Buying Railroads
Northwestern University Transportation Center
Sandhouse Gang

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Forward-Looking Statements

This presentation contains forward-looking statements regarding future events and the future performance of Genesee & Wyoming Inc. that involve risks and uncertainties that could cause actual results to differ materially from those expressed or forecasted, including, but not limited to, economic conditions, risks related to the integration of railroads, customer demand, increased competition in the relevant market and others. The Company refers you to the documents that it files from time to time with the Securities and Exchange Commission, such as the Company’s Forms 10-Q and 10-K, which contain additional important factors that could cause its actual results to differ from its current expectations and from the forward-looking statements discussed during this presentation. Genesee & Wyoming Inc. disclaims any obligation to update the forward-looking statements contained in this presentation.
Agenda

• GWI Overview
• Background of the Market
• Acquisition Fundamentals
• International Considerations
• Lessons Learned
Where Genesee & Wyoming Started
Genesee and Wyoming Railroad Company

• Founded in 1899 from bankruptcy of Genesee & Wyoming Valley Railroad
• 14-mile shortline in Western New York south of Rochester
• Primary customer was salt mine at Retsof, NY
• 1977 Mortimer B. Fuller III purchased controlling interest in G&W
• Railroad generated $3.9 million in revenues in 1977
• Fuller has plan to grow company by the acquisition of other railroads and growth rail car leasing business
GWI Today

• Between 1977 and 2010, GWI has grown from one railroad to 63 railroads and a industrial switching company through 35 transactions.
• Total valuation of acquisitions of $1.2 billion
• Listed on New York Stock Exchange (“GWR”) with a market capitalization of approximately US $2.4 billion
• Revenues of approximately US $750 million
• Approximately 2,500 employees
• Operate over nearly 9,000 miles of track with 538 owned locomotives
• Provide rail service in the United States, Canada, Australia and the Netherlands
Creation of a Market

- Status of Railroad Industry in 1977
- **Railroad Revitalization and Regulatory Reform Act of 1976**, - 4R Act
- Staggers Act of 1980
- Creates opportunity for Class I railroads to sell or lease low-volume rail lines
- Since 1980, over 350 short line railroads have been formed in the United States
- Creation of a market provides for valuation metrics for non Class I railroads
- Leads to sale of industrial and government owned railroads
- Later international privatizations
What was for sale?

• Generally 100 to 300 miles of track in uncertain condition
• Right to serve customers on the line
• Rollingstock and other equipment might be included
• Essentially a “Long strip mall with one or two anchor customers”
  – Barbara Wilson, former Bank of Boston lending officer

How did you value this opportunity?

• Original Metrics
  – Multiple of projected annual revenues
  – Multiple of EBITDA
  – Liquidation value
  – Projected cash flow
  – Value of real estate
What to consider?

• Quality of track and structures – required capital expenditure
• Environmental condition of track, yards and other property
• Quality of customers – potential upside?
• Relationship with Class I connection(s)
  – Marketing
  – Operations
• Where to maintain locomotives and other equipment?
• Radio frequency rights
• Management and staffing
• Operating plan
• Local taxes
• Labor unions
Financing the purchase

• Limited number of financing sources due to type of asset
• Original financing concepts included reliance on liquidated value of the rail and value of real estate
  – Regulatory problems with liquidating rail
  – Title searches on very long pieces of property
  – Practical problems of filing mortgages
• Final financing format focused on cash flow
  – Quality of customers
  – Reputation of operation
• Lease line operations – lower cost of entry
• Initially, GWI financed each railroad separately
• Consolidated into one banking facility after seventh acquisition
• GWI went public in 1996, providing access to public markets
Building a Regional Rail System: Traditional GWI Model

New York/Pennsylvania Region

- Regional Headquarters: Rochester, NY
- Seven contiguous acquisitions
- 758 route miles
- 270 employees
- Coal, petroleum, chemicals, paper, salt, automotive and steel
- Approximately $70 million in revenues
Decentralized Operating Strategy

Developed into nine regions with strong local management combined with centralized administrative and functional support

• Focused Regional Marketing
• Lower Operating Costs
• Efficient Use of Capital
• Continuous Safety Improvement
GWl Injury Frequency Rate
vs. U.S. Rail Industry Averages

Injury Frequency Rate per 200,000 Employee Hours

- FRA Group 3
- FRA Group 2
- Class I
- GWI

Year:
- 2006: 1.95
- 2007: 1.67
- 2008: 1.33
- 2009: 0.74
- 2010: 0.51

Genesee & Wyoming Inc.
Short Line Model on International Scale

- Win concession in South Australia 1997
- Win concession in Mexico in 1999
- Joint Venture in Western Australia in 2000 and invest in Bolivia
- Sale of Western Australia in 2006, retaining South Australia
- Acquire Rotterdam Rail Feeding in 2008
- Acquire FreightLink in 2010
Similar Business Model; Important Differences

**Similar Economics**
- Limited number of major customers
- Primarily shipper to single-destination operations
- Traffic volumes similar to short line and regional railroads

**Important Differences**
- Operations in Australia and Europe based on open access
- Operations are unit train point to point without interchange to another railroad
- Operations often not standard gauge and often contain multiple gauges
- Lack of countrywide standards for safety and equipment
- Consider rule of law, political risk, language barriers
History of GWI in Australia

1997
- GWI privatizes Australia National’s South Australia business

2000
- Formation of Australian Railroad Group (ARG) with partner Wesfarmers
- ARG buys Westrail US $334 million

2006
- QR and Babcock & Brown purchase certain ARG assets US $956 million
- GWI retains original SA business, names it Genesee & Wyoming Australia (GWA)

2010
- GWA purchases FreightLink US $320 million

Buyer

Buyer

Buyer/Seller

Buyer
FreightLink Acquisition

- Closed December 1, 2010
- Freight rail business over 1,400-mile Tarcoola to Darwin Line
- A$1.2 billion rail line from Alice Springs to Darwin completed in 2003; entered receivership in 2008
- Domestic intermodal and general freight to Darwin
- Bulk minerals for export to Asia – iron ore, manganese and copper
- Multiple new mining projects under development
Acquisition and Investment Strategy

• 35 acquisitions since 1985

- Rail Lines of Industrial Companies
- Natural Resource Development Projects (e.g., Canada)
- International Opportunities (e.g., Australia)
- Other Regional Railroads (e.g., Ohio Central & GSWR)
- Class I Branch Lines
Lessons learned

• Quality of the franchise (shipper) is the key

• Strong due diligence

• Know condition of the asset

• Understand the legal, labor, and political landscape

• Have the financing

• Be disciplined in valuation