RAILROAD WEEK IN REVIEW

April 26, 2024

"Our 2023 financial results were impacted by a February 2023 derailment in Eastern Ohio. Net income and diluted earnings per share declined compared to 2022, most significantly as a result of the direct costs from the incident. Our financial results were further impacted by lower revenues and higher non-incident-related operating expenses." — NS 2023 10-K, page K-23

"We worked to complete industrial development projects representing $3.1 billion in customer investment and the creation of over 4,150 new jobs along Norfolk Southern lines… We are relentlessly focused on driving productivity improvement and additional growth to provide excellent shareholder value at industry-competitive margins." — Chairman's Letter, NS 2023 Annual Report

The NS year-end 2024 Form 10-K submitted to the SEC can be a treasure trove of detail about what's moving and how, giving investors and customers/short lines valuable background on trends and opportunities. One theme that stands out is loss of RPU and revenue in general from lower fuel surcharge collections and fewer commodity carloads, though gains in one group partially offset declines in another. This table reflects the revenue change by commodity.

	2023 vs. 2022 Increase (Decrease)			2022 vs. 2021 Increase (Decrease)		
	($ in millions)					
	Merchandise	**Intermodal**	**Coal**	**Merchandise**	**Intermodal**	**Coal**
Volume	$ 26	$ (85)	$ (19)	$ (96)	$ (147)	$ 53
Fuel surcharge revenue	(119)	(208)	(23)	455	417	79
Rate, mix and other	115	(298)	22	303	248	291
Total	$ 22	$ (591)	$ (20)	$ 662	$ 518	$ 423

Note the revenue strength of merchandise vs. coal and intermodal over the last three years. Says the 10-K, "Agriculture, forest and consumer products revenues increased in both 2022 and 2021 compared with the prior years." The 2021-2022 gains were in RPU and fuel surcharge, while volumes were nearly flat.

"Declines in pulp board, fertilizer, and pulp were offset by increases in soybeans, feed, and corn. Pulp board and pulp shipments declined due to decreased demand, equipment availability, service disruptions, and production downtime. Lower fertilizer shipments were driven by high fertilizer prices, causing customers to draw down on existing inventories or delay purchases as well as production disruptions.

"Soybean volumes were higher due to increased opportunity for exports. Feed shipments were higher due to increased customer demand. Increased corn shipments were due to improved equipment cycle times. In 2021, higher revenues were the result of higher volume across almost all markets, as the economy improved from the early months of the pandemic in 2020, and increased average revenue per unit. Gains in ethanol, pulp board, beverages, lumber and wood, and wood chips offset declines in soybeans and pulp."

You can read similar detail by STCC in the 10-K write-ups on the chemicals, metals/ construction, and automotive commodity groups further down. It's a worthwhile exercise, especially if you are a customer of or investor in NS.

NS 1Q2024 results show total revenue units up four percent to 1.8 million; freight revenue dropped a like amount on coal revs off ten percent. Merch loads were unchanged at 564 million. Operating expense jumped 15 percent as the East Palestine bills keep coming in. Operating income fell 70 percent to $213 million and the net was off 90 percent to a mere $53 million. No wonder the vultures are circling.

The AAR merchandise reports for the quarter are underwhelming. I see negative year-over-year deltas in 11of the 18 commodity lines commodity lines NS handles. The five biggest losers (five percent or more of total merch carloads) are chemicals, agriculture, and aggregates, together accounting for some 50 percent of merch carloads, Which is surprising as they are largely bulk commodities with limited time sensitivity.

In short, the East Palestine fallout really hammered the Q1 results. But I think, reading between the lines, that railroad operations are on the mend after all Squires' cost-cutting. Adjusted results *sans* East Palestine show ops expense down three percent, the OR up five points, and the net slipping just 12 percent. Car-miles per day were up four percent, dwell dropped six percent, and merch trip plan compliance improved seven percent. Well on the way to recovery, I'd say.