

COMPANY ANALYSIS

CSX Transportation Inc. & Union Pacific Railroad Company

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Agenda

Background

Sector

Key Services

Governance

Strategy

Financials



BACKGROUND

Union Pacific Railroad Company



History

1862

- Pacific Railway Act of 1862
- William P. Ogden elected as 1st 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

...

- 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

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

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

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

4

5

6

Late 20th Century

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

1973

- 1965, C&O/B&O filed for permission to acquire control of the Chicago South Shore & South Bend Railroad

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



SECTOR

Key Sector Indicators



Price



Productivity

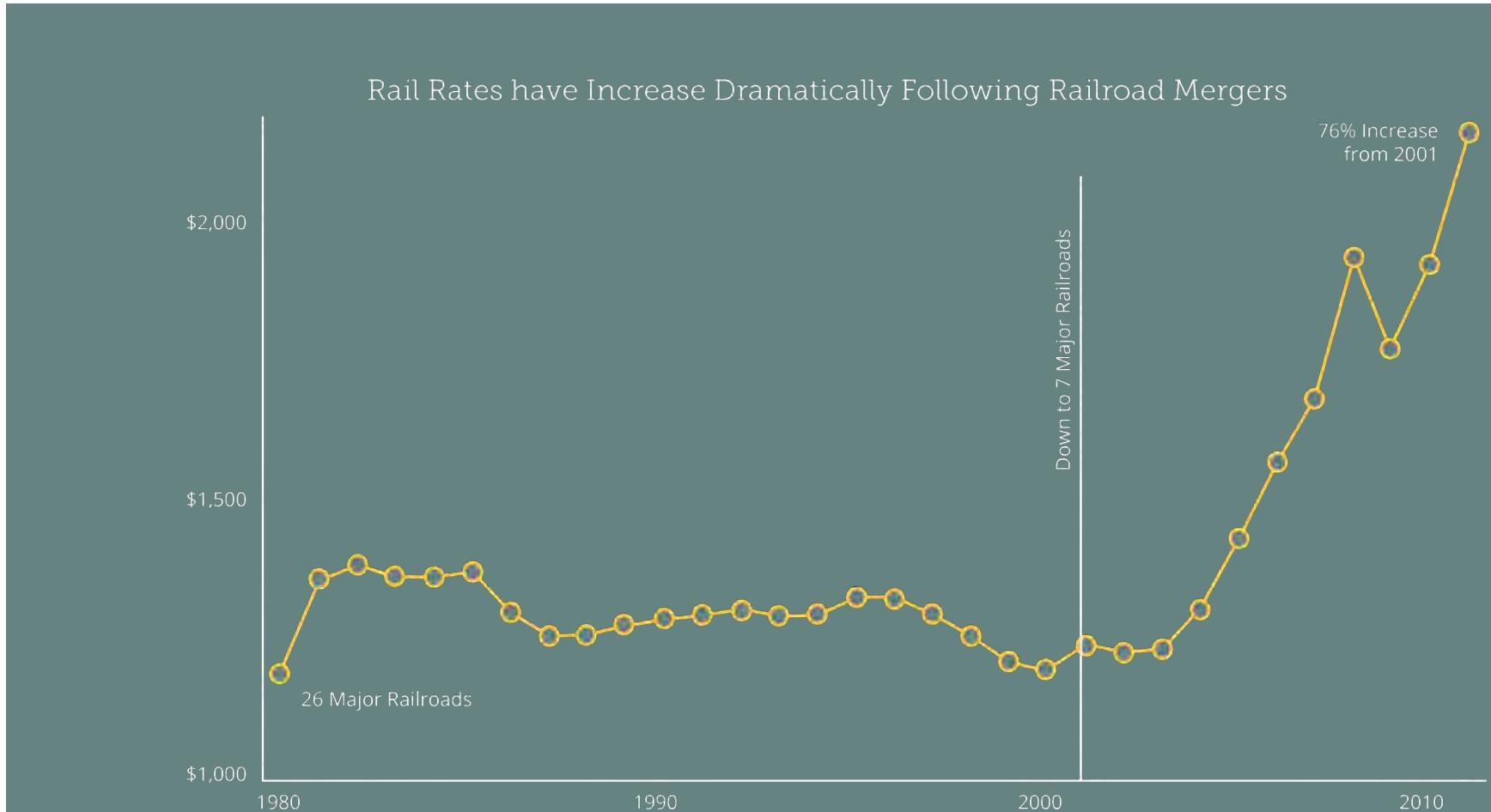


Logistics



*Economic
Growth*

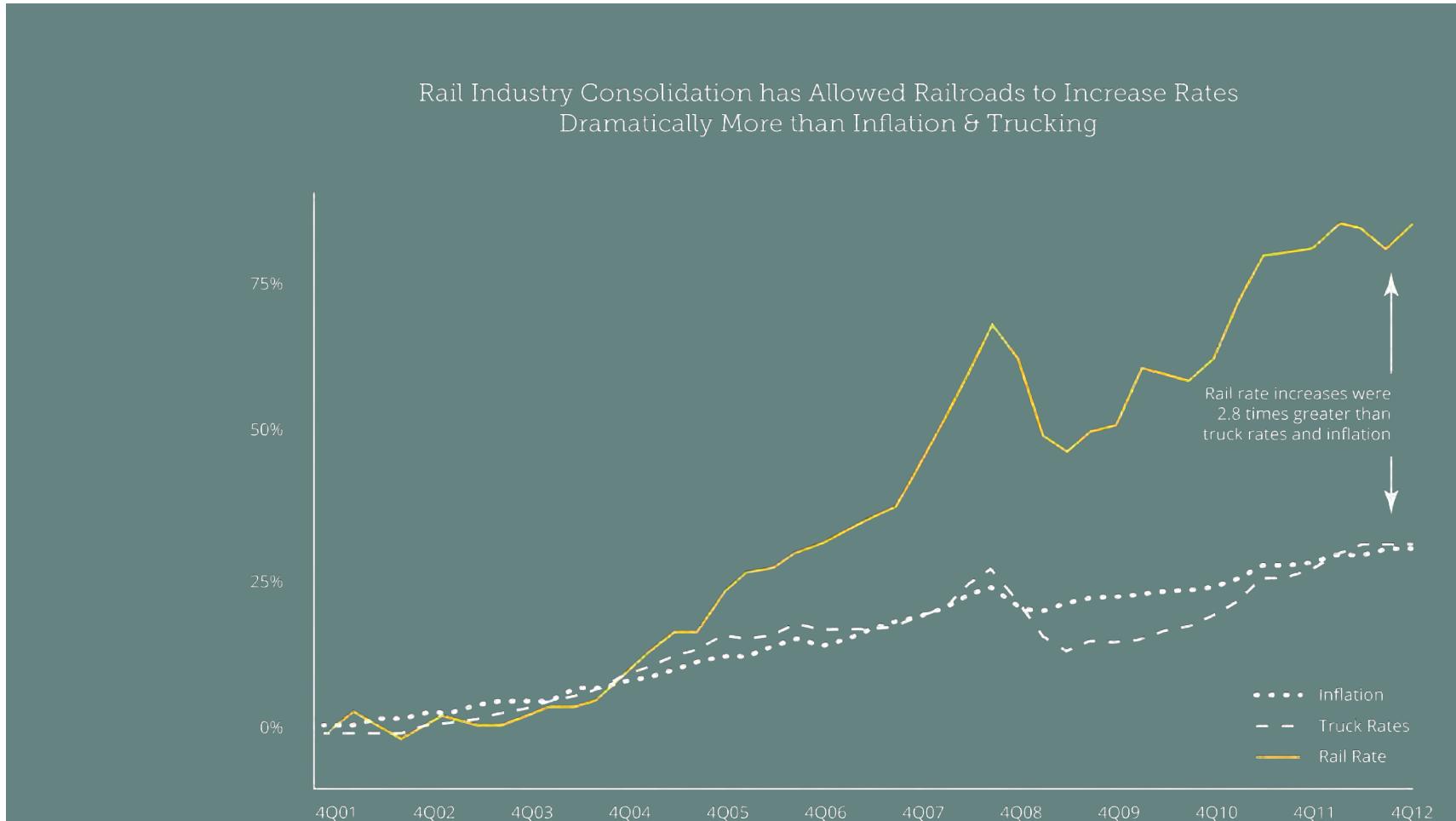
Price



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



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

2

1

\$452+
million

\$37-433
million

3

>\$37.13
Million (1991)

Product ivity

—



Logistics



Economic Growth





Outlook

Recession

TMS
& Persistence



Growth

1/3 intercity
freight



Sustainable



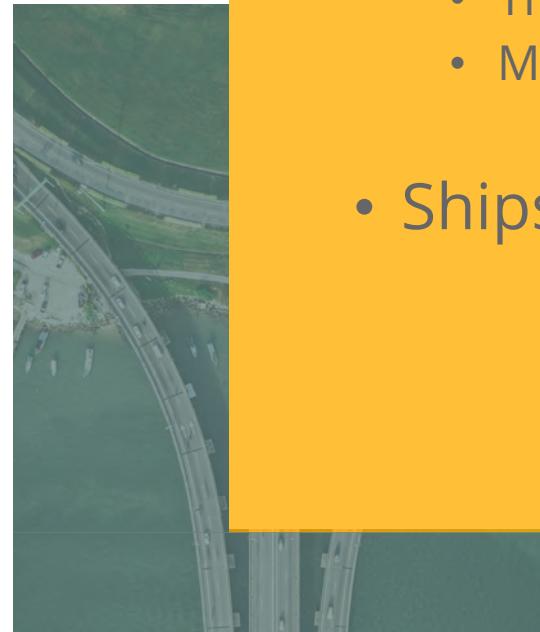
479
mpg per ton

KEY SERVICES

CSX Transportation Inc. & Union Pacific Railroad Company

Key Services

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



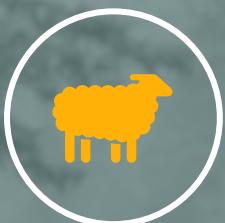
Industrial



Premium

What they Ship

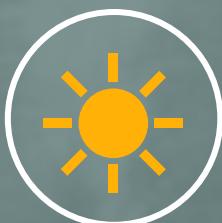
CSX



Agricultural Products



Automotive



Bio Energy



Building Materials



Chemicals



Coal



Fertilizer



Food Products



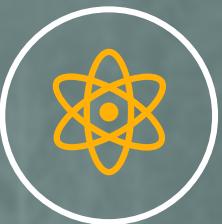
Machinery

What they Ship

CSX



Manufactured Goods



Metals



Military



Minerals



*Oil, Gas and
Drilling Materials*



Ores



*Paper, Pulp,
Fiber
Products*



*Transportatio
n Equipment*



Waste



Where they ship

Union Pacific
CSX



32,000 mi
Links with Canada
6 Gateways to Mexico

21,000 mi
70 ports
Quebec + Ontario
Mexico



Subsidiaries

Union Pacific

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



Subsidiaries

CSX

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



Patents

Union Pacific

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



Patents

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

Union Pacific



Fritz, CEO
(2015)



Ferguson, CLO
(2016)



Knight, CFO
(2004)



Tennison, CSO
(2018)



Whithead, CHRO
(2018)



Moore, CAO
(2017)

Executives

CSX



Foote, CEO
(2017)



Lonegro, CFO
(2015)



Goldman, CLO
(2017)



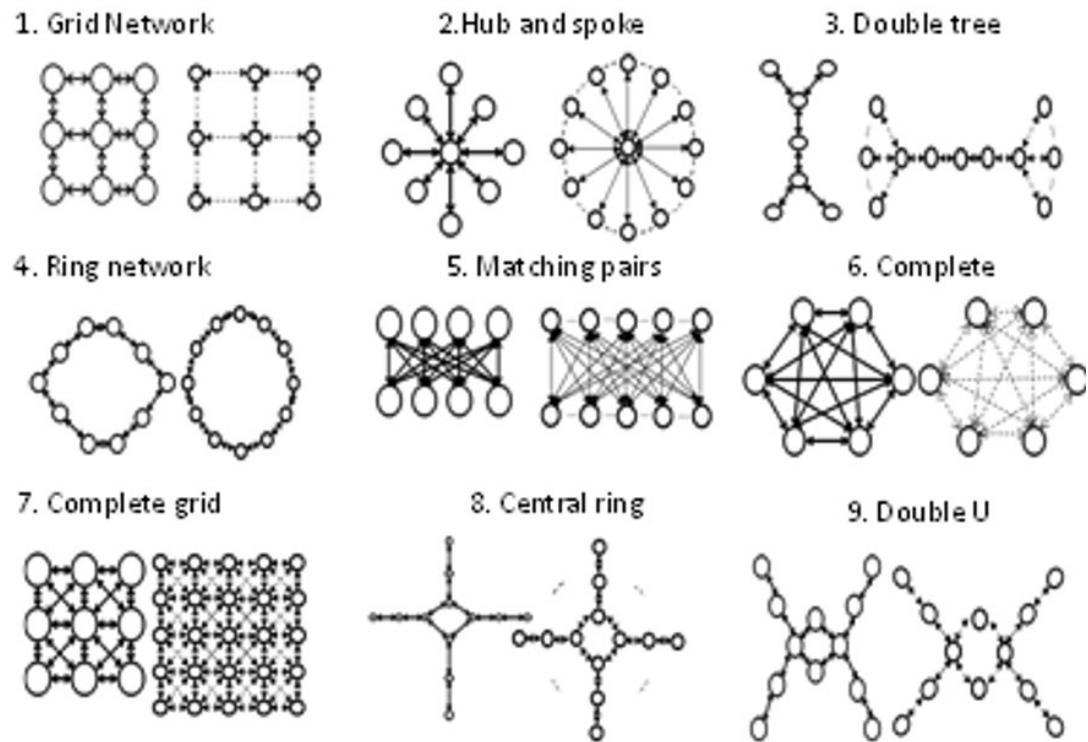
Sorfleet, CAO
(2018)



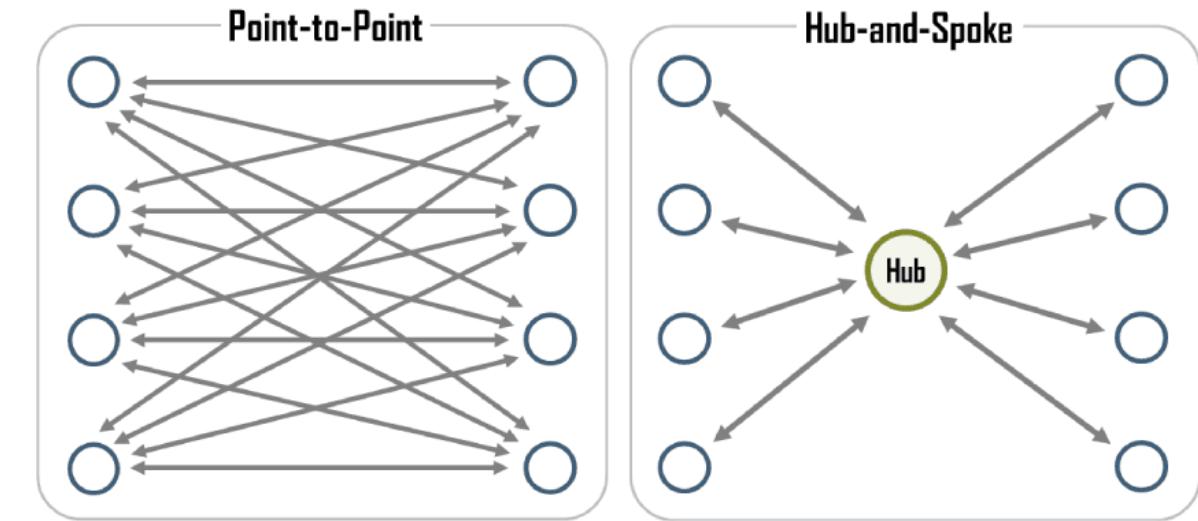
STRATEGY

Industry Strategy

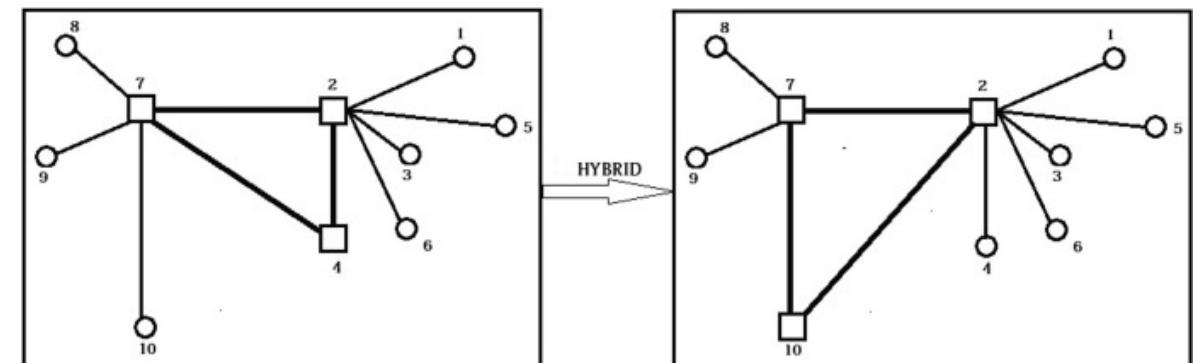
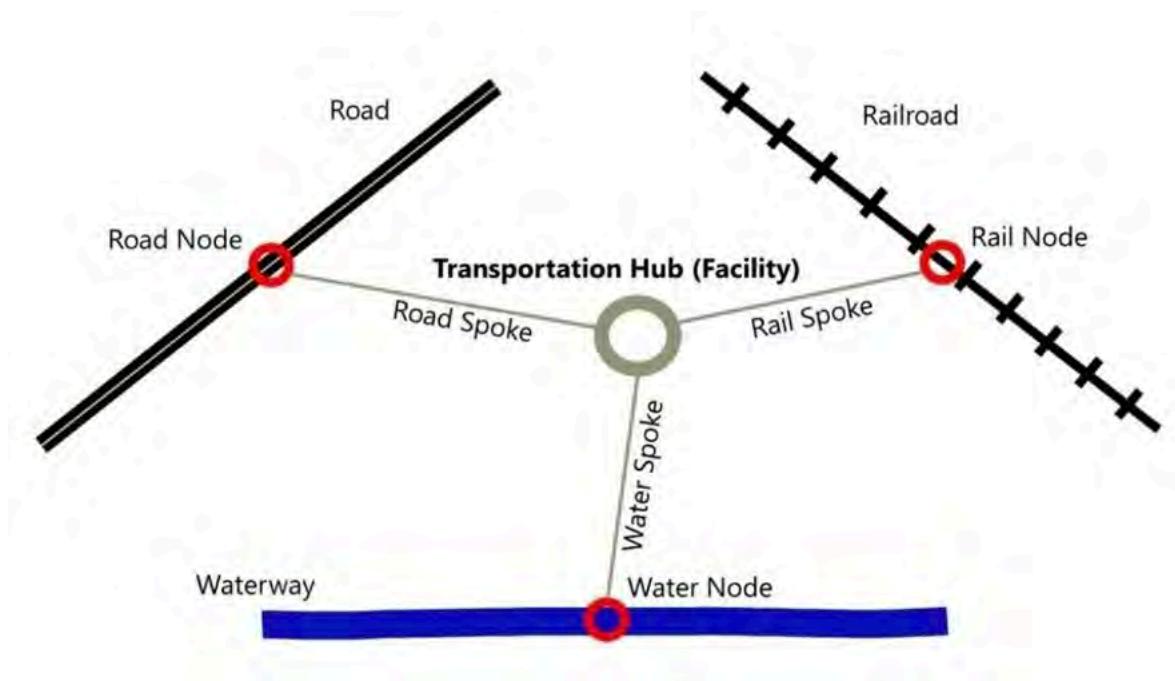
- A to B, A to C, etc.
- Different Operation Network Models



Industry Strategy



Industry Strategy





Precision Scheduled Railroading

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

Railroad Strategy



- 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

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

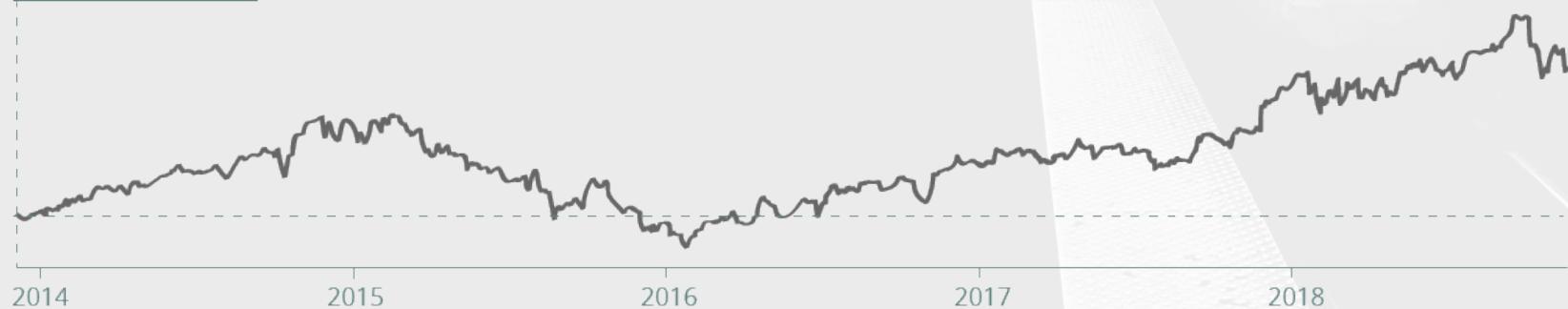
CONS

- 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

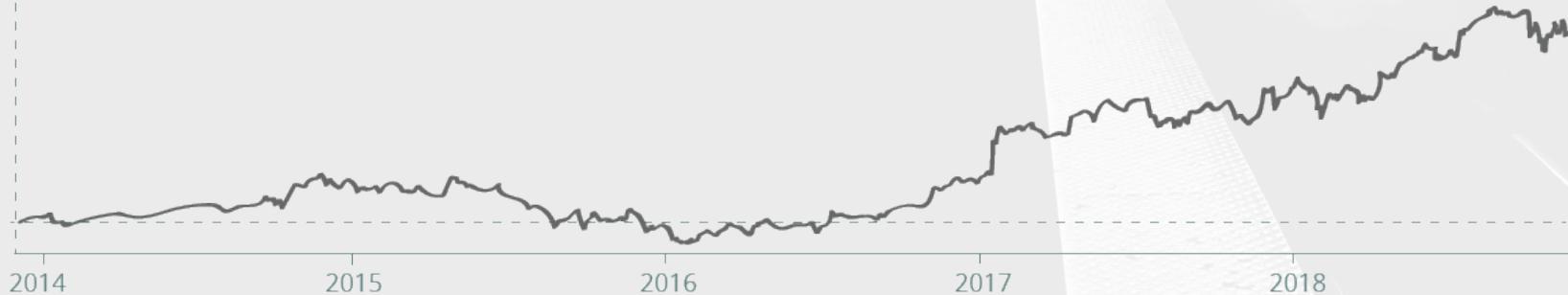
Mon, 02 Dec 2013
US\$81.77
Max: US\$164.99



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



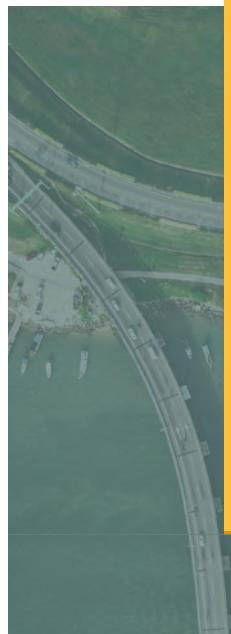
Operating Margin

**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

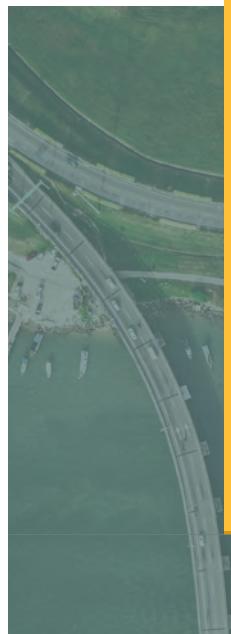


Union Pacific Debt/Equity Ratio Historical Data			
Date	Long Term Debt	Shareholder's Equity	Debt to Equity Ratio
2018-09-30	\$20.94B	\$20.65B	1.01
2018-06-30	\$21.36B	\$19.91B	1.07
2018-03-31	\$15.70B	\$24.39B	0.64
2017-12-31	\$16.14B	\$24.86B	0.65
2017-09-30	\$15.93B	\$19.15B	0.83
2017-06-30	\$15.23B	\$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

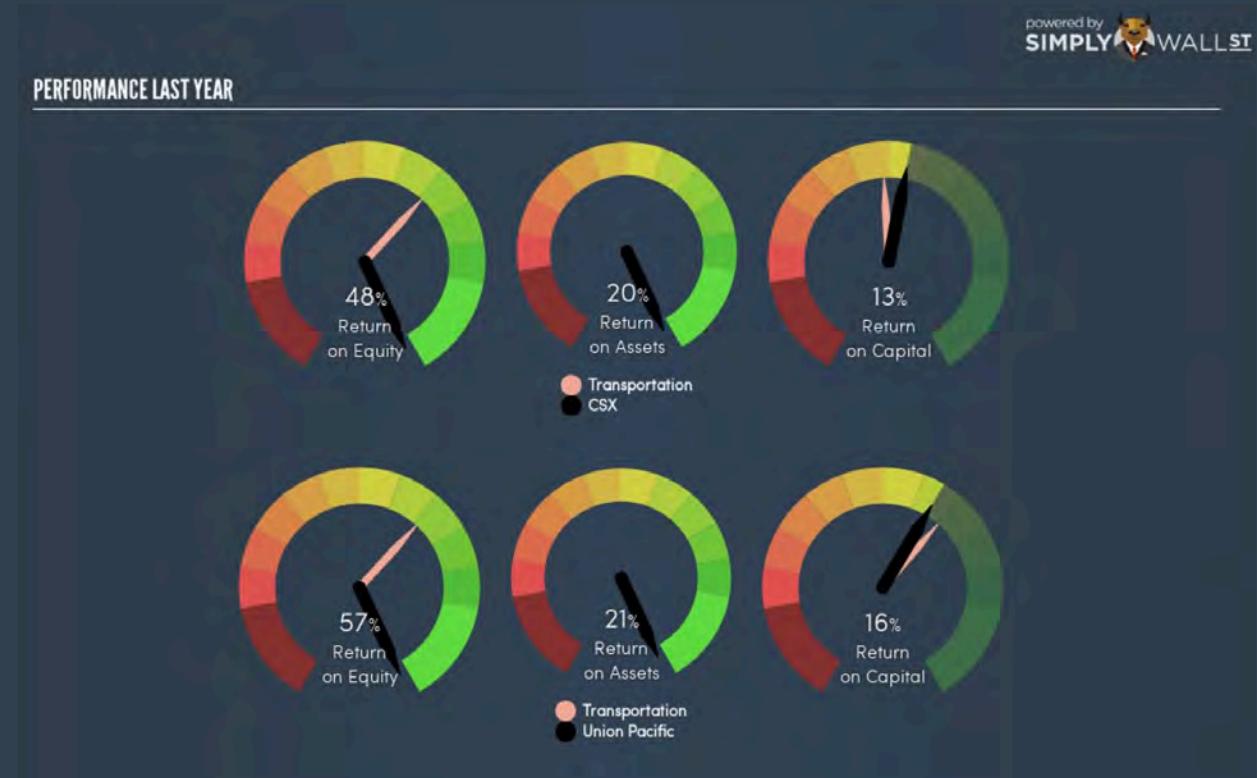


CSX Debt/Equity Ratio Historical Data			
Date	Long Term Debt	Shareholder's Equity	Debt to Equity Ratio
2018-09-30	\$13.75B	\$13.74B	1.00
2018-06-30	\$13.77B	\$14.02B	0.98
2018-03-31	\$13.77B	\$14.39B	0.96
2017-12-31	\$11.79B	\$14.72B	0.80
2017-09-30	\$11.79B	\$10.90B	1.08
2017-06-30	\$11.81B	\$11.60B	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

Decision





QUESTIONS
