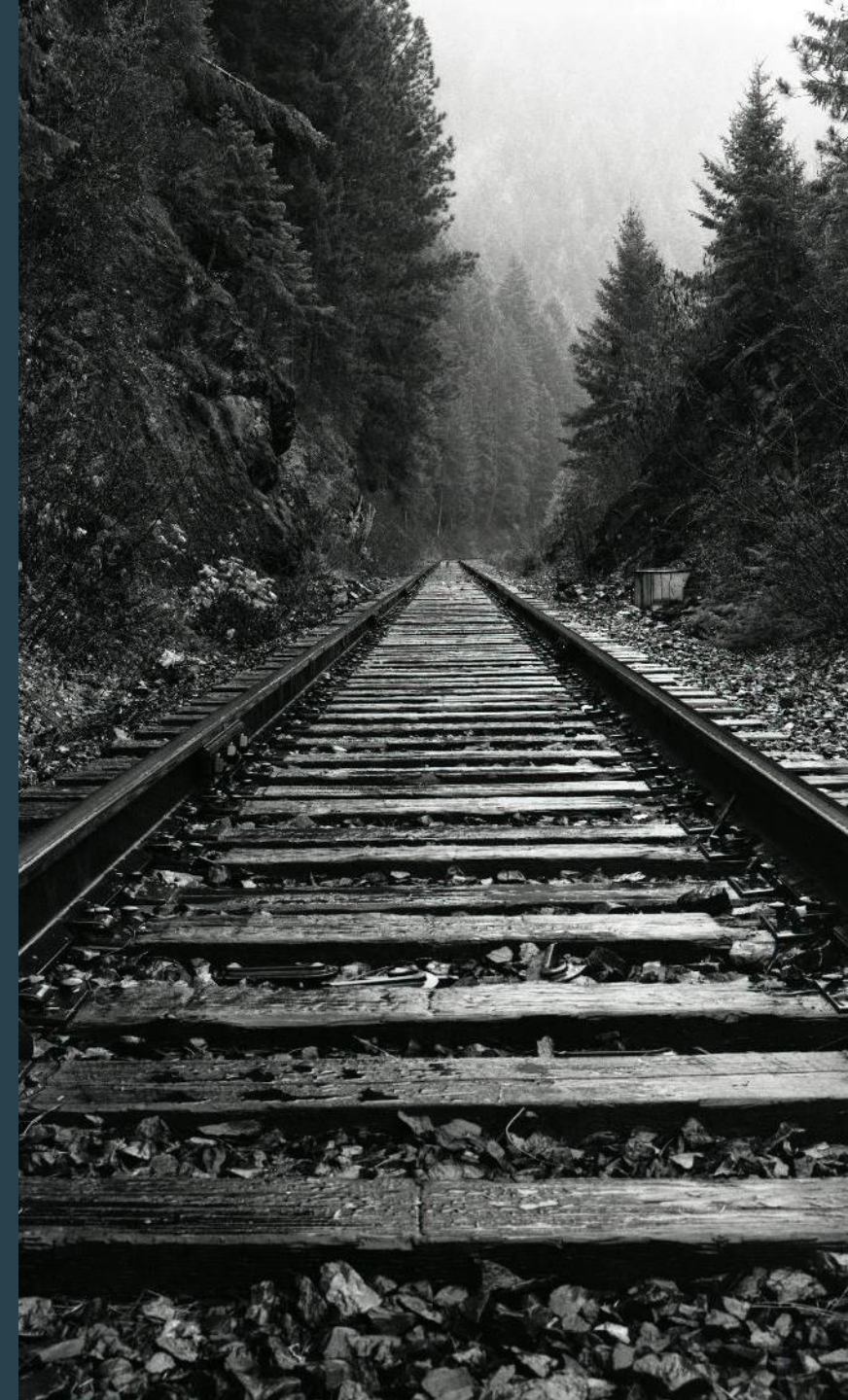

2026: Rails at the Crossroads – **Burning Down the House?!?**

Trends and Insights

Anthony B Hatch
ABH Consulting
May 2026



Railroad History



5+ Enduring (?) Railroad Competitive Advantages

- 1 **Labor Advantage**
(ex: Double-stack LA-Chi – or Rupert-Toronto)¹
- 2 **Fuel Advantage (2A)**
(4:1 ton/mile; AAR)² – So 2B is **EMISSIONS**/Environmental Advantage (see...WMRT, Unilever, etc.)
- 3
- 4 **Infrastructure Advantage**
(ASCE Grade B- after the IHS buildout; user-pay and capex to support changing logistics patterns – ex: transcon)³
- 5 **Railroads' Excellent Financial Condition, Liquidity, Free Cash flow**
- ? **Railroads' Historic Ability to Reduce Expenses in a Known Slowdown** (2009, 2020)⁴

1. AV trucking?; 2. EV Trucking?; 3. Infrastructure Bill? (LOL); 4. Newly Added (in response to C19)

Top 5 Thoughts on Rails in Spring, 2026

1. *The Big Story – the UPNS Transcon Merger waiting game is over “at last” – Now the STB must reply by 5/30. On the deal as a whole - Bet the over!*
2. *Rails financial results have mostly beaten Q1/26 estimates (certainly in the US) but given huge uncertainties managements maintained the (January) lowered Guidance for 2026, begun headcount reductions...**Domestic intermodal recovery?***
3. *Rails have cut capex by double digits perhaps in response, having completed major projects to be sure but, still...*
4. *Political and Trade Uncertainty and the future of “CUSMA” looks more complicated the Gordie Howe Hat Trick – July discussions*
5. *The one unambiguously good thing RailTech! Railspire, Remora, Intramotev, Parallel Systems etc etc*

The Growth Pivot vs the Cult of the OR

- Rails are back to stability in operations
- Two outliers returning to the pack
- ~60% OR may be new peak performance given new labor contracts, growth focus
- Gains from improvement from peak margin are increasingly de minimis in terms of earnings/cash flow....
- The ONLY option for value creation is Growth
- But gaining share will lead to improvements in revenues, EBITDA – and ROIC
- And maybe even in OR (per Oliver Wyman/STB testimony)
- AND, the OR is “the outcome of a process” (Keith Creel, CPKC, 2014 and 2024 **RailTrends** Innovator of the Year) – *the OR leads to questions, it is not the answer and should not be “managed”*
- Short-term investors and activists have targeted Intermodal as an inflator of the OR
- Railroads pivoting to growth in the longest *freight recession in memory* – though “**green shoots**” *emerging*
- Proxy fights, management pressures and change-outs a threat to long term thinking, resiliency
- The Race is ON!

The CN Mothership and the Diaspora

- **Is it *Band of Brothers* (positive) or *Game of Thrones* (not so positive)?**
- Vena the man at UP
 - after UP's regulatory relationship deteriorated, its messaging unclear, and disappointing results/not fulfilling "greatest franchise" potential
 - Initial improvements obvious
- House Creel plots the Red Wedding
- Cory replaces Boychuck at CSX COO
 - "Culture change" & team building
 - Similar pattern as at CN
- Orr at CPKC then....
- Orr at NSC! Building a team
- The return then retirement of the Old Guard at CN
- Ed Harris on the BNSF Board
- Still out there: Boychuck, others....

Four – or 5? - Pillars of Rail Growth

1. Domestic Intermodal – (Mostly) Control Your Own Destiny
2. Industrial Development – Nearshoring? Reshoring?
3. Short Line Cooperation (see “Golden Age?”)
4. Develop & Embrace New Technology
5. Do transcon mergers constitute a 5th growth pillar??

Source: Oliver Wyman/abh



The Big Story – Jump Ball!



There are 4 potential merger scenarios to be ready for

Scenario 1: Approved

- Full Approval
- Creates U.S. transcontinental Class I railroad
- Class 1 competitor with enhanced scale, and potentially, more attractive cross-country service capabilities
- Limited concessions (e.g., gateway, service guarantees)

Scenario 2 (A & B & C): Approval with Concessions

A. Approval With Concessions:

- Concessions or "Remedies" can be minor or cross the "**Red Line**"
- Concessions may include:
 - Open gateways, reciprocal switching, line sales or trackage rights
 - Service guarantees including mandatory service benchmarks, financial penalties for disruptions
- Divestitures (sale of overlapping corridors)
- Labor protections, market rate oversights, etc.

B. Conditional Approval (Chain Merger Scenario):

- Regulators approve merger only if the industry consolidates simultaneously (e.g., BNSF + CSX)

Scenario 3: Rejected

- Full Rejection
- Competitive "status quo" preserved
- Focus returns to growth execution and ROIC recovery
- Activist pressure if relative valuation lags
- Potential for more regulatory intervention, proactive analysis of risks and mitigations

Scenario 4: Prolonged Delay

- Further Delays to STB Acceptance / Review Process
- Possible reasons for delays may include:
 - Insufficient competition protections
 - Service risk
 - Labor opposition
 - Shipper complaints
- UP and NS could:
 - Refile with concessions
 - Restructure transaction

Transcon Merger Glossary – Key Words and Phrases

- “Old Rules” versus “New Rules”
- “Public Interest”/Trucks off the highway
- “*Enhanced*” competition
- Growth (as in how to achieve it)
- Single-line vs. Partnerships
- Repercussions/Intimidation/Recrimination
- Distraction
- Jobs for life!
- Transactional
- Political
- Reciprocal Switching/Open Access
- Ease of...(doing business; Interlining, etc....)
- Concessions/Remedies or:
- The “**Red Line**” AKA “Materially Burdensome Regulatory Conditions” (access/divestitures/\$750mm)

Rail Mergers – Clear (But undefined) Benefits

- Elimination of ***interline issues*** (as a concept); *crew* changes, to be sure, but not *carrier* changes (Oh, what a tacit admission of failure!)
- Service and capacity – and speed - increases
- Global not regional customers (allowing for product and geographic competition)
- ***Reduced SG&A***
- Repurposed mid-continent hubs, yards & terminals
- More focused IT spend
- Faster decision making (one BoD, not two or three or....)
- ***The Watershed Opportunity*** (BUT, what is it?) The “Blind Man & The Elephant” analogy
- Could solve “problems” of legacy, succession (see BNSF & Krebs)
- 125-250bps (Oliver Wyman)
- All great – I’m a believer - IF unchallenged and not modified....

Rail Transcon M&A – The Risks (Sailing off into the Great Unknown–Off the Map or New Discoveries?)

- “Enhanced competition” is not defined (see MAD example)
- Mergers “open the books” on railroad practices
- New breed of shipper would get involved (think Amazon, Walmart, UPS/Fedex, Target, etc) for the first time
- **“Death by 1000 cuts” - OR - “deep structural changes”?**
- ***UP initially pegged the cost of remedies at \$750mm*** – then called “socialism”! Now it's their **Red Line**
- Environmental reviews slow major routing changes (“* trains/day rule”)
- *Open Access* – “Bring it on”? Don't believe it! Wherefore Capex? BIG, etc – a huge wealth transfer to shippers (Europe)
- Hostility unwelcome
- First-mover advantage? Not really...I believe in **2nd Mover Advantage**
- Wildly over-optimistic Street estimates (for example, studies of interline ignore short lines)
- Could transcon M&A lead to *more regulation*?
- ***Is that worth it for 125bps?***

Key Givens & abh Assumptions/Rail Mergers

- There are *three – no, four* important “New Rules” boxes to tick to gain STB approval:
 1. *“In the public interest”* (for example, “trucks off the highway” fits here, but likely not for #2)
 2. *“Enhance competition”* – and by precedent, since the STB does not regulate trucks or barges, that means **RAIL** competition!
 3. *Benefits accomplished only by merger* – see BNSF-CSX, or Falcon! (It will be fun to watch the rails positional “flexibility”!)
 4. “Downstream Effects” consideration – more M&A?
- The STB is an ***independent*** entity not subject to White House decision making (we think); POTUS has done on to discuss UP and its un-named leader
- I have full faith in the Board and the Chairman
- **Rail regulation is completely, entirely dissimilar to other regulation** (environmental, labor, etc) – ***Rail Regulation is NON-Partisan*** “strategy”?
- *There is NO PRACTICAL OR TRANSACTIONAL reason for the White House to get involved in what MAY be a fight between large (Republican) industries!*

STB Rejects the UPNS Application #1, Now up App#2

- #1 rejected, albeit “without prejudice”/missing data, redacted merger agreement
- I had expected the STB to rule “incomplete” on the issue of “enhanced competition” (Perhaps UP did, too?) – they did not
- STB go/no-go date on the Application is May 30
- The New App (#2) answers the data/“**Red Line**” issue; does not change CGP
- Nor does App2 address “*Enhanced Competition*” vs “Public Interest” – conflating or a new definition/precedent?
- Who will win the definition debate will be a/*the* main issue in The Main Event along with *Are Volumes Achievable or Aspirational?* What are the actual risks of the merger integration ?
- The opposition mounts – The “Coalition” and CN and CSX enter the game!
- We have not heard from the shippers, really, yet – we will. It is their game, now
- If accepted, the clock starts, the process begins & hearings in the new year
- Timing? Delays? (“Bet the Over!” My guess: Fall 2027)

Recent Rail Merger Circus



Color

- Retired STB Chairmen on the record are 2 to 1 against
- Smelling fishy - The NYC Dept of Sanitation doesn't like it at all
- The Strange Case of "*the other Bailey woman*", or why recently some are questioning the data completeness after all
- Kloster making progress; Hedlund renominated!
- The "Old Guard" at MSU Conference comes out skeptical/negative 3; Positive 1 (mostly, to be fair, voting along with their shareholdings and fond memories – except Wick!)
- Wall Street is not (necessarily) the enemy!

Still sticking with Jump Ball!



How Canadians see Railroads & Railroaders



How Americans see Railroads & Railroaders



Meanwhile, back in the rail/real world, POLITICS overtakes ECONOMICS (for now)....

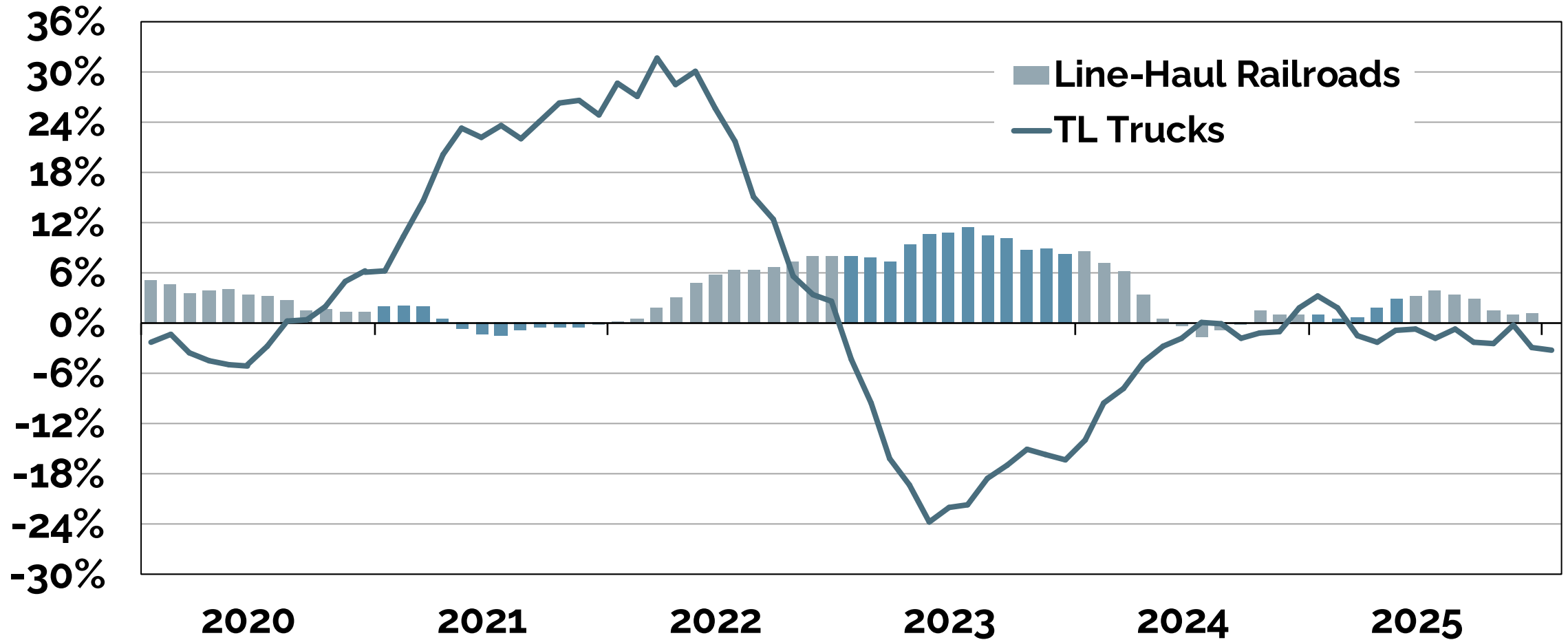
- Tariffs and trade wars, round two – new deadlines, constant confusion
- Rails trade weight significantly more than figures publicly discussed (38%/AAR; 25% CSX, etc) – Canada/Mexico, inputs to export commodities (fertilizers, etc), transloaded containers
- Uncertain goals means uncertain reactions, no crystal balls – CN ramps down?
- Rails (transport) is a *derived-demand* business
- Uncertainty breeds stasis, BoD fears etc
- Near-shoring on hold (AMTI); political risk south of the border now greatly outweighed by risk *north* of the border
- Re-shoring a fantasy – but a transcon sales aid?
- "Landbridge" is not a solution
- Freight recession extended, signs of green shoots?
- This too shall pass!
- But the FRA/technological revolution that may unfold partially (only partially) compensates for the top line risks

Short Lines – Dawn of the *Third Golden Age*?

- The 1st – Post-Staggers – CREATION
- The 2nd - ~2017?-present? Multiple explosion and the entry of the Infrastructure Funds (and with P&LE/Fortress – it doesn't appear over yet!)
- The Third Golden Age – short lines as key player in the railroad industry pivot to growth
 - One of three key components to C1 growth pivot (OW) along with Business Development and Intermodal
 - “45-G in Ontario”!
 - UP (!) in Eugene and KC
 - Big C1 teams roam ASLRRRA Convention
 - New VPs of First Mile/Last Mile – first NS, then BNSF
 - Programs such as BNSF Select
 - New Partnerships initiated after CPKC
 - New Technologies employed – RailPulse, Intramotev, Parallel Systems
 - New DC initiatives (45-G+)
 - Intermodal outreach – PHL, Iowa Interstate, GWR
- But....will Class Ones be too distracted or demoralized to continue to pursue deals?

Truck Rates Are Down....

Year-Over-Year Change in the Producer Price Index

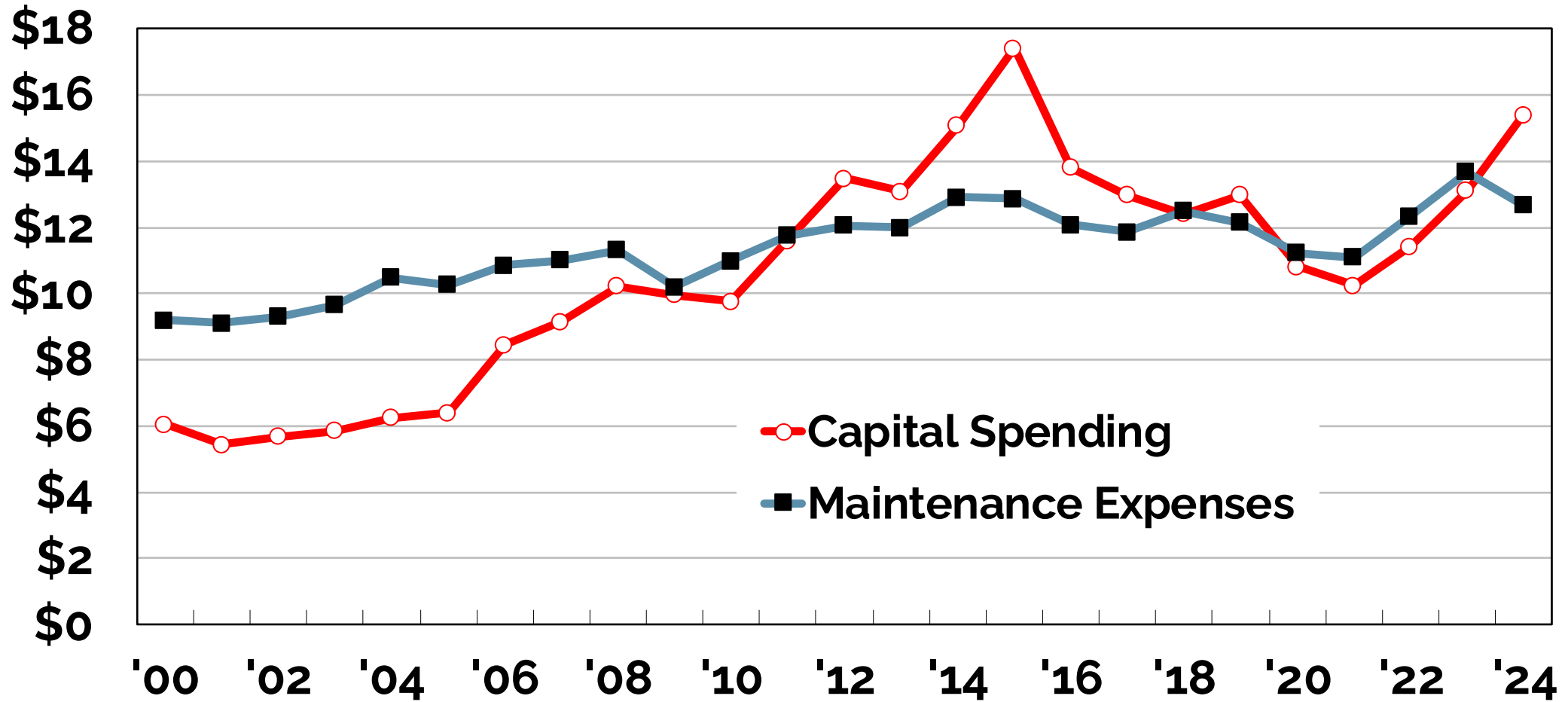


Source: Bureau of Labor Statistics

Mexico's Moment?

- For rails, since NAFTA it has *always* been momentous (yet – it's 2-3% NA IM total units!)
- Near-Shoring is (was?) the headline grabber – if for real? FDI into Mexico reached an 11-year low in '24
- X-Border IM (US-Mexico) declined in 2024!
- 1) Reasons for concern/South of the border:
 - Pemex support (impact on cost, emissions)
 - KKR example in refined products – Constellation Brands, etc
 - Passenger traffic forced on the freights?
 - Border shutdowns
 - Election landslide, repercussions (COFECE)
 - 25% of Latam GDP; 17% FDI – Near-shoring always was more hype than reality (Tesla!)
- But – Huge Rail/Intermodal efforts: CPKC; Meridian, Falcon, especially now BNSF/JBHunt
- 2) Reasons for concern/NORTH of the border: Tariffs!! Immigration!! And USMCA “review” in 2026
- Canadian election, response; Elbows Up!
- Modelo Especial! AMTI

Rail Capex this century, \$ billions, current \$



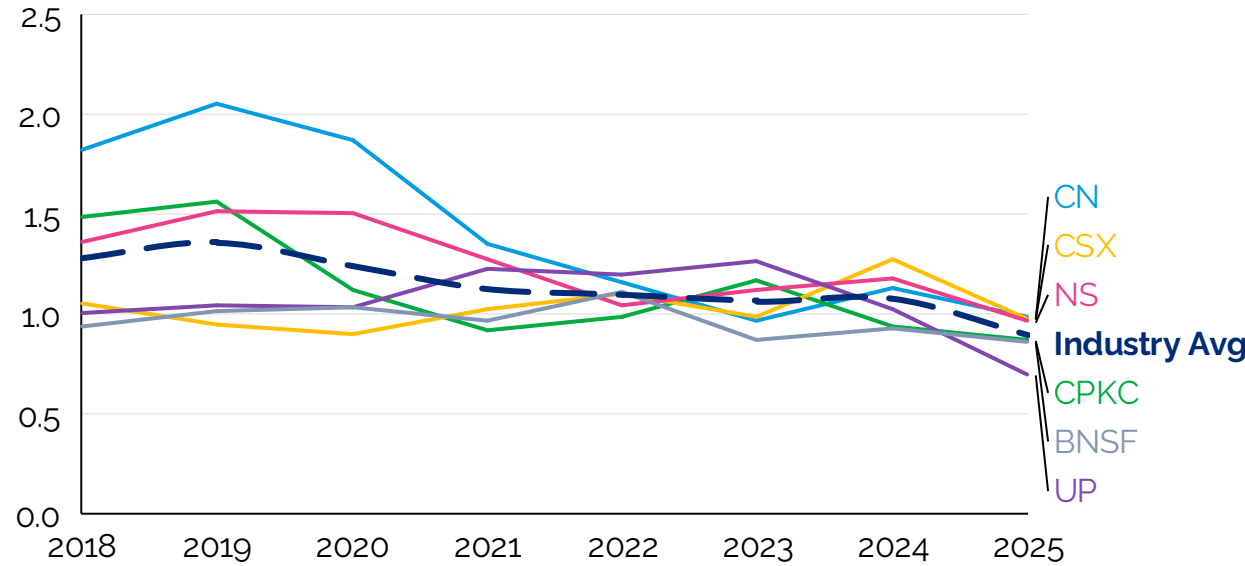
p – preliminary Data are for Class I railroads. Source: AAR

The Industry continues to improve its safety record post-covid

CN and NS have consistently improved their injury rate the most, while UP has improved their equipment incident rates the most

Employee injuries

Quarterly values per 200,000 employee-hours

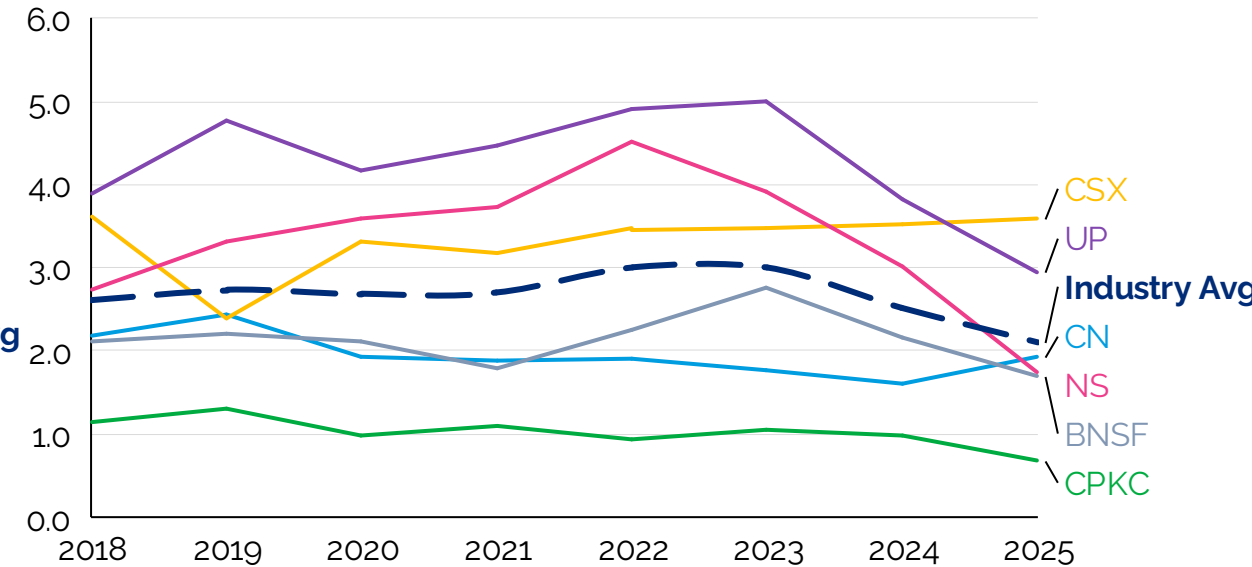


3-year annual trend Q2 2022 to Q2 2025
trend: Q1 2018 to Q2 2025

	CN	CPKC	CSX	NS	UP	BNSF	Industry Avg
3-year:	-12.6%	-2.2%	4.3%	-4.8%	-7.6%	-4.9%	-4.6%
Long-term:	-17.7%	-9.1%	2.6%	-7.0%	0.0%	-1.5%	-5.5%

Equipment incidents

Quarterly values per 1 million train-miles



3-year annual trend Q2 2022 to Q2 2025
trend: Q1 2018 to Q2 2025

	CN	CPKC	CSX	NS	UP	BNSF	Industry Avg
3-year:	-4.3%	-4.2%	2.0%	-40.3%	-21.6%	3.4%	-10.8%
Long-term:	-9.4%	-5.1%	9.4%	-3.4%	-6.6%	0.9%	-2.4%

Note: Percentages may not add due to rounding. CN and CPKC figures originate from their respective financial statements, all other figures originate from the FRA. BNSF is BNSF Railway, not BNSF, LLC. Industry average evaluated as average across reported railroads, not weighted average

Sources: Federal Railroad Administration; corporate financial reports; Oliver Wyman analysis

Changes in Railroad Accident and Injury Rates

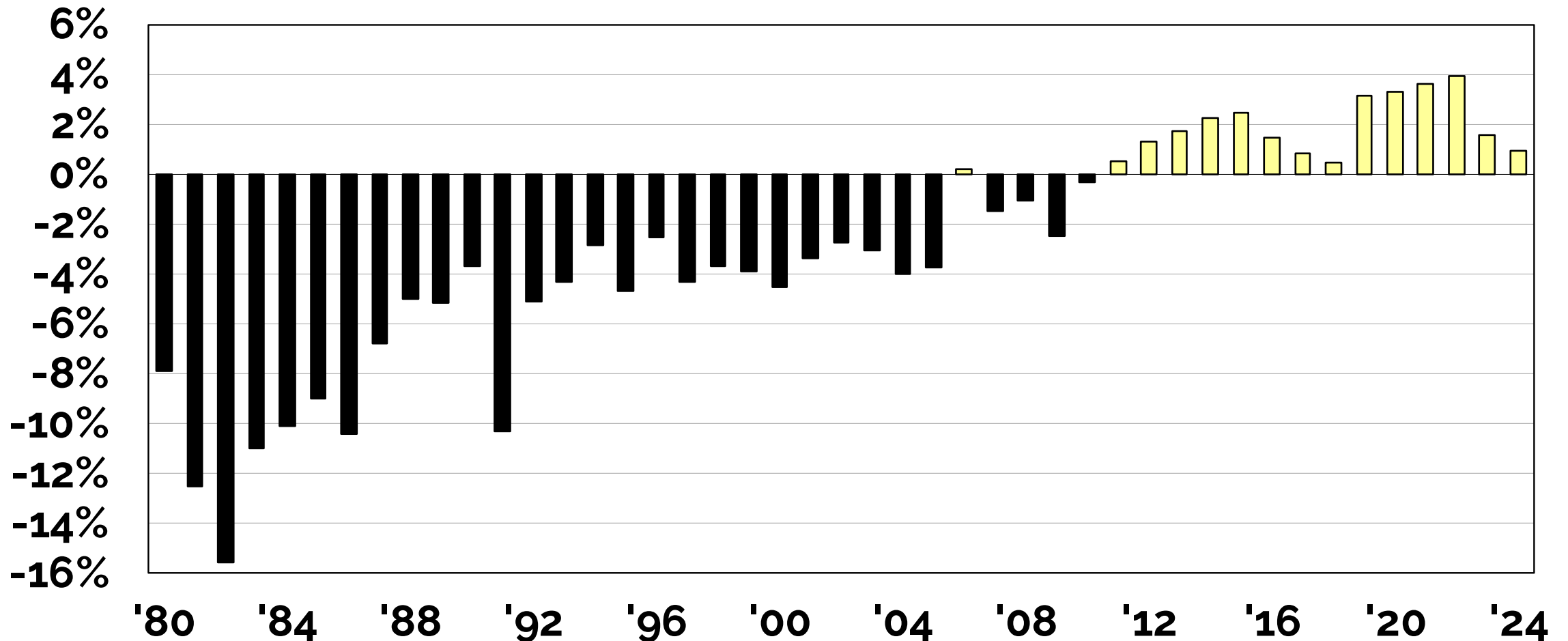
2005-2025

Total train accidents	-40%
Collisions	-67%
Derailments	-46%
Track-caused	-53%
Equipment-caused	-40%
Human factors-caused	-41%
Mainline accidents	-37%
Employee injuries	-30%
Grade crossings	-4%
Hazmat incidents	-80%

2025 is preliminary. Source: FRA, AAR



The Spread: Between WACC & ROIC/STB (USA only)



*In 2006, the Surface Transportation Board significantly changed the method by which it calculates the rail industry cost of capital. Source: STB

Return on Investment is Crucial

If ROI > cost of capital

Capital spending expands • >

Stronger physical plant; more and better equipment. •

Faster, more reliable service •

Sustainability •



If ROI < cost of capital

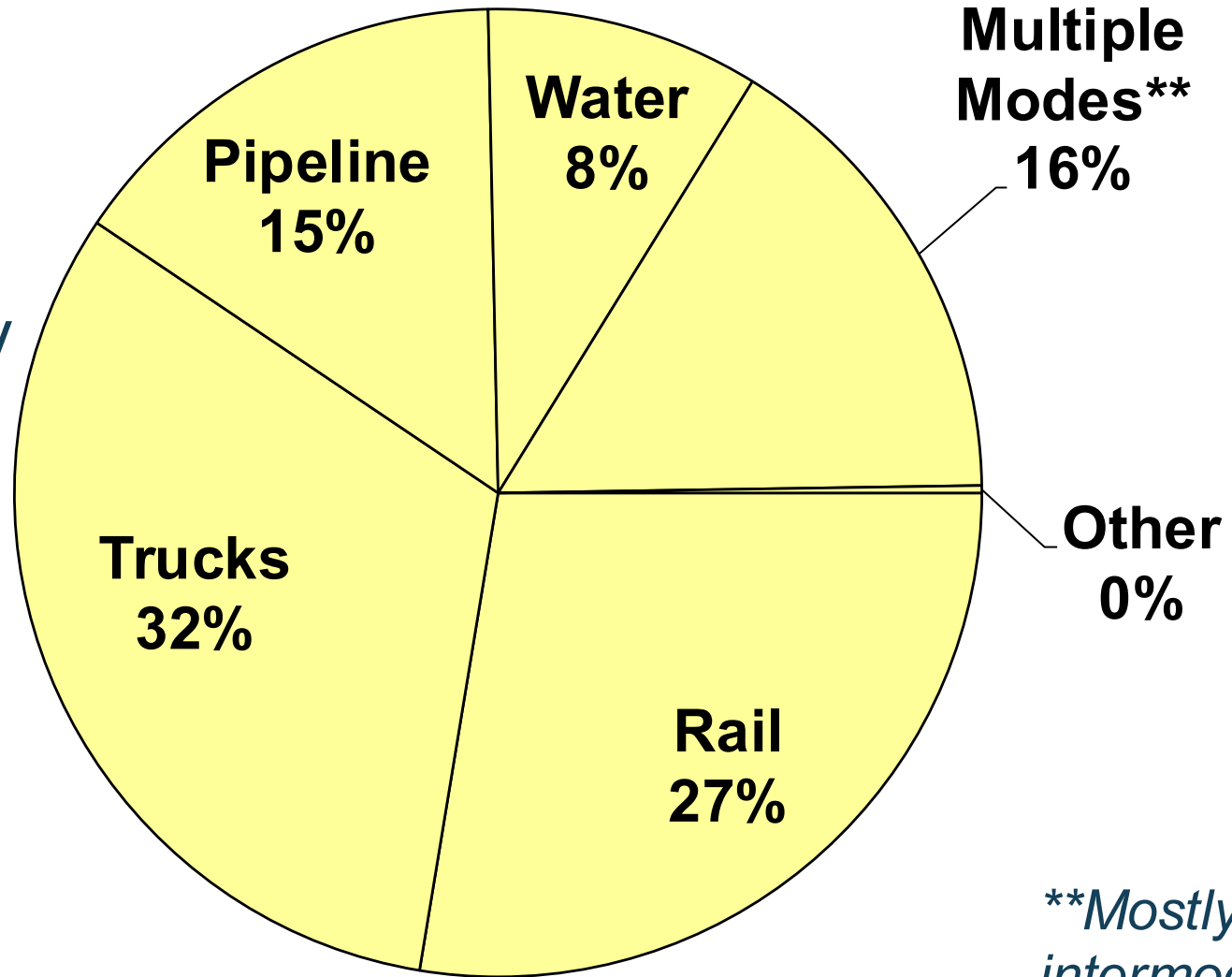
• Lower capital spending

• Weaker physical plant, equipment

• Slower, less reliable service

< • Disinvestment

Lots of Freight out there to capture!
Long-Distance U.S. Freight Ton-Miles by Mode in 2023*



**Shipments of at least 500 miles.*

Source: BTS Freight Analysis Framework 5.7/AAR

***Mostly rail intermodal.*



NARS recognizes

Tony Hatch

with the

**NARS 2019 Person of the Year Award
for his steadfast support of NARS and
its regional associations.**

*Thank you Tony for your guidance, dedication and service
to NARS and its regional association!*

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