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Note from the Editor Thanks for opening the newest issue of the Tealinc Newsletter! Here at Tealinc, Ltd. we solve rail transportation challenges, and this newsletter is just one way we provide value for our customers. If you're new to Tealinc, we participate in nearly every industry supported by rail; sell, lease and purchase nearly every type of freight railcar; and provide management and consulting services for both novice and experienced rail shippers. We specialize in exceptional customer service and this newsletter helps our customers engage in the mission with us. Contact Us: www.tealinc.com | (720) 733-9922 | webmail@tealinc.com

Railing On, with Darell Luther, CEO of Tealinc, Ltd.


Tealinc CEO, Darell Luther

Happy New Year! It is with relief that many welcome the new year and hope that it turns out to be anything but a repeat of 2020. 2020 was not kind to many; it was a true survival year. For the rail industry the downturn did not start in 2020; it was already present showing railcar loadings declines over the past five to six years. 2020 was just icing on the cake. We should be used to operating in a continuously contracting market even if it is not much fun.

Specific commodity sectors that have been continuously declining in rail car loads are:

- Crude by rail – more crude goes by pipeline now and an oversupply of world oil has significantly reduced demand
- Frac sand – geographic changes now show sourcing closer to the well site and demand for sand has followed the reduction in crude oil price and world over supply of crude oil
- Continued reduction in coal shipments – "war on coal" continues as climate change measures are enacted and required; and,
- The extreme cyclicality of U.S. grain shipments dependent on exports which are tied to the index of the dollar to world currency prices, specialty government programs for world grain power houses and domestic grain supply and consumption. These declines

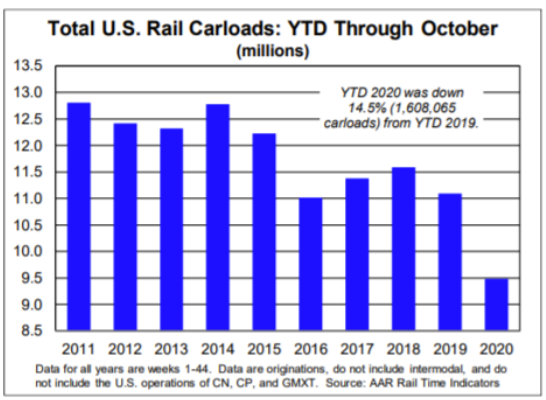
began in 2015 and have continued to some degree ever since that time.

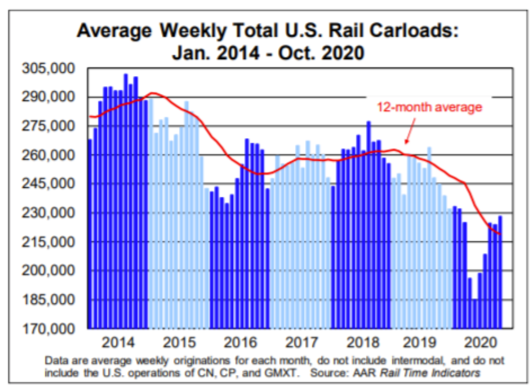
If you're not already familiar, Railinc publishes Rail Time Indicators on their website. [Ask us]() if you need direction, we'll point you to the right tools. Here are two takeaways that really summarize the last few years in rail carloadings.

Rail Time Indicators published in 2015: *"Weekly average carloads in November 2015 were 260,401, the lowest weekly average for any month since December 2009 and the sixth-lowest weekly average for any month since our records begin in 1988. The five months with lower weekly averages were all during or right after the Great Recession in 2008 and 2009"*

Rail Time Indicators published in 2019: "*Total U.S. carloads are trending higher, but at a much slower pace than in July and August. U.S. railroads originated an average of 228,193 total carloads per week in October 2020, the most since February 2020 but down 6.6% from October 2019. The 6.6% year-over-year decline is the smallest since the pandemic began."*

For the first 10 months of 2020, total carloads were 9.48 million, down 14.5% (1.61 million carloads) from the first 10 months of 2019. A visual of the fall off or trend line since 2011 is below.





A rising tide lifts all boats! The aphorism "a rising tide lifts all boats" is associated with the idea that an improved economy will benefit all participants, and that economic policy, particularly government economic policy, should therefore focus on broad economic efforts (source: Wikipedia). ***Economic recovery in 2021 is the challenge to government, businesses, and individuals.***

As far as projections for 2021? I think it will be another tough year for those of us in the rail industry. We need to have some business growth on the bulk commodity transport side of the equation to create a rising tide. Coal was a savior for supporting railcar loadings in the 1980's and 1990's. Frac sand and crude oil came in later and put the bubble back into railcar loadings and drove health back to the railroads with a substantial base business increase. The relevant question now is "what's on the horizon that will create a significant demand event for rail carloads"? or will there be a long dry spell? My crystal ball is a little hazy on this topic. If you have an opinion, I would sure like to hear how you think the year will unfold. Contact me at darell@tealinc.com.

Strategy and Planning Perspective with Julie Mink, President of Tealinc, Ltd.

Julie Mink, President – Tealinc, Ltd.

Business planning here at Tealinc starts just like I'm sure it does at your company. While overall strategy and planning is an on-going activity that occurs daily, I spend an exorbitant amount of time from Thanksgiving until New Years Eve focused on planning for the upcoming New Year. As an asset-based (railcars) and service-based (rail fleet management and consulting) business, planning at Tealinc is multi-faceted and focused not only on what our customers industry trends but also what our crystal ball tells us the greater global economy in every industry is going to be doing. Rail is either a leading or trailing indicator depending on the economic environment and, when coupled with our very customized approach to providing a "buffet" of rail equipment and rail fleet management services to our customers, our planning is done hand-in-hand with our customers to understand their specific upcoming needs. This can involve everything from developing a new rail yard to identifying they have too many assets and not enough business.

As I was rolling up my sleeves with a customer this month, he asked me to analyze his fleet and, with perspective on the growth he anticipates for his business in 2021, he asked if he should focus on buying more railcars or if he should focus on leasing more railcars. If you're not familiar with Tealinc it's important to know that we not only buy railcars to support our customers asset needs from an operating expense perspective (lease), we also sell our customers railcars when they prefer the one-time capital expense (purchase). To answer my customer, I told him there are obviously business cases for both position and he and I discussed the pro's and con's. Just like any asset, the answer to the question is very specific to individual situations. If you've got capital budgeted for asset acquisition (mainly rail equipment), buy the railcar. If you're focused on retaining capital for other business expenses, lease the railcar. Another important thing to keep in mind is if the asset appreciates, buy it. If it depreciates, lease it. This got into a much deeper conversation with my customer as he owns railcars and leases railcars. His budget for 2021 hasn't grown but his demand for capital certainly has and thus we discussed a sale-leaseback option where Tealinc buys his owned railcars and leases the railcars back to him. If this is something you want to analyze or if you have broader rail related questions you'd like to discuss, I welcome your call. Contact me at julie@tealinc.com or call me at (720) 733-9922.

Wishing you a fantastic, healthy and abundantly successful 2021!

Rail Fleet Management Brief with Shannon Rodgers - Operations


Shannon Rodgers, MVC-Operations

It is that time of year when you analyze your last year's rail fleet actions, costs and trouble spots so that you can plan the next years activities to ensure your fleet stays healthy and available for service in 2021. The first activity that we review for the year is to be sure the administrative requirements are in place or updated as required to become current. From there, we focus on mechanical issues and your fleet over health. A few things to pay attention to as you start the new year include:

- ***Railinc - FindUs.Rail***. This application helps car owners, leasing companies, railroads and shops stay connected. Having up to date and accurate information is important. Many applications, such as Damaged & Defective Car Tracking System (DDCT) and Car Repair Billing (CRB) requires contacts to be listed in FindUs.Rail.
- ***Railinc - UMLER.*** Make sure the car count listed in UMLER is correct and there are no conflicts in the equipment. The car count is used for the semi-annually billing by Railinc. Resolve any necessary conflicts in equipment as some conflicts can cause cars to stop moving through interchange.
- ***Railinc - EHMS/EW.*** The beginning of the year is a good time to check your fleets alerts & warnings. The fastest way to do this is to use Railinc's Equipment Health View (EHV). This shows the Air Brake Test due dates, open alerts in the Equipment Health Management System (EHMS), Damaged & Defective Car Tracing (DDCT) incidents, as well as any Early Warning/Maintenance Advisories (EW/MA). These items can also be searched in their individual applications as well. Addressing these issues at regular intervals can help your fleet run smoothly.
- **Mechanical.** The start of the year is also good time to review the mechanical health of your fleet. This should be a continuation of the prior year fleet mechanical plan. If you do not have a plan other than to audit random repair bills you may want to expend the effort to put one in place. Make sure your fleet's basic components are replaced or repaired if broken or worn when they need to be and at the most economical options possible. Consider empty railcar freight when implementing a repair plan, mold this into your anticipated cost structure. Setting up a preventative maintenance program with a Mobile Repair Unit (MRU), shop or your railroad could be beneficial. By not fully relying on the Class 1 railroad to do running repairs a car owner/shipper can save money and have less down time. Consider that the standard Association of American Railroads (AAR) mechanic labor rates will be $130.66 for the U.S. and $206.64 (Canadian) in Canada on January 1, 2021. There is a lot of room to recoup some of the labor rate costs by having a plan in place for your railcars.

Contact me at Shannon@tealinc.com if you need specific help; our Rail Fleet Management Services cover everything from administrative support to mechanical to cycle time reports to providing rail rate research and options for identifying other facilities serviced by rail.

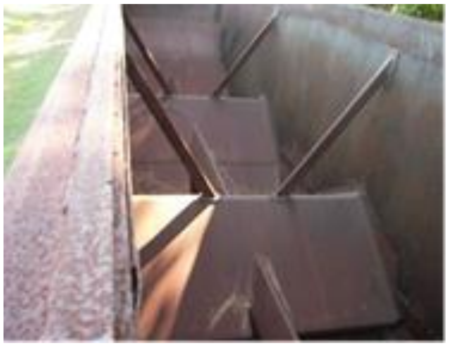
Rail Fleet Equipment Focus with Kristen Kempson, Sales & Marketing

Kristen Kempson, MVC – Sales & Marketing

With some recent exceptions, railcar loadings have been down over the past few weeks. As many industries gear up for a recovery, we're expecting more and more rail assets to be deployed back into service.

With recent customer interests and planning for the spring shipping season, especially for aggregate (rock, gravel, sand, etc.) shipments, I've got my eye on open top hoppers. These railcars are designed to haul bulk commodities that can withstand exposure to the elements. Cars are loaded over the top, generally into one single compartment, and unloaded out of the bottom by either manual unloading or a more automatic unloading.

The railcar type, size, capacity and configuration will certainly depend on your specific commodity density, loading and unloading parameters. We have several types and sizes of open top hoppers to select from. If you feel that the selection of railcars specific to your commodity, industry, loading or unloading process is daunting, I'm ready to walk you through the important questions and help you identify the most ideal railcar for your specific shipping needs. We have open top hoppers on our website along with all of the other railcar types we offer for sale or lease.



If you don't find what you're looking for, let me know and I'll focus on finding it for you. Contact me at (708) 854-6307 or email kristen@tealinc.com.

Planning for 2021. An Industry Outlook with Darell Luther

This article is comprised of industrial projections for 2021. There are a lot of differing opinions on how 2021 will unfold. The conclusion I have reached is that despite the fact that no one really has a clue as to what 2021 will look like we're all holding out for some upside to the economy (Can it get much worse?). With that said some industries think we have not yet found the bottom and others are optimistic that 2021 will be the turning point in the economy. Read on to see what specific industries are saying.

- ***The Aggregates Industry*** calls 2021 the Road to Recovery. Words that have been used much too often these past few years. Early projections for 2021 are that the housing market will continue to support residential growth which is riding on the back of low mortgage interest rates. This potential upside is countered with a bit more downside. The migration in office locations from urban centric to suburban necessitated by COVID has cast a pale on new office building projections. Non-residential is another area that will need to settle out in 2021 as restaurants continue to struggle with business. We may also be seeing a permanent change in how people shop and do business born out of necessity during the pandemic. Even if COVID risk significantly declines in 2021 there are many people that shop via the internet utilizing home delivery that simply will not go back to brick and mortar stores or significantly reduce their number of trips to traditional retail. An upside would be a significant boost in construction spending on roads and bridges which will play an important role in 2021. Pit & Quarry Magazine has an excellent December addition filled with aggregate industry leaders thought processes on how 2021 will shape up.

- ***The Agriculture Industry*** is comprised of a number of feed and whole grain commodities that somewhat move in sync with each other depending on world production and pricing and how well we're politically getting along with other countries, think trade deals and tariffs. One of the main market movers is corn followed by soybeans. According to the USDA, US Feed Grains projections for marketing year 2020/2021 (September – August) the corn crop stocks carry in will be 1,995 million bushels. Production will be 14,722 million bushels use will be around 14,575 million bushels for an ending stocks number of 2,167 million bushels taking into account a small import inventory. Exports are projected at 2,325 million bushels roughly 15% of the total used bushels. It's export trains that put strains on the railroad operating systems. When comparing those numbers to the most recent "USDA Outlook for Foreign Trade" report. The Outlook states that, U.S. agriculture exports in Fiscal Year (FY) 2021 are projected at $140.5 billion, up $5.5 billion from the revied forecast for FY 2020. This increase is primarily driven by higher exports of soybeans and corn. On the soybean front we're expecting a smaller Brazilian crop which is the U.S. number one competitor on the world market. A saying we have in agriculture is, *"it'll always be better next year"* really applies in this case. The pandemic will impact processing and distribution but people still need to eat and livestock needs to eat. Grain movements will still go on.

- *The Scrap Industry* is driven by the steel industry. The World Steel Association (Worldsteel), Brussels provides a short range outlook for steel demand in 2021 and predicts that steel will recover in 2021 to 1,717 million metric tons an increase of 3.8% over 2020. The outlook in the United States is filled with the same cautious optimism found elsewhere. A December price shift has left many feeling good about a recovery and the industrial uses of scrap in steel mills appears to have some strength. A quick survey of "scrappers" can be quantified as one person said, "we've got to be at the bottom so it's all upside from here". A year of resilience is how the industry describes 2020 in Recycling Today's article summarizing the impact of 2020 challenges across scrap and recycling industries.

- *The Coal Industry* continues to decline. Coal shipments continue to be subject to natural gas prices, costs to scrub units to meet clean air requirements, compliance with clean air mandates and an ever growing presence of wind and solar energy. Thru the end of November 2020 weekly coal production was down some 1.261 million tons for the year. Year to date coal production (thru Nov. 2020) is running at 24.7% lower than comparable year to date production in 2019. If you want a lesson in a difficult to manage and plan for industry spend some time in the coal industry.

- *The Railroads* are cautiously optimistic and hoping for an economic recovery in 2021. Railway Age has a 2021 outlook that focuses mainly on the changes in the political environment and anticipates how the new president Biden will staff his administration and their anticipated impact on the economic well being of the United States. Climate change will remain a top priority as will continued development of trade agreements with China and others to promote U.S. goods. Progressive Railroading has an opinion of all the Class I railroads from the executive level giving us some insights into how they are thinking 2021 will unfold.

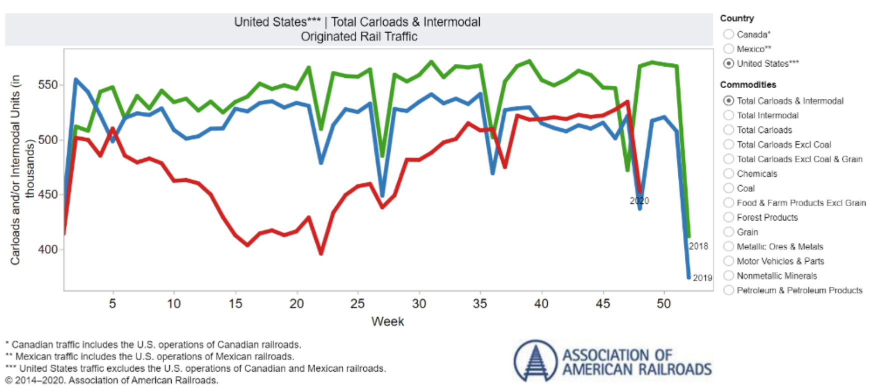
- Moody's Investor Service believes there's an upside to shipments in 2021. Primarily being led by intermodal driven by consumer demand for goods. Agriculture commodities are projected to grow and world demand for U.S. supplied corn, soybeans, wheat, rice, etc. are readily available. Not expected is any movement in oil related shipments such as crude oil, proppants and sand.

- The Association of American Railroads predicts continued growth in the rail sector led by consumer demand pushing railcar loads of intermodal to new heights. The shift to digital shopping in masse is driving this resurgence. In addition, freight railroads tout their infrastructure and reach to deliver bulk commodities long distances and a revitalized push into truck territory to capture a bigger piece of the pie.

Industry Update: Surface Transportation Board

Want a better idea of what that railroad shipment is costing you? The Surface Transportation Board ("STB") has a costing program, Uniform Rail Costing System ("URCS") that can do just that, cost your movement to estimate unit costs and total variable costs of Class I Railroads. The system differentiates between eastern and western railroads to better account for differences in their operating environments. The URCS is now is its third phase of development and is a lot more user friendly. It can be downloaded for free off the STB website. Shippers often use URCS to check for Rate Reasonableness ("RR"). RR is the measure of the revenue to variable cost ratio. A ratio of over 180% signals that a rail rate may be unreasonable. Basically, the railroad is possibly overcharging for their service due to a non-competitive factor that holds the shipper captive to the railroad. URCS costs are best used to negotiate with your railroad carriers to make a case for a more reasonable rail rate in a specific corridor.

Industry Update: Rail Traffic Data



We continue to see the seasonality of originated rail traffic carloads. There has been some gain in railcar loadings in the past few weeks. These railcar loadings we hope will show additional strength as we head into 2021. The uncertainty in 2020 is evident in the graph provided here as the pandemic started gaining stride in mid-March and the ensuing economic collapse took hold shortly thereafter. Further magnified by a contentious election year at all levels it's no wonder most people I talk with don't want to wish their life away but certainly don't want a repeat of 2020. To see additional graphs, visit AAR.org.

Industry Update: Financial Focus

The Federal Reserve Board continues to monitor the economic health of banks, businesses, individuals, and other countries. In a speech given October 21, 2020 by Governor Lael Brainard at the Society of Professional Economists Online Conference Governor Brainard stated, "The U.S. economy saw a strong initial bounce back from the depths of the COVID-19 (coronavirus disease 2019) crisis, aided by significant targeted support. The recovery remains highly uncertain and highly uneven—with certain sectors and groups experiencing substantial hardship. These disparities risk holding back the recovery. The Federal Reserve is committed to providing sustained accommodation to achieve a broad-based recovery. Further targeted fiscal support will be needed alongside accommodative monetary policy to turn this K-shaped recovery into a broad-based and inclusive recovery.

K-Shaped Recovery?

Targeted interventions, along with adaptations in the behavior of households and businesses, have enabled economic activity to recover. All told, after an unprecedented contraction in the first half of the year, U.S. gross domestic product appears likely to have reversed more than one-half of that decline in the third quarter."

Reading between the lines one can determine that "we aren't there yet". Economic recovery in the U.S. and world will take a tamping of this pandemic and the restoration of the service industries (airlines, travel, hotels, resorts, car rentals, restaurant's, etc.). Essential service such as transportation play a vital role in the movement of goods from farm to table and from mineral to metal and will continue operations despite the COVID 19 pandemic. Good business practices are imperative for those that can employ them.

I would anticipate another economic stimulus package in 2020 that hopefully will be the last one necessary. There is a lot of political chatter and talk about one in the financial, personal and business sectors. There's not much good news in the financial world right now but if you look closely there appears to be a small turning of the tide.

Industry Update: Railroad & Policy Updates

The new regime in the White House has railroads reviewing the current policies on the books and anticipation how they will be met. Of importance are any policies that effect the export and import markets, railroad operations, railroad pricing and competitive advantages of truck verse rail.

Railroads, depending on their physical connections have between 30% and 80% of their business tied to the export/import market. Trade agreements with production consumer powerhouses in Asia (China, Japan, etc.) and Canada and Mexico (USCMA) are very important to them. These markets are also important to the U.S. consumer, producer, and manufacturer.

Railroad operations centered around reduction in crew size and opposition to mandating crew minimums. Railroads have invested heavily in Positive Train Control (PTC) to insurance an additional safety layer at the operations level. Mandating crew sizes negates the investment in this technology and creates an additional government oversite that must be recouped by the railroads to insure a basic level of rail service.

Railroad pricing is always a target. In many cases consolidation and mergers have given railroads an unprecedented advantage in rail freight rates even while still being the low-cost carrier. It's a hard argument against freight rates when railroads can prove in a number of cases, they are the lowest cost alternative. Final Offer Rate Review (FORR) is a current railroad / shipper issue where a shipper can propose a rate to the STB and the STB can then choose on the sole basis that it is perceived to be a relatively more reasonable rate than the rate proposed by the carrier. There is no room for negotiations, true baseball arbitration. And please note it really isn't as simple as proposing a rate, a lot of background work needs to be done to come up with a fact-based rate.

The fourth issue on the Railroads radar is truck pricing and infrastructure costs. The fact is that trucks do more damage to roads than they pay in taxes to keep them maintained. This allows trucks to have an economic advantage when pricing freight hauls in which rail could compete. In particular in the less than 500 miles in distance market. According to the Bureau of Transportation Statistics in the U.S. – Canada corridor as of February 2018 time frame trucks carried 63.3% of the freight as measured in value and railroads carried 15.3%. That's a one-trillion-dollar annual market.

About Tealinc, Ltd.

We solve rail transportation challenges. We Specialize in Rail Transportation Solutions. We participate in nearly every industry supported by rail; sell, lease and purchase nearly every type of freight railcar; and provide management and consulting services for both novice and experienced rail shippers. We specialize in exceptional customer service. We focus on rail equipment and consulting services to assist the novice, mid-level and expert shipper to plan, modify and adjust short-term and long-term rail shipping and receiving needs.

Our team is made up of a diverse group of individuals with complementary rail backgrounds. Together, we have over 115 years of experience in the rail industry. We have the expertise, knowledge and ability to create value for our clients.

We look forward to earning your business!

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