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CORPORATE PARTICIPANTS

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

OTHER PARTICIPANTS

Thomas Wadewitz

Analyst, UBS Securities LLC

MANAGEMENT DISCUSSION SECTION

Thomas Wadewitz

Analyst, UBS Securities LLC

All right. So, I think we're at a starting time here. So, we're going to kick things off. My name is Tom Wadewitz. I'm the freight transports analyst at UBS. Welcome everybody to our Industrials and Transports Conference. Happy to have you here. We've got a great way to kick off this morning. We have Union Pacific. They're going to give us some slides and a brief presentation. We'll have a fireside chat and Q&A. If you want to ask questions or submit them, there's a QR code you can use and submit and then, we can have some live in the room.

So, it's a great pleasure for me to have Jennifer Hamann, the CFO of Union Pacific. I'm sure you all know her over time. And then, Kenny Rucker, who's been doing Marketing and Sales for a period of time, and pleasure to have both of you. Why don't I turn it to you two to do the presentation? We'll go from there.

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

All right. Thanks, Tom, and good morning, everyone. The slides that are going to accompany our prepared comments this morning can be found on our Investor website, next to the webcast for this event. But before we start, I would like to remind everyone that we will be making some forward-looking statements. Those statements are subject to risks and uncertainties. So please refer to the UP website and SEC filings for additional information about those risk factors.

So, I want to start off today with an update on our operations, and then I'll turn it over to Kenny to talk to you about the demand environment.

So, starting on slide 3, here we show the 2022 trend for freight car velocity, operating inventory and seven-day carloadings. As we have discussed previously, the relationship between these three metrics forms the building blocks for how we think about service. Job one at UP is to improve service and the team is taking action across multiple fronts to improve network fluidity. Our action plans are focused on improving the availability and the

utilization of critical assets like crews and locomotives, adjusting transportation plans and working proactively with customers to reduce freight car inventories.

With regard to crews, we currently have 533 employees in the training pipeline, and we've graduated 298 year-to-date, with another couple hundred set to graduate in the early months of summer. In addition, we have temporarily relocated around 150 employees to areas of need across our network and that includes 80 since the end of April. So, I'm encouraged by the progress that we're making to strengthen our crew base.

We have surgically inserted locomotives into key areas of the network to help drive inventory to our customers and transportation plan changes have focused on building train length to alleviate pressure on crew districts that aren't fully staffed. And as you can see in the chart, after bottoming out in mid-April, our key operating metrics have improved. Since that time, freight car velocity has improved from 177 miles per day on a seven-day basis to currently running around 190 miles per day.

In addition, we have seen good progress in other key measures like operating inventory and terminal dwell. Over the last couple of weeks, progress has been a little choppy, as we've experienced some reduced crew availability over the Memorial Day holiday and a few weather-related outages. Overall, though, we're pleased with the positive momentum, but we understand, obviously, that there's still work to be done here.

And so with that, let me give it over to Kenny to talk to you about our volumes.

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

Yeah. Good morning, everyone. Thank you, Jennifer. Turning to slide 4, let's start with a look at our current volumes for the second quarter. Volumes across all three business teams are impacted by the actions we have taken to improve service and network fluidity. However, overall volume is down 2% versus last year.

If we look at each business team in a little more detail, bulk is down 1% versus last year, driven by continued strong coal demand with coal volumes up 5%. Grain and grain products is down 6%, recognizing it has a tough comparison to 2021, but also the actions to improve network fluidity are impacting coal and grain, in particular. Industrial is up 4% versus last year, driven by broad-based industrial market growth. Metals and minerals continues to lead the way, up 11%. Premium is down 6%, driven by intermodal volumes down nearly 10%, as international volumes remain soft, down 22% year-over-year. Automotive volumes, however, are up 11% and we continue to be encouraged by the sequential improvement [indiscernible] (00:04:23) parts and finished vehicles. On the carloading side, we're down year-over-year as we work to execute our service recovery plan that Jennifer just touched on.

Turning to the next side, we spent a lot of time listening to our customers, understanding their business and their needs, and I'm excited that we're taking a step further to share a few of the ways that we're offering customers innovative solutions. Today, we announced on our collaboration with RailPulse, a coalition of railcar owners who are working together to accelerate the adoption of GPS and other telematic technologies across the North American rail network. The goal is to provide real-time information and sustained visibility of a railcar's status, location, and condition to customers, shippers, railcar owners, and railroads. Increasing this visibility will improve safety and efficiency across the supply chain and ultimately an improved customer experience that may attract more shipments to rail.

Another key element is to improve the US supply chain that's helping truck drivers pick up and drop off containers as quickly as possible. We are meeting that need with Fast Gate as part of our focus on enhancing the driver

experience by allowing truck drivers to bypass the check-in kiosk when entering the intermodal terminal. The technology scans the driver equipment, automatically begins the in-gate process when paired with our UPGo, our mobile app. And this allows the driver to make it through the gate in less than 30 seconds and go directly to their assigned parking spot compared to the typical in-gate process that takes 60 to 90 seconds. We launched Fast Gate in San Antonio last summer, and I'm pleased to report that we're just beginning installation at our Dallas intermodal yard this week and are set to launch in Mesquite, Texas yet this summer.

Let's shift to the growth opportunities. Loup Logistics acquired two transload facilities late last year in two growing markets, Phoenix and Los Angeles. Since acquiring PCI in Phoenix, Arizona, Union Pacific volume is up 13% over last year, and we continue to explore ways to grow our storage and transit options as well as opportunities for food and feed customers. At Loup's Colton site, we are launching a construction project that will increase facility throughput capacity. We can't talk about growth without mentioning our intermodal ramps in the Twin Cities and Inland Empire. The work we're doing is a reflection of our growth, not just for Knight-Swift and the Schneider business in 2023, but the entire volume of growth that we are seeing coming and the steps that we're taking for all of our customers that will benefit.

Finally, we continue to focus our attention on helping customers connect to rail and increase their speed to market with our shovel-ready sites. We now have 28 focus sites, and over the last three years, we've constructed approximately 200 track projects to support more than 325,000 annual loads. There is exciting work happening at Union Pacific Railroad where our customers are growing and there's more to come.

Turning it back over to Jennifer.

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

So, thanks, Kenny. So, now to slide 6, we are actually updating our financial outlook for the year today. In April, when we tweaked our operating ratio guidance to a full year number beginning with the 55%, we laid out two key pieces to that target. In the first piece, which is in our control, it was to recover our service product, driving out inefficient costs while enabling us to handle the demand we see in the marketplace. While those efforts are yielding benefits, the cost side is still elevated.

The second piece, which is not in our control, is fuel prices. And unfortunately, fuel prices have continued to rise since April. In May, we paid an average of just above \$4 a gallon, which is the highest average monthly fuel price that we've paid in our 160-year history, and we're paying well above that price level today.

In addition, inflationary pressures beyond fuel have increased since the beginning of the year, and we now expect our all-in inflation to be around 4% for the full year. Although we still expect to achieve full year operating ratio improvement versus 2021, the increased pressure from fuel prices and other cost inflation, as well as higher network costs, makes achievement of a full year OR starting with a 55% unlikely.

These headwinds also pressure our incremental margins, which are now likely to be below our original forecast of mid-60%. With the majority though of 2022 still in front of us, we are very focused though and striving towards our long-term operating ratio goal, starting with the 55%. But at some point, we have to recognize the math. As you heard from Kenny, the demand environment continues to be supportive of achieving record financials for UP in 2022, and the team is dedicated to improvement.

With regards to capital allocation, the guidance we provided at the beginning of the year has not changed, including our commitment to an industry-leading dividend payout of around 45%. In fact, we just rewarded shareholders with a second quarter increase, which is our third 10% increase in the past year.

Also with our second quarter earnings, I want to highlight the May 27th 8-K announcement that we made regarding the completion of a second closing from a land sale to the Illinois State Toll Highway Authority. This transaction resulted in pre-tax income of about \$80 million in other income in the second quarter. And as you all know, this sale does not impact our operating ratio, but it will result in increased earnings per share.

And so with that, I'll turn it back to you, Tom, we can get into Q&A.

QUESTION AND ANSWER SECTION

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Great. Excellent. Thank you, Jennifer. Thank you, Kenny. So, I've got a good list of questions to run through. And along the way, if you have related questions, please go ahead and send them in. Or if you're in the room, you're welcome to raise your hand, we have a mic that we can bring around as well.

Maybe to start with the kind of capacity side a bit, you talked about where you're at with crews. You're pushing very hard a lot of people in the pipeline and you've moved some crews around. Should we think of it as kind of a smooth path on a monthly basis for the additional crews coming in and the improvement in the network, or is there a timeframe where you say, oh, there's kind of a step-up in our capacity? How do we think about that, that kind of contour how it plays out with added crews and presuming that that's the primary lever for network improvement?

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

Yeah. I mean, the crews are obviously critical for us. And with the couple hundred coming out here in the early months of summer, I think that's going to be very important for us and will help set the stage for us to go into the second half of the year in a much more fluid position. And if you've seen us making, I think, very good, steady improvement since that mid-April timeframe, it's been a little choppy and we never expected it to just be a straight-line up. That usually doesn't happen in our business, a little bit of issue with some crew availability over the holidays and some weather, but really good momentum. And I think that general trend upward will continue. I don't see a step function to your question about is there some date certain that we reach where you're able to see something take a step-up. I don't see that. I think just good, steady improvement, feel good about the crew pipeline and we'll continue to hire. We're still hiring. We're still starting new classes and that will continue through the course of 2022.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

So what's the graduating rate per month? You said 100 per month or several hundred per month?

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

We've got a couple hundred that are graduating over the next couple of months.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Okay. All right. What level of velocity – so car miles per day, or if you want to say train speed, those are kind of, I guess, two metrics to pull from a many.

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

Yeah.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

What levels would you look at to say, okay, now our network is running at an, I don't know, normal or acceptable level? Again, I know you always want it to be faster and better, but...

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

I mean, it really does somewhat depend on the mix of business that you're moving to.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Sure.

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

But in our recent STB filings, what we said in there is that we're looking to get to a velocity, I think, in the 205 to 210 mile an hour range. And we think achieving that, that will put us in a good place where we're able to meet the demands of our customers. And that's really a key bench too in addition to velocity, is being able to take that volume on demand, being able to walk away from some of the efforts that we have going on today to meter the traffic. And that'll be a very big sign for us in terms of network fluidity as well.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

So when do you think you'll get to that 205 to 210 mile an hour broad brush? Is that – I know it's not a precise type of thing, but is that...

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

No.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

...August, is that November, is that next – not next week, but is it in a couple of weeks? How do we high level think about the timing?

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

Again, mid-April, 177 mile an hour, today we're 190-ish, a nice steady trend up. For us to be able to move the volumes that we've targeted, we're still looking for that industrial plus kind of growth levels, we need to be operating pretty fluidly as we go into the back half of the year.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

Okay. So as you go into kind of July, August timeframe, you need to kind of transition up towards that in order to...

Q

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

We need to be making that steady improvement in getting to those levels.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

Right. Okay. Kenny, how – there were some, I guess, focus around a specific group of customers that you said, okay, you want to – we want you to ship a bit less. I think that was kind of early April. Have you gone back to those customers and said, okay, you can ship more or have you gone to additional customers to say, need a little more help in terms of we got too many cars on the system. Where are you at in the customer communication and constraints?

Q

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

Yeah. So, we started off with our customers – and again, I want to differentiate. The word embargo was used quite a bit and we haven't embargoed any of those customers that we talk to. What we did is we sat down with them, shared data with them to show, hey, there's a little bit more inventory out there than the actual volume growth. And so we worked with them to do some creative things. We did things like maybe they've sent some of their railcars to maintenance or maybe they actually held more inside their plants. We actually have been very pleased with the results that are out there. And so, what we're doing now, where we are today is really just monitoring and talking to them on a weekly basis. I think that they will tell you that over the – after the initial shock of the discussions, they're in a much better place now and the discussions are going much better.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

Have you told those shippers that they can put more cars on the system again, or that's something that you kind of like, hey, hold back for a bit longer and try to keep your car in for inventory [indiscernible] (00:15:19)...

Q

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

We're seeing that volume slowly come back, is where we are.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

Okay. How are you prioritizing traffic? I guess, there seems to be excess demand. It's something we hear from Eastern rails as well that car – I think, car order fulfillment were empty, how many empty cars you deliver relative

Q

to what the customer orders is below – that – I think that's the way CSX had talked about it a bit. There's probably excess coal demand versus what the capacity you're providing. So, how do you think about kind of where you're holding back volume to the greatest extent and where you're just taking as much volume as shippers want to ship?

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

A

So, we publicly stated that we have adjusted our system railcar volumes out. And when we do that, it gives us visibility also to have real-time conversations with the customers. And so, we haven't done that by one commodity only. It's been pretty broad based to minimize the impact. So our customers have a good idea of what's going to happen from an order fulfillment perspective, and it allows them to plan for that.

Coal is a little bit different. I think most people know that coal operates under a, what they call, NCTA, which is a forecasted amount. So we know what that will be. Now that demand has been much greater than even what they forecasted. And just like on the carload side, we'll go through and talk to them about what will happen in terms of our capacity and what we can move away.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

So if you think about that and say, well, this number of, I don't know, if you want to say trains per day or another way of framing it, how would you characterize what you're handling on coal versus what you think the demand is?

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

A

There is a percentage out there, and what I'll tell you is that, we're not meeting that percentage.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Are you close, are you 70%, 50%?

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

A

There's quite a bit more than the 70% that we could handle that's out there.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Right. Okay. How do you think about – talking a bit about the premium side, I think that the intermodal system has had just a lot of complexity to it. So some things are in your control, maybe a lot of things aren't. How do you think about what's maybe constraining the intermodal system right now? And what are the impacts of other constraints such as drayage capacity in Chicago or port fluidity at LA Long Beach? So, maybe just kind of run through the different pieces of the intermodal capacity situation.

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

A

Yeah. I mean, there – just so you got two different, I'll call them, markets, but they've got sort of the same constraints and same things. On the international intermodal side, everyone knows about the constraints that

we've had in the supply chain, the kind of [ph] stop inputs (00:18:21) in terms of what's coming out of Asia today and then what's happening at the ports. And then you have a – there is constraints at what I'll call the inland. And so we are seeing the distribution centers and the warehouses start to slow down a little bit more. That's also impacting truck supply. That's also impacting chassis supply on the international Intermodal side.

So, although there are still quite a bit of demand that's out there, I'd put that in the out-of-our-control category. So, if we think that on the inland side, those distribution centers, warehouses, truckers can support the business, we're moving that product in. So, we're looking at that closely. You'll remember what happened in 2021, we pull quite a bit of volume in.

Thomas Wadewitz

Analyst, UBS Securities LLC

Sure. Right.

Q

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

They can handle [ph] it. It's that (00:19:13) we're not going to – we don't want to get into that scenario again.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

So, how is – specifically on that piece of it, how is your primary – I forget – I don't know it's a Global 4 or whatever the...

Q

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

[ph] G4 (00:19:25)...

A

Thomas Wadewitz

Analyst, UBS Securities LLC

Yeah, Global 4.

Q

Thomas Wadewitz

Analyst, UBS Securities LLC

Yeah. So, Global 4 is your national terminal in Chicago that had a kind of – had to stack up a lot of boxes in June – May, June last year and took action in July. What's the status and are you stacking up boxes now? Is it fully normal? How's the fluidity of that facility?

Q

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

Yeah. Real-time, the fluidity is okay. We're monitoring it very closely. We have a few boxes that are stacked today....

A

Thomas Wadewitz

Analyst, UBS Securities LLC

Okay.

Q

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

...which means we need to really have a lot of scrutiny around that.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

A few hundred or a few?

Q

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

Call it a few hundred.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

A few hundred?

Q

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

Yeah.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

Okay.

Q

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

Just a few hundred. Again, we're not going to get in the same scenario...

A

Thomas Wadewitz

Analyst, UBS Securities LLC

Right.

Q

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

...that we were in last year.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

What was it last year? What was the peak?

Q

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

Oh, it was a few thousand.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

A few thousand.

Q

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

Yeah.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

Okay. So, you've had some kind of increase in – I guess, maybe constraint there, but it's not like – the alarm bells aren't going off.

Q

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

Correct.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

Okay. What is the primary driver of that constraint? Is it drayage or is it – I think you referred to warehouse fluidity, is it...

Q

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

Well, it's all the above.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

All the above.

Q

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

It's all of the above. We're seeing all of the above. Drayage, a little bit of chassis constraints, demand at the warehouse and distribution centers.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

Have those things changed or is that just kind of stable that they've been – those have been constrained for, I don't know, a year and a half or something, or considerations? Have any of those factors meaningfully improved or are they kind of just static?

Q

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

That's a mix by BCOs.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

Okay.

Q

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

Some BCOs are a little bit more fluid and probably have a little bit more capacity, and others do not. So there's not one BCO that we'd ever call out, but it's just different. It depends on who that BCO is. And let me just add, we don't see that across our network.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

Okay.

Q

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

You mentioned G4, so I'm answering the questions about G4.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

Right.

Q

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

But we're – we don't see any stacked boxes across the board.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

So you don't see stacks in...

Q

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

Yeah.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

...Memphis, Dallas.

Q

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

Correct.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

It's more G4 specifically were the issue. What about – I guess, on warehouse labor, that's something we're – like we – once a while we do calls with like some Port of LA and they'll talk about, well, what's happening and what are the factors. And they seem like they're kind of like, they talk about warehouse labor [indiscernible] (00:21:56). The – I guess this is true everywhere, but they pay more and they still – not the Port of LA, but Inland Empire warehouses, that type of thing. There are still constraints on labor at the warehouse. So kind of the chassis street days still is just not back close to normal. Have you seen like evidence of warehouse labor improving inland or in California or that it...

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

A

We know and we talked to the Port of LA that there are still constraints on in California, but also nationally.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Right.

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

A

There are still constraints out there, and we're talking several hundred thousand of vacant jobs that need to be filled. I think that's improved, but that's still an issue.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Okay. Is there – so the things that are not in your control, which I – would you say drayage is in your control somewhat or no?

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

A

Not on the international.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Not on international. Okay. So, do you think there are reasons to expect utilization like a – I guess, efficiency of warehouse or drayage to improve, or is it just like that's something we can't control and that capacity may not change?

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

A

We look at a lot of different metrics. And over the course of the last 18 months, we have seen improvements. We've seen it go up and down. When I say up and down, we've seen chassis dwell move up a little bit. We've seen it move down a little bit. We've seen chassis availability move up a little bit, move down a little bit. So – but there's still quite a few moving parts that are involved.

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

Yeah. And I think just when you look at the overall labor environment, there's still more jobs out there than there are people out seeking jobs. So, that's not something that's changing. And the one thing that may change some of that is with this high inflation and gas prices that may force more people out into the market looking for jobs. And so, maybe that's something that will help. But I'm – obviously the high fuel prices are a concern relative to the economic strength as well.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Do you see any – along those lines that makes me think of a – I guess, a question on your labor, do you see any change with the applications for UP's jobs, is that – is the market loosening at all? Do you see an uptick in applications or is it kind of static over the last six months?

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

Actually we're just talking about that yesterday. So coming out of the holiday season, kind of coming into 2022, pretty tough, started to get a little bit better once we got past the holiday season in talking with the Head of HR, Beth Whited. She was just telling me that since the last, call it, maybe month to six weeks, they're actually seeing more applications come in. So, there may be a bit of a push there as people are starting to look. So, we're feeling a little bit better about the hiring. Still tough to hire in some of those locations where we don't have a lot of people when you think about Nebraska, Wyoming, but – and some of the markets with more population base, we're seeing a better take rate.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Right. Okay. So, we'll see – do you hear when – with discussion with human resources, I think one of the more surprising things or different things about this cycle, obviously labor tightening the way it has, but also for railroads to be in a position where it's hard to get people. And I know it's – even over time, it's like tougher to kind of get the right people in. But do you think that the quality of the rail [indiscernible] (00:25:30) so conductors, engineers has declined and is that a concern? When I say that, it's on a relative basis, right, relative to the alternatives for someone who may want to be a conductor or an engineer, or do you think it's still, hey, great quality job, great – obviously, very good benefits because it seems like that labor impact – the railroads, obviously, is a bit different than it's maybe been in prior cycles?

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

Yeah. I mean, we still absolutely believe we've got great jobs. There are great paying union jobs, very good benefits. There's different types of work, it's outside. We know that's not for everybody. We've had a lot of success in the past. I think you know this, in terms of recruiting from the military, people who like that kind of an outdoor work environment. But through the pandemic, you have seen people say, I want to be able to work remotely, I want to have more of a scheduled work, I want to have difference requirements in terms of work-life balance. When you think about our train and engine crews who are away from home, who have more of an on-call job, we know that that's something that's maybe not as attractive to the current labor force as it has been in the past, which is part of the reason why we're very much talking to the union about wanting to have the flexibility around one person crews because we do think that's a way to address some of those concerns about the type of work that's being done, that we could take that person who's currently in the cab [ph] of a (00:26:59) locomotive and make that a shift job because it's not going to be a one for one. First of all, not all trains will operate with one person in the cab. You're always going to have some with two. But we could take that person out of the cab, give

them a more regularly scheduled shift job that they're home every night, that there's a higher quality of life that could be more attractive, freeing in personnel. So, I think there's a way to help bridge some of that and make some of the jobs more attractive, but we've got to work with our labor unions to be able to achieve that.

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

A

We've been pretty creative and tapping into our employee base from a referral program perspective. And what helps us out there is that they know the railroad a little bit more from the person that's referring them. So, that's been helpful for us.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Great. With respect to the negotiation, maybe it's a process that, I guess, probably good news that it's not in focus very often, right, because you have labor stability, which is a great thing.

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

Yes.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

But can you just run through how the process works when there is not the ability to reach an agreement and what the kind of various steps in the path are?

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

Right.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

So, this is after – I think it's National Mediation Board or the – whoever the intermediary is releases, I guess, both sides to self-help. So what happens if you reach that point?

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

Yeah. So – and just to be clear there, so that's the stage that we're in right now...

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Right.

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

...is National Mediation.

Thomas Wadewitz

Analyst, UBS Securities LLC

Right.

Q

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

The unions have asked, I think, a couple of times to be released and the mediator has not released them.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

Right.

Q

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

They're really wanting to see progress, which we want to see progress too. And so, we're very hopeful that we can reach a resolution through this process. But if at some point they release us, then what happens next is they offer binding arbitration. If either party declines that, then you go into a 30-day cooling-off period and then a Presidential Emergency Board is formed and then out of that then can come the resolution.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

So, in terms of the resolution and kind of who sets the parameters, it's really the members of the PEB that are the key determinants of kind of what the end result is, or is it Congress or how do we think about kind of who has a bigger influence on the eventual outcome of what's, I guess, applied to the rails [ph] and labor (00:29:26)?

Q

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

Yeah. I think of it in terms of the Presidential Emergency Board. And, obviously, they'll be looking at if it would come to that stage. They're looking at what were the last positions from each side. It's not like they're starting from ground zero. They're looking at, okay, here's what was offered on both sides, and they then find a common ground from there.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

Okay.

Q

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

And they don't do that in isolation either. There's discussions that are going on. They don't just – it's not just a written submission kind of thing.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

And then after the PEB makes their recommendations, then what happens?

Q

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

I believe that then comes back to both the unions and the rails and generally speaking, you get the agreement.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Okay. So what – generally what the PEB applies is what you end up with.

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

I believe so. I mean, it hasn't gone to that. I think the last time it went to a PEB was back in the early 2000s.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Right.

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

So, it's been a while.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

It's been a while. Okay. Do you – I mean, do you think one person crew can be – can come out of a PEB, or is that a lower probability to have [indiscernible] (00:30:36)?

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

Well, I don't know that one person crew has to come out of the PEB. That can be something that we can continue to bargain for past the kind of the wages and healthcare. So the PEB does not have to sell that particular piece of the discussions.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Okay. Is there a catalyst for a settlement if it doesn't come through the PEB?

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

Well, I think both sides want an agreement. That's the catalyst. We have a union workforce that unfortunately has not gotten a wage increase in a number of years. And again, kind of going back to the inflation comments...

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Right.

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

...that's hurtful for folks. And we've offered to advance some payments to them. That's been turned down by the union unfortunately. But we really do want to get a settlement. And I think their members want a settlement because it is starting to have a real impact on lifestyle.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Sure. It's good for both sides to get...

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

Yeah.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

...a good agreement. Kenny, I think going [ph] backways (00:31:39), I asked you about intermodal supply chain, and then I kind of interrupted you and we went on the sidetrack. So, sorry for doing that. But if you go back, I think you did talk a bit about international, would you expect that down 20% to improve as you look forward, or is it going to improve purely as a function of comps were easier?

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

A

A little bit of both, but we're seeing sequential improvement on the international intermodal as we move ahead. It's just slower than we expected.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Right.

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

A

So, we're expecting that to improve. Tom, what I didn't talk about is our domestic side.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Yeah, let's talk about domestic.

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

A

And so on the domestic side, I mean, we're still going through our best season, and we're still encouraged by the demand that's out there also. Of course, we've got our own private containers. We have – Knight-Swift has come on, and that's moving well with us, too. And we're really encouraged by the future.

In the same light, some of the same challenges are still there in terms of not enough chassis supply that's out there, and so that's also a byproduct of lack of dray and also on the supply chain issues with the warehouses and distribution centers. But again, that demand is still relatively strong. I mean, it's good demand out there. You're also seeing...

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

The chassis issue, like, who controls the chassis on the domestic side?

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

A

The individual private asset guys own the chassis.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

And are they putting more assets in the system in the second half or is that a static pool?

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

A

No, we all are. I mean, we have publicly stated that we're putting in a little bit over 6,000. And so, those are coming on to us right now, so are the other private asset folks and they're also adding more containers, too. So, there's more capacity that's coming in. We just need the throughput to really speed up a little bit more.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Okay. What's domestic doing in second quarter? I think you said international down like 22%, what is – I don't know, you may have said it in the comments or is it up or down?

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

A

It's up. It's...

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

It's up a little bit?

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

A

A little bit.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Okay. You think – are you optimistic domestic improves in second half?

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

I'm optimistic....

A

Thomas Wadewitz

Analyst, UBS Securities LLC

... [indiscernible] (00:34:01)...

Q

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

Yeah. I'm optimistic that it all should improve in the second half.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

You're a marketing and sales guy, you got to be optimistic, right?

Q

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

Well...

A

Kenny Rucker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

It should all improve. I mean...

A

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

... [indiscernible] (00:34:10). We know the demand is there.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

Demand's there. Right.

Q

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

Yeah.

A

Thomas Wadewitz

Analyst, UBS Securities LLC

Okay. I don't know if there are questions – if anybody has a live question from the audience. And again, the QR code and I don't – haven't seen any questions come in here, but I'm happy to take them if you have any.

Q

The – let's see, how do you think about the impact of just – big box retailers have obviously seen some changes in kind of sales and the type of sales. Inventories are at higher levels. Have you seen that flow through to your demand, or are there just other factors that you haven't seen that come through yet? I would assume that's in

intermodal if you would see it. But how do you kind of relate what you're seeing to what we hear from the trucking side and also from the big box retailers?

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

It's relatively overall positive, although there is a mix when you talk to some of the international carriers that are bringing product in. Some are a little bit more optimistic than others. But overall, the demand is still there, as I mentioned.

Thomas Wadewitz

Analyst, UBS Securities LLC

When do you think you might see the – do you expect to see some of that weakness come through, or you think there's just such a backlog that the weakness is pretty far out?

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

Yeah. I mean, we've got – Tom, we've got to look at it closely every week, every month. But again, in a foreseeable future, it looks like there's going to be really strong demand that's out there.

Thomas Wadewitz

Analyst, UBS Securities LLC

Are there any segments where you say we're kind of it's as good as it gets, is fertilizer is as good as it gets, is there anything that's as good as it gets or [indiscernible] (00:35:54) that level?

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

Yeah. [indiscernible] (00:35:58) crude oil is one of those areas that we just don't see anything positive coming out of that here in the near term.

Thomas Wadewitz

Analyst, UBS Securities LLC

Okay.

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

I mean – and people get a little bit perplexed by that because energy prices are so high, but...

Thomas Wadewitz

Analyst, UBS Securities LLC

Right.

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

...crude oil is an area that is a challenge for us. It's a very small part of it, but I'd tell you, overwhelmingly, there's just so much more positive demand that's out there in a lot of the different segments.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Right. How much do you think your – if you said merchandise, how much do you think there is excess demand? Is there a way – is it 10% stronger than the capacity you're providing? Is it 20% stronger? I know it's a broad – I'm not trying to pinpoint, but like a framework.

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

A

Yeah. That's pretty difficult to answer just because there's so many things that are out of our control. I mean...

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Right.

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

A

...if chassis times were 20% lower and dray capacity were 20% lower, would I say there's 20% demand out there? That's just hard to say, but it's much greater than it is today, I can tell you that.

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

Yeah. I mean, I think to me, the way I think of it and this is at a very high level, our quarter-to-date volumes are down 2%. They were up 4% in the first quarter. We're talking about having volumes for the full year being industrial production plus. I'd say there's a pretty good delta between what we're moving today and what we believe the demand is.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

You gave us the update on operating ratio, the factors you mentioned, they all make sense. What about the volume – you didn't change it, right? Do you have – is it hard to get – like I think industrial production, obviously, it depends on what your forecast is, but let's call that translating to 4% to 5% or mid-single-digit volume growth. Do you still feel confident in hitting that, or do you feel like that's a – has become more of a stretch?

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

A

No. I feel confident that we'll hit that. I mean, again, the demand is out there, the winds are out there, the marketplace can support it. And if you look at all of the different markets, there is upside there. You talked about it with coal. I talked about it with grain. On the petrochem side, the finished vehicles and auto parts, dealership supplies are still low. There's still a lot of demand that's out there that needs to move.

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

Yeah. And I think you started to see some of that at the end of May. As our velocity was improving, you started to see a little pickup in our volumes, obviously, holiday weekend and it's come back down. But we're seeing is the velocity of the network is spinning back up, so we're putting a few more assets back in, you're seeing those carloads come up.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Right. How do we think about a second quarter impact from the change in your guidance for the full year? Should we say, okay, well, we ought to model more conservatively what we think from a margin perspective for 2Q versus maybe what we thought before or how do we translate that change in your OR guide for the year and how we might think about 2Q?

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

Yeah. I mean, it says that the whole year is pressured more than what we originally thought and that includes 2Q. So, service costs continue to be there. Fuel really is a tremendous factor when you think about – I think we paid like \$3.70 in April, \$4 in May, and now we're paying like \$4.50 in June. That's a real increase that has an impact to our OR. And while we do have the fuel surcharge program, [ph] there's (00:39:33) a couple of month flag there. And when it's going up that quickly, it's hard to keep up.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Is there – one of the things, I think, coming out of first quarter earnings that we did with our earnings forecast and that is we work through the models. We kind of said, all right, well, tougher to make the OR framework because, mechanically, fuel hurts you if it's a whatever OR it is, it's not a 60% or 55% OR, it's 80%, 90% or 100%. And so mechanically, however, your revenue per car is going to be stronger because of fuel surcharge and Kenny is doing the good work of getting rates up and working with – his team is focused on getting rates and maybe there's some mix benefit or not, but it seemed like you could have an offset of stronger revenue and, mechanically, the margin is not as good, but the end result is similar in terms of operating income. Is that a weighted – is that right that you get some help from revenue per car that even though your OR is a little off what we wanted to see, it's still not a big change in the overall earnings or operating income?

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

Yeah. I mean, you saw a little bit of that in the first quarter, to your point. So, fuel was an 80 basis point headwind to us in terms of the OR, but it contributed positively to EPS and operating income. And we had strong op income growth even with that pressure to the OR. So, I absolutely think that's a dynamic that can continue through the year. Our [ph] chore and (00:41:04) obviously, and what we're very focused on doing is improving the fluidity, that brings in more of those carloads, helps drive further that revenue and top line, and also it helps generate some efficiencies. So, I still see a record financial year for UP in 2022, but the OR piece is absolutely [ph] being pressured (00:41:22).

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Right. Okay. We're pretty much winding down here. Just trying to see if there are a bunch more things we could cover. But I think we're running out of time. Maybe just a last question on your – on pricing. I think pricing is something we haven't touched on.

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

A

It's good to ask any price questions [indiscernible] (00:41:47)...

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Yeah. There we go. What do you think about pricing? Should we be optimistic on pricing heading into 2023? I know it takes – with the rail contracts, it takes a while. There's a time lag on the way up and the way – not, I don't know, the way down, but when things moderate. So, how do we think about pricing this year, even momentum into next year?

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

A

So, in our intermodal business, I think that the pricing should still remain in a robust pricing environment. Again, differentiating those spot prices versus the long contracted rates, the demand is still so tight. I talked to you about the containers, the chassis, that should be coming on. That's going to take a while. So, that's going to be a pretty tight environment for us. On the carload side, the same is true. Equipment is tight, truck, competitive forces are tight. It's still a tight market overall in both areas. So, as we look in the – even though we're sitting here and it's June, as we think about 2023, I think it's still a bit pretty tight there.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

So, you're still pretty optimistic on price overall?

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

A

[indiscernible] (00:42:53) yeah.

Thomas Wadewitz

Analyst, UBS Securities LLC

Okay, great. Kenny, Jennifer, thanks so much for joining us at the conference and thanks for all your insights. We appreciate it.

Kenny Rocker

Executive Vice President-Marketing & Sales, Union Pacific Corp.

Good to see you.

Jennifer L. Hamann

Executive Vice President & Chief Financial Officer, Union Pacific Corp.

Good to see you.

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