



RAILBLAZERS

ALLTRANSTEK, L.L.C.
Commercial Rail Transport Management and Consulting

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A CLOSER LOOK SERIES

Closer Look Series

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RAIL MATTERS: CHECKING IN WITH NATIONAL INDUSTRIAL TRANSPORTATION LEAGUE

AllTransteck has been a member of the National Industrial Transportation League (NIT League), the oldest and largest freight transportation association in the United States, for many years. The following article by Jennifer Hedrick, the Executive Director of NITL, demonstrates NIT League's commitment benefiting everyone involved in freight transportation.

The League continues its role as a lead voice on matters of interest to shippers in Washington, DC. Yes, it's not just shippers that benefit from the League, but all who are working together to ensure that rail freight moves across America efficiently and expediently.

With the change in the Administration and both entry and exit of key congressional and executive branch staff, the League has been working to assure continuity during this transition and that rail shipping matters are addressed both smartly and expeditiously.

One such matter is ensuring that the Surface Transportation Board is staffed to its full capaci-

ty. The STB Reauthorization Act of 2015 added two seats to the Board, which remain unfilled. Just this week the League joined a wide-ranging group of trade organizations and sent an endorsement of a STB candidate to President Trump while calling for staffing of the Board to be finalized.

A fully staffed Board will allow a thorough review of a number of matters currently under consideration by the Board, including proceedings on competitive switching (EP 711), a direct response to a 2011 NITL petition requesting that the STB open a rulemaking to review its outdated rules on competitive switching options for rail shippers.

As part of this rulemaking, the STB is currently holding ex parte meetings in Washington, DC, giving all interested parties an opportunity to



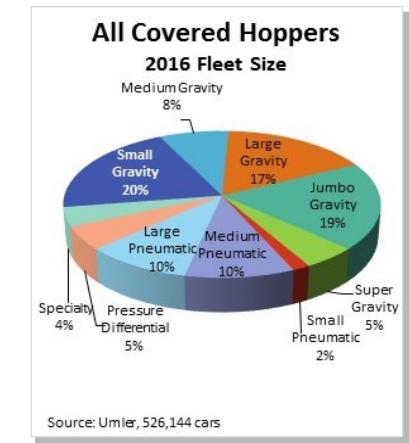
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CAR TYPE HIGHLIGHT: COVERED HOPPER

The Covered Hopper is designed to carry dry bulk materials, varying from grain and agricultural products to cement and sand.

The Covered Hopper (CH) Fleet has a wide range of car types to accommodate the variety of industries that it serves. This fleet consists of 541,638 cars. Gravity cars currently make up 69% of the fleet, followed by Pneumatic at 21.8%. Pressure Differential and Specialty cars make up the final 9.2%. The CH fleet has grown by 2.6% in the past year. The Large Pneumatic fleet added more than 5,000 new cars, representing 11% growth within the fleet segment.

2016 was generally a difficult year across many car types and industry sectors for the rail industry. Fleet performance metrics struggled across



most railcar types.

The gravity fleet carried over 3.4 million carloads in 2016, 64% of which were agricultural shipments. Of all agri-

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CHECKING IN WITH NIT LEAGUE

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meet with Board members to discuss how the introduction of competitive switching options could affect their businesses and general commerce.

This is a unique opportunity for rail shippers to voice their perspective. Board members are particularly interested in hearing first-hand examples specific to the economics and logistics of current operations and the potential effect opening up rail access would offer. This information will be considered by the Board as they issue a final rulemaking. If you would like more information on these meetings and how your company can have a direct impact, con-

tact Jennifer Hedrick, NITL Executive Director, or visit the League's website.

There are a number of additional initiatives that the League is pursuing on behalf of rail shippers not just before federal policymakers and regulators, but industry-wide. Through this outreach the League provides opportunities to rail shippers and their customers to be directly involved with driving policy and regulatory action while enjoying business to business interaction that often results in partnerships and growth opportunities. To learn more about the NIT League, visit NITL.org.



2017 Schedule of Events

NCTA OPERATIONS AND MAINTENANCE MEETING

Santa Fe, NM

June 12-14

MARS SUMMER MEET- ING

Lake Geneva, WI

July 10-11

ACC COAL MARKET STRATEGIES CONFER- ENCE

Park City, UT

Aug. 14-16

FTR TRANSPORTA- TION CONFERENCE

Indianapolis, IN

Sept. 12-14

NATIONAL COAL TRANSPORTATION ASSOCIATION BUSI- NESS MEETING & CONFERENCE

Denver, CO

Sept. 18-20

RAIL CAR DISCONNECT?

IF THINGS ARE SO BAD, WHY ARE SO MANY JUMPING IN?

Following is a reprint of an article written by AllTranstek's Dick Kloster and published in the February 2017 issue of Progressive Railroading magazine.

The last year and a half hasn't been very kind to rail-car fleets or their owners, particularly the leased fleets. Carload volumes have been depressed in most market segments. Lessees have been returning cars. Fleet surpluses have jumped to levels not seen since the Great Recession. Cars are stored everywhere. And in too many cases, the best thing lessors can say about a lease rate is that they actually have one. Almost every metric you can look at to gauge rail equipment industry health has been challenged.

So why have rail cars been so attractive to investors over the past couple of years? And why are the values of used rail cars as high as they are?

The simple answers are that rail cars retain their values over time better than most people realize, long-term rail fundamentals are strong, and there are a lot of investors that want to take advantage of it.

Currently, the North American fleet totals a little over 1.6 million rail cars, of which about 850,000 are owned by leasing companies. There is an active secondary market for used rail cars sold among leasing companies.

In the past, a new investor or two might enter the market every few years. Or one lessor might acquire another. But the pace of entry and exit into the rail equipment marketplace has increased significantly over the past three

years. From 2014 through 2016, almost one-third of all rail cars owned by leasing companies changed ownership! While some existing leasing companies got bigger, more than 10 new ones launched during this period — collectively, they have a lessor ownership share that is approaching 10 percent of the market. Meanwhile, at least eight existing lessors divested their fleets and exited the market.

Outlook for 2017: It's fairly positive

There are a lot of reasons companies enter or exit the market. Most of the lessors that elected to exit in recent years did so because it was time and the price was right. However, for a couple of these companies, there also were strategic considerations in their decisions to divest. In addition, most lessors routinely sell assets in an effort to make a profit on longer held assets or to readjust their portfolios.

On the investor side, the rationales are a little more varied. Some of the larger strategic players have decided to double-down and have been aggressive buyers of rail cars. Other smaller players are acquiring for scale, and leveraging their market presence and expertise.

As for the new market entrants, the main rationale has been a desire to find a new asset class in which to deploy capital. Some are already in the equipment leasing business and rail cars are just a new asset type. For others, however, the motivation is to invest in a new operating platform that will provide earning diversification that either complements, or hedges against, their

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CPC 1325: What It Means for TIH Tank Car Owners

The Tank Car Committee (TCC) reviewed circular CPC-1324, requiring an enhanced phase out timeline for DOT-111 cars operating in TIH commodity services. The circular stated...

2.8.1 After July 1, 2023, all tank cars used to transport products classified as TIH must comply with the requirements for tank cars built on or after March 16, 2009 (see 49 CFR 173.244 (a)(2), 173.314 (c) Note (12), 179.16 (c)(1), and 179.102-3 for cars marked DOT, or TP-14877 paragraph 10.5.1.2 for cars marked TC).

2.8.2 After July 1, 2019, all tank cars used to transport products classified as TIH, manufactured from carbon steel plate, must have tank heads and shells constructed of normalized material."

The final action for this circular was recently released as CPC-1325. The verdict supported the timeline proposed in the previous circular (CPC 1324).

The result of this final action means that tank car owners shipping TIH commodities must move their product in tank cars that comply with the regulation prescribed build specifications present on March 16, 2009.

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other portfolio companies.

The one thing all the players have in common is their positive long-term outlook for rail equipment. New investors quickly learn what the existing players already know: that despite the inevitable market fluctuations, rail cars are long-lived assets that are relatively easy to remarket, compared with other asset classes; have a large, reliable and creditworthy customer base; and over the long run provide good returns and retain their market values.

Rail equipment values historically have been strong, mainly due to the attractive earnings and cash flow these assets generate, and the long-term stability of the markets they serve.

While some may view the addition of new investors as a threat to their established market positions, the new players are actually their secondary market customers and provide a valuable outlet for larger fleet owners to monetize portions of their fleets.

Going forward, these newer lessors will continue to grow their fleets. Equipment values will probably remain higher than if there weren't as robust a new owner class as there is today. The market outlook for 2017 is fairly positive vs. 2016, so many of the fleet metrics will improve and help close the gap between fleet earnings performance and equipment values. And some of these new lessors/buyers actually may be sellers in the next consolidation cycle.

FIELD SERVICES

Regularly praised by clients for exceeding expectations, AllTranstek's Inspection Services department implements some of the most innovative technologies in the field of railcar inspections. With inspectors operating out of Arkansas, Colorado, Iowa, Louisiana, Mississippi, Nebraska, Pennsylvania, North Carolina, and Texas, AllTranstek's inspection team has the geographic dispersion and coverage capabilities to provide technical consulting across North America. The team prides itself on the quality and thoroughness of all shop and field inspections.

AllTranstek inspectors use cutting edge drone technologies to complete comprehensive inspections of tank and hopper cars. Aerial inspections provide consistently reliable data sets and reduce the risk of injury to personnel. This highly effective method of inspection offers more than just increased safety — drones grant access to previously difficult to reach areas of railcars. Aerial drone inspections offer a quicker

alternative to traditional inspection techniques, thus maximizing clients' savings on regular railcar maintenance. As needed, the team employs the use of remote controlled, weatherproof cameras to complete inspections during undesirable weather conditions. The expert inspection services team is constantly expanding to include new techniques within the department.

In addition to state of the art technologies, AllTranstek's inspectors employ tried and true methods of mechanical inspections throughout a railcar's entire life cycle. Inspection services are available for railcar acquisitions, new cars, pre and post lease, wrecks, shops, and in-service railcars. AllTranstek's inspectors provide customized reporting and are experienced in lease review, Joint Inspection Certificate (JIC) review, and litigation support. Regardless of whether the service is to support an acquisition or a simple shop event, AllTranstek's field inspection team provides superior services and reports customized for each client and their specific requirements.

The Inspection Services department is part of AllTranstek's renowned technical services group, providing technical and operational support to the rail equipment supply chain, including engineering, regulatory compliance, NDT Level III, NDT training, and welding support.



Aerial drone photo by Jerry Charaska, Director, Field Services

EMPLOYEE SPOTLIGHT

Jerry Charaska

Director, Field Services

Jerry brings nearly four decades of experience to AllTranstek, including plant manager positions at Rescar's Cedar Rapids, Iowa and Hudson, Colorado repair facilities. His background includes the management of third-party client car inspection projects, startup operations, M-1002 and M-1003 certification and implementation, extensive knowledge of the Association of American Railroads standards, and Federal Railroad Administration regulations, facility permitting requirements, procedure development, inventory purchasing and management, and the preparation of operating budgets. In addition to his other consulting activities, Jerry is responsible for organizing and managing all of AllTranstek's independent car inspection services.



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cultural traffic moving in gravity cars, grain represented 67%. The rail shipping market for grain never fully materialized in 2016. Dollar pressure had a significant effect on grain export markets. Modal competition placed stress on the Jumbo Gravity fleet, as barge supplied higher volume shares of grain for export markets. Additionally, unusually large shares of domestic consumer needs for grain were met by local markets.

After growing at 33% AAGR over the 2009-2014 period, sand carloads dropped by 1% in 2015 and an additional 3% in 2016. Despite the subsequent equipment oversupply, which impeded Small Gravity fleet performance over the past two years, the outlook in this sector is overwhelmingly positive, as sand usage per fracking

Andy Schaffer

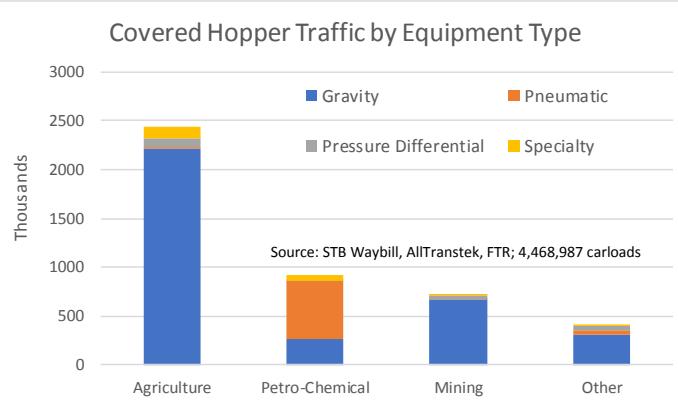
Chief Operating Officer

Andy joined AllTranstek's executive management team in 2017. He oversees the day-to-day operations of Fleet Management, Client Services, Regulatory Compliance, NDT & Special Processes, and Inspection Services departments. Andy's extensive background includes the operation of railcar repair facilities. Prior to joining AllTranstek in 2017, Andy served as Senior Vice President of GBW Railcar Services, Senior Vice president at Watco Mechanical Services, and spent over 32 years working for Rescar Companies in a variety of labor and management positions. He was one of the initial members of the Transtek Solutions team which became AllTranstek, LLC in 2000.



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well has grown drastically.

Pneumatic cars carried 630,000 car loads, over 89% of which were plastic pellets. Traffic is up 1% for this fleet segment from 2015 volume.

Pressure Differential (PD) and Specialty cars combined for 355,000 car loads. PD cars carried mostly flour, minerals, and cement. Specialty cars also saw a significant portion of grain product traffic, at approximately 10% and shipped over 31% of total industrial chemical traffic.



AllTranstek Presentations and Events 2017

“Car Repair Billing & Auditing”

Date: April 11, 2017

Location: AllTranstek

Format: Webinar

Contents: This presentation discussed the cost-saving benefits of the mileage equalization process. Available via replay.

Presenter: Pat Fiege

“Rail Equipment: A Market in Transition”

Date: February 26, 2017

Conference: ELFA Equipment Management

Location: Houston, TX

Format: Presentation

Contents: This presentation discussed the transition of rail equipment markets from an energy dominated build cycle, to a more traditional replacement driven demand cycle. AllTranstek's Richard Kloster and Mitsui Rail Capital's Chris Gerber discussed drivers of the various fleet segments and the railcar outlook for 2017.

Please contact us for a copy of this presentation

FTR OUTLOOK: COVERED HOPPER FORECAST

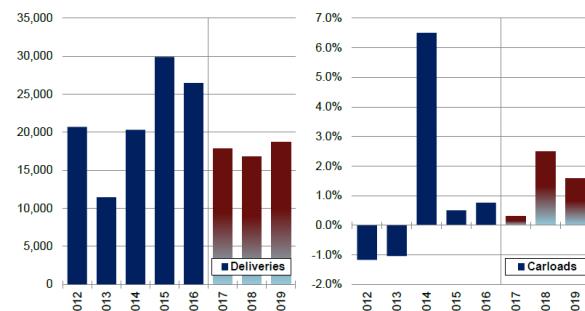
- ◆ **Freight:** CH Traffic in 2017 is forecast to increase 0.3% y/y to 4,957,000 carloads, and another increase of 2.5% in 2018. Over 2019-2021 freight growth will slow to a 1.6% AAGR, reaching 5,320,000 carloads in 2021.
- ◆ **New Cars:** 2017 deliveries will fall 32.4% to 17,900 cars, then drop another 5.6% in 2018 to 16,900 cars. Over 2019-2021, deliveries will grow at a 16.9% AAGR, peaking in 2020 at 21,400, before falling back to 19,600 in 2021.
- ◆ **Inventory:** CH retirements in 2017 are projected to total about 8,000 cars, up 3.6% y/y, and over 2018-2021 average 8,400 cars per year, a 2.0% AAGR.
- ◆ The fleet is projected to increase 1.9% y/y to 544,000 cars in 2017, and reach 587,200 by 2021, a 2.0% AAGR over the 2018-2021 period.
- ◆ The 2017 surplus is expected to fall 25.5% y/y to 87,800 cars, then fall another 34.0% in 2018 to 57,900 cars, before increasing at a 26.7% AAGR over the 2018-2021 period.

Covered Hopper Market Indicators: 2016Q4

Actual, Not Seasonally Adjusted	2016	2016	2016	2016
	Q1	Q2	Q3	Q4
Orders	2,951	2,017	1,441	2,629
% Change, Y/Y	-64.4	-78.9	-61.9	-51.8
Backlogs	48,423	45,682	40,171	35,908
% Change, Y/Y	-21.5	-27.0	-32.9	-37.1
Deliveries	6,953	6,675	6,789	6,071
% Change, Y/Y	1.9	-17.0	-3.9	-23.9
Backlogs/Deliveries Ratio	7.0	6.8	5.9	5.9
Net Orders/Deliveries Ratio	0.4	0.3	0.2	0.4

Source: ARCI Committee of the Railway Supply Institute

N.A. Covered Hopper Outlook



- ◆ Fleet utilization is expected to increase 6.2 points y/y to 83.6% in 2017, peak in 2018 at 89.3%, then decline to 82.0% in 2021.

- ◆ **Forecast Changes:** Lower surplus, higher utilization

- ◆ **Downside Risk:** continued low drilling activity and frac sand demand of <3500 CH and >5500 CH **Upside:** Increased drilling activity, growing replacement demand, higher grain exports

All charts, graphs, and data are derived from the FTR Rail Equipment Outlook Report
For more information on this report, please visit www.frintel.com/REO

A CLOSER LOOK SERIES

A Closer Look Series is comprised of six individual reports, each of which exclusively covers one of the major car types: Covered Hoppers, Tank Cars, Gondolas, Open Top Hoppers, Box Cars, or Flat Cars. These reports provide invaluable information and insight for longstanding rail equipment industry participants, as well as new entrants to the industry. Among the companies who will benefit the most are fleet owners, leasing companies, new car builders, component suppliers, service providers, financial institutions, investors, rail carriers and shippers.

A Closer Look Series examines the current railcar market from multiple angles, analyzing trends in fleet size, age, ownership, segmentation, commodity traffic bases, new car deliveries, retirements, utilization, attrition, car surpluses, and much more.

[Click here for more information on
A Closer Look Series](#)



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Founded in 1994, AllTranstek has grown into one of North America's largest railcar management and consulting companies, currently managing over 250,000 railcars for some of the country's largest fleets. AllTranstek also provides technical, operational, and strategic consulting services to a broad range of companies active in the rail and rail equipment supply chains. No other company has the combination of institutional knowledge, innovation, and independence that characterizes AllTranstek. As an independent company, with no ties to outside funding from industry or government, our clients can be confident that we always have their best interests in mind. AllTranstek continues to cultivate strong relationships with clients both large and small because of our ability to creatively and flexibly tailor services of various sizes and scopes to each customer's individualized needs.