

RAILROAD WEEK IN REVIEW

February 28, 2025

“On February 14, 2025, Norfolk Southern Corporation and Norfolk Southern Railway Company (collectively, “NS”) filed a minor application seeking authority from the Surface Transportation Board (“STB” or “Board”) to control Norfolk & Portsmouth Belt Line Railroad Company (“NPBL”).” — STB Docket FD36836

“The Short Line Safety Institute (SLSI) reported reaching a milestone this month: More than 5,000 small-road employees and first responders have completed in-person hazardous materials (hazmat) training” — Railway Age, Feb 25

BNSF fourth quarter 2025 results were a mixed bag. Revenue units increased 7% to 2.5 million with consumer products (intermodal and automotive) up 14% mainly on intermodal. Industrial products and ag-related carloads increased a point and change. Freight revenue dipped a point to \$6 billion. System RPU drifted south 7% mainly on intermodal pricing and 20% lower FSC collections.

The carload sector at BNSF is painted with a very broad brush – only agriculture and industrial products. Revenue units for both increased less than 2% in the quarter and just under 3% for the year, representing 36% of revenue for the year. Within agricultural, the weekly AAR carload reports tell us grain was the big winner — up 12% for the year.

There were no standouts in the industrial sector on the plus side, but both paper and wood came down a tad, as did metals-related products. Excerpts from the BNSF commentary on ag and industrial:

**** Industrial Products** volumes increased 2% and decreased 1% for the fourth quarter and full year 2024, respectively, compared with the same periods in 2023. The full year decrease was primarily due to lower aggregates, taconite, minerals, and waste shipments, partially offset by higher volumes in plastics and petroleum products. The fourth quarter increase was primarily due to higher plastics, aggregates, and petroleum products, partially offset by lower volumes of taconite and minerals.

**** Agricultural Products** volumes increased 2% and 7%, respectively, for the fourth quarter and full year 2024 compared with the same periods in 2023. The full year increase was primarily due to higher grain shipments, renewable fuels and fertilizer shipments. The volume increase during the fourth quarter was primarily due to soybean shipments and oilseeds and meals, partially offset by lower volumes of non-soybean related grains. [end BNSF comments]

Operating expense decreased 10 basis points, mainly on lower fuel prices and repair/replace materials, taking operating income down 3% to \$1.9 billion and the OR up a smidge to 69.4 — revenue took a one-point hit and labor expense is up 8%.

At this point, I think it is appropriate to look at BNSF in the context of the whole Berkshire Hathaway organization, particularly given the breathless hype from the Street about Berkshire's operating income earnings increase for the quarter. Please note the reference to “operating earnings,” something you don’t see in other reports.

Berkshire/Buffett are renowned for transparency in all their financials. That's why for example you'll never see Berkshire (or I for that matter) using EBITDA or other non-GAAP numbers. Generally Accepted Accounting Principles (“GAAP”) require that companies include the changes in unrealized gains/losses in equity security investments as a component of investment gains/losses in their earnings statements. Wrong.

Fact is, the amount of investment gains/losses in any given quarter is usually meaningless and delivers figures for net earnings per share that can be extremely misleading to investors who have little or no knowledge of accounting rules. The better measure is operating earnings, which increased 71% to \$14.5 billion.

But I prefer to take the longer view:

	(in \$ millions)	
	<u>2024</u>	<u>2023</u>
Insurance-underwriting	\$ 9,020	\$ 5,428
Insurance-investment income	13,670	9,567
BNSF	5,031	5,087
Berkshire Hathaway Energy	3,730	2,331
Other controlled businesses	13,072	13,362
Non-controlled businesses*	1,519	1,750
Other**	<u>1,395</u>	<u>(175)</u>
Operating earnings	<u>\$47,437</u>	<u>\$37,350</u>

* Includes certain businesses in which Berkshire had between a 20% and 50% ownership such as Kraft Heinz, Occidental Petroleum and Berkadia.

** Includes foreign currency exchange gains of approximately \$1.1 billion in 2024 and approximately \$211 million in 2023 produced by our usage of non-U.S. dollar-denominated debt.

So if you look at the whole year, a less-robust picture emerges. Operating earnings still increased 27 percent to \$47 billion from \$37 billion. No wonder Berkshire per-share

market value increased 25.5 percent vs. the S&P 500's 25.0 percent. Looks close, but keep in mind that the S&P results came largely from the "magnificent 7" tech stocks whereas the remaining 493 S&P members were flat to down for the year. Looks like BNSF is in good hands.

The Patriot Rail shortline holding company has been quietly growing its presence in the community. They own and operate some 30 properties, mainly in the midwest, and recently hired Tom Tisa, former shortline marketing head at CSX (and before that CN), as Chief Commercial Officer to accelerate the pace of growth.

Most recently Patriot formed a partnership with Texas-based Commtrex, operator of many transload locations handling all the usual transload commodities. The timing couldn't be better as all the Class Is have said they are running out of on-line space and are looking for shortline partners to grow their transload franchises. Says the Commtrex website,

"Once you create and send a Transload Request, the transload providers will be notified and will send offers directly to you. You can then conveniently discuss terms through our platform. Find out if they have the transload equipment you need, such as switch engines, rail docks, pipe handling equipment, magnets, telehandlers, conveyors, scales, etc.

"All messaging, pricing, information, documents, etc., will be confidentially and securely saved on the Commtrex platform, and you will be able to access the information at any time. The Commtrex Transload Marketplace is functional, transactional, and organized." The provider is said to have more than 4,300 active members, which include 2,200-plus railroad customers. It also partners with all six Class I railroads. Norfolk Southern signed on in 2022 and CN in 2020.

Patriot describes itself as offering "complete transloading services when highway transportation services are part of your logistics requirements. This allows customers to consolidate freight to save on inland distribution and transportation costs. We have a variety of transloading facilities that handle nearly any type of material, whether standard or combustible/flammable."

Looks to me like a perfect match. I'm so glad they've tapped Tisa to make it all happen.

The Railroad Week in Review, a compendium of railroad industry news, analysis, and comment, is sent as a PDF via e-mail 50 weeks a year. Individual subscriptions and subs for short lines with less than \$12 million annual revenue are \$175. Corporate subscriptions for Class I railroads and short line/regional operators with more than \$12 million annual revenue are \$600 per year. To subscribe, click on the Week in Review tab at www.rblanchard.com. © 2025 Roy Blanchard