

“What is the State of Health of the Rail Supply Industry?”

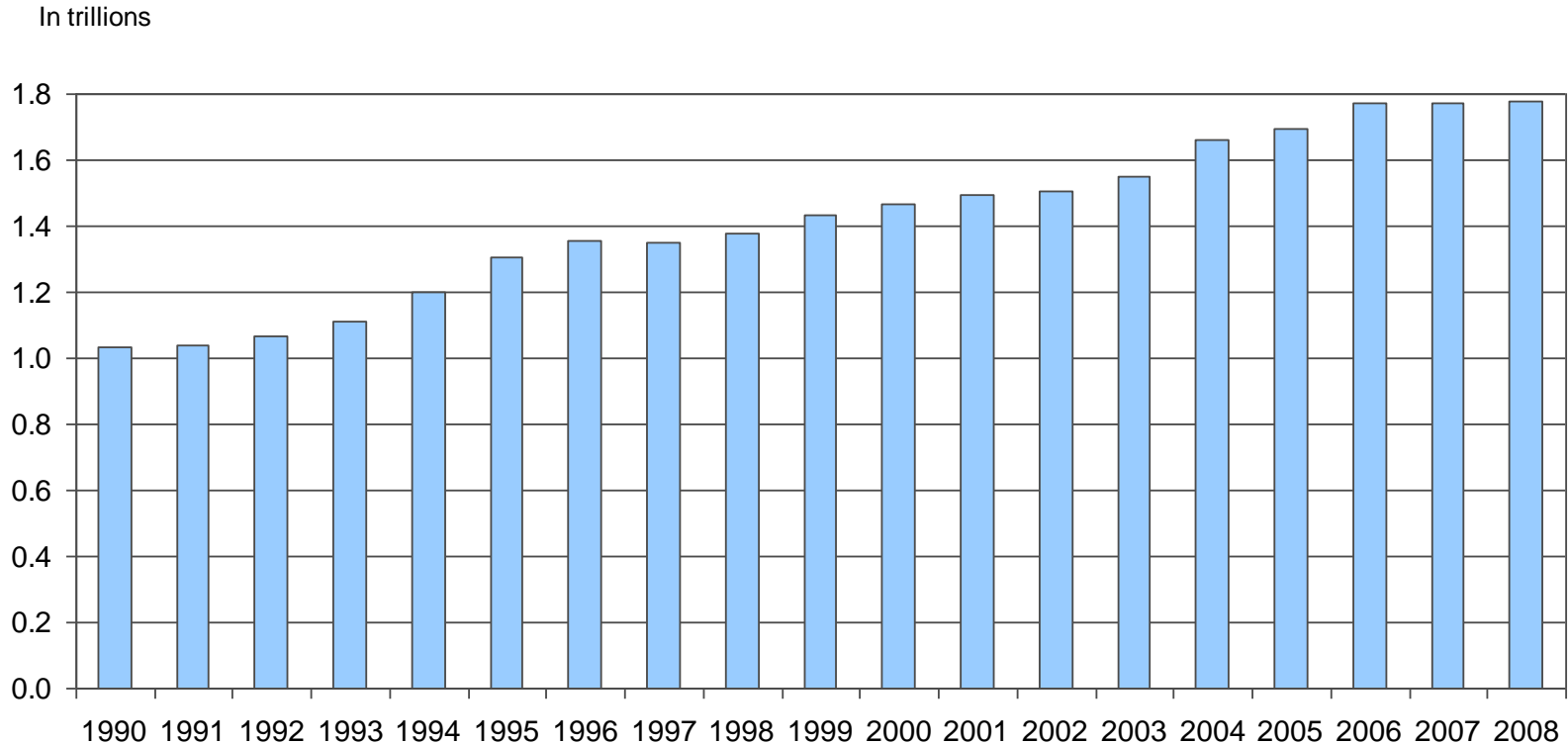


The health of the Rail Supply Industry is not driven by a “renaissance.” It is dominated by enormous cyclicity

- Small demand changes for railroads translate into enormous demand cycles for suppliers
- The industry has just experienced the largest demand drop for railroad customers in the last 20 years
- This cyclicity translates into serious stress for the supplier community and much higher costs for the railroads
- There are steps the supplier community can take to mitigate

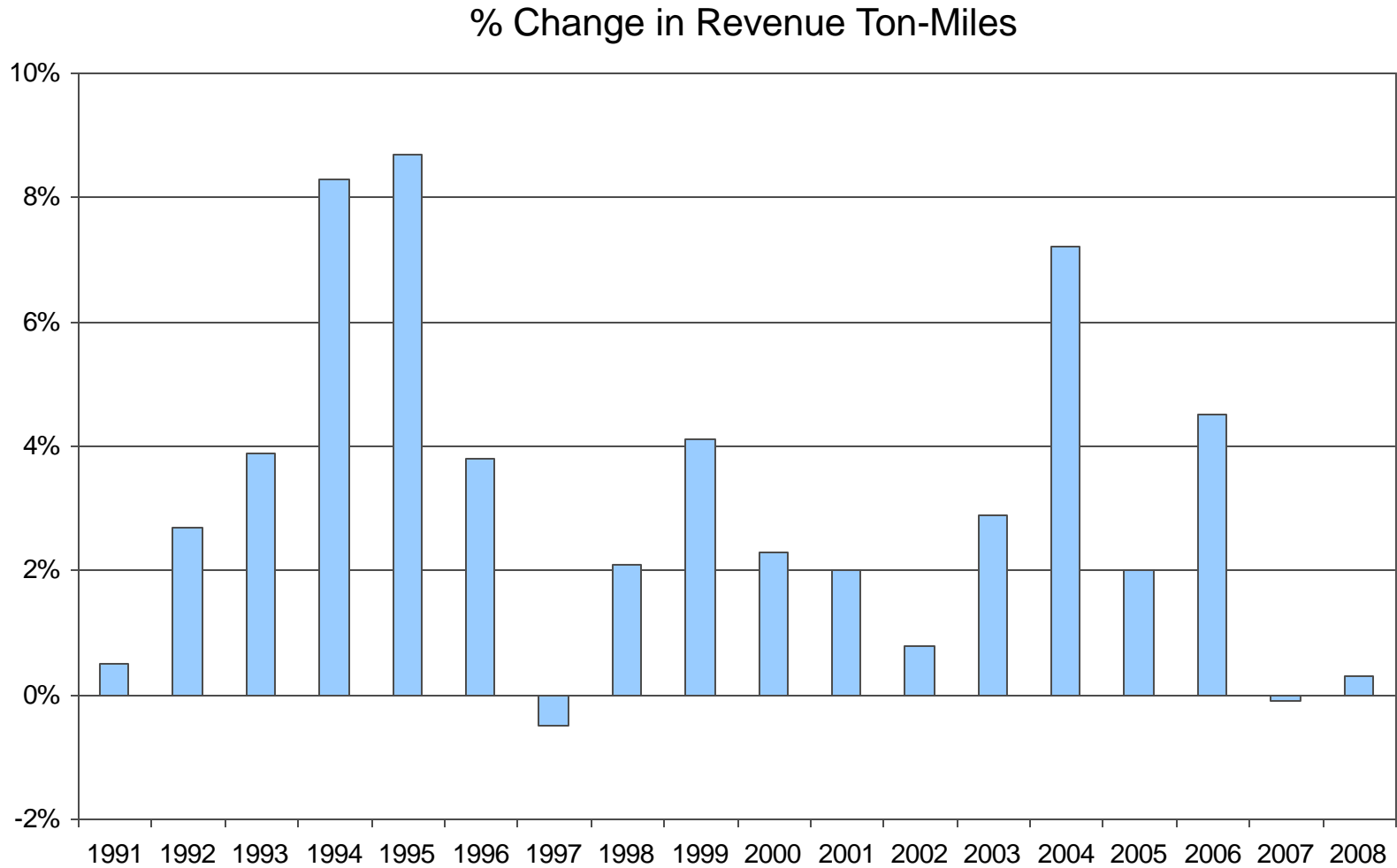
Traditionally, Class I Railroads experience smooth, steady growth

Revenue Ton-Miles

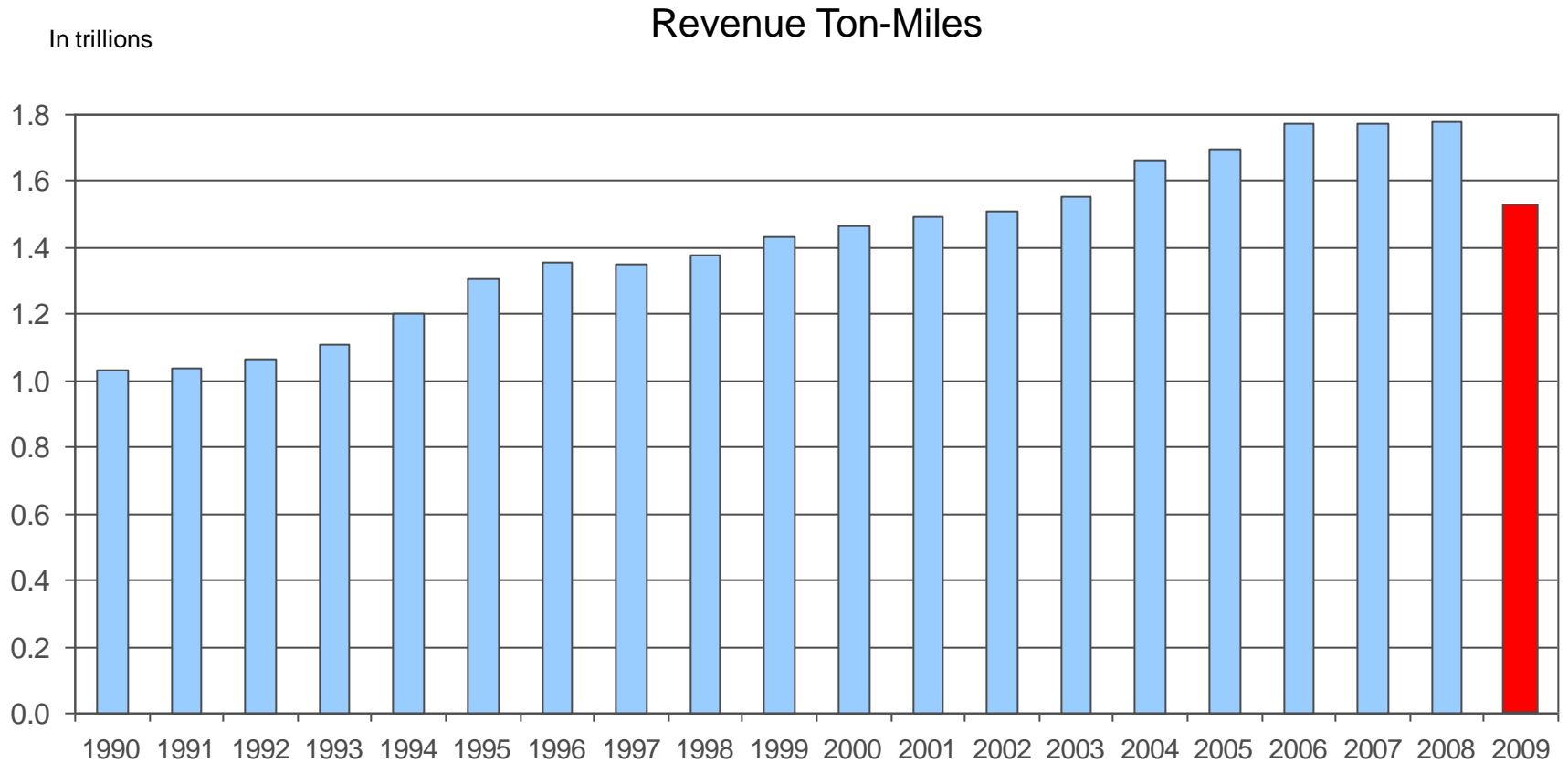


Source: Association of American Railroads

Y-O-Y growth rates reveal a modest degree of cyclicity



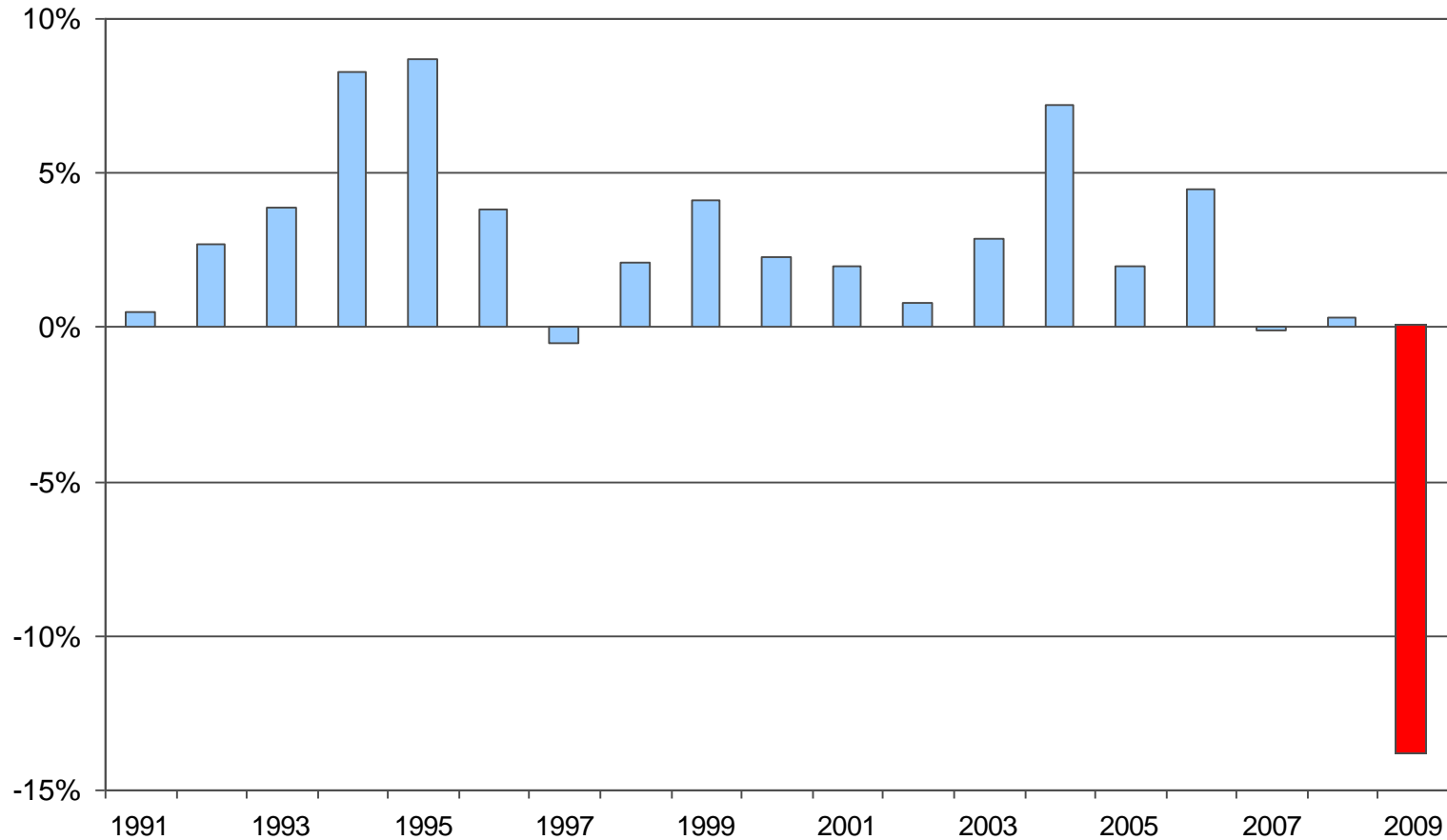
2009 saw the worst decline in over 20 years



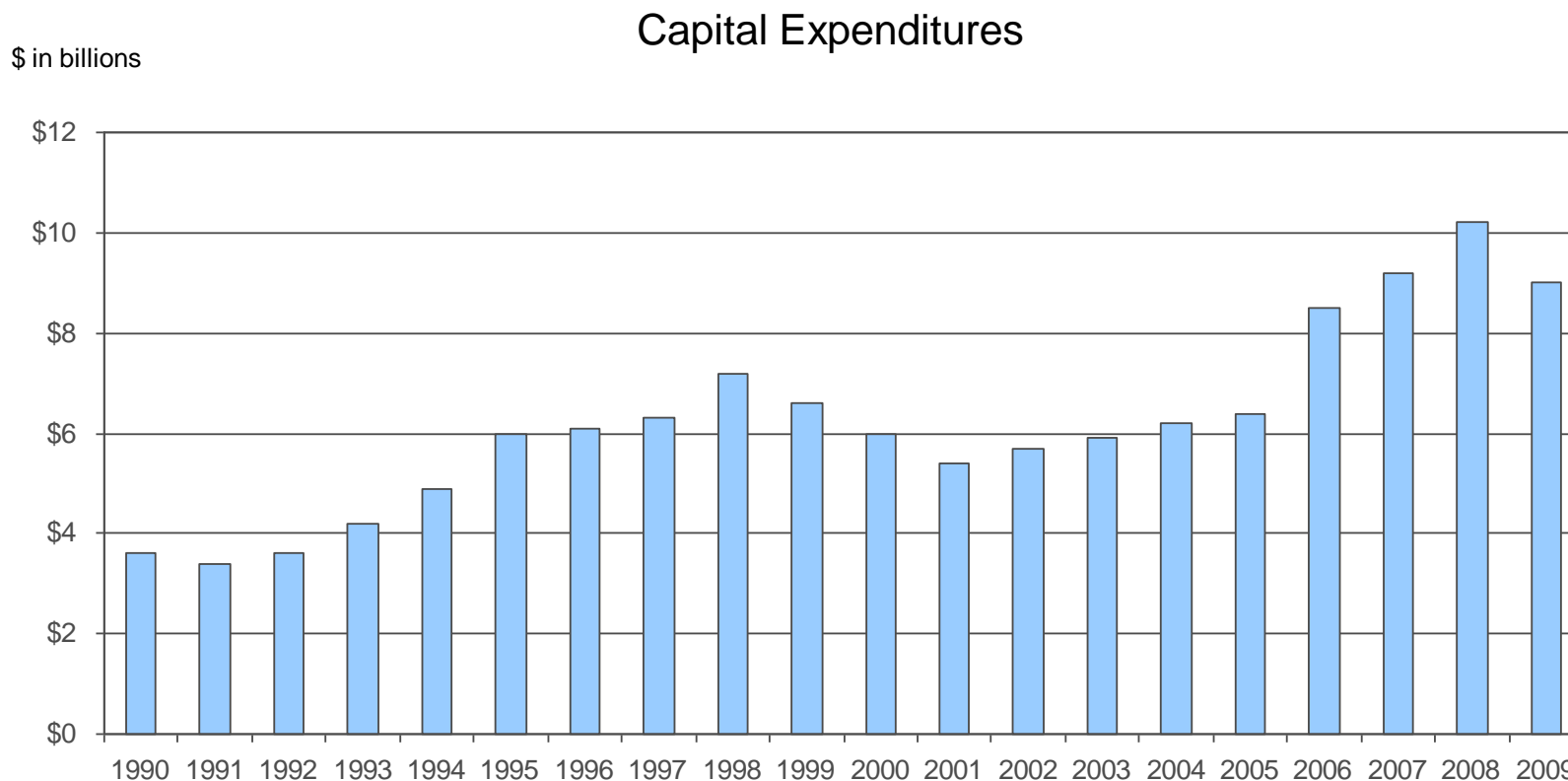
Source: Association of American Railroads

The annual change shows this more starkly

% Change in Revenue Ton-Miles

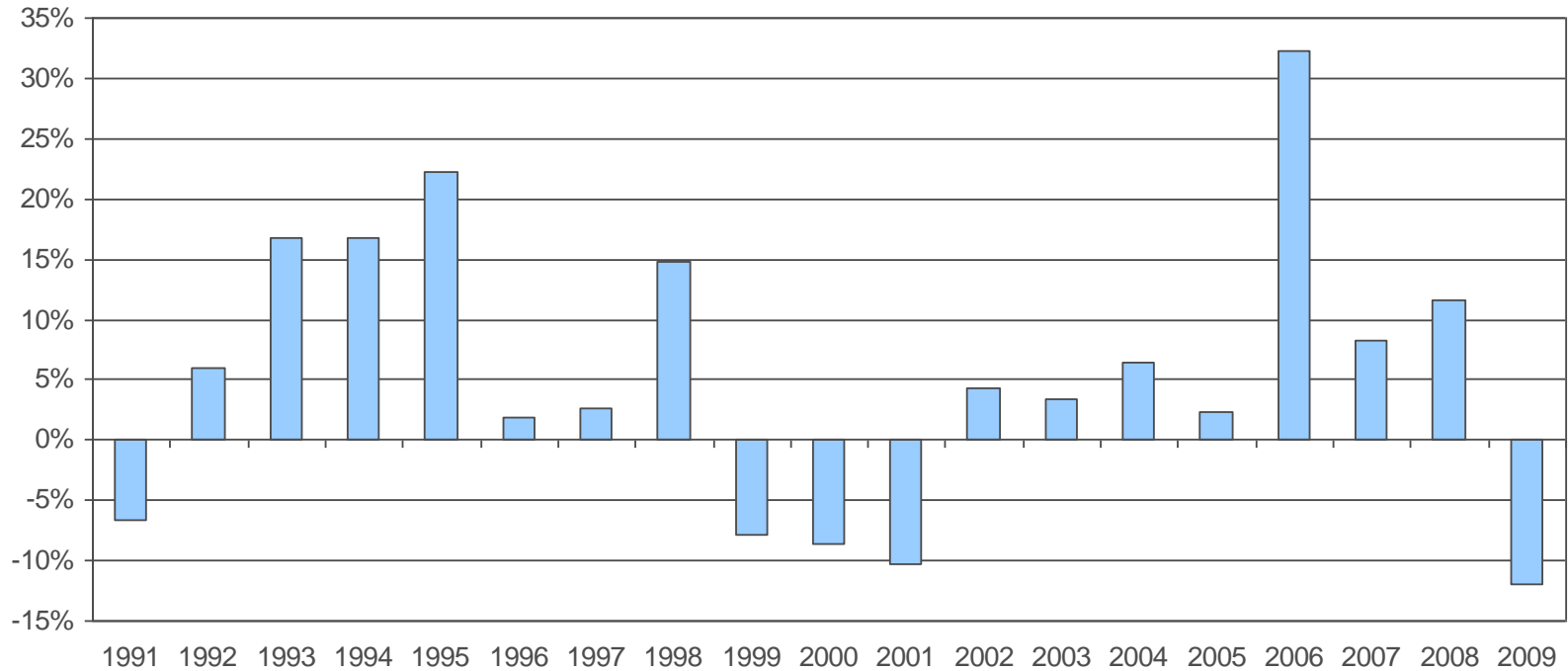


Railroads' capital spending decisions translate this small variability into larger variability in purchases



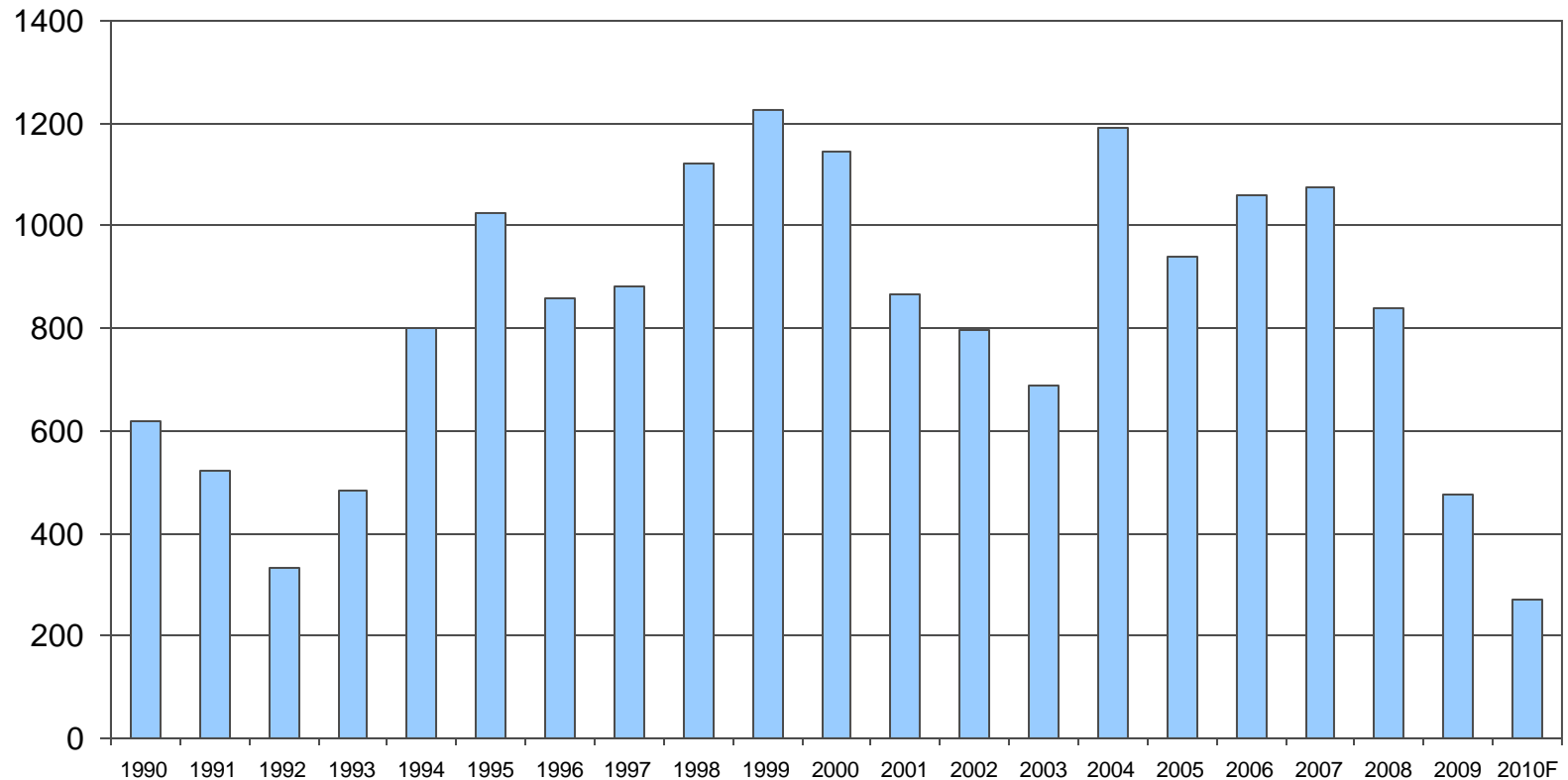
Source: Association of American Railroads

Y-O-Y Changes in Capital Expenditures



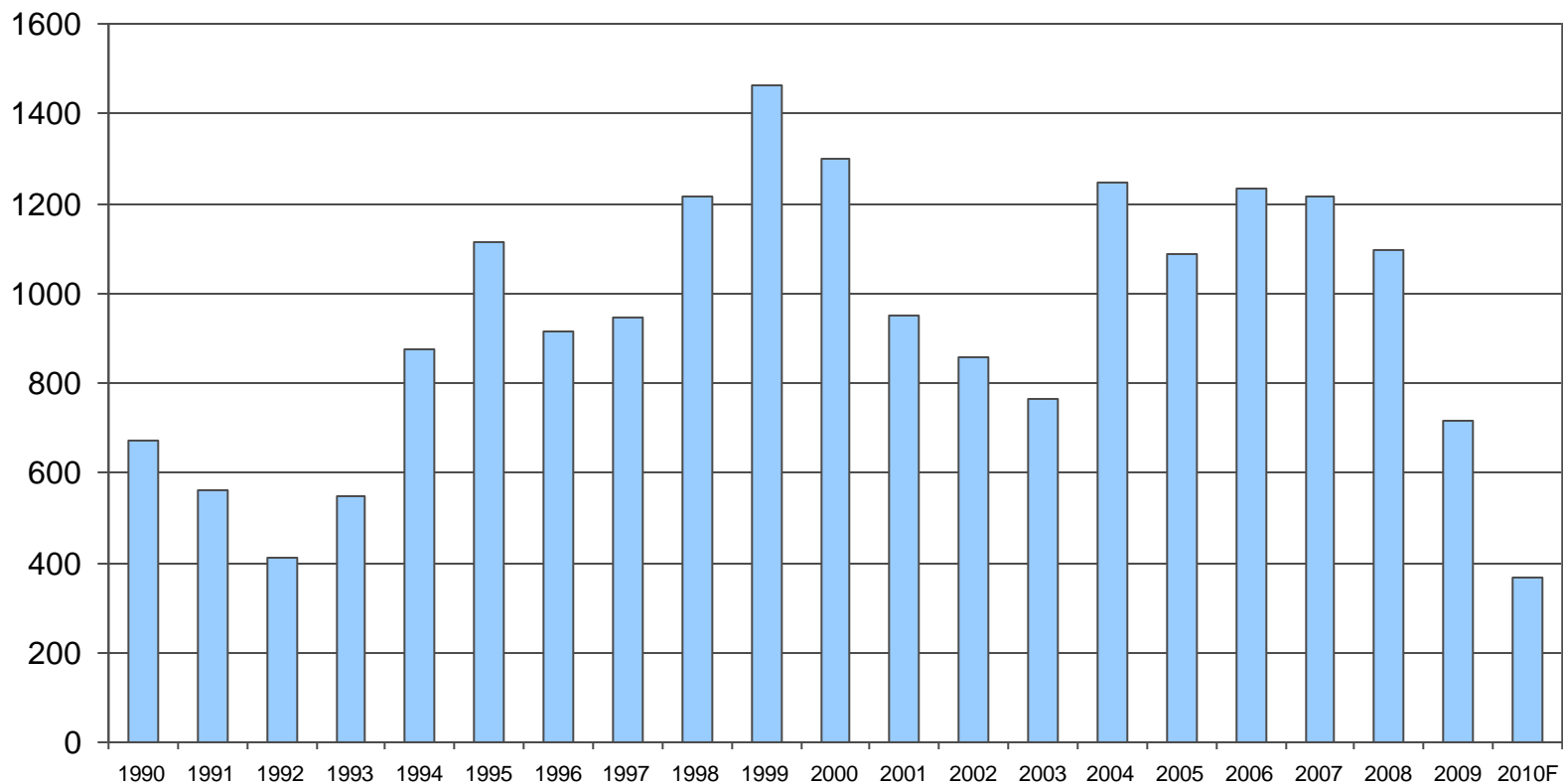
As capex varies, locos bought and delivered varies even more...

New Locomotive Deliveries - North America



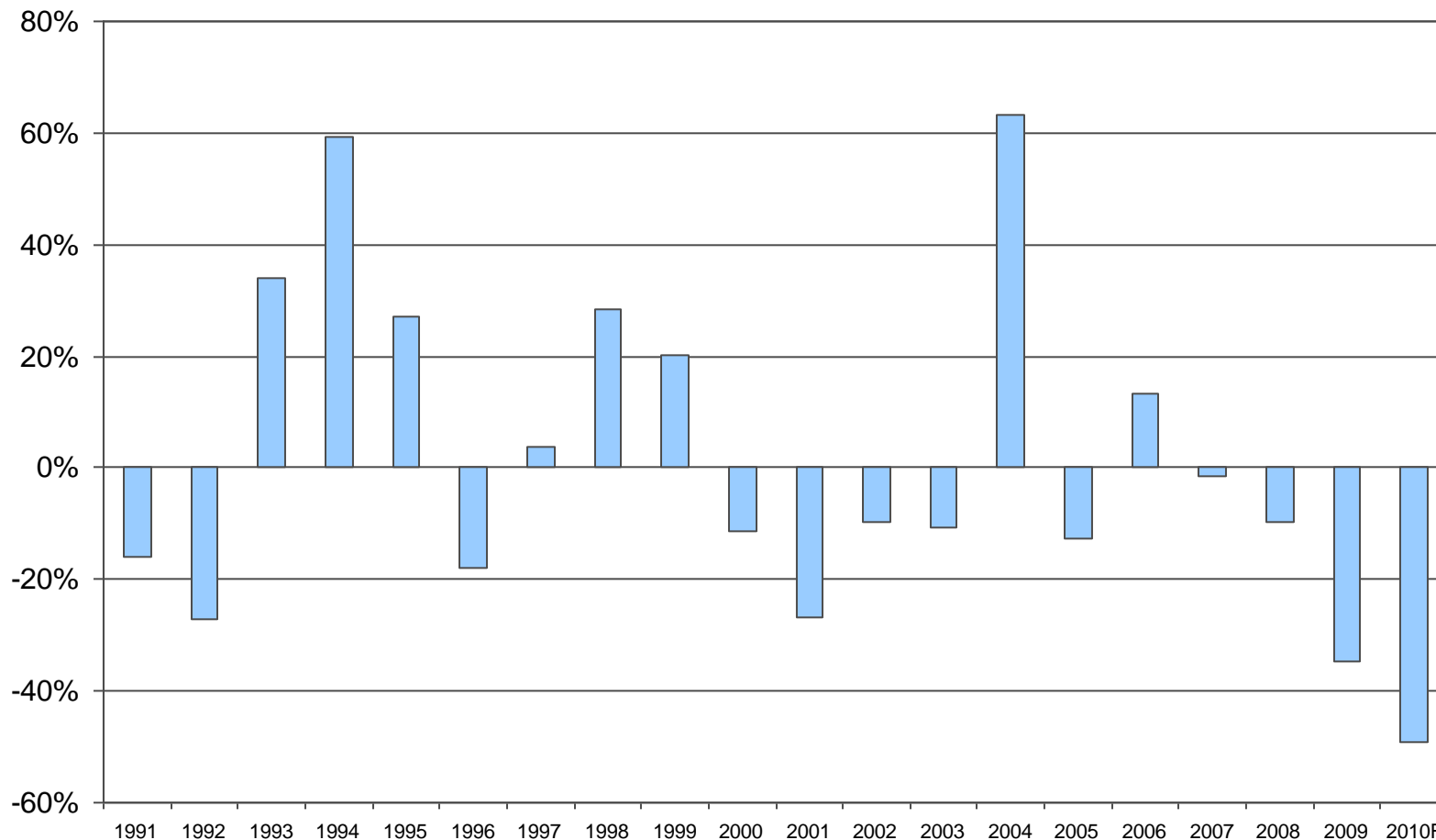
This high variability holds even when including international deliveries

Global New Locomotive Deliveries



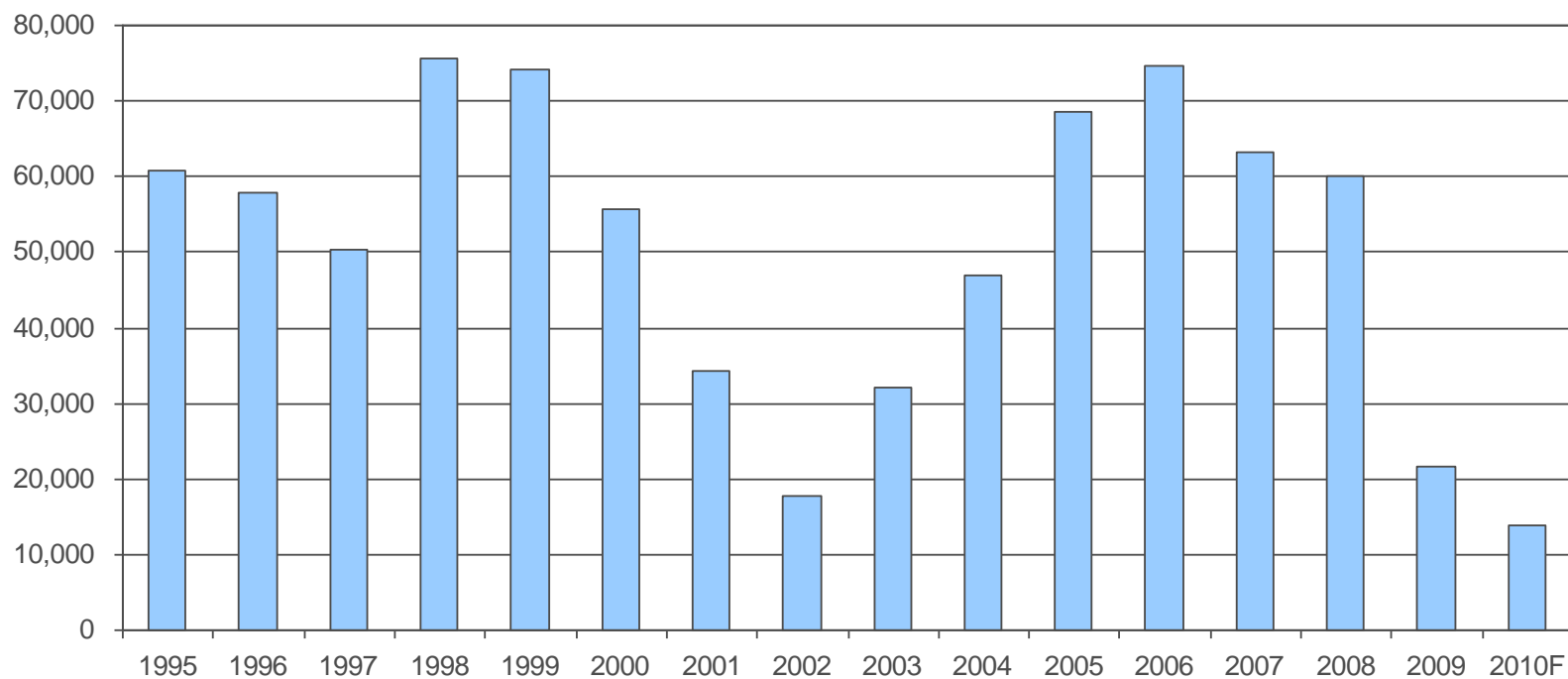
...as is made obvious when examining Y-O-Y percentage changes

Annual Growth of Locomotive Deliveries



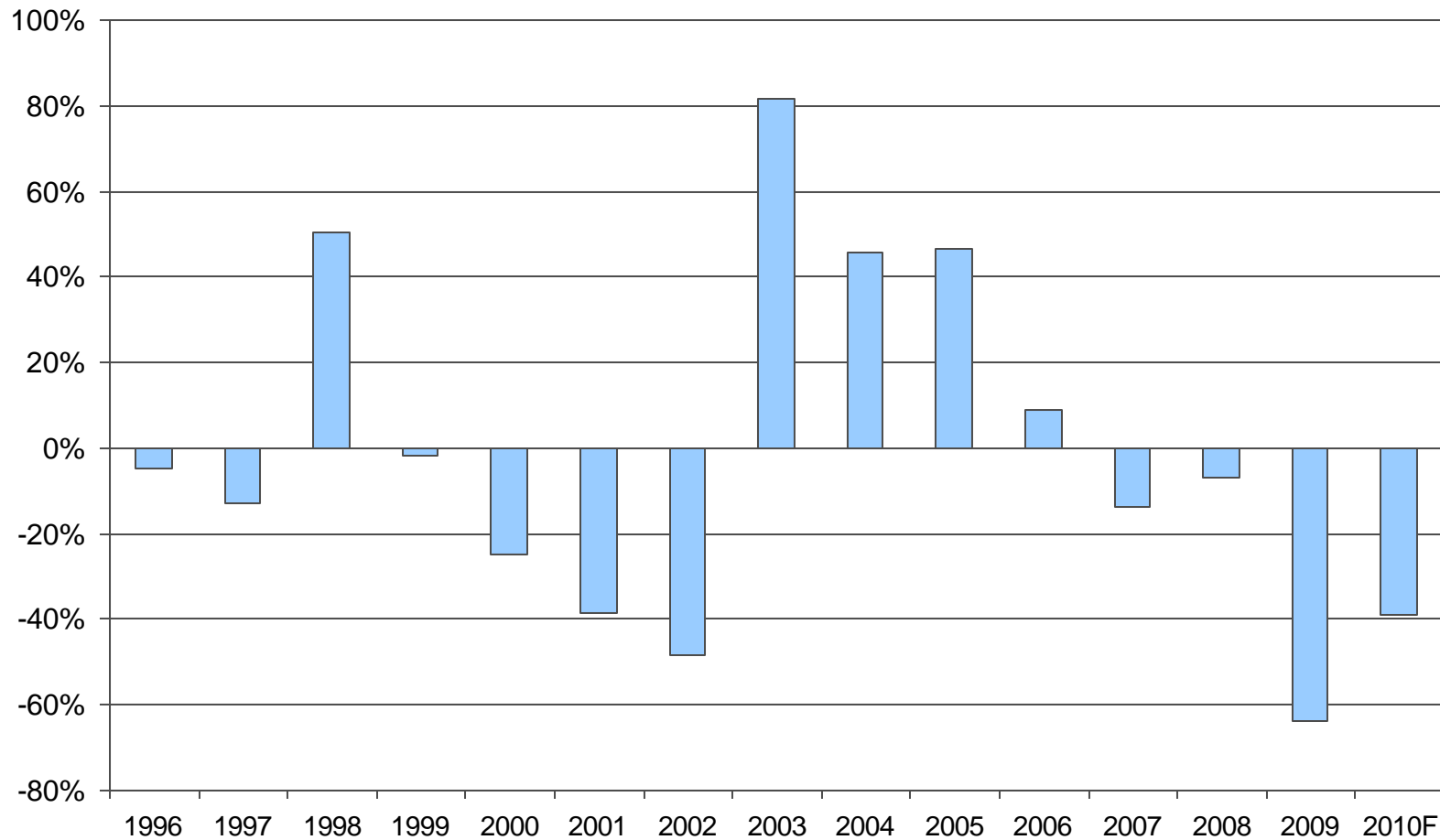
The same is true with freight cars

New Freight Car Deliveries



Y-O-Y % Changes for Freight Cars

Annual Growth of Freight Car Deliveries

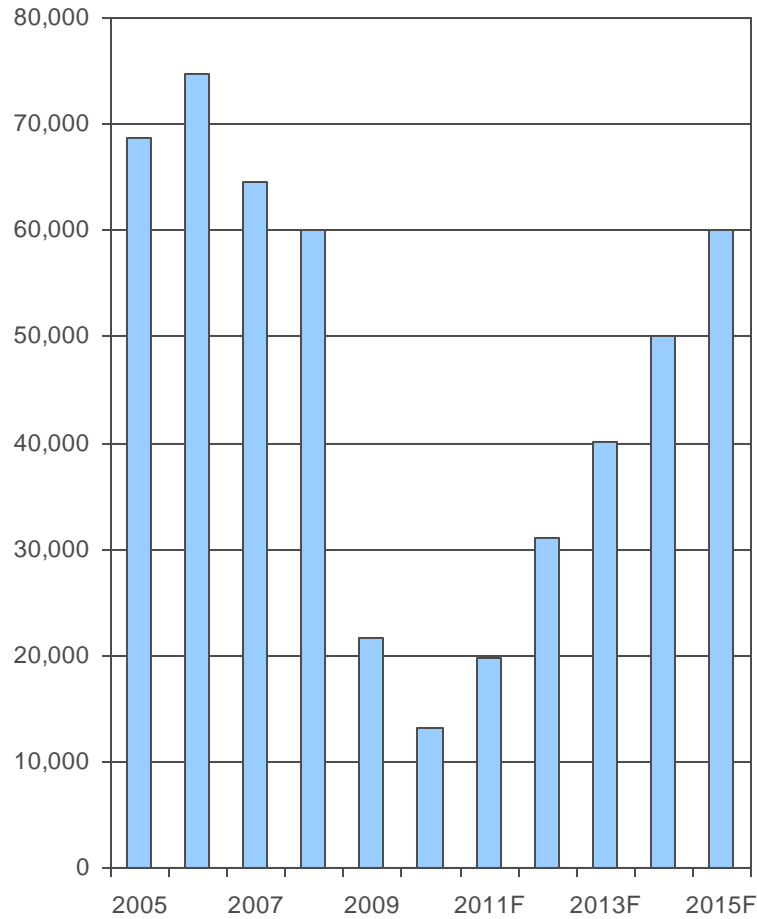


Summary of volatility

Supply chain segment	Average annual growth rate	Average +/- one std dev	Range	No. of years showing contraction
Railroads - RTMs	2.2%	-2.5% to +7%	-Flat to +9%	3 of 19
Total Capital Expenditures	6.5%	-5% to +18%	-12% to + 32%	5 of 19
Locomotives	3.7%	-25% to +33%	-49% to +63%	12 of 20
Freight Cars	1.5%	-43% to +40%	-64% to +82%	10 of 15

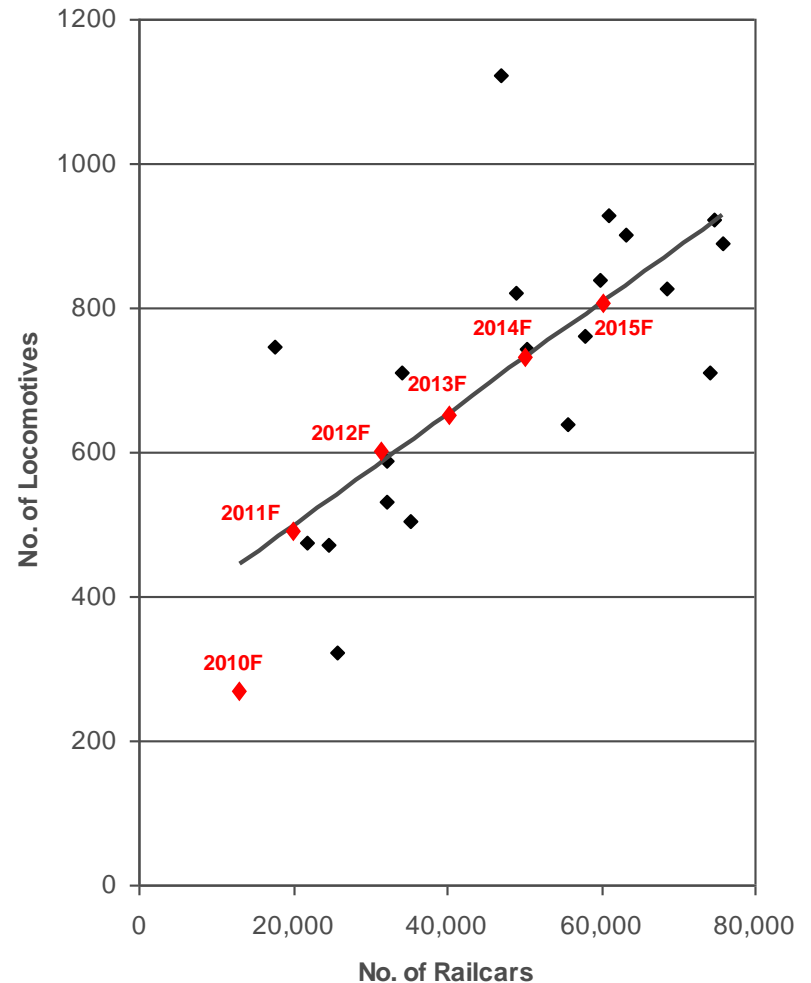
Cyclical buying is likely to repeat in the near term

Forecast of New Railcar Deliveries



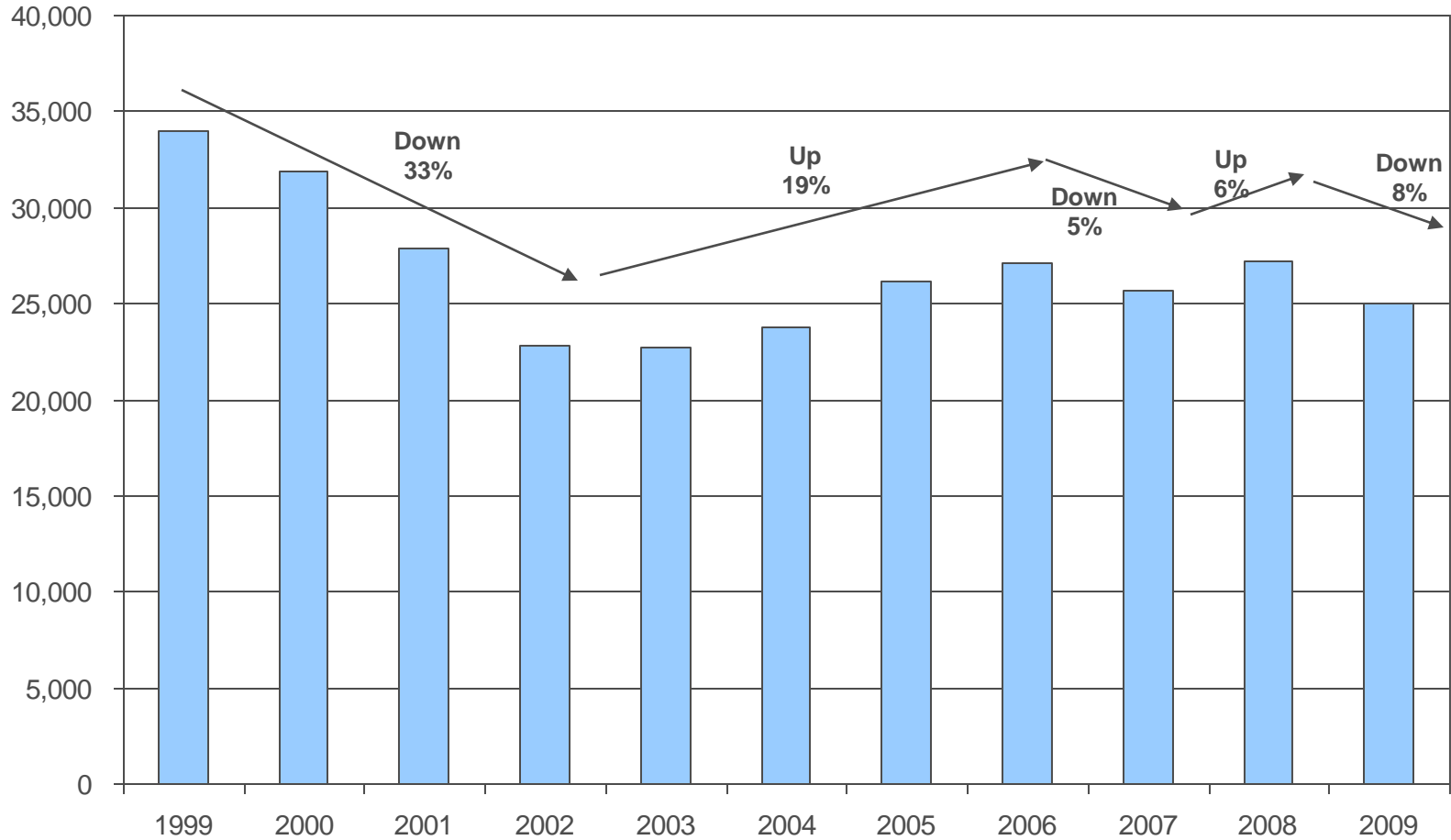
Source: Economic Planning Associates

Relationship of New Railcars to New Locos



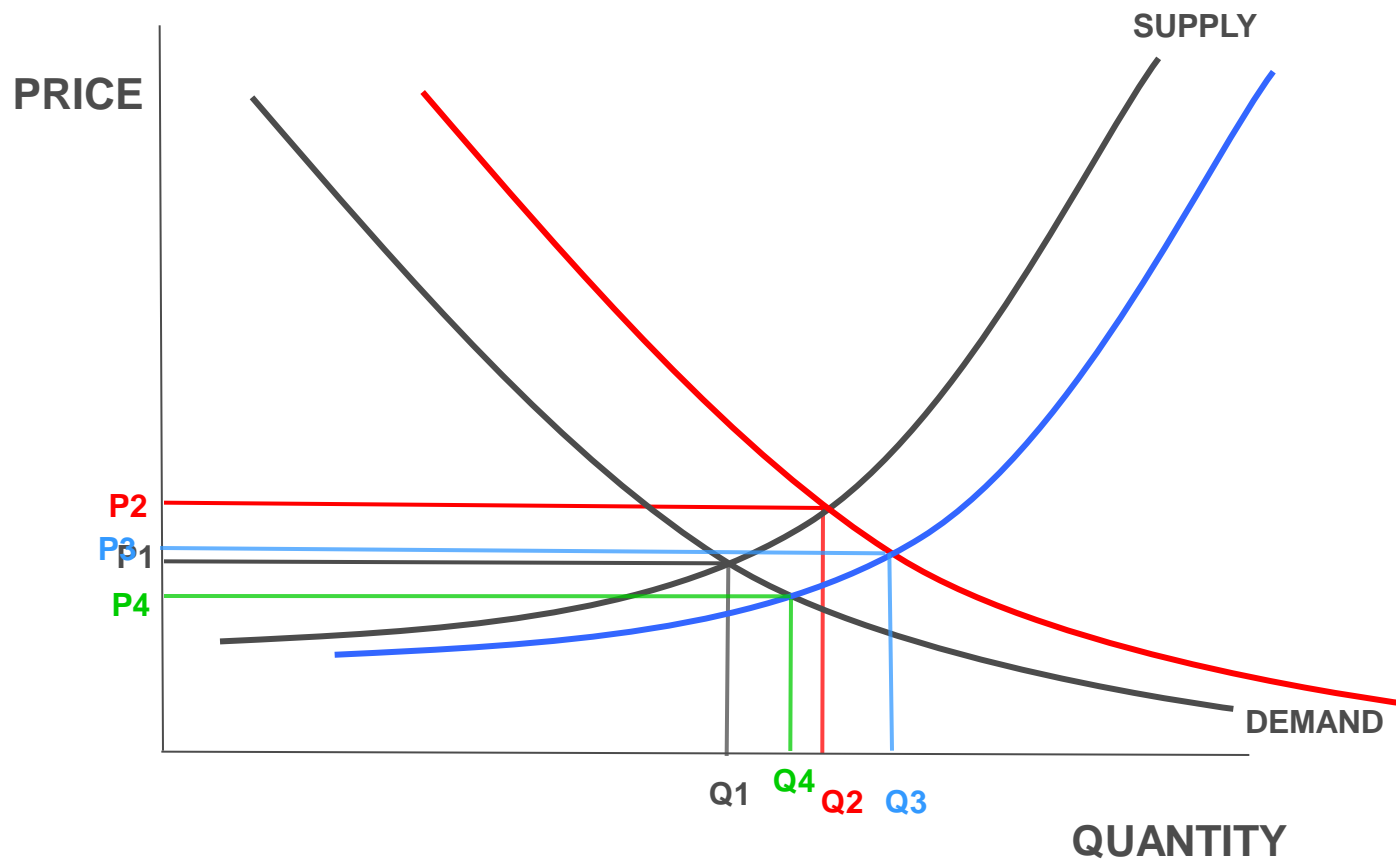
Hire and train, then lay-off and pay severance

Employees at Rail Equipment Manufacturers



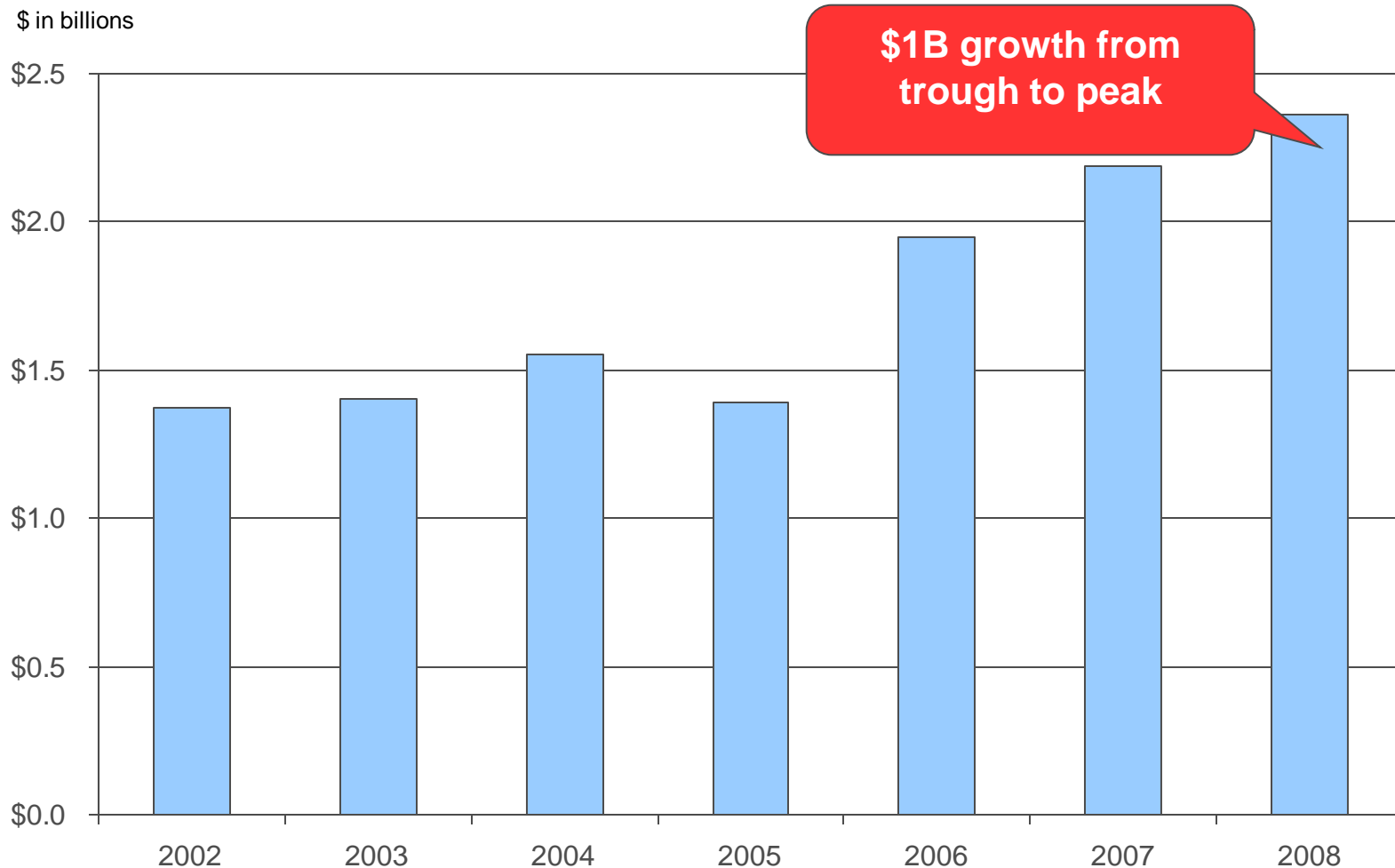
Source: U.S. Bureau of Labor Statistics

Suppliers may decide to add capacity, with the risk that it sits idle in the next downturn, or simply raise price



Inventory investments must be made in growth periods as well – competing with capacity additions and technology investments for cash

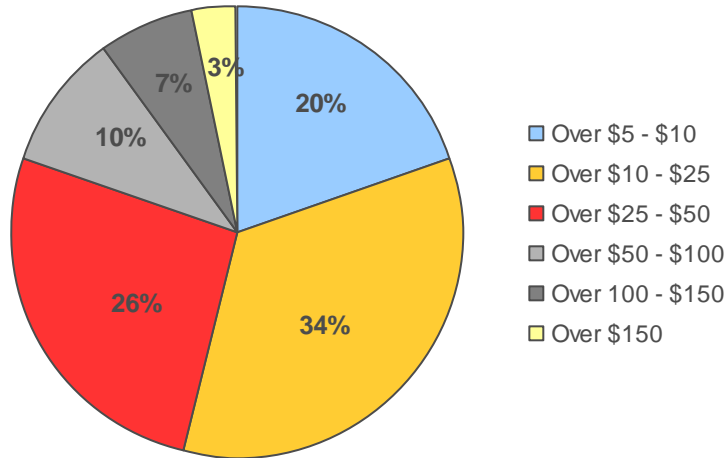
Inventory – Rail Equipment Manufacturers



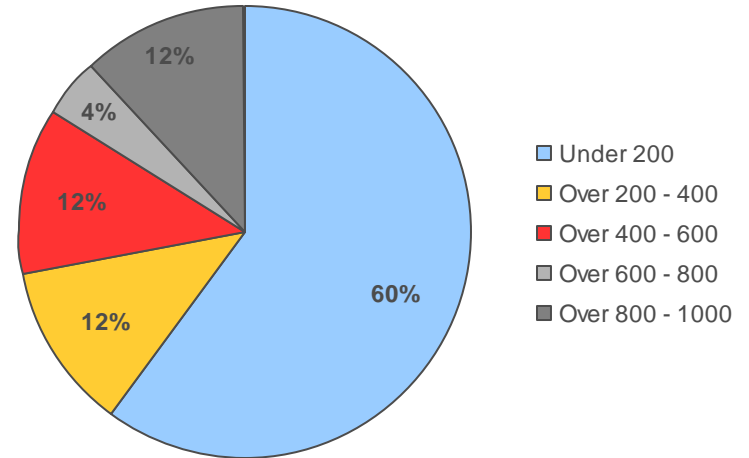
Source: U.S. Census Bureau

This is extraordinarily tough on the small companies which make up the rail equipment supply chain

Average Annual Revenue
\$ in millions



Average Number of Employees



All this adds costs to the supply chain - increasing costs to railroads or reducing investments by suppliers

- During up-turns...
 - Inefficiencies and late deliveries
- During down-turns
 - Lay-offs and loss of talent
 - Bankruptcies and financial stress

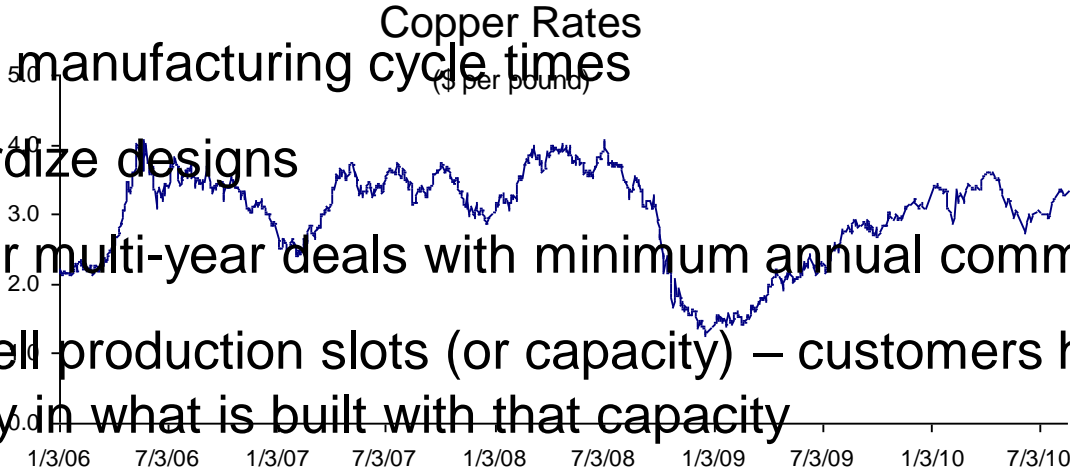
This is a real problem for real companies

Greenbrier	<ul style="list-style-type: none">• Feb 2009: Announced layoffs, early retirements in OR & MX for up to 1,000 workers - 20% of workforce• Early 2010: 670 employees working four days per week at OR facility, down from 1,200 full time in 2007• Aug 2010: Adding 260 new manufacturing jobs in OR
Super Steel	<ul style="list-style-type: none">• 2009: Approximately 600 employees in WI and NY• Apr 2009: Closed NY plant with 175 jobs• 2010: Nearly 40% decrease in workforce in WI
Amsted Rail	<ul style="list-style-type: none">• 2007: 1,000 workers in IL• Aug-Sep 2008: Reductions of 128 workers• Feb-Mar 2009: Announced plans to lay off another 569 employees
Trinity Industries	<ul style="list-style-type: none">• 2005-2008: Nearly doubled TX workforce to 1,100• Mar-Apr 2009: Closed several plants, OK with 250 jobs, MO with 228 and GA with 659• Oct 2009: Closed TX plant for at least six months and laid off 156 workers
Progress Rail	<ul style="list-style-type: none">• Dec 2008: 71 employees, approximately 50% of workforce, laid off in KY• Dec 2009: 64 layoffs in KY
GE Transportation	<ul style="list-style-type: none">• 2004-2008: Hired approximately 2,000 workers• Sept 2009: Announced permanent layoffs for 1,480 employees in PA• April 2010: Brought back 88 permanent & 57 temporary employees
FreightCar America	<ul style="list-style-type: none">• Dec 2007: Announced closing of PA plant that previously employed more than 300• Jan 2009: Announced layoffs of 80% or 195 workers in IL and 40% of workforce in VA
Union Tank Car	<ul style="list-style-type: none">• 2004: Announced new \$100M, 850 employee plant in LA• Mar-May 2009: Cut 300 jobs in TX & LA and closed IN plant with 70 salaried & 375 hourly employees• Aug 2010: Planning to hire 80 to 100 workers in LA with recent new orders

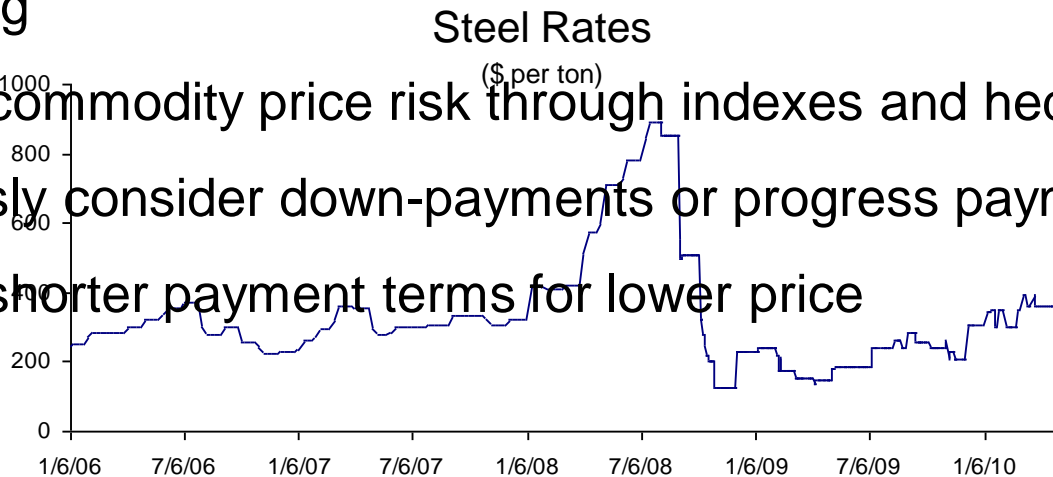
Source: News reports, company reports

Steps the supplier community can take to mitigate

- Reduce manufacturing cycle times
- Standardize designs
- Drive for multi-year deals with minimum annual commitments
- Buy / Sell production slots (or capacity) – customers have later flexibility in what is built with that capacity
- Share long-term requirements forecasts for long-term capacity planning



- Share commodity price risk through indexes and hedging
- Seriously consider down-payments or progress payments
- Trade shorter payment terms for lower price



Conclusion

- We have just survived a particularly brutal cycle, but boom-bust has long been the dominant feature of the railroad supply industry
- However, boom/bust adds costs throughout the supply chain through labor and factory inefficiencies, and sub-optimal capital and cash planning, not to mention bankruptcies
- The mitigation steps described would improve the long-term health of the industry – and ultimately lead to lower costs for the railroads themselves