Sooner Subdivision Valuation Summary

BASE YEAR - 2013

Revenues

Historic carload data for provided by Watco were adjusted to project 2013 traffic volumes.

- **Carloads:** crude oil to the EOG Resources facility, and more recently outbound from the facility, (both 74% of volume) and aggregates (12% of volume) are the principal products being shipped on the line. All other commodities shipped each produce less than 1,000 carloads per year.
- **Revenue per carload-crude oil:** revenue from crude oil shipments expected to be $175 per car, in the base case.
- **Revenue per carload-aggregates and other commodities:** representative revenue per carload for the Sooner was $200 in 2010, which is used as the base case assumption for aggregate and other shipments.
- **Base year revenue:** developed from 2012 revenues and carloads
  - Constant revenue per carload between 2012 and 2013
  - Crude oil carloads projected to grow 22 percent between 2012 and 2013
  - Aggregate and other commodity carloads to increase by 3.7 percent between 2012 and 2013

Operating Expenses

- **Crude oil unit train operating expenses:** based on unit costs derived from the STB costing model, the Uniform Rail Costing System (URCS), and the BNSF Form R-1 (2011) submitted to the STB.
- **Aggregate, other commodity operating expenses:** based on an assumed operating ratio (79%) developed from GWRR and RailAmerica SEC filings.

Capital Costs

- **Capital Costs**: based on both historical and anticipated capital expenditures by ODOT

PROJECTIONS

Crude Oil Carload Projections

- **Base case**: carloads reflect the EIA Annual Energy Outlook forecast for Tight Oil.
  - Modest increase in volume in the short term, followed by a leveling off, then a decline in the long term

  - All rail to Gulf provides BNSF with greatest revenue
  - Seeing more shipments to the east coast ports

- **Aggressive production growth - constant rail share case**: carloads reflect the EIA high oil production forecast - carloads track the growth in petroleum production
- **Aggressive case- decreasing rail share**: carloads reflect the EIA high oil production forecast - rail grows but loses market share starting in 2016 because of new pipelines and other outlets in the future
- **Conservative case**: carloads track the EIA low oil production forecast

Other Commodity Projections

- **Aggregates**: follows U.S. DOT Freight Analysis Framework (FAF) Oklahoma gravel forecast
- **Other commodities**: follows FAF forecast for all Oklahoma rail traffic

Operating Cost Projections

Operating cost estimates were developed from public data for individual U.S. and Canadian railroads.

- High and low operating cost scenarios for crude oil traffic built from URCS with adjustments for crew and maintenance expense
- High operating cost scenario reflects “worst case” railroad operating ratio (FEC, 0.85) -applied to non-crude oil traffic
- Low operating cost scenario reflects “best case” railroad operating ratio (CN, 0.62) - applied to non-crude oil traffic

Capital Cost Projections

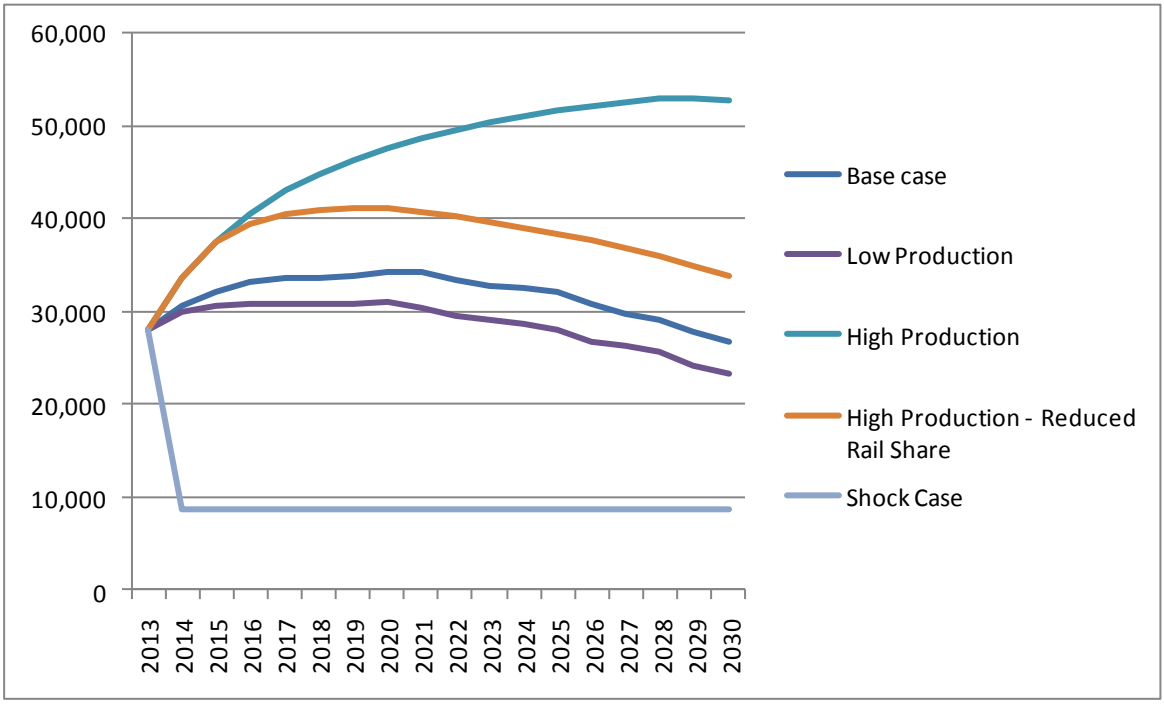
Capitalized maintenance costs have both a fixed and variable element due to time related asset wear and tear, and activity related wear and tear, respectively.

Financial Assumptions

- **Valuation period:** 2014-2018 (15 years)
- **Inflation:** 2.25% per year
- **Cost of Capital:** a range of capital costs are considered to account for a range of potential buyers (including Class I railroads, short line railroad operators, and a third party investors).
  - Cost of equity estimates were developed using both Capital Asset Pricing Model (CAPM) and the risk premium method. Multipliers for comparable transactions were also compared to the valuations.
  - Cost of debt estimates are based on publically available corporate bond indices and range from 4.85% to 5.6%.
- **Capital Structure (Debt/Equity Ratio):** based on rail industry financial data, ranging from 50%-75% debt

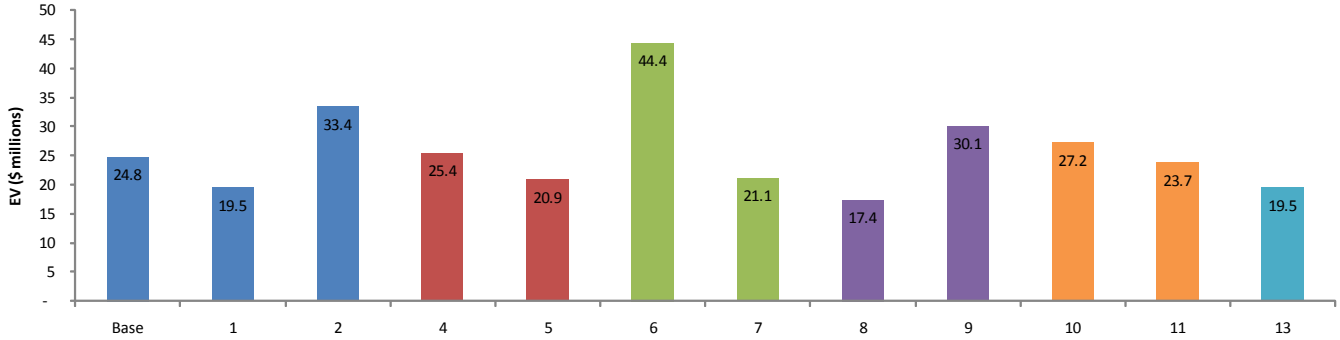
- **Income Taxes**: 34% US corporate tax rate, 6% OK state corporate tax
- **Short Line Tax Credit**: reflects 50 percent of the capital expenditures with an annual maximum of $3,500 per mile owned or operated; assumed that Congress will continually reauthorize.

Crude Oil Carload Forecast



PARSONS BRINCKERHOFF

	Current Case	Discount Rate			Oil Demand		Price		OpEx		CapEx		Tax	Outside cases	
Case	**5**	**Base**	**1**	**2**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**13**	**12 (Shock)**	**3 (High Oil)**
Crude Carloads	3	1	1	1	4	3	1	1	1	1	1	1	1	1	2
Freight Rate (Crude)	175	175	175	175	175	175	227	175	175	175	175	175	175	175	175
Freight Rate (Non-Crude)	200	200	200	200	200	200	240	200	200	200	200	200	200	200	200
OpEx	Base	Base	Base	Base	Base	Base	Base	Base	High	Low	Base	Base	Base	Base	Base
CapEx	Base	Base	Base	Base	Base	Base	Base	Base	Base	Base	Plus 25.0%	Less 25.0%	Base	Base	Base
Short line Tax Credit	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
Discount Rate	7.50%	7.50%	9.00%	5.75%	9.00%	7.50%	9.00%	7.50%	5.75%	9.00%	5.75%	9.00%	7.50%	5.75%	7.50%
Value ($ 000s)	20,892	24,759	19,488	33,436	25,408	20,892	44,381	21,092	17,390	30,068	27,206	23,727	19,460	11,005	46,016
2013E EBITDA Multiple	9.54 x	11.31 x	8.90 x	15.27 x	11.61 x	9.54 x	20.27 x	9.63 x	8.33 x	9.59 x	12.43 x	10.84 x	8.89 x	5.03 x	21
2014E EBITDA Multiple	8.51 x	9.78 x	7.70 x	13.21 x	9.03 x	8.51 x	9.70 x	9.07 x	9.55 x	8.70 x	10.75 x	9.37 x	7.69 x	4.56 x	16.35 x



Range				
	Min	**Max**	**Mean**	**Median**
Value ($ 000s)	17,390	44,381	25,609	24,243
2013E EBITDA Multiple	8.33 x	20.27 x	11.38 x	10.24 x
2014E EBITDA Multiple	7.69 x	13.21 x	9.42 x	9.22 x

Target Ratios (Research Based)		
	Transactions	**Market**
High	17.6	11.1
Low	7.3	6.2
Mean	10.8	8.2
Median	10.2	8.5

Variables	
Crude Carloads	1 = Base, 2 = High Production, 3 = Low Production, 4 = High Production (modified share)
Rate (Crude)	227, 175 (base)
Rate (Non-Crude)	180, 240, 200 (base)
OpEx	High, Base, Low
CapEx	Base, Plus 25%, Less 25%
Discount Rate	5.75%, 7.5%, 9.0%

Calculate

Recalc Model