

# KANSAS CITY SOUTHERN



**Midwest Association of Rail Shippers  
January, 2020**

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# MARS Conference Theme:

***Rail's 2020 Cross Roads:***

***Market Share vs. Operating Ratio***



# Response:

***“When you stop growing, you start dying”.***

***William S. Burroughs***

***“In this world you’re either growing or you are dying, so get in motion and grow”.***

***Lou Holtz***



# What Do the Headlines Say?

**Instability creates significant uncertainty on Global Supply Chains!**

**Progressive**  
RAILROADING

**Uncertainty clouds 2020 Vision**

Why aren't wages rising faster even with low unemployment? Trade war, weaker economy are among reasons

**Analyst Report:**

Rail Car loadings trending -7% 4QTD; expect similar 1H20

China exports fall again as US trade war continues

Economics

**U.S. Truck Driver Shortage Is On Course to Double in a Decade**

Ominous IMO 2020 Signs For Ocean Shipping Spot Rates

**2019: Freight Market Slowdown, Tariffs Diminished Trucking Industry's Performance**



# The Path Forward for Long Term Rail Growth

- ***PSR → Service & Growth Orientation***
- ***Innovation & Autonomy***
- ***The Parable of the Long Spoons: Beauty of Cooperation***



# PSR at KCS: Better Railroading for more Reliable Service and Growth



## Customer focused

- Improve and sustain consistency & reliability of service
- Create a more resilient and dependable network



## Facilitate Growth

- Additional capacity for new opportunities



## Improve asset utilization

- Be able to meet growing demand with same or fewer assets



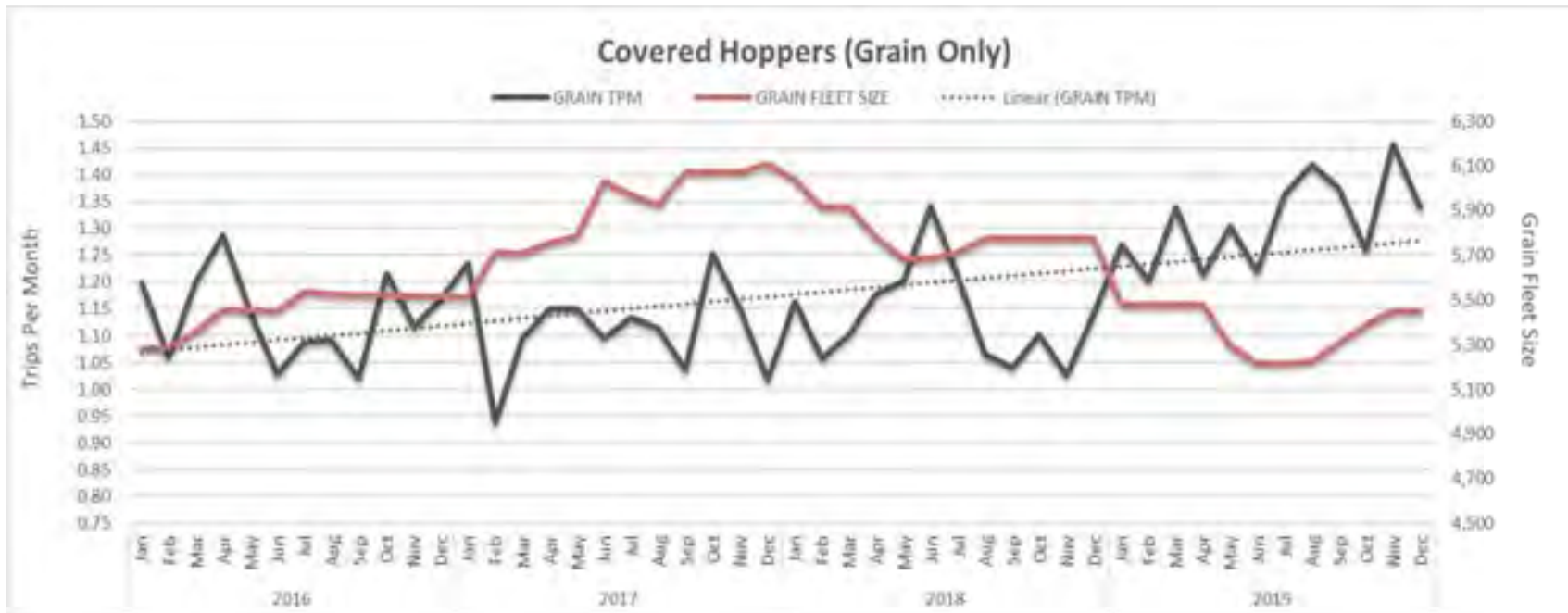
## Improve cost profile

- Increased profitability driven by volume and revenue growth and improved productivity and asset utilization

**KCS' Mantra: Service Begets Growth**



# Grain Cycle Time at KCS



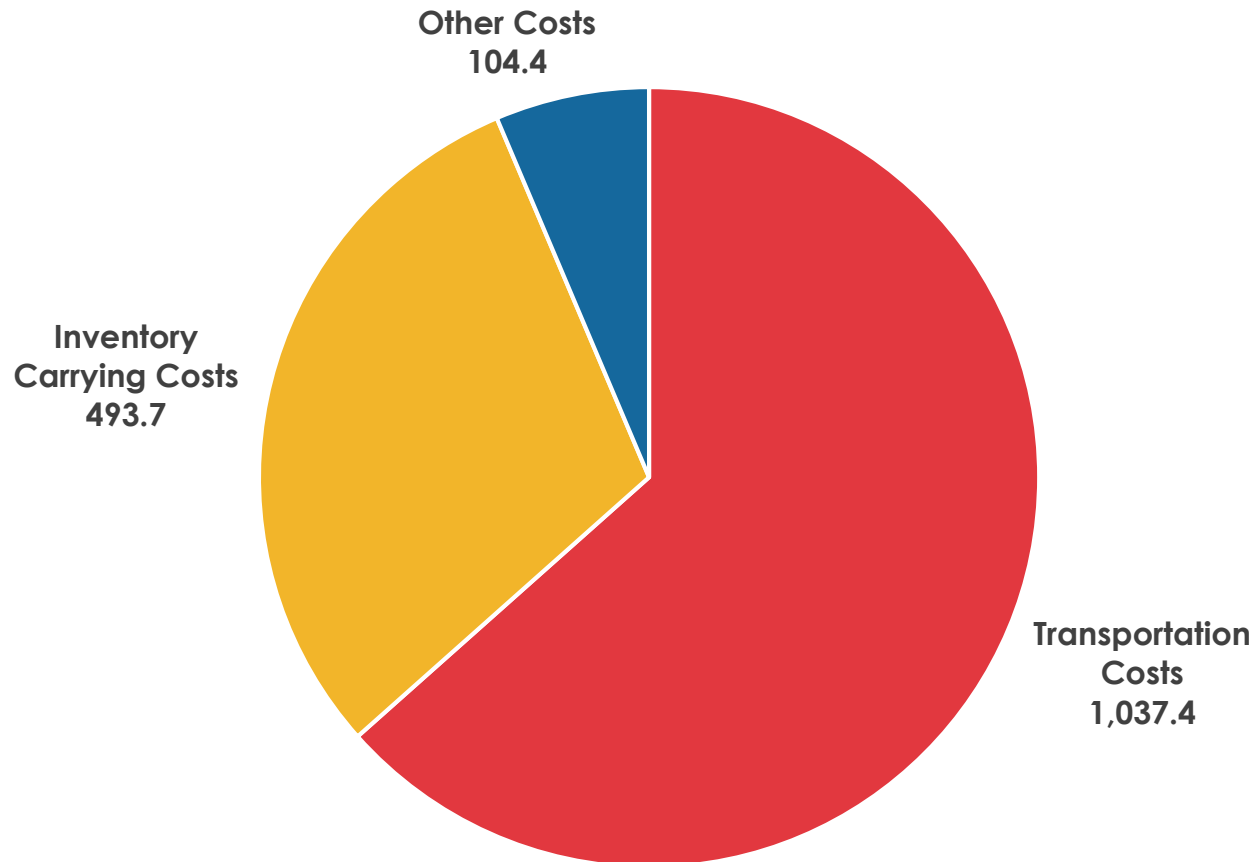
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
1.27	1.20	1.34	1.21	1.30	1.22	1.36	1.42	1.37	1.26	1.46





# Supply Chain Costs are Substantial...

**Total 2018 Supply Chain Costs  
\$1.63 Trillion**

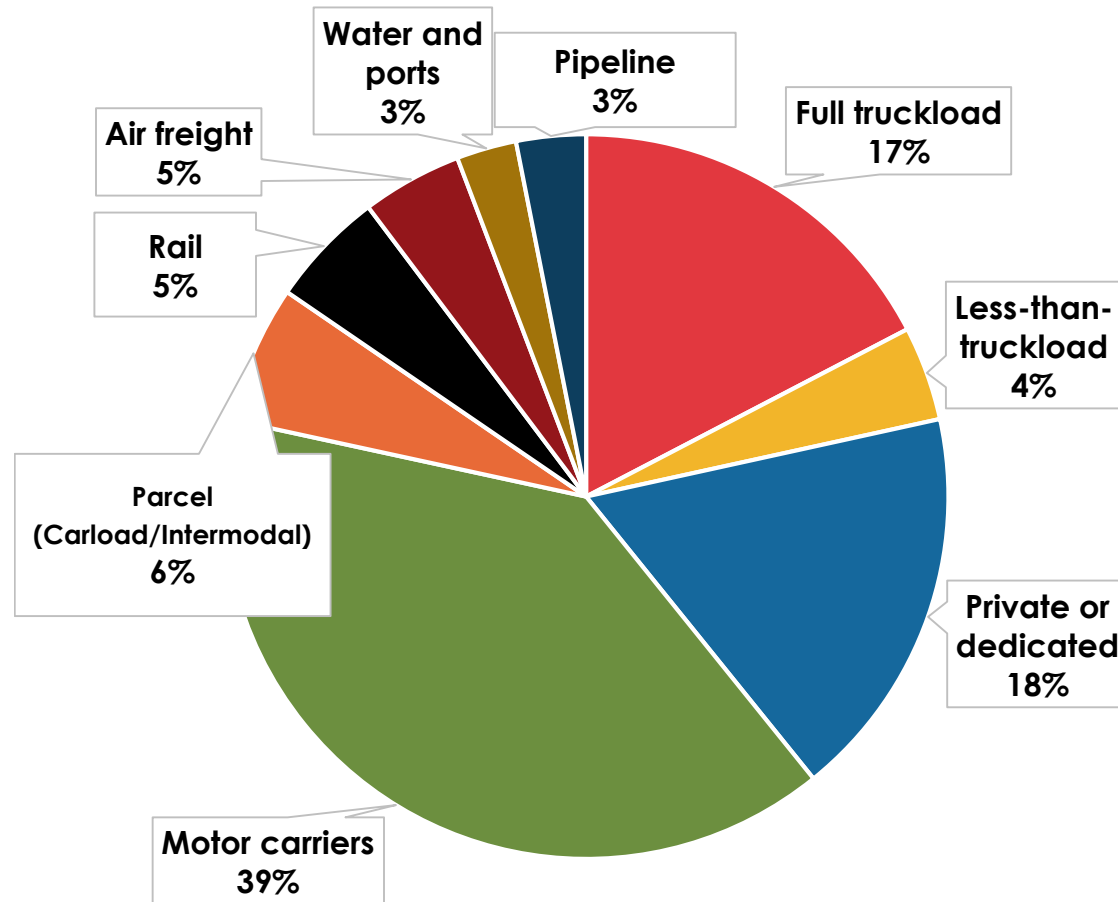


Source: CSCMP's 30<sup>th</sup> Annual State of Logistics Report 2019

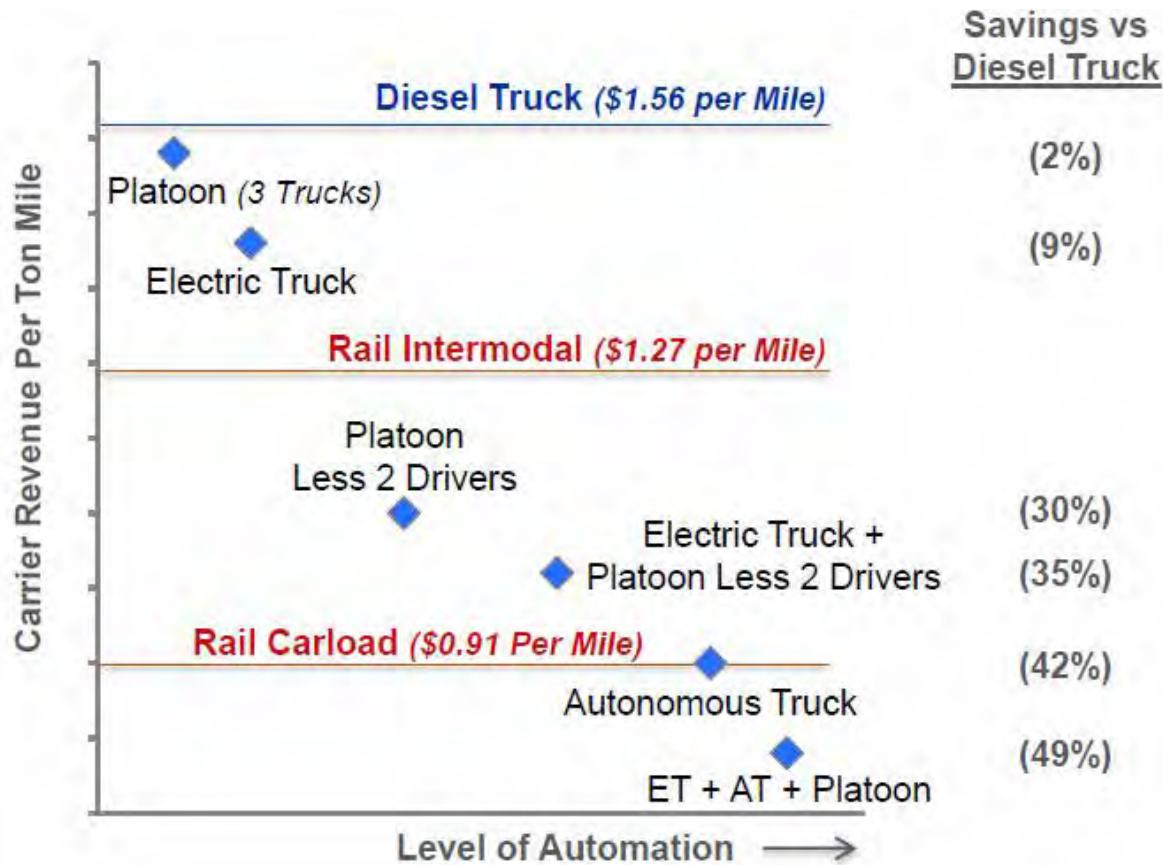


# ...and Rail Share is Very Low

**Total Transportation Costs  
\$1.037 Trillion**



# Rail vs Autonomous Trucks



Truck savings enabled by:

- Platooning
- Electric truck
- Eliminating driver
- Full autonomy

Savings from full automation between 42% and 49%

**Rail continues to be the best value if service is reliable**



# Moving Grain via Rail or Truck



**1.6 million** carloads of grain were originated by North American Railroads in 2019 through week 49.



An average of over **4,600** grain carloads being waybilled daily in 2019.



It would require over **16,000 trucks** on a daily basis to move this traffic by truck.



Moving a **100 Car** Unit Grain train would require **350-400 truckloads**



An extra 205 miles of trucks on the roads everyday for this single commodity



# Rail Shipping is Environmentally Friendly

2018 Estimates	Revenue Ton Miles	Gallons Used	RTM/ Gallons	Metric Tons CO <sub>2</sub> e
Truck Transportation <sup>1</sup>	50,232.9M	473.9M	106	4.8M
KCS Rail Transportation	50,232.9M	135.8M	370	1.4M
<b>Net Difference</b>		<b>338.1M</b>		<b>3.4M</b>

- ✓ In 2018, KCS moved **one** ton of freight an average of **372** miles on only **one** gallon of fuel
- ✓ By choosing KCS over truck transportation, our customers avoided the release of **~3.4 million** metric tons of **CO<sub>2</sub>e** emissions



<sup>1</sup> Assumes avg. truck load of 16.35 tons / fuel consumption 6.5 mpg

# What will Autonomous Transit Create? More Freeway Congestion or



**Better Rail Performance and Service!**

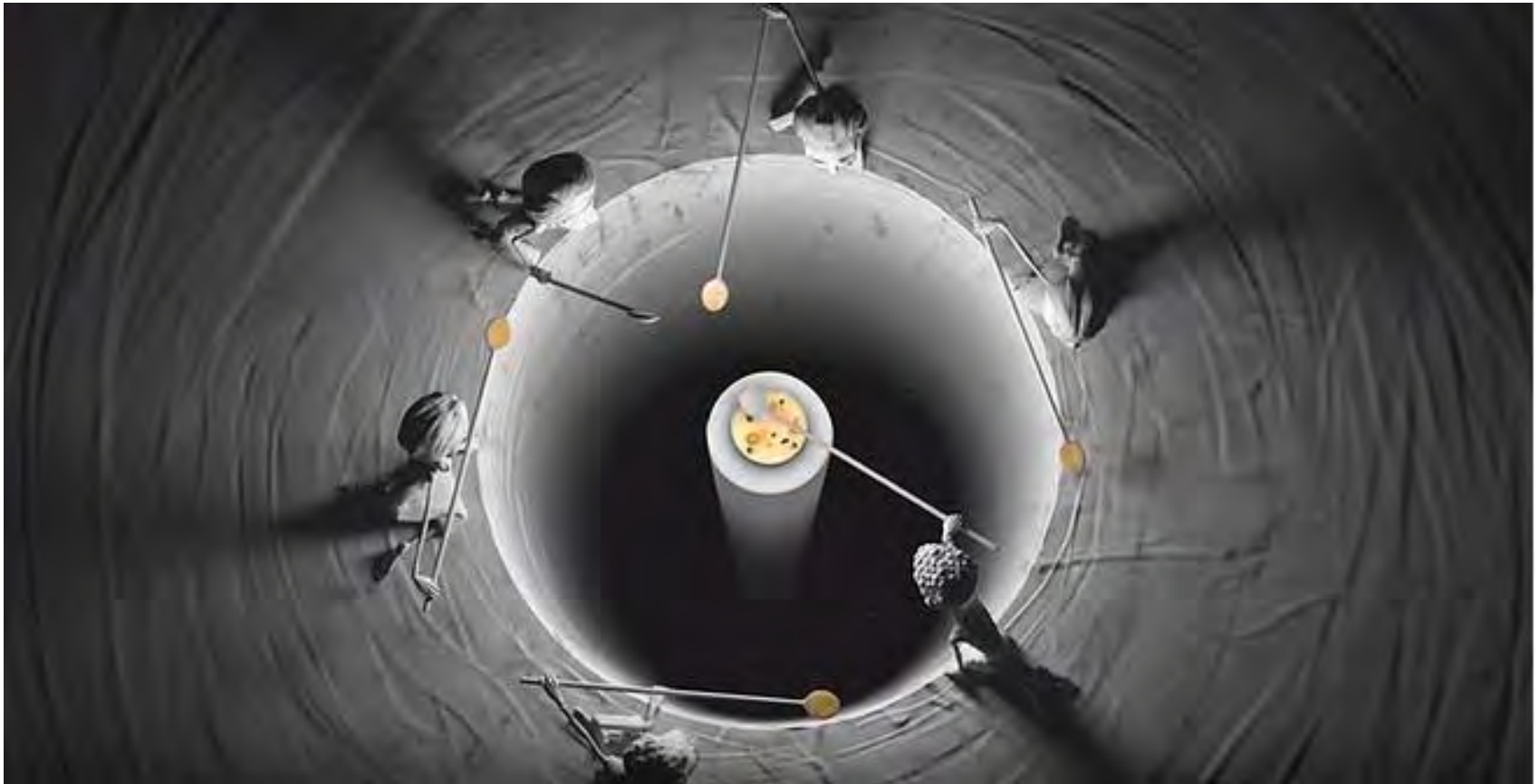


# How will Railroads Compete?

- Lower cost and fewer emissions
- Basis of Advanced Train Ops infrastructure (PTC)
- Already interoperable among carriers
- No additional track infrastructure required
- Must be consistently on-time
- Provide visibility to every shipment
- Work with trucking and Dray to alleviate highway congestion during key driving times
- PSR / ATC creates additional capacity of existing Infrastructure
- More trucks on the road, is not a popular proposition



# An Ancient Parable that Explains the Beauty of Cooperation (and Free Markets)





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