



October 17, 2019

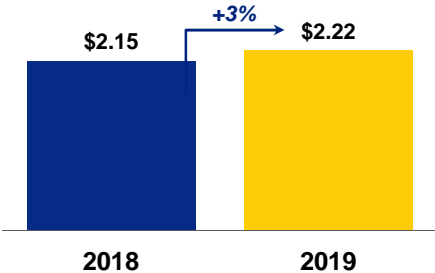
# Third Quarter 2019 Earnings Release

**Lance Fritz**  
Chairman, President & CEO

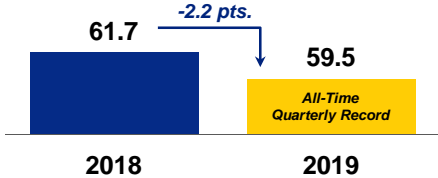
## Third Quarter 2019 Results



**Earnings Per Share**  
*Third Quarter*



**Operating Ratio**  
*Third Quarter*





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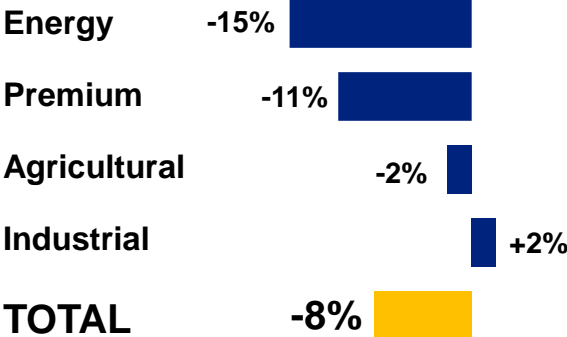
# Third Quarter 2019 Marketing & Sales Review

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

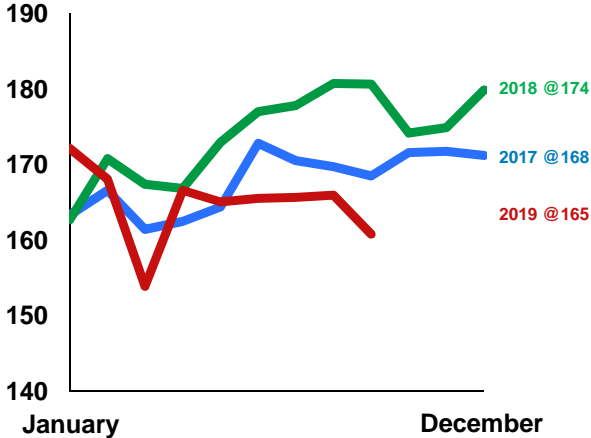
## Third Quarter 2019 Recap



### Volume Growth

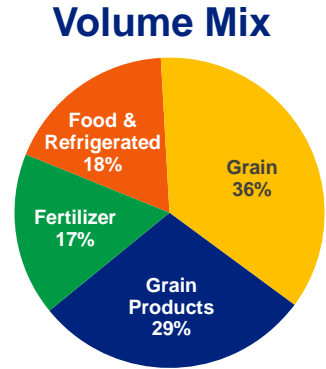
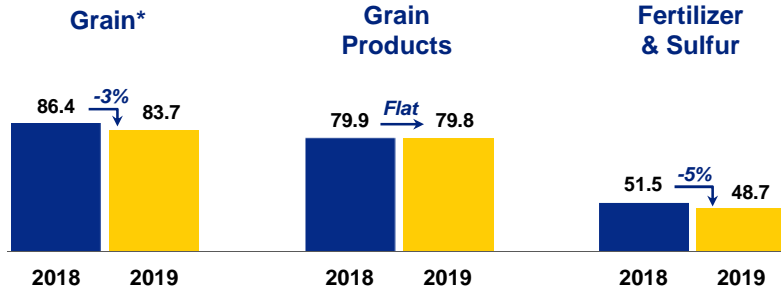


### 7-Day Monthly Carloadings (000s)



# Agricultural Products

Revenue \$1,123M (-1%) Volume 278K (-2%) ARC \$4,042 (+2%)



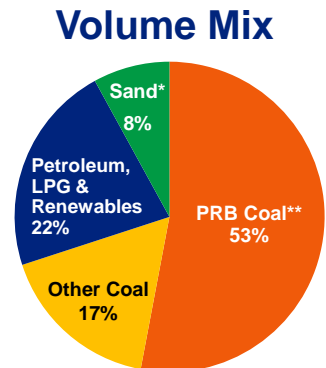
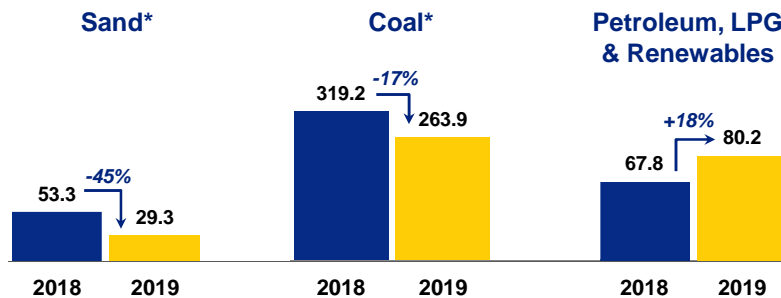
## Quarterly Drivers

- Reduced Grain Exports
- Strong Biofuels Demand
- Potash Weakness

Volume in thousands of carloads  
\*Excludes equipment shipments

# Energy

Revenue \$975M (-20%) Volume 374K (-15%) ARC \$2,613 (-5%)



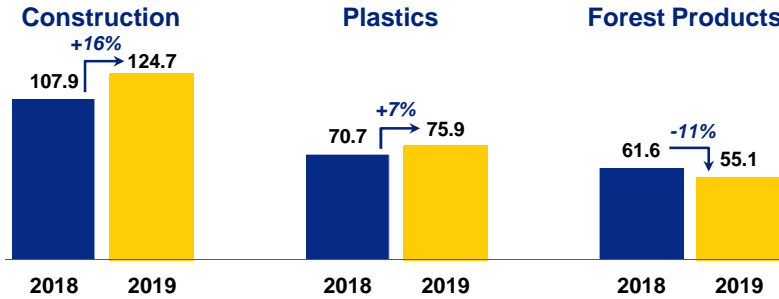
## Quarterly Drivers

- Local Sourcing for Sand
- Continued Coal Challenges
- Crude Oil Growth

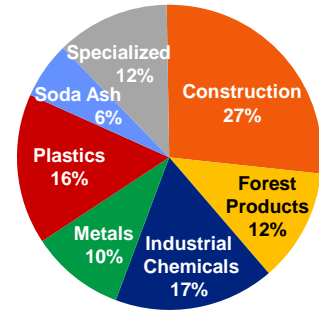
Volume in thousands of carloads  
\* Coal includes Coke; Sand includes Barites  
\*\* PRB includes SPRB and NPRB

# Industrial

Revenue \$1,485M (-1%) Volume 467K (+2%) ARC \$3,178 (-3%)



## Volume Mix



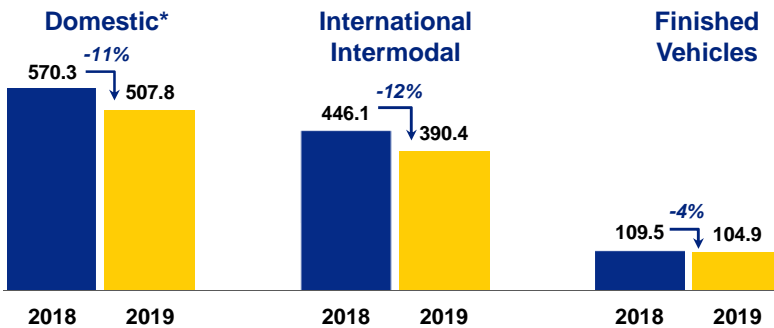
### Quarterly Drivers

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

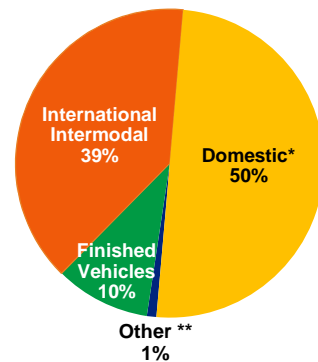
Volume in thousands of carloads

# Premium

Revenue \$1,563M (-9%) Volume 1,010K (-11%) ARC \$1,546 (+2%)



## Volume Mix



### Quarterly Drivers

- Soft Domestic Intermodal Demand
- Tariffs and Trade Uncertainty
- Declining Auto Production

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
- Forest Products



## Energy

- + Petroleum Products
- Sand
- Coal Challenges



## Premium

- ? Light Truck / SUV Sales
- Domestic Intermodal
- Trade & Economy



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## Third Quarter 2019 Operations Review

**Jim Vena**  
Chief Operating Officer

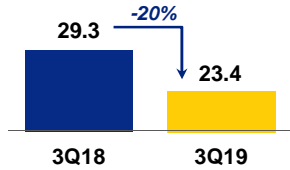
# Unified Plan 2020

## Key Performance Indicators



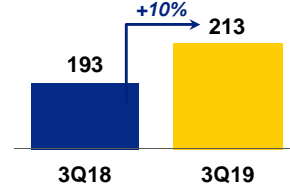
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### Freight Car Terminal Dwell (Hours)



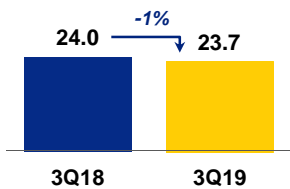
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### Freight Car Velocity (Daily Miles per Car)



Good  
↑

### Train Speed (Miles per Hour)



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

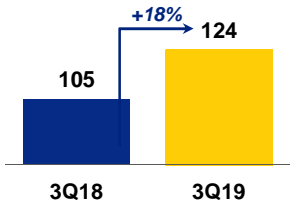
# Unified Plan 2020

## Key Performance Indicators



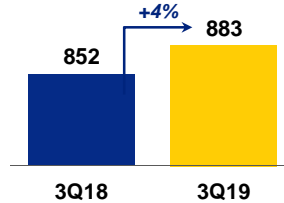
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### Locomotive Productivity (GTM per Horsepower Day)



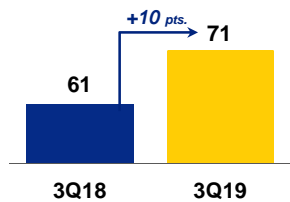
Good  
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### Workforce Productivity (Daily Car Miles per FTE)



Good  
↑

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

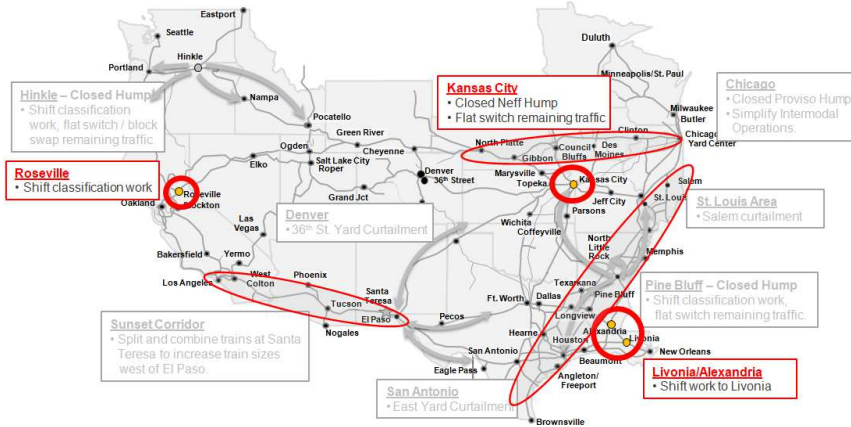


- ~2,600 Stored Locomotives as of September 30<sup>th</sup>
- Workforce Down 13%
- Improved Service Product

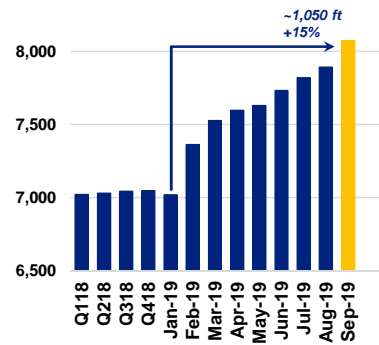
# Unified Plan 2020 Update



## Terminal Rationalization & Network Changes



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



# Operating Outlook



- Continue Unified Plan 2020 Implementation
- Drive Service Improvements
- Continued Focus On:
  - Safety
  - Asset Utilization and Network Efficiency





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## Third Quarter 2019 Financial Review

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

### Third Quarter Operating Ratio and EPS *Favorable / (Unfavorable)*



	<u>Operating Ratio</u>	<u>EPS</u>
<b>Third Quarter 2018</b>	<b>61.7%</b>	<b>\$2.15</b>
<b>Rail Equipment Incidents</b>	<b>(0.5) pts</b>	<b>(\$0.02)</b>
<b>Fuel Impact</b>	<b>0.9 pts</b>	<b>\$0.04</b>
<b>Core Improvement</b>	<b>1.8 pts</b>	<b>\$0.05</b>
<b>Third Quarter 2019</b>	<b>59.5%</b>	<b>\$2.22</b>



## Third Quarter Income Statement

\$ in Millions (except EPS)

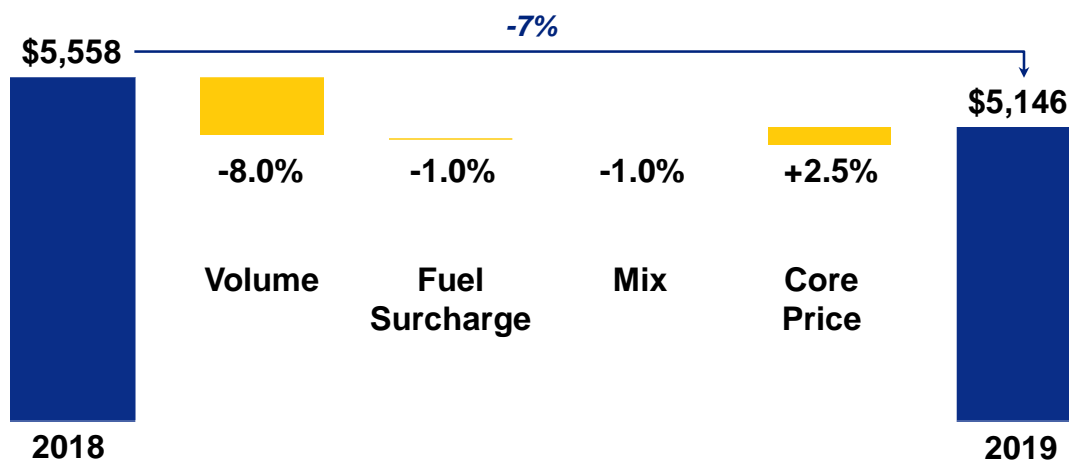


	<u>2019</u>	<u>2018</u>	<u>%</u>
Operating Revenues	\$5,516	\$5,928	(7)
Operating Expenses	3,282	3,659	(10)
Operating Income	<u>2,234</u>	<u>2,269</u>	(2)
Other Income	53	48	10
Interest Expense	(266)	(241)	10
Income Taxes	<u>(466)</u>	<u>(483)</u>	(4)
<b>Net Income</b>	<b><u>\$1,555</u></b>	<b><u>\$1,593</u></b>	<b>(2)</b>
Weighted Average Diluted Shares	701.9	740.9	(5)
<b>Diluted EPS</b>	<b><u>\$2.22</u></b>	<b><u>\$2.15</u></b>	<b>3</b>

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## Third Quarter Freight Revenue

\$ In Millions



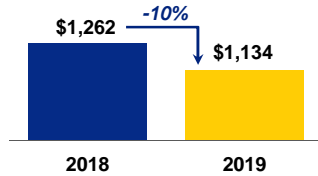
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## Third Quarter Operating Expenses

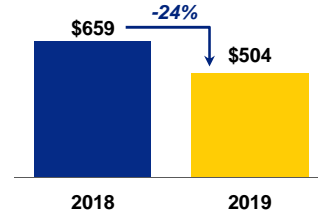
\$ In Millions



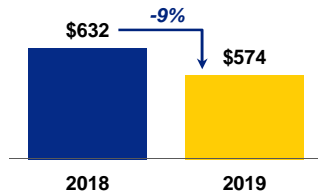
### Compensation & Benefits



### Fuel



### Purchased Services & Materials



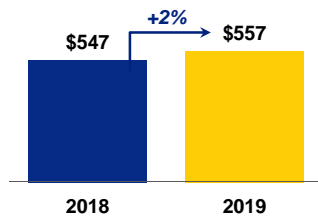
- Force Levels Down 13%
- Lower Diesel Fuel Prices and Gallons Consumed
- Reduced Mechanical Repair Costs and Contract Services

## Third Quarter Operating Expenses

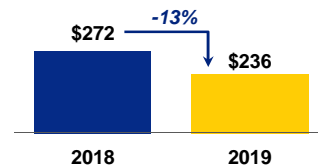
\$ In Millions



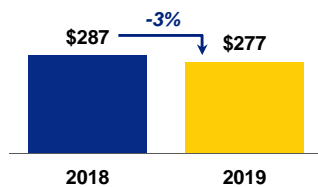
### Depreciation



### Equipment & Other Rents



### Other Expenses



- Higher Depreciable Asset Base
- Lower Equipment Lease Expense and Volume Related Costs
- Lower Environmental Expenses Partially Offset by Damaged Freight and Destroyed Equipment

# Productivity Update



## Third Quarter Results:

~\$170 Million of Productivity

- Rail Equipment Incidents Resulted in a \$25 Million Headwind
- Net Productivity of \$145 Million for the Quarter and \$375 Million Year-to-Date
- Maintain Full-Year Productivity Outlook of at Least \$500 Million

## Initiatives & 3Q19 Results (\$ in millions)

**\$56** Network and Train Operations *Fuel, Unified Plan 2020, Car Velocity*

**\$75** Equipment (Locomotive and Car) *Mechanical Productivity, Car Hire, Lease Savings, Car Velocity*

**\$14** Other *Support, Supply, & Engineering partially offset by Incidents & Joint Facilities*

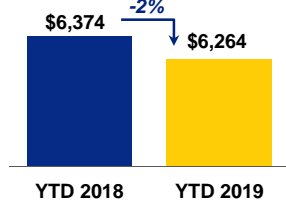
**\$145** 3Q19 Net Productivity

# Cash Flow & Debt

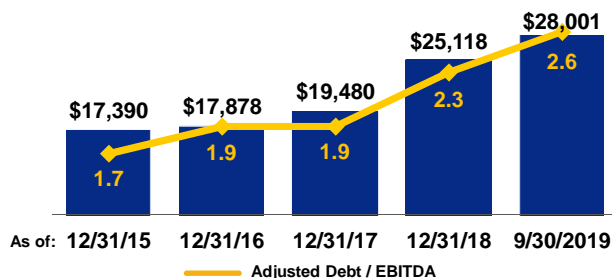
\$ In Millions



## Cash From Operations



## Adjusted Debt\*



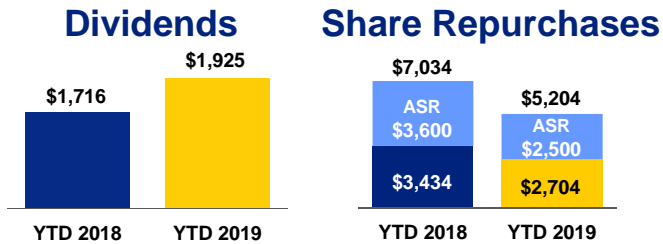
## Third Quarter Year-to-Date

- Free Cash Flow Conversion Rate Equal to 83% of Net Income
- Adjusted Debt Increased \$2.9 Billion since Year-End 2018
  - Includes \$3.0 Billion Debt Offering in February 2019 and \$1.0 Billion in August 2019
- Adjusted Debt / EBITDA of 2.6

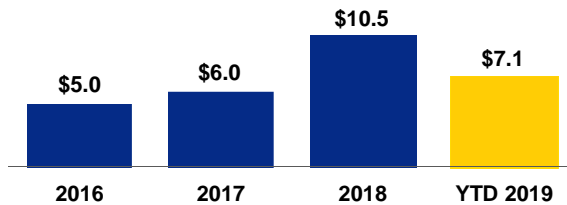
\* See Union Pacific website under Investors for a reconciliation to GAAP

## Delivering Value to Shareholders

\$ In Millions



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



### Third Quarter Year-to-Date

- Returned \$7.1 Billion to Shareholders
- 10% Dividend Increases in First Quarter and Third Quarter of 2019
- Share Repurchases:
  - \$2.7 Billion of Open Market Purchases
  - \$2.5 Billion Accelerated Share Repurchase Program

## Fourth Quarter and Full-Year 2019 Outlook



- Fourth Quarter Volumes Down at Level Similar to Third Quarter
- Pricing Gains In Excess of Inflation Dollars
- Capital Expenditures Down \$100 Million to ~\$3.1 Billion
- Significant Productivity Savings from G55 and 0, Including Unified Plan 2020
  - At Least \$500 Million in 2019
  - Fourth Quarter Force Levels Down At Least 15%
- Reiterate Operating Ratio Guidance
  - Sub-61% by 2019
  - Below 60% by 2020





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## Third Quarter 2019 Earnings Release

**Lance Fritz**  
Chairman, President & CEO

### Looking Ahead

- **Build on Unified Plan 2020 Successes**
- **Prioritize Safety**
- **Focus on Highly Consistent and Reliable Service Product**
- **Drive Long-Term Shareholder Value**



## 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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## Third Quarter 2019 Earnings Release

Question & Answer  
Session