Lake States Lumber Association: 2022 Winter Meeting

A Watco Introduction to the Northwoods

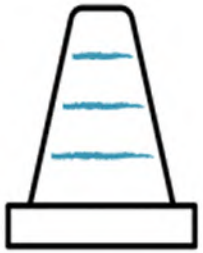
WATCO

Watco is a single-source transportation and supply chain services company

Our Foundation Principles

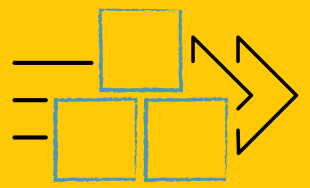
Value Our Customers

Value Our People

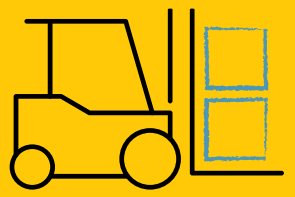


Safely Improve Every Day

Divisions of Watco



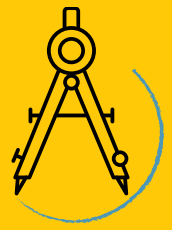
Transportation



Material Handling and Storage

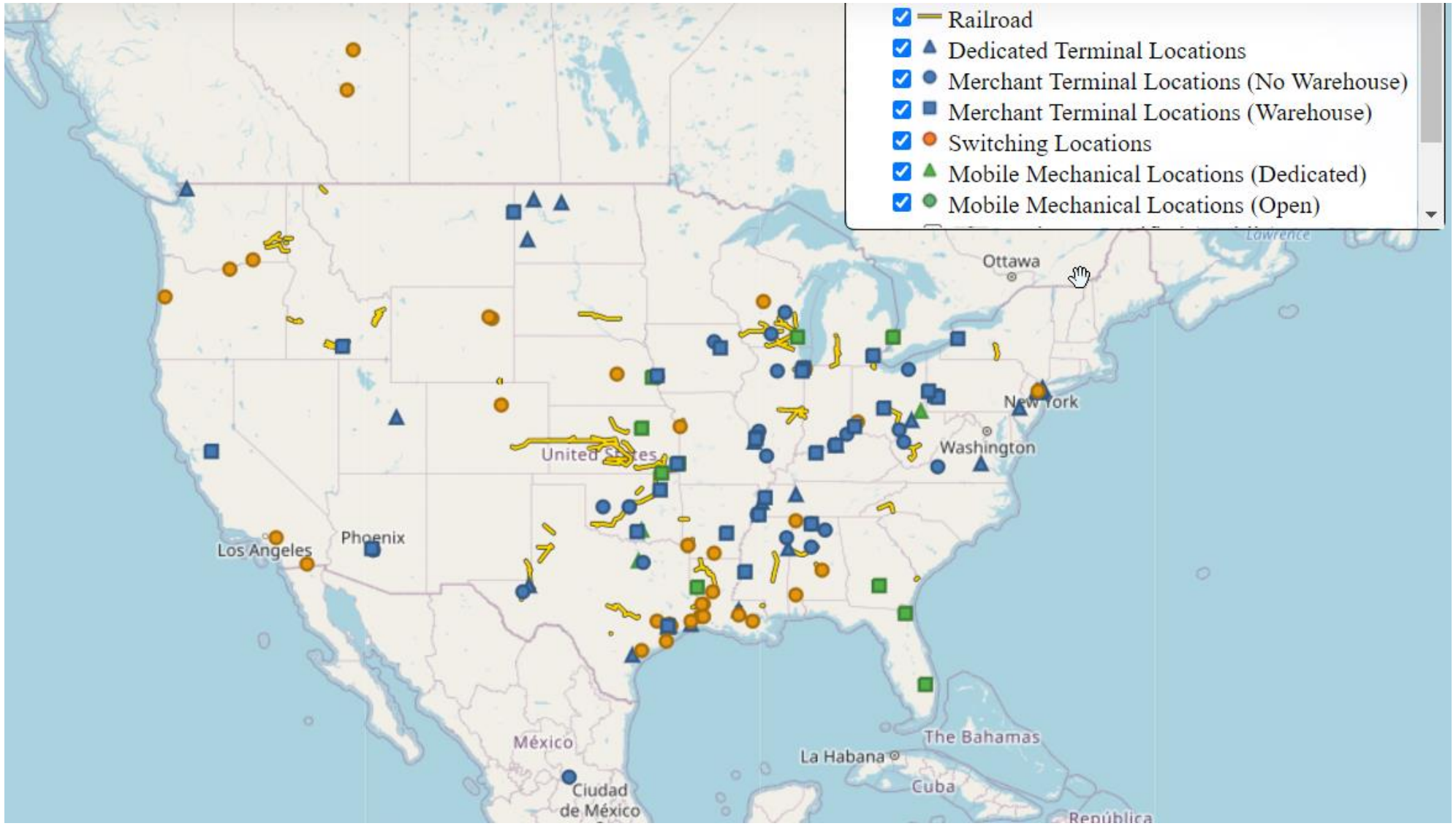
Repair and Maintenance

Logistics



Design and Development

Watco Operations in North America

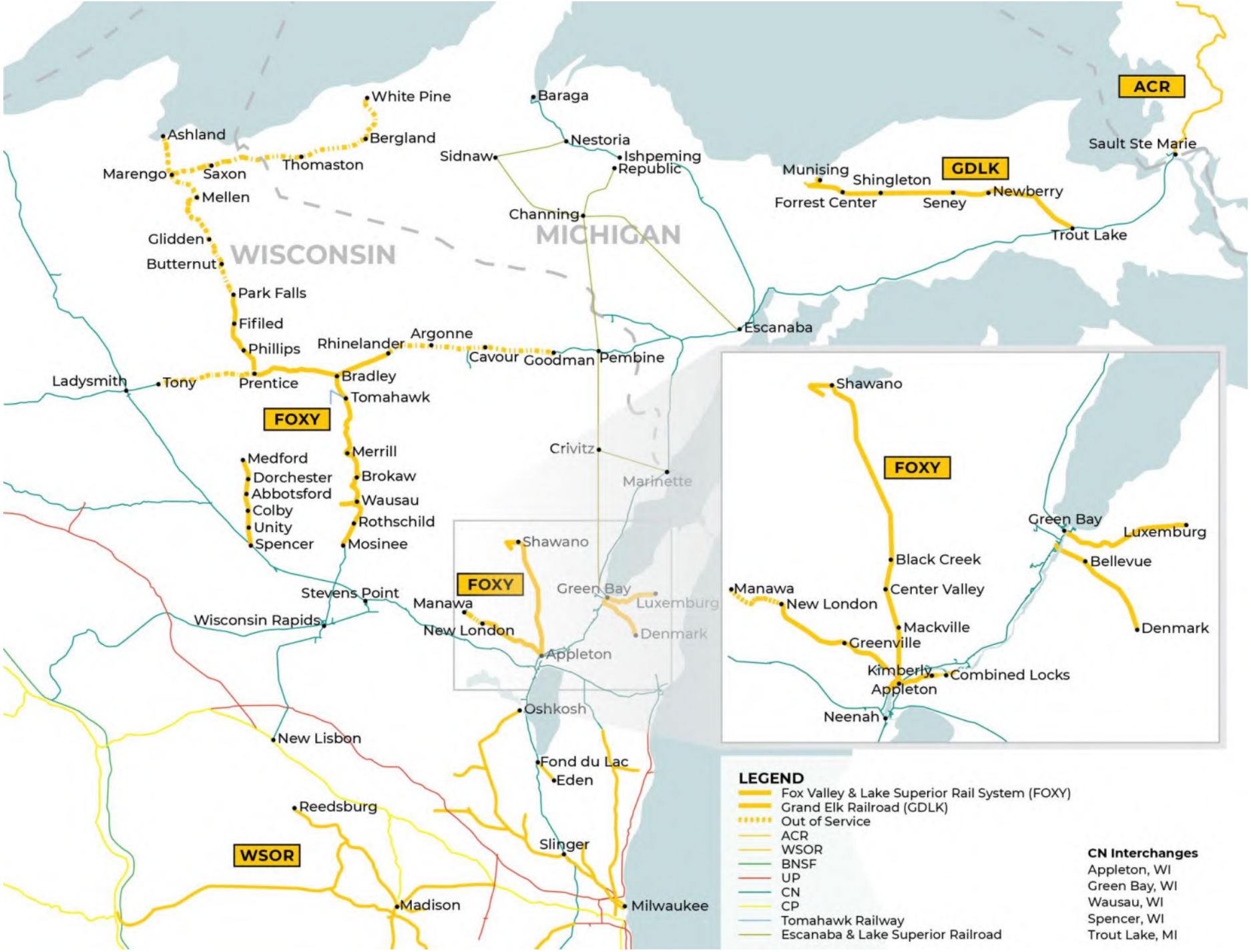


43 Railroads in North America (Soon to be 45)

Two New Railroads

Fox Valley & Lake Superior Rail System, L.L.C. (FOXY)

Agawa Canyon Railroad, ULC (ACR


ACR
Sault Ste Marie
GDLK
Munising
Shingleton
Newberry
Forrest Center
Seney
Trout Lake
White Pine
Baraga
Ashland
Bergland
Nestoria
Sidnaw
Ishpeming
Republic
Marengo
Saxon
Thomaston
Mellen
Channing
MICHIGAN
Glidden
WISCONSIN
Butternut
Park Falls
Fifiled
Escanaba
Phillips
Rhinelander
Argonne
Cavour
Goodman
Pembine
Ladysmith
Tony
Prentice
Bradley
Tomahawk
FOXY
Crivitz
Merrill
Medford
Dorchester
Brokaw
Marinette
Abbotsford
Wausau
Colby
Rothschild
Unity
Spencer
Mosinee
Shawano
FOXY
Green Bay
Luxemburg
Stevens Point
Manawa
Denmark
Wisconsin Rapids
New London
Appleton
Oshkosh
New Lisbon
Fond du Lac
Eden
Reedsburg
Slinger
WSOR
Madison
Milwaukee
Shawano
FOXY
Green Bay
Luxemburg
Black Creek
Bellevue
Manawa
Center Valley
New London
Mackville
Denmark
Greenville
Kimberly
Combined Locks
Appleton
Neenah
LEGEND
Fox Valley & Lake Superior Rail System (FOXY)
Grand Elk Railroad (GDLK)
Out of Service
ACR
WSOR
BNSF
UP
CN
CP
Tomahawk Railway
Escanaba & Lake Superior Railroad
CN Interchanges
Appleton, WI
Green Bay, WI
Wausau, WI
Spencer, WI
Trout Lake, MI

Timelines

- Sale to Watco Announced on March 30, 2021 with anticipated start-up of July 1, 2021…or so we thought!
  - Watco teams begin customer outreach for start-up preparations
  - Begin working with eager customers on service improvement projects
  - Brian Buchanan formerly of CN and WC joins Watco in November
  - Brad and Brian begin business development campaign
    - Log Transportation Initiative
    - Business Survey on OOS Lines
    - Other Business Development Initiatives
- STB Approval of sale granted on December 20, 2021 and begin re-engaging with online customers for start-up
- Watco Railroad Start-up
  - FOXY, GDLK, and WSOR operations will commence on **January 29, 2022**
  - ACR operations will commence on **February 1, 2022**

Framework of Operations

- FOXY, GDLK, ACR, and WSOR will be handling carriers for the CN on the lines acquired
  - Customer routings will not change
  - Customers will continue generating BOL's using CN's website, but use Watco's web tool for railcar releases and accessorial switch requests
  - Customer pricing agreements with CN will not change because of transaction
  - CN will continue to price traffic moving to/from any of the lines, and Watco sales reps will work with CN marketing teams on developing rate quotes for customers on the Watco lines
  - Watco Railroads will price traffic that moves locally
  - Customers can still order equipment through the CN, but Watco railroads or their customers can provide equipment as well
- Near term operations will closely mimic CN "scheduled" service levels at Start-up with some areas of the railroad seeing increased service days and double switches per customer partnerships to grow business
- Watco will own the railroad ROW and take over all real estate transactions
- Watco Rules and Accessorial Charges tariffs will apply on the lines acquired

Shortline Benefits

- Non-Freight Rate Benefits
  - More forgiving demurrage timelines (i.e. weekends and account resets)
  - Lower accessorial tariff charges
- More local management
  - Better understanding of customer business and transportation needs of all parties involved in move (shipper, consignee, and payer of freight)
  - Quicker resolution of issues and needs to move business
  - Flexibility in requirements to get to win-win scenaros
- Interest in **ALL** potential traffic and not just long-haul traffic
  - Willingness to partner on multi-year agreements on local traffic
  - Shortlines excel in growing short-haul business 300 mi or less
- Provide efficiency benefits to the CN to help them more aggressively move the business
  - Co-load unit trains and blocks
  - Reciprocal blocking of business
  - Re-opening the ACR as a through route between Sault Ste. Marie and Oba, ON

Growing the Business

- Railroading is a volume game and higher volumes are essential in offering price competitive rail transportation solutions
- Growing volumes begins with a productive dialogue with local industries and movers of freight on moving more business via rail
  - Understand commodities moving, volumes, origin/destination pairs
  - Understand handling requirements (facilities, equipment, process, timeline)
  - Openness to new ideas and ways of moving freight
- Focus on largest volume opportunities first in commodity moves (Logs, Woodchips, Forest Products, Aggregates, Minerals, Coal)

Rail Growth Projects Pertinent to LSLA

- Log Shipments to Sawmills
  - Understanding the hardwood movement of logs better
  - Can short haul shipments work on rail?
- Outbound Domestic Hardwood Shipments
  - Most outbound hardwood lumber volumes move on truck and seems many customers do not have rail at destinations or volumes to necessitate a railcar
  - What areas of the country are there clusters of receivers that railcars could be transloaded?
- Outbound Export Hardwood Shipments
  - Current focus is on bringing containers or intermodal yard to the Northwoods for loading with lumber and export logs which is unrealistic given lack of import volumes
  - Explore using railcar to move lumber to intermodal yards to transload into containers (grain, grain products, and dairy exports are handled for export)
  - Watco has several terminals in Chicagoland to explore

Multi-Step Process for Service Resumption on OOS Line Segments

- An initial evaluation of the existing state of track and infrastructure
- A robust discussion and market analysis with all stakeholders (shippers, entities like NRTC, etc.) about potential traffic
- A review with constituents on the potential cost of each segment to be returned to service
- Matching those costs with traffic that can move
- Discussion with WisDOT and other government agencies about interest in assisting with returning lines to service
- Establishing timelines and plans on lines where it makes sense for us to move forward with putting lines into service

Repair and Maintenance

Looking for More Great Team Members

- 18 Open positions in WI and UP of MI
  - Train operations and railcar repair jobs in highest demand
  - Openings in Appleton and Wausau north region
- Please refer any interested parties to apply at https://www.watco.com/careers/

We look forward to working together soon!

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