



# FOURTH QUARTER 2019 EARNINGS RELEASE

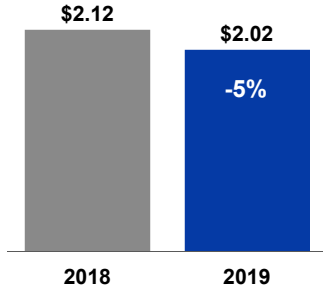
Lance Fritz – Chairman, President & CEO

January 23, 2020

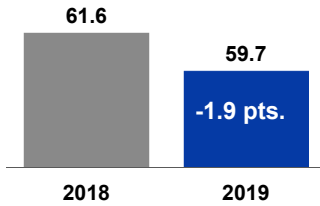


## Fourth Quarter 2019 Results

Earnings Per Share



Operating Ratio



# FOURTH QUARTER 2019 MARKETING & SALES REVIEW

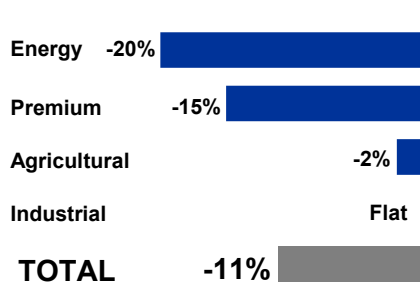
Kenny Rocker

Executive Vice President – Marketing & Sales

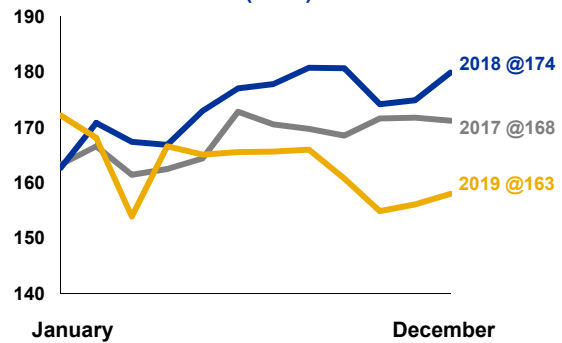


## Fourth Quarter 2019 Recap

Volume Growth



7-Day Monthly Carloadings  
(000s)

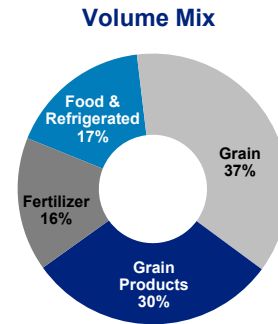
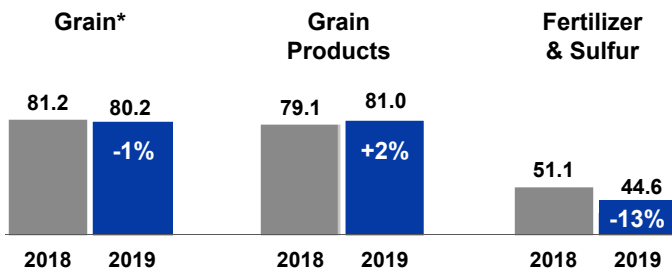


## Agricultural Products

Revenue \$1,099M (-2%)

Volume 270K (-2%)

ARC \$4,070 (Flat)



### Quarterly Drivers

Reduced Domestic Grain

Strong Biofuels Shipments

Export Potash Weakness

<sup>5</sup> Volume in thousands of carloads. \*Excludes equipment shipments.

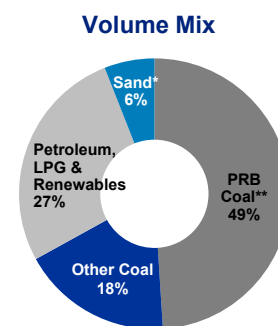
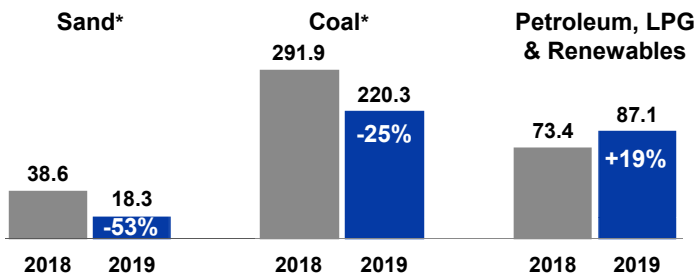


## Energy

Revenue \$838M (-25%)

Volume 325K (-20%)

ARC \$2,573 (-6%)



### Quarterly Drivers

Sand Local Sourcing and Market Decline

Continued Coal Challenges

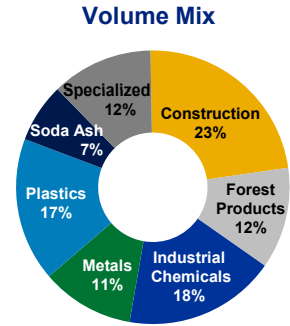
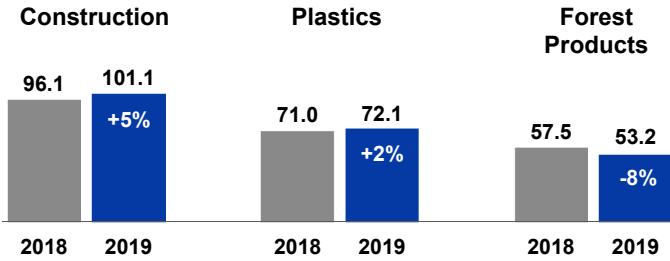
Crude Oil Growth

<sup>6</sup> Volume in thousands of carloads. \*Coal includes Coke; Sand includes Barites. \*\*PRB includes SPRB and NPRB.



## Industrial

Revenue \$1,407M (Flat)  
 Volume 431K (Flat)  
 ARC \$3,268 (Flat)



### Quarterly Drivers

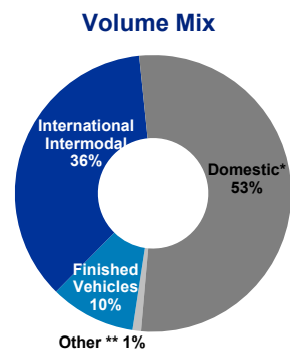
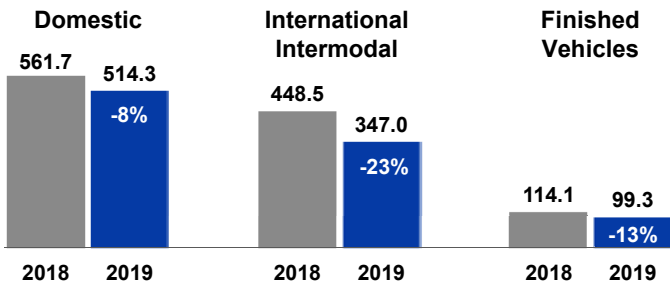


7 Volume in thousands of carloads.



## Premium

Revenue \$1,507M (-14%)  
 Volume 967K (-15%)  
 ARC \$1,560 (+1%)



### Quarterly Drivers



8 Volume in thousands of carloads. \*Domestic includes domestic intermodal and auto parts moved in intermodal containers. \*\*Includes non-intermodal auto parts.



## 2020 Volume Outlook

### Bulk



- Coal
- + Biofuels
- + Food and Beverage
- ? Grain

### Industrial



- Sand
- + Plastics
- + Construction
- + Petroleum Products

### Premium



- Auto Sales
- ? Domestic Intermodal
- ? Trade and Economy



## FOURTH QUARTER 2019 OPERATIONS REVIEW

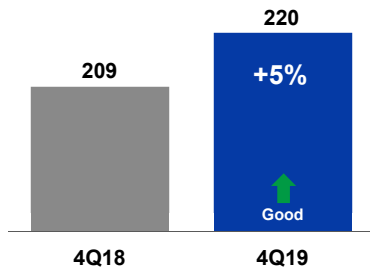
Jim Vena  
Chief Operating Officer



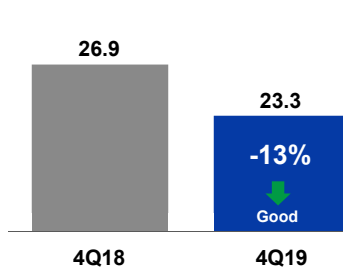
# Unified Plan 2020

## Key Performance Indicators

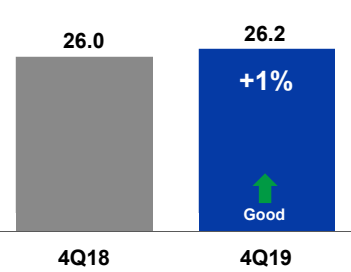
**Freight Car Velocity\***  
(Daily Miles per Car)



**Freight Car Terminal Dwell\*\***  
(Hours)



**Train Speed\*\***  
(Miles per Hour)



Year-over-Year Improvement

Continued Focus on Asset Utilization and Minimizing Car Classifications

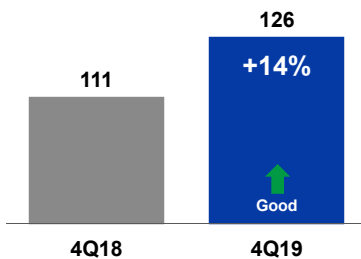
11 \*Calculation revised to reflect consistent treatment of intermodal car types. \*\*Recast to better align reporting with management responsibility.



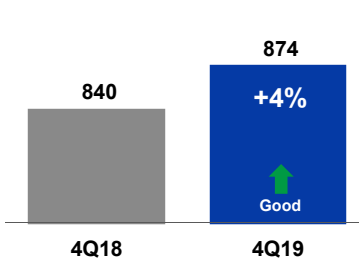
# Unified Plan 2020

## Key Performance Indicators

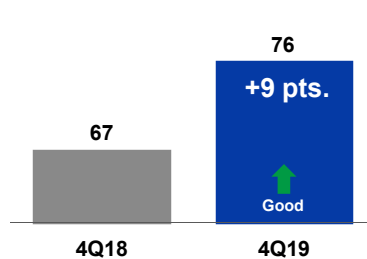
**Locomotive Productivity**  
(GTMs per Horsepower Day)



**Workforce Productivity**  
(Daily Car Miles per FTE)



**Car Trip Plan Compliance**  
(% Cars On Time)



~3,100 Stored Locomotives as of December 31<sup>st</sup>

Workforce Down 17%

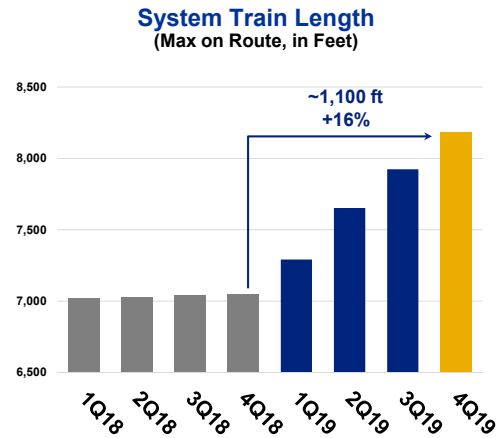
Improved Service Product



# Unified Plan 2020 Update

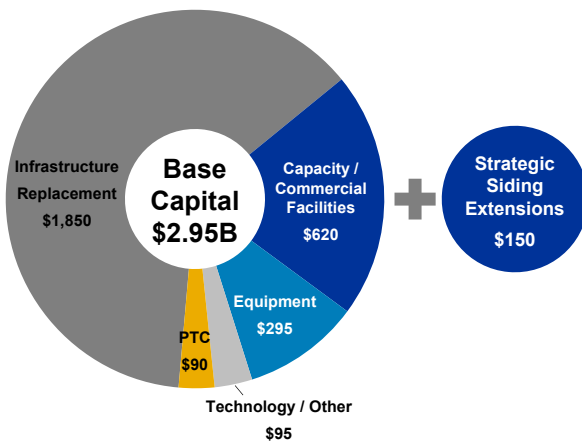
## Terminal Rationalization & Network Changes

- Stopped Humping Cars at Davidson Yard in Fort Worth
- Curtailed Operations at Armourdale Yard in Kansas City
- Adjusting Local Operations to Align with Customer Demand
- Continued Improvement in Train Length



# Strengthening the Franchise

## 2020 Capital Plan (\$ In Millions)



- 2019 Capital Expenditures ~\$3.2 Billion
- 2020 Capital Plan:
  - Base Capital of \$2.95 Billion, plus
  - \$150 Million for Siding Extensions
- Safe & Resilient Infrastructure
- Equipment Acquisitions:
  - Locomotive Modernizations
  - Targeted Freight Car Purchases
- Capacity & Commercial Facilities
- PTC Spending



## Operating Outlook

- Safety First
- Continue Unified Plan 2020 Implementation
- Drive Service Improvements
- Focus on Asset Utilization and Network Efficiency



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## FOURTH QUARTER 2019 FINANCIAL REVIEW

Jennifer Hamann

Executive Vice President & Chief Financial Officer

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## Fourth Quarter Operating Ratio and EPS

Favorable / (Unfavorable)

	Operating Ratio	EPS
Fourth Quarter 2018	61.6%	\$2.12
Insurance Recovery	0.5 pts	\$0.03
Fuel Impact	0.2 pts	(\$0.01)
Core Results	1.2 pts	(\$0.12)
Fourth Quarter 2019	59.7%	\$2.02

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## Fourth Quarter Income Statement

\$ in Millions (except EPS)

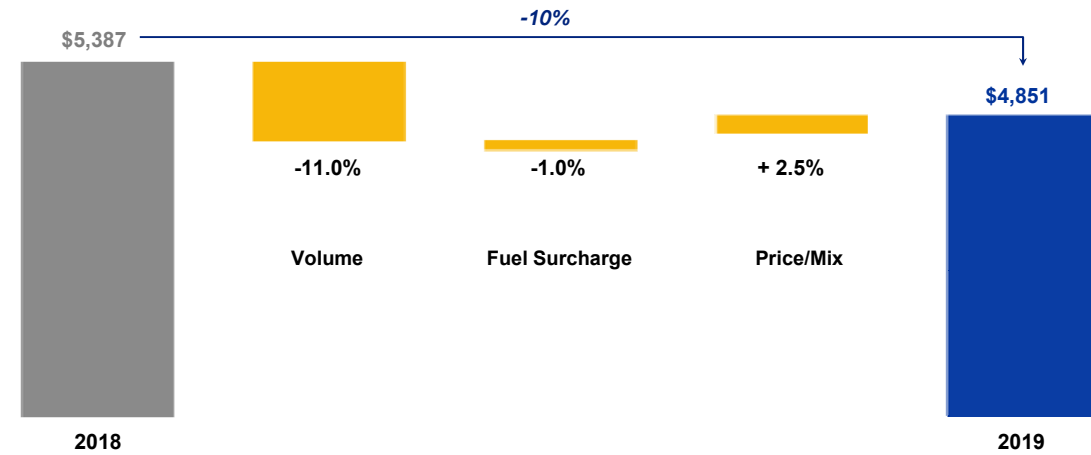
	2019	2018	%
Operating Revenues	\$5,212	\$5,757	(9)
Operating Expenses	3,112	3,547	(12)
Operating Income	2,100	2,210	(5)
Other Income	56	46	22
Interest Expense	(278)	(240)	16
Income Taxes	(475)	(462)	3
Net Income	\$1,403	\$1,554	(10)
Weighted Average Diluted Shares	694.9	732.9	(5)
Diluted EPS	\$2.02	\$2.12	(5)

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## Fourth Quarter Freight Revenue

\$ in Millions

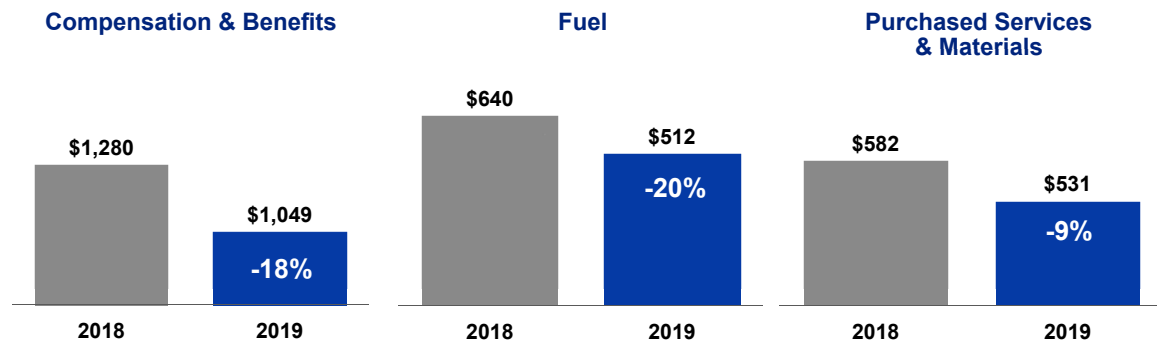


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## Fourth Quarter Operating Expenses

\$ in Millions



Force Levels Down 17%

Lower Diesel Fuel Prices and Gallons Consumed

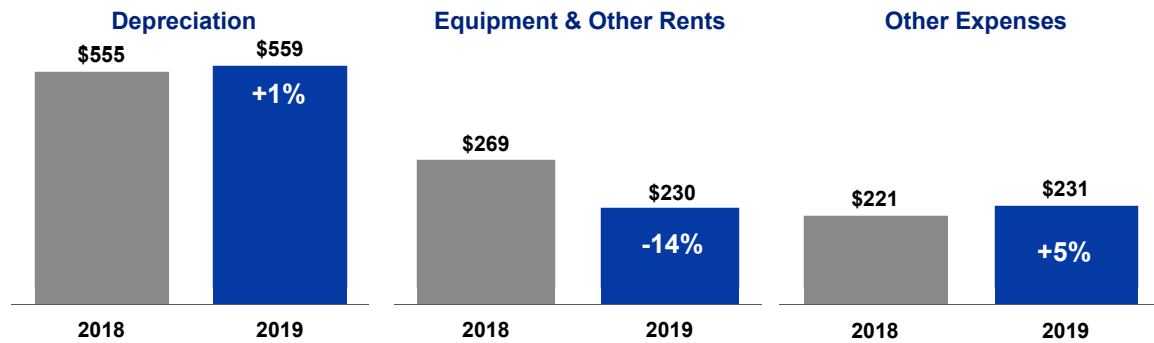
Lower Purchased Transportation and Contract Services

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## Fourth Quarter Operating Expenses

\$ in Millions



Higher Depreciable Asset Base

Lower Equipment Lease Expense and Volume Related Costs

Increased Casualty Costs and State & Local Taxes

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FOURTH QUARTER RESULTS

## Productivity Update

~\$215 Million of Net Productivity

- Net Productivity of \$590 Million for Full Year 2019, Significantly Exceeding Guidance
- Productivity Outlook of at Least \$500 Million for 2020

Initiatives & 4Q19 Results (\$ in millions)

**\$83 Network and Train Ops** *Unified Plan 2020, Car Velocity, Fuel*

**\$79 Equipment** *Mechanical Productivity, Car Hire, Lease Savings, Car Velocity*  
(Locomotive and Car)

**\$53 Other** *Support, Engineering, & Supply, partially offset by Incidents*

**\$215 4Q19 Net Productivity**

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## Full Year Results

### Favorable / (Unfavorable)

	Operating Ratio	EPS
Full Year 2018	62.7%	\$7.91
Payroll Tax Refund	0.3 pts	\$0.11
Weather/Incidents*	(0.7) pts	(\$0.23)
Fuel Impact	0.6 pts	\$0.12
Core Results	1.9 pts	\$0.47
Full Year 2019	60.6%	\$8.38

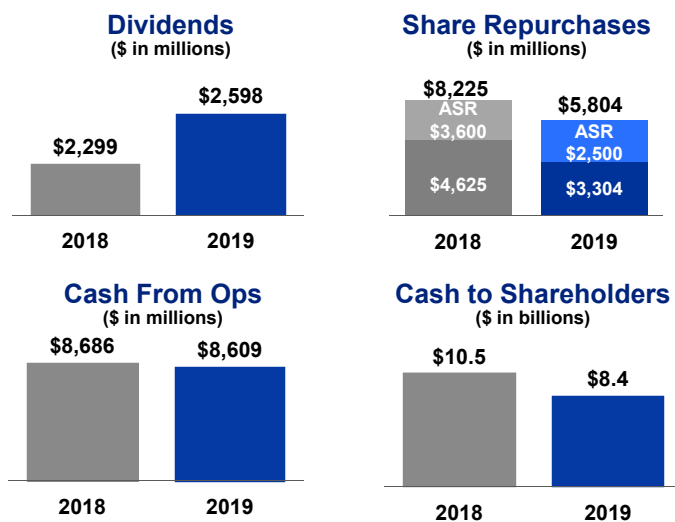
23 \*Net of Insurance recovery.

### 2019 Highlights

- Total Revenue of \$21.7 Billion, Down 5% on 6% Less Volume
- Operating Income flat at \$8.6 Billion
- Net Income of \$5.9 Billion



## Shareholder Returns



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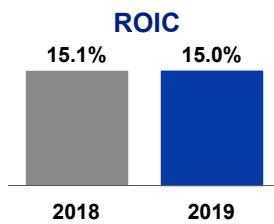
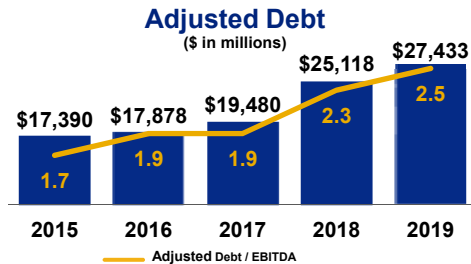
### Fourth Quarter Year-to-Date

- Cash from Operations flat year-over-year at \$8.6 Billion
- Cash Flow Conversion Rate Equal to 87% of Net Income
- Two - 10% Dividend Increases
- Repurchased 35 million shares – 6% average share balance

**Returned \$8.4 Billion to Shareholders**



## Balance Sheet Strength



25 See Union Pacific website under Investors for a reconciliation to GAAP.

### Fourth Quarter Year-to-Date

- Adjusted Debt Increased \$2.3 Billion since Year-End 2018
- Adjusted Debt / EBITDA of 2.5x
  - Still Targeting Adjusted Debt / EBITDA up to 2.7x
- Continued Strong ROIC



## A Look Ahead to 2020

- Volumes Improving – Slightly Positive Overall
  - Pricing Gains in Excess of Inflation Dollars
  - Force Levels Down 8% +/-
  - At Least \$500 Million of Productivity
  - Operating Ratio of ~59% in 2020
- Capital Allocation:
  - Capital Spending < 15% of Revenue
  - Dividend Target Payout 40-45% of Earnings
  - Complete \$20B Share Repurchase Program

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# FOURTH QUARTER 2019

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**Lance Fritz**

Chairman, President & CEO

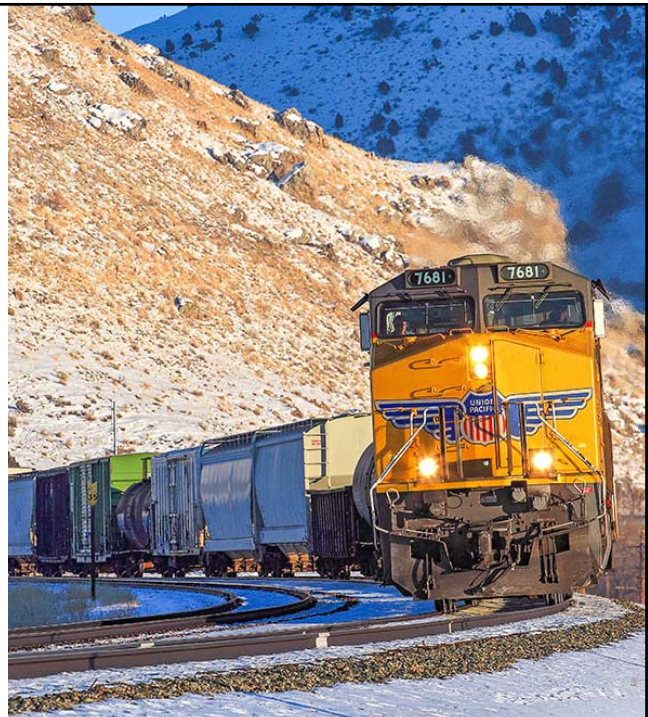
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## Looking Ahead

- Committed to Safety
- Deliver a Highly Consistent and Reliable Service Product
- Drive Margin Improvement
- Increase Shareholder Returns

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## Cautionary Information

This presentation and related materials contain statements about the Company's future that are not statements of historical fact, including specifically the statements regarding the Company's expectations with respect to economic conditions; its ability to generate financial returns, improve resource productivity; enhancing the customer experience; implementing corporate strategies; and providing excellent service to its customers and returns to its shareholders. These statements are, or will be, forward-looking statements as defined by the Securities Act of 1933 and the Securities Exchange Act of 1934. Forward-looking statements also generally include, without limitation, information or statements regarding: projections, predictions, expectations, estimates or forecasts as to the Company's and its subsidiaries' business, financial, and operational results, and future economic performance; and management's beliefs, expectations, goals, and objectives and other similar expressions concerning matters that are not historical facts.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times that, or by which, such performance or results will be achieved. Forward-looking information, including expectations regarding operational and financial improvements and the Company's future performance or results are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statement. Important factors, including risk factors, could affect the Company's and its subsidiaries' future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. Information regarding risk factors and other cautionary information are available in the Company's Annual Report on Form 10-K for 2018, which was filed with the SEC on February 8, 2019. The Company updates information regarding risk factors if circumstances require such updates in its periodic reports on Form 10-Q and its subsequent Annual Reports on Form 10-K (or such other reports that may be filed with the SEC).

Forward-looking statements speak only as of, and are based only upon information available on, the date the statements were made. The Company assumes no obligation to update forward-looking information to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. If the Company does update one or more forward-looking statements, no inference should be drawn that the Company will make additional updates with respect thereto or with respect to other forward-looking statements. References to our website are provided for convenience and, therefore, information on or available through the website is not, and should not be deemed to be, incorporated by reference herein.



## Question & Answer Session

