

# COMPANY ANALYSIS

CSX Transportation Inc. & Union Pacific Railroad Company

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# Agenda

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Background  
Sector  
Key Services  
Governance  
Strategy  
Financials



# BACKGROUND

Union Pacific Railroad Company





# History

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1862

- Pacific Railway Act of 1862
- William P. Ogden elected as 1<sup>st</sup> President

...

- IPO'd with only 20 shares

1863 & 1865

- UP breaks ground December 2, 1863
- First rails laid on July 10, 1865

1

2

3



# Golden Spike Ceremony

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...

- CP began laying rails in Sacramento, CA and expanded East
- UP began laying rails in Council Bluffs, IA and expanded West

May 10, 1869

- UP and CP connect at Promontory Summit, UT
- The First Transcontinental Railroad is created

# Acquisitions + Expansions

Jan 24, 1880

- Kansas Pacific + Denver Pacific Acquired

1901

- UP assumes control of Southern Pacific
- SP owned lines from Ogden to San Francisco, key lines into Portland, New Orleans and Mexico
- \$40,000,000 for 38% stake

1912

- Govt forces UP to relinquish SP control
- UP found guilty of violating Sherman Antitrust Act
- UP & SPLA&SL work together to gain access of LA
- SPLA&SL uses UP railroad in return UP receives 50% of shares

6

7

8

# Acquisitions + Expansions

...

- Canadian Pacific acquired
- British Columbia and Alberta become accessible
- Missouri Pacific's Transportation Control System integrated following acquisition

- TCS allows real time tracking, maintenance, scheduling, inventory control & billing
- 400 trains, 70,000 cars over 12 states and 12,000 mi of system

1996

- The Surface Transportation Board approves UP and SP Merger
- UP becomes largest U.S. Railroad company



# BACKGROUND

CSX Transportation Inc.



# Early Years

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Feb 28, 1827

- Began and chartered as The Baltimore and Ohio Railroad

1830

- Peter Cooper created a coal burning locomotive
- First American-built steam locomotive (Tom Thumb)

1851 & 1895

- By 1851, B&O deputed the first battery powered electric locomotive
- First mainline, electrified railroad was the Howard Street Tunnel section of the B&O railroad in 1895

1

2

3

# Civil War

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1861

- Civil War began
- Railroads constantly targeted due to importance when it came to shipping supplies

May 1861

- Confederate General Thomas “Stonewall” Jackson commandeered for Confederacy
  - 42 Locomotives
  - 386 railcars

1865

- End of Civil War
- B&O Freed
- CSX continues to supply military with equipment and supplies for overseas deployments & exercises

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# Late 20<sup>th</sup> Century

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## 1960s

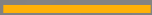
- Chesapeake and Ohio railroad acquired stock control of B&O in 1963
- By 1964, C&O/B&O filed for permission to acquire control of Western Maryland Railway
- 1965, C&O/B&O filed for permission to acquire control of the Chicago South Shore & South Bend Railroad

## 1973

- Chessie System, parent of C/O, B/O, and WM was incorporated



SECTOR



# Key Sector Indicators

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*Price*



*Productivity*



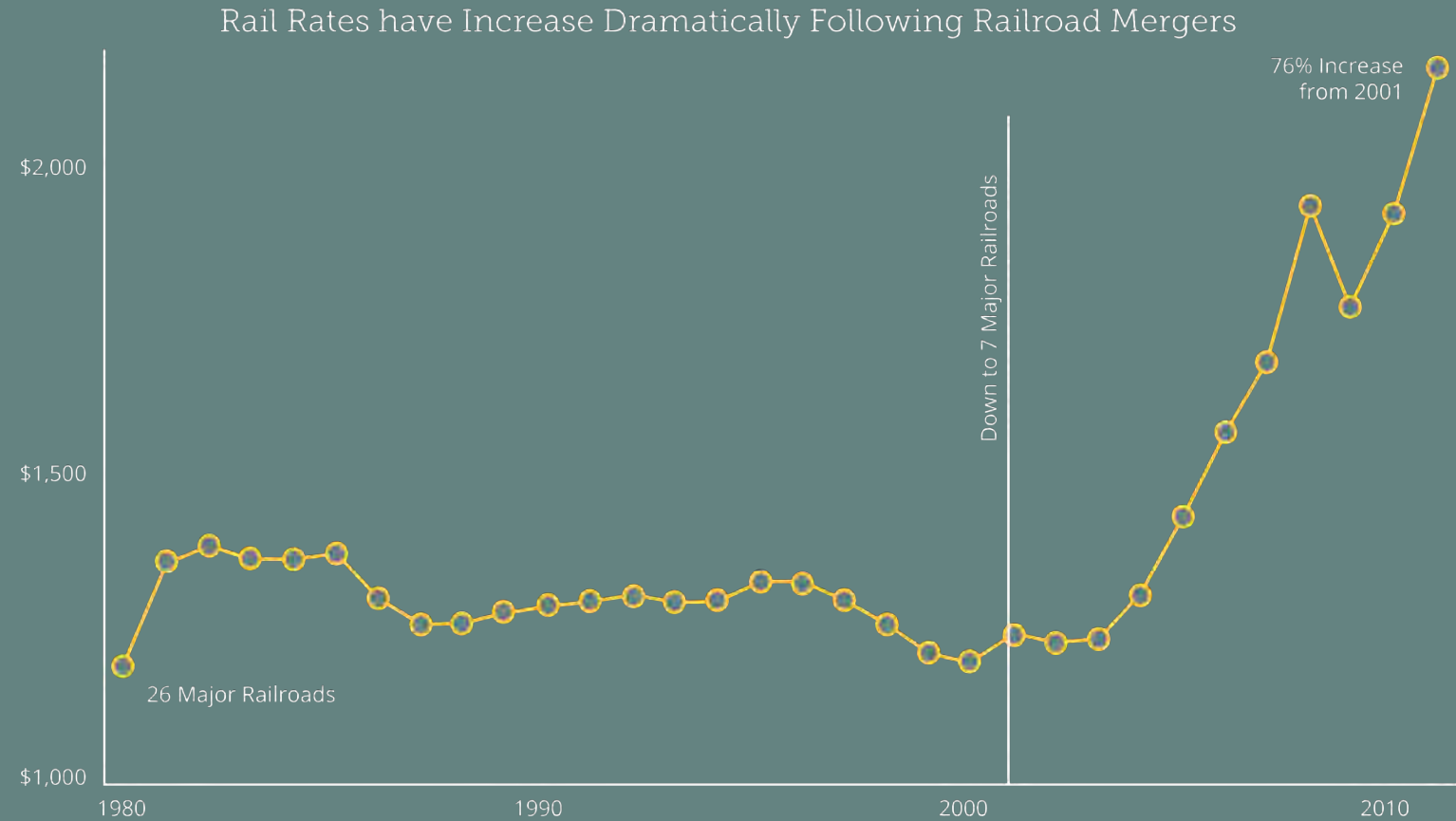
*Logistics*



*Economic  
Growth*



# Price

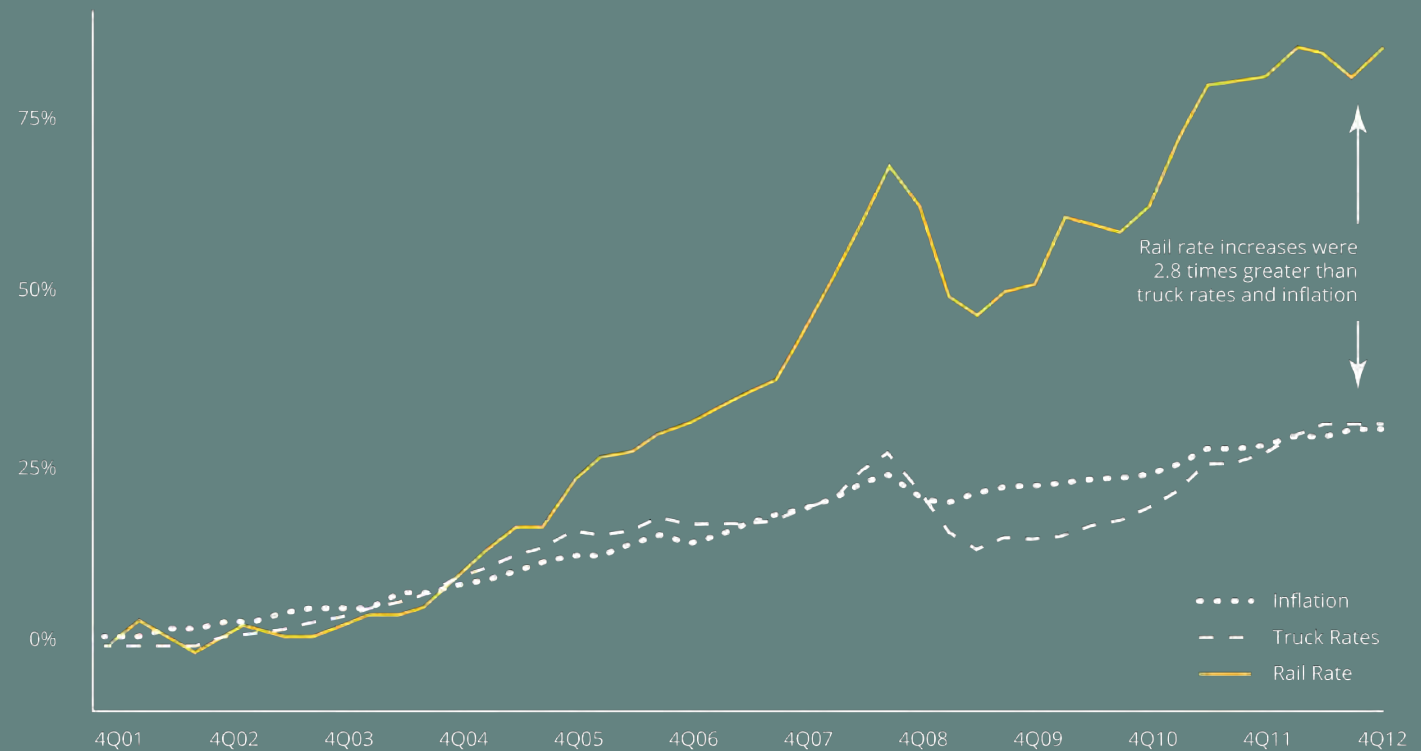


The number of large railroads in the US have reduced from 26 in 1980 to only 7 by 2001. The lack of rail competition resulting from rail mergers has caused the cost of shipping to increase substantially since 2001.

Source: AAR "Railroad Facts" \*Rates are based on average revenue per car unadjusted for inflation (nominal dollars)

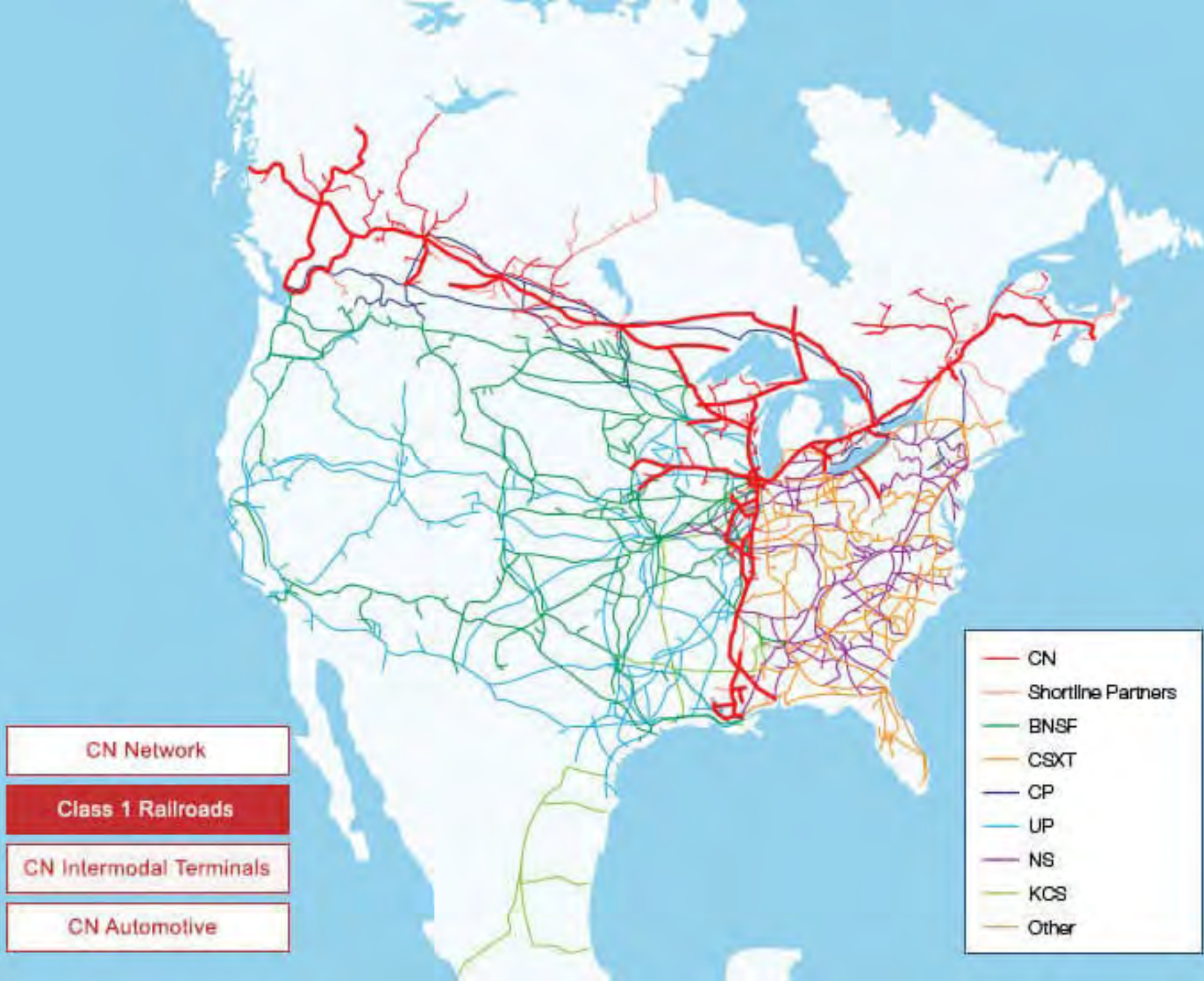
# Price

Rail Industry Consolidation has Allowed Railroads to Increase Rates  
Dramatically More than Inflation & Trucking



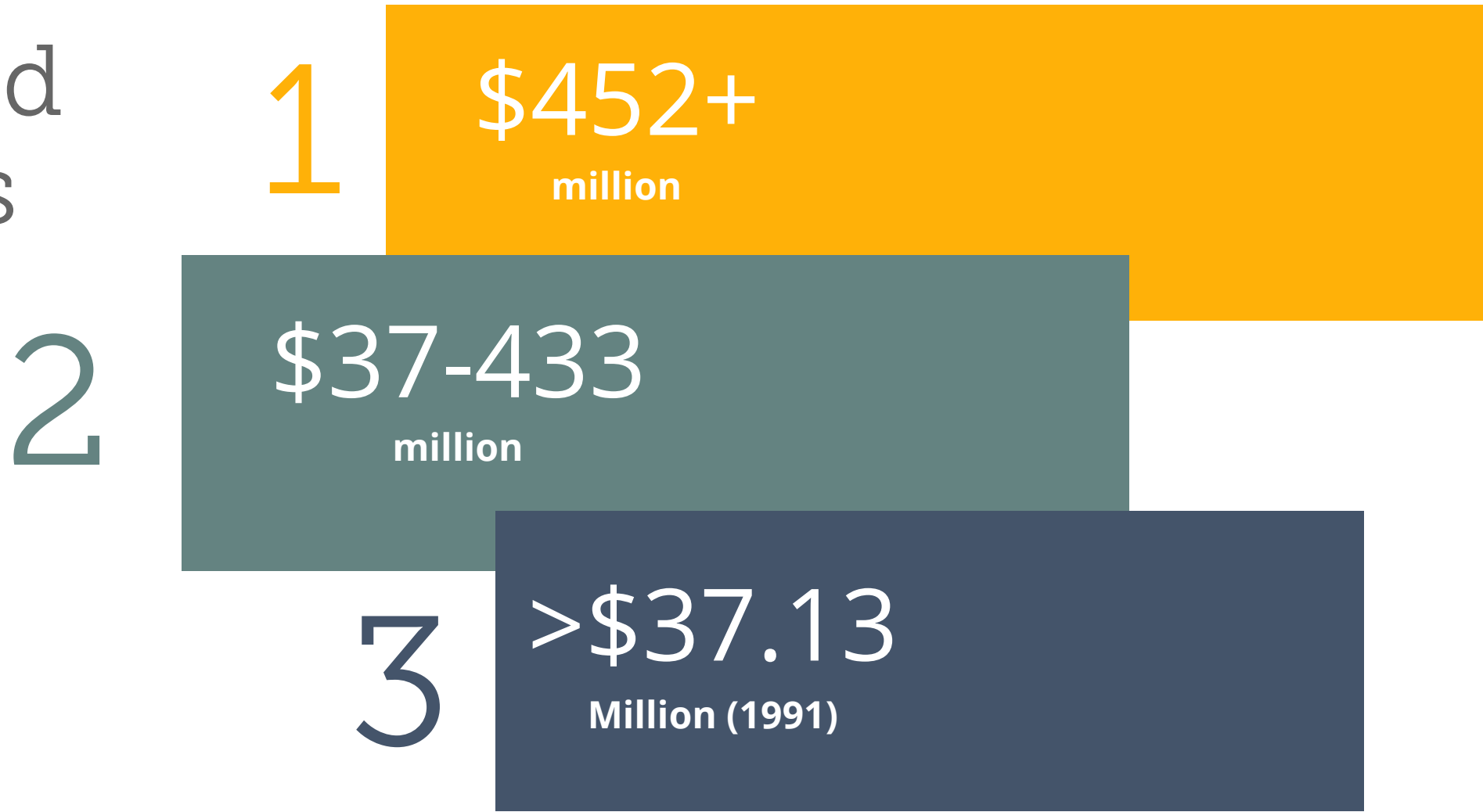
Following 2001 the percent increase in Rail Rates on the Big Four US railroads has been 2.8 times greater by inflation and Long Haul Trucking.

Source: Rail Rate Increases – Big four railroad's average revenue per capita is summed up from their SEC filings. Trucking Rates – BLS Long Haul Truck Rates Index, inflation – uses CPI

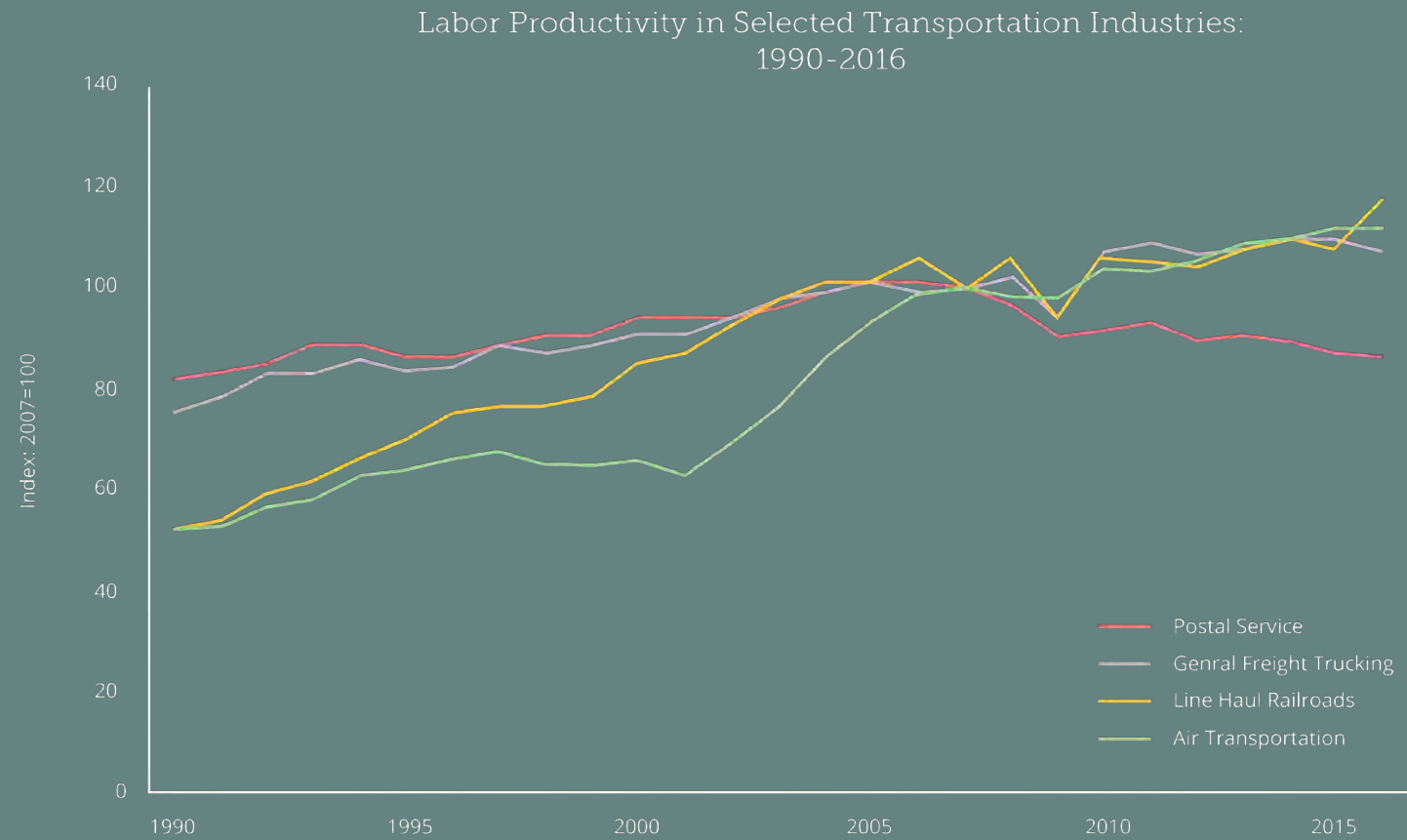


# Railroad Classes

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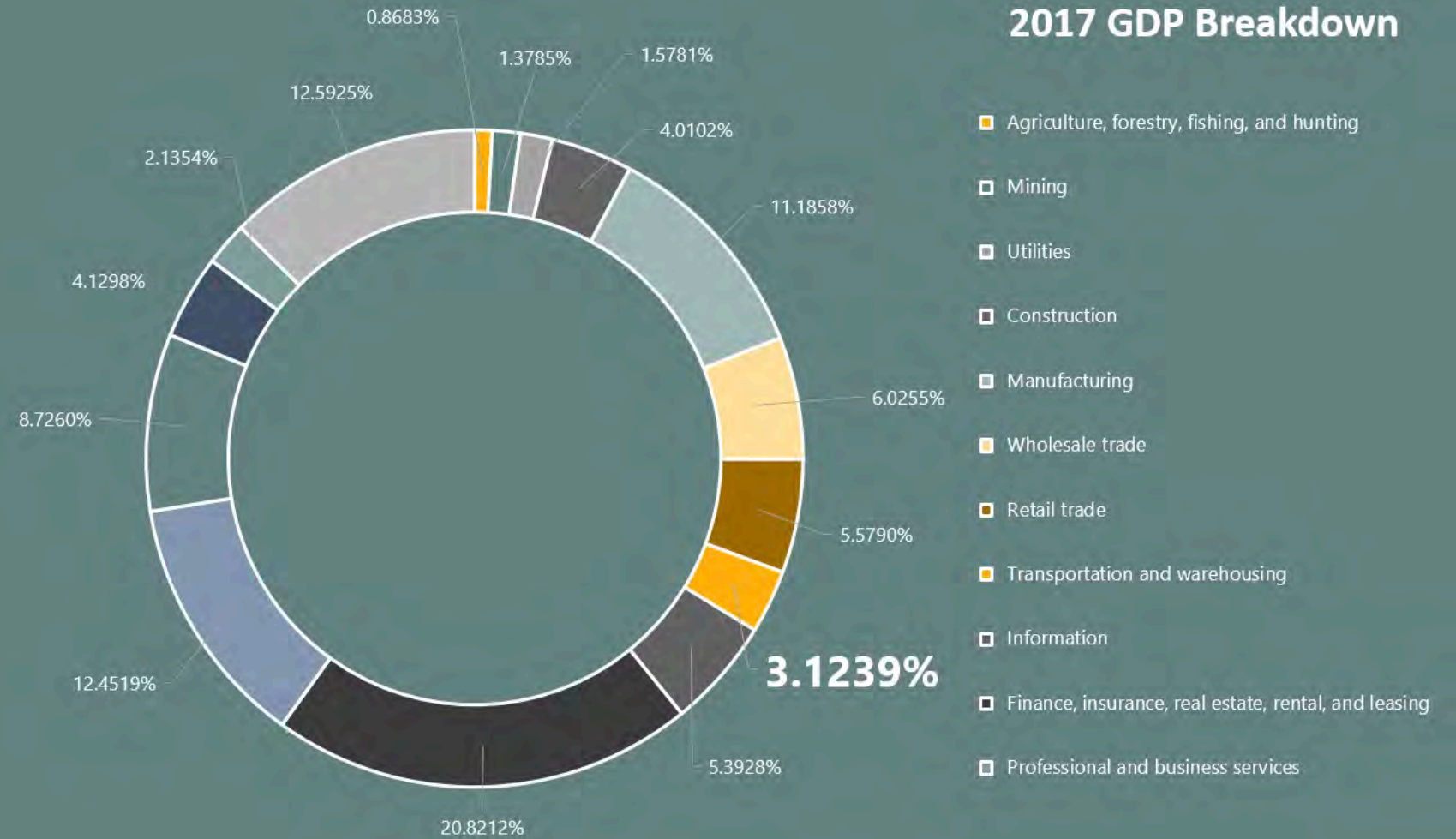


# Product -ivity



# Logistics

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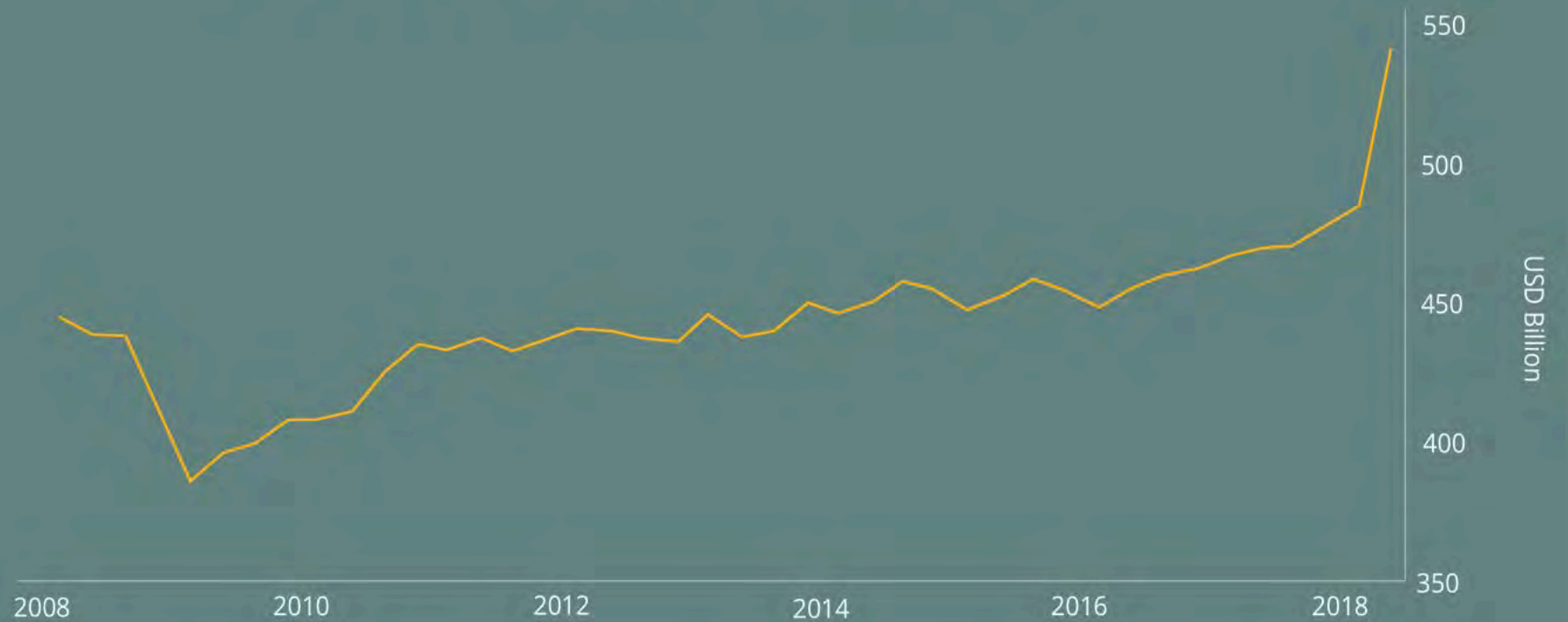




# Economic Growth

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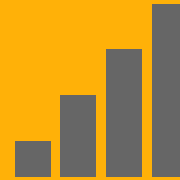
US GDP from Transportation and Warehousing



# Outlook

## Growth

1/3 intercity  
freight



## Recession

TMS  
& Persistence



## Sustainable



479  
mpg per ton

# KEY SERVICES

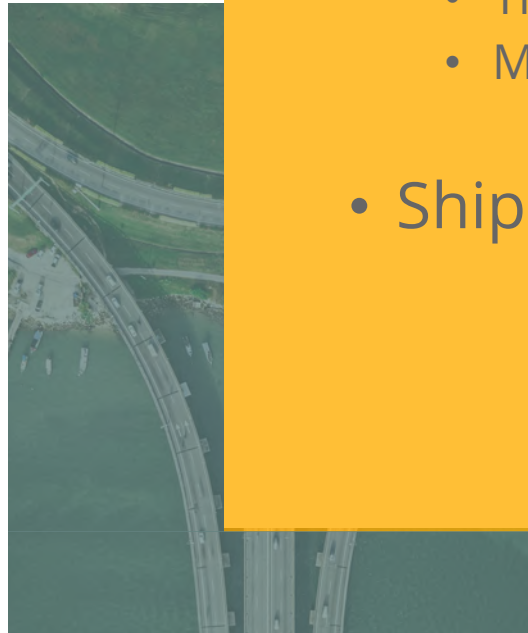
CSX Transportation Inc. & Union Pacific Railroad Company



# Key Services

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Union Pacific  
CSX



- Rail & Intermodal
- Logistical Support Services
  - Customer Services
  - Tracking Technology
  - Mobile Applications
- Ships everything but organisms...

# What they Ship

Union Pacific



*Agriculture*



*Energy*



*Industrial*



*Premium*



# What they Ship

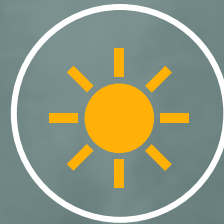
CSX



*Agricultural Products*



*Automotive*



*Bio Energy*



*Building Materials*



*Chemicals*



*Coal*



*Fertilizer*



*Food Products*



*Machinery*



# What they Ship

CSX



*Manufactured Goods*



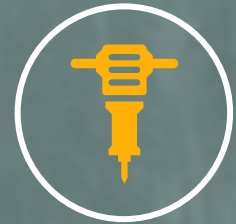
*Metals*



*Military*



*Minerals*



*Oil, Gas and  
Drilling Materials*



*Ores*



*Paper, Pulp,  
Fiber  
Products*



*Transportation  
Equipment*



*Waste*



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Union Pacific  
CSX



32,000 mi  
Links with Canada  
6 Gateways to Mexico

21,000 mi  
70 ports  
Quebec + Ontario  
Mexico





# Subsidiaries

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## Union Pacific

- Loup Logistics Co.
  - ShipCarsNow
  - Union Pacific Distribution Services
  - Streamline
  - Insight Network Logistics
- Alton & Southern Railway
- PS Technology
- Transentric



# Subsidiaries

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## CSX

- Intermodal Services
  - CSX Intermodal Terminals
  - Translfo Terminal Services
  - Total Distribution Services Inc.
- CSX Technology
- CSX Real Property Inc.
- Fruit Growers Express
- Winston-Salem Southbound Railway\*
- Conrail \*



# Patents

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## Union Pacific

- 21 Approved
- 2 Pending
- Rail Technology for efficient transportation
- Advanced systems for tracking + cutting cost





# Patents

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## CSX

- 8 Approved
- 2 Pending
- Restorative/Supportive Innovations
- Systems for tracking & analytics

# GOVERNANCE

CSX Transportation Inc. & Union Pacific Railroad Company





# Board of Directors

Union Pacific



Fritz  
(2015)



Card  
(2006)



Davis  
(2004)



DeLaney  
(2018)



Dillon  
(2014)



Hopkins  
(2017)



Lute  
(2016)



McCarthy  
(2008)



McLarty  
(2006)



McLarty  
(2017)



Villarreal  
(2009)

# Board of Directors

CSX



Kelly  
(2002)



Alvarado  
(2006)



Breaux  
(2005)



Carter  
(2010)



Foote  
(2017)



Halverson  
(2006)



Hilal  
(2017)



McPherson  
(2008)



Moffett  
(2015)



Reilley  
(2017)



Riefler  
(2017)



Whisler  
(2011)



Zillmer  
(2017)





# Executives

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Union Pacific



Fritz, CEO  
(2015)



Ferguson, CLO  
(2016)



Knight, CFO  
(2004)



Tennison, CSO  
(2018)



Whithead, CHRO  
(2018)



Moore, CAO  
(2017)

# Executives

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CSX



Foote, CEO  
(2017)



Lonegro, CFO  
(2015)

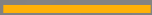


Goldman, CLO  
(2017)



Sorfleet, CAO  
(2018)

# STRATEGY

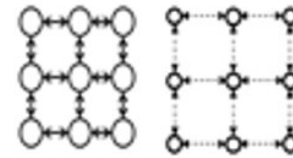




# Industry Strategy

- A to B, A to C, etc.
- Different Operation Network Models

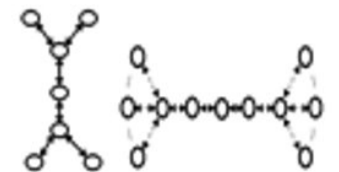
1. Grid Network



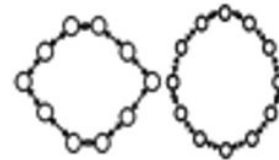
2. Hub and spoke



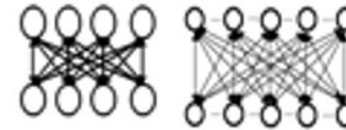
3. Double tree



4. Ring network



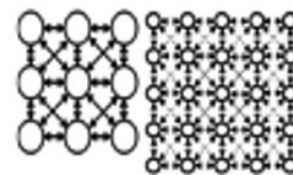
5. Matching pairs



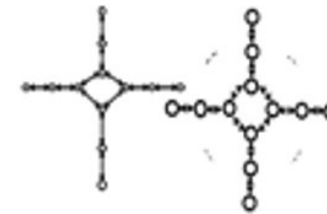
6. Complete



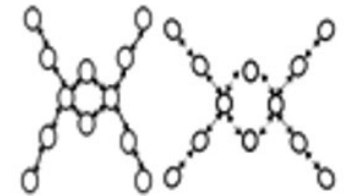
7. Complete grid



8. Central ring



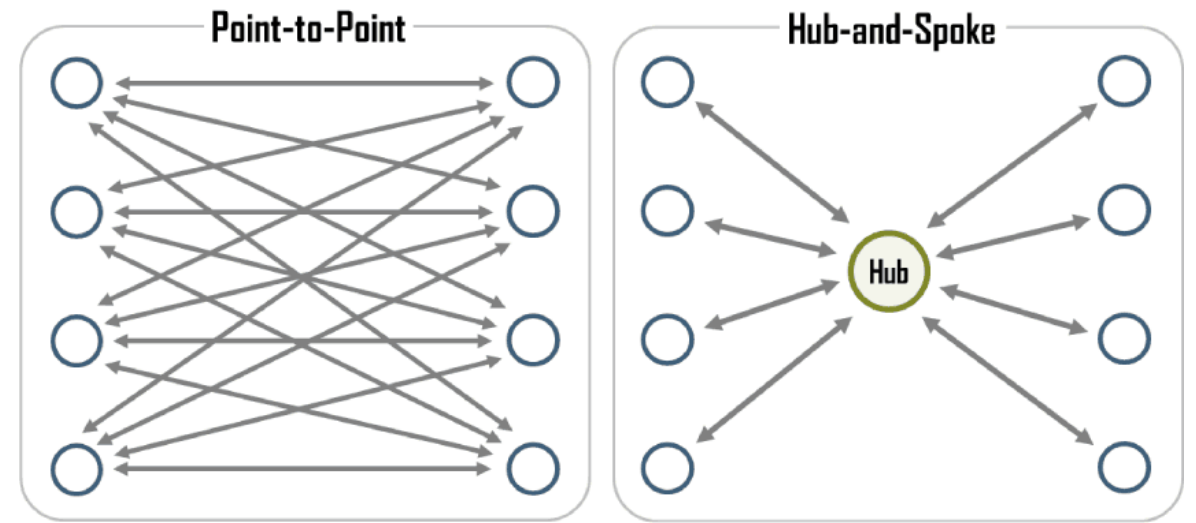
9. Double U



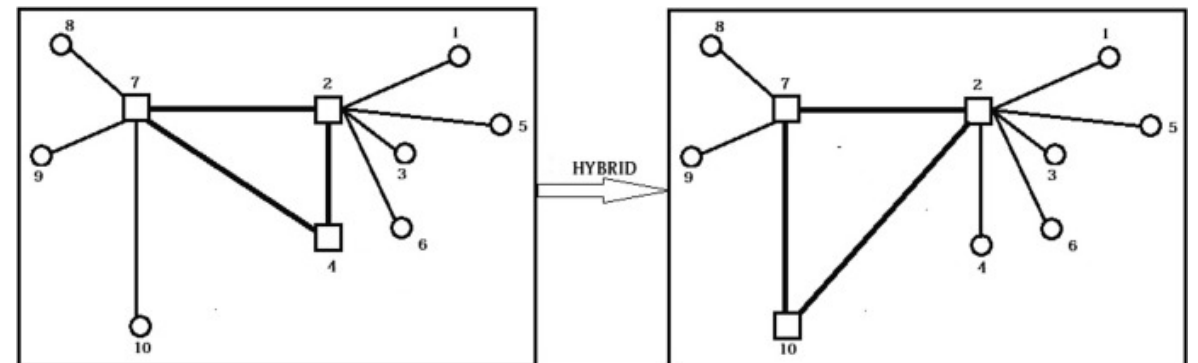
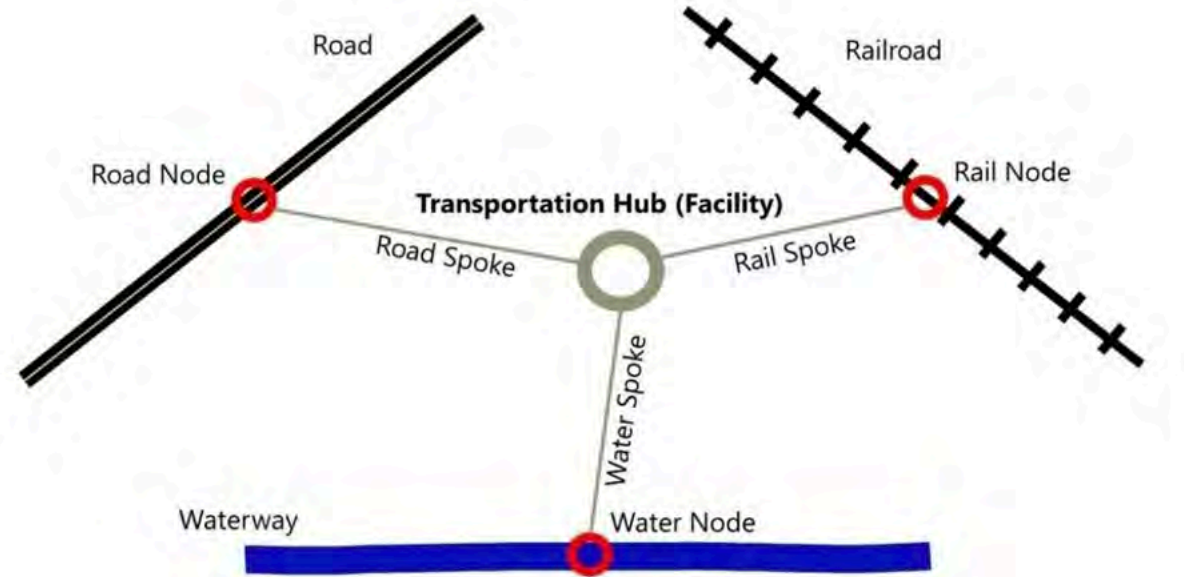


# Industry Strategy

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# Industry Strategy





# Precision Scheduled Railroading

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- Improving Customer Service
- Controlling Costs
- Optimizing Asset Utilization
- Operating Safely
- Empowering Employees



# Railroad Strategy

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- Unified Plan 2020
  - Began Oct 1, 2018
  - Stretching from Wisconsin to Texas
- Achieve 60% Operating Ratio by 2020
  - Ultimately 55%



- Continuing Precision Schedule Railroading (PSR)
  - 2 Phases
  - Top – Bottom Exchange
  - Daily Execution on Top 5 PSR Tenets

## PROS

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- Better Metrics
  - Operating Ratio
  - Fuel Efficiency
  - EPS
- Customer Service
- Long Term Investment Potential

## CONS

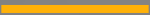
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- Aggressive cost cutting and asset stripping
- Eliminated 327 origin/destination pairs
  - 192 interrail pairs
  - 12 hump yards
  - 2700+ jobs
  - 1000+ contracts
  - 300 pairs -> 2019
- Customer Service



# FINANCIALS

CSX Transportation Inc. & Union Pacific Railroad Company



Mon, 02 Dec 2013  
US\$81.77  
Max: US\$164.99



Union Pacific  
Corp.

**\$142.76**

0.00% 0.00%



Mon, 02 Dec 2013  
US\$27.33  
Max: US\$75.50



CSX Corp.

**\$70.42**



0.00% 0.00%

# Revenue Overview

## Union Pacific

Fiscal year is January-December. All values USD millions.

	2013	2014	2015	2016	2017	5-year trend
 Sales/Revenue	21.96B	23.99B	21.81B	19.94B	21.24B	
Sales Growth	-	9.22%	-9.07%	-8.58%	6.51%	
 Cost of Goods Sold (COGS) incl. D&A	13.67B	14.31B	12.84B	11.67B	12.23B	
COGS excluding D&A	11.89B	12.41B	10.83B	9.63B	10.13B	
Depreciation & Amortization Expense	1.78B	1.9B	2.01B	2.04B	2.11B	
Depreciation	1.78B	1.9B	2.01B	2.04B	2.11B	
Amortization of Intangibles	-	-	-	-	-	
COGS Growth	-	4.70%	-10.30%	-9.08%	4.79%	
 Gross Income	8.3B	9.68B	8.98B	8.27B	9.01B	
Gross Income Growth	-	16.66%	-7.24%	-7.88%	8.95%	
Gross Profit Margin	-	-	-	-	42.42%	NA

 Pretax Income	7.05B	8.34B	7.66B	6.77B	7.63B	
Pretax Income Growth	-	18.37%	-8.23%	-11.62%	12.80%	
Pretax Margin	-	-	-	-	35.93%	NA
Income Tax	2.66B	3.16B	2.88B	2.53B	(3.08B)	
Income Tax - Current Domestic	1.88B	2.36B	2.11B	1.69B	1.99B	
Income Tax - Current Foreign	-	-	8M	8M	2M	
Income Tax - Deferred Domestic	778M	803M	765M	831M	(5.08B)	
Income Tax - Deferred Foreign	-	-	-	-	10M	
Income Tax Credits	-	-	-	-	-	
Equity in Affiliates	-	-	-	-	-	
Other After Tax Income (Expense)	-	-	-	-	-	
Consolidated Net Income	4.39B	5.18B	4.77B	4.23B	10.71B	
Minority Interest Expense	-	-	-	-	-	
 Net Income	4.39B	5.18B	4.77B	4.23B	10.71B	
Net Income Growth	-	18.05%	-7.88%	-11.30%	153.06%	

# Revenue Overview

CSX Corp.

Fiscal year is January-December. All values USD millions.							2013	2014	2015	2016	2017	5-year trend	
							2.92B	3.04B	3.14B	2.74B	3.14B		
Sales/Revenue							12.03B	12.67B	11.81B	11.07B	11.41B		
Sales Growth							-	5.35%	-6.77%	-6.28%	3.06%		
Cost of Goods Sold (COGS) incl. D&A							8.46B	8.88B	8.09B	7.7B	7.54B		
COGS excluding D&A							7.35B	7.73B	6.88B	6.39B	6.22B		
Depreciation & Amortization Expense							1.1B	1.15B	1.21B	1.3B	1.32B		
Depreciation							1.1B	1.15B	1.21B	1.3B	1.32B		
Amortization of Intangibles							-	-	-	-	-		
COGS Growth							-	5.01%	-8.95%	-4.82%	-2.08%		
Gross Income							3.57B	3.79B	3.73B	3.37B	3.87B		
Gross Income Growth							-	6.13%	-1.66%	-9.45%	14.79%		
Gross Profit Margin							-	-	-	-	33.95%	NA	
Pretax Income							2.92B	3.04B	3.14B	2.74B	3.14B		
Pretax Income Growth							-	4.18%	3.09%	-12.65%	14.63%		
Pretax Margin							-	-	-	-	27.54%	NA	
Income Tax							1.06B	1.12B	1.17B	1.03B	(2.33B)		
Income Tax - Current Domestic							758M	819M	714M	622M	(2.6B)		
Income Tax - Current Foreign							-	-	-	-	-		
Income Tax - Deferred Domestic							300M	298M	456M	405M	273M		
Income Tax - Deferred Foreign							-	-	-	-	-		
Income Tax Credits							-	-	-	-	-		
Equity in Affiliates							-	-	-	-	-		
Other After Tax Income (Expense)							1M	(1M)	(1M)	(1M)	(1M)		
Consolidated Net Income							1.87B	1.93B	1.97B	1.71B	5.47B		
Minority Interest Expense							-	-	-	-	-		
Net Income							1.87B	1.93B	1.97B	1.71B	5.47B		
Net Income Growth							-	3.27%	2.13%	-12.91%	219.32%		

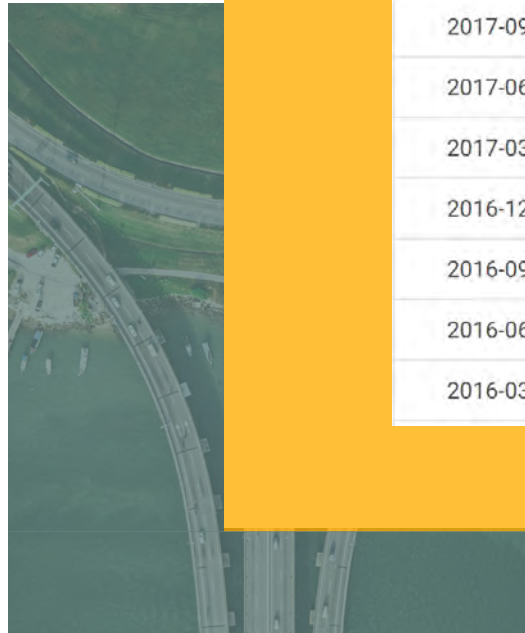


**Companies with similar  
Operating Margin in Quarter  
ending 9/30/18 w/in Railroads  
Industry**

	Operating Profit Margin	9/30/18 MRQ Operating Income	9/30/18 MRQ Revenue
CSX Corp	41.32%	\$1,293.000	\$3,129.000
Union Pacific Corp	38.28%	\$2,269.000	\$5,928.000
Kansas City Southern	37.97%	\$265.400	\$699.000
Norfolk Southern Corp	34.61%	\$1,020.000	\$2,947.000
Usd Partners LP	26.44%	\$7.822	\$29.586
Gatx Corporation	24.13%	\$84.400	\$349.700

# Debt to Equity Analysis

Union Pacific

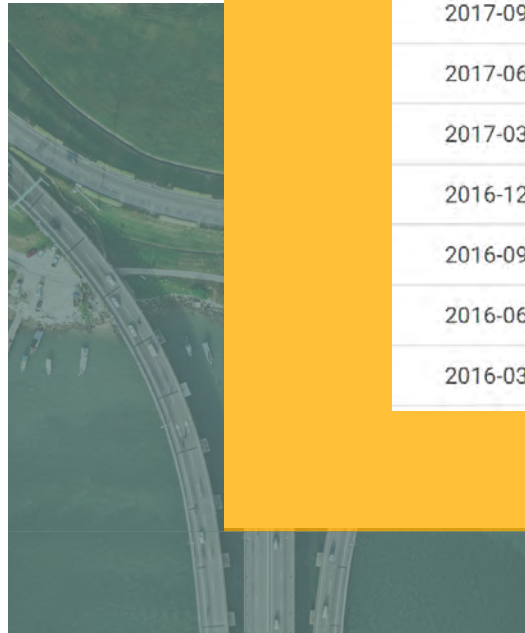


Union Pacific Debt/Equity Ratio Historical Data			
Date	Long Term Debt	Shareholder's Equity	Debt to Equity Ratio
2018-09-30	\$20.94B	\$20.65B	1.01
2018-06-30	\$21.36B	\$19.91B	1.07
2018-03-31	\$15.70B	\$24.39B	0.64
2017-12-31	\$16.14B	\$24.86B	0.65
2017-09-30	\$15.93B	\$19.15B	0.83
2017-06-30	\$15.23B	\$19.62B	0.78
2017-03-31	\$14.31B	\$19.72B	0.73
2016-12-31	\$14.25B	\$19.93B	0.72
2016-09-30	\$15.21B	\$20.28B	0.75
2016-06-30	\$14.78B	\$20.42B	0.72
2016-03-31	\$14.79B	\$20.48B	0.72

*Railroad Industry Average: 0.96*

# Debt to Equity Analysis

CSX



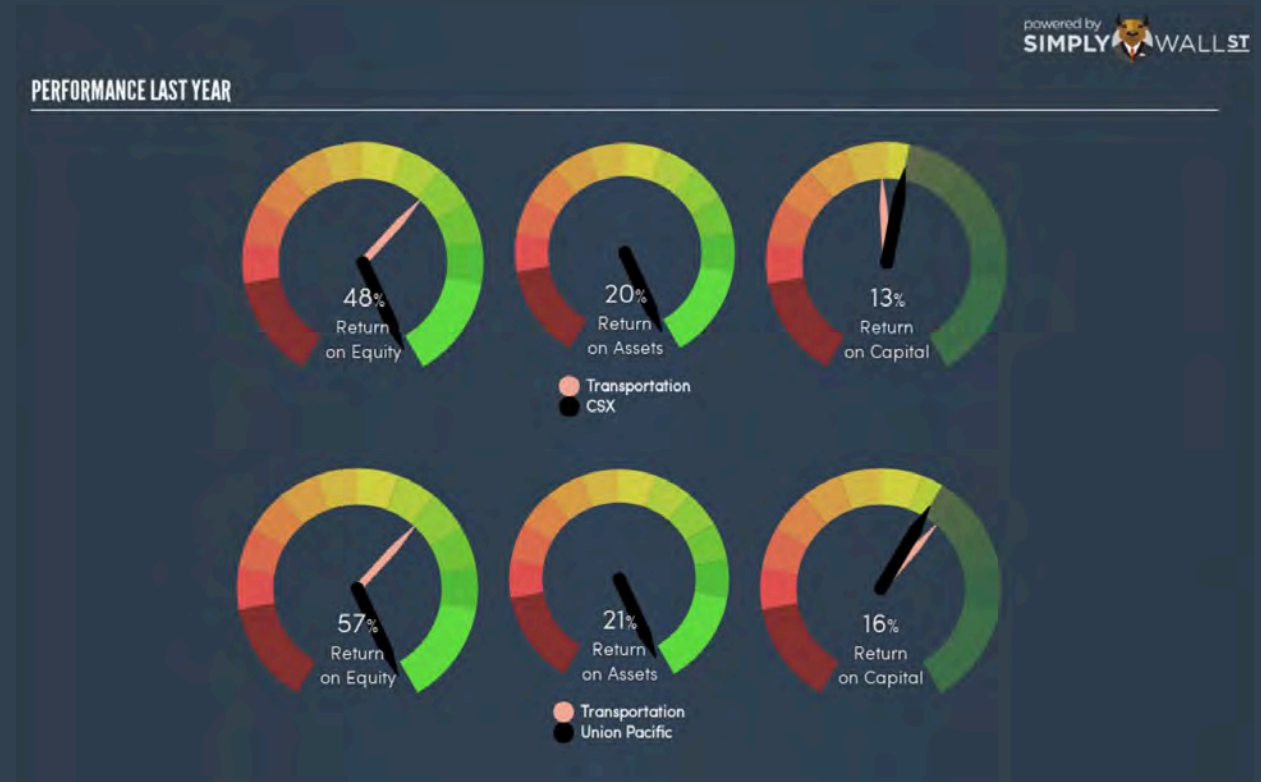
CSX Debt/Equity Ratio Historical Data			
Date	Long Term Debt	Shareholder's Equity	Debt to Equity Ratio
2018-09-30	\$13.75B	\$13.74B	1.00
2018-06-30	\$13.77B	\$14.02B	0.98
2018-03-31	\$13.77B	\$14.39B	0.96
2017-12-31	\$11.79B	\$14.72B	0.80
2017-09-30	\$11.79B	\$10.90B	1.08
2017-06-30	\$11.81B	\$11.60B	1.02
2017-03-31	\$10.96B	\$11.67B	0.94
2016-12-31	\$10.96B	\$11.69B	0.94
2016-09-30	\$9.89B	\$11.67B	0.85
2016-06-30	\$9.91B	\$11.63B	0.85
2016-03-31	\$10.52B	\$11.61B	0.91

*Railroad Industry Average: 0.96*



# Performance

- Both have excellent return on equity
- Both have return on assets that are nearly double the industry standard
- Union Pacific used capital more effectively than CSX
- This is a key indicator for the industry as well since capital expenditure is the most significant expense.



## Transportation Average

ROE: 22.8%

ROA: 11.2%

ROCE: 11.6%



DECISION



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Decision



60%

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40%

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# QUESTIONS

