GENESEE & WYOMING (GWR)

October 23, 2002

Definition of Ratings

Buy: At least 20% undervalued
Hold: Less than 10% undervalued
Sell: At least 20% overvalued

As of close 10/17/02:

GWR	**$21.12**
S&P 500:	882.65
10-Year Bond:	4.139%
DJ Transport Index	2273.80

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Hold on for the ride …

Recommendation …….**Hold**
Target Price………………...**$ 23.00**
Timeframe………….………**12 months**

GWR is fairly valued with little downside, but with some upside with low probability in the next 12 months:

- Currently a highly discounted P/E as a result of growth through acquisition business strategy. This P/E is projected to stay constant in the next 12 months, but the Company should become fully valued and trade in-line with other Class I/II railroads as it matures within the next several years.
- Revenue recognition of three recent acquisitions will produce predictable '02 and '03 revenues, which the market has already incorporated.
- Unused borrowing capacity of $150MM may enable future acquisitions, towards which the market has historically reacted very positively.
- Revenues slated to increase in '02 due to revenue recognition of subsidiaries. This is also already incorporated in stock price.

Current Trading Statistics

Current Price	**$ 21.12**	**Mkt. Capitalization**	**$ 272.4 MM**
52-Week High	**26.30**	**Enterprise Value**	**328.6 MM**
52-Week Low	**15.70**	**Shares Outstanding**	**12.9 MM**

	2001A	**2002E**	**2003E**
EPS	**$ 1.48**	**$ 1.77**	**$ 2.00**
EPS Consensus	**1.59**	**1.91**	**2.00**
P/E	**15.2x**	**14.2x**	**11.8 x**
EV/EBITDA	**14.8**	**10.6**	**9.4**

Sources: 2001A from Annual report, 2002E Yale SOM Team Estimates, 2003E Reuters Research, October 4, 2002

Executive Summary

- Historically an M/A holding company, the only pure-play in the railroad industry, GWR has shown substantial revenue growth in the past few years. This growth is driven largely through revenue recognition of its newly acquired subsidiaries. P/E numbers reflect this business strategy, the company trading on average 10-50% lower than comparables.
- Operational and cost synergies projected by management this year, but there is no historical evidence for these synergies. These synergies will be small as the company has just begun to focus on the operational efficiencies of the slue of recent acquisitions.
- Coal increases expected for H2:02 – dwindling stockpiles at electric companies due to a hot summer and electricity usage.
- Recent increase in credit facility has led to an increase in borrowing capacity and implies the creditworthiness of the company.
- GWR is fairly valued at the moment. While there is no downside likely given the predictability of the revenue recognition of recent acquisitions, some upside is possible, but with low probability.
- Currently trading at: $21.12
- 12 month price target: $23.00

Introduction

Genesee & Wyoming Inc. (Ticker Symbol: GWR) is a holding company whose subsidiaries and affiliates own or operate short line and regional freight railroads in North America, Australia and South America.

They also provide freight car switching and related services to industrial companies, in the United States, that have extensive railroad facilities within their complexes.

The Company generates revenues primarily from the movement of freight over track owned or operated by its railroads. It also generates non-freight revenues primarily by providing freight car switching and ancillary rail services.

Most of its revenues accrue from its North American operations (53.6% of 2001 revenues) and the balance is made up by its holdings in Australia (44.3% of 2001 revenues) and South America (2.1% of 2001 revenues).

GWR provides services to a geography- and commodity-diversified portfolio of customers in different industries including electric utility, mineral and stone, paper, petroleum products, metals, farm and food products, lumber and forest products, and chemicals and plastics.

Most of the traffic transported by the company's railroads in the United States and Canada is interchanged with Class I carriers. GWR serves as a link between Class I railroads. It also acts as a feeder for the Class I railroads, enabling them concentrate on their long-haul core systems.

Currently, GWR is the largest Class II railroad in the United States with a market capitalization of $272.4 MM [1].

Affiliates and Subsidiaries

GWR's railroads operate over approximately 8,000 miles of track that is owned, jointly-owned or leased by the Company or its affiliates. These railroads operate over an additional 2,700 miles of track through various trackage rights agreements.

Currently, the company has interests in twenty-eight railroads of which twenty-one are in the United States, three are in Canada, two are in Australia, one is in Mexico and one is in Bolivia.

Expansion of its interest has mainly been through acquisitions, both domestically and internationally. Significant US acquisitions in the last 10 years include:

Acquisitions

- Allegheny & Eastern Railroad, Inc. (1992)
- Willamette & Pacific Railroad Inc. (1993)
- Portland & Western Railroad, Inc. (1995)
- Illinois & Midland Railroad, Inc. (1996)
- Pittsburg & Shawmut Railroad, Inc. (1996)
- the rail and industrial switching business of Rail Link, Inc. (1996)
- South Buffalo Railway in October 2001, and
- Emons Transportation Group, Inc. in February 2002.

International holdings include:

- The right to operate Broken Hill Proprietary Co. Ltd's iron ore supply rail-lines and in-plant rail operations in Whyalla, South Australia (acquired in 1999)
- Australian Railway Group Pty. Ltd. (ARG) – A joint venture owned 50% by the Company and 50% by Wesfarmers Limited, a public corporation based in Perth, Western Australia. ARG is the second largest private freight rail operator in Australia.
- Genesee Rail-One Inc. - A wholly owned subsidiary for Canadian rail acquisitions, which operates two railroads in

[1] As of 18th of October, 2002-10-18

Canada.

- Linea Coahuila Durango – A mineral railroad in northern Mexico
- Empresa Ferroviaria Oriental, S.A.(Oriental) – Oriental is a railroad serving eastern Bolivia and connecting to railroads in Argentina and Brazil. GWR currently owns a 22.9% equity stake in the company.

Competitive Landscape

GWR is the largest of the Class II railroads in the United States with a market cap of $272.4MM. Key data for Class I & Class II Railroads are listed below:

	Mkt. Cap	P/E	ROE
Sector: Transportation	223.9 B	25.3	14.4
Industry: Railroads	53.8 B	15.7	8.2
Union Pacific Corp. (UNP)	14.9 B	15.2	11.2
Burlington Northern Santa (BNI)	9.5 B	12.8	9.8
Norfolk Southern Corp. (NSC)	8.4 B	15.7	6.5
Canadian National Railway (CNI)	7.3 B	15.9	14.2
CSX Corporation (CSX)	5.8 B	18.7	6.0
Canadian Pacific Railway (CP)	2.9 B	13.6	17.3
Florida East Coast Indus. (FLA)	919 MM	*NA*	-9.2
Kansas City Southern (KSU)	716 MM	17.0	7.3
Genesee and Wyoming Inc. (GWR)	272.4 MM	11.8	8.1
RailAmerica	257.0 MM	14.9	4.0

Source: Yahoo Finance and Yale SOM Team estimate. As of close 10/17/02.

- GWR operates as a “short haul” rail company and competes with other short line and regional railroad operators.

- The Company's railroads also compete directly with other modes of transportation, principally motor carriers and, to a lesser extent, ship and barge operators. The extent of this competition varies significantly among the Company's railroads depending on the location.

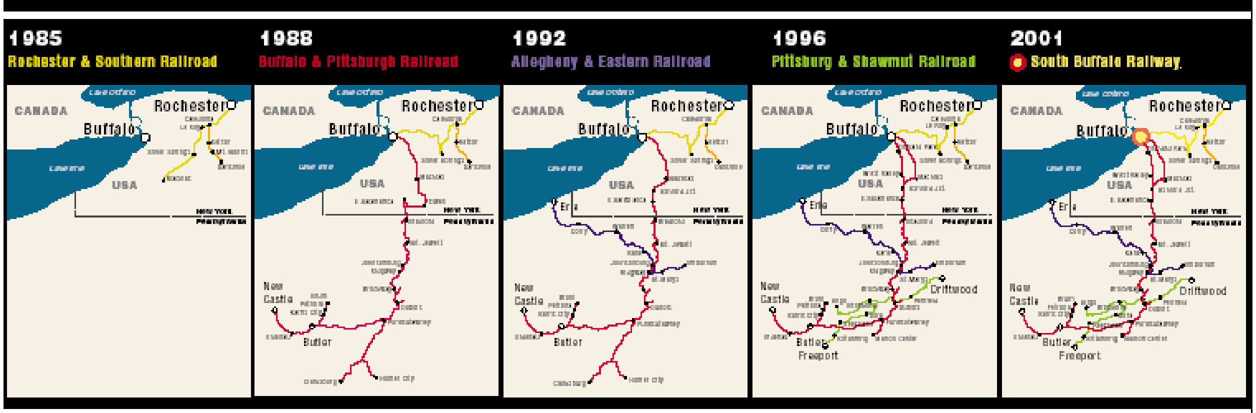
- Each of the Company's railroads is typically the only rail carrier directly serving its customers in that region.

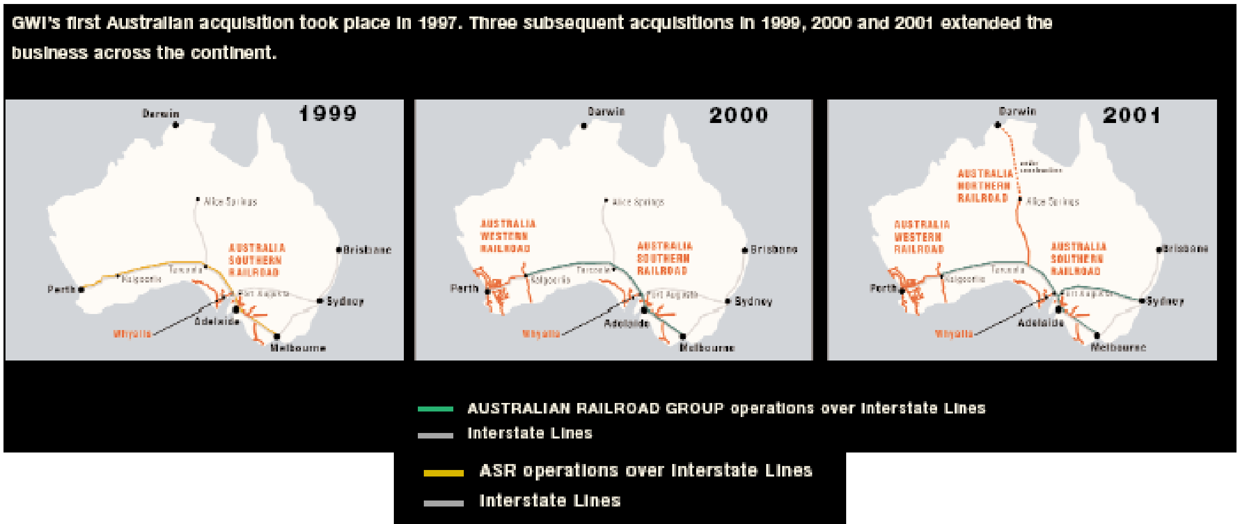
Strategy:

Aggressive Acquisitions

- The company has a unique business strategy for the industry. Currently focusing on growth through acquisitions, the market values this company on the deals struck with its potential targets. Indeed, the market believes the company is adept at striking good deals as evidenced by historical price increases in response to acquisition announcements. An argument can be made for the potential synergies that the market may project, but we see no evidence for this as the company has just begun to show, this year, cost and operational synergies. While these synergies will be future drivers of value, current market valuations are driven by the lucrative deals that GWR management has become adept at making.
- With this said, the company is truly a holding company that is in a growth and acquisition phase. It seeks to create regional synergies like those created in Buffalo and parts of Australia. The company is positioning itself nicely; these regional synergies/monopolies are important for future growth.
- GWR has shown a strong focus on growth through acquisition, both domestically and internationally. Their purchases are regionally focused and provide opportunities for consolidation of operations, consequently increasing asset utilization and reducing operating costs.
- The company positions itself as the "last leg" in the freight of industrial products. Hence, it serves as a feeder for Class I railroads and also a disburser to industrial companies from "hubs". In most of its markets, GWR is the single rail service operator (either by design or acquisition). Its acquisition strategy results in regional control and reliance by Class I railroads on its services.

The development of the NY/PA region exemplifies GWI's strategy of building a regional rail system through disciplined, contiguous acquisitions. Beginning with the 14-mile Genesee and Wyoming Railroad Company that in 1976 had $3.5 million in annual freight revenues, this region now operates more than 750 miles of track and is expected to generate $50 million in revenues in 2002.





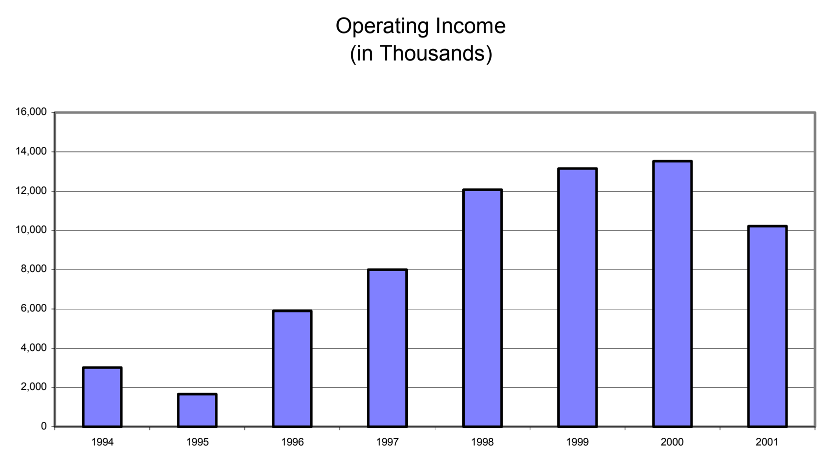
- The company services industrial companies and have service agreements that average about 4 years. This provides for a steady revenue stream and stable operations.
- They maintain a diversified portfolio of customers (both geographically and with respect to commodities transported). This helps to hedge them from variations in the demand from the various economic sectors they provide service to.

Revenue

Consolidated Operating Revenue Growth

GWR achieved robust growth through acquisitions.

Revenues have grown at CAGR 16.6% since 1993.



Data source: Global Disclosure and Yale SOM Team estimates.

Revenue Growth/Decline Driven by Infusing/Defusing Subsidiaries' Revenue

Operating Revenue Growth (USD, MM)

Period (Dec. to Dec.)	2000-2001 (1)	1999-2000	1998-1999	1997-1998	1996-1997
Total (new & old)	-33.0	21.1	33.7	36.9	24.8
USA Existing Operations	-0.01	3.4	9.1	4.5	18.4
South Buffalo	3.4				
Mexico	Consolidated into USA	25.2	8.9		
Canada	Consolidated into USA	8.6	15.0	-0.7	
ARG (Australian)	-37.6	-5.9	-3.6	39.3	7.4
% Contribution from New Subsidi	N/A	119.7%	70.9%	106.6%	29.8%

Source: SEC 10K Filings and Yale SOM Team estimates.

Note:
(1) The consolidated revenue declined \$33 MM driven by the de-consolidation of the Australian operations and Australian revenue decline of \$5.6MM, and North American existing operation revenue decline of \$11K.

- The pattern implied by the information in the table above is that GWR's revenue growth/decline is mainly the result of "buying the revenues/selling the revenues" through its acquisitions.
- Since 1997, the newly acquired subsidiaries have, on average, contributed 99% of GWR's revenue growth. The newly de-consolidated subsidiaries have been responsible for all of GWR's revenue decline.

Revenue

2001 Result

- In 2001, the consolidated revenues declined by \$33 MM, mainly due to a de-recognition of \$5.6MM of Australian revenues and a decline in the revenues from North American operation of \$11K.
- The infusion of South Buffalo's revenue in 2001 and the growth in industrial switching operation turned the consolidated North American revenue around and resulted in 2.7% growth. South Buffalo's revenue contributed to 64% of the growth and in industrial switching operation contributed to 43% of the growth.
- For consolidated commodity revenue, Coal, Coke & Ores contributed to 60% of revenue growth, and Minerals & Stones contributed 45.6% of the balance. These were however, partially offset by decline in revenues from Petroleum & Autos.
- Australian revenue decreased 14% resulting from the decline of grain revenue (which contributed to 87.5% of the total decline).

1H 2002 Results

- Existing North American operations had a revenue decline of \$2.7MM.
- South Buffalo and Emons contributed \$9.6MM to GWR's consolidated revenue.
- For consolidated commodity revenue, Pulp & Paper (contributed to 29% of the growth), Metals (contributed to 25.7% of the growth),and Autos (contributed to 31% of the growth), partially offset by Coal, Coke & Ores. Industrial Switching revenue

increased 13% in revenue.

Mexican Sub Loss from Hurricane Isodore

- GWR management reported a $2MM loss by its Mexican subsidiary and expenses in excess of $500,000 for track repairs. (Source: Yahoo Finance, October 17, 2002)

Commodities – North American Operations

North American Freight Revenues (YOY Revenue Change):

Revenue (2001 10K)	% of Toal	Annual Rev. Change	1H Rev. Change
Coal, Coke & Ores	21.6	9.5%	-29.0%
Minerals & Stone	15.0	3.5%	8.3%
Pulp & Paper	14.4	-5.3%	35.3% *
Petroleum Products	13.1	-8.4%	17.1% *
Metals	8.7	11.3%	58.9% *
Farm & Food	7.7	1.8%	16.4% *
Lumber & Forest	6.8	5.1%	43.6% *
Chemical-Plastics	6.4	-2.4%	17.9% *
Autos	1.9	-9.7%	563.0% *
Other	4.4	2.8%	-16.7%

Source: 2001 K and Yale SOM Team estimates.

* Growth mainly contributed by South Buffalo and Emons.

Australian Operations

Australian Freight Revenues

Total: 2001 1H: $80,402K 2002 1H: $88,425K

(ARG's share: 100% of 2001 figures, 50% of 2002 figures)

Revenue Composition	% of Toal	1H YOY Revenue Chage
Grain	30.2	12.6%
Other Ores & Minerals	23.4	-7.3%
Iron Ores	12.5	53.3%
Alumina	9.3	-23.2%
Hook & Pull (haulage)	6.4	0.0%
Bauxite	5.7	14.6%
Gypsum	1.2	24.4%
Other Ores & Minerals	11.3	36.2%

Data Source: 2002 10Q and Yale SOM Team estimates.

Commodities – North American Operations

Revenue Ranking by Commodity

	2001	2000	1999
1st	Coal, Coke & Ores	Coal, Coke & Ores	Coal, Coke & Ores
2nd	Minerals & Stones	Pulp & Paper	Pulp & Paper
3rd	Pulp & Paper	Petroleum Products	Petroleum Products

Source: 2000 and 2000 10K

Coal, Coke and Ores

Coal, coke and ores consist primarily of shipments of coal to utilities and industrial customers.

There was a net decrease on 29% in YOY revenues from Coal, coke and ores in the second quarter of 2002. This consisted of an increase of $443,000 from new South Buffalo and Emons railroad operations, offset by a decrease of $2.7 million from existing North American railroad operations primarily on the Company's Illinois and New York-Pennsylvania operations as a result customers' excess coal inventory and plant shut-downs related to maintenance.[2]

Pulp and Paper

In the second quarter of 2002, Pulp and Paper revenues increased by 34% compared with 2001 figures. This increase was mainly due to the additional revenues recognized from the operations of new acquisitions: South Buffalo and Emons.[3]

Petroleum Products

Petroleum products freight consists primarily of fuel oil and crude oil.

In the second quarter of 2002, Petroleum products revenues were $5.6 million compared to $4.8 million in the corresponding 2001 quarter. This increase of $811,000 or 29.0% was attributable mainly to revenues from new South Buffalo and Emons railroad operations and an increase of $604,000 from existing North American railroad operations primarily in Mexico as a result of a new long-haul contract.[4]

[2] Source: 10Q 2002
[3] Source: 10Q 2002
[4] Source: 10Q 2002

Metal

Metal commodities freighted consist primarily of scrap metal, finished steel products and coated pipe.

Metals revenues were $4.0 million in the quarter ended June 30, 2002 compared to $2.5 million in the quarter ended June 30, 2001, an increase of $1.5 million or 58.9%. The increase of $1.5 million consists of $1.7 million from new South Buffalo and Emons railroad operations, offset by a decrease of $160,000 from existing North American railroad operations.[5]

Farm and Food Products

Farm and Food products consists primarily of sugar, molasses, rice and other grains and fertilizer. Farm and Food Products increased by a net $3.8 million, or 65.5%, of which $2.2 million was attributable to a full year of railroad operations in Mexico and $1.7 million was attributable to a full year of railroad operations in Canada, offset by a decrease of $103,000 on existing North American operations.[6]

Lumber and Forest Products

Lumber and forest products consists primarily of finished lumber used in construction, particleboard used in furniture manufacturing, and wood chips and pulpwood used in paper manufacturing.

Lumber and forest products revenues were $3.3 million in the quarter ended June 30, 2002 compared to $2.3 million in the quarter ended June 30, 2001, an increase of $1.0 million or 43.6%. The increase of $1.0 million consists of $597,000 from new South Buffalo and Emons railroad operations and an increase of $403,000 from existing North American railroad operations primarily in Canada.[7]

Non Freight Revenues

North American non-freight railroad revenues were $8.7 million in the quarter ended June 30, 2002 compared to $7.7 million in the quarter ended June 30, 2001, an increase of $1.0 million or 13.1%.

The $1.0 million increase in non-freight revenues consisted of $1.9 million in non-freight revenue from new South Buffalo and Emons railroad operations, offset by an $879,000 decrease on existing North American railroad operations.[8]

Australian Operations

ARG's freight revenues were $46.3 million in the quarter ended June 30, 2002 compared to $40.6 million in the quarter ended June 30, 2001, an increase of $5.7 million or 14.1%.

This was primarily attributable to increases in iron ores of $2.7 million, grain of $2.4 million and other of $2.0 million, offset by decreases in alumina of $909,000 and hook and pull of $654,000, with revenue from all remaining commodities increasing a net $237,000.

Total ARG carloads were 219,195 in the quarter ended June 30, 2002

[5] Source: 10Q 2002
[6] Source: 10Q 2002
[7] Source: 10Q 2002
[8] Source: 10Q 2002

compared to 209,169 in the quarter ended June 30, 2001, an increase of 10,026 or 4.8%.

The increase of 10,026 carloads consists primarily of 7,165 carloads of iron ores, 2,973 carloads of grain, 1,952 carloads of gypsum and 945 carloads of other ores and minerals, offset by a decrease in hook and pull of 4,493 carloads, with carloads from all remaining commodities increasing a net 1,484.

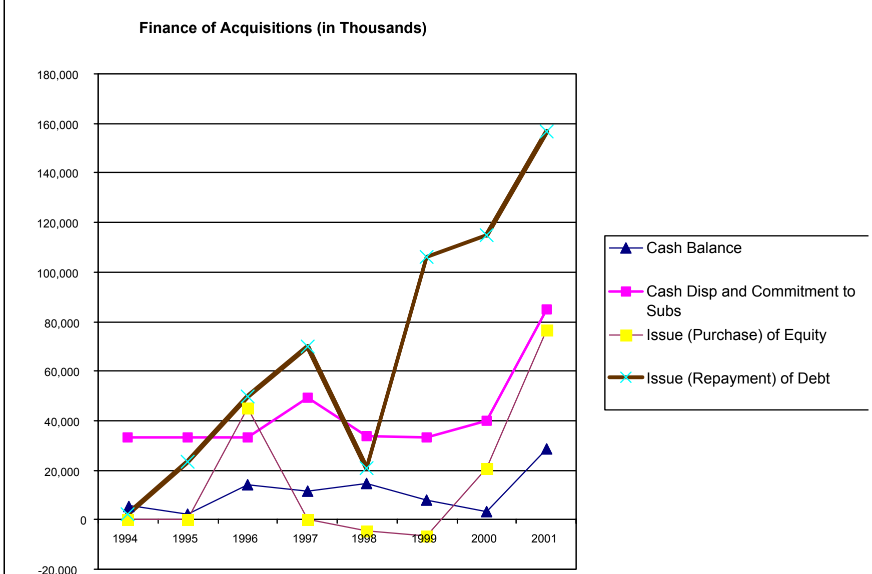
The average revenue per carload increased to $211 in the quarter ended June 30, 2002, compared to $194 per carload in the quarter ended June 30, 2001, an increase of 8.8%.

ARG's non-freight railroad revenues were $7.9 million in the quarter ended June 30, 2002 compared to $4.5 million in the quarter June 30, 2001, an increase of $3.4 million or 73.2%. ARG's non-freight revenue increase of $3.4 million was primarily attributable to new revenues resulting from the construction of the Alice Springs to Darwin rail line.[9]

Finance of Acquisitions

Every year nearly twice as much debt is issued, except during 1996.

Historically, debt issuance is closely followed by equity issuance, keeping GWR D/E ratio constant.



CAGR of Debt Issuance: 82%

For exact figures, see table below:

Acquisitions were not financed purely with operating income

1. Internal cash was not sufficient for the acquisitions; GWR relied on issuance of debt and equity to finance these activities and kept a stable balance of the cash position.

[9] Source: 10Q 2002

2. The company expects to have 150MM of unused borrowing capacity once the existing financing activities are complete.

USD, MM

Date	12/31/2001	12/31/2000	12/31/1999	12/31/1998	12/31/1997	12/31/1996	12/31/1995	12/31/1994
Cash Balance	28.7	3.4	7.8	14.4	11.4	14.1	2.1	5.9
Cash Disp and Commitment to Subs	84.7	40.0	33.1	34.0	49.1	33.1	33.1	33.1
Issue (Purchase) of Equity	76.4	21.0	-6.3	-4.6	0.1	45.2	0.0	0.1
Issue (Repayment) of Debt	156.7	115.0	106.0	20.8	70.1	49.8	23.7	2.4
CAGR for Debt issuance:	82%							

Source: Global Disclosure

Individual deals listed in the tables below:

Finance of Acquisition (USD, MM)

	Aug-02	Feb-02	Oct-01	Dec-00
Acquisition	Utah	Emons	South Buffalo	Westrail Freight
Price	54MM	31MM	38.7MM	167.2MM
Method:				
By Cash		20MM	33.1MM	21.4MM
By Debt	Revolving $103MM old credit	$103 MM revolving line of credit	5.6MM	
Add. Commitment	that was replaced by a new 250MM		5MM	Gave away ASR & APTC
	Senior Credit			(both exisiting Australain subs)

Dec-00	Nov-00	Dec-97	1998	1997/8
Mexico Additional Investment	Oriental (South America)	ARG (Australia)	GRO (Canadian)	
12.6MM	17.7MM	33.1MM	0.875MM	4.9MM
1.9MM	6.9MM	11.1MM	0.875MM	4.9MM
10.7MM from credit facility	10.8MM	22MM		
		Add. 34.1MM by Dec. 2002		

Source: Morgan Keegan Aug. 22, 2002 Equity Research Report, GWR 2001 Annual Report

Outlook for 2002-2003 Revenue

Resurgence of Coal Shipments

The industry had lower coal carloads in 1H2002 due to the higher than normal stockpiles at major utilities companies.

GWR experienced an even lower coal carloads relative to the Class I railroads due to plant shutdowns related to maintenance.

The hot summer has spurred electricity demand, which should reduce stockpiles for the second half of 2002. The company's coal carloads in July were up 13.3% from the prior-year period, the first increase since

Jan. 2002. [10]

Growth Dependent on the Newly Acquired Operations in the Short Term

The estimated contribution from recognizing South Buffalo and Emons revenue is $14.7 MM and $23.4 MM respectively for 2002.

For 2003, our analysis indicates that continued recognition of Utah's revenue will contribute $23MM to GWR's consolidated revenue.

US Economy Expected to Continue the Downward Trend in 2H 2002 and into 2003.

The Commerce Department reported that the economy contracted at a 0.8% annual rate during the January to September period, revised from the expected 0.1% contraction earlier on this year, which indicates a slower-than-expected economic recovery for 2H 2002 and 2003.

Canadian Economy Expected to be Solid while Mexican Expected to be Weak.

The United States imports approximately 80% of Canadian and Mexican exports. [11] According to Statistics Canada, the GDP expanded 2 to 3% in 2002.

The Mexican economy contracted 2 to 4% this year. Auto and other industrial good account for a large portion of Mexican rail traffic, while Canadian rail traffic is similar to the mix in the US.

Slightly Lower Than Class II Rail Industry's LT Debt to Capital Indicates a Solid Capacity for Future Acquisitions

GWR's LT Debt/Capital is 44%, and so, mirrors the Class II industry average of 45%. According to the management's estimation, after the financing of the newest acquisition, GWR will still have an unused borrowing capacity of $150MM as a result of the new financing facility offered by Fleet National Bank ($250MM).

Revenue Summary

The summary of the revenue growth projection for year 2002 and 2003 is as follows:

Projection of 2002 New Subs' Contribution to Revenue Growth

	1H 2002 A	2H 2002 E	2003 E
Existing Operations (1)	-2,779	-1,240	0
South Buffalo (2)	7,700	7,000	0
Emons (3)	1,900	21,477	0
Utah (4)	N/A	N/A	23,000
Total Growth	6,821	27,237	23,000

Notes:

1. The result of revenue recognition from this new subsidiary by GWR. Source for 1H 2002 A: Greenwich, Conn., August 1, 2002 /PRNewswire-FirstCall. Assuming half of the projected 2002 revenue. Source:http://24.95.220.41/rochesterrailf/sb.htm
2. The result of revenue recognition from this new subsidiary by GWR . Source for 1H 2002 A: Greenwich, Conn., August 1, 2002 /PRNewswire-FirstCall. For 2H 2002, assuming the

[10] Source: Morgan Keegan Report and KWR 10K

[11] Source: Morgan Keegan Report.

same level as 2001 annual revenue.

3. The result of revenue recognition from this new subsidiary by GWR Source: Greenwich, Conn., August 1, 2002 /PRNewswire-FirstCall.
4. G&W said its Mexican subsidiary lost about $2 million in revenue and spent about $500,000 to repair tracks. (Source: Yahoo News)

Assumptions:

a. 2H 2002 Existing Operations : Net revenue decline of $1.240 MM as the result of the Mexican Hurricane impact of $2.5MM, the resurgence of coal shipments that reduced the YOY annual decline, and the enhanced revenue from existing Mineral & Stones traffic.

b. Given the slower-than-expected economic recovery of North American Economies, we assume a zero-growth revenue for 2003.

Costs

GWR has steadily improved its operating ratio, delivering on its promise of cost reduction. However, the Company is short on details about its plans to further reduce expenses beyond post-acquisition consolidating efficiencies. We would like more details about GWR's plans to reduce expenses for each regional railroad.

Operational Plusses

- N.A. railroad has recorded excellent compensation and equipment rent figures, reflecting its high-density strategic configuration.
- Maintenance reductions in consolidated results reflect the Company's efforts to reduce expenses in this area.

Operational Minuses

- The Company has recorded higher than average G&A expenses as a result of the Australian acquisition/reorganization in 2001.
- The Company has not announced any significant new initiatives to improve railroad-by-railroad operating efficiency.

Operating Profitability

GWR's consolidated operating ratio improved in the first half of 2002. This operating ratio is now roughly in line with most of the larger Class I railroads.

Consolidated Operating Statistics

USD, MM	1H/02	2001	2000
Operating Revenues	100.3	173.8	206.5
Operating Expenses	85.9	151.4	182.8
Operating Ratio	*84.9%*	*87.2%*	*88.5%*
N.A. Railroad Freight Revenues	76.5	129.9	126.3
N.A. RR Carloads	216.0	388.0	375.1
N.A. RR Freight Revenues/Carload	0.4	0.3	0.3
Aus. Railroad Freight Revenues	88.4	164.6	33.4
Aus. RR Carloads	438.4	846.8	240.3
Aus. RR Freight Revenues/Carload	0.2	0.2	0.1

Consolidated Expenses

GWR's consolidated expenses take into account non-freight subsidiaries, including Industrial Switching. Examination of the separate railroad groups is necessary for understanding railway operating efficiency.

Consolidated Operating Expenses

USD, MM	1H/02		2001		2000	
Op. Revs	100.8		173.6		206.5	
	Cost	**% Op. Rev.**	**Cost**	**% Op. Rev.**	**Cost**	**% Op. Rev.**
Transportation	30.8	*31%*	56.6	*33%*	69.1	*33%*
Maintenance of Way/Structures	11.3	*11%*	19.2	*11%*	22.2	*11%*
Maintenance of Equipment	17.3	*17%*	31.2	*18%*	40.4	*20%*
General and Administrative	20.0	*20%*	31.6	*18%*	33.0	*16%*
Depreciation & Amortization	6.6	*7%*	12.8	*7%*	14.0	*7%*

Australian Operations

The Australian operation is more of a traditional longline business, and thus its equipment maintenance expenses are lower than the company as a whole, reflecting a lower ratio of equipment to way/structures.

G&A costs were higher in the first half of 2002, in part because of restrictions related to post-acquisition employment restrictions imposed by the government at ASR.

Australian Railroad – Operating Expenses

$ MM	1H/2002		1H/2001	
	Cost	**% Of Op Rev**	**Cost**	**% Of Op Rev**
Transportation	30.3	*29.4%*	26.6	*29.2%*
Maintenance of Way/Structures	11.2	*10.9%*	9.5	*10.6%*
Maintenance of Equipment	10.9	*10.6%*	10.1	*11.4%*
General & Administrative	17.1	*16.7%*	11.9	*13.4%*
Depreciation & Amortization	7.9	*7.6%*	6.5	*7.3%*

Note: The Australian operations are reported using the equity method of accounting.

N.A. Railroad

Compensation and benefits were slightly higher than average in the first half of 2002, but they were roughly flat YOY.

Equipment rents were significantly lower,

North American Railroad Operating Expenses

$ MM	1H/02		2001		2000	
	Cost	**% Of Op Rev**	**Cost**	**% Of Op Rev**	**Cost**	**% Of Op Rev**
Comp. & Benefits	33.2	*35.7*	55.9	*34.7*	54.2	*34.2*
Equipment Rents	9.0	*9.7*	19.8	*12.2*	19.8	*12.5*
Purchased Services	7.1	*7.7*	11.9	*7.4*	10.8	*6.8*
Deprec. & Amort.	6.3	*6.8*	12.1	*7.5*	11.1	*7.0*
Fuel	5.6	*6.1*	11.6	*7.2*	12.9	*8.1*

Materials	5.7	*6.2*	10.6	*6.5*	10.2	*6.5*
Casualties & Insur.	3.9	*4.2*	6.8	*4.3*	5.1	*3.9*
Other	8.0	*8.5*	11.2	*6.6*	9.7	*6.1*

Note: GWR reports most corporate overhead in the results of N.A.R.R.

Industrial Switching

The Industrial Switching business provides an important hook into large customers who require on-site switching services. As such, it seems that the company is willing to accept very low profitability in this line of business.

This business may also a source of expertise that is beneficial for improving hand-offs with the longlines.

U.S. Industrial Switching Operating Expenses

	1H/02		**2001**		**2000**	
$ MM	**Cost**	**% Of Op Rev**	**Cost**	**% Of Op Rev**	**Cost**	**% Of Op Rev**
Comp. & Benefits	4.5	*62.2*	8.0	*66.4*	6.4	*60.7*
Equipment Rents	0.2	*2.2*	0.3	*2.4*	0.2	*2.3*
Purchased Services	0.2	*3.1*	0.3	*3.2*	0.3	*3.2*
Deprec. & Amort.	0.2	*3.3*	0.6	*5.1*	0.7	*6.2*
Fuel	0.3	*4.4*	0.4	*3.8*	0.5	*5.1*
Materials	0.3	*4.6*	0.7	*5.8*	0.6	*6.1*
Casualties & Insur.	0.5	*7.2*	0.3	*2.4*	0.5	*5.0*
Other	0.5	*6.9*	0.8	*6.9*	1.0	*9.1*
Total		*95.9%*		*96.0%*		*99.7%*

Compensation & Benefits

GWR's U.S. railroad compares very favorably with its much larger Class I counterparts in terms of compensation and benefits.

As a shortline/feeder in the US, GWR does not have as much infrastructure to support and maintain. The density of GWR's operations contributes to its operating efficiency.

US Class I Railroads	**Carloads**	**Comp per Carload (2001)**
BNSF	8.2 mm	$ 348
CSX	7.1 mm	414
KCSI	949 k	203
NS	6.6 mm	305
UP	8.9 mm	480
GWR (NARR)	388 k	144

Infrastructure

GWR is a longline in Australia, and a regional/shortline elsewhere.

GWR had 261 locomotives and 3,709 in rolling stock at the end of 2002.

8,000 Miles of Owned / Leased Track:

Australia	4,200
Bolivia	600
Canada	570
Mexico	960
U.S.	1,650

GWR - Road Properties and Equipment

$ K	2001	2000
Road Properties	198,117	164,497
Equipment	60,074	61,438
Accumulated Deprec. & Amort.	(59,089)	(48,618)
Total	199,102	177,317

Note: Depreciation is provided on the straight-line method over the useful lives of the road property (20-30 years) and equipment (3-20 years).

Operating Leases

$ MM	2001	2000	1999
Operating Leases	8.1	7.6	6.6
Non-cancelable and auto-renewing future lease payments	37.6		

Note: Auto-renewing lease payments occur mainly as a result of leaseback agreements on equipment.

Financial Data

Company	Ticker	P/E			ROA		Operating Expense Ratio			Asset Turnover		Debt/Equity		Interest Coverag	
		2000	2001	2002E	2000	2001	2000	2001	2002E	2000	2001	2000	2001	2000	2001
Burlington Northern SF	(BNI)	10.9	12.5	12.8	4.0%	3.0%	77.1%	80.9%	81.0%	0.378	0.372	2.0	1.9	3.4	3.9
Canadian National	(CNI)	13.6	13.0	15.9	5.4%	4.9%	69.6%	65.7%	69.0%	0.314	0.266	1.3	1.5	5.3	5.9
Canadian Pacific	(CP)	9.2	13.1	13.6	6.0%	4.2%	76.9%	77.3%	77.0%	0.415	0.375	1.1	1.8	5.1	4.0
CSX Corp.	(CSX)	31.4	17.7	18.7	2.7%	1.4%	90.2%	88.2%	88.5%	0.399	0.390	2.0	2.1	1.5	1.8
Kansas City Southern	(KSU)	32.3	31.6	17.0	NM	1.5%	89.9%	90.4%	86.1%	0.294	0.287	1.7	1.6	0.9	1.0
Norfolk Southern	(NSC)	48.7	24.1	15.7	0.9%	1.9%	89.7%	83.7%	82.0%	0.325	0.318	2.0	1.9	1.1	1.8
Union Pacific	(UNP)	17.5	15.9	15.2	2.7%	3.1%	84.0%	82.7%	83.0%	0.384	0.379	2.3	2.0	2.6	3.0
Mean		**23.4**	**18.3**	**15.6**	**3.6%**	**2.9%**	**82.5%**	**81.3%**	**80.9%**	**0.358**	**0.341**	**1.8**	**1.8**	**2.8**	**3.1**
Genesee & Wyoming	**(GWR)**	**15.2**	**14.2**	**11.8**	**5.1%**	**4.5%**	**88.5%**	**87.2%**	**86.0%**	**0.610**	**0.431**	**1.7**	**1.6**	**0.9**	**1.0**

Source: Historical data as per annual report, 2002E as per Yale SOM Team Members

Company	Ticker	Sales			Sales Growth			EBIT			EBIT Margin			Net Income	
		2000	2001	2002E	2000	2001	2002E	2000	2001	2002E	2000	2001	2002E	2000	2001
Burlington Northern SF	(BNI)	9207.0	9208.0	9023.8	0.1%	0.0%	-2.0%	2108.0	1755.0	1714.5	22.9%	19.1%	19.0%	980.0	731.0
Canadian National	(CNI)	5428.0	5652.0	5623.7	3.7%	4.1%	-0.5%	1648.0	1937.0	1743.4	30.4%	34.3%	31.0%	937.0	1040.0
Canadian Pacific	(CP)	3655.1	3698.6	3661.6	4.5%	1.2%	-1.0%	845.2	841.0	842.2	23.1%	22.7%	23.0%	532.3	410.4
CSX Corp.	(CSX)	8191.0	8110.0	8110.0	-21.1%	-1.0%	0.0%	805.0	957.0	932.7	9.8%	11.8%	11.5%	565.0	293.0
Kansas City Southern	(KSU)	572.2	577.3	611.9	-4.9%	0.9%	6.0%	57.8	55.4	85.1	10.1%	9.6%	13.9%	380.5	30.7
Norfolk Southern	(NSC)	6159.0	6170.0	6170.0	17.5%	0.2%	0.0%	633.0	1007.0	1110.6	10.3%	16.3%	18.0%	172.0	375.0
Union Pacific	(UNP)	11878.0	11973.0	12212.5	5.7%	0.8%	2.0%	1903.0	2072.0	2076.1	16.0%	17.3%	17.0%	842.0	966.0
Mean		**6441.5**	**6484.1**	**6487.7**	**0.8%**	**0.9%**	**0.6%**	**1142.9**	**1232.1**	**1214.9**	**17.5%**	**18.7%**	**19.1%**	**629.8**	**549.4**
Genesee & wyoming	**(GWR)**	**206.5**	**173.6**	**208.3**	**17.6%**	**-15.9%**	**20.0%**	**9.8**	**9.4**	**12.5**	**4.7%**	**5.4%**	**6.0%**	**13.9**	**19.1**

Source: Historical data as per annual report, 2002E as per Yale SOM Team Members

Valuation Summary

- GWR is fairly valued at the moment.
- While there is no downside likely given the predictability of the revenue recognition of recent acquisitions, some upside is possible, but with low probability.
- The upside can come from three sources: better than expected coal shipments from 2H: 02, more accretive acquisitions that are already in the works but have not been made public, and much better than expected cost synergies with recently acquired railroads. While all of this is certainly possible, it is highly unlikely: (1) there is no evidence for any cost synergies between acquisitions to date with GWR; (2) coal will pick up due to the backlog, but the market has already responded to moderate gains made here; (3) no future acquisition targets have been made public by the company and its seems to have its hands full with the slue of acquisitions made in the last 4 years.
- Given that no downside is likely and the relatively low probability of upside, we believe that GWR is fairly valued. Stock returns will be normal (reflective of its cost of equity) to moderately better than normal due to the low probability of the upside.
- Currently trading at: $21.12
- 12 month price target: $23.00

Comparables

- **P/E:** GWR currently trades at 11.8x 2002E earnings, well below both the Class I Railroad and Class II Railroad Averages.
- Close comparables such as RailAmerica and Kansas City Southern also trade well above GWR.
- On average GWR trades at a 10 to 50% discount to it comps.
- This discount may me warranted as there are truly no other comparables that have the same "growth through acquisition" business strategy as GWR.
- The next table illustrates just how much GWR may be losing in terms of P/E valuation by using an acquisition growth strategy versus that of organic growth.

Company	Ticker	LTD / Market Cap	Price/Book	P/E		P/E Discount	
		2002	2002	2001	2002	2001	2002
Class I Railroads		47.0%	1.2	18.3	15.6	47.6%	48.7%
Class II Railroads		45.0%	1.8	14.8	12.7	4.1%	7.1%
Regional Comparables							
Kansas City Southern	KSU	50.0%	1.1	31.6	17.0	69.6%	52.9%
RailAmerica	RAIL	65.0%	1.7	14.9	13.0	4.9%	10.2%
Genesee & Wyoming	**GWR**	**44.0%**	**1.4**	**14.2**	**11.8**	--	--

Source: Historical data as per annual report, 2002E as per Yale SOM Team Members

Cost of Current Business Strategy

The P/E discount relative to peers may be costing GWR $54.8 MM in Market Capitalization.

Cost of Current Business Strategy	
2002E P/E	11.8
2002E Class I/Class II Average P/E	14.2
(a) P/E Difference	**2.4x**
(b) 2002E EPS	**$1.77**
(c) Shares Outstanding	**12.9 MM**
Market Capitalization Loss (a x b x c)	**54.8 MM**

DCF Valuation

- The Company's Debt-to-Equity ratio has remained very constant over the past several years; each issuance of debt has been closely followed by an issuance of equity. We had no basis to adjust the D/E ratio and, therefore, we had no basis to use APV analsyis
- DCF Valuation is in-line with the current market price. The valuation is relatively sensitive to WACC, which we estimate to be 7.53%, but relatively insensitive to changes in 2004-2006 growth estimates.
- Growth for 2002 and 2003 is based in company projections for revenues derived from recent acquisition. 2002 revenue estimates are largely driven by the revenue recognition of the South Buffalo Railway and Emons Transportation Group acquisitions. 2003 revenue estimates are driven by revenue recognition of the acquisition of Utah Railways.

	1999	2000	2001	2002	2003	2004	2005	2006
Revenues	175.6	206.5	173.6	19.62%	11.07%	5.00%	5.00%	5.00%
COGS & SGAE	87.24%	88.52%	87.21%	85.00%	84.00%	84.00%	84.00%	84.00%
NPPE / Depr	15.93	14.32	15.55	16.05	16.55	17.05	17.55	18.05
CAPEX	14.18%	14.19%	9.56%	9.06%	8.56%	8.06%	7.56%	7.06%
Revenue Continuous Growth	4.0%							

Revenues	176	207	174	208	231	242	254	267
COGS & SGAE	153	183	151	177	194	203	214	224
Depreciation	13	14	13	13	13	13	13	13
EBIT	10	10	9	18	24	26	28	30
Taxes on EBIT	3	3	3	6	8	9	10	10
Depreciation	13	14	13	13	13	13	13	13
Change in Working Cap	15	14	16	0	0	0	0	0
CAPEX	25	29	17	19	20	20	19	19
FCF	(21.0)	(23.0)	(14.2)	6	9	10	12	13
Continuation Value								397
Discounted FCF				6	8	9	9	307
PV(FCF)				339.2				
ONOA				0				
Long Term Debt				56.15				
Equity Value				283.0				
Price per Share				**$ 21.94**				

WACC	7.53%

WACC Assumptions

Re	8.08%
Rd	7.50%
ß	0.62
Rm	10.50%
Rf	4.14%
Tc	35.00%

Notes
1. EBIT fully taxed at 35%

Source: Historical data as per annual report, projections as per Yale SOM Team estimates

Sensitivity Analysis

		Discount Rate			
		7.0%	**8.0%**	**9.0%**	**10.0%**
Continous Growth Rate	**2.0%**	$ 15.22	$ 11.95	$ 9.62	$ 7.87
	3.0%	19.48	14.71	11.54	9.27
	4.0%	26.58	18.85	14.22	11.14
	5.0%	40.78	25.76	18.25	13.75
	6.0%	83.37	39.57	24.97	17.67

Genesee & Wyoming Railroad

Income Statement	FY 1998	FY 1999	FY 2000	FY 2001	Q1:02	Q2:02	FY 2002E
Net Sales	147.4	175.6	206.5	173.6	48.3	52.1	208.3
Percentage Change		**19.13%**	**17.60%**	**-15.93%**			**20.00%**
Cost Of Goods Sold	127.9	153.2	182.8	151.4	41.8	44.1	
Gross Profit	**19.5**	**22.4**	**23.7**	**22.2**	**6.5**	**7.9**	
EBITDA	19.5	22.4	23.7	22.2	6.5	7.9	
Depreciation and Amortization	12.4	12.5	13.9	12.8		3.3	3.3
EBIT	**7.1**	**9.9**	**9.8**	**9.4**	**6.5**	**4.7**	**12.5**
EBIT Margin	**4.82%**	**5.62%**	**4.73%**	**5.44%**			**6.00%**
Interest Expense	7.1	8.4	11.2	10.0	1.6	1.7	
Non-Operating Income	7.3	1.7	1.5	1.3	0.1	0.5	
Income Before Tax	19.8	15.6	24.1	16.4	5.0	6.7	
Provision For Income Taxes	7.7	2.2	10.6	6.2	1.7	2.3	
Implied Tax Rate	0.39	0.14	0.44	0.38	0.34	0.34	
Income After Tax	12.1	13.4	13.5	10.2	3.3	4.5	
Minority Interest	-	-	-	-	-	-	
Net Income Before Extra Items	12.1	12.8	13.5	10.2	3.3	4.5	
Extra Items Discontinued Operations	(0.6)	(0.9)	0.4	8.9	1.8	2.7	
Net Income	**11.4**	**12.5**	**13.9**	**19.1**	**5.1**	**7.1**	**22.9**
EPS	**0.97**	**1.23**	**1.38**	**1.48**	**0.31**	**0.49**	**1.77**
S/O	11.8	10.2	10.1	12.9	17.5	14.6	

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