

RAILROAD WEEK IN REVIEW

June 9, 2023

“We’re up about one percent in bulk and industrial. That’s really being driven by rock as a strong commodity right now. We’ve got bio renewable diesel, some other things that are strong commodities and industrial steel. Lumber’s little weak, but even though coal is actually doing pretty well year-over-year, it’s still a secular, long-term down.”
— Lance Fritz, UP, at the Bernstein conference

“Employment (-1.6 pts) fell into contraction; new orders (-3.2 pts) slipped to a 6-month low; backlogs (-8.8 pts) cratered to Great Financial Crisis levels; and the ISM Services chart slipped further southward to 50.3 in May. The Fed Regional Services surveys have been mired in contraction for 12 consecutive months.” — [hedgeye.com](https://www.hedgeye.com), The Macro Show, Financials & Housing analyst Josh Steiner, June 6

“That the debt level remained unchanged is noteworthy since it bucks decades-long historical trends. This is the first time since 2001 in which credit card debt didn’t fall in the first quarter. In fact, the only times card debt didn’t fall in the first quarter of the year since the New York Fed report began were 2000 and 2001.” — NY Fed

Union Pacific President and CEO Lance Fritz provided the investor community a very constructive update on UP’s progress in addressing various matters that have arisen over the past year or so. The occasion was Bernstein’s 39th Annual Strategic Decisions Conference, a virtual event held on June 1.

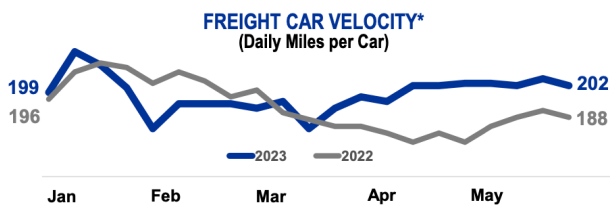
I think it’s important to zero in on the customer-facing aspects of his remarks in that service in general and first-mile/last-mile in particular have dominated UP’s continuing dialog with the STB on the EP770 “Urgent Issues” theme. It has to start with consistency and reliability; this slide sets the tone.

To frame the argument, he starts with safety. Which is only right because customers entrust their goods to any carrier with the implicit understanding that the carrier will be a good custodian of those goods, delivering them in good time and damage-free. And that includes the hazmats that railroads are obliged to carry.

Here UP gets good marks. Over the past four years UP derailments on both main lines and industry tracks have dropped by 26 percent even as individual train starts now carry 20 percent more revenue units. As for all the noise from pundits and politicians about bigger trains being less safe, Fritz reminds us that the data says, “There is zero correlation between safety incidents and train size.”

Improving Network Performance and Efficiency

- Operating metrics improving both year-over-year and sequentially
- Focus on Asset Utilization and Network Efficiency
 - In Second Quarter, approximately 200 locomotives removed from active fleet
 - Recrew rates have declined by nearly 3 points year to date

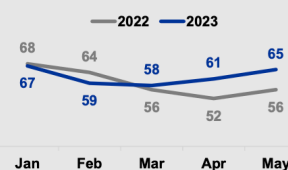


* As reported weekly through May 26, 2023. See Union Pacific website under Investors for definitions of the metrics.

INTERMODAL TRIP PLAN COMPLIANCE (% of Boxes On Time)



MANIFEST/AUTO TRIP PLAN COMPLIANCE (% of Cars On Time)



You've read elsewhere about ChatGPT and Artificial Intelligence — whether AI is a threat or a tool to enhance everything from medical science to manufacturing. On UP, it's a tool supporting more than 7,000 wayside detection devices covering some 32,000 miles of railroad. Using AI and machine learning, UP manages the collected data to find equipment that's in the process of failing before it actually fails.

The customer benefits two ways: goods are protected in transit and are handled in such a way as to make sure the goods that come out of the cars at destination are in the same condition they were when put in the car at origin. That means putting the right car in the right train running over a network that is right-sized for the business at hand.

UP has always seemed to me about right-sized for 180,000 - 200,000 cars or intermodal platforms a day. Power must be distributed just so because slowing average system velocity by just one mph can mean needing another 250 locomotives to move the same volumes.

Trip plan compliance (TPC) is critical to customer service and a key measure is freight car velocity: all miles by all cars every day. As you can see in the chart, 202 miles per day at the end of May is essentially on plan for freight car velocity. And that segues to improved trip planning compliance (right side of chart).

TPC has the additional benefit of cutting re-crew rates, now down some three points year-over-year. Says Fritz, "We're in a very good run rate right now for how many

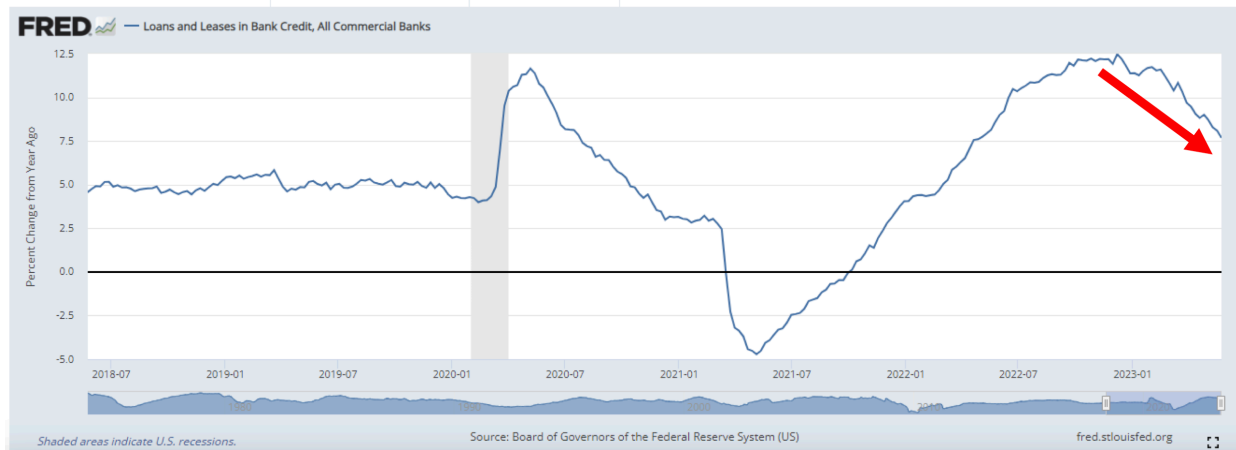
crews it takes to meet the trip plan. A re-crew is waste — it's a crew-start you didn't plan on. We're at about 6.5 percent right now, which is good run rate.”

I had the good fortune to see a lot of UP first hand back in the day when they ran overnight trips for the annual shortline meetings. I fondly recall trips to St Louis over the former MOP, Proviso over the Northwestern, and on the original UP over the triple-track across Nebraska to Denver and back.

There's no better way to see and learn railroad than from a theater car in the company of operating managers and customer service staffers. And so it is doubly gratifying to hear Lance Fritz hold forth on the well-running Union Pacific.

But wait — there's more. UP is on the road again next week with CFO Jennifer Hamann and COO Eric Gehringer at the Wells Fargo Industrials Conference at 9 a.m. ET on Tuesday, June 13. A live webcast of the presentation will be available in the investor relations section of Union Pacific's website at www.up.com/investor. A replay of the audio webcast will be available shortly thereafter. I commend it to you.

It's hard to get the goods moving on the railroad when they're not moving much anywhere. This St Louis Fed chart shows how steeply commercial loan activity has fallen off — fewer loans imply less manufacturing, slower employment growth, fewer raises, and perhaps curtailed household spending.



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