



July 18, 2019

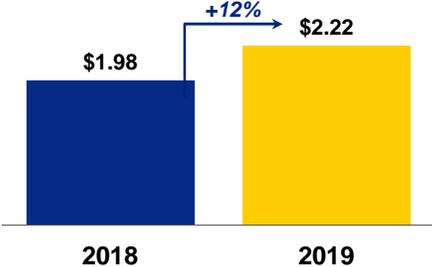
# Second Quarter 2019 Earnings Release

**Lance Fritz**  
Chairman, President & CEO

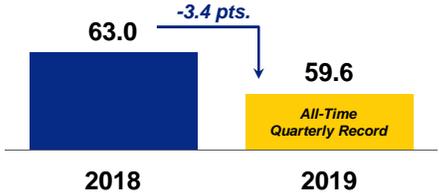
## Second Quarter 2019 Results



**Earnings Per Share**  
*Second Quarter*



**Operating Ratio**  
*Second Quarter*





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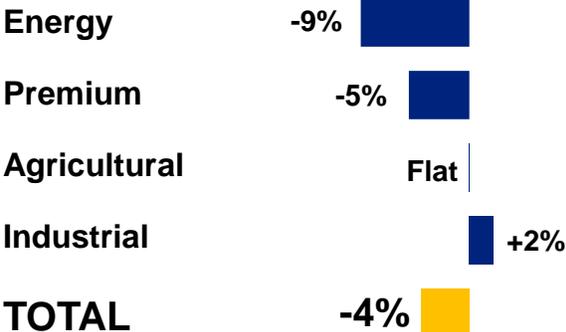
# Second Quarter 2019 Marketing & Sales Review

**Kenny Rucker**  
Executive Vice President –  
Marketing & Sales

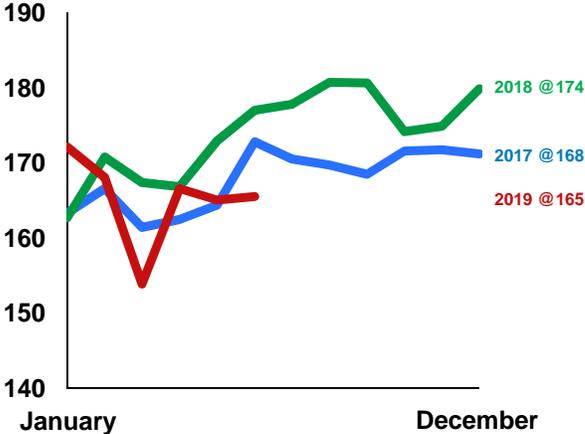
## Second Quarter 2019 Recap



Volume Growth

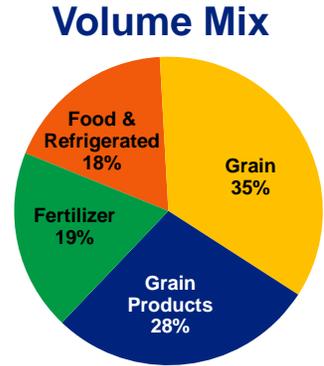
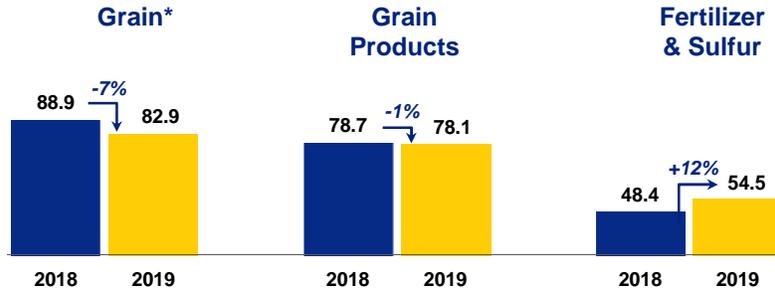


7-Day Monthly Carloadings  
(000s)



# Agricultural Products

Revenue \$1,155M (+4%) Volume 284K (Flat) ARC \$4,057 (+4%)



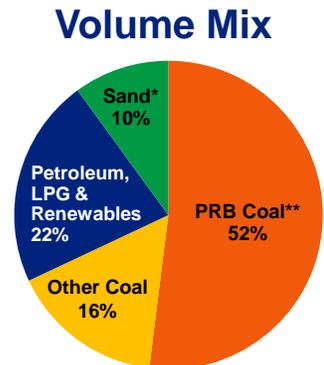
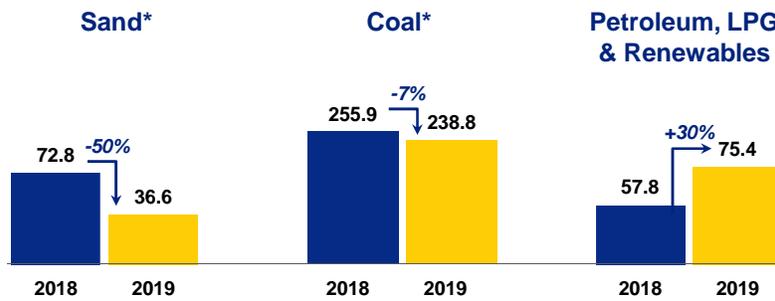
## Quarterly Drivers

- Reduced Grain Exports
- Strong Biofuels Demand
- Increased Fertilizer Shipments

Volume in thousands of carloads  
\*Excludes equipment shipments

# Energy

Revenue \$966M (-13%) Volume 351K (-9%) ARC \$2,753 (-4%)



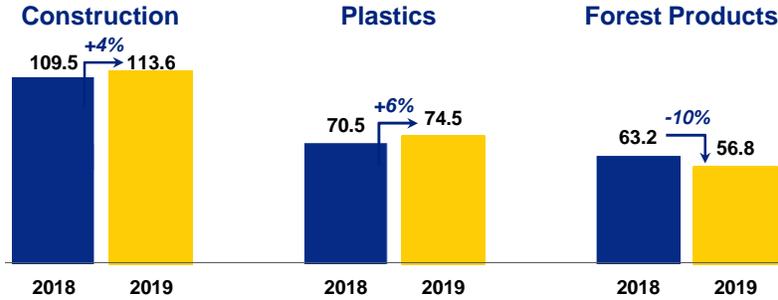
## Quarterly Drivers

- Local Sourcing for Sand
- Coal Headwinds
- Crude Oil Growth

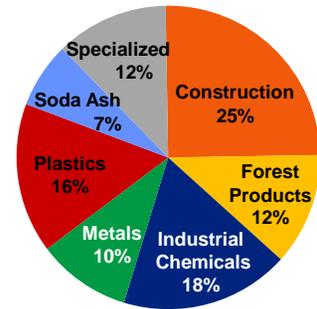
Volume in thousands of carloads  
\* Coal includes Coke; Sand includes Barites  
\*\* PRB includes SPRB and NPRB

# Industrial

Revenue \$1,494M (+4%) Volume 460K (+2%) ARC \$3,242 (+2%)



## Volume Mix



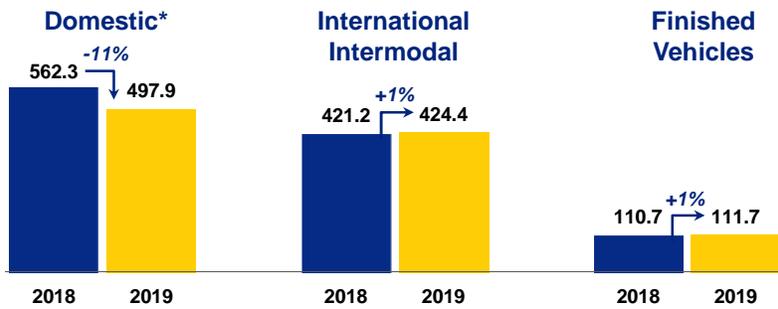
### Quarterly Drivers

- Strong Construction Market Demand
- Plastics Production Growth
- Reduced Paper and Lumber Shipments

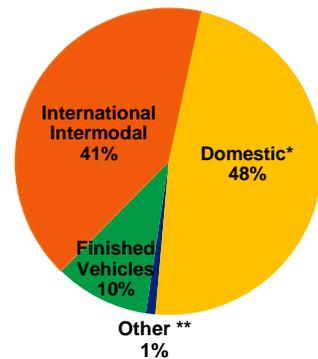
Volume in thousands of carloads

# Premium

Revenue \$1,621M (-2%) Volume 1,042K (-5%) ARC \$1,557 (+4%)



## Volume Mix



### Quarterly Drivers

- Softer Domestic Market
- Normalized International Volumes
- Reduced Auto Sales

Volume in thousands of carloads

\* Domestic includes domestic intermodal and auto parts moved in intermodal containers  
 \*\* Includes non-intermodal auto parts

# 2019 Volume Outlook



## Agricultural Products

- + Biofuels
- + Food and Beverage
- ? Grain



## Industrial

- + Plastics
- + Construction
- Housing Starts



## Energy

- + Petroleum Products
- Sand
- Coal Headwinds



## Premium

- + Light Truck / SUV Sales
- Domestic Market
- ? Trade & Economy



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## Second Quarter 2019 Operations Review

**Jim Vena**  
Chief Operating Officer

# Unified Plan 2020

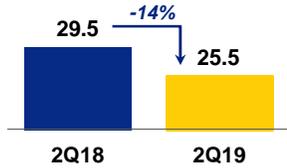
## Key Performance Indicators



Good  
↓

### Freight Car Terminal Dwell

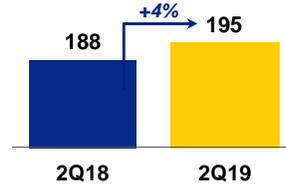
(Hours)



Good  
↑

### Freight Car Velocity

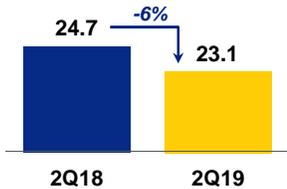
(Daily Miles per Car)



Good  
↑

### Train Speed

(Miles per Hour)



- Year-over-Year Improvement
- Continued Focus on Asset Utilization and Minimizing Car Classifications

# Unified Plan 2020

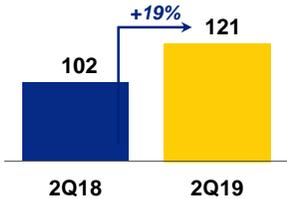
## Key Performance Indicators



Good  
↑

### Locomotive Productivity

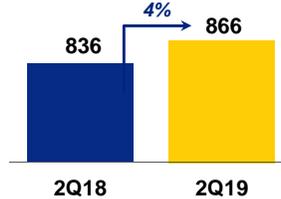
(GTM per Horsepower Day)



Good  
↑

### Workforce Productivity

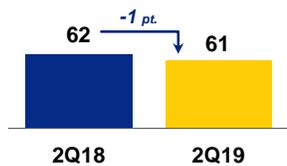
(Daily Car Miles per FTE)



Good  
↑

### Car Trip Plan Compliance

(% Cars On Time)

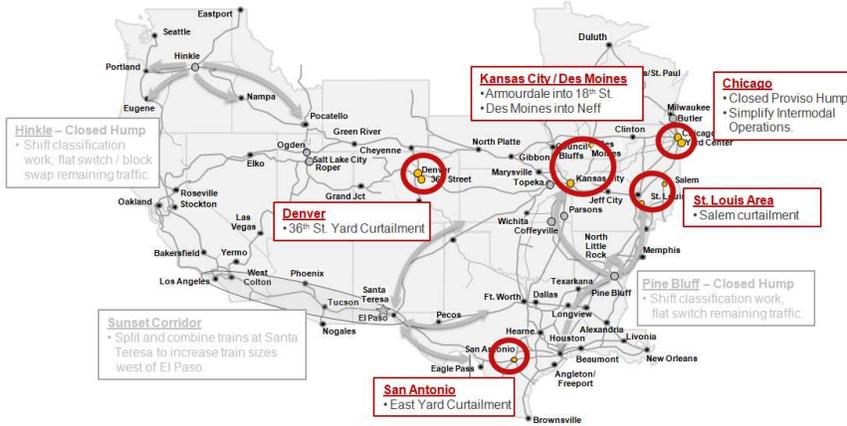


- ~2,150 Stored Locomotives as of June 30<sup>th</sup>
- Total Employees Down 8%
- Rebounding from Weather Challenges

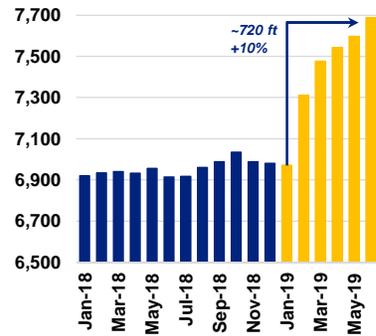
# Unified Plan 2020 Update



## Terminal Rationalization & Network Changes



## System Train Length (Max on route, in feet)



# Operating Outlook



- Unified Plan 2020
- Resilient Network
- Continued Focus On:
  - Safety
  - Service Reliability
  - Efficiency





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## Second Quarter 2019 Financial Review

**Rob Knight**  
Executive Vice President &  
Chief Financial Officer

## Second Quarter Operating Ratio and EPS

*Favorable / (Unfavorable)*



	<u>Operating Ratio</u>	<u>EPS</u>
<b>Second Quarter 2018</b>	<b>63.0%</b>	<b>\$1.98</b>
<b>Weather Impact</b>	<b>(0.6) pts</b>	<b>(\$0.07)</b>
<i>Lost Revenue (Net of Volume Savings)</i>	<i>(0.3) pts</i>	<i>(\$0.05)</i>
<i>Additional Operating Costs</i>	<i>(0.3) pts</i>	<i>(\$0.02)</i>
<b>Payroll Tax Refund</b>	<b>0.6 pts</b>	<b>\$0.04</b>
<b>Fuel Impact</b>	<b>0.6 pts</b>	<b>\$0.04</b>
<b>Core Operating Improvement</b>	<b>2.8 pts</b>	<b>\$0.23</b>
<b>Second Quarter 2019</b>	<b>59.6%</b>	<b>\$2.22</b>

## Second Quarter Income Statement

\$ in Millions (except EPS)

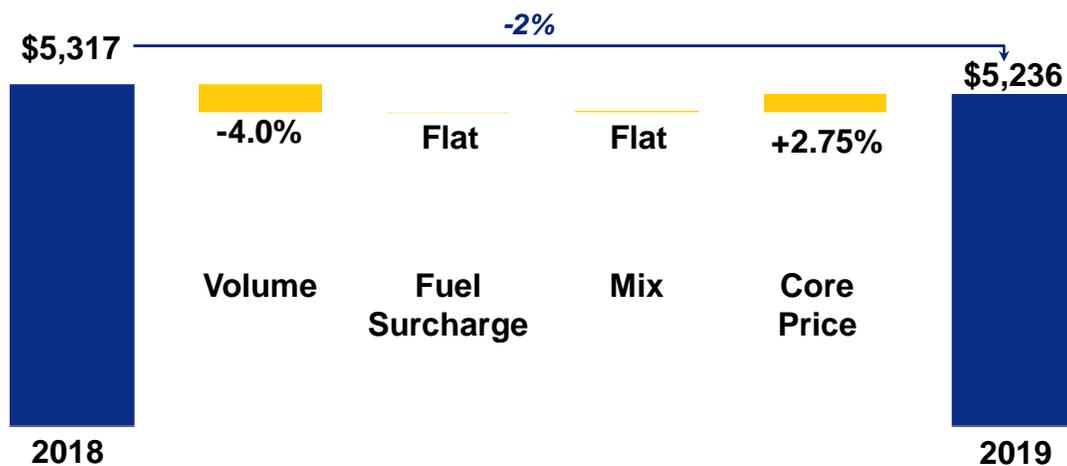


	<u>2019</u>	<u>2018</u>	<u>%</u>
Operating Revenues	\$5,596	\$5,672	(1)
Operating Expenses	3,336	3,573	(7)
Operating Income	<u>2,260</u>	<u>2,099</u>	8
Other Income	57	42	36
Interest Expense	(259)	(203)	28
Income Taxes	<u>(488)</u>	<u>(429)</u>	14
<b>Net Income</b>	<b><u>\$1,570</u></b>	<b><u>\$1,509</u></b>	<b>4</b>
Weighted Average Diluted Shares	708.0	763.7	(7)
<b>Diluted EPS</b>	<b><u>\$2.22</u></b>	<b><u>\$1.98</u></b>	<b>12</b>

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## Second Quarter Freight Revenue

\$ In Millions



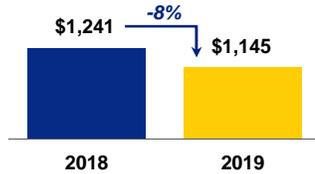
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## Second Quarter Operating Expenses

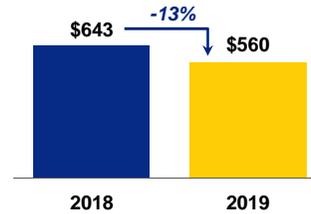
\$ In Millions



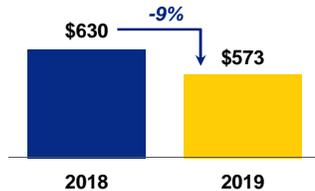
### Compensation & Benefits



### Fuel



### Purchased Services & Materials



- Force Levels, Payroll Tax Refund and Wage Inflation
- Lower Diesel Fuel Prices and Gallons Consumed
- Reduced Mechanical Repair Costs and Contract Services

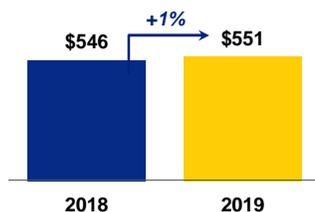
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## Second Quarter Operating Expenses

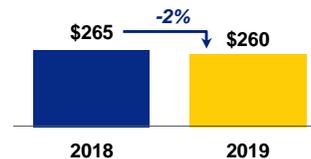
\$ In Millions



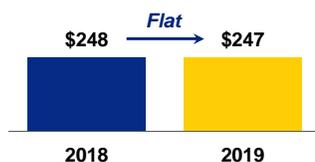
### Depreciation



### Equipment & Other Rents



### Other Expenses



- Higher Depreciable Asset Base
- Lower Equipment Lease Expense and Volume Related Costs
- Higher Casualty Costs Offset by Lower General Expenses

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# Productivity Update



## Second Quarter Results:

~\$195 Million of Productivity

- Operational Challenges Resulted in a \$25 Million Headwind
- Net Productivity of \$170 Million for the Quarter
- Full Year Productivity Still Expected to be at least \$500 Million

## Initiatives & 2Q19 Results (\$ in millions)

**\$37** Network and Train Operations *Fuel, Unified Plan 2020, Starts, partially offset by weather*

**\$78** Equipment (Locomotive and Car) *Mechanical productivity, fleet size, car hire, lease savings*

**\$55** Other *Support, Engineering, Supply, Joint Facilities, partially offset by incidents and weather*

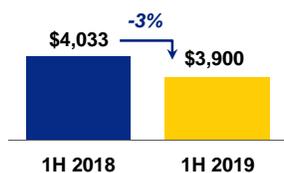
**\$170** 2Q19 Net Productivity

# Cash Flow & Debt

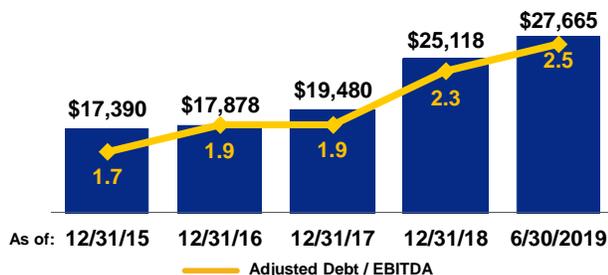
\$ In Millions



## Cash From Operations



## Adjusted Debt\*

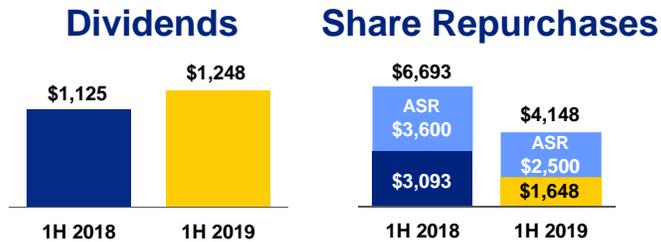


- Higher Net Income
- Free Cash Flow Conversion Rate Equal to 77% of Net Income
- Increased Adjusted Debt \$2.5 Billion since Year-End 2018
  - Includes \$3.0 Billion Debt Offering in February 2019
- Adjusted Debt / EBITDA of 2.5

\* See Union Pacific website under Investors for a reconciliation to GAAP

## Delivering Value to Shareholders

\$ In Millions



- 10% Dividend Increases in Third Quarter 2018 and First Quarter 2019

- **Share Repurchases:**

- \$1.6 Billion of Open Market Purchases
- \$2.5 Billion Accelerated Share Repurchase Program

### Cash Returned to Shareholders (\$ In Billions)



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## 2019 Outlook



- Second Half Volume Down Around 2%
- Continued Pricing Gains In Excess of Inflation Dollars
- Capital Expenditures of ~\$3.2 Billion
- Significant Productivity Savings from G55 + 0, Including Unified Plan 2020
  - At Least \$500 Million in 2019
  - Full-Year Force Levels Down ~10%
- Still Targeting a Sub-61% Operating Ratio in 2019
  - Below 60% by 2020



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## Second Quarter 2019 Earnings Release

**Lance Fritz**  
Chairman, President & CEO

### Looking Ahead



- **Record Second Quarter Results**
- **Unified Plan 2020**
- **Consistent and Reliable Service**
- **Focus on Shareholder Returns**



## 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.

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## Second Quarter 2019 Earnings Release

Question & Answer  
Session