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# Project Copper

Valuation Update

May 2022

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## Situation Overview

- On April 20<sup>th</sup>, 2022 Norfolk Southern Corporation (“Norfolk Southern” or “NS”) met with certain members of the Board to submit its revised proposal to either acquire the rail line or extend the lease (the “April Proposal”) This was the fourth such proposal tabled by NS over the past year. See page 3 for a timeline of proposals.
- Over that same time period, the Board offered three written proposals, the most recent of which was delivered to Norfolk Southern on January 14, 2022.
- In addition BMO, the City Attorney and Stinson have maintained a regular bi-weekly meeting cadence with NS, the most recent of which was May 4, 2022.
- Simultaneously, the procedures required to trigger arbitration have been initiated. Norfolk Southern has indicated a willingness/desire to pause the arbitration while the parties explore the parameters of a potential transaction outside of the arbitration process.
- The acquisition price in the April Proposal represents a **50.2%** increase (\$1.065 billion to \$1.60 billion) from the proposal received in November 2021. Both values include full credit for the \$50 million “transaction fee.” The proposed annual lease payment was increased 19.3% (\$29.5 million previous November 2021 offer to \$35.2 million in the April Proposal, both in 2024 dollars), adjusted for inflation. This lease would begin on January 1, 2027.
  - Specific reasons cited by NS for the valuation increase include:
    - Retention of a third party advisor which recommended a higher valuation
    - Internal NS discussions with its board
    - Revisions to its internal valuation models
- The following pages illustrates the April Proposal in relation to certain valuation and cash flow parameters previously reviewed by the Board.

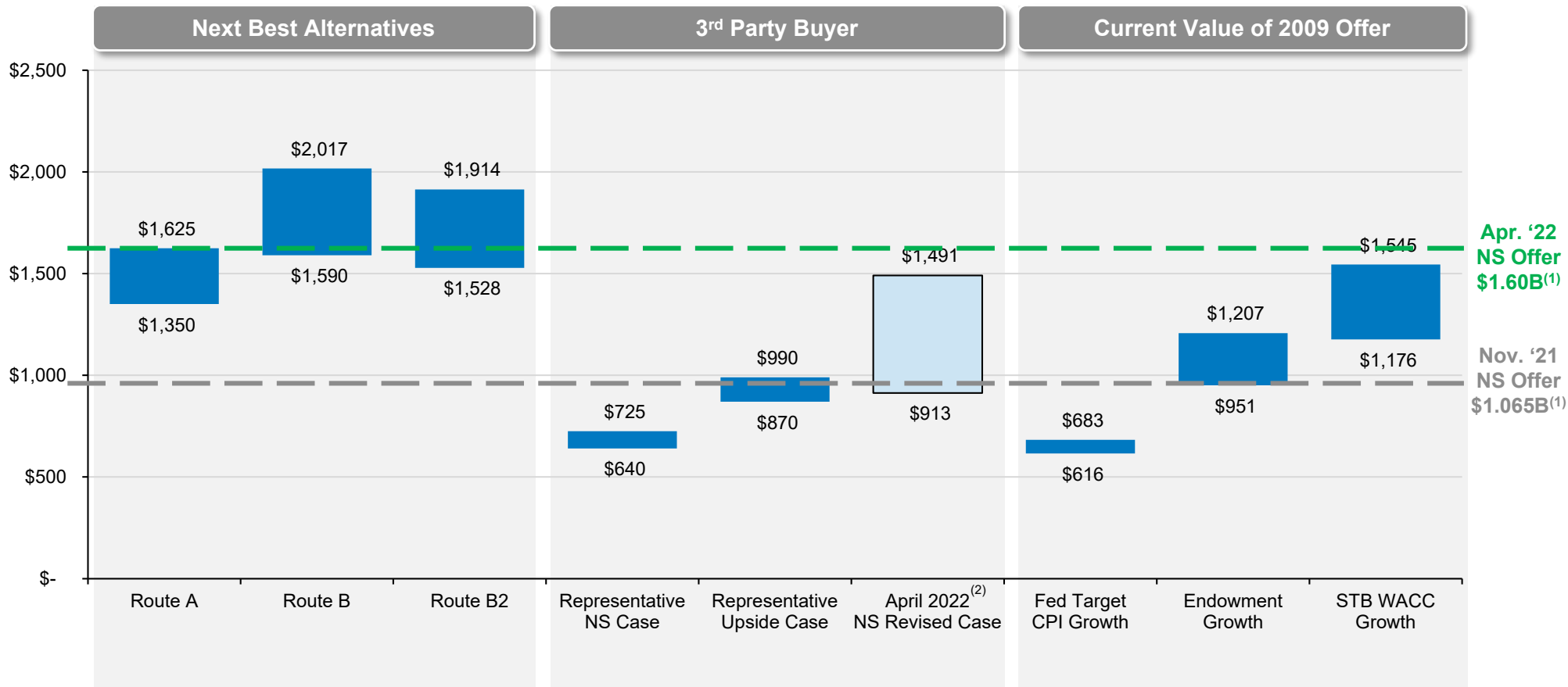
# Valuation Review

(\$ in millions)

## Preliminary Valuation Perspectives

- The chart below outlines several valuation approaches most recently presented at the March 15<sup>th</sup>, 2022 board meeting including:
  - Next-Best Alternative Route option A, option B, option B2
  - Third Party Buyer Valuation
  - Current Value of NS' 2009 offer based on various growth rates

## Valuation Analysis Comparison



3 Note(s):  
 1. Assumes additional \$50M transaction incentive.  
 2. Represents valuation range presented on page 6 of Norfolk Southern's April 2022 valuation presentation.

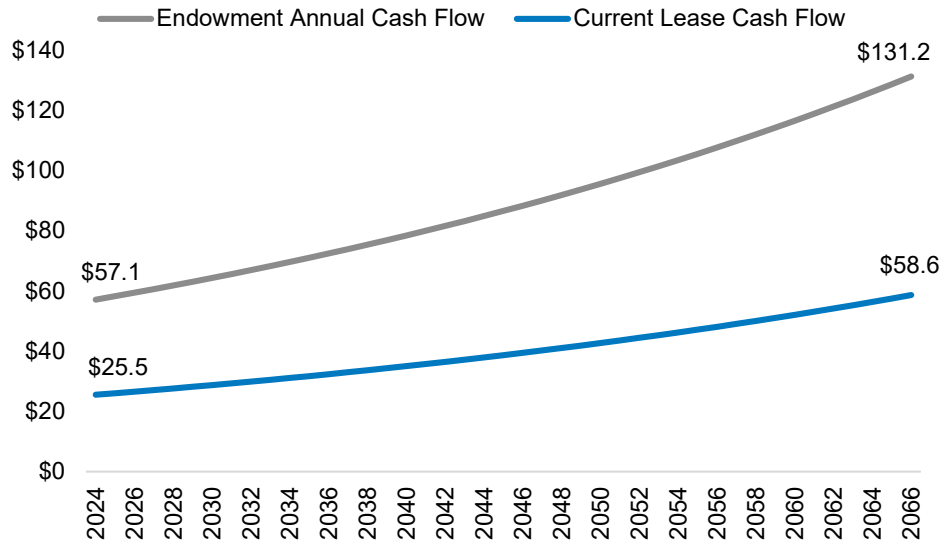
# Proposals Summary

NS Proposals				Recent CSR Proposal
July 7 <sup>th</sup> , 2021	August 8 <sup>th</sup> , 2021	November 23 <sup>rd</sup> , 2021	April 19 <sup>th</sup> , 2022	January 14 <sup>th</sup> , 2022
<b>\$915M</b>	<b>\$915M</b>	<b>\$1.065B</b>	<b>\$1.60B</b>	<b>\$1.80B</b>
<p><b>Option 1 - Purchase</b></p> <ul style="list-style-type: none"> <li>\$865M + \$50M incentive</li> </ul> <p><b>Option 2 – Structured Purchase</b></p> <ul style="list-style-type: none"> <li>50-year note with \$865M principal @ coupon rate of 3.50%, which coupon will grow with inflation subject to annual cap of 3%</li> </ul>	<p><b>Option 1 – Purchase</b></p> <ul style="list-style-type: none"> <li>Not addressed</li> </ul> <p><b>Option 2 – Structured Purchase</b></p> <ul style="list-style-type: none"> <li>Not addressed</li> </ul> <p><b>Option 3 – Lease Renewal with Option to Purchase</b></p> <ul style="list-style-type: none"> <li>40-year lease extension 2022-2061</li> <li>Current Lease 2022-2026</li> <li>\$28.9M (in 2023 dollars) - inflation adjusted beginning 2027</li> <li>Option to purchase at inflation adjusted 2022 offer of \$915M during the lease</li> <li>\$50M annual declining incentive starting 2022</li> </ul>	<p><b>Option 1 – Purchase</b></p> <ul style="list-style-type: none"> <li><b><u>\$1.015B + \$50M incentive</u></b></li> <li>Adjusted for inflation</li> </ul> <p><b>Option 2 – Structured Purchase</b></p> <ul style="list-style-type: none"> <li>Not addressed</li> </ul> <p><b>Option 3 – Lease Renewal with Option to Purchase</b></p> <ul style="list-style-type: none"> <li>40-year lease extension 2022-2061</li> <li>Current Lease 2022-2026 additional \$500K per year</li> <li>\$28.9M (in 2023 dollars) - inflation adjusted beginning 2027</li> <li>Option to purchase at inflation adjusted 2022 offer of <b><u>\$1.015B</u></b> during the lease</li> <li>\$50M annual declining incentive starting 2022</li> </ul>	<p><b>Option 1 – Purchase</b></p> <ul style="list-style-type: none"> <li><b><u>\$1.55B + \$50M incentive</u></b></li> <li>Adjusted for inflation</li> </ul> <p><b>Option 2 – Structured Purchase</b></p> <ul style="list-style-type: none"> <li>Coupon changed to 3.30%</li> <li>Updated principal to \$1.55B, but subject to an inflation cap of 2%</li> <li>Callable at any time after year 11 for \$1.55B</li> </ul> <p><b>Option 3 – Lease Renewal with Option to Purchase</b></p> <ul style="list-style-type: none"> <li>40-year lease extension 2027-2066</li> <li>Current Lease 2022-2026 inflation adjusted per year</li> <li>2024 <b><u>\$35.2M</u></b> initiated inflation adjusted lease becoming effective 2027 – 2066</li> <li>Base lease amount inflation adjustment is applied at 2% through 2027 and uncapped thereafter</li> </ul>	<p><b>Option 1 - Purchase</b></p> <ul style="list-style-type: none"> <li><b><u>\$1.80B</u></b></li> <li>Adjusted for inflation</li> <li>\$50M annual declining incentive starting 2022</li> <li>Purchase within one year of approval from voters of Cincinnati and required state law change.</li> <li>Deal deadline of December 31, 2026</li> </ul> <p><b>Option 2 – Structured Purchase</b></p> <ul style="list-style-type: none"> <li>Not addressed</li> </ul> <p><b>Option 3 – Lease Renewal with Option to Purchase</b></p> <ul style="list-style-type: none"> <li>25-year lease 2027-2051 open to longer term lease commitment</li> <li><b><u>\$65M</u></b> (in 2027 dollars) inflation adjusted lease becoming effective 2027-2051</li> </ul>

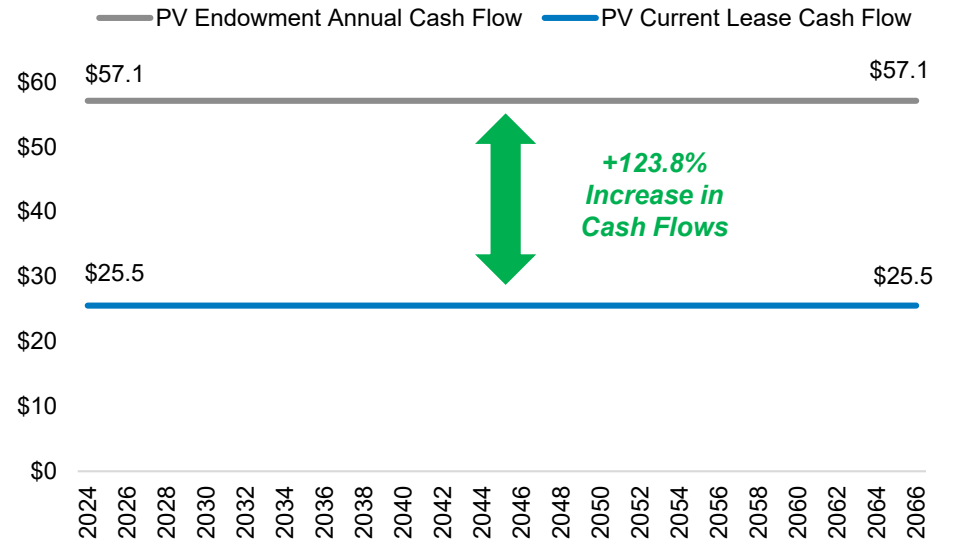
# Current Lease vs Endowment Annual Cash Flows

(\$ in millions)

Nominal Cash Flows Over Time



Real Cash Flows Over Time in 2024 Dollars<sup>(1)</sup>



## Summary Explanation

- According to the Marquette Associates, the city should expect to earn 5.5% in nominal terms and 3.5% in real terms on the principal balance of **\$1.60B** over the long term<sup>(4)</sup>. This generates an implied perpetual nominal cash flow of \$89.8M and a perpetual real cash flow of **\$57.1M** in constant 2024 dollars.
- The Endowment's expected real cash flow on close represents a **~124%** increase from the current lease and a **~62%** increase from NS's proposed revised lease.

(\$ in millions)	2022	2023	2024	2025	2026	2027
Inflation <sup>(2)</sup>	3.0%	4.0%	2.0%	2.0%	2.0%	2.0%
Current Lease	\$24.1	\$25.0	\$25.5	\$26.0	\$26.6	\$27.1
NS Proposed Revised Lease			\$35.2	\$35.9	\$36.6	\$37.3
Sale and "Endowment" <sup>(3)</sup>		\$56.0	\$57.1	\$59.1	\$61.2	\$63.3

Note(s):  
 1. Projection estimates assumes 2024 close and long term inflation of 2.0%.  
 2. Estimate.  
 3. Assumes 5.5% annual net return and 2.0% inflation, generating 3.5% real return.  
 4. Per "Portfolio B" as presented in the Marquette Associates memo dated May 2, 2022.

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