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April 18, 2024
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BEFORE THE
SURFACE TRANSPORTATION BOARD

EX PARTE No. 770

URGENT ISSUES IN FREIGHT RAIL SERVICE

EX PARTE No. 770 (Sub. No. 1)

URGENT ISSUES IN FREIGHT RAIL SERVICE

[REVISED][1] **THIRD SUPPLEMENTAL COMMENTS OF THE BROTHERHOOD OF MAINTENANCE OF WAY EMPLOYES DIVISION/IBT; BROTHERHOOD OF RAILROAD SIGNALMEN; INTERNATIONAL ASSOCIATION OF SHEET METAL, AIR, RAIL AND TRANSPORTATION WORKERS/MECHANICAL DIVISION; INTERNATIONAL ASSOCIATION OF BOILERMAKERS; INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS DISTRICT #19; NATIONAL CONFERENCE OF FIREMEN AND OILERS 32BJ/SEIU; BROTHERHOOD OF LOCOMOTIVE ENGINEERS AND TRAINMEN/IBT AND TRANSPORT WORKERS UNION OF AMERICA**

I. INTRODUCTION

The Brotherhood of Locomotive Engineers and Trainmen/IBT, Brotherhood of Maintenance of Way Employes Division/IBT; Brotherhood of Railroad Signalmen; International Association Of Boilermakers; International Association Of Machinists And Aerospace Workers District #19; International Association of Sheet Metal, Air, Rail and Transportation Workers Mechanical Division; National Conference of Firemen and Oilers, 32BJ/SEIU; and the Transport

[1] The Unions are submitting these Revised Third Supplemental Comments because there was a miscommunication between counsel and the Union's labor economist regarding whether certain data was stated in constant dollars from 2010. The original comments described the data in Addendum F as stated in constant 2010 dollars. That was incorrect; the data was stated in actual dollars. The intent had been to include another document that showed data in constant 2010 dollars, but that document was not provided with the original comments. That information is in Addendum G that is included with these revised comments. The text in Part III (pp.11-12) has been revised accordingly.

Workers Union of America ("Unions") submit these Third Supplemental Comments regarding the inadequate staffing of the Class I railroads that gave rise to the Board's opening of this docket, and that caused the Board to require the Class I's to continue to report data concerning hiring, retention plans, and employment targets. In these Comments, the Unions will address staffing issues at Union Pacific, BNSF, and CPKC. The Unions will also provide data concerning economic trends in the industry that demonstrate that the assertions of the Class I railroads that furloughs, general reductions in employment, and the absence of plans to increase staffing are not warranted by recent revenue and profits results over the last year or so.

II. CLASS I RAILROAD EMPLOYMENT

A. UNION PACIFIC

1. Union Pacific Furloughs of Maintenance of Way Employees

On October 27, 2023, BMWED informed the Board and the Federal Railroad Administration that Union Pacific had notified the Union that, in November, the carrier would issue furlough notices to approximately 1300 maintenance of way employees (about 21% of UP's maintenance of way workforce). BMWED further advised the Board and FRA that Union Pacific's engineering department had said that furloughed employees would not be recalled until the end of January this year; meaning that the furloughed employees would lose 1/6th of a year's income. Union Pacific responded by an October 30, 2023 letter to the Board minimizing the effects of the furloughs on employees (and derivatively on maintenance of the carrier's infrastructure); UP stated that the number of employees who actually would be unable to hold a position after exercise of seniority would be minimal ("we do not anticipate significant furloughs, if any resulting from this action"), that furloughed employees would not have to wait two months to be recalled ("we will advertise positions for next year's program work in mid-December to bring our 2024 capital work in early January"), and that the furloughs were not unusual but were typical seasonal furloughs ("we historically have adjusted our capital program around the fourth quarter and this year is no exception"). None of those assertions were true at the time they were made; and the actual experience concerning the furloughs demonstrates that Union Pacific was merely posturing, and that UP's reassurances to the Board and industry stakeholders were pure fiction.

With regard to the number of employees furloughed—UP's own reporting to the Board for employment category L300 (maintenance of way and signal) shows that there were 8055 L300 employees in September of 2023, 8048 in October when the furloughs were announced, 7866 in November as the furloughs started, and 7486 in January of 2024.[2] There were no furloughs of Signalmen between September of 2023 and January of 2024, so the end result of the November furloughs was a reduction of maintenance of way forces by 569 employees—about 10% of the maintenance of way workforce. Accordingly, UP's assertion that the number of employees who would be laid-off without income would not be significant or none at all was wrong. Additionally, UP employment in the L300 category was 7486 in January of 2024 and 7834 in February of 2024, so it is clear that employees were not recalled for at least two months, and that as of mid-February about 200 fewer maintenance of way employees were working as compared to October of 2023. So, UP's assertion that the furloughs would not last two months with employees back to work in early January was also wrong. Furthermore, while the workforce

[2] A chart showing the category L300 reporting for the Big 4 Class I's for various months in 2022, 2023 and 2024 is Addendum A to these Comments.

increased by 348 from January to February, the February 2024 numbers were still 196 below the February 2023 numbers and 208 below the February 2022 numbers. So it appears that there has been a long term reduction in UP's maintenance of way workforce by least hundreds. And there is no indication of plans to restore the workforce. UP's recent unredacted report regarding its staffing plans showed that it does not intend to increase employment over the course of the year after the furloughs of last year. *See* UP's unredacted February 29th filing in this docket. And there has been a drastic reduction in new hires by UP. Whereas in 2023, UP averaged about 20-22 new hires per month, UP has had only three maintenance of way new hire classes this year; with 14 new hires in February, 3 in March and 4 in April.

Additionally, UP's assertion that the furloughs were seasonal is belied by UP's L300 reporting data from 2022—which shows that there were 8085 UP employees in category L300 in October of 2022 and 8051 in January of 2023—versus 8048 in October of 2023 and 7486 in January of 2024 . Furthermore, none of the other major Class I railroads similarly reduced their maintenance of way workforces between October of 2023 and January of 2024. BNSF's reduction of its L300 employees from October 2023 to January of 2024 (8157 to 7884) was half the reduction implemented by Union Pacific; and CSXT and NSR actually increased employment in that category (CSXT went from 5126 to 5136; NSR went from 4439 to 4622). So, neither seasonality nor broad market forces explains UP's maintenance of way furloughs. In the end, not only is UP's assertion that the furloughs were seasonal belied by UP's own experience, it is refuted by the experience of the other 3 Big 4 Class I's. Rather, as asserted by BMWED, the furloughs represented a cynical effort to reduce UP's operating ratio in the first quarter of James Vena's tenure as CEO by depriving maintenance of way employees of 2 months of income.

2. Union Pacific Furloughs of Shopcraft employees

One of the first actions of Union Pacific once Mr. Vena took the helm was to furlough Shopcraft workers who perform maintenance of equipment work. In August of 2023, before Mr. Vena was hired, UP reported 4934 employees in category L400 (maintenance of equipment). Almost immediately after Mr. Vena took charge, UP furloughed over 200 shopcraft workers; there were 4934 of them in August of 2023; 4787 in September of 2023; and 4690 in October of 2023. In the Los Angeles basin shops, which had 106 machinists in 2020, there were around 50 in 2023. On August 25, 2023, UP furloughed 9 machinists reducing the complement to 41; UP furloughed an additional 14 machinists in January of 2024 leaving only 25 machinists in the shops that inspect and maintain locomotives used to service the ports of Los Angeles and Long Beach—where much intermodal traffic originates, thus handicapping UP in increasing intermodal work from those ports; as it would have fewer locomotives in the area and fewer mechanics to inspect and maintain locomotives in the area. UP's mid-February 2024 report showed that there were only 4503 UP maintenance of equipment employees.[3] By contrast, BNSF had 6581 employees in category L400 in August of 2023 and 6654 in February of 2024.[4]

3. Union Pacific Executives' Remarks discouraging shipper access to its system

On January 25, 2024, Union Pacific's CEO Vena, CFO Jennifer Hamann, EVP Marketing and Sales Kenny Rocker, and EVP Operations Eric Gehringer held an earnings call

[3] A chart showing the category L400 reporting for Union Pacific and BNSF between August of 2023 and February of 2024 is Addendum B to these Comments.

[4] This preceded BNSF's large-scale furloughs at the end of February.

with industry financial analysts in which those corporate officers were adamant that they will not reduce prices to gain more business, will gain profitability by "efficiencies", that there was room to continue to reduce headcount to gain further efficiencies, that Union Pacific was maintaining "price discipline' and would not lower prices to increase volumes, and that a shipper would have to meet Union Pacific's [profit] margin to be on the system.[5]

During the course of the call (at 53:59 of the recording), Mr. Vena said that our goal is very clear, to have the best O/R in the business. UP apparently lost an international intermodal contract because of its "price discipline". Ms. Hamman said (at 31:23): we want to make sure that the business on our railroad is at an acceptable margin; Mr. Rocker then said (31:39) the margins have to be acceptable [for a shipper] to be on the network. Later Mr. Vena said (at 54:52) that, with respect to lost business, we need to replace lost business without making an adjustment on price to get the business; and Mr. Rocker said he's bullish on intermodal but wants to make sure that they are moving product at "acceptable margins". They continued to talk about reducing headcount (36:00-36:50) and said that they can continue operating with fewer people handling the same amount of business. The Union Pacific officers could not be more clear-- they are laser focused on reducing operating ratio and maintaining price discipline, and they are not interested in increasing the business if serving the prospective new shipper (or keeping an existing one) cannot be done at the required profit margin, even if the shipper may be served profitably, but not maximally profitably—you have to meet our margin to be on the system. No one addressed how requiring shippers to meet the demanded margin in order to

[5] The link to a recording of that conversation is https://www.up.com/cs/groups/public/@uprr/@investor/documents/investordocuments/mp3_unp_4q23_er_replay.mp3. Also, attached as Addendum C is an unofficial transcript of the call.

provide service is consistent with UP's obligations as a common carrier. Simply put, Union Pacific is not interested in increased volumes and revenue; it is solely interested in increased profits.

UP's recent unredacted report regarding staffing and employee retention goals is consistent with this expressed lack of interest in growth; UP offered the Board arbitrarily round numbers with regard to staffing goals, and showed that it had no plans to increase employment over the course of the year, after the furloughs of last year. *See* unredacted February 29th filing in this docket.

B. BNSF Railway

On February 25, 2024, Warren Buffett released his annual letter to investors in which he complained about BNSF's profits, and profit margins relative to the other Class I's. *See* summary with excerpts pertaining to BNSF, Addendum D. Mr. Buffett praised rail workers who have to work outdoors and in dangerous conditions, but he then criticized the pay increases those workers received in the most recent collective bargaining agreements (which were based on Presidential Emergency Board recommendations and accepted by the carriers, with the recommendations legislatively imposed with respect to some unions--at the carriers' request). Mr. Buffett asserted that the agreements provided pay increases that he said were "far beyond the country's inflation goals". (It should be noted that he did not say the increases exceeded inflation; in fact the increases were relatively consistent with inflation, and followed three years of wage stagnation in the face of dramatic increases in the cost of living). So, Mr. Buffett credits workers for hard work in dangerous and difficult conditions, but he does not believe that they are worth the pay increases recommended by the Presidential Emergency Board; it seems that he would have preferred that the wage increases were less than the increases in the cost of living.

Two days after Mr. Buffett's letter was released, BNSF suddenly furloughed over 360 maintenance of equipment/shopcraft workers; for two crafts (Sheet Metal Workers and Boilermakers) BNSF nearly halved the workforces at the involved shops. There appeared to be no operations rationale for the furloughs because BNSF has been understaffed with respect to shopcraft workers in recent years. As described in the Unions' Second Supplemental comments, in January of 2023, BNSF announced that over 1000 of its locomotives were overdue for their FRA mandated inspections (over 20% of its active fleet); the situation was so bad the BNSF had to seek FRA forbearance in enforcing the applicable regulations, and then had to contract-out the performance of work that it had never previously contracted-out. But BNSF imposed a hiring freeze last summer and curtailed its mechanic hiring plans. Then, in January of this year BNSF again found a large number of its locomotives overdue for FRA mandated inspections (over 650 locomotives) and ordered mandatory 6 day work weeks for locomotive mechanics for at least several weeks; among the locations where 6 day work weeks were imposed were six where BNSF furloughed workers two days after Mr. Buffett's letter: Alliance, Argentine, Northtown, Barstow, Galesburg and Haver. Accordingly, after twice in two years being unable to keep up with the minimum required locomotive inspections, those mandated by the FRA, and just after requiring 6 day work weeks for many locomotive mechanics, BNSF reduced the number of its employees who can perform the FRA inspections. It therefore appears that there was no operational or business basis for the February 27th furloughs; it was just a hurried attempt to satisfy Mr. Buffett's demand for improved profit margins by reducing operating expenditures in the Maintenance of Equipment department.[6]

BNSF has also been understaffed with regard to its maintenance of way workforce. Since 2016, BNSF has reduced the size of its maintenance of way work force to 5825 active maintenance of way employees as of February of 2023; down from 7,122 maintenance of way employees in 2016, and down from 6,446 maintenance of way employees in 2019. Over that period, BNSF's maintenance of way work force has been reduced by 18% since 2016, and 10% since 2019. The amount of trackage and the number of bridges and structures owned and maintained by BNSF has not materially changed since 2016, so about 82% of the 2016 maintenance of way work force today is responsible for the same infrastructure as BNSF had in 2016. This appears to be another effort to boost profitability at the expense of transportation needs in order to satisfy Mr. Buffett's demand for higher profit margins.

C. Canadian Pacific Kansas City

In their application for approval of Canadian Pacific's acquisition and control of Kansas City Southern and merger of the two carriers, as well as in other filings before the Board, the applicants projected that they would create about 750 new railroad jobs in the United States. That has not happened yet. For reporting categories L300, L400, and L600, the size of the CPKC workforce in January and February of 2024 is nearly the same as the size of the CP and KCS

[6] While BNSF claimed that it would arrange for furloughed employees to transfer to other jobs and/or other locations, about half if not more of the supposedly available jobs were in the maintenance of way craft. Locomotive mechanics who might transfer to maintenance of way jobs would lose their mechanical craft seniority, go to the bottom of the BMWED roster (jobs paid at rates well below locomotive mechanic rates), and not only change craft but likely change from jobs that reported regularly to the same location (and indoors) to outdoor jobs that routinely travel across multiple states. In short, these were not job offers that BNSF reasonably expected the furloughed employees to take.

workforces combined in January and February of 2023 (up 42 in January, down 93 in February). *See* Addendum E.

III. SMALL DECREASES IN RAILROAD PROFITS DO NOT NECESSITATE THE REDUCTIONS IN THE WORKFORCE

In various filings with the Board, public relations statements, and stakeholder communications, the Class I railroads have attempted to justify their refusals to increase their workforces, as well as their furloughs of current employees on recent declines in volumes and profit margins. The railroads have used the corporate euphemism of "right-sizing" their enterprises to meet current and anticipated demand. In doing so they have ignored the lessons of the resurgence of demand as the pandemic abated, when they were caught flat-footed with insufficient staff because cavalierly furloughed employees did not return after months-long or longer furloughs. The Class I railroads have also largely reneged on their statements to the Board and customers that they had learned their lessons from low return rate of furloughed employees in 2021-2022, and that they would build in resiliency to their employment models to ensure that they could meet upsurges in demand. They have also failed to act to support their claims of plans to "pivot to growth" by increasing their workforces to accommodate growth. Some in the industry attempted to justify their static or negative employment numbers by citing the supposedly impending recession—the one that never came. There is an obvious disconnect between shippers seeking more and better service and railroads saying that the demand is not there. But putting that all aside, the poor-mouthing by the Class I railroads as an explanation for cutting their rail workforces- removing skilled and experienced workers from their jobs, and gutting the next generation of railroaders is not in any way justified by the financial experience of the Class I's in recent years.

Addendum F to these Third Supplemental Comments are charts and tables prepared by Thomas Roth of the Labor Bureau, Inc. regarding the financial performance of the Big 4 Class I railroads since 2010.[7] While it is true that carloads and profits are off from their historic peak of 2022, the reduction in carloads has been minimal, and the reduction in profits since 2022 has been relatively insignificant. Profits for the Big 4 combined in 2023 are more than double that of 2010. The chart at the first page of Addendum F shows a dramatic steep increase the profits of the Big 4 since the end of the Great Recession, even after short declines in 2016 and 2019. Indeed 2022 qualifies as the most profitable year ever for the Big 4 combined. The drop in combined profits from the record year in 2022 to 2023 still left profits at double the level in 2010. Current profits even exceed the then high mark in 2018 which doubled the profits from 2010. Even when calculated in constant dollars from 2010, there is no basis for the alarm and retrenchment by some Class I's, or the paralyzed stasis of other Class I's. In constant 2010 dollars, current profits are 150% of 2010 profits and exceed 2017 profits. *See* Addendum G. The

[7] Mr. Roth is a labor relations consultant, financial and economic advisor, and President of The Labor Bureau, Inc. The Labor Bureau is a private consulting firm founded in 1923 and has provided professional services in labor relation matters to labor organizations throughout the United States continuously for 99 years. Mr. Roth has served Labor Bureau clients from 1974 and has worked on a regular and continuous basis in both public and private sectors with extensive experience in urban transit, railroads, and airline industries. Mr. Roth provides unions with analyses of employer economic and financial positions, designs of wage and benefit compensation programs, conducts wage and benefit surveys and comparative compensation analyses, and furnishes expert testimony and evidentiary reports in formal contract determination proceedings. Mr. Roth has appeared as an expert witness in well over 400 fact-finding, arbitration, and court cases. In the railroad industry, Mr. Roth has served as economic and financial advisor to all railroad unions in national freight negotiations, commuter rail negotiations and Amtrak negotiations. He has represented all 14 standard railroad unions as financial and economic advisor in presentation of rail labor's case before numerous Presidential Emergency Boards and interest arbitrations under the Railway Labor Act, including over 40 Presidential Emergency Boards and interest arbitrations under the RLA.

gnashing of teeth and mea culpas emanating from industry executives to placate dissatisfied investors (who would have been thrilled by these results in 2016), and the attacks on the financial performance of the railroads by stock speculators, are unwarranted in the context of recent historical performance-even very recent historical performance. Again, 2018 was a banner year for the Big 4 and current results exceed those of 2018; and current results exceed 2017 levels in 2010 constant dollars. With respect to employment, the workforces of the Big 4 are 22% below 2018 levels while profits are higher. Operating ratios are still historically low. The combined results of the Big 4 are generally consistent with the results of the individual carriers; all of them are currently far more profitable than they were after the Great Recession, and all of them are either as profitable, or more profitable, than they were in in 2018.

Just because the record results of 2022 were not repeated in 2023, there are commitments to, and calls for, reductions in operating ratios. The reaction in the industry has generally not been an effort to grow, and not been an effort to meet, encourage or drive demand, but rather to cut, pull back, and hunker down. There is no indication of long-term plans of the Big 4 to try to increase shipping by rail. And workers are being furloughed, tossed into the maw of the operating ratio reduction machine to juice the near-term numbers in order to boost quarterly results. The Unions contend that to the extent that volume is down, it is significantly because the Class I's have rejected, discouraged, or disincentivized increased movement of freight by rail because they are interested in only the highest profit margin traffic. Union Pacific just said the quiet part out loud—they don't want business that does not meet their margin, even if shippers can be served profitably, but not at the high target profit rates-- regardless of their obligations as common carriers.

Some might question why this should concern the Surface Transportation Board. But, as the Board observed in opening this docket, and as the Class I's admitted at the time, the poor service provided by the Class I's in 2021 and into and through 2022 was directly related to staffing shortages, and the railroads admitted that was so. The unprecedented 2022 Union Pacific embargoes were attributed to staffing shortages, and the BNSF embargo of its southern transcon route was attributed in part to insufficient staffing. BNSF's refusal to provide the trains sought by the Navajo Transitional Energy Corp. was based in part on crew shortages. Union Pacific's problems with the Winnemucca line used to serve Foster Poultry Farms occurred after maintenance of way and signal forces were reduced there. BNSF's inability to keep up with FRA required locomotive inspections in 2023 and 2024, limiting BNSF's available motive power, came after years of continuing reductions in shopcraft staffing. And the East Palestine derailment that not only caused health and environmental damage, but also disrupted service on a major NSR line, occurred after NSR had more than halved its Carmen work force (employees who inspect rail cars) on that portion of its system (the former Conrail portion). Furthermore, while the Class I's have touted their success in meeting their unilaterally set and unambitious service metrics established in this docket, such that the Board ended its requirement for reporting on those metrics, success in restoring service from abysmal to barely adequate as employment ticked up insignificantly (2%), while well below 2019 levels (18% below), is not cause for popping open champagne bottles, perhaps cans of soda at best.

Some might contend that the incessant drive for ever higher profits driven by stock speculators (while the workforce is reduced, and customers are poorly served) at privately owned corporations is not properly the concern of a government agency. They might say that if a corporation prioritizes high short-term profits over long-term consistent profitability, or if corporate raiders seek to take a position in a corporation and extract value before moving on to the next host, that is a problem for shareholders, not the Board. Some will predictably invoke the specter of pre-Staggers era regulation in urging the STB to stand down (ignoring the effects of the stunning agency authorized industry consolidation that occurred 15 to 25 years after the Staggers Act). But it must be remembered that these privately owned businesses are responsible for essential parts of the Nation's transportation infrastructure. When a Payless is hollowed out by stock speculators, when the owners of a company like Sears make decisions that accelerate the problems of a struggling company, it is harmful to their employees and troubling for their customers, but it is not a matter of national interest. But poor freight service and reluctance to increase shipping by rail when it would benefit the economy, transportation safety, and the environment are matters of national concern. Beyond that, the Unions again note that the railroads 1) operate under government issued certificates; 2) have common carrier obligations; 3) are government permitted duopolies, with each of the Big 4 spanning half the United States, that would never have been allowed to form in other industries, but were allowed to form because this agency determined that their combinations were consistent with the public interest, and that the public transportation benefits of the combinations outweighed the potential negative effects of extreme industry concentration; and 4) have immunity from anti-trust law and other laws with respect to post-merger actions, with the scope of that immunity broadly construed (and wielded liberally against Rail Labor). It must also be recognized that the railroads were the recipients of federal land grants that combined would be larger than 46 States, the federal government paid to build much of the western railroads, substantial parts of CSXT and NSR benefited from the government takeover of the Penn Central lines (by formation of Conrail), and all of the railroads were relieved of their common carrier obligations for passenger service by the federal government's creation of Amtrak. Assertions that it is none of the government's business if the Class I railroads focus on ever greater and short-term profits to the detriment of service, choose to serve only those customers who meet the railroads' target margins, and staff themselves so thinly that they cannot provide good service and are not prepared for surges in demand and typical weather events, are ahistorical, contrary to law, and generally specious.

IV. CONCLUSION

In these Third Supplemental Comments, the Unions have shown that Union Pacific's assurances to the Board regarding last Fall's massive furloughs of maintenance of way workers were not based in fact, and were disingenuous at best; that Union Pacific has continually reduced its maintenance of equipment and maintenance of way workforces, and escalated that trend after August of 2023 in order to improve the financial results for Mr. Vena's first quarter as CEO; that BNSF responded to Mr. Buffett's complaints about profits by cutting maintenance of equipment workers when BNSF has been unable to timely complete FRA required inspections for two years running; that CPKC has yet to show progress toward its projection of a 700+ increase in its workforce; and that Union Pacific openly stated what is prevalent among the Class I's—that they are not interested in customers who may be served profitably, but not at the desired profit margin. The Unions have also shown that the cuts in the workforces of the Class I's and resultant diminished service are not necessitated by current industry finances; and that the railroads have no basis for complaining about this Board acting when the railroads are not providing the service they promised in obtaining authorization to become today's duopolies, and often are not complying with their common carrier obligations. Based on the information the Unions have provided in these comments and their prior comments, as well as the Board's own findings in this docket, the Board should continue to oversee the performance of the Class I railroads, continue to require that the Class I's report employment data and hiring and retention plans, and reinstate the reporting of service metrics as requested by major shipper groups. The Unions also again urge the Board to do all it can to enforce the common carrier obligation and facilitate the filing of common carrier complaints; and they urge the Board to seek additional authority from Congress if it does believe it can effectively enforce the common carrier obligation with the authority it currently has.

Respectfully submitted,

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April 18, 2024

UNIONS THIRD SUPPLEMENTAL COMMENTS
ADDENDUM A

Big 4 Class I's STB L300 (MOW and Signal) Reports 2022-2024

	UP	BNSF	CSXT	NSR
1/22	8039	7407	4846	4138
2/22	8042	7771	4871	4149
5/22	8084	8082	4905	4187
9/22	8074	8088	4887	4300
10/22	8085	8068	4922	4299
12/22	8108	7942	4948	4448
1/23	8051	7692	5082	4334
2/23	8030	8019	5013	4348
5/23	8088	8247	5096	4373
9/23	8055	8169	5088	4486
10/23	8048	8157	5126	4439
11/23	7866	8127	5109	4491
12/23	7566	8071	5108	4564
1/24	7486	7884	5136	4622
2/24	7834	8113	5196	4559

UNIONS THIRD SUPPLEMENTAL COMMENTS
ADDENDUM B

	UP STB L400 (MOE) reports	BNSF STB L400 (MOE) reports
8/23	4934	6581
9/23	4787	6542
10/23	4690	6511
11/23	4598	6477
12/23	4598	6464
1/24	4562	6637
2/24	4503	6654

UNIONS THIRD SUPPLEMENTAL COMMENTS
ADDENDUM C

Seeking Alpha α

Transcripts

Union Pacific Corporation (UNP) Q4 2023 Earnings Call Transcript

Jan. 25, 2024 2:00 PM ET | **Union Pacific Corporation (UNP) Stock**

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Q4: 2024-01-25 Earnings Summary

Play Call | Slides | Press Release | 10-K

EPS of $2.71 beats by $0.14 | Revenue of $6.16B (-0.34% Y/Y) beats by $109.37M

Union Pacific Corporation (NYSE:UNP) Q4 2023 Earnings Conference Call January 25, 2024 8:45 AM ET

Company Participants

Jim Vena - Chief Executive Officer

Jennifer Hamann - Chief Financial Officer

Kenny Rocker - Executive Vice President of Marketing and Sales

Eric Gehringer - Executive Vice President of Operations

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Jordan Alliger - Goldman Sachs

Jason Seidl - TD Cowen

Jeff Kauffman - Vertical Research Partners

Jairam Nathan - Daiwa

David Vernon - Bernstein

Operator

Greetings. Welcome to the Union Pacific Fourth Quarter Earnings Call. At this time, all participants are in listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded, and the slides for today's presentation are available on Union Pacific's website.

It is now my pleasure to introduce your host, Mr. Jim Vena, Chief Executive Officer for Union Pacific. Mr.

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Now let's turn to Slide 3. This morning, Union Pacific reported 2023 fourth quarter net income of $1.7 billion or $2.71 per share. This compares to 2022 fourth quarter net income of $1.6 billion or $2.67 per share.

Fourth quarter operating revenue was flat as increased volumes and core pricing gains were offset by lower fuel surcharge revenue and business mix. Expenses year-over-year were also flat as lower fuel expenses and productivity gains were offset by inflation, volume-related costs and higher casualty expenses.

Our fourth quarter operating ratio of 60.9% improved 10 basis points versus last year. And more importantly, we demonstrated strong sequential OR improvement of 250 basis points from the third quarter. We are taking the right actions to increase the efficiency of our railroad while also improving service for our customers.

Key to our strategy is excelling in what we control. We made great progress in those areas this quarter. That provides further proof that we're on the right path for future success.

So with that, let me hand it over to Jennifer to provide more details on the fourth quarter and full year financials.

Jennifer Hamann

Thanks, Jim, and good morning. Let's begin by walking through our fourth quarter income statement on Slide 5. Starting with the top line. Operating revenue of $6.2 billion was flat versus 2022 on a 3% volume increase. Breaking it down further, freight revenue totaled $5.8 billion, up 1%. The biggest driver of freight revenue in the quarter was fuel.

Lower year-over-year fuel prices reduced fuel surcharge revenue and impacted freight revenue 375 basis points as fuel surcharges declined $180 million versus 2022 to $795 million.

Volume growth in the quarter contributed positively, adding 350 basis points to freight revenue, and the combination of price and mix also was positive, increasing freight revenue, 75 basis points as solid core pricing gains were mostly offset by an unfavorable business mix. Intermodal shipments up 5% contributed

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Fuel expense in the quarter decreased 11% on a 15% decrease in fuel prices from $3.70 per gallon to $3.16. Our fuel consumption rate deteriorated 3% as we moved a less fuel-efficient business mix with increased intermodal shipments and fewer coal moves.

Finally, other expense grew 20% as a result of higher casualty costs and the comparison to 2022, which included insurance recoveries.

Coming out of COVID, we had a sizable case backlog that we largely worked through the last couple of years. Importantly, we do not see these elevated expenses as a reflection of a long-term trend, particularly with our intense focus on improving safety.

Fourth quarter operating income was flat at $2.4 billion. Below the line, other income increased $16 million due to higher real estate gains. Fourth quarter net income of $1.7 billion and earnings per share of $2.71, both improved 1% versus 2022. Our operating ratio of 60.9% improved 10 basis points year-over-year and 250 basis points sequentially.

Moving to Slide 6 with a quick recap of full year 2023 results. Revenue of $24.1 billion declined 3% driven by reduced fuel surcharges, business mix and lower volumes, partially offset by core pricing gains.

Operating income totaled $9.1 billion and our full year operating ratio of 62.3% deteriorated 220 basis points. Earnings per share of $10.45 decreased 7% versus 2022 and then reflecting the impact of our overall financial results, return on invested capital declined 180 basis points to 15.5%.

Turning to shareholder returns and the balance sheet on Slide 7. Full year 2023 cash from operations totaled $8.4 billion, down roughly $1 billion from 2022. The combination of lower net income and nearly $450 million of labor agreement payments were the main drivers. Free cash flow and our cash flow conversion rate also reflected those impacts.

We returned $3.9 billion to shareholders in 2023 through dividends and share repurchases. Our adjusted debt-to-EBITDA ratio finished the year at three times as we continue to prioritize a strong balance sheet and be A rated by our 3 credit agencies.

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So let's jump right into the business teams to recap the market drivers on the revenue slide. Starting with bulk, revenue for the quarter was flat compared to 2022, driven by a 3% increase in volume, offset by a 2% decrease in average revenue per car. Core pricing gains were more than offset by lower fuel surcharges and the unfavorable impact of low natural gas prices on our index-based coal contracts.

Fertilizer shipments grew compared to 2022 as demand for fuel application was strong due to lower nitrogen prices. Grain product shipments were up for the quarter as our team secured new feedstock opportunities for renewable diesel production in Louisiana and California. Additionally, ethanol shipments increased with our improved service.

Lastly, coal continued to be challenged in the fourth quarter due to mild weather and decreased coal competitiveness from low natural gas prices. Industrial revenue was up 4% in the quarter, driven by a 3% increase in volume. Core pricing gains in the quarter were mostly offset by lower fuel surcharges and a negative mix in volume.

Business development in our petroleum and LPG commodity segments contributed to the growth. Demand improved for our plastics business in both export and domestic markets. However, sand volumes were negatively impacted by softer natural gas prices that reduced drilling in the Eagle Ford Basin and increased utilization of in-basin sand in the DJ Basin.

Premium revenue for the quarter was down 3% on a 4% increase in volume and a 7% decrease in average revenue per car from lower fuel surcharges and truck market pressures. Automotive volumes were negatively impacted by the UAW strike, but those decreases were mostly offset by dealer inventory replenishment and business development wins that I mentioned on the last quarter's call. Intermodal volumes were positive in the quarter, driven by stronger West Coast imports, domestic business development wins and strengthen our Mexico volumes.

Now let's start talking about 2024. Here are some key economic indicators that we're watching this year on Slide 10. These are S&P's forecast from their January report, and you'll notice that it shows a mixed picture for 2024. Industrial production looks to be flat. Housing starts are expected to remain challenged, but

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Moving on to Industrial. The construction market will be challenged to exceed last year's record volumes as we're seeing softness in parts of the market. However, we foresee the petroleum and petrochem market remaining favorable due to our focus on business development.

And finally, for premium on the international intermodal side, we expect the market to improve year-over-year, but a contract we lost earlier in 2023 will negatively impact our 2024 volumes.

On the domestic side, we are staying close with our customers who have indicated that they'll see a soft start to the year. Nonetheless, our strong service product sets us up to handle market demand. And for automotive, we will see strength in this market with improved OEM production and business development wins.

In summary, the economic environment continues to look muted in 2024, particularly in the first half. We're off a slower start in January based on severe winter storms and market challenges we're seeing in coal and intermodal. But I am encouraged that we expect to see growth in some markets with our strong focus on business development.

For the second half, we are well prepared to handle the demand if the market and economy improves. We continue to make significant capital investments on both the carload and intermodal front to capture more freight over the road. Those investments, along with our unmatched service offerings and improved service products from Eric's team create a winning environment for our customers. I'm excited for the opportunities in front of us, and our commercial team is ready to help our customers win in the marketplace.

And with that, I'll turn it over to Eric to review our operational performance.

Eric Gehringer

Thank you, Kenny, and good morning. Moving to Slide 13. To start, I want to express my appreciation to the team for their relentless focus on improving our service product and driving network efficiency. It's thanks to their efforts that our network showed tremendous fluidity and reliability during the fourth quarter.

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Now let's review our key efficiency metrics for the quarter on Slide 14. During the fourth quarter, we saw year-over-year improvement across all of our efficiency metrics. Locomotive productivity improved 14% versus fourth quarter 2022 and 9% sequentially as we continue to identify and execute on opportunities to utilize the fleet more efficiently. Throughout the second half of 2023, we stored nearly 500 units from our operable fleet.

Workforce productivity improved 4% compared to fourth quarter 2022. With a strong crew base, we are focused on effectively managing workforce levels to the demands of the business. However, challenges do remain from scheduled work agreements that in the near term, require additional employees.

Train length improved 2% compared to fourth quarter 2022 as we continue to remove car touch points from the system. In total, throughout 2023, we were successful in extending train length as improvements in the second half more than offset the declines in intermodal shipments. We remain persistent in our focus on train length to drive productivity while providing a better service product to our customers.

As we move into 2024, we will continue to transform our railroad through a variety of technology initiatives and targeted capital investments designed to further improve safety, improve our service product, enhance resource utilization and ultimately lower our cost structure.

So to wrap up, let's review our capital outlook for 2024 on Slide 15. We are targeting capital spending of $3.4 billion in 2024. Similar to 2023, we will support safe and productive operations by investing in our infrastructure and renewing our older assets. This includes modernizing locomotives and acquiring freight cars to support replacement and growth opportunities. We are also investing in technology and terminal and mainline capacity projects to improve productivity.

Specific to our technology investments, we recently cut over NetControl, replacing our 50-year-old transportation management system. This cutover positions us to use real-time analytics to open new capabilities for Union Pacific and our customers. Great work led by our technology team.

On the growth front, we will continue to invest in projects that expand our intermodal footprint and support

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As you heard from Kenny, it's a difficult market to forecast, as economic indicators show a muted and ıncertain economy. Throwing a couple of other variables such as what the Fed might or might not do with nterest rates and a presidential election, and we've got an interesting year ahead. On top of the macro ›ressures, lower coal demand and some lost international intermodal business are expected to negatively mpact our volume.

And as you've seen in the weekly carload data, January is off to a slow start as cold temperatures across ›ur system impacted operations and volume with first quarter volume down 9% year-to-date. I am confident, ıowever, that our strong and improving service product will allow us to capture available demand. We clearly lemonstrated that in the fourth quarter as we took advantage of the unexpected but short-term surge in ntermodal.

Лore certain than the economy is our expectation to generate pricing dollars in excess of inflation dollars ›ven with ongoing headwinds from certain intermodal contracts. With those pressures, we do not expect ›rice to be accretive to margins in this year.

(ey for UP in 2024 is our ability to control the controllables by driving a strong safety culture, making ngoing service gains and improving network efficiency. We're confident that regardless of the demand nvironment, we will take the necessary actions to run a more efficient network.

inally, with capital allocation, there is no change to our long-term strategy. We are investing $3.4 billion ack into the railroad as Eric detailed. Next, we prioritize our industry-leading dividend payout and then xcess cash will be returned to shareholders through share repurchases.

lowever, given first quarter debt maturities of $1.3 billion, we will not be repurchasing shares in the first uarter. It's always difficult in late January to make predictions for the year ahead, and this year is no ifferent. There are clearly ongoing challenges from a macro and inflationary perspective. What is very ncouraging though, as we start out 2024 is our momentum, which you've heard us mention several times ›day. We demonstrated with our fourth quarter performance, what's possible, and we look forward to further nprovement in the year ahead.

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Eric described the progress we've made to return our service levels to industry best, while there's work to do, the team made consistent improvement through the quarter to exit in a very fluid state. Obviously, winter is here, but that's part of railroading. I judge our success by how we minimize the impact on our customers and how quickly we recover the network. So far, we've grown - we've shown great resiliency.

Finally, as Jennifer laid out, our productivity and pricing gains will be key to overcoming ongoing inflationary pressures in 2024 as well as the soft economy. While many unknowns remain, I'm confident we'll succeed in the areas we control. We've got plenty of opportunities this year to improve safety, service and operational excellence.

As you heard me say in October, I came back to Union Pacific to win. My vision and the opportunity I see for this company has not changed. We have the right team and strategy in place to grow this railroad long term, and I'm very confident we'll see a better Union Pacific in the future.

We're now ready to take your questions. Rob?

Question-and-Answer Session

Operator

Thank you, Mr. Vena. We'll now be conducting a question-and-answer session. [Operator Instructions] And our first question today is from the line of Chris Wetherbee with Citigroup. Please proceed with your question.

Chris Wetherbee

Thanks. Good morning. Maybe if I could ask just sort of the outlook for 2024. As you sit here, it sounds like a muted macro environment is keeping you cautious. But I guess when you think about the opportunities that you have, can volume be up this year? I know some of the macro indicators that you highlighted are muted, but they are still positive. So curious about volume growth.

And I guess, in that context, with pricing maybe not necessarily being accretive to margin. Is there enough in

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Do we hope that, that will happen? And are we going to work diligently to move every piece of business that's there? Absolutely. And I think you really saw what the network can do with our fourth quarter performance, but we just need to see a little more certainty. And hopefully, that plays out through the year, and we can provide that. But sitting here today, we just don't see that. But Kenny, maybe talk about your margin...

Kenny Rocker

I talked about it in my opening comments, there's a mixed bag of opportunities that are in front of us. We feel really good about the biofuels market. That market is growing. Demand is growing. We're capturing business in those markets. On the industrial side, we've had some record year on the construction side, still be a strong year. But as we are coming out of the gate with weather, that's going to be a little bit challenged for us.

We feel really good about our petrochem business and wins that we've had from a business development perspective. On the petroleum and LPG side, those are all positive for us. On our premium business, again, those are really economic driven. And so we'll be looking to see what happens with demand overall.

I talked about the international intermodal side and the loss there. We feel really encouraged by our ability to win on the auto side. And you heard us talk about Volkswagen [ph] win in last quarter. And so as there's a lot of demand there and the forecast for growth there, we really feel good about that market.

Chris Wetherbee

Anything on the margins?

Jennifer Hamann

'm sorry?

Jim Vena

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Chris Wetherbee

Got it. Thanks for the time. I appreciate it.

Jim Vena

Chris, let me just maybe just try to put this all into a box of the way we're thinking. It's very difficult for us to look forward and say this is exactly the way the year is going to go. More important to me and the team is, what have we done operationally? And what are we doing to provide Kenny and the entire team, the capability to go out there and maximize what's available for us and what we can bring on to this railroad. And for me, that's the single most important thing.

I think what we've shown is the capability to flex up. We have the assets to be able to flex up. We have the capacity to be able to flex up. And if we continue to drive the efficiency of the railroad, which I expect we will, then what we do is we win in the marketplace. And whatever is out there, we're going to compete against everybody else, trucks and other railroads, and we think we have a winning model, so that's the challenge we have. And it would be truly there would be a mistake for us to come out and say, because I can't tell what's going to happen, like Jennifer pointed out with the inputs and the effects from interest rates and everything else that's happening in the economy. But I'm very comfortable that we are going to maximize what's available for Union Pacific and win.

Chris Wetherbee

Okay, that's helpful. Thanks. Appreciate it.

Operator

Our next question is from the line of Walter Spracklin with RBC Capital Markets. Please proceed with your question.

Walter Spracklin

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Yes. So thank you, Walter. We spent a lot of time looking at the global supply chains in the canals and so forth. I'll tell you right now in the near term, we haven't seen any significant shifts. We've been talking to our - the vessel carrier owners. We know they put in tariffs, our customers have put in tariffs to go over the Panama Canal, for example. And so we've been working with them to move as much as we can with the network that we have, with the match-back opportunities that we have, with the reload opportunities that we have, with the new products that we have on the - with the Houston lanes that Eric has given us to give our customers every reason to go to the West Coast.

So what we have seen is we are seeing more going IPI, and we have a very efficient service network to accomplish that. We're happy about the customers that we have that have been able to grow in that market. And then finally, we have a great network where the service, we're able to capture that and get all of that business that's out there.

Jim Vena

That' true, Kenny as we think about that because to your point, you can't predict the future with entire clarity. It's another reminder, Walter of the fact that when we talk about having a buffer and you look at what we did in the fourth quarter, we generated the ability to make sure we have that buffer. That buffer in locomotives, that buffer in railcars positioned in LA. So in the event the volume is there, we've supported Kenny's team to be able to actually capture it.

Walter Spracklin

And the fluidity in the terminals right now? Is it - how would you assess that?

Kenny Rocker

Very fluid. As you saw in the fourth quarter, 14% improvement in car velocity doesn't come unless you've got very fluid operations. Now to Jim's point, are there opportunities? Of course, there are. In fact, I'll talk about those as we go through this. But overall, right now, yes, very fluid.

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And then can you just clarify like this international intermodal contract, when did we lose that? Because it sounded like it happened sometime in '23, but we just - we're seeing really good intermodal growth. So I'm a little confused with why we're flagging this is such a big issue right now. Thank you.

Kenny Rocker

Thanks, Scott, I got both of those. Thank you. So first of all, you're exactly right. Prices are controllable. And let me make this clear. It's not like we are jumped up here and waited till January 1 to look at price. We've been going down this path here for a few months. You've heard Jennifer and I say that we have a set amount, call it, almost half that we can touch from a pricing standpoint.

Our commercial team has really been very effective sitting down with customers, talking to them about the improved service product, talking to them about our increased inflationary pressures that we saw from the labor side and how Eric is leveraging that to improve the service products that we give them. They're seeing the same input. They're seeing the same increases. I've been meeting with customers. And so they know that. So yes, we control a portion of that, and so we've been very focused on articulating that story.

I think you had a question on the international side. And yes, you're correct. We lost some of that earlier in the year, last year. The bulk of that will still be working through in 2024.

Jennifer Hamann

But just to your question, Scott, I think what Kenny is talking about with that loss, that kind of goes to our discipline when it comes to price and making sure that the business that's on our railroad is running at acceptable margins. Sometimes that doesn't happen and we might lose a piece of business.

Kenny Rocker

Yes. I mean with the service product, when the investments that you heard Eric talk about this morning, the margins have to be acceptable to be on the network.

Jim Vena

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So those two things we're tackling head on. We're not being shy about it. We're being straight. I've met with a lot of customers in groups and in small and I've been clear about what the pressures are and what we're going to do about it moving forward. But at the end, we want our customers to win in the marketplace. We want them to win. So we're being smart about how we price and what level and it's different for different marketplaces, and that's how we're handling it. But I'm excited. I think we overcome this year, by the end of the year, we'll see ourselves in a different position.

Scott Group

Thank you.

Operator

Our next question is from the line of Tom Wadewitz with UBS. Please proceed with your question.

Tom Wadewitz

Yeah, good morning. So Jim, you've seen - you realized a very fast and positive response in terms of the rail network operations since you've been at UP. Where do you think you're at in terms of kind of further improvements? So I don't know if you want to look at like locomotives, what the active fleet is and where it can go to. Maybe if you could comment a little bit on headcount. I think that the headcount was down pretty meaningfully sequentially.

So I guess I'm just trying to get a sense of kind of are we at the stable level now after that really quick improvement? Or our headcount and active locomotive fleet going to have further steps down as we go into 24?

Jim Vena

Well, listen, thanks for the question. So the way I see it is this. I think there's more on the railroad to become more efficient. And the concentration is a little different than the last time I was here and a little different than what we just were able to do in the fourth quarter. I think there's opportunity in speed and car velocity that

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Tom Wadewitz

Can you offer a thought on how that translates to headcount? Do we think headcount goes down further? Or is it kind of stable at current level?

Jim Vena

Well, the challenge we have with headcount is we signed some collective agreements and you live with what was given to you. And some of those collective agreements put pressure on headcount. They put pressure on - from both the time off, the sick benefit time off that we provided. We had some weekends when the football game were on that we have like an extra 15%, 20% people all got sick at the same time. So we need to be able to figure out how to deal with that, and we'll do that as we move ahead. It must have been a real bad weekend, right? At the same time as one of their playoff games was on.

But at the end of the day, those are stumbling - those are blocks that we have to get over this year. And what we showed in the fourth quarter is with all that, all the pluses and all the headwinds we had on headcount, we were able to keep the headcount and reduce it overall in the company. And there is no reason for us not to continue to do that. We will look for every opportunity.

And sorry, I can't give you a specific number because this is a moving target. As we move ahead, we're implementing new agreements through this year. So it will be noisy. It won't be a straight tangent down. The scope won't be perfect. It will be a little up and down, but I'm very comfortable that we have the programs, the processes in place to be able to correct that and have the way which is less people handling the same amount of business.

Tom Wadewitz

Great. Thank you.

Jim Vena

Thank you

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Thank you. Good morning. I was going to ask this anyway. I guess it's a perfect follow-up and maybe it's just reading between the lines. So when Eric mentioned some of the challenges remaining from the work agreements that required additional employees, I mean, it was noticeable to me that you stressed near term. So is this just - is there a time where this anniversaries, where you could be a lot more flexible based on the volume environment? Or was the stress on near term kind of related to what you were just mentioning, Jim, you're putting programs in place, you're trying to address it and that you hope at some point, you can kind of reverse that trend?

Jim Vena

Yes. In the - in 2024, we have dates of implementation for the agreements that we have not implemented completely. And those are pressures on the number of people that we would need to operate. So that will be through 2024, and that's why I've always talked about this is a - I see this as a 2-year adjustment to the railroad to be able to get there. But we do have programs in place as we implement, we run into things if we operate as efficiently as I think we can, we'll mitigate that. You mitigate it by running less trains, having more cars on the same trains. We grow. We put more cars on the same trains instead of starting more. We use the people and the facilities that we have more efficiently. So - but it's a 2024 headwind for us that we are going to overcome just like we did in the fourth quarter.

Jennifer Hamann

Well, just a reminder, Jon, we only have the work rest [ph] agreement in place with the BLET. We're still negotiating with SMART-TD.

Jim Vena

Correct.

Jon Chappell

Okay. Thank you, Jennifer. Thanks, Jim.

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Thanks. Hey, guys. Hey, morning. Congrats on the good results. Jennifer, I want to come back to the 5% inflation. So you've got a $15 billion cost structure that basically translates to like $750 million of higher costs in '24. I assume that's a gross number because you've done - you guys have done a phenomenal job actually lowering the cost structures as we move from 3Q to 4Q. So is there any help you can give us in terms of how you think about that gross 5% translates to kind of like a net cost number in the context of the revenue outlook?

Jennifer Hamann

Yes. No. I mean, you've got that exactly right, Amit. The 5% is the gross number. So that's our challenge, right, and opportunity is to offset that with productivity. And so that's where you heard Jim talk, you heard Eric mention, we have those opportunities in virtually every cost category, I'll put depreciation aside, that's kind of fixed for the year. But we absolutely have opportunities to offset that in terms of how we run the railroad.

And I think just think about wage inflation and think about fourth quarter. So we had wage inflation first half of this year. Our wages are going to be up 4%. For our Union Personnel [ph] it's going to go to 4.5% in the second half, but our cost per employee was only up 1% in the fourth quarter. So that's productivity that's enabling us to offset some of that. And so that's the task of this management team, and that's those controllables that we talked about, and that's where we're very much focused.

Amit Mehrotra

But is there any help? Like, I mean, can you offset half of it? Can you offset 40% of it? Like because that's obviously critical to understanding the EBIT and the margin outlook, which I know is highly uncertain, but at least give us some sense of how much you can offset that gross number by in your opinion?

Jennifer Hamann

You also know, Amit, that the volumes play a role in that in terms of how we're able to leverage and build longer trains and have more work to put up against some of those inflationary costs. So that's our challenge.

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Operator

Our next question is from the line of Allison Poliniak with Wells Fargo. Please proceed with your question.

Allison Poliniak

Hi, good morning. So obviously, service is improving here. Just in terms of customer engagement, any color on sort of the pipeline of opportunities? Is it starting to accelerate? Are there unique opportunities? And I guess along with that, are you seeing any improvement in some of the conversion of some opportunities out there? Just any thoughts. Thanks.

Jim Vena

Allison, let me start and then Kenny, please jump in. So if we look at this railroad that we are blessed with that we operate, and I think you've seen some of the steps we've taken is you have to provide a level of service that we sold to our customers, and that's our goal, and we work real hard every day to do that.

We operate the railroad very efficiently. Where's the opportunity? We have a mix of traffic that's available to us that originates on our railroad, so when I go around the entire railroad, I'm very comfortable that we offset and we have the capability to offset and we are tackling, whether it's that industrial complex all the way from New Orleans to Brownsville, Texas, whether it's the grain, whether it's the soda ash, whether it's the intermodal at the West Coast and our speed. We are able to provide speed for customers that require speed and not all of them do.

We can go from LA to Texas, a close to 2,000 mile journey and we do that in 48 hours. So that's truck like. So - and our service that we put on from Mexico going into Eastern Canada, partnering with CN and ourselves into the East plus into Chicago is unparalleled. We can do it as fast as anybody. So there's lots of opportunity out there for us. And what we have to do is with good service, the customers will see what's possible, and they will want to partner with Union Pacific and grow their business with us versus anybody else. Kenny?

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Look at coming out of Mexico, that's a service product that Eric has given us daily. That's undisputed and unmatched coming out of Mexico. It's the fastest product. It's also a product that is on time. You look at the West Coast and someone asked me a question earlier, we're blessed with a network where we can pitch and we can catch. We can pitch coming out of the West Coast as we onboard and on dock. We've got a strong IPI. We can catch in the Inland Empire. We built that up. We put investments there, and we've shared with you that we've got plans to really grow in that area. And with the network and the service product we have, we're expecting to grow.

If you look at the carload side, you've heard us talk about some of the wins in the auto side. I talked about the petrochem side. That's a great network down in the Gulf Service Park [ph] is improving. Our commercial leaders, commercial teams are sitting out there and talking to customers about taking a little bit more truck off the road. So we're bullish on getting out there and growing as the service product is there, and we're investing in the network.

Allison Poliniak

Great. Thank you.

Operator

Our next question is from the line of Brandon Oglenski with Barclays. Please proceed with your question.

Brandon Oglenski

Hey, good morning. And thanks for taking my question. Eric, I wanted to come back to you because I think in response to an earlier question, you spoke about, there's still more to come on things like velocity and train length. And then I think Jim even alluded to some local service plan changes. So do you want to elaborate a little bit more on where you see productivity gains this year?

Eric Gehringer

Absolutely. So you mentioned car velocity, so let's start there. As you're thinking about 2024 and what's in

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After that, the fluidity drives our locomotive fleet. There's other factors, but at the very core of it, it is about fluidity. We took out 500 units out of the system in the second half of last year, a little bit because of volume, but the vast, vast majority of it because of fluidity, continuing that work allows us to continue to rightsize the fleet.

And we don't talk a lot about purchase services on these calls, but purchase service is a big opportunity for us, whether you're thinking about how many vehicles do we have on this railroad to operate it, whether we think about how much fuel that we're using. We also have opportunities on the casualty side. As Jennifer has mentioned many times before, it's an opportunity all the way from the safety side. That's why we're so focused on safety as well as even as we think about our service product, right? We have teams that are dedicated to making sure that the freight that we haul is successfully hauled from origin to destination without being damaged and how do we drive down any claims that we have. So it is a target-rich environment, and we are doing everything every day to capitalize on that.

Brandon Oglenski

Thank you.

Operator

Our next question is from the line of Bascome Majors with Susquehanna. Please proceed with your question.

Bascome Majors

Following up on the locomotive piece earlier, you talked about storing 500 units and having a 9% sequential increase in productivity. Jim, as you look forward a bit further, can you talk about how you think about UP's fleet renewal strategy for locomotives over the next, call it, 3 to 5 years? And how at this point is some of the regulations that California is proposing impacting the way that you think strategically about that significant investment for the railroad? Thank you.

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But I don't see the requirement is that we do not have to spend money. But bottom line is we know that we will invest in our fleet. And we don't want to have the oldest fleet in the network. So we'll continue to invest in renewing the fleet as we move ahead, but it will not happen in 2024.

Bascome Majors

Thank you.

Jim Vena

You're welcome, Bascome,

Operator

The next question is from the line of Ken Hoexter with Bank of America. Please proceed with your question.

Ken Hoexter

Hey, good morning and congrats on solid and rapid results here. Just want to check, I guess you're not changing that you don't need volume gains to get margin improvement. Is that right? Am I hearing that right? And then your thoughts on outpacing normal sequential shifts into the first quarter, should we still expect that like you did in the fourth quarter, given the weather or accelerating gains?

And then just a side one, Kenny, I just want to understand, are you - can you talk about the scale of the intermodal loss in '24? Did we see it in the fourth quarter? Or is that all coming? And can you talk scale? I guess that was a surprise, I think, to everybody so far.

Jim Vena

Okay. So three questions, Ken. That was very good. I like - so why don't we start...

Jennifer Hamann

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Jennifer Hamann

Yes. And if I can, in terms of your margin questions, again, not going to give you any specifics there. We have three levers, as you know, that we use to attack and generate profitability. It's volume, price and productivity. You've heard us talk about the fact in my prepared comments that price were all positive in excess of inflation dollars is not going to be accretive to margins here in 2024.

We are unsure about the volume picture. There's a lot of puts and takes, as you heard, and we know we've got some headwinds from a contract loss in coal. And so the lever that we are most confident about and have ultimate control over is the productivity side.

And so you're right, we have shown in periods of declining volumes in the past that we can through productivity and price generate margin improvement. But we're not giving you a guidance on what - any kind of magnitude of volume changes. So I don't want to try to get into that game of linking x amount of volume with x amount of productivity and margin.

The thing that you will see from us in our results, regardless of what happens with volume is that we're performing better. We're running better. We're running more efficiently and driving productivity. And whether that results in positive or negative in the financial picture is going to be a function of some of that volume and how that plays out through the quarter and through the year.

First quarter, in particular, is going to be a bit of a challenge for us. Volume, yes, and the weather, you heard us talk about that. But a couple of other things just to remind everyone of in terms of a year-over-year comparison. Last year, we had about $100 million, a little over $100 million real estate transaction that was in our earnings. And we also had a very strong fuel benefit in the first quarter of last year and helped our margins by, I think, almost 2 points and about $0.25. So I just want to remind everybody of those kind of year-over-year comparison pressures.

Ken Hoexter

Appreciate the multiple part answers to my one question. Thank you.

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Jim Vena

Listen, I think it was a well-framed question. I like it because it gets to the crux of who we are at Union Pacific and what the vision is and what our goals and objectives are. I'm very clear on it. I think we are going to have quarters just like the first quarter, but maybe we don't see as much of a sequential improvement as we would like because of the pressures of what we had in January so far with weather, and I'm not sure what's going to happen.

I've been around for way too long to forecast what's going to happen when winter is on and when we come through spring and everything that can happen then. But fundamentally, I see us as having a best operating ratio in the industry. And that's what we're driving towards, and we'll get there. And I see it in the future, and the future is not so far that it's cloudy. I see it clearly in what we have to do.

So for me, that's really important. And I don't care whether we - whether the business and the business in the marketplace gives us business or not. But I'll tell you, I'm pretty clear, okay? We have a great railroad. We operate very efficiently. We should win with the customers, and I expect Kenny and his team to deliver. This is not - people want to talk about we lost the business. We need to go replace that and we need to bring it on and we need to do that in the short term, not the long term, without going after making an adjustment on price to go get the business.

We have that capability, and we can deliver value to the customer. That's how I think. and I did not come back here. I could have sat at home in Scottsdale or being somewhere doing some exciting hiking or mountaineering, but I decided to come back because I think we could win, and we have the railroad and the network to do that.

So the pressure is on this team. The pressure is on Eric to make sure and his entire team to deliver, recover fast like we did with this last winter impact that we had. I expect Kenny to deliver. And I expect Jennifer and the entire team to look for every opportunity, how we monetize what we have as a railroad and win. So I love the question. Perfect. So hopefully, I answered it for you.

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Yeah, thanks. Good quarter and by the way, Jennifer, I do like that last slide is helpful. The - my question relates to Mexico. Obviously, that's an initiative that you guys really tried to accelerate last year. And then around the end of the year, there were the border closures.

Just thinking through how you expect that business to trend moving forward? And if you're seeing a lot of these reshoring things? Or are some of these interruptions causing any second guessing of that at all?

Jim Vena

So Kenny talk about the business and how we see it? And then if you don't mind, I'm going to answer the piece on the border, okay?

Kenny Rocker

Sure. Yes. I mean, Ben, the near shoring, Israel [ph]. We've seen the billions that have gone in, in all of 2023. These are - a number of them are highly industrial and rail centric, which we find encouraging. I talked about the service product that we have, and we're not waiting around for the near shoring to happen. We've seen some wins with us having the fastest product coming out of Mexico, especially in time-sensitive products like auto parts, again, a daily service. We're reaching into the Midwest. We're reaching into different parts of Canada.

And so we're encouraged by that. We're bullish about that. We are talking to customers about that. We're putting as much as we can on the network. And you also saw us create a service product into the Southeast, which we have gained some traction on. So again, coming out of Mexico, it's a great franchise for us. We've got six borders that we can get in and out of Mexico. So great product and great franchise.

Jim Vena

You bet. And on the border, I'm disappointed that the border was shut down, and I do not think that's the way to move forward. I think there is a problem. There's a humanitarian issue. I personally went down with some members of the team to go visit. And it's very difficult when you see people crossing the river and the mother

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All right. Thank you.

Operator

The next question is from the line of Ravi Shanker with Morgan Stanley. Please proceed with your question.

Ravi Shanker

Thanks, everyone. You guys said that you're looking to push on rail length, which is train length is understandable. Just want to see kind of how much room you have to kind of get more leverage there, A, kind of given your efforts already kind of how much more like physical space is there. Also, I think given some of the kind of regulatory scrutiny around train lengths kind of is this something that you guys can do by yourself? Or do you need to get the kind of STB or Congress is going to sign off on it?

Jim Vena

Yes. Thank you for that question. So core to your question is how do we think about train length and how do we execute that? So let's put volume to the side just for a second. Do our trains have capacity for more train length? Absolutely, yes, 100%. The work that we have in front of us that we've been executing now for years and will continue to is to make sure that all of our systems behind the scenes continue to first identify those opportunities. And as we've always been to be exceptionally prudent about actually working through our physics engines and to understand exactly how to build our trains.

That's science. And like all science, it evolves. And every quarter, every year, we see new opportunities to be able to keep capitalize on this. So I'm not going to guide you to a specific number, but I'm going to tell you, we see some opportunity there. You'll see us capitalize it in '24, and I'm excited and appreciate what the team is doing to make that happen. Thank you, Ravi.

Operator

Our next question is from the line of Brian Ossenbeck with JPMorgan. Please proceed with your question.

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Hey, good morning, Jim. Thanks for taking the question. Just a quick follow-up first on the work rest rules. Is there anything in your guidance, where you're assuming that SMART-TD actually does come on board? Or so far, you're just assuming that it's the BLE. And then maybe for Kenny, obviously mix is probably harder to forecast than volume, but the two are related. So maybe you can just give us a sense in terms of some of these market pricing adjustments for coal and intermodal that have been more of a headwind than not the last couple of quarters. Is that something that we should anticipate also being a potential headwind into next year? Just curious how much visibility you have on that, knowing that it's probably truck and natural gas dependent. But I guess is that directionally worse in '24 than perhaps it was in '23? Thank you.

Jim Vena

Jennifer, why don't you handle the...

Jennifer Hamann

In terms of the work rest piece, we do have an assumption that we'll come to an agreement probably sometime later in the year. So that's part of our overall thinking.

Kenny Rocker

So you look - you asked the question about intermodal, domestic intermodal. First of all, if you look at where the rates have been, I'll differentiate the spot rates of the last 4 months sequentially, shown, I'll call it, very slow gradual increase, which is encouraging. The same issue on the contractual side, very slow gradual improvement sequentially the last 4 months.

So I can't get into saying whether I think over the next 3 months, that's going to continue. We've got a lot of mixed feedback from customers, but encouraged by what we've seen in the past.

I've said this before that we have mechanisms in our contracts for our suite of customers to keep them competitive, real time and times like this. And as the market improves, I would just mention some of those indices, it will help us some of those mechanisms that we have to procure a little bit more price and better

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Jim Vena

Thanks for the question, Brian.

Brian Ossenbeck

Okay. I appreciate the thoughts. Thank you.

Operator

The next question is from the line of Jordan Alliger with Goldman Sachs. Please proceed with your question.

Jordan Alliger

Yeah. A couple of just real quick follow-ups or clarifications. One, I don't know if I caught the order of magnitude impact of the international intermodal loss, whether it be revenue or volume? And then secondly, what does it mean price not being accretive to margin? Does that mean overall yields would it best be flat? Thanks.

Jennifer Hamann

Yes. For the second part of your question, Jordan, it really just means mathematically, when you look at how the price impacts and is added to the revenue, it does not help your overall operating ratio calculation. Even though it's going to be higher than the inflation.

Jim Vena

So when you do the math, you know that math, right?

Kenny Rocker

So again, we're not going to frame up the magnitude. I can tell you, we're focused on growing the international intermodal network. We've been blessed with a new intermodal terminal there in Phoenix. It's

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The next question is from the line of Jason Seidl with TD Cowen. Please proceed with your question.

Jason Seidl

Thanks, operator. Good morning, everybody. Tacking on to Jordan's question there. If we were to look at pricing and exclude sort of intermodal and sort of the natural gas impacts and some of the linked coal contracts, would pricing be accretive to margin in the remainder of the business? And also, as I look in that near-shoring commentary, how should we think about sort of post '24 in near shoring? Where is that going to show up for you guys? And is there any extra CapEx that might be needed? Thank you.

Jennifer Hamann

Yes, Jason, thanks for the question. We're just not going to get into that final level of detail, but certainly, those are substantial headwinds for us that have been impacting our yields through much of 2023, and the intermodal piece for sure is going to linger into 2024.

Kenny Rocker

Yes. So post 2024, as you look at it, I mentioned a lot of industrial base markets that are going there. Think in terms of auto, think in terms of metals and minerals, think in terms of petrochemical market.

Jason Seidl

Perfect. Appreciate the time, as always, everyone.

Jim Vena

Thank you.

Operator

The next question is from the line of Jeff Kauffman with Vertical Research Partners. Please proceed with your question.

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Kenny Rocker

We're certainly not going to guide on your basis point question. Here's what I will say, though, and I've repeated this, and I want to make sure I hit this pretty hard. We've got a service product coming out of Mexico that is unmatched. It's a daily product. It's the fastest product to getting in and out of the heart of Mexico.

We also have 6 gateways, which gives us optionality, which gives our customers optionality, which gives us an opportunity to hit different parts of Mexico. So yes, we feel very bullish about Mexico and the growth, and we've been working from an industrial development perspective with all the stakeholders with all the customers to help bring that on.

Jim Vena

The only thing I would add is with the ownership position we have in the FXC, I think that ties us even to be able to optimize what's available to us as near shoring happens and as we work collaboratively and make it the view as one railroad operationally, it will help us on the efficiency of being able to move the traffic. And I think we're able to offer the customers the best product, and we think it gives us a chance to win a bigger majority of any business that's added to those lanes.

Jeff Kauffman

Thank you very much.

Jim Vena

Thank you.

Operator

The next question is from the line of Jairam Nathan with Daiwa. Please proceed with your question.

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Yes. On the call, I mentioned the fact that we've had some higher casualty expenses certainly over the last couple of years, and we've been playing some catch up. And so that's really a large part of what's driven the increase in those lines - in that line and the other line. And so we don't expect that to continue because it's not indicative of our safety performance. And in fact, you've heard us talk about being very focused on improving that overall performance. It really is some cleanup and some maybe outsized verdicts, too, just with some of what's going on in the courts. And we think we have some of those big things behind us. So looking forward to a better footing in 2024.

Jairam Nathan

Okay. And finally, just on the CapEx question. Jimmy talked about FXE. In terms of capital additions would FXE be on the same page as you guys in terms of investing in the business?

Jim Vena

Yes, they have the same capability. They do a real good job. I'm on the Board and so is Jennifer, and they have a great plan for 2024 and they invest in their railroad, the same as we do, bottom up, build the plan up to see what you need. So I'm very comfortable that they will invest and have the capability to invest what they need to move forward.

Jairam Nathan

Okay. Thank you.

Jim Vena

Thank you.

Operator

Thank you. Our final question is from the line of David Vernon with Bernstein. Please proceed with your question.

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Jim Vena

You and I were always called last, I hear you.

David Vernon

Exactly, exactly. So a couple of questions for you here. First, the CapEx moderation, Kenny, you a little bit worried about how that's going to impact you for growth? And then second, given your exposure to the situation down in Mexico, Jim, I'd love to hear your thoughts on what you think the introduction of passenger rail might do down in Mexico in terms of freight flows coming cross-border? Any perspective or insight you can share in terms of the response that FXE I think, had to give to the Mexican government in the last couple of weeks. Thanks.

Jim Vena

So Kenny, let me ask the question. Would we plan our capital, do we ever limit the capital. So you have a problem for growth?

Kenny Rocker

Not at all.

Jim Vena

Perfect. That's the way we look at it. It's that simple, never. So let me clear up this whole, David, because it's a great question. And you know the answer. So you're asking me, and you've heard it before, and I'm very clear on this. We build our capital plan from the bottom up to look at what we need to reinvest in the railroad and every year is a little bit different. Ties, rail equipment. We look at growth and what we've identified of where we need to invest.

We're opening February 1, a new intermodal terminal in Phoenix. So we've invested in that. We're a quick turnaround. We don't fool around anymore. That would have been like a 6-month, 1-year discussion. We

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And on the passenger service, listen, I give both the FXE and CPKC. They're saying the right things, and I agree with them. We - there's an interaction when you have passenger service that affects you, but there's nothing that you - that I'm worried about because they can't figure out how to mitigate that and still operate a freight and passenger railroad efficiently. So I'm very comfortable that, that will not have a significant effect or really any effect as they move ahead. I'm sure that they will just move ahead and they'll be operating some passenger service on the railroad. So hopefully, we answered your question, David.

David Vernon

You did. Thanks very much.

Jim Vena

Thanks. Operator, Rob, maybe if I can just soon as we're done with the questions, I wouldn't mind just recapping and if there's a few people on, that's great. And if everybody else has got off, then I'm talking to my team here, and they love to hear the story.

So bottom line is, this is - we have a great railroad. We have a franchise that allows us with the business mix to go up and down with - because not one area ever. And you wish 1 year that every segment that we had industrial premium, okay, and the bulk would all grow at one time, that's not the way the world is. I've never seen it in my career. We need to be able to have the resiliency and the capability to react on what's happening.

We don't know what's going to happen this year, but I'm telling you, fundamentally, we are on the right track to deliver. The team is engaged. We're excited and we're looking forward to winning this year.

We have goals to grow revenue with our service, and we also have goals to be the most efficient operationally railroad in the industry. So I'm looking forward to 2024. I'm excited. The team is excited, and I'm looking forward to talking to all of you in 3 months and see how the first quarter went and to see how we're growing and what we've done at this point. So thank you very much.

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UNIONS THIRD SUPPLEMENTAL COMMENTS
ADDENDUM D

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Buffett praises railroaders, says he expects BNSF profit margins to improve

By Bill Stephens | February 25, 2024

The Berkshire Hathaway chairman emphasized the importance of railroads and railroaders in his annual letter to investors

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Berkshire Hathaway Chairman Warren Buffett, right, operates a model BNSF Railway train during a Berkshire Hathaway investor day. BNSF

OMAHA, Neb. — Berkshire Hathaway Chairman Warren Buffett's widely read annual letter to investors, released on Saturday alongside the company's 2023 financial results, included a long passage on railroads in general and BNSF Railway in particular.

BNSF's revenue and profits fell last year, which Buffett termed a disappointment. But he noted that the national labor contract that Congress imposed included raises "far beyond the country's inflation goals."

BNSF's profit margins, Buffett noted, have fallen relative to the other big railroads since Berkshire Hathaway purchased the BNSF in 2010. "I believe that our vast service territory is second to none and that therefore our margin comparisons can and should

North America's rail system moves huge quantities of coal, grain, autos, imported and exported goods, etc. one-way for long distances and those trips often create a revenue problem for back-hauls. Weather conditions are extreme and frequently hamper or even stymie the utilization of track, bridges and equipment. Flooding can be a nightmare. None of this is a surprise. While I sit in an always-comfortable office, railroading is an outdoor activity with many employees working under trying and sometimes dangerous conditions.

An evolving problem is that a growing percentage of Americans are not looking for the difficult, and often lonely, employment conditions inherent in some rail operations. Engineers must deal with the fact that among an American population of 335 million, some forlorn or mentally-disturbed Americans are going to elect suicide by lying in front of a 100-car, extraordinarily heavy train that can't be stopped in less than a mile or more. Would you like to be the helpless engineer? This trauma happens about once a day in North America; it is far more common in Europe and will always be with us.

Wage negotiations in the rail industry can end up in the hands of the President and Congress. Additionally, American railroads are required to carry many dangerous products every day that the industry would much rather avoid. The words "common carrier" define railroad responsibilities.

Last year BNSF's earnings declined more than I expected, as revenues fell. Though fuel costs also fell, wage increases, promulgated in Washington, were far beyond the country's inflation goals. This differential may recur in future negotiations.

Though BNSF carries more freight and spends more on capital expenditures than any of the five other major North American railroads, its profit margins have slipped relative to all five since our purchase. I believe that our vast service territory is second to none and that therefore our margin comparisons can and should improve.

I am particularly proud of both BNSF's contribution to the country and the people who work in sub-zero outdoor jobs in North Dakota and Montana winters to keep America's commercial arteries open. Railroads don't get much attention when they are working but, were they unavailable, the void would be noticed immediately throughout America.

A century from now, BNSF will continue to be a major asset of the country and of Berkshire. You can count on that.

Comments +

improve," he wrote.

Buffett also praised railroaders for working in all sorts of weather in dangerous conditions. And he expressed sympathy for train crews that can do nothing but watch helplessly as people chose to end their lives by stepping in front of a freight train.

His full rail-related remarks are below:

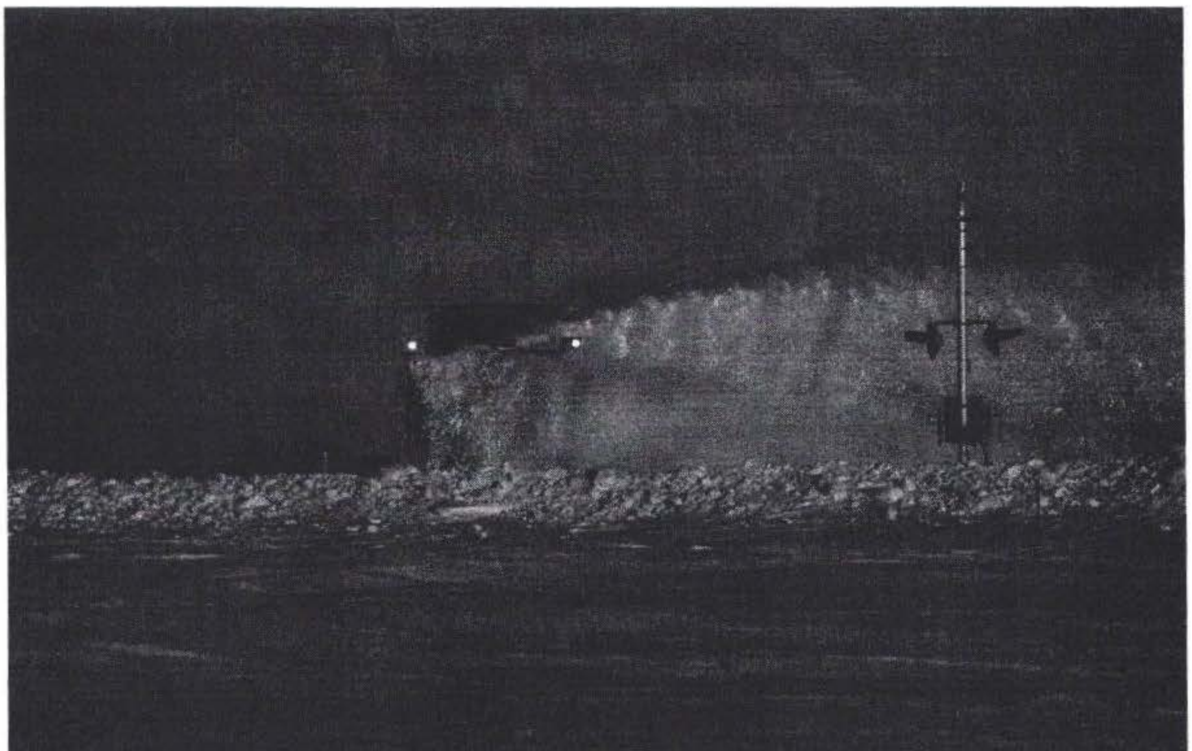
Rail is essential to America's economic future. It is clearly the most efficient way — measured by cost, fuel usage and carbon intensity — of moving heavy materials to distant destinations. Trucking wins for short hauls, but many goods that Americans need must travel to customers many hundreds or even several thousands of miles away. The country can't run without rail, and the industry's capital needs will always be huge. Indeed, compared to most American businesses, railroads eat capital.

BNSF is the largest of six major rail systems that blanket North America. Our railroad carries its 23,759 miles of main track, 99 tunnels, 13,495 bridges, 7,521 locomotives and assorted other fixed assets at $70 billion on its balance sheet. But my guess is that it would cost at least $500 billion to replicate those assets and decades to complete the job.

BNSF must annually spend more than its depreciation charge to simply maintain its present level of business. This reality is bad for owners, whatever the industry in which they have invested, but it is particularly disadvantageous in capital-intensive industries.

At BNSF, the outlays in excess of GAAP depreciation charges since our purchase 14 years ago have totaled a staggering $22 billion or more than $1½ billion annually. Ouch! That sort of gap means BNSF dividends paid to Berkshire, its owner, will regularly fall considerably short of BNSF's reported earnings unless we regularly increase the railroad's debt. And that we do not intend to do.

Consequently, Berkshire is receiving an acceptable return on its purchase price, though less than it might appear, and also a pittance on the replacement value of the property. That's no surprise to me or Berkshire's board of directors. It explains why we could buy BNSF in 2010 at a small fraction of its replacement value.



After two early-January 2024 snowstorms pummeled Kansas and Nebraska with nearly two feet of snow combined with high winds and temperatures dipping to -23 degrees, BNSF Railway brought out a rotary plow to free stalled trains. On Jan. 14, 2024, rotary No. 972558 works through a grade crossing between Seward and Hampton, Neb. It was the first time since 2008 that BNSF called for the rotaries in Nebraska. Samuel Broderson

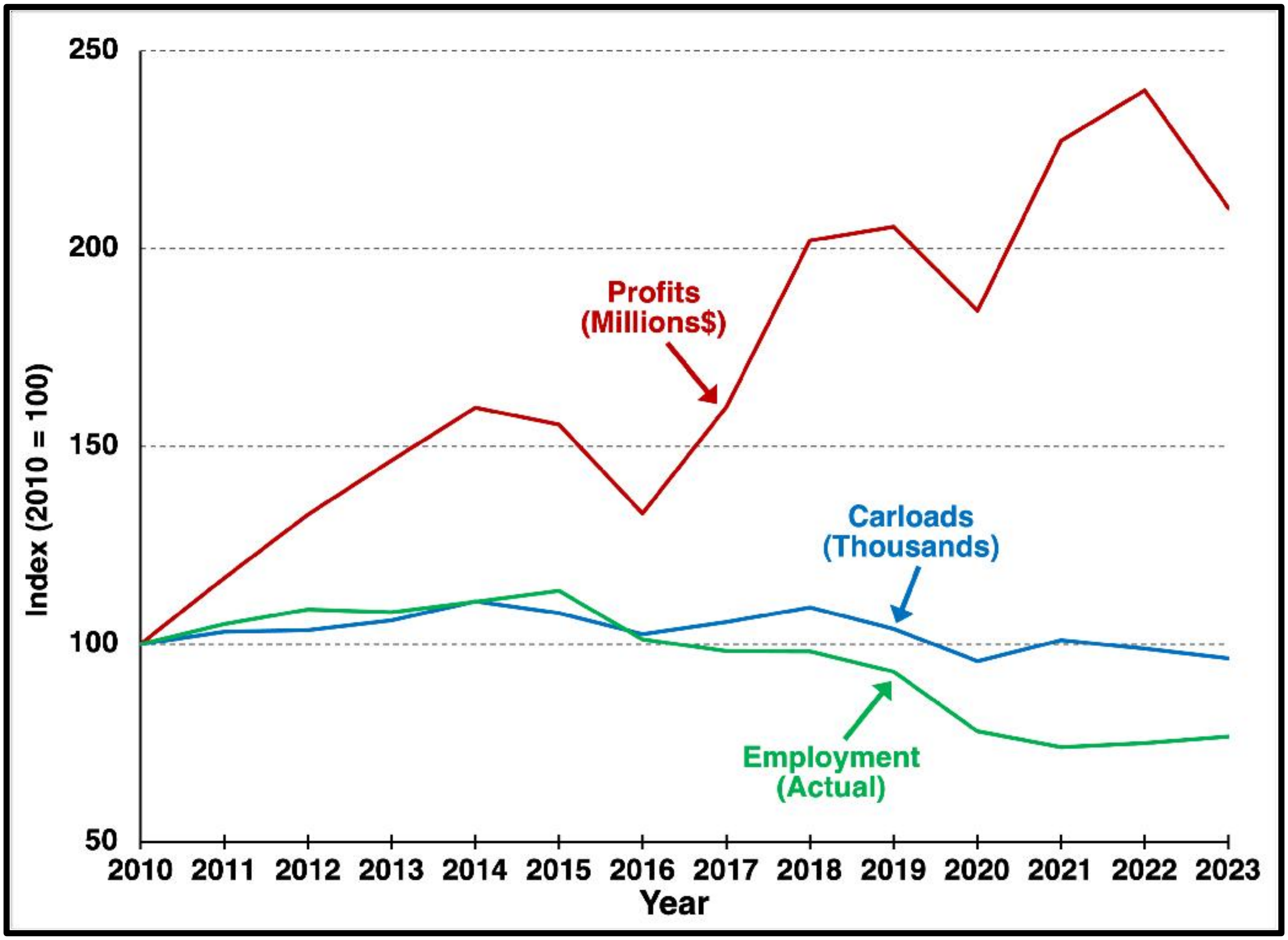
UNIONS THIRD SUPPLEMENTAL COMMENTS
ADDENDUM E

CP/KC total employment submitted to STB Jan/Feb 2022, 2023, 2024

	CP(Soo)	KCS	CP(Soo)+KCS	CP(Soo)KC
1/22	2691	2909	5600	
2/22	2662	2884	5546	
1/23	2851	2939	5790	
2/23	2901	2992	5893	
1/24				5832
2/24				5800

UNIONS THIRD SUPPLEMENTAL COMMENTS
ADDENDUM F

BIG FOUR RAILROAD CORPORATIONS



Year	Profits (Millions$)*	Carloads (Thousands)	Employment (Actual)**
2010	$8,491	31,120	112,854
2011	$9,914	32,121	118,675
2012	$11,275	32,225	122,747
2013	$12,433	32,995	121,956
2014	$13,569	34,497	125,009
2015	$13,211	33,571	128,103
2016	$11,299	31,911	114,212
2017	$13,585	32,877	110,975
2018	$17,160	34,016	110,749
2019	$17,453	32,341	105,099
2020	$15,650	29,810	88,004
2021	$19,299	31,458	83,482
2022	$20,380	30,771	84,690
2023	$17,854	30,001	86,525

* Excluding non-recurring items
* Engineering, Equipment Maintenance and T&E

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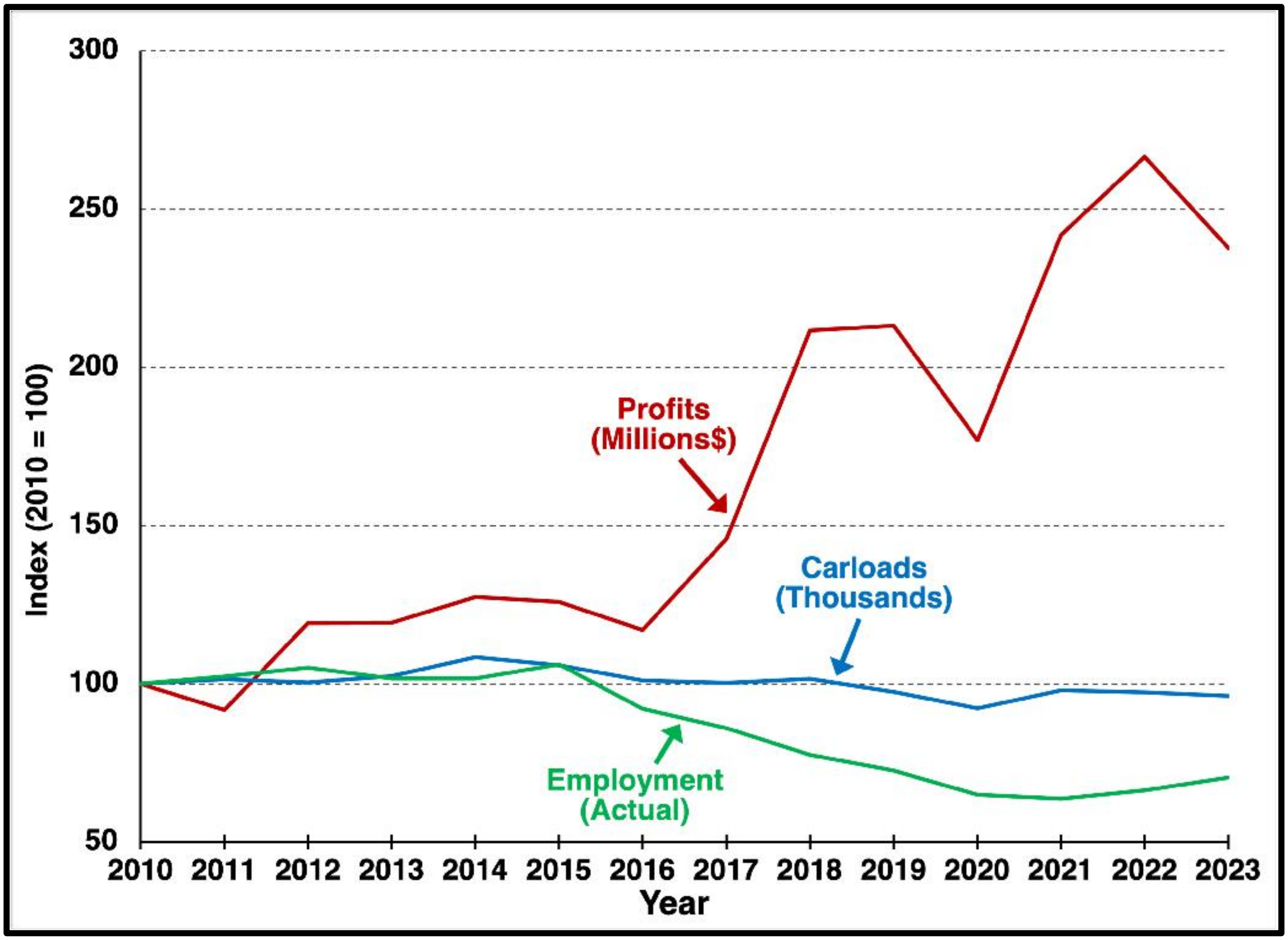


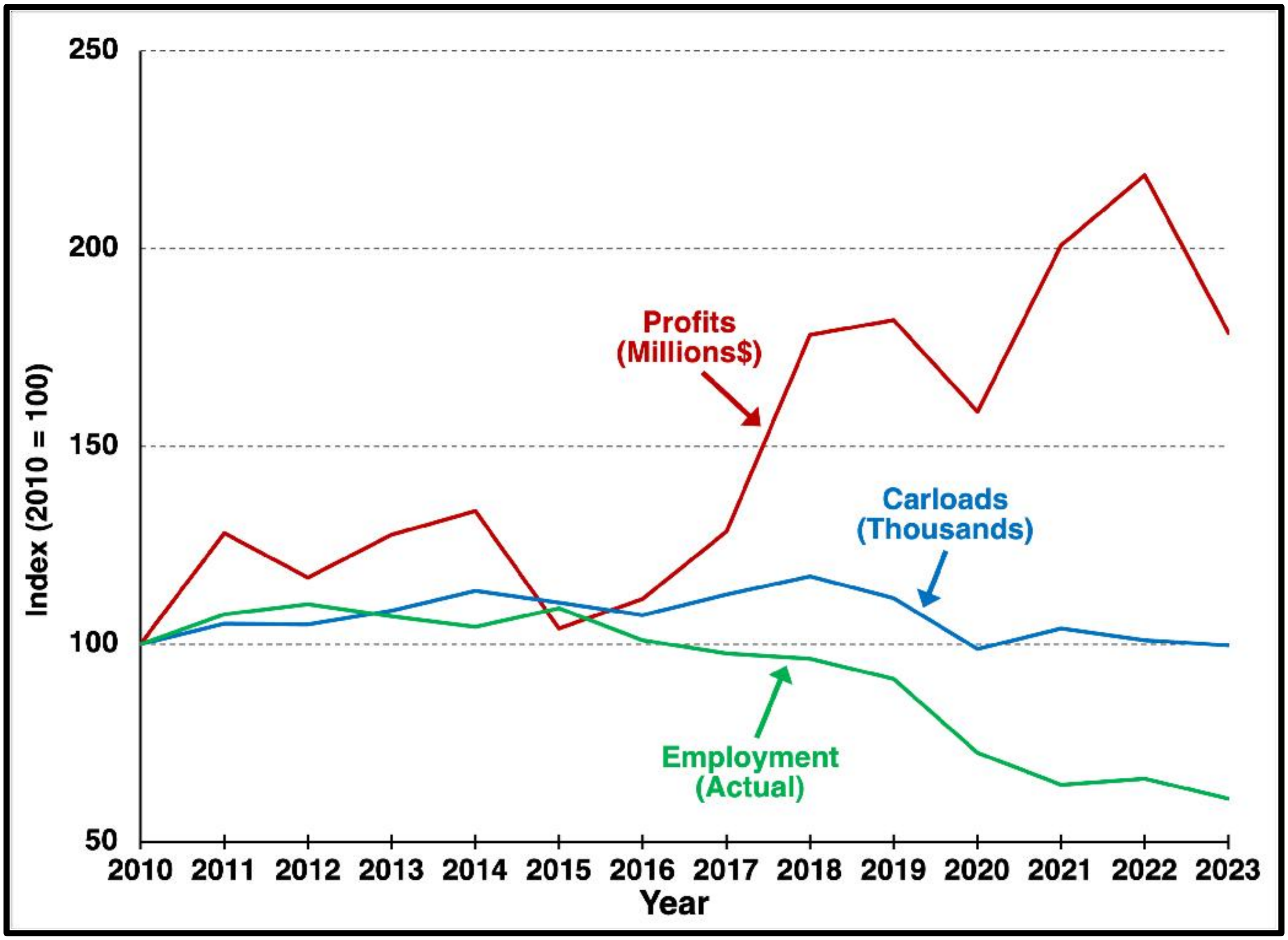
Year	Profits (Millions$)*	Carloads (Thousands)	Employment (Actual)**
2010	$1,563	6,384	21,806
2011	$1,433	6,476	22,322
2012	$1,863	6,409	22,934
2013	$1,864	6,539	22,181
2014	$1,992	6,922	22,175
2015	$1,968	6,761	23,145
2016	$1,829	6,451	20,100
2017	$2,280	6,400	18,741
2018	$3,309	6,482	16,908
2019	$3,331	6,220	15,837
2020	$2,765	5,892	14,174
2021	$3,781	6,253	13,891
2022	$4,166	6,218	14,464
2023	$3,715	6,142	15,356

* Excluding non-recurring items

* Engineering, Equipment Maintenance and T&E

THE LABOR BUREAU, INC.

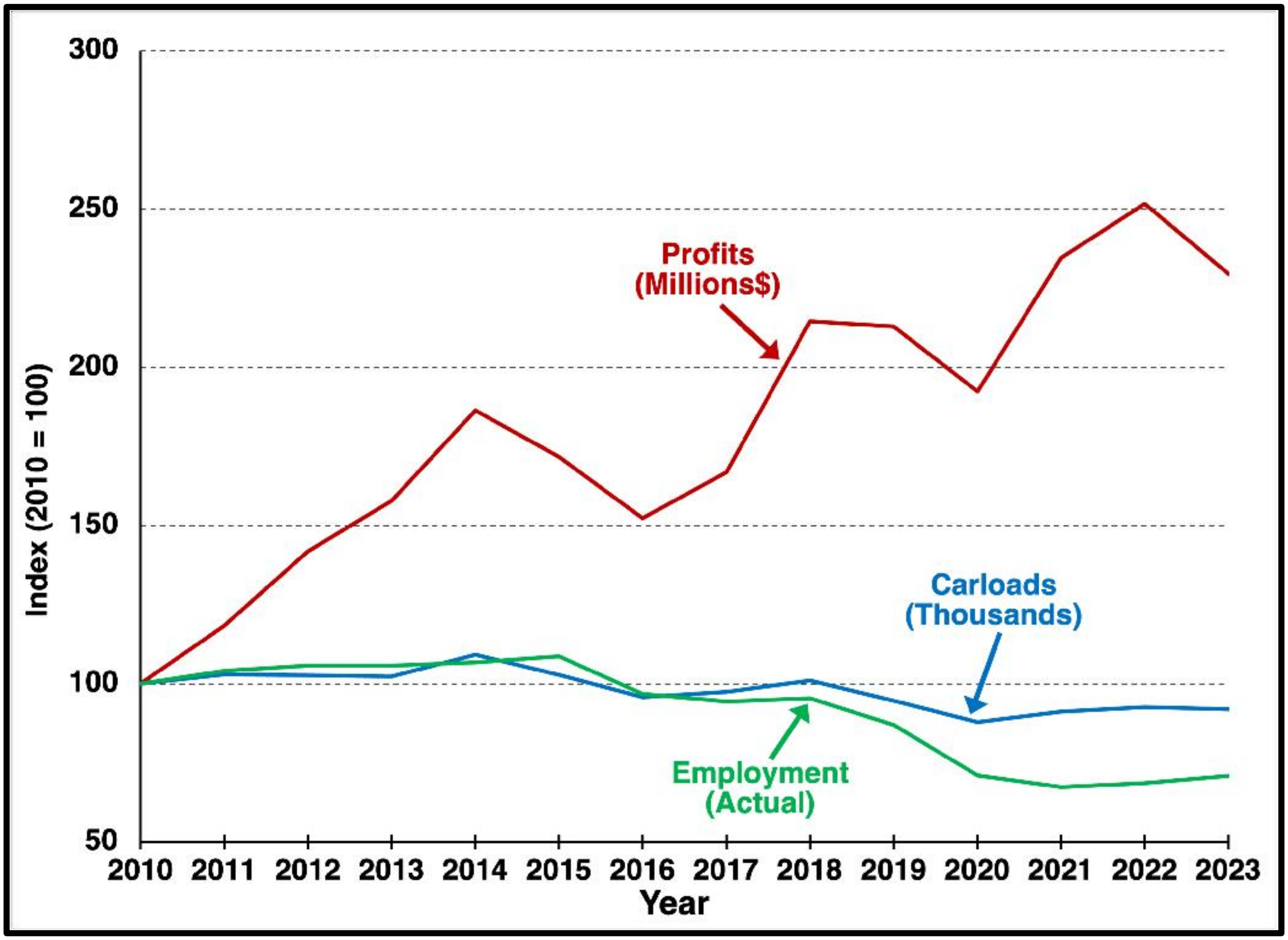
NORFOLK SOUTHERN



Year	Profits (Millions$)*	Carloads (Thousands)	Employment (Actual)**
2010	$1,496	6,764	22,207
2011	$1,916	7,115	23,889
2012	$1,749	7,107	24,464
2013	$1,910	7,341	23,780
2014	$2,000	7,675	23,189
2015	$1,556	7,479	24,227
2016	$1,668	7,260	22,433
2017	$1,922	7,612	21,687
2018	$2,666	7,928	21,404
2019	$2,722	7,554	20,271
2020	$2,375	6,684	16,113
2021	$3,005	7,032	14,321
2022	$3,270	6,835	14,668
2023	$2,673	6,744	13,523

* Excluding non-recurring items
* Engineering, Equipment Maintenance and T&E

UNION PACIFIC

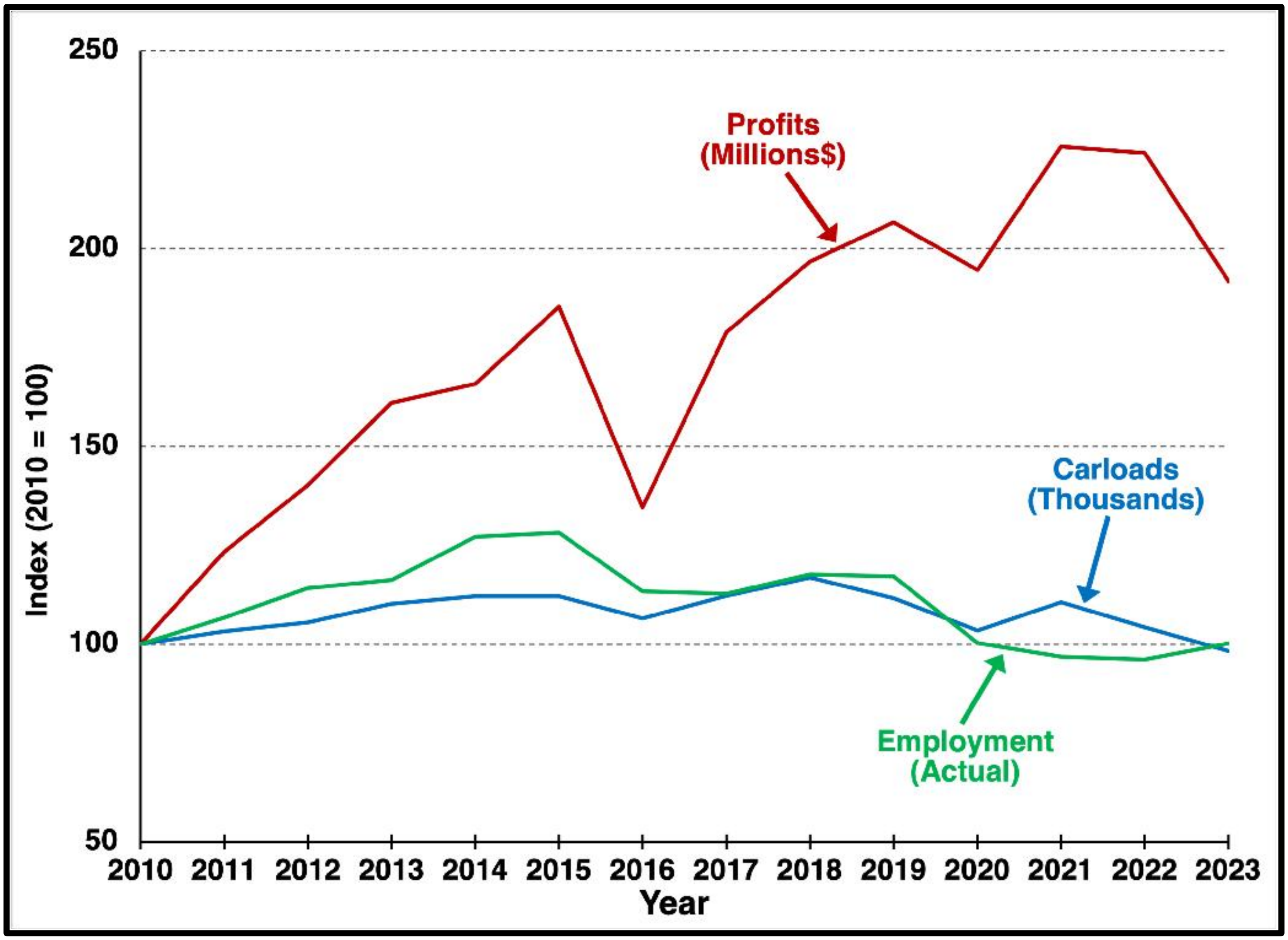


Year	Profits (Millions$)*	Carloads (Thousands)	Employment (Actual)**
2010	$2,780	8,815	38,675
2011	$3,292	9,072	40,253
2012	$3,943	9,048	40,893
2013	$4,388	9,022	40,927
2014	$5,180	9,625	41,277
2015	$4,772	9,062	42,066
2016	$4,233	8,442	37,459
2017	$4,638	8,588	36,516
2018	$5,966	8,908	36,929
2019	$5,919	8,346	33,651
2020	$5,349	7,753	27,465
2021	$6,523	8,038	26,066
2022	$6,998	8,169	26,549
2023	$6,379	8,112	27,416

* Excluding non-recurring items
* Engineering, Equipment Maintenance and T&E

THE LABOR BUREAU, INC.

BNSF

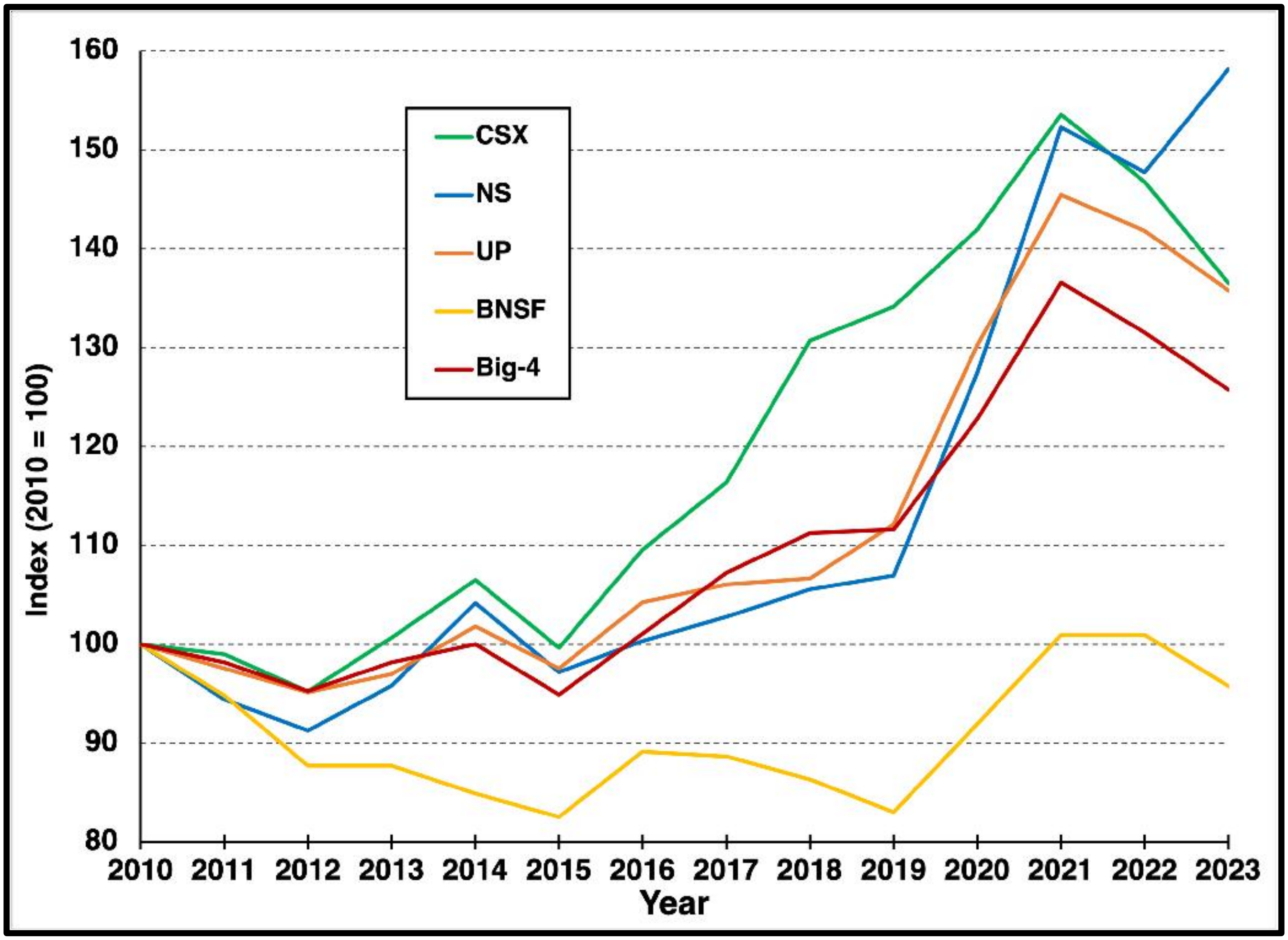


Year	Profits (Millions$)*	Carloads (Thousands)	Employment (Actual)**
2010	$2,652	9,157	30,166
2011	$3,273	9,458	32,211
2012	$3,720	9,661	34,456
2013	$4,271	10,093	35,068
2014	$4,397	10,275	38,368
2015	$4,915	10,269	38,665
2016	$3,569	9,758	34,220
2017	$4,745	10,277	34,031
2018	$5,219	10,698	35,508
2019	$5,481	10,221	35,340
2020	$5,161	9,481	30,252
2021	$5,990	10,135	29,204
2022	$5,946	9,549	29,009
2023	$5,087	9,003	30,230

* Excluding non-recurring items

* Engineering, Equipment Maintenance and T&E

Carloads per Employee



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
CSX	293	290	279	295	312	292	321	341	383	393	416	450	430	400
NS	287	271	262	275	299	279	288	295	303	307	366	437	424	454
UP	165	161	157	160	168	161	172	175	176	185	215	240	234	224
BNSF	212	201	186	186	180	175	189	188	183	176	195	214	214	203
Big-4	276	271	263	271	276	262	279	296	307	308	339	377	363	347

BIG FOUR RAILROAD CORPORATIONS
CONSOLIDATED FINANCIAL REVIEW
2010 – 2023

(Millions of Dollars except Per Share Values)

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Railway Operating Revenue	$53,023	$61,686	$64,207	$66,786	$70,995	$65,536	$60,727	$64,586	$70,395	$68,456	$60,774	$68,750	$78,361	$74,808
Percent of Total Revenue	98.7%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Railway Operating Expense	$38,074	$44,429	$44,911	$45,942	$48,012	$43,234	$40,417	$42,308	$45,250	$42,877	$37,352	$40,573	$49,012	$49,915
Non-recurring items	$0	$0	$0	$0	$0	$0	$0	($98)	$0	$0	$0	$0	$0	$0
Rail Operating Income	$14,949	$17,257	$19,296	$20,844	$22,983	$22,302	$20,310	$22,278	$25,145	$25,579	$23,422	$28,177	$29,349	$24,893
Exc. Non-recurring items	$14,949	$17,257	$19,296	$20,844	$22,983	$22,302	$20,310	$22,376	$25,145	$25,579	$23,422	$28,177	$29,349	$24,893
Rail Operating Ratio – Exc. Non-recurring	0.718	0.720	0.699	0.688	0.676	0.660	0.666	0.654	0.643	0.626	0.615	0.590	0.625	0.667
Total Operating Income	$15,191	$17,257	$19,296	$20,844	$22,983	$22,302	$20,310	$22,278	$25,145	$25,579	$23,422	$28,177	$29,349	$24,893
Exc. Non-recurring items	$15,191	$17,257	$19,296	$20,844	$22,983	$22,302	$20,310	$22,376	$25,145	$25,579	$23,422	$28,177	$29,349	$24,893
Other Income - Net	$233	$316	$356	$444	$339	$523	$419	$505	$339	$686	$548	$548	$705	$1,084
Interest Expense	$1,709	$1,652	$1,651	$1,670	$1,695	$1,746	$2,832	$2,831	$3,107	$3,461	$3,557	$3,557	$3,730	$3,919
Provision for Income Tax	$5,224	$6,007	$6,726	$7,185	$8,058	$7,868	$6,598	$6,465	$5,217	$5,351	$4,763	$5,869	$6,113	$5,185
Non-recurring items – After Tax	$0	$0	$0	$0	$0	($58)	($115)	($85)	$0	$0	$0	$0	$0	$0
Net Income	$8,491	$9,914	$11,275	$12,433	$13,569	$13,153	$11,184	$13,402	$17,160	$17,453	$15,650	$19,299	$20,380	$16,738
Exc. Non-recurring items	$8,491	$9,914	$11,275	$12,433	$13,569	$13,211	$11,299	$13,585	$17,160	$17,453	$15,650	$19,299	$20,380	$17,854
Net Income Margin	15.8%	16.1%	17.6%	18.6%	19.1%	20.2%	18.6%	21.0%	24.4%	25.5%	25.8%	28.1%	26.0%	23.9%
Return on Shareholder's Equity	12.5%	12.3%	13.6%	14.1%	14.5%	13.6%	11.5%	13.8%	18.1%	19.4%	17.6%	21.9%	23.7%	20.6%
Pre-Tax Net Income (exc. non-rec. items)	$13,715	$15,921	$18,001	$19,618	$21,627	$21,079	$17,897	$20,050	$22,377	$22,804	$20,413	$25,168	$26,324	$23,174
Pre-Tax Net Income Margin	25.5%	25.8%	28.0%	29.4%	30.5%	32.2%	29.5%	31.0%	31.8%	33.3%	33.6%	36.6%	33.6%	31.0%
Average Shares Outstanding (Basic)*	4,793	4,566	4,381	4,295	4,209	4,117	3,967	3,819	3,600	3,356	3,232	3,151	2,994	2,845
Earnings Per Share*	$1.22	$1.45	$1.72	$1.90	$2.18	$2.00	$1.92	$2.27	$3.32	$3.57	$3.24	$4.22	$4.82	$4.10
Exc. Non-recurring items*	$1.22	$1.45	$1.72	$1.90	$2.18	$2.02	$1.95	$2.31	$3.32	$3.57	$3.24	$4.22	$4.82	$4.49
Dividends*	$0.33	$0.47	$0.54	$0.61	$0.72	$0.80	$0.82	$0.92	$1.07	$1.29	$1.37	$1.48	$1.73	$1.86
Stock Price (Yr. End) *	$19.57	$21.78	$22.78	$31.68	$42.06	$28.85	$38.34	$52.07	$55.16	$70.30	$83.91	$102.46	$84.55	$95.97
Dividends Yield*	1.69%	2.17%	2.37%	1.93%	1.72%	2.78%	2.14%	1.78%	1.94%	1.83%	1.63%	1.45%	2.05%	1.93%
P/E Ratio (Exc. Non-recurring)*	16.1	15.0	13.2	16.7	19.3	14.3	19.7	22.5	16.6	19.7	25.9	24.3	17.5	21.4
Total Assets	$166,089	$171,725	$178,204	$186,772	$194,629	$203,376	$207,799	$213,779	$217,208	$226,427	$228,813	$233,986	$238,857	$245,769
Long-term Debt	$26,175	$26,736	$27,902	$28,553	$30,612	$35,784	$36,890	$59,529	$69,205	$74,456	$76,369	$79,322	$85,913	$88,523
Shareholders Equity	$80,240	$80,895	$84,398	$91,432	$95,771	$97,887	$98,173	$98,945	$91,014	$88,750	$88,765	$87,398	$84,563	$88,965
Debt to Capital	24.6%	24.8%	24.8%	23.8%	24.2%	26.8%	27.3%	37.6%	43.2%	45.6%	46.2%	47.6%	50.4%	49.9%

* Excludes BNSF

Source of data: Form 10-K, and Annual Report to Shareholders for CSX, NSC, BNSF, UP.

UNION PACIFIC CORPORATION – FINANCIAL REVIEW

2010 — 2023

(In millions of dollars except per share amounts)

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Rail Operating Ratio – Exc. Non-recurring	0.706	0.707	0.678	0.661	0.635	0.631	0.637	0.628	0.627	0.606	0.599	0.572	0.601	0.623
Net Income (exc. non-recurring items)	$2,780	$3,292	$3,943	$4,388	$5,180	$4,772	$4,233	$4,638	$5,966	$5,919	$5,349	$6,523	$6,998	$6,379
Net Income Margin	16.4%	16.8%	18.8%	20.0%	21.6%	21.9%	21.2%	21.8%	26.1%	27.3%	27.4%	29.9%	28.1%	26.4%
Return on Shareholder's Equity	16.1%	18.1%	20.5%	21.4%	24.4%	22.8%	20.8%	20.7%	26.4%	30.7%	30.5%	41.9%	53.2%	47.3%
Average Shares Outstanding (Basic)	996.4	971.4	946.2	926.5	897.1	866.2	832.4	798.2	750.9	703.5	677.3	653.8	622.7	609.2
Earnings Per Share (exc. non-recurring items)	$2.79	$3.39	$4.17	$4.74	$5.77	$5.51	$5.09	$5.81	$7.95	$8.41	$7.90	$9.98	$11.24	$10.47
Dividends (adj. for stock splits in 2008 and 2014)	$0.67	$1.13	$1.25	$1.50	$1.92	$2.20	$2.255	$2.62	$3.06	$3.70	$3.88	$4.29	$5.08	$5.20
Stock Price (Yr. End; adj. stock splits in 2008 and 2014)	$46.33	$52.97	$62.86	$84.00	$119.13	$78.20	$103.68	$134.10	$138.23	$180.79	$208.22	$251.93	$207.07	*********

* Restated 2006 - 2010
Source of data: Union Pacific Corporation Form 10-K, and Annual Report to Shareholders.

BNSF CORPORATION – FINANCIAL REVIEW

2010 — 2023

(In millions of dollars except per share amounts)

Year	2010*	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Rail Operating Ratio – Exc. Non-recurring	0.731	0.726	0.709	0.691	0.692	0.637	0.665	0.659	0.673	0.657	0.629	0.622	0.668	0.690
Net Income (exc. non-recurring items)	$2,652	$3,273	$3,720	$4,271	$4,397	$4,915	$3,569	$4,745	$5,219	$5,481	$5,161	$5,990	$5,946	$5,087
Net Income Margin	16.0%	17.0%	18.2%	19.8%	19.4%	23.0%	18.0%	22.2%	21.9%	23.3%	24.7%	25.7%	23.0%	21.3%
Return on Shareholder's Equity	8.5%	7.5%	8.3%	9.1%	8.8%	9.4%	6.6%	9.8%	12.2%	12.7%	11.8%	13.3%	12.8%	10.6%

* Restated for change in accounting for rail-grinding.
Source of data: BNSF Corporation Form 10-K, and Annual Report to Shareholders.

CSX CORPORATION – FINANCIAL REVIEW

2010 — 2023

(In millions of dollars except per share amounts)

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Rail Operating Ratio – Exc. Non-recurring	0.715	0.740	0.706	0.711	0.710	0.693	0.692	0.665	0.603	0.584	0.588	0.553	0.594	0.621
Net Income (exc. non-recurring items)	$1,563	$1,433	$1,863	$1,864	$1,992	$1,968	$1,829	$2,280	$3,309	$3,331	$2,765	$3,781	$4,166	$3,715
Net Income Margin	14.7%	12.2%	15.8%	15.5%	15.7%	16.7%	16.5%	20.0%	27.0%	27.9%	26.1%	30.2%	28.0%	25.3%
Return on Shareholder's Equity	17.8%	16.5%	21.0%	19.0%	18.4%	17.2%	15.7%	17.3%	24.2%	27.3%	22.1%	28.4%	31.9%	30.0%
Average Shares Outstanding (Basic)	3,430	3,249	3,114	3,057	3,003	2949	2841	2733	2571	2389	2300	2250	2136	2008
Earnings Per Share (exc. non-recurring items)	$0.46	$0.44	$0.60	$0.61	$0.66	$0.67	$0.64	$0.83	$1.29	$1.39	$1.20	$1.68	$1.95	$1.85
Dividends (adj. stock splits in 2006, 2011, 2021)	$0.12	$0.15	$0.18	$0.20	$0.21	$0.23	$0.24	$0.27	$0.28	$0.32	$0.36	$0.36	$0.40	$0.44
Stock Price (Yr. End; adj. for stock splits)	$7.18	$7.02	$6.58	$9.59	$12.08	$8.65	$11.98	$18.34	$20.71	$24.12	$30.25	$37.60	$30.98	$34.67

* Restated for change in accounting for rail-grinding.
Source of data: CSX Corporation Form 10-K, and Annual Report to Shareholders.

NORFOLK SOUTHERN CORP. – FINANCIAL REVIEW

2010 — 2023

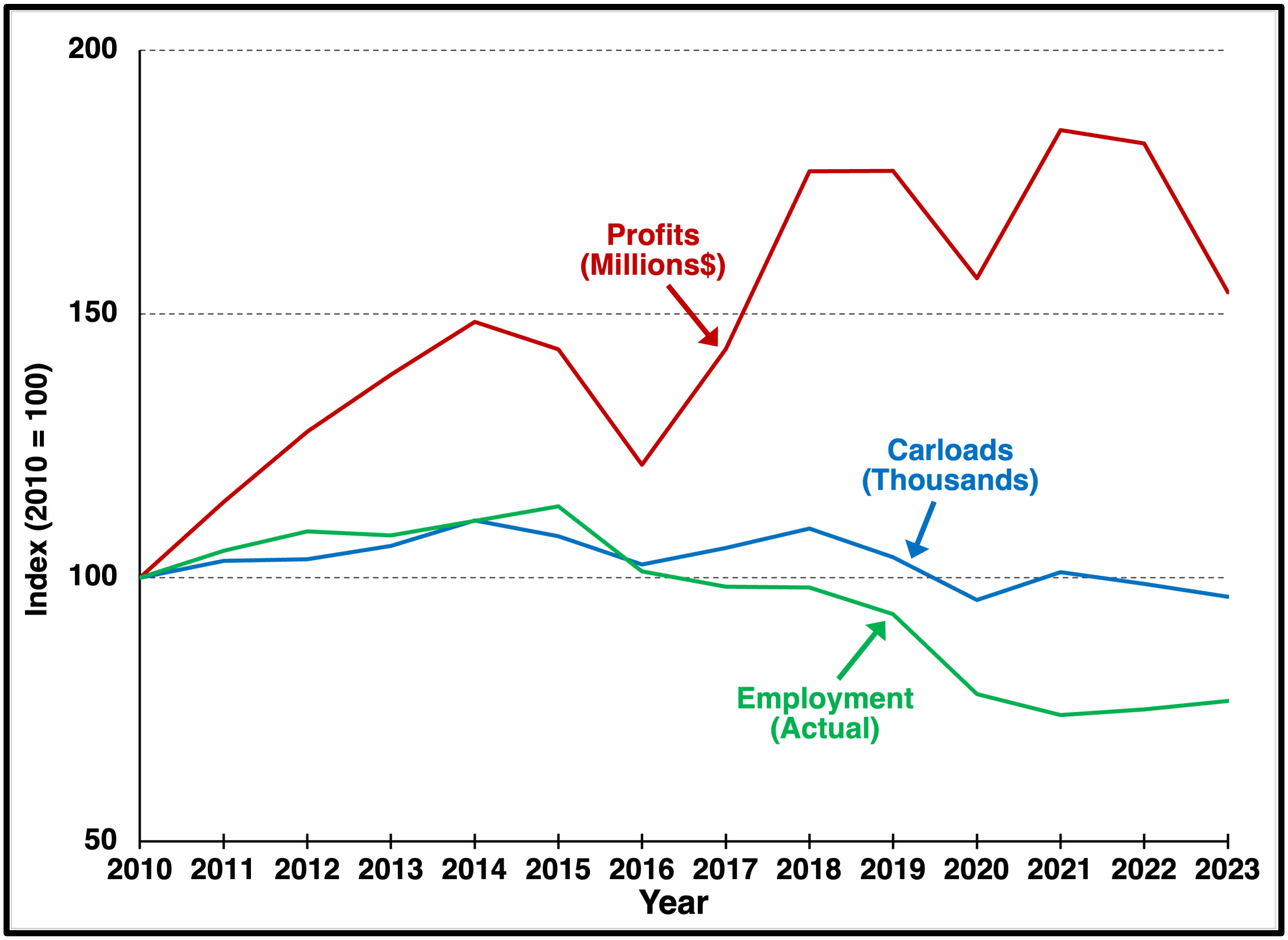
(In millions of dollars except per share amounts)

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Rail Operating Ratio – Exc. Non-recurring	0.719	0.712	0.717	0.710	0.694	0.728	0.696	0.681	0.654	0.647	0.644	0.601	0.623	0.674
Net Income (exc. non-recurring items)	$1,496	$1,916	$1,749	$1,910	$2,000	$1,556	$1,668	$1,922	$2,666	$2,722	$2,375	$3,005	$3,270	$2,673
Net Income Margin	15.7%	17.2%	15.8%	17.0%	17.2%	14.8%	16.9%	18.2%	23.3%	24.1%	24.3%	27.0%	25.7%	22.0%
Return on Shareholder's Equity	14.2%	18.6%	17.8%	18.1%	16.9%	12.7%	13.6%	13.4%	16.8%	17.8%	15.8%	21.1%	24.8%	21.0%
Average Shares Outstanding (Basic)	366.5	345.5	320.9	311.9	309.4	301.9	293.9	287.9	277.7	263.27	255.1	246.9	235.6	227.4
Earnings Per Share (exc. non-recurring items)	$4.08	$5.55	$5.45	$6.12	$6.46	$5.15	$5.67	$6.68	$9.60	$10.34	$9.31	$12.17	$13.88	$11.75
Dividends	$1.40	$1.66	$1.94	$2.04	$2.22	$2.36	$2.36	$2.44	$3.04	$3.60	$3.76	$4.26	$4.96	$5.40
Stock Price (Yr. End)	$62.82	$72.86	$61.84	$92.83	$109.61	$84.59	$108.07	$144.90	$149.54	$194.13	$237.61	297.71	$246.42	*********

Source of data: NSC Form 10-K, and Annual Report to Shareholders.

UNIONS THIRD SUPPLEMENTAL COMMENTS ADDENDUM G

BIG FOUR RAILROAD CORPORATIONS



Year	Profits (Millions$)*	Carloads (Thousands)	Employment (Actual)**
2010	$8,491	31,120	112,854
2011	$9,714	32,121	118,675
2012	$10,845	32,225	122,747
2013	$11,759	32,995	121,956
2014	$12,614	34,497	125,009
2015	$12,168	33,571	128,103
2016	$10,309	31,911	114,212
2017	$12,177	32,877	110,975
2018	$15,036	34,016	110,749
2019	$15,041	32,341	105,099
2020	$13,313	29,810	88,004
2021	$15,698	31,458	83,482
2022	$15,484	30,771	84,690
2023	$13,088	30,001	86,525

Year	Profits (Millions $)*	Carloads (Thousands)	Employment (Actual)**
2010	100.0	100.0	100.0
2011	114.4	103.2	105.2
2012	127.7	103.6	108.8
2013	138.5	106.0	108.1
2014	148.6	110.9	110.8
2015	143.3	107.9	113.5
2016	121.4	102.5	101.2
2017	143.4	105.6	98.3
2018	177.1	109.3	98.1
2019	177.1	103.9	93.1
2020	156.8	95.8	78.0
2021	184.9	101.1	74.0
2022	182.4	98.9	75.0
2023	154.1	96.4	76.7

* In constant 2010 dollars and excluding non-recurring items.

** Engineering, Equipment Maintenance and T&E

THE LABOR BUREAU, INC.