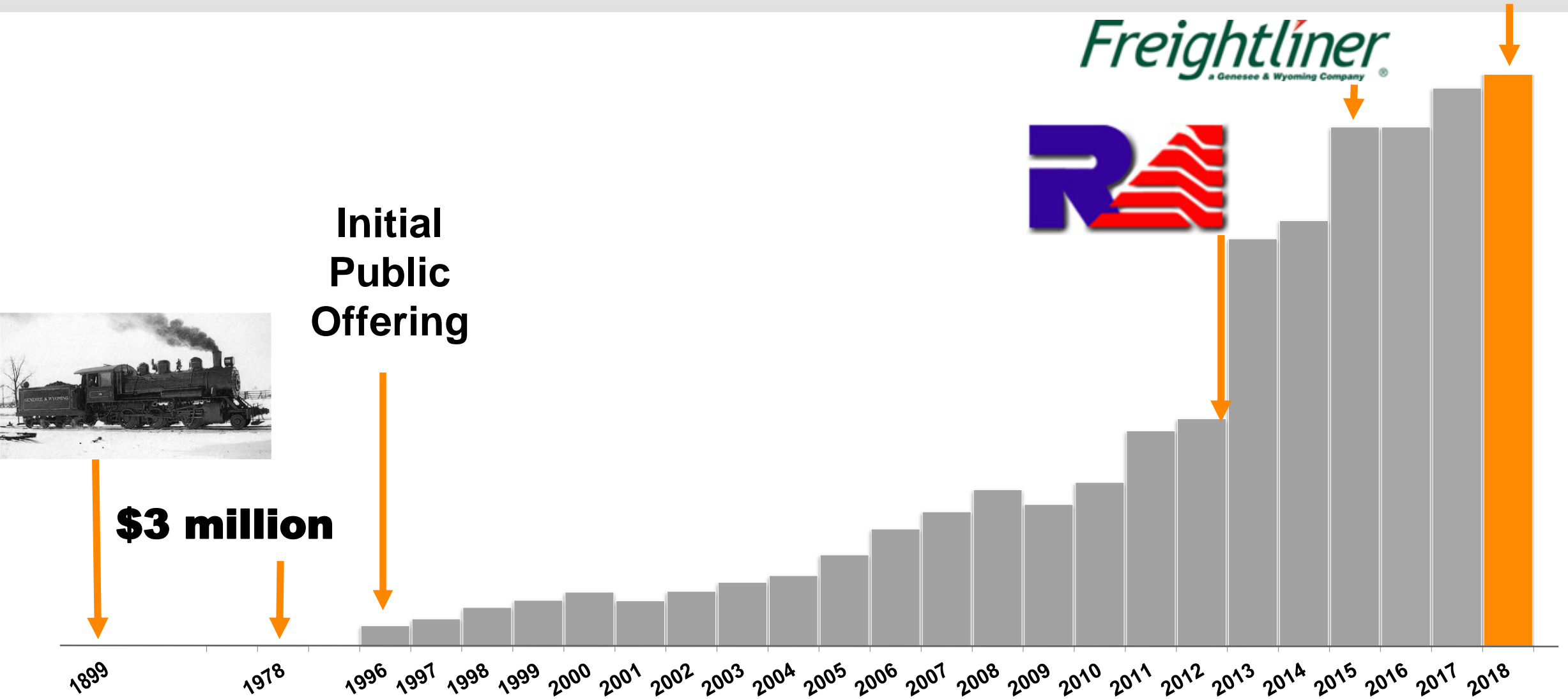
## UK/Europe

(5% Operating Income)



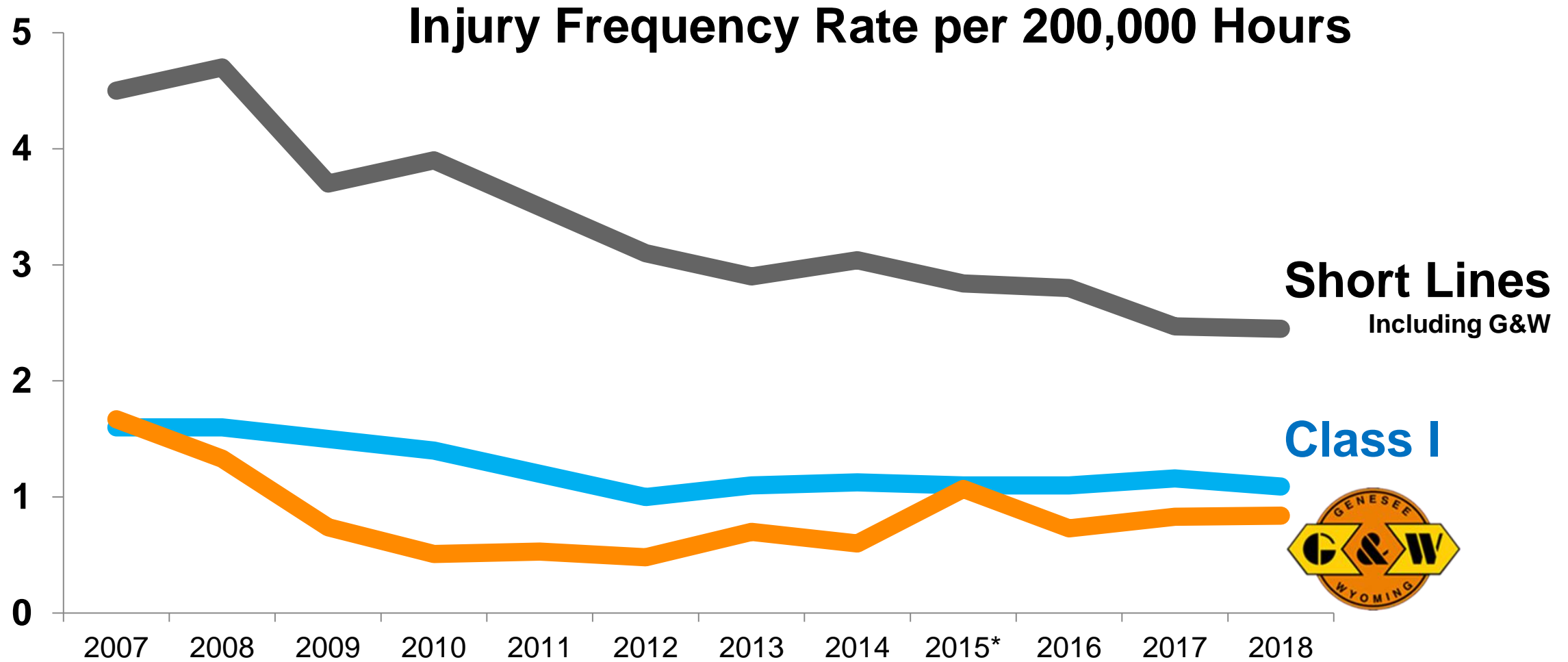
# Where We Came From

17% Revenue CAGR since IPO





# Industry-Leading Safety



# Safety Commitment to Our People



***Our Goal Every Day***



# Industry-Leading Service

J.D. Power Survey (1-Low and 10-High)

**8.0**



**7.2**

Trucking

**6.9**

Other  
Railroads





# North American Carload Trends

Same Railroad

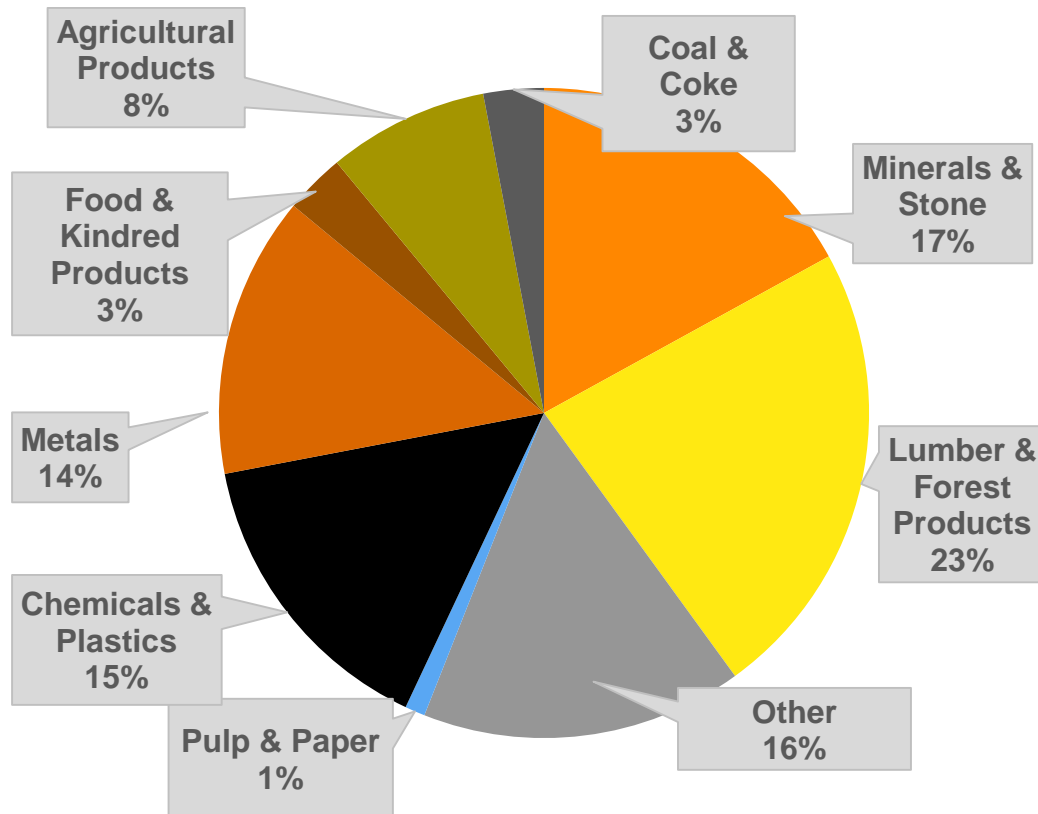
YoY Growth	
Q1 2018	+0.4%
Q2 2018	+8.1%
Q3 2018	+9.4%
Q4 2018	+6.5%*

**2018 Carload Growth of 6.3%\***

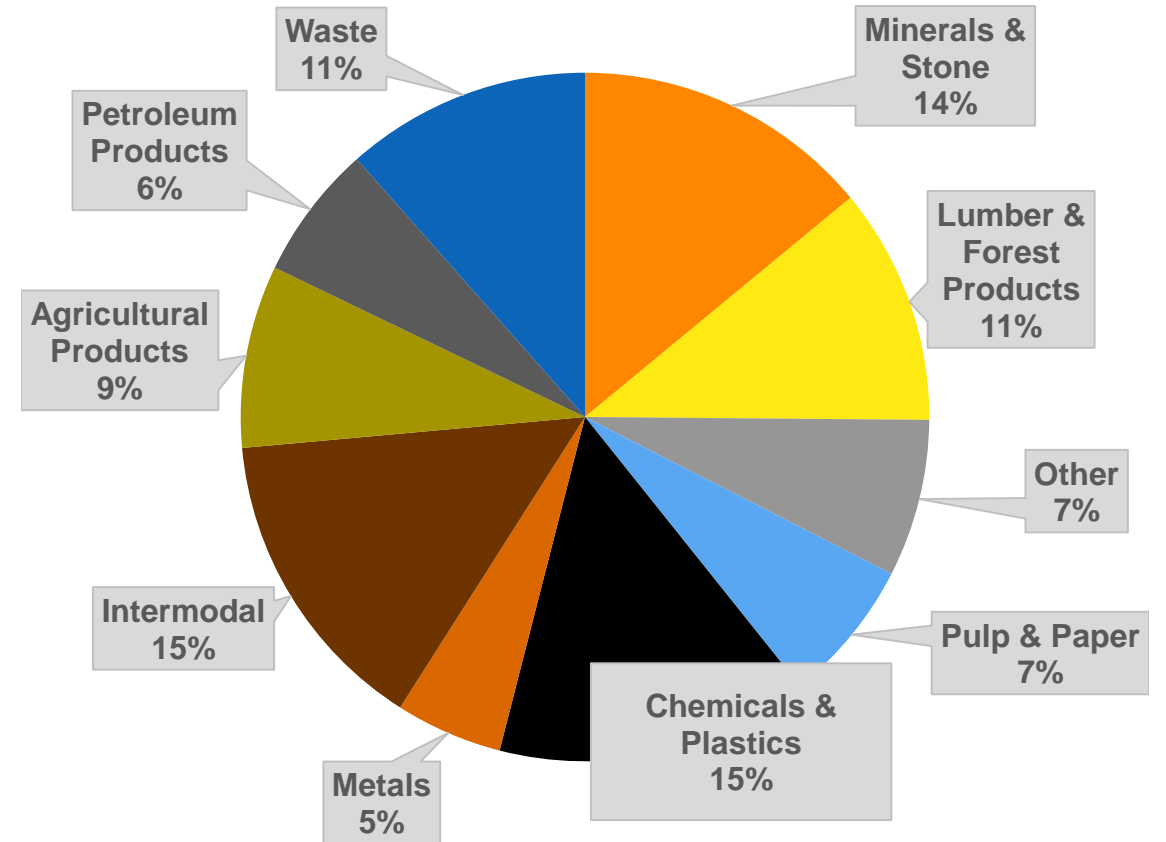
\*Comparison reflects ongoing operations and excludes carloads from short line leases in Canada (GEXR and SOR), which expired in the fourth quarter of 2018.

# Industrial Development Pipeline Carloads

**2018 Project Wins:** 15,000 annual carloads



**2019 Funnel:** 170,000 potential annual carloads\*



# Precision Scheduled Railroading





# Precision Scheduled Railroading (PSR)

- Class I PSR Impacts on Short Lines
  - Short Term
  - Long Term
- How Short Lines Can Help Customers in PSR Transition
- Elements of PSR Apply to Short Lines
  - G&W Roots Reset Initiative
  - Case Studies



# Short-Term PSR Impact: Short Line Shock Absorber

## Class I Transition

- Balanced train plan
- Increased train density
- Greater frequency and capacity
- Rolling stock utilization
- People efficiency
- Shedding non-core rail segments



## Short Line Impact During Transition

- Unexpected service changes
- Larger trains at interchange
- Bunching of customer traffic
- More switching
- Equipment supply constraints
- Locomotive usage changes

**Short Term:** Reduced volumes amidst change and higher operating costs

# Long-Term PSR Impact: Efficient Interline Partners

## Class I's Long Term

- Balanced train plan
- Fluid terminals and network
- Optimized asset productivity
- Reliable service
- Increased volumes

## Short Lines Long Term

- Consistent interchange
- Increased reliability and car fluidity
- Optimized interline service
- Reliable service
- Increased volumes

**Long Term:** Increased volumes with reliable service,  
increased network capacity and reduced operating costs



# Short Lines Can Help Customers with PSR Impacts

- When customer shipment patterns do not fit Class I PSR service, short lines can help with:
  - Blocking traffic to destination
  - Flexible local switching
  - Storage in transit yards (built on short lines)
- As Class I service becomes more predictable, short lines will adjust to provide predictable end-to-end transit times to customers
- Availability and predictability of empty equipment also will improve



# G&W Roots Reset Program

- Certain concepts of PSR that are applicable to Class III railroads – which run 1-2 trains/day and depend on Class I schedules – have been utilized by G&W’s network-design function since 2005

## Network Design Evolved to Roots Reset in 2017

- Reinvigorating each G&W short line’s “roots” as an entrepreneurial small business
  - Improve organic growth, customer service plan, operating ratio and capital efficiency
  - Current program started in Canada and expanded to CSX-facing short lines during PSR transition (2017-18)
  - 40 of 114 North American short lines complete
  - Next phase of 30 railroads underway; several awaiting PSR transitions at connecting Class Is





# What is G&W Roots Reset?

## Railroad-by-railroad process review by regional and railroad-level management:

1. Detailed mapping of current operations
  - Customers
  - Class I interchange frequency and location
  - Service plan
  - Assets (crews, rolling stock, track)
  - Organizational design
  - Financial performance





# What is G&W Roots Reset? *continued*

## 2. Identify improvement opportunities & benchmark against comparable railroads (illustrative metrics)

- Revenue/carload; real estate income/mile
- Revenue/employee and revenue/locomotive
- Cost/carload (transport, mechanical, maintenance of way and G&A)
- Fuel efficiency (gallons/GTM)
- Direct cost/locomotive
- CapEx and maintenance of way/mile



# What is G&W Roots Reset? *continued*

## 3. Develop improvement plan after a detailed operations walk-through and benchmarking session

- New service plan (interchange to customer)
- Optimized locomotive fleet and mechanical plan
- Optimized labor resources
- Infrastructure fit for purpose
- Assign responsibility and timelines for implementation
- Measure against established financial benchmarks





# What is G&W Roots Reset? *continued*

4. Corporate and regional leadership review to gauge progress and challenge performance
5. Continuously update and optimize based on Class I service changes, market conditions, new customers and changing service needs

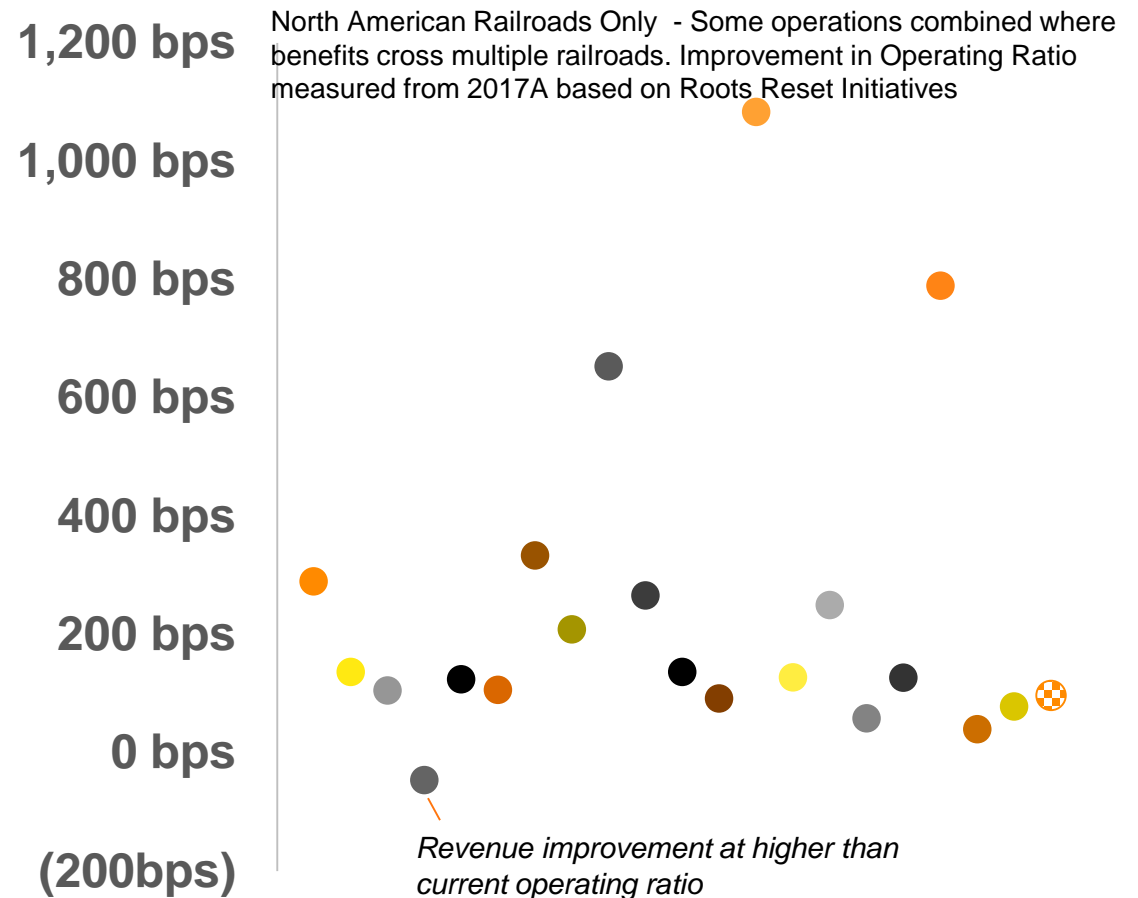




# Roots Reset: ~100bp Operating Ratio Improvement in North America

Process unlocked ~\$16 million  
of operating income on the 40  
railroads where it has been  
deployed, improving total  
North American operating ratio  
by ~100bps

# Basis Point Improvement







# Case Studies



# Kiamichi Railroad Case Study

*Transition from Short-Term Outlook (Private Equity Ownership) to Long-Term Infrastructure Investment in Partnership with Customers (G&W Ownership)*

**January 2013:** G&W acquired control from RailAmerica

**August 2013:** Visited International Paper to apologize for legacy poor service

**2013-present:**

## Executed Improvement Plan

**New People:** New GM, AGM & Trainmaster

**New Service:** Increased from 5 to 7 days/week

**New Investment for Growth:**

- More Locomotives: Purchased 6 SD40s (30%-40% increase in fleet)
- Track Upgrades: >\$35 million over 5 years for upgrades and growth capital; 98% now 286K-capable





# Kiamichi Results Since Acquisition

## Safety

**Injury-free  
since 2014;**

**Derailments  
27%**

## Revenues

**20%**

## Service

**J.D. Power  
Scores  
>8.0**

## Operating Ratio

**1,200 bps**

**BNSF 2018 Short Line of the Year**

# Rapid City, Pierre & Eastern Case Study

- G&W purchased the “DM&E West”, 739 miles, from Canadian Pacific (CP) for \$220 million in June 2014 and formed the RCP&E
- DM&E West assets were deemed a poor fit within CP’s PSR operating ratio goal of 65%
- Prior to G&W acquisition, trains ran unscheduled, picking up what cars they could with what power they had available until crews maxed out hours of service (re-crewed if manpower was available)



# RCP&E Transformed into a Scheduled Regional Railroad with 25 Trains per Week

- 1. Each crew knows where and when they come on and off duty and what customers to serve**
  - Each train has designated power and crew
  - Scheduled start times for interchange jobs with CP and UP; eliminated need for power swapping, decreasing locomotive need
- 2. Each customer knows what days they receive service; receive that service within a 90-minute window**
- 3. 4 – 6 more daily crew starts with same number of people**





# Targeted Investment Increased Speed and Capacity

Combined internal capex, federal and state grants have resulted in over \$80 million of investment

## 1. Reduced run times by 1 hour each way by replacing 100-year-old rail

- Increased train speeds from 10mph to 40mph east of Wall, allowing for longer trains and generating both fuel and labor savings

## 2. Doubled line capacity by constructing sidings

- Sidings in Aurora, Huron and Philip
- No longer leave cars behind; keeps customers' loads moving during peak harvest and construction season

## 3. Increased fleet by 2,000 cars to meet demand



# RCP&E Results Since Acquisition

## Safety

>1,200 days  
injury-free

## Revenues

↑ 21%  
from 2015 to 2019E

## Headcount

↓ 10%  
from 2014

## Locomotives

↓ 27%  
from 2014

## Operating Ratio

↓ from 73% (2014)  
to 61% (2018)

## Service

J.D. Power scores have averaged  
above 8.0 since 2015

# Increased Speed and Capacity Leads to Customer Investment on RCP&E



**Novita –  
New Feed Products Plant**



**Ring Neck Energy –  
New Ethanol Plant**



**SD Soybean –  
Facility re-opening**



**GCC – Kiln Expansion**

**Over \$300 Million of Customer Investment and  
20,000 Projected New Carloads**



# Potential Industrial Development Sites

