

Company Update

Reports Solid Orders Since September, Driven By Tank and Automotive Railcars

Last night after the close, The Greenbrier Companies (GBX, Hold, \$16.32, closing price 1/7/13) announced that it received orders for over 4,200 units valued at over \$430 million (average of \$102,000/unit).

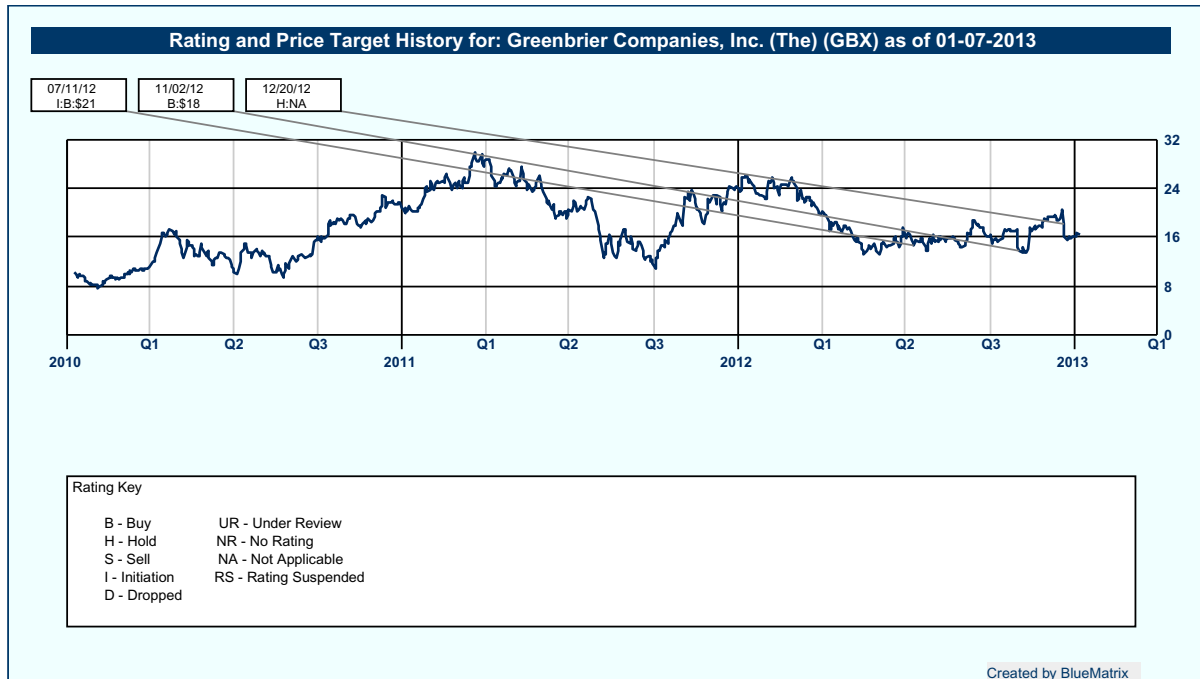
- **Tanks and automotive orders leading the way:** The orders of 4,200 railcars included 1,250 tank cars with a value of approximately \$160 million (\$128,000/unit) and 1,400 automotive-related railcars valued at \$140 million (\$100,000/unit). We consider both the average unit value for the tank cars and the automotive cars to be high relative to historical averages which should benefit the company's margins in fiscal 2013. The remaining 1,550 railcars included a variety of other railcar types. Management didn't specify what those other railcar types were, but the company has a specialty in double-stack intermodal cars, boxcars, gondolas, and other types. Management stated that forest products cars, such as box cars and lumber flat cars are now benefitting from recovery in the construction sector. Of the railcar OEMs we follow, we believe Greenbrier is the OEM that would benefit the most from railcar orders that cover a broad range of railcar types.
- **Orders solid, in our view:** The orders received during the past four months represent about four months of production based on the company's stated 2013 guidance. Orders of 4,200 units in four months annualizes to 12,600 units; that order rate is within the company's fiscal 2013 production guidance range of 11,500-13,000 units.
- **It is clear to us the company is gaining traction with its strategy to expand tank car production capacity.** During 2012, the company's tank car production was approximately 1,000 units and the company is expects to ramp up production to a 300 unit/month rate by the end of December 2012. This change in mix, toward tank cars which carry higher margins, is the primary reason why we expect gross margins to improve to 12.4% in fiscal 2013 from 11.9% in fiscal 2012.
- **The company's press release last night gives us added confidence in our existing fiscal 2013 and fiscal 2014 EPS estimates of \$1.85 and \$2.20, respectively.** We may revise our fiscal 2013 EPS estimate higher following the company's fiscal 1Q13 earnings release given the strength in average railcar pricing and the favorable mix shift toward tanks that may be taking place somewhat faster than we were previously expecting. We believe last night's press release removes the risk that Wednesday's earnings press release might contain disappointing order numbers for the company's fiscal 1Q13. We suspect that the company may have issued this press release, which reported the past four months of orders, to put the company's fiscal 1Q13 orders in context (i.e., it would not surprise us if the bulk of the order came after the end of November).
- **We are maintaining our Hold rating** as our fair value estimate of \$18 (8.0x our fiscal 2014 EPS estimate of \$2.20) provides insufficient upside relative to the most recent trading price to warrant a Buy rating.

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For a price chart with our ratings and target price changes for GBX go to <http://sf.bluematrix.com/bluematrix/Disclosure?ticker=GBX>

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next 12 months and believe the stock could decline in value.

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