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Project Copper

Valuation Update Discussion Materials

February 2022

Section 1: Process Update

Process Updates

- Since the last Board update, BMO, along with certain other members of the CSR Team have held a number of meetings with representatives from Norfolk Southern (NS). These meetings included:
 - Regularly scheduled bi-weekly check-in discussions
 - Face-to-face meeting between BMO and NS on January 28, 2022 to discuss certain valuation methodologies
 - Follow-up discussions between BMO and NS to clarify certain points from the January 28, 2022 meeting
- Through these meetings, NS revealed certain additional information which has allowed BMO to refine its analyses.
- These revised analyses are presented on the following pages.
- The Board should be aware, however, that information received from NS to date remains incomplete.
 - Further information from NS could alter our analyses, possibly materially
- We have imperfect information from NS. As a result, our materials remain in draft form and are subject to change.

Section 2: Preliminary Valuation Analysis Update

Summary of Updates

- **Updated Analyses** – Next best alternatives using Revenue Ton Miles (“RTM”)
 - Made a number of modifications to Route A and B to account for new information and refined assumptions
 - Route A increased from a midpoint of \$800M to \$1.49B
 - Route B increased from a midpoint of \$1.61B to \$1.80B
 - Added “Route B2” to account for the possible reactivation of the Peavine Line between Cincinnati and Portsmouth, Ohio

- **Updated Analyses** – Offer annuity methodology
 - CPI unchanged from prior presentation growth adjusted 2009 offer of \$500M
 - Expanded the analysis to include two additional growth scenarios
 - 1) Endowment Growth
 - 2) STB Weighted Average Cost of Capital (“WACC”) Growth

- **Added Analyses** – Potential buyer valuation
 - Added an analysis to attempt to quantify valuations likely to be paid by a third party buyer
 - Utilized two cases:
 - 1) An approximation of NS’ base case which yields a midpoint valuation of approximately \$685M
 - 2) An upside case with higher growth and margins which yields a midpoint valuation of approximately \$930M

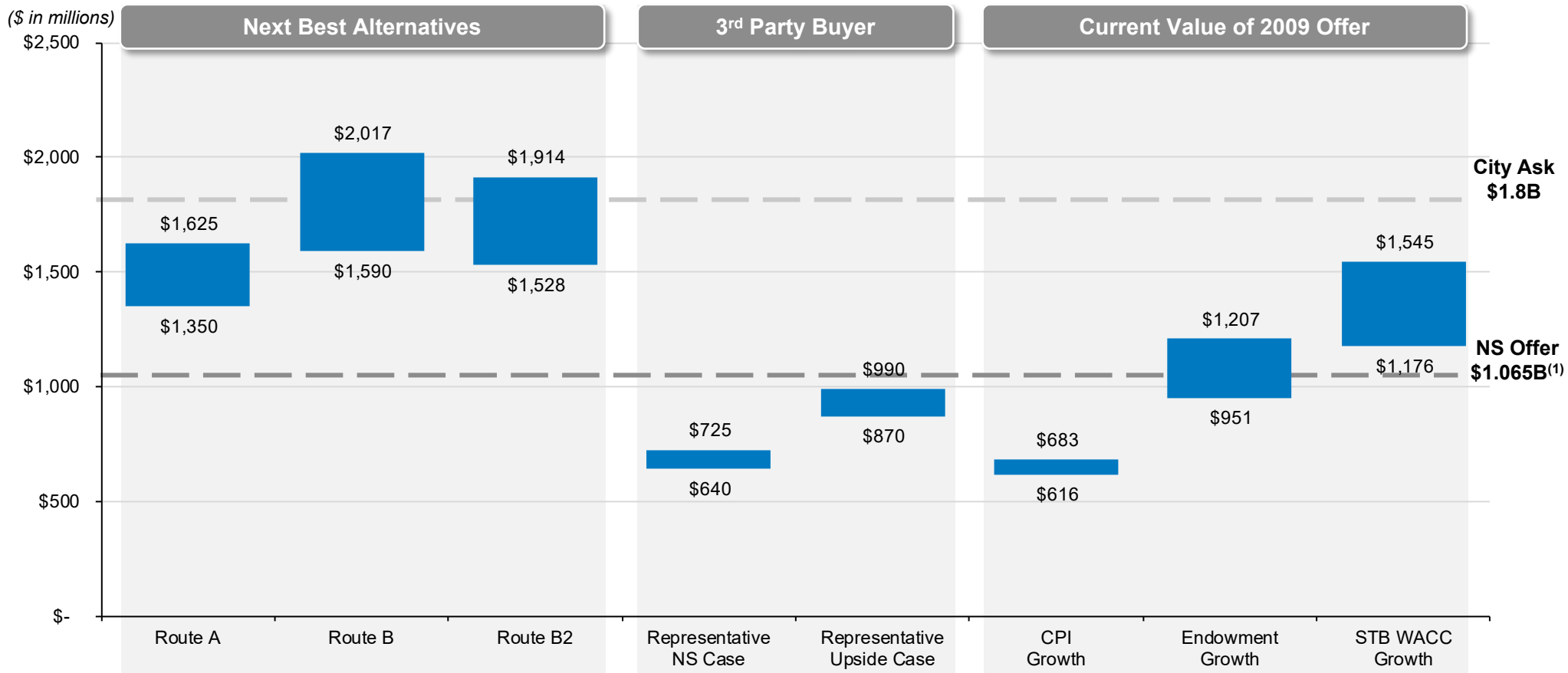
- **Deemphasized Analyses**
 - Next best alternatives using route miles only
 - Direct valuation using estimated CSR EBITDA and current market precedent transaction multiples

Preliminary Valuation Perspectives

Preliminary Valuation Perspectives

- The chart below outlines several valuation approaches including:
 - 1) Next-Best Alternative Route option A, option B, option B2
 - 2) Third Party Buyer Valuation
 - 3) Current Value of NS' 2009 offer based on various growth rates

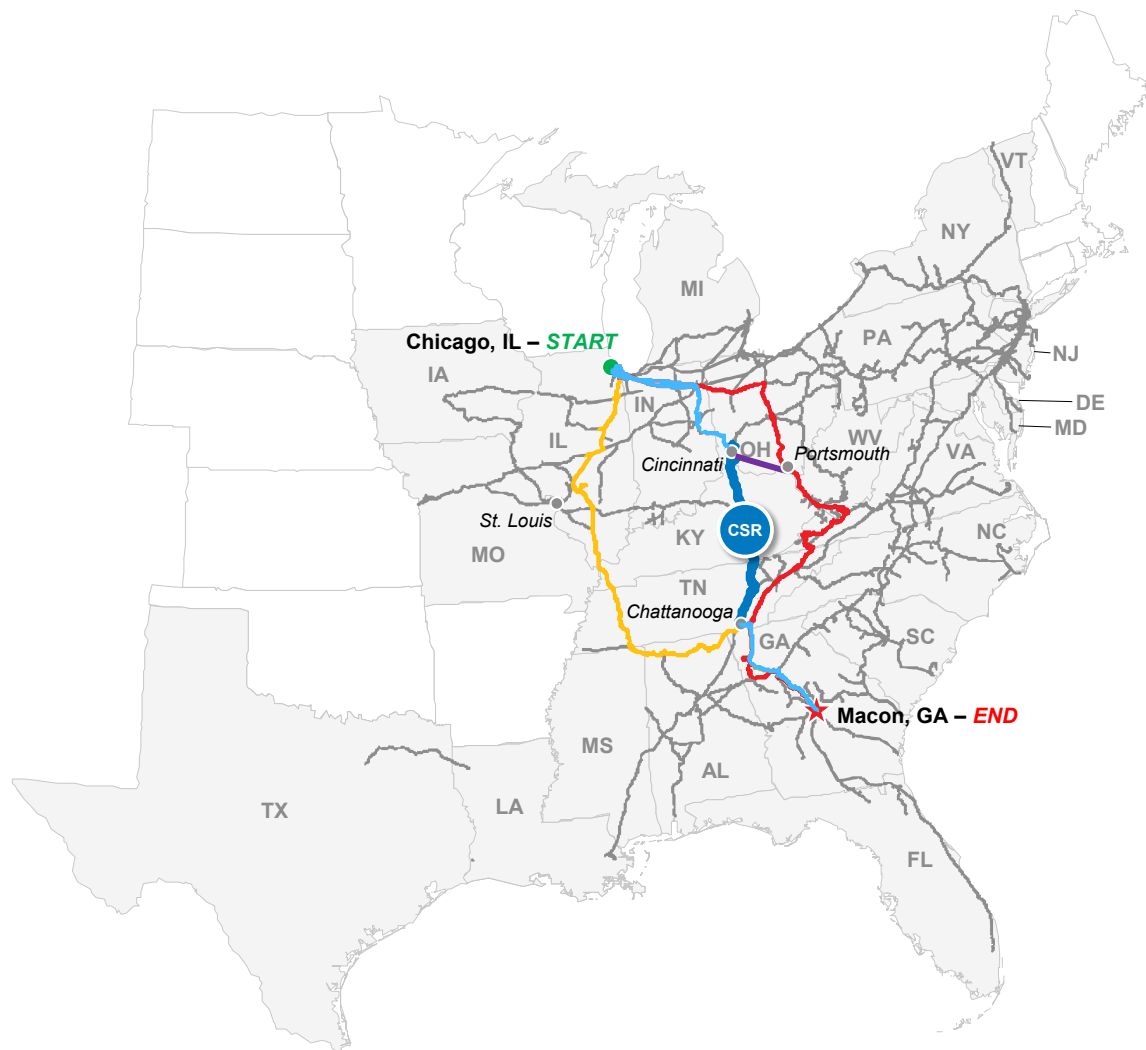
Valuation Analysis Comparison (\$ in millions)



(1) Assumes additional \$50 million incentive for a 2022 transaction

Next Best Alternative Routes

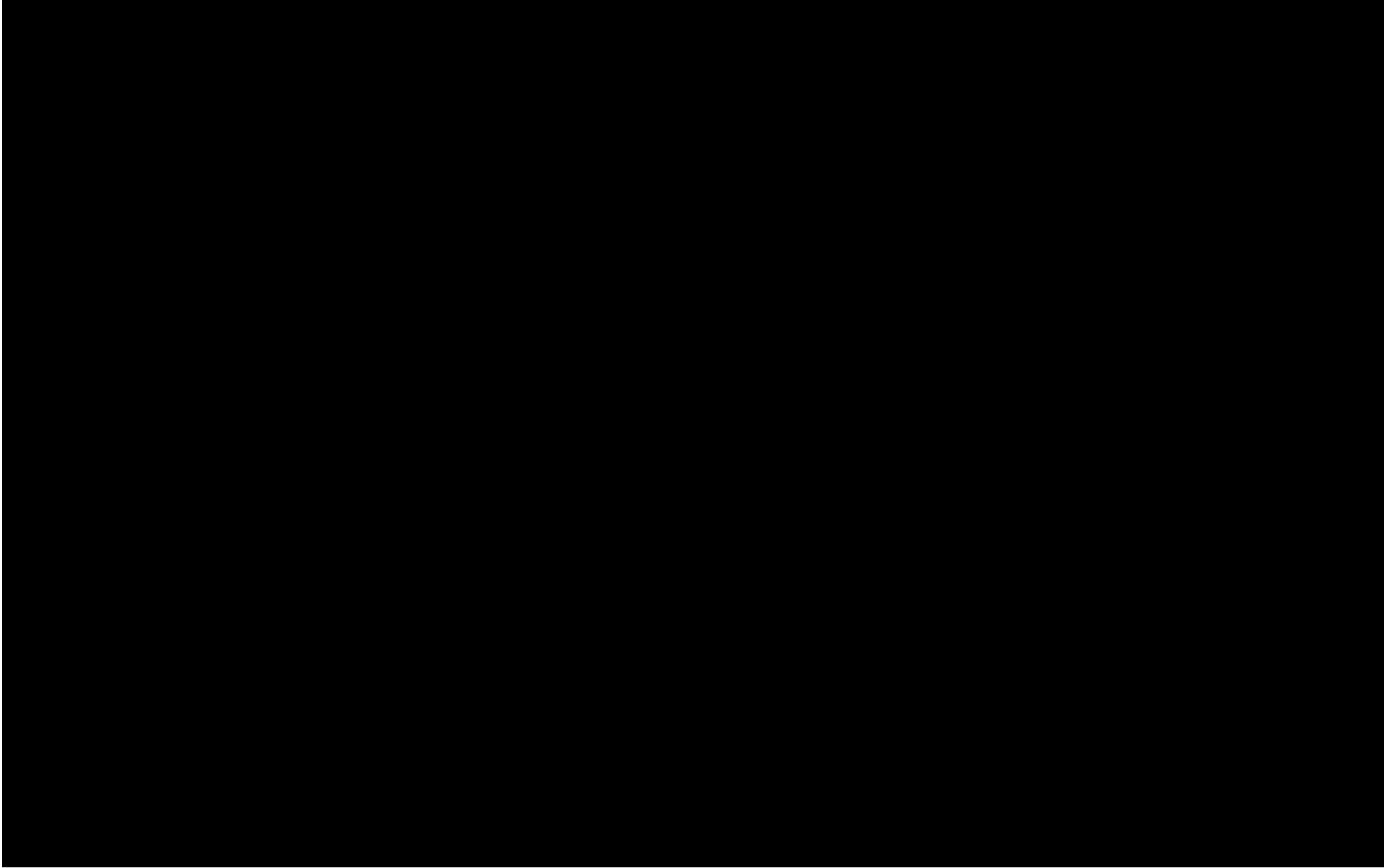
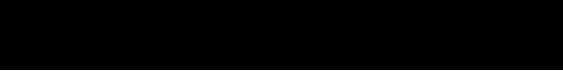
Alternative Routes



Rate Summary

Route	Miles	Implied Valuation to NS
CSR	~895	--
A	~990 ~90 Miles Longer	~\$1.35B - \$1.63B
B	~1,180 ~290 Miles Longer	~\$1.59B - \$2.02B
B2	~1,150 ~260 Miles Longer	~\$1.53B - \$1.91B

- Alternative Route A**
 - ~90 incremental miles implies a valuation of ~\$1.35B - \$1.63B based on illustrative analysis
 - Relies on trackage / haulage rights with CN
 - Likely requires substantial investment in additional track capacity, especially on the WTNN
 - Unclear if this is a viable option
- Alternative Route B**
 - ~290 incremental miles implies a valuation of ~\$1.59B - \$2.02B based on illustrative analysis
 - Likely requires substantial investment
 - Unclear if capacity exists
- Alternative Route B2 – “Peavine Route”**
 - ~260 incremental miles implies a valuation of ~\$1.53B - \$1.91B based on illustrative analysis
 - Likely requires substantial investment in the Peavine Route, a portion of which is presently out of service





NS Cases LBO Valuation

NS Case LBO Valuation

- The below outlines a LBO valuation range based on certain assumptions provided verbally by NS, including:
 - 1% price and 1% volume growth rate
 - [REDACTED]
 - 25% operating margin for all revenues
 - \$400m capital spend over 10 years

LBO Valuation

\$640M – \$725M

Commentary

- Designed to represent what an infrastructure buyer may be willing to pay assuming:
 - 1) A long term trackage rights agreement with NS
 - 2) 10% required rate of return
 - 3) 5-year holding period
 - 4) 4.0x LTM EBITDA leverage
- The new buyer would need to “stand up” a new business with employees, crews, and capital equipment
- Not clear if there would be appetite from a buyer without volume guarantees from NS
- Not clear if this is a deal NS would actually do

Upside NS Case LBO Valuation

- The below modifies NS' case as follows:
 - 2% price growth rate
 - 50% operating margins for overhead traffic revenues and 10% operating margins for online traffic revenues

LBO Valuation

\$870M – \$990M

Commentary

- Designed to recognize that NS power and crews would continue to be utilized for all overhead business
- Utilizes higher price escalators to more closely match long term inflation expectations

2022 Implied Valuation Based on Lease 2009 Offer

CPI

Cincinnati Southern Railway

CPI - Implied Value Based on 2009 Offer

	\$mm
2009 Offer	\$500.0
Current Year	2022
Offer Year	2009
Time Elapsed (years)	13.0
Implied WACC	2.00%
Implied Future Value	\$646.8

Year	Estimated Discount Rate		
	1.75%	2.00%	2.25%
2021	\$615.7	\$634.1	\$653.0
2022	\$626.5	\$646.8	\$667.7
2023	\$637.5	\$659.7	\$682.7

Endowment

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Endowment - Implied Value Based on 2009 Offer

	\$mm
2009 Offer	\$500.0
Current Year	2022
Offer Year	2009
Time Elapsed (years)	13.0
Implied WACC	6.00%
Implied Future Value	\$1,066.5

Year	Estimated Discount Rate		
	5.50%	6.00%	6.50%
2021	\$950.6	\$1,006.1	\$1,064.5
2022	\$1,002.9	\$1,066.5	\$1,133.7
2023	\$1,058.0	\$1,130.5	\$1,207.4

STB Discount Rate

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STB WACC - Implied Value Based on 2009 Offer

	\$mm
2009 Offer	\$500.0
Current Year	2022
Offer Year	2009
Time Elapsed (years)	13.0
Implied WACC	7.89%
Implied Future Value	\$1,341.9

Year	Estimated Discount Rate		
	7.39%	7.89%	8.39%
2021	\$1,176.3	\$1,243.8	\$1,314.7
2022	\$1,263.3	\$1,341.9	\$1,425.0
2023	\$1,356.6	\$1,447.8	\$1,544.6

Appendix

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