RAILROAD WEEK IN REVIEW

October 17, 2025

*"When raising capital becomes a pretext for cashing out, when **share price management** becomes the goal rather than the byproduct, companies lose sight of the customer, and when the customer no longer matters, neither does the product." — Grant Williams interview with Tony Deden at 2:26*

"In 2024, 92% of our current CEO target compensation and 82% of target compensation for our other current NEOs was provided in the form of at-risk or performance-based incentives with value tied to the achievement of preset, rigorous performance goals or our stock price performance." — NS 2025 Proxy Statement

"Seventy percent (70%) of the target annual incentive cash bonuses are based on a shared set of Company goals in key areas such as service performance index for intermodal and manifest, net promoter score, volume growth above market, employee engagement and renewable fuel blend. If the minimum performance thresholds for neither operating income nor operating ratio were achieved, then no annual incentive cash bonus would be paid…" — Union Pacific 2025 Proxy Statement

"My connection to this industry goes way back. My career started at GE where I worked directly with locomotives and rail operations. That experience gave me a deep appreciation for railroading that has stayed with me. I spent the last couple of decades leading large industrial companies, specifically industrial gas companies, but the interest in rail never faded." — CSX President & CEO Steve Angel, Oct 16 Earnings Call

It's clear from the UP and NS Proxy Statements that the CEOs of both companies are largely motivated by performance objectives in operating ratio and operating income. There is no mention made of customer satisfaction or volume growth. From this one must conclude that CEOs are paid on operating results and thus gains in net income and earnings per share. That's how share price management becomes the goal rather than the byproduct, and companies lose sight of customer satisfaction.

NS is quite explicit in its CEO guidance: "Including operating ratio (30%) and operating income (25%) as our highest-weighted metrics represents our continued focus on accretive margins and continuous productivity improvements. Our relentless focus on smart and sustainable growth is supported by the inclusion of top-line annual revenue (15%) as our third financial metric.

The UP Proxy is less explicit but sends the same message: “Company goals are in key areas such as service performance index for intermodal and manifest, net promoter score, volume growth above market, employee engagement, and renewable fuel blend. If the minimum performance thresholds for neither operating income nor operating ratio were achieved, then no annual incentive cash bonus would be paid to executives regardless of performance on the other measures.”

It’s exactly the opposite in the shortline world, where customer satisfaction, or lack thereof, can make or break the company. There is, in short, an owner mentality. In the financialized environment, the corporate focus on income and share price can work to the detriment of the customers served by non-Class I railroads.

My first measure of customer satisfaction is in revenue unit growth, particularly in the carload sector. It is here that the serving railroad has a direct impact on the success of the customers’ logistical chains. There is very little of this on the intermodal side, where the boxes are brought to and taken from the railroads by the truckers, who actually go to the customers’ loading docks. But in automotive, short lines often serve terminals: they take delivery of new cars for distribution to area dealers, so customer satisfaction is key.

In my opinion, non-Class I railroads can benefit greatly by watching trends in their customers’ commodity carloads as shown in the Class Is’ weekly carload reports to the AAR. And it goes without saying that putting those AAR numbers in the context of the customer's businesses is key to planning ahead of the carload commodity trends.

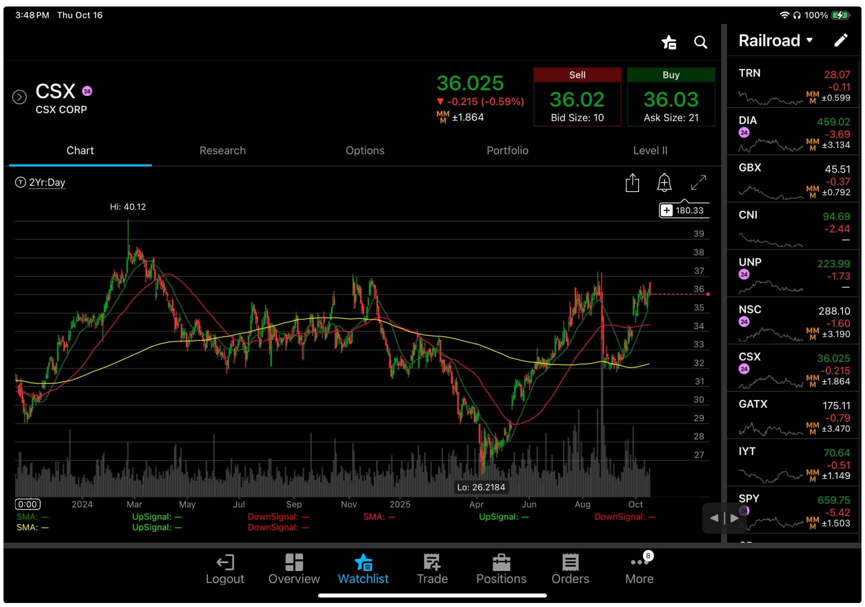
So when the serving Class I that’s supposed to deliver 10 cars a week for the customer falls behind, the short line operator has the flexibility to absorb the bunched cars and meter them to the customers as the delayed cars are unloaded. The last thing you want is to start dinging your customers with demurrage fees so the quicker you can get them placed, the better.

CSX’s second-quarter results reflected a stable network facing mixed results in revenue and revenue units. Revenue of $3.6 billion slipped a mere point year-over-year, with operating income off 20% to $1.31 billion and an operating ratio of 69.7. The company emphasized ongoing investments to maintain fluidity and efficiency across the eastern network with 2025 capex up 25% to 2.1 billion — including the Baltimore tunnel and recovering from Blue Ridge flood damage.

By commodity, merchandise revenue of $2.2 billion was down 1% with dings in ag/food, forest products, and chemicals while metals and ferts provided partial offsets. Coal revs sank 11% on export-pricing pressure and slightly lower volume despite steady domestic utility demand. Intermodal gained about 4% in revenue as international activity firmed. System RPU slipped three points.

As for financial growth, there have been no real gains in the share price over the last three years, the efforts of Joe Hinrichs notwithstanding. Per the accompanying chart, CSX's share price has tracked the essentially flat long term carload volumes. Recent changes in operating practices and capex seem have been enough to reverse two years of stagnation.

On the call, recently tapped CEO Steve Angel noted his early introduction to railroading with a stint of several years with the GE locomotive group. The C-Suite seemed quite comfortable with its accomplishments and is ready to do still more to right the railroad. There was an upbeat air I hadn't seen since the Ward/Gooden regime.



As the chart suggests, shareholder response has been proportionate to the slim sequential carload gain — until now. The recent share price gains could well reflect the increased customer orientation Hinrichs brought to the company. Let's hope the increased financial focus that comes with the Ancora Holdings position doesn't undo the turnaround started by Hinrichs et al.