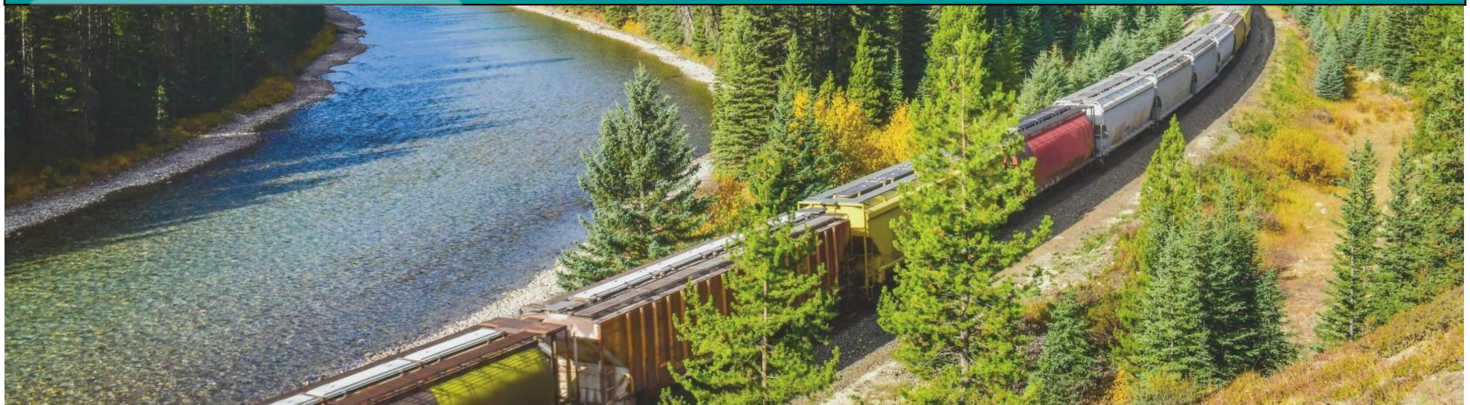
TRAIN OF THOUGHT

Newsletter for the Rail Industry



TRAIN OF THOUGHT
FOURTH QUARTER - 2023

RAILCARS **SUPPORT** **STRATEGY**

Featured Articles

Even More…

Railing On…

Darell Luther, Founder & CEO

2024 is in sight and its planning time! I grew up in the world of production agriculture. When looking at "next year" we always used phrases such as, "well there's always next year to turn things around" or, "I hope next year is as good as this year". Depending on the situation you started with, such as a base that was okay but not exceptional or exceptional and you knew it was going to be a stretch to repeat that growth tainted your outlook for next year, the response would be a natural next course of action to hit stretch goals.

Here's what we think the rail industry will look like next year:

- Politically railroads have slipped substantially. Derailments that make headlines are not good. Positioning by politicians means that everyone of any political clout has now become a railroad operations expert. That's not good for the railroad, shippers or public in general.
- Refocus on safety. This topic will never lose steam. No railroad sends their people to work to purposely get hurt. The bubble of new hires challenges safety protocol daily. Railroads will need to proactively budget the resources to meet safety requirements.
- Service is what it's all about. In our experience in most cases service outpaces rail rate and accessorial increases. Customers want consistent reliable service. It's easy, as a shipper or receiver, to calculate the impact of poor service.
- Railcars are going through a bubble with new builds not keeping up with overall demand. This means that older used railcars have been aggressively scrapped in the past three years and reasonably priced new used railcars are following the pricing of new railcars – often pricing in the $100k plus range up some ten to twenty-five percent.

Rail-on with Darell Luther: (406) 347-5237 | darell@tealinc.com

Tealinc Is Hiring!

We are excited to be growing and thrilled to invite two (2) new members into our collaborative team! In your new role, you will engage in new business opportunities, cultivate client relationships, and collaborate with the team in a "we" versus "me" organization. All while upholding our reputation for providing outstanding customer support! Tealinc offers a competitive salary package with performance-based incentives, health benefits, and opportunities for professional growth. Join a team that values integrity, leadership, and a passion for excellence in all that we do!

Available positions include:

- **Director: Railcar Leasing & Sales**. Ideal for an outgoing, rail-passionate, and driven candidate, and
- **Director: Railcar Marketing & Development.** Ideal for a strategic, forward-thinking, and creative candidate.

Learn more about these available positions by visiting our website or contact Tealinc today!

Contact Julie Mink: Julie@tealinc.com | (720) 733-9922

Railcar Supply & Demand

Julie Mink, interim Director: Railcar Leasing & Sales

Railcar demand continues to be incredibly strong, even though railroad originated railcar loads continue on a downward trend. Year over year railcar loadings are off. The sell-off of used railcars in the past few years coupled with a lack of good used younger aged railcars being available in the market has tightened up supply. There is a real bubble in supply, and we believe that we're at the low end of that bubble right now; however, there is a real bubble of railcar demand… and we believe it will be pent up for quite some time. We've said this before and it's worth repeating. Interest rates and the inflationary cost of components, steel and aluminum make buying new railcars very challenging from a cost perspective. Good used railcars are also difficult to locate.

OUR ADVICE? Securing railcars when they become available versus waiting for a better deal is top priority. Waiting for more options may leave you without any railcar options at all.

NEED RAILCARS? We've got a variety of railcars available now including open top hoppers for coal, coke, taconite, ballast, rock, aggregate, etc. We've also got a variety of covered hoppers available to haul sand, cement, minerals, etc. Put in your order and if we don't have the railcars you immediately need, we'll mark your railcar need in our files. Want to sell Railcars?

SELLING RAILCARS OR LOOKING TO REFINANCE? If you are looking at revamping your supply chain and want to take some capital off the books we can help you! We're looking to buy railcars, railcar lease deals, and sale-leasebacks. Got a need for more railcars? We can help you there too!

Whatever your needs, give me a call and we can discuss your railcar supply and railcar demand needs.

Explore Railcar Supply & Demand with Julie Mink: (720) 772-9922 | julie@tealinc.com

Buy, Sell, Lease or Trade Railcars

Rail Fleet Management Services

Rail Strategy & Business Development

Rail Fleet Management

Shannon Rodgers, Director – Railcar Services

As the Director: Railcar Services for Tealinc, I partner with our customers to help manage their railcars on a consistent basis. Many customers who lease their railcars with Tealinc engage with me on the regular monitoring and management of their rail fleet to ensure that their railcars stay in service. It's a value-add service that I'm proud to provide and I see just how much we positively impact our customers rail fleet success. To assist us, we refer to the American Association of Railroads (AAR) office and field manual almost daily. Given the complexities in the rules, this quarter I thought I've delve into a high level overview of why the AAR Office and Field Manual and moreover the Interchange Rules are a cornerstone of the railroad industry.

Why do the AAR Interchange Rules Matter? In the world of railroads, efficiency and safety are paramount. Ensuring the smooth operation of a vast railway network requires a set of well-defined rules and standards. The American Association of Railroads (AAR) Interchange Rules is one such essential manual that governs the interchange of railcars between different railroads. This office manual is a critical resource for anyone involved in the railroad industry, from operators and shippers to regulators and enthusiasts. Moreover, the AAR Interchange Rules are designed to ensure that railcars are in good working condition and that they meet all safety standards. This minimizes the risk of accidents and incidents during transit. A well-defined set of rules and procedures streamlines the interchange process, reducing delays and increasing the overall efficiency of the railroad network. This benefits both railroads and their customers. The AAR Interchange Rules delineate the responsibilities of shippers, railcar owners/lessors, and railroads when it comes to the interchange of railcars. Clear guidelines on inspections, repairs, and communication between parties are provided to prevent misunderstandings and ensure a seamless exchange.

To maintain the highest level of safety and efficiency, the AAR sets specific standards for railcar construction and maintenance. Handling instructions are crucial for the safe transportation of various types of commodities. The AAR Interchange Rules include guidelines for securing and transporting hazardous and non-hazardous materials, bulk commodities, and specialized equipment. It also covers the paperwork (processing), inspections, and communication required at every stage of the process.

The AAR Interchange Rules foster interoperability among different railroads. They provide a common framework that allows railcars to move seamlessly between networks, facilitating long-distance shipments and trade. Compliance with the AAR Interchange Rules is a regulatory requirement. Railroads that adhere to these rules are more likely to meet regulatory standards and avoid fines or penalties.

The AAR Interchange Rules is a vital office manual that plays a pivotal role in the functioning of the North American railroad industry. It ensures safety, efficiency, and interoperability, benefiting not only the railroads themselves but also the broader economy. Whether you are directly involved in the railroad industry or simply curious about how the vast railway network operates, understanding the AAR Interchange Rules is key to appreciating the complexities of rail transportation in North America.

If you're not already engaged in and knowledgeable about the American Association of Railroads (AAR) Interchange Rules, we encourage you to order your copy today or collaborate with a partner who is familiar with the rules. While we don't know everything about the rules, we're happy to engage with you when a question arises and, worst case, point you in the direction of someone who can bring you solutions. When we can be of service to help manage your railcars, we'll enjoy partnering with you!

Focus on Rail Fleet Management with Shannon Rodgers: (814) 631-9277 | shannon@tealinc.com

Rail Fleet Finance Strategy

Yvonne Lufborough, Director – Finance & Administration

As we enter the final quarter of 2023, the railcar industry continues to evolve, presenting both opportunities and challenges for railcar owners, railcar lessors, railcar lessees/shippers, and operators. Strategic planning for railcar finance in this dynamic environment is essential for success. As such, this quarter I thought I'd outline some key strategies to help you navigate Quarter 4, 2023, and ensure your railcar finance operations are on track. (Pun intended!)

Before delving into strategic planning, it's crucial to assess your current financial health. Review your balance sheets, income statements, and statement of cash flows for the previous quarters to identify any trends or issues. Understanding your financial position will serve as a foundation for making informed decisions in Quarter 4 about your business and also about your rail transportation and rail fleet position.

Define clear financial objectives for Quarter 4. These objectives should be specific, measurable, achievable, relevant, and time-bound (commonly known as SMART Goals). For example, you might set goals related to revenue growth, cost reduction, or fleet expansion. Having specific objectives will give your team a clear direction. Then evaluate your railcar portfolio and determine if adjustments are needed.
Are there underperforming assets that should be sold or leased?
Are there opportunities to acquire or lease additional railcars to meet customer demand?
A well-balanced and optimized railcar fleet is essential for financial success.

Be sure to stay updated on market conditions and industry trends. Economic fluctuations, changes in demand for specific commodities, and regulatory developments can impact your financial performance and will absolutely impact your rail transportation model and rail fleet needs. Regularly monitor industry news and market reports to make timely adjustments to your strategy.

Additionally, effective cost management is critical for railcar finance success. Identify areas where cost reductions can be achieved without compromising safety or service quality. This might involve negotiating better terms with suppliers, optimizing maintenance schedules, or streamlining administrative processes.

We recommend considering different financing options for your railcar operations. Leasing railcars, obtaining equipment loans, and partnering with railcar leasing companies are all viable choices. Evaluate the pros and cons of each option based on your financial objectives and long-term plans and be sure you work with partners who are working with you and in your best interests. Work together to identify potential risks and develop strategies to mitigate them. This includes risks related to accidents, market volatility, and regulatory changes. Insurance coverage, contingency plans, and rigorous safety protocols can help safeguard your railcar assets and financial stability.

Finally, ensure that throughout Quarter 4 you conduct regular performance reviews to track progress toward your financial objectives. Adjust your strategy as needed based on real-time data and market conditions. Strategically planning railcar finance for Quarter 4, 2023 is essential for achieving your financial objectives and ensuring the long-term success of your railcar operations. By assessing your financial health, setting clear objectives, monitoring market conditions, and embracing technology, you can navigate the challenges and seize the opportunities that this dynamic industry presents.

Stay agile, make data-driven decisions, and adapt your strategy as needed to stay on the right track.

Talk Rail Fleet Finance Strategy with Yvonne Lufborough: (406) 234-2754 | yvonne@tealinc.com

TEALINC Your Rail Partner | RAILCARS MANAGEMENT CONSULTING

TRAIN OF THOUGHT

Newsletter for the Rail Industry

Railcar Strategy & Planning

Julie Mink, President

With railcar supply as tight as it currently is, this quarter I thought I'd drill down on why we are spending so much time talking with railcar owners about selling railcars.

While Tealinc is looking to grow and expand our owner railcar fleet, we see that a lot of railcar owners are feeling added pressures of owning their railcar fleet outright. As the essential workhorses of the rail industry, railcars have a lifecycle that extends far beyond their initial purchase and can become a burdensome asset over the course of their lives. Upsizing, downsizing, integrating businesses… there are a plethora of reasons to sell your rail assets. Here are some reasons why selling your railcars can be a smart business decision.

1. **Optimizing Asset Utilization.** Railcars represent a significant capital investment. When railcars are not fully utilized due to changes in business needs or market dynamics, they can become idle assets, tying up valuable financial resources, costing money in daily storage fees, and leaving an open end to future railcar cleaning, repair, switching, and freight expenses. Selling underutilized railcars allows businesses to free up capital for other investments or operational improvements. Also consider a sale-leaseback where you can maintain possession of your railcars without the responsibilities of ownership.
2. **Focusing on Core Competencies.** Companies evolve over time, and their core competencies may shift. Rail transportation may not be the primary transportation mode and selling railcars enables companies to concentrate on their core strengths and allocate resources where they can achieve the highest returns.
3. **Reducing Maintenance and Operating Costs**. Owning a fleet of railcars comes with ongoing maintenance and operating costs. Regular inspections, repairs, and compliance with industry standards can be costly and time-consuming. By selling railcars, companies can offload these responsibilities and associated expenses to the new owners, potentially reducing operational overhead.
4. **Adapting to Market Changes.** Market conditions, customer demands, and industry regulations can change rapidly. Railcar types and specifications that were once in high demand may become obsolete or less profitable. Selling railcars allows businesses to adapt to evolving market dynamics by divesting older or less relevant assets and acquiring new, more suitable equipment.
5. **Generating Immediate Cash Flow.** Selling railcars can provide a significant infusion of cash, which can be especially valuable during times of financial need or economic uncertainty. Companies can use the proceeds from the sale to reinvest in their core operations, pay down debt, or explore new growth opportunities.
6. **Improving Balance Sheets.** Removing railcars from the balance sheet can improve financial metrics like debt-to-equity ratios and return on assets. This can enhance a company's creditworthiness and provide greater financial flexibility for future endeavors.
7. **Streamlining Fleet Management.** Managing a fleet of railcars can be complex. Selling railcars (or considering a sale-leaseback) can simplify fleet management, reducing administrative burdens and the need for specialized expertise in railcar maintenance and logistics. Under a sale-leaseback arrangement, Tealinc can become your Rail Fleet Manager and complete all the pesky tasks you had to complete as a railcar owner. We can even continue to partner with your logistics team at a high or low level to ensure your business continues to succeed.

Selling railcars is not just about divesting assets; it's a strategic business decision that can bring numerous advantages. By carefully assessing your railcar fleet and market conditions, you can make informed decisions that benefit the bottom line and positively impact long-term sustainability.

Explore Railcar Strategy & Planning Opportunities with Julie Mink: (720) 733-9922 | julie@tealinc.com

Planning for 2024: An Industry Outlook

with Darell Luther, Founder & CEO

2024 is an election year. That alone will make it an interesting year for the rail transportation and rail shipping community. Candidates are lining up on from all parties and as usual in an election year, there are often opportunities and challenges arising that are out of the ordinary. Each dominate party is trying to put their best foot forward. As rail shippers, receivers and railroads, it's imperative that the political watch committee (or maybe just yourself) pay close attention to what's being offered and what's being taken away. As we plan for 2024 we bring you some insights into main stay commodity groups focusing on providing inputs for roads, buildings, food and heat and power supply.

Read below to learn more about the aggregate, coal, agriculture, scrap and rail industry.

The Aggregates Industry. The Dodge Construction Network publishes statistics concerning all construction related indices which show the current and future trends. The aggregates industry previous and future successes are ofteen influenced significantly by the monthly and annual construction starts. Albeit this is a U.S. wide application it holds true for the general direction of the industry. There are certainly discrepancies at local levels.

Monthly and Year to Date Construction Starts

August 2023 CONSTRUCTION STARTS

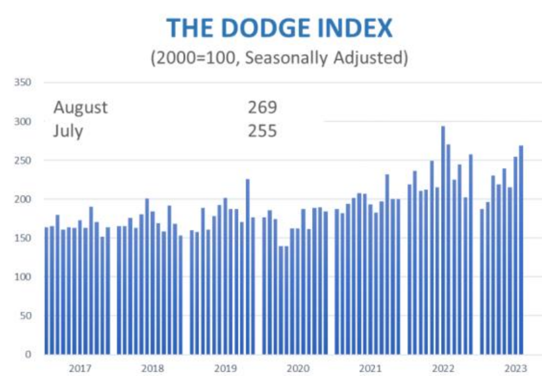
MONTHLY CONSTRUCTION STARTS
(Millions of Dollars, Seasonally Adjusted Annual Rate)

	Aug 2023	Jul 2023	% Change
Nonresidential Building	$475,125	$339,933	40
Residential Building	418,029	422,231	-1
Nonbuilding Construction	379,758	441,972	-14
Total Construction	$1,272,913	$1,204,136	6

YEAR-TO-DATE CONSTRUCTION STARTS
Unadjusted Totals, in Millions of Dollars

	8 Mos. 2023	8 Mos. 2022	% Change
Nonresidential Building	$262,806	$287,824	-9
Residential Building	245,001	299,268	-18
Nonbuilding Construction	214,400	175,276	22
Total Construction	$722,207	$762,368	-5

Source: Dodge Construction Network



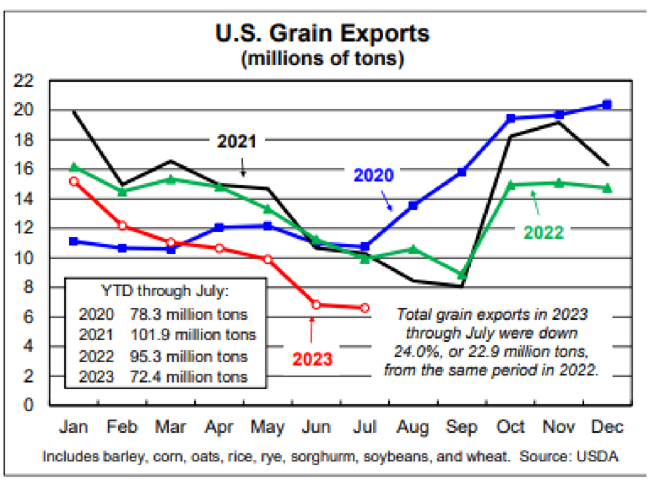
August construction starts rose 6% with YTD thru August 2023 being down 5.6% we compared to 2022. This is being driven by non-building starts up 22%. Loging in loses are residential at 18% and non-residential starts at 9%. Interest rate increase, tighter lending requirements and labor shortages all contributed to the losses. Until such time as the lending rates stabilize (see Federal Reserve Board comments), lending requirements loosen, and available labor is addressed these trends will be hard to overcome.

The Coal Industry. The coal industry is undergoing the same labor issues that plagued the rail industry. There are a shortage of miners, professionals, engineers, and general laborers in the coal industry. This has led to significant shortages in certain coal basins. The Utah and Colorado coal fields that feed western power plants and export terminals there is a significant shortage of coal available. Ironically in a rail-based publication one would think that we'd be talking about service issues. In this case we're pointing out the fact that it is a real supply issue currently. Coal mining companies are doing their best to staff up to meet demand. However, that's a stretch when one looks at the last ten years of coal prices there is a long dry spell of anemic prices only more recently showing increases that are more in line with production costs. Couple this with normal operations challenges in mining, general operations and transporting a ton of coal and you've got a real dilemma on your hands.

Bloomberg Coal Data

Bloomberg has great charts on coal pricing that show the trends of prior years and current times. The conversion to green energy (wind, solar) has significantly impacted coal volumes and prices. Just as these downturns impacted the railroad resources, they are now more prevalent in the coal industry. We've had several inquiries into coal railcar availability to ensure companies that when supply comes available the coal mines have railcars readily available to load.

Agriculture. Agriculture railcar originations has been steadily down all year. Exports of grain play a significant role in grain rail transportation. The year 2023 thru July reflects significant drops in railcar originations. Since the Ukraine-Russia war there has been a significant reshuffling of the world grain deck tremendously changing shipping patterns. In addition the dollar has exhibited a run up in strength during peak US harvest times causing net importers to look elsewhere for their feed and animal grain. Look for a continuation of these trends until the dollar either weakens or we end up with a glut of grain in the US and asking prices decrease.



Industry Updates: Surface Transportation Board

with Darell Luther, Founder & CEO

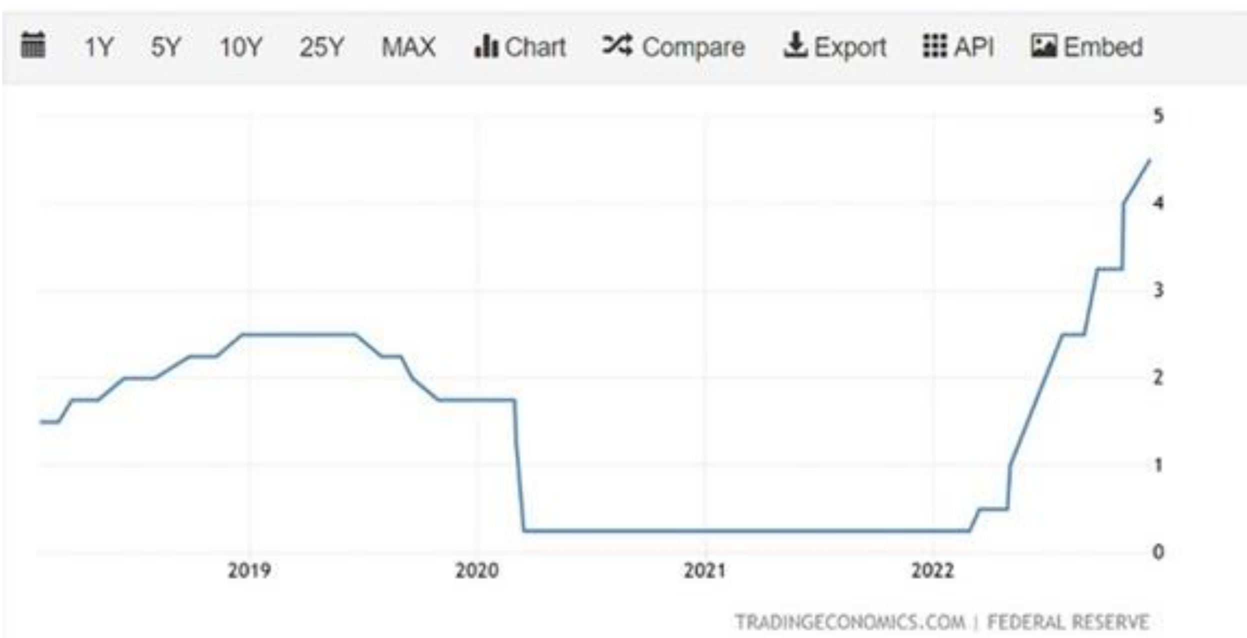
The Surface Transportation Board (STB) is an independent federal agency tasked with economic regulation of common carriers engaged in interstate commerce, most often dealing with issues facing the railroad industry. According to a report by the Congressional Research Service, STB has limited powers to set maximum rates, but retains the power to impose maximum rates in situations where the railroad is considered "market dominant," and if the rate quoted by the railroad is deemed unreasonable.

The report also mentions that STB has the authority over railroad corporate mergers and acquisitions. It may approve such transactions only when it finds them to be "in the public interest".In recent years, STB has been considering procedures to expedite the determination of market dominance, to reduce the burdens associated with minor rate disputes, and to reexamine competitive access and reciprocal switching policies.

Of significance at the STB is the decision on September 7, 2023 concerning the Boards decision on Reciprocal Switching for Inadequate Service, Docket No. EP 711 (sub 2). Comments are due by October 23, 2023. Its important as a shipping community that you weigh in on the discussion. Regardless of your stance on the subject this important document needs to hear both the pros and cons of the anticipated effects of Reciprocal Switching. Note that the prior docket EP 711 (sub 1) is closed out and this docket takes over.

Also of significance is the STB's interjection in a service dispute where the Navajo Transitional Energy Co. (NTEC) filed a lawsuit against BNSF Railway in December 2022, alleging that major shortcomings in BNSF Railway service cost it $150 million in lost revenue this year and another $15 million in charges when coal wasn't loaded in a timely manner onto ships destined for Japan and Korea . In June 2023, the U.S. Surface Transportation Board ordered BNSF Railway to transport at least 4.2 million tons of coal from a Montana mine to a port in Canada for overseas use. The board said NTEC was highly likely to succeed on the merits of its claim and that BNSF has the ability to fulfill the contract and still meet the needs of other shippers

The two STB rulings above are precedence setting in that the STB hasn't yielded that kind of power is a long time.



Industry Updates: Rail Traffic Data

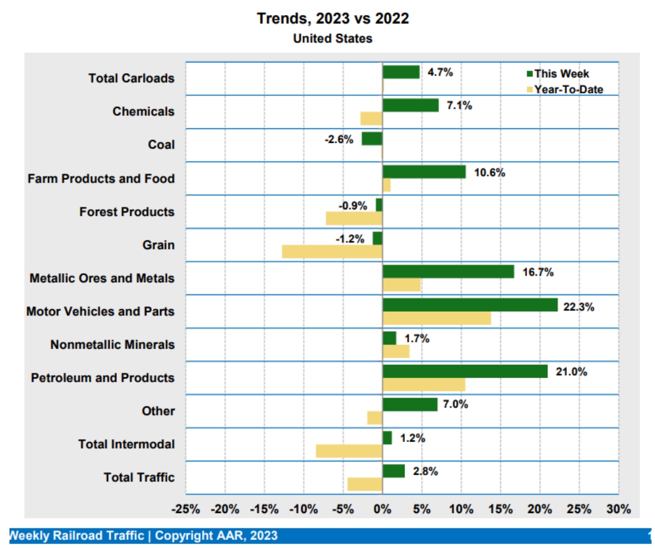
with Darell Luther, Founder & CEO and the AAR data

The rail industry originated traffic continues to decline gradually over the course of the year. Year-to-date average weekly traffic when compared to 2022 is off 4.5%. On a year-to-date cumulative measure of 17,604,010 railcar originations this is a substantive amount. A rainy fall with lots of environmental impacts of tornadoes, excessive storms distributing flooding across much of the railroad's route, particularly in the east has slowed movements. External factors such as the Russia-Ukraine war impact on distribution of grain products has realigned the world grain export/import market which is a key demand point for US grain. Exports of crude oil and increasing in plastic pellet production have had positive impact on rail equipment in those markets. Metallic ores and minerals are core staples for production in our society and they have grown tremendously, and motor vehicle and parts are leaning into a high demand run simply because people are now getting a wider array of options and the lack of supply coupled with the lack of options put the auto industry on ice for a while. We'll see if this holds through the UAW strikes. And lastly, the rise in interest rates has slowed consumer spending somewhat. There is a world (literally) of impacts that change railcar loadings in both a positive and negative way. The better we can anticipate them, the better prepared we will be.

U.S. Rail Traffic[1]
Week 38, 2023 – Ended September 23, 2023

	This Week		Year-To-Date		
	Cars	vs 2022	Cumulative	Avg/wk[2]	vs 2022
Total Carloads	**234,904**	**4.7%**	**8,538,842**	**224,706**	**0.2%**
Chemicals	31,067	7.1%	1,183,796	31,153	-2.8%
Coal	68,846	-2.6%	2,502,942	65,867	-0.2%
Farm Products excl. Grain, and Food	16,718	10.6%	612,117	16,108	1.0%
Forest Products	8,490	-0.9%	308,973	8,131	-7.2%
Grain	18,072	-1.2%	682,884	17,971	-12.8%
Metallic Ores and Metals	22,732	16.7%	788,662	20,754	4.8%
Motor Vehicles and Parts	16,085	22.3%	565,166	14,873	13.8%
Nonmetallic Minerals	34,463	1.7%	1,211,590	31,884	3.4%
Petroleum and Petroleum Products	9,908	21.0%	358,084	9,423	10.5%
Other	8,523	7.0%	324,628	8,543	-1.9%
Total Intermodal Units	**258,419**	**1.2%**	**9,065,168**	**238,557**	**-8.5%**
Total Traffic	**493,323**	**2.8%**	**17,604,010**	**463,263**	**-4.5%**

[1] Excludes U.S. operations of CPKC, CN and GMXT.
[2] Average per week figures may not sum to totals as a result of independent rounding.



About Tealinc

How will Tealinc create value with you?

Tealinc, Ltd. is dedicated to creating value for our customers. We specialize in Rail Transportation Solutions by leasing, buying, selling, consulting and managing rail fleets with our customers long term and short-term requirements in mind. We participate in nearly every industry supported by rail; lease, purchase and sell nearly every type of freight railcar; and provide management and consulting services for both novice and experienced rail shippers. Where can Tealinc create value for you? Choose a box to learn more…

Buy, Sell, Lease, Trade Railcars

Rail Fleet Management Services

Rail Strategy & Business Development