RAILROAD WEEK IN REVIEW

November 1, 2024

"The way a chairman begins his review of the previous period's results is very revealing. It tells one right up front where the company's focus lies. The Apple focus is community, the Berkshire focus is the shareholder, and the NS focus is its own internal metrics. The difference is that the first two begin with the desired end result and move on to how they will achieve those ends. The railroad example — and they're all pretty much the same — starts with the internal processes, and largely implies the customer benefit. — WIR, March 29, 2021

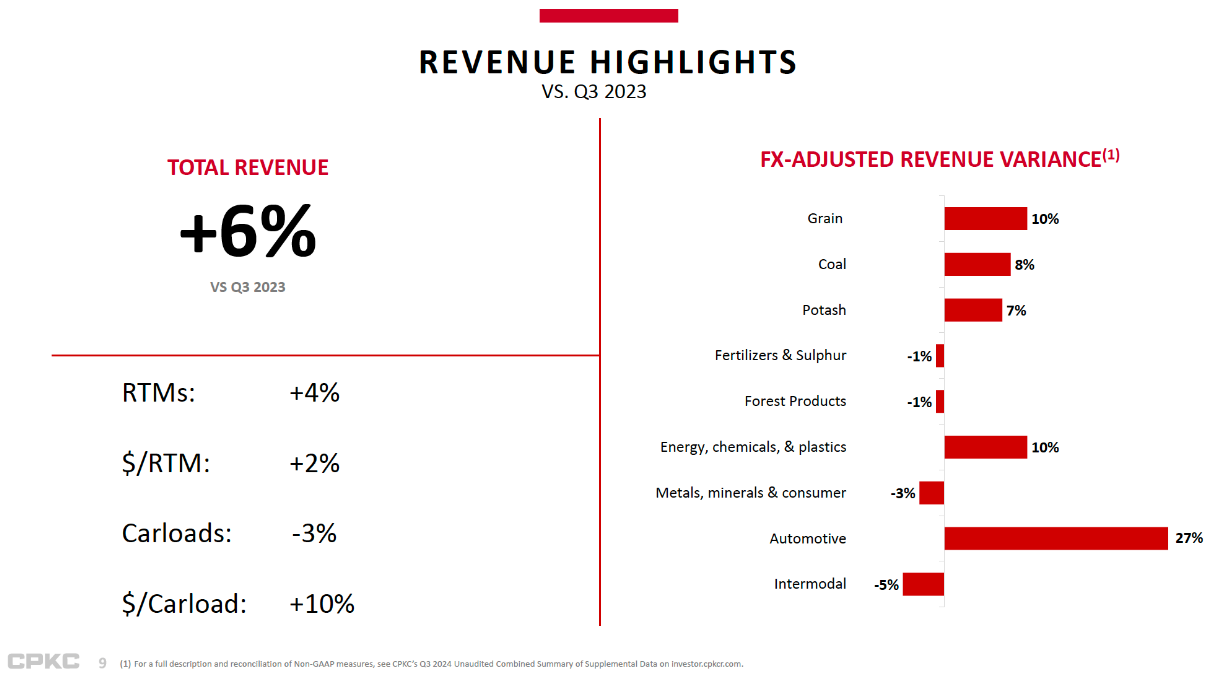
"Average terminal dwell declined 8%, average train speed increased by 6%, locomotive productivity improved by 8%, and —just to round off — fuel efficiency improved by 2%. All of these results demonstrate an efficient, fluid, resilient network that is delivering strong service to our customers." — Mark Redd, COO, CPKC, October 23 call

"Freight car velocity improved 5% to 210 miles per day compared to third quarter 2023. Additionally, throughout the last several weeks, we have maintained a freight car velocity near 220 miles per day. A favorable business mix coupled with continued improvements in terminal dwell has driven the performance. Notably, we achieved a third quarter record in terminal dwell, a 5% improvement versus last year." — Eric Gehringer, COO, Union Pacific, Earnings Call October 24

Canadian Pacific third quarter results show what a railroad that builds itself around customers' transportation requirements can deliver. Freight revenues increased 6% to C$3.5 billion even as revenue units slipped 3% to a million-point-one. *BUT*…RTMs increased 4% and therein lies the whole CPKC story

Under Creel's leadership I've come to expect that when CP says they're about to do something to build the business you'll see the results in a year or so. Do you remember CP saying they were building grain trains of high capacity cars? Well, it's happening, and the John Brooks slide (next page) says it all.

RTMs were up 4% on carloads down 3%. In the financials, grain revenue gained 25% YTD on carloads up only 11%. Moving more grain with fewer cars means fewer train starts and better deployment of crews and power. More grain per train frees up track space, too, thus adding capacity. Truly running a railroad with precision.



And the financial rewards ought to please any investor or other interested parties — like certain newsletter writers. CFO Nadeem Velani: "CPKC's reported operating ratio was 66.1% and the core-adjusted combined operating ratio came in at 62.9%. Diluted earnings per share was C$0.90 and core-adjusted combined diluted earnings[1] per share was $0.99, up 8% from prior year."

Running the smarter railroad generated "efficiency gains from reduced overtime, improved trainways, improved crew utilization, and other productivity gains as we continue to optimize the combined network." Cash from operations grew 27% to C$3.6 billion. Free cash flow after capex and divs (there were no repos) nearly doubled to C$950 million. Retained income, alas, slipped 17% to C$1.6 billion.

Nadeem sums up the results very nicely: "The team continues to deliver industry-leading volume growth along with continued discipline on price and cost control. We believe that we are well positioned for sequential and year-over-year OR improvement in Q4.

Union Pacific's 3Q presentation was yet another strong and energetic call. Freight revenue increased 4% to $5.8 billion on 2.2 million revenue units, up 6%. Operating expense came down 2%, nicely complementing the 3% gain in total revenues. Operating income increased 9% to $2.4 billion. Below the line, net income increased 9% to $1.7 billion. The operating ratio shed three points to a highly respectable 60.3%.

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[1] Assumes the company had combined on 1/1/2022. Sort of a what-if number.

Every time I hear Kenny Rocker talk about the commercial scene at UP, I come away feeling he really has his arms around the franchise. His earnings call slide 9 below tells us what to expect in each of UP' principal commodity groups.

Third Quarter Commodity Review

Commodity	Revenue (Millions)	Volume (Thousands)	ARC	Quarterly Drivers
Bulk vs. 3Q'23	$1,805 ▲ 2%	496 ▼ 3%	$3,641 ▲ 5%	• High Coal Inventories and Natural Gas Competition • Strong Grain Products Market Demand & New Business Wins • Heavy Export Grain Shipments
Industrial vs. 3Q'23	$2,121 ▲ 3%	560 ▼ 2%	$3,791 ▲ 5%	• Strong Core Pricing Gains & Positive Business Mix • Business Development wins in Petroleum and Petrochemicals • Softer Demand for Rock
Premium vs. 3Q'23	$1,842 ▲ 7%	1,111 ▲ 14%	$1,657 ▼ 6%	• Strength in International West Coast Imports • Domestic Intermodal Growth Driven by Business Development • Automotive Weakness Due to Unplanned Production Downtime Partially Offset by Business Wins
Total vs. 3Q'23	$5,768 ▲ 4%	2,167 ▲ 6%	$2,662 ▼ 1%	Freight Revenue Excluding Fuel Surcharge Up 5%

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For context: Year-to-date AAR carload reports show double-digit gains in ag and forest products and losses of that size in aggregates. Re aggregates, see third bullet for Industrial, above; ag products are in the second and third bullet under Bulk. Though not in the above table, forest products increased 12%, evenly split between STCCs 24 and 26.

The most encouraging word of all is UP's return to the operating excellence of 20 years ago when they invested heavily in track capacity and trip plan compliance, the first making the second possible. Ed Duffy would be proud to see such a return.

Luddites at work: "The proposed FRA rule would give rail labor and lineside communities more of a say in how automated track and train inspection systems are deployed." The proposal also seeks to preserve union jobs: It says the FRA will take a dim view of safety waiver requests that seek to reduce employment levels or the number of inspections performed by track and car inspectors." — Bill Stephens, *Trains Newswire*, October 29