RAILROAD WEEK IN REVIEW

April 28, 2023

"Car velocity averaged 211 miles per day in the first quarter, up nearly 30% from the first quarter last year. This is the best first quarter car velocity performance since 2017. Origin train performance averaged 86% in the first quarter, up 62% from the first quarter last year. We moved this additional volume with nearly 15,000 fewer cars on the network. The faster we are, the more capacity we create and our ability to reduce our car fleet has paid a lot of dividends across the operation of this railroad." — Ed Harris, COO, Canadian National

"As the NTSB continues its work, we have already begun to take actions designed to further enhance safety, such as installing additional safety sensors, accelerating the deployment of advanced early detection technologies, and increasing safety training for first responders." — Alan Shaw, President & CEO, Norfolk Southern

"It's been a journey, but we're finally here today. It's an honor to speak for the first time as the CEO of the newly formed CPKC family. We are not quite at the two week mark since we drove that historic final spike solidifying our combination, but I can tell you the passion and the pride that I'm seeing from employees across this entirely new formed network is energizing." — Keith Creel, President, CPKC

Canadian National 1Q2023 revenue units increased less than one percent year-over-year at 1.3 million. Manifest carloads plus automotive represent 53 percent of the total and increased 11 percent vs. a year ago. Intermodal took the big hit, down 13 percent, mainly on the international side though domestic is beginning to slip as well. Grain and ferts carloads increased 23 percent, helped by the 90 percent spotting performance for grain customers and nearly doubling last year's loadings.

Metals/minerals carloadings gained 13 percent, though combined chemicals, plastics, and crude oil eked out a mere one percent gain -- reflecting the general manufacturing malaise. Lumber shipments decreased only slightly despite depressed housing indicators, rising interest rates, low commodity prices, and extended mill curtailments, particularly in British Columbia. Volumes were steady due to the home renovation market doing better than expected.

Whereas volumes barely budged (RTMs up 6 percent), freight revenue increased 17 percent to C$4.2 million. Every commodity group posted double-digit gains and system RPU was up 16 percent. And although CN isn't breaking out any annual fuel

surcharge numbers, they do concede that FSC revenue increased $C239 million over the past year and that every commodity group benefitted.

Total revenue was C$4.3 million, up 16 percent, and operating income leapt 36 percent as ops expense was held to a six percent increase; the OR was 61.5, down a heady 544 basis points. Net income likewise gained handsomely, up 33 percent to C$1.2 million. Free cash flow after capex but before dividends and share repos more than doubled to C$594 million, thanks largely to the doubling of cash from operations.

The strong results from CN (and CSX last week) tell me one thing: The numbers are vastly improved year-over-year but the railroads themselves haven't changed much physically. The leadership *has* changed, however, instilling an operating discipline and level of customer engagement that had not been where they had been or could be.

Proof of the pudding is the new intermodal service connecting Mexico, the US, and Canada in partnership with Union Pacific and Grupo Mexico. Says CN CEO Tracy Robinson, "This steel wheel interchange service leverages the best of our three networks and creates the most direct route and the fastest transit times between Canada and Mexico. It will provide our intermodal customers with the efficiency of bigger payloads and, most importantly, the ability to accelerate the shift of truck business to rail." Clearly the close look CN got at KCS during the merger battle with CP helped.

Given all that Norfolk Southern has been through in Q1, I'd say they turned in a rather respectable quarter. Based on Alan Shaw's remarks at the beginning of the call and the very straightforward accounting of the facts in the presentation, NS seems to be turning the corner in the leadership department.

Total freight revenue was $3.1 billion, up seven percent, on 1.7 million revenue units, unchanged. System RPU gained eight percent. NS provides per-car fuel surcharge by commodity group and it averages around three percent of total RPU. So if total freight revenue was up seven percent, it's safe to say the gain was about evenly split between freight rates and FSC, a much more modest ratio than we're seeing elsewhere with FSC dominating.

GAAP requires all operating expenses to be included in the OR calculations, and I generally avoid non-GAAP numbers. Straight GAAP reporting gives NS ops expense up a third, ops income down a third to $711 million, and net income down the same to $467 million. The OR added more than 14 points to 77.3.

Looking at NS without the East Palestine event provides, I think, a more accurate picture of NS progress during Alan Shaw's first year as CEO. Backing out the $357 million operating charge incurred by the incident yields a 1.2 percent operating income

increase to $1.1 billion that absorbs the 12 percent jump in comp due to the labor agreements. Below the line, the adjusted net income becomes $769 million, up eight percent.

Suffice to say, NS has turned in some impressive Q1 numbers and it sure looks like the senior management vision is finally percolating throughout the organization.

Canadian Pacific rounded out the railroad earnings presentation season with some impressive results, appropriate in that this was CP's last quarter as a stand-alone property. The railroad handled 679,500 revenue units, up nine percent, generating freight revenues C$2.2 billion, up 23 percent; RPU increased 14 percent to C$3,263. Merch carloads including auto grew 14 percent and revenue jumped 30 percent to C$1.6 billion.

Operating income was up a respectable 55 percent to C$829 million. Ops expense increased a mere ten percent, further leveraging the 23 percent revenue growth. Shows what a 14 percent gain in carload freight ex-coal can do with double-digit gains in grain, potash and MMC[1] when the ops expense increase percentage is half that of revenue. The OR shed seven points to 63.4, which I think is a reasonable number when you're trying increase the customer count by running a smarter railroad.

There were no fuel surcharge details, but it had to be double digits per car as total revenue increased at more than twice the rate of revenue-unit growth — 23 percent on only nine percent more units.

Below the line, net income increased 36 percent to C$800 million largely on an income tax benefit. Free cash flow after capex but before dividends increased 23 percent to $476 million, 60 percent of net income — no mean feat. I'd say CPKC is off to a good start.

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[1] MMC means "metals, minerals, consumer goods" — metals, aggregates, and frac sand plus consumer goods from refrigerators to processed foods and laundry detergent.