RAILROAD WEEK IN REVIEW

August 8, 2025

"As expected, BNSF made no mention of the UNP-NSC planned merger in its earnings release or 10-Q filing. BNSF and Berkshire have been very quiet on the M&A front, but we continue to believe that two rail mergers are more likely than one. So, we ultimately expect BNSF to make a move for CSX (or NSC)." — Scott Group, Wolfe Research, August 4

"Union Pacific and Norfolk Southern today announced an agreement to create America's first transcontinental railroad, seamlessly connecting over 50,000 route miles across 43 states from the East Coast to the West Coast, linking approximately 100 ports and nearly every corner of North America. This combination will transform the U.S. supply chain, unleash the industrial strength of American manufacturing, and create new sources of economic growth and workforce opportunity." — NS presser, July 29

"After-tax earnings of BNSF increased $239 million (19.5%) in the second quarter and $310 million (13.1%) in the first six months of 2025 compared to 2024, primarily from improved operating efficiencies and productivity and from lower effective income tax rates." — Berkshire Hathaway 10-Q, June 30, 2025

BNSF Railway closed the second quarter railroad earnings season with YOY (year over year) revenues unchanged at $5.7 billion. Revenue units rose slightly, 1.4%; the merchandise sector drifted south by nearly 2%. Though BNSF doesn't break out commodities, one can look at the AAR weekly carload data to discern that agriculture remains the largest singular commodity at 6% of the total; chemicals, including petroleum, are in second place at 5%. Both were essentially flat YOY.

Surprisingly, aggregates dropped 7%, lumber/wood was off 6%, and paper lost a couple of points. Coal volume increased 14% largely on the strength of national gas prices over the coal breakeven point of $3/mmbtu. BNSF used the softer volumes as an opportunity to take 5% out of operating expense for the quarter, boosting operating income by 10% to $2 billion. Income taxes took net income down to 1.5 billion, up 20%. The OR shed 3.3 points to a decent 64.9 — despite fuel surcharge headwinds.

Operating cash flow for the first half hit $3.6 billion, up 14% — while Buffett's favorite metric, owner earnings (ops cash flow less capex) nearly doubled to a shade under $2 billion. Note too the ops cash flow more than covered the $1.7 billion capex number.

This is the mark of a railroad that generates enough internal cash to fund growth and renewal without stressing its balance sheet or tapping the credit line.

While NS continues to wrestle with high-cost service recovery and UNP faces persistent network congestion and crew availability issues, BNSF's consistent service, diversified commodity base, and cost discipline give it the look of the Class I most likely to sustain and extend its competitive advantage through the back half of the year.

The way I see it, BNSF's stable operating ratio, effective expense control, and modest volume gains in key segments underscore operational resilience. The growth in high-margin consumer and agricultural carload traffic helps offset the weakness in coal. Its robust operating cash flow demonstrates strong self-funding capacity, and net income in line with capacity suggests financial continuity.

Compared to peers (e.g., Union Pacific, Canadian Pacific), BNSF's blend of intermodal and diversified carloads, consistent cash conversion, and supportive parent company (Berkshire Hathaway) position it among the most financially stable and adaptable Class I railroads.

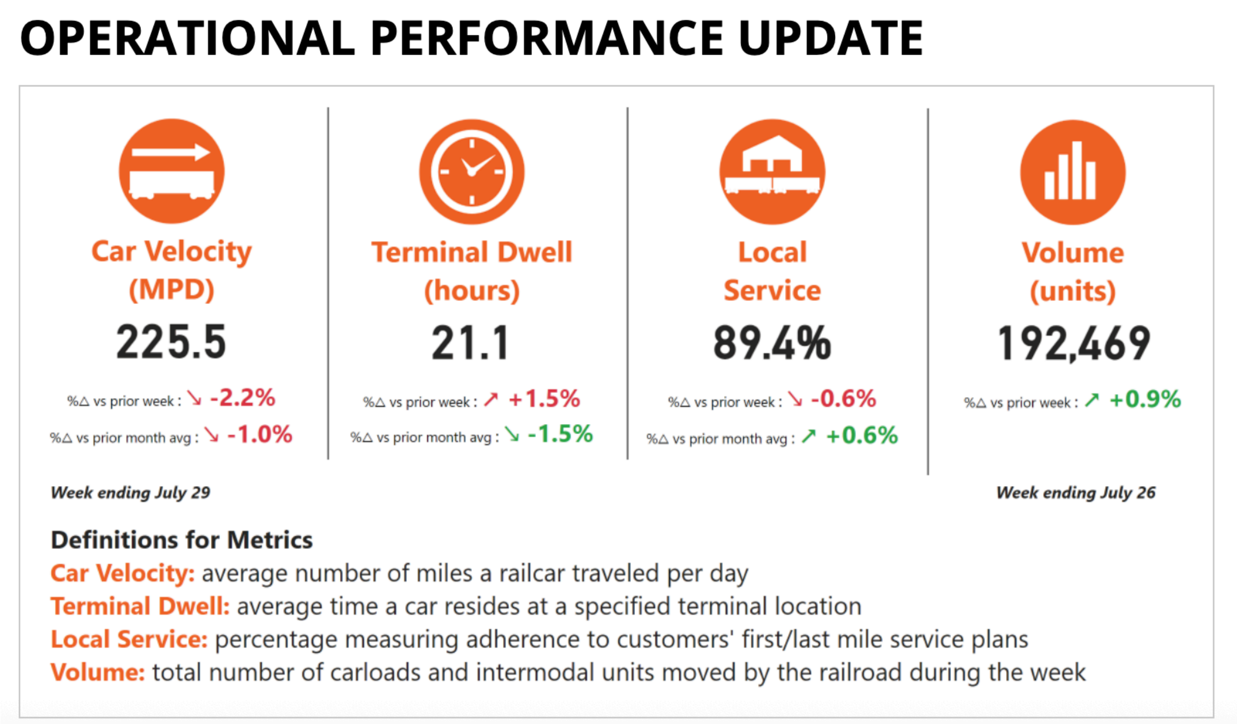
As for the proposed NS-UP merger, could Berkshire Hathaway buy CSX without merging it into BNSF? I'm going to say YES. Parent Berkshire Hathaway could conceivably acquire CSX without merging it into BNSF's operations, running CSX as a separate entity under Berkshire's umbrella. A CSX acquisition, structured as a standalone purchase, followed by dual-management under Berkshire, is technically possible — and distinct from a full STB merger or operational absorption into BNSF.

Speaking purely speculatively: A non-merger purchase makes sense. I see Berkshire potentially buying CSX as a defensive move, not necessarily combining it into BNSF, especially in light of Union Pacific's proposed $85 billion acquisition of Norfolk Southern. Street analysts estimate that Berkshire has enough liquidity — over $300B in cash — to acquire CSX outright, perhaps at an ~$80B valuation (~25× forward earnings).

Warren Buffett has reportedly dismissed involvement of investment banks (e.g. Goldman Sachs), signaling that any deal—if it happens—would likely be a direct, non-bank, stand-alone take-or-leave-it offer without merging into BNSF. Moreover, there exist a number of key constraints and considerations in such a merger. Regulatory scrutiny from the STB would be intense. Any Class I railroad merger or acquisition must demonstrate not only preservation but also enhancement of competition; simultaneous proposals (e.g. UP-NS and BNSF-CSX) could strain approval.

Finally, consider Buffett's value discipline: He typically avoids overpaying. CSX already trades at ~20× forward multiple; Berkshire historically seeks price discipline in acquisitions and does not do mergers through the investment bank community. Thus BNSF opted not to hire Goldman Sachs, suggesting Berkshire would pursue any CSX move internally and maintain separation without integrating operations fully into BNSF.

Finally, some performance metrics from BNSF to close out this issue:



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