



THE VALUE BAND

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BUSINESS OVERVIEW

Ticker: UNP

Headquarters: Omaha, NE

Stock Price: \$168.88

Market Cap: \$168.92 Billion

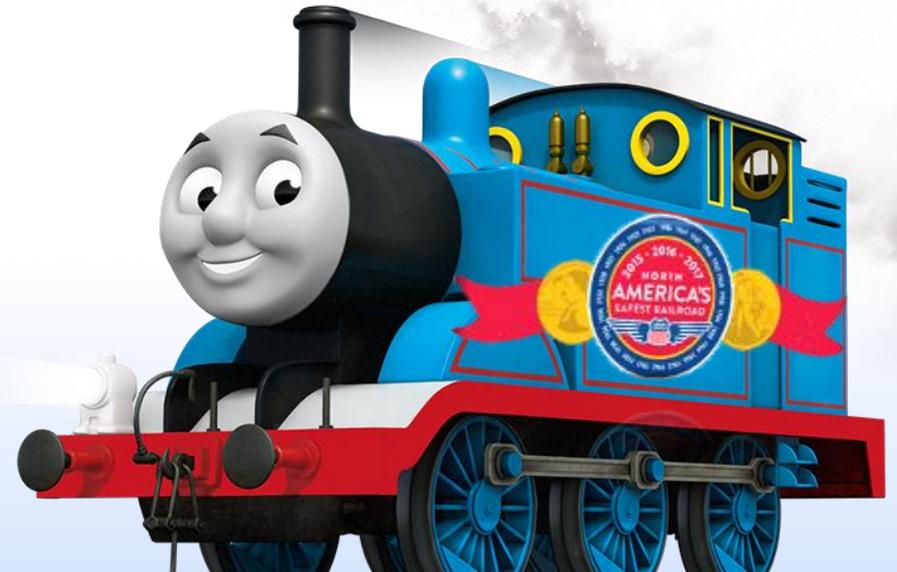
Revenues (FY2018): \$22.8 Billion

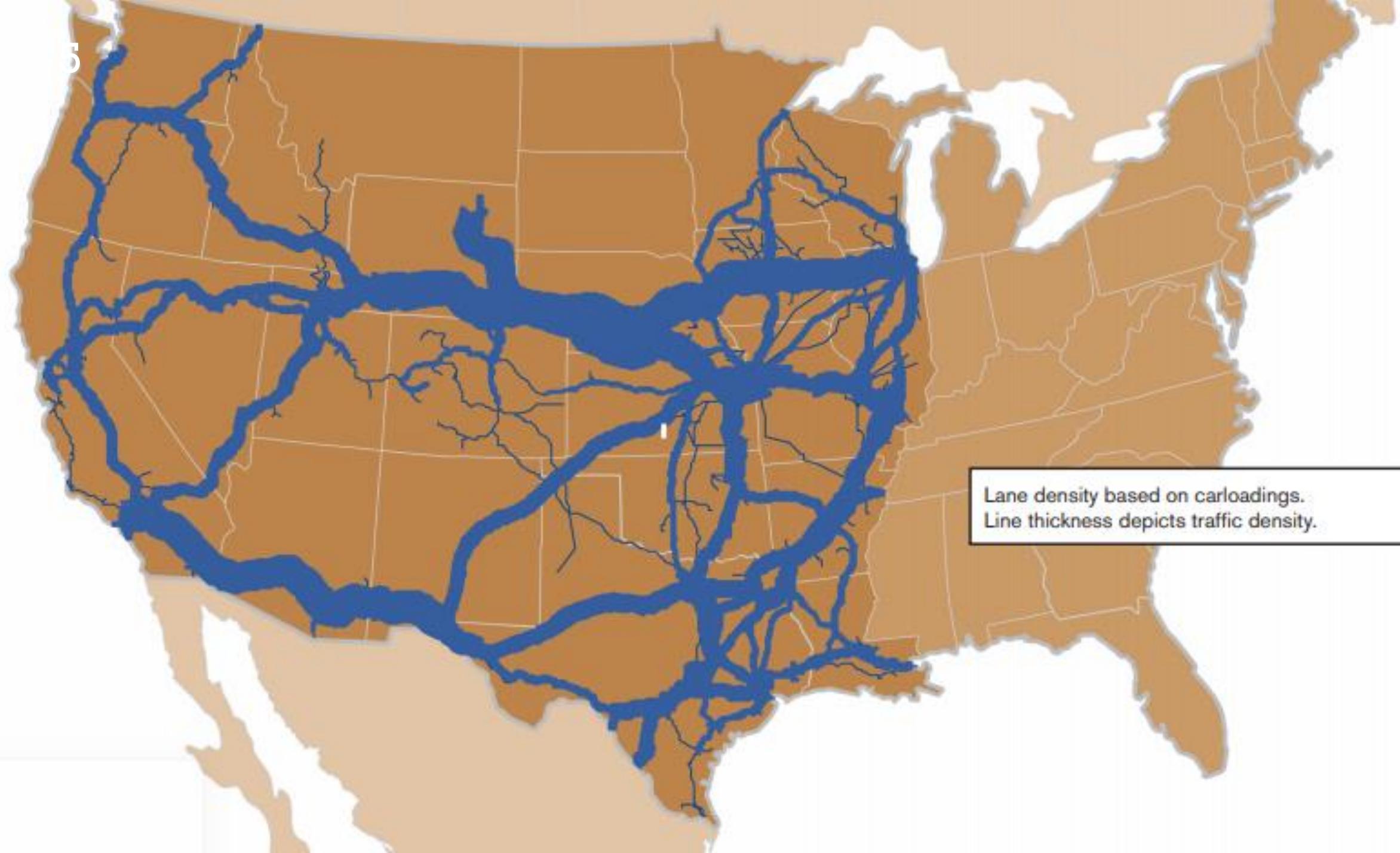




WHAT IS UNION PACIFIC?

- Largest railroad by both track and revenues in North America
- Links 23 states west of the Mississippi, some of the largest growing areas in the US
- Over 32,000 miles of track from the Gulf Coast to the Pacific Northwest
- ~ 42,000 employees
- "Building America" slogan
 - Delivers everyday items to Americans
 - From fossil fuels to auto parts







HISTORY





HISTORY

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1 July 1862

Abraham Lincoln signs the Pacific Railway Act, allowing U.S. railroads to build tracks linking the Pacific coast to the rest of the country

24 Jan. 1880

Union Pacific, headed by Jay Gould, acquires Kansas Pacific and Denver Pacific, effectively consolidating all Pacific railways

12 Feb. 1934

In the midst of the Great Depression, UNP began running M-1000 trains which utilized internal combustion to power their engines

Railroad commissioners meet to organize and take public Union Pacific Railroad, elects Chicago mayor William Ogden as first President

6 Sep. 1862

Union Pacific experiences its first bankruptcy as a result of an economic downturn and growing numbers of train robbers

13 Oct. 1893



HISTORY

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October 6, 1958

Union Pacific acquires Spokane International, a 141 short-line railroad, creating a connection to Canadian Pacific, opening the routes to Alberta and British Columbia

1969

Union Pacific merges with Missouri Pacific, and implements Transportation Control System, which created a digital infrastructure within UNP allowing for easier asset management

January 30th, 1969

Union Pacific Corporation forms to oversee both the railroad and non-railroad businesses

1980

Congress passes the Staggers Rail Act, phasing out a large portion of regulations on the railroad industry as well as making it easier for them to compete. Railroads were given a lot more freedom to run their own operations and set prices

RECENT NEWS

February 2018 - Along with its Q4 earnings in 2017, UNP announces that it plans to speed up its implementation of Positive Train Control (PTC).

- 92% complete, 168 track segments integrated with PTC tech
- 99.7% of systems were integrated with PTC tech
- 98% of locomotives with PTC hardware

June 2018 - Announces a \$20 billion share buyback (~17.5% of market cap).

- Expects to keep CAPEX (as a % of revenue) below 15% going forward
- Operating Ratio below 60% by the end of 2020



RECENT NEWS

September 2018 - Announces Unified Plan 2020, which incorporates Precision Scheduled Railroading to make UNP's track more efficient and safer.

- Hopes to eventually achieve 55% Operating Ratio
- Will first be implemented in the North/South region

January 2019 - UNP brings on Jim Vena as COO, who had previously worked at Canadian National.

- Over 40 years of experience in the railroad freight industry
- Under his tenure, CNI achieved a record operating ratio and the best safety incident ratio in company history.





52 WEEK PERFORMANCE



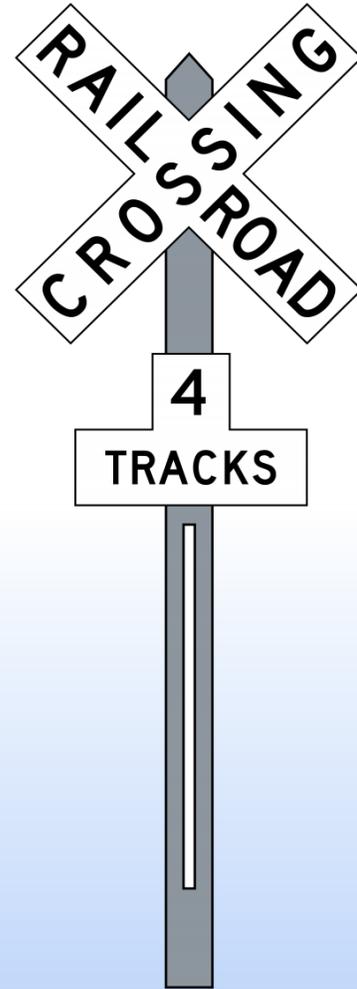
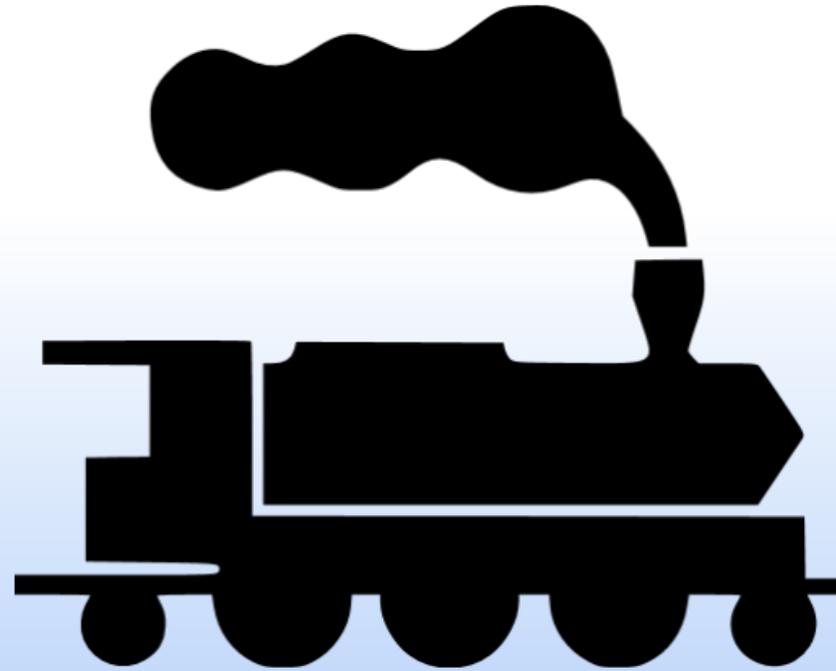
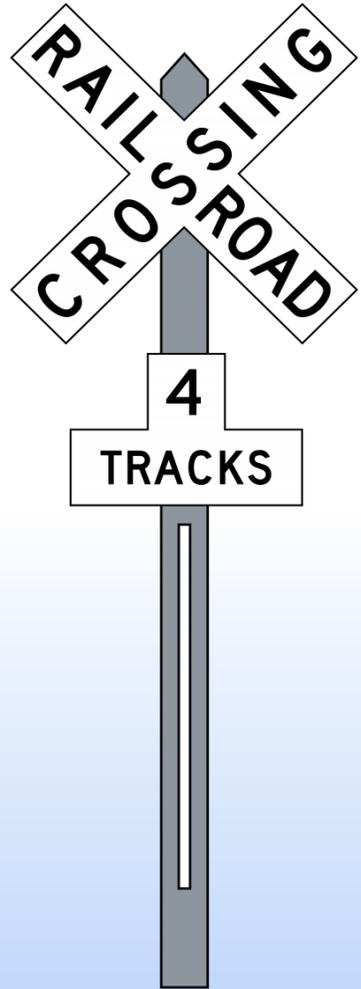
December 2018 - Broader markets fall, UNP drops 20% from its highs

January 2019 - UNP rises 24% in a month after 2018 results better than expected and multiple analyst upgrades.

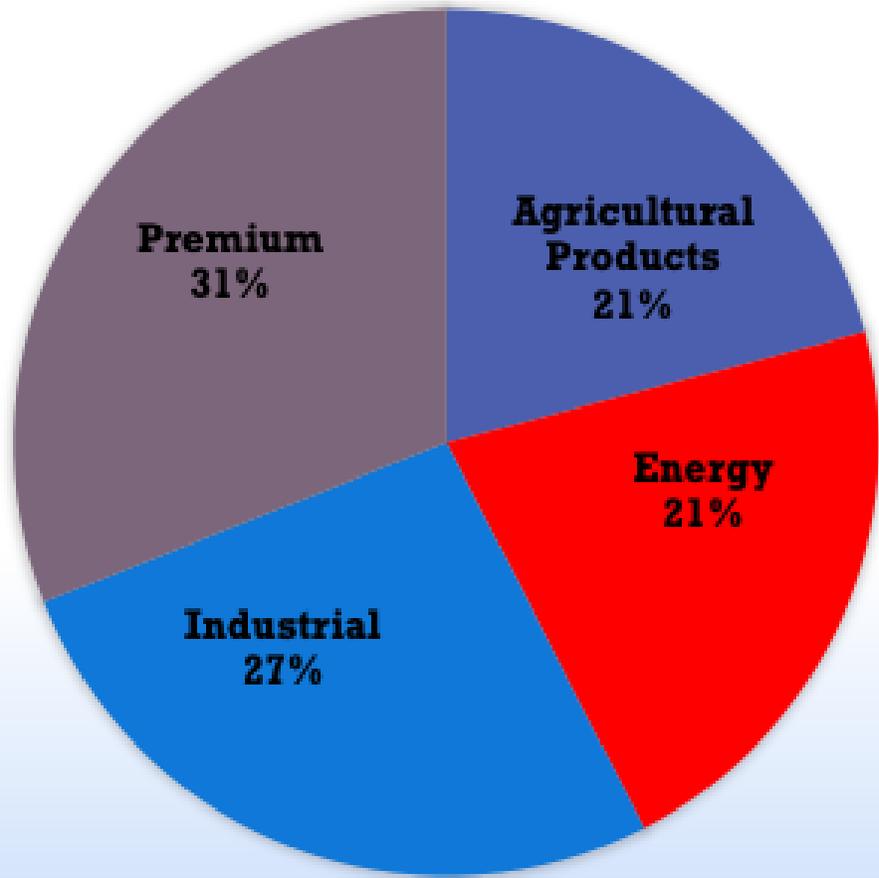
August/September 2019 - UNP drops 11.1% after volume expectations are decreased as a result of trade tensions.



BUSINESS SEGMENTS



REVENUE BREAKDOWN



Bulk Traffic – Coal, grain, soda ash, ethanol, rock and crude oil

Manifest Traffic – Lumber, Steel, Paper, Food and Chemicals via Individual Carload

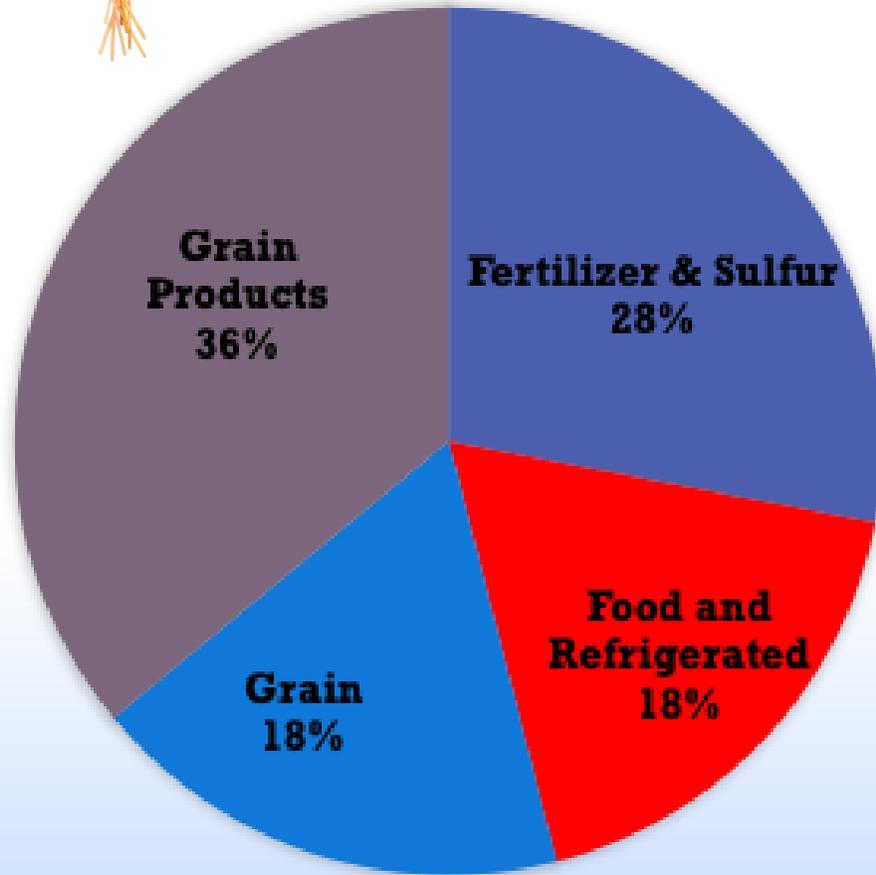
Freight Revenues +8% YoY

Revenue Carloads +4% YoY

Average Revenue per Car +4% YoY



AGRICULTURAL PRODUCTS



Consists of transportation of grains, grain derivatives, food and beverage products

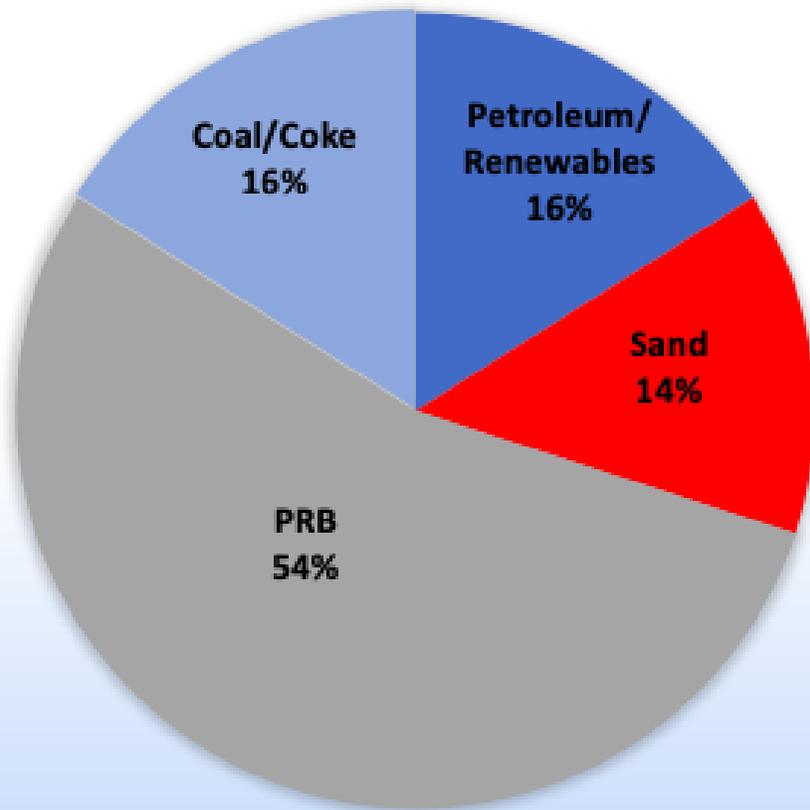
Links Midwest and Western food production to export terminals in Pacific Northwest, Gulf Coast, and Mexico

Transports fertilizer from Gulf Coast to major agricultural producers across the Midwest and as far north as Canada

Agricultural Products Revenue +4% YoY



ENERGY



Grouped into three categories:

- Coal
- Sand
- Petroleum, LPGs

Transports energy to power companies and industrial facilities in both the U.S. and Mexico

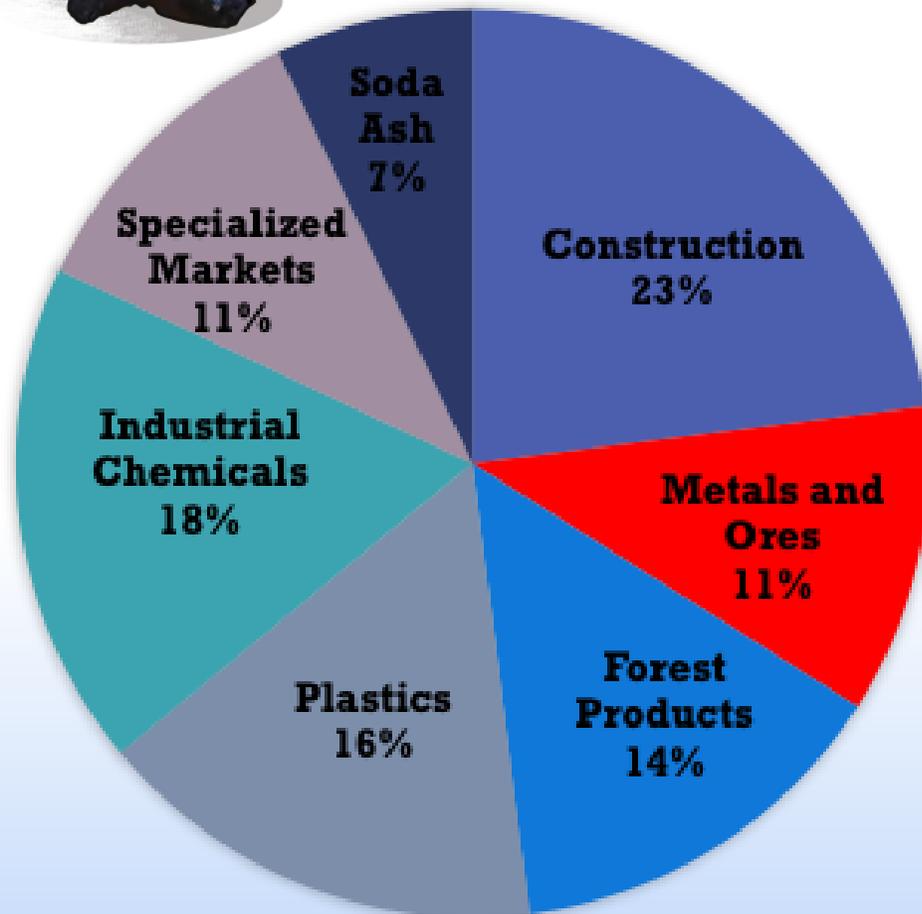
A large portion of coal traffic comes from Powder River Basin in Wyoming

Energy Revenue +2% YoY





INDUSTRIAL PRODUCTS



Categories:

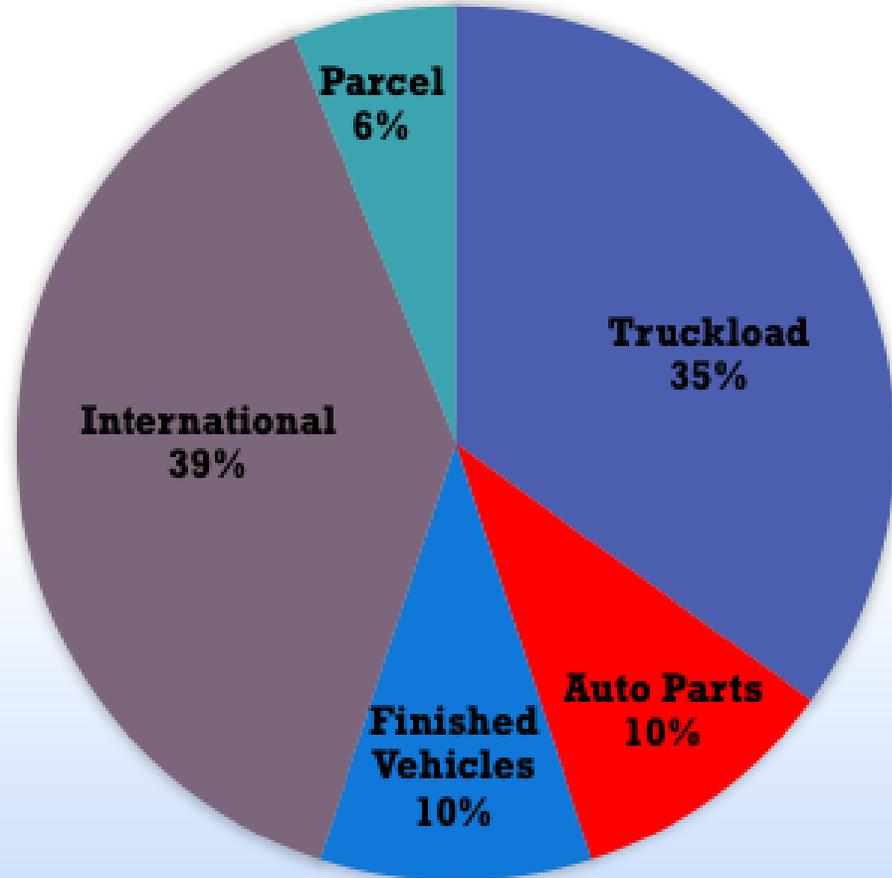
- Construction
- Industrial Chemicals
- Plastics
- Forest Products
- Specialized Products (waste, lime, salt)
- Metals and Ores
- Soda Ash

Industrial Chemicals have end users across all industries, from consumer goods, to home construction

Industrial Products Revenue + 9% YoY



PREMIUM PRODUCTS



Three Segments:

- International Intermodal
- Domestic Intermodal
- Finished Vehicles

International consists of 20-40 foot containers that pass through the West Coast into UNP's network

Largest automotive carrier west of the Mississippi

Premium Revenue +12% YoY



PRECISION SCHEDULED RAILROADING



A new operating method largely being adopted by most class 1 railroads across North America, UNP included



Previously, vacuums of service were left behind as individual cars waited for whole trains to be built



Shifts focus from moving trains to the production of moving cars, minimizing terminal car dwell



Blends existing train services to promote efficiency

UNIFIED PLAN 2020

- New plan introduced in October of 2018 with the goal of streamlining inefficiencies and creating a more productive business overall
- Instead of the top-down approach that UNP previously used, they will now have field workers help design the new transportation
- Slow implementation process (2-3 years) vs competitors such as CSX
 - Employees, customers, management adjusts to new operating system
- Being developed in conjunction with employee training



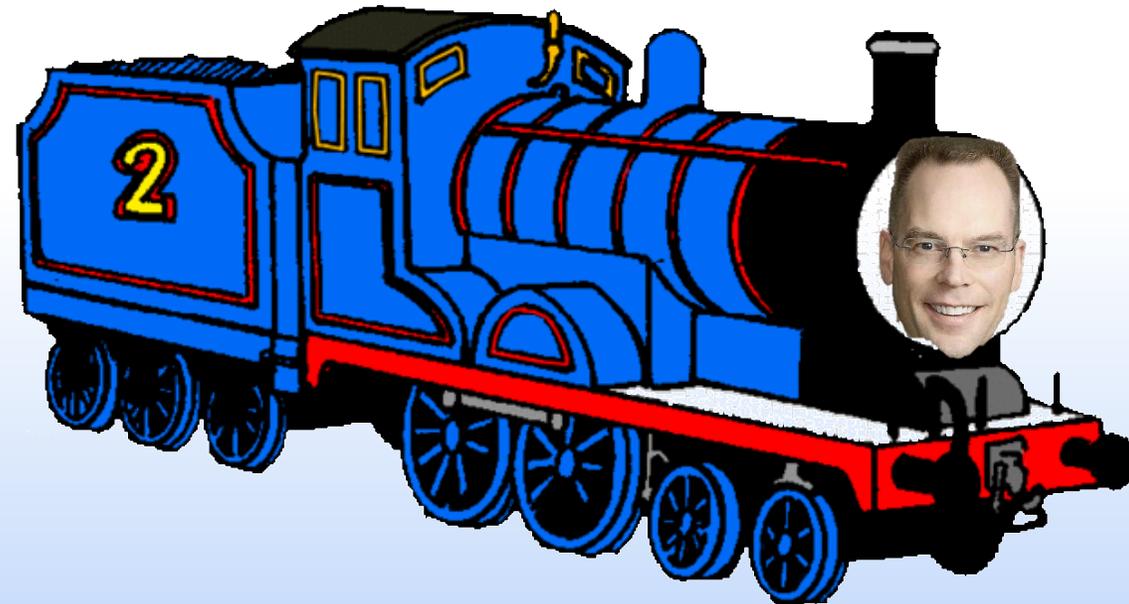
RAILROAD SECURITY

- UPRR Security Measures
 - In-house police force
 - 24 hour emergency response management center
 - Cybersecurity systems to manage risk
- Cooperation with Federal, State, and Local Agencies
 - Department of Transportation
 - Department of Homeland Security
 - Association of American Railroads
- Cooperation with Customers and Trade Associations
 - American Chemistry Council
 - American Petroleum Institute





MANAGEMENT



MANAGEMENT



Lance Fritz, CEO



- Began Union Pacific career in July 2000 as vice president and general manager-Energy in the company's Marketing and Sales department
- Spent Time as COO in 2014
- Began as Ceo, President, and board member in 2015

Robert M. Knight, Jr CFO



- Been with Union Pacific since the 1980's, set to retire this year on December 31
- Operating ratio has decreased from roughly 90% to 62% since his time with the company

Jim Vena, COO

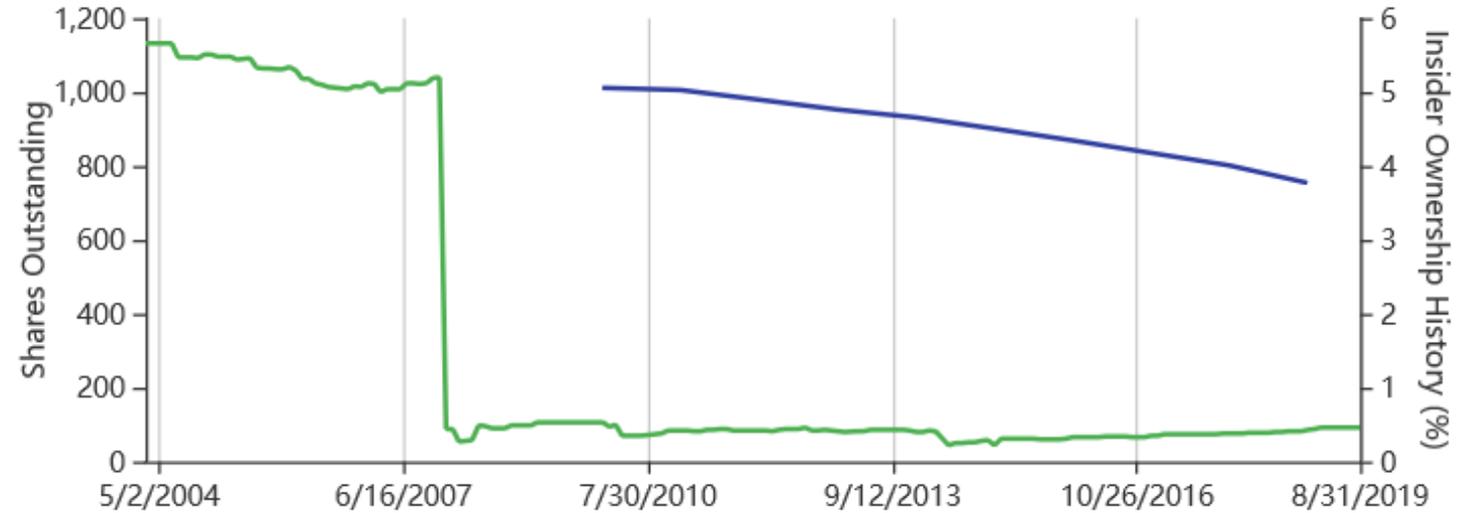
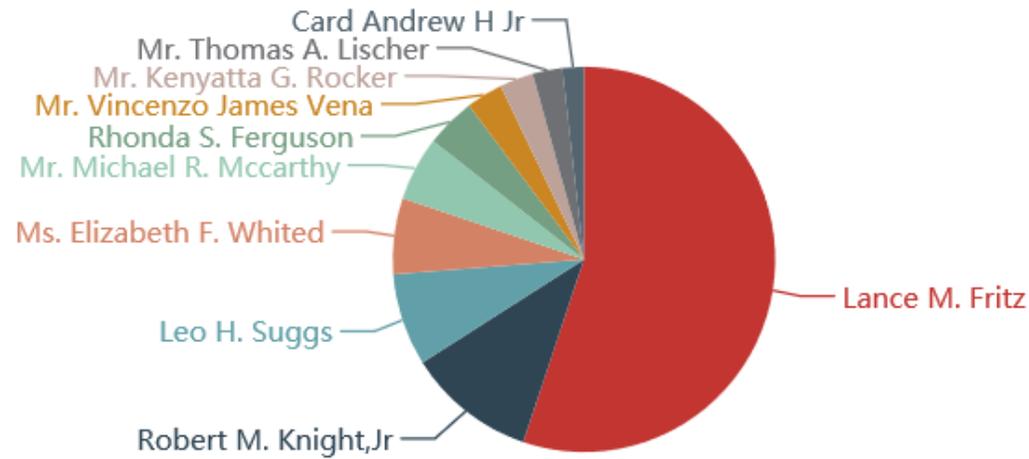


- Previously served as COO of Canadian National, capping off a 40-year career at the railroad
- Driver of PCR for Union Pacific
- Achieved best safety and operating ratios at CNI



INSIDER OWNERSHIP

Top Direct Holders





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ECONOMIC MOAT



HIGH BARRIERS TO ENTRY

- The capital needed to start a railroad is incredibly high
 - Rail infrastructure
 - Cars, engines, customers
- Government permits and regulations are difficult for new Railroad's to obtain
 - Past consolidation has left only 8 class 1 railroads



SCALE COST ADVANTAGES

- Shipping by rail is the most efficient over-land delivery method
 - Trains are highly fuel efficient after gaining momentum, can move a ton of freight over 470 miles on a single gallon of fuel
 - Estimated 10%-30% cheaper than other delivery methods such as shipping via waterway or truck
 - Network coverage across the western US and line ends at ports near two different oceans are near to impossible for new competitors to replicate.



THE NETWORK EFFECT

- Union Pacific has a network of around 10,000 customers
- The UP system spans the Western U.S., from the Pacific to the Mississippi, capturing about half of the rail volume in the region



RISK FACTORS





WEATHER AND UNIONS



- Significant bad weather can bog down rail traffic or even damage lines
- Line outages and other interruptions caused by these conditions can have a material adverse effect on results of operations.



- As a Class 1 Railroad Union Pacific is subject to bargaining or negotiations with labor unions
- The majority of Union Pacific's workers are unionized
- Disputes over union contracts can lead to strikes, work stoppages, slowdowns, or lockouts

WHAT CAN BE CONTROLLED?

Forbes

ON FORBES LISTS

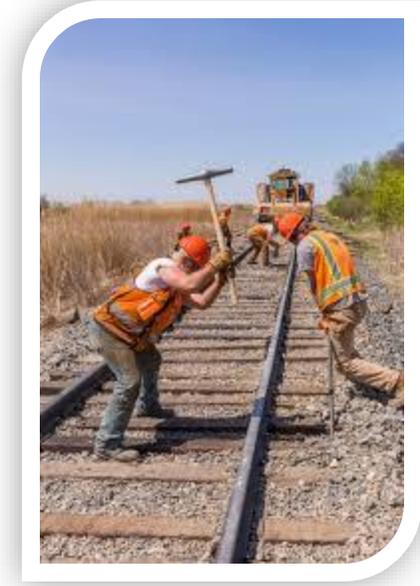
#375 World's Best Employers 2019

America's Best Employers By State 2019

#188 Global 2000 2019

Union Pacific offers employees' significant benefits and negotiated pay increases

Benefits include retirement plans, HMO Healthcare plans, and Employee and spouse wellness incentives



- 24/7 Monitoring
- Ongoing maintenance
- Detection technology
- Relief procedures



REGULATION



- Changing Government regulation can affect traffic, business relationships with other railroads, calculation of inputs relevant to computing revenue, prices charged, and costs and expenses
- Security of railroads is also important to Government regulators



- Environmental regulation on emissions to the air; handling, storage, transportation, disposal of waste and hazardous material or petroleum releases must be followed
- Transportation of dangerous chemicals can negatively affect the environment in the case of a spill, derailment or mishandling.

WHAT CAN BE CONTROLLED?



- When it comes to government regulation the best thing you can do is follow them
- Union pacific has invested in some political groups, likely in a bid to ease regulatory practices
- CEO on U.S. Chamber of Commerce board and executive committee



- By nature of being a railroad, is more fuel efficient than trucking, which lowers carbon emissions
- Example)- Investing in locomotive technology to support the rail industry's move toward the U.S. EPA's Tier 4 air emissions standards.
- Have led studies on how chemicals and petroleum can negatively affect the environment

TARIFFS AND INTERNATIONAL



- Railroads are highly dependent on the volume of shipments that they make
- International shipments were down 12% as of the end of the (Q3,2019)
- Agricultural goods and automobiles from Mexico were also down 6% (Q3, 2019) however agricultural revenue is up 2% from 2018
- An increase in the volume of petroleum products offset some losses
- Total Decrease in volume is about 3%



DECLINE OF COAL



- In recent years, the volume of coal of the United State's most common shipments has seen decline
- If these trends continue UNP may recognize losses to gross revenue if a replacement commodity is not found
- 55% of America's energy still comes from coal



OIL PRICES



- Union Pacific's engines are primarily run on diesel, a more efficient fuel than gasoline, but still a petroleum product
- Global oil price volatility can have a direct and negative impact on operating expense
- Recent efforts in fuel efficiencies have reaped the benefit of lower fuel costs



GROWTH

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- Recent growth has been primarily organic as Union Pacific has not made any recent acquisitions
- Unified Plan 2020 and other initiatives of its kind have improved efficiencies and lowered their operating costs.
- Upside potential for revenue and earnings growth with increased volume if trade reactions improve





INTERPRETATION OF FINANCIAL STATEMENTS



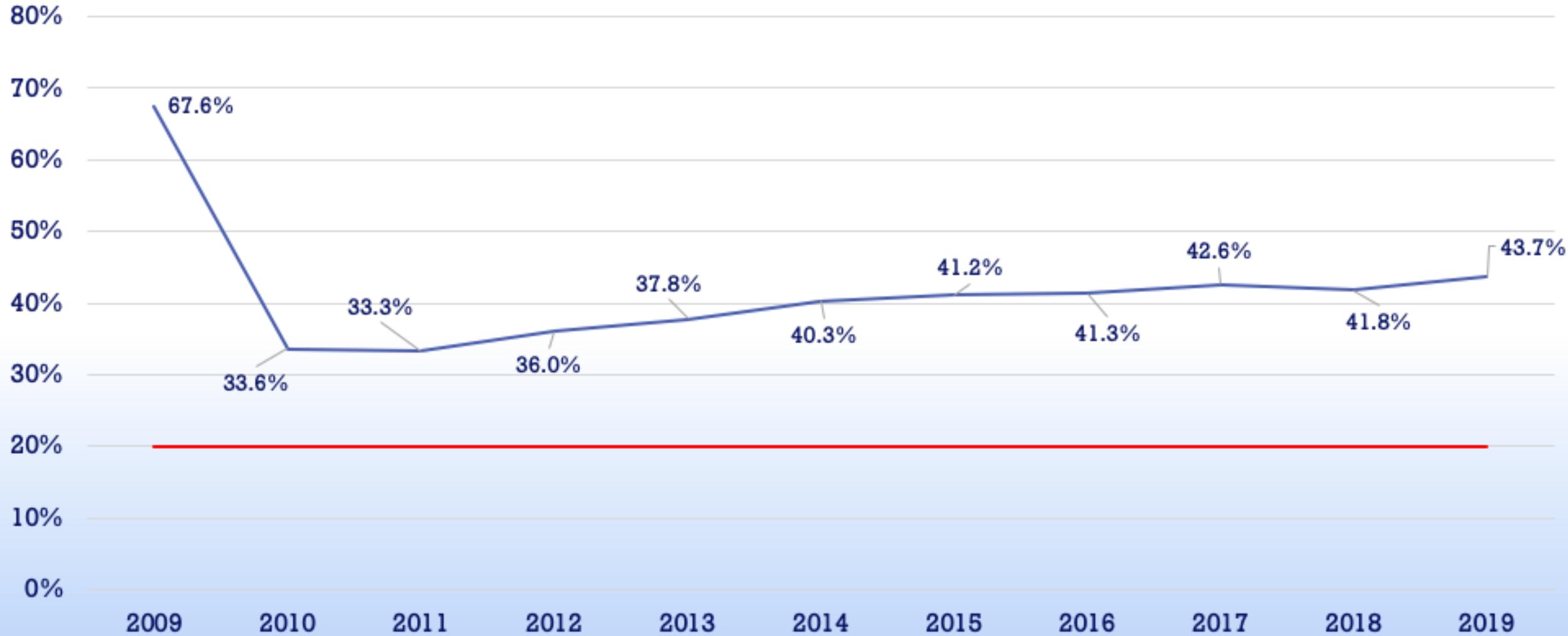


QUANTITATIVE ANALYSIS

2019	Value	Threshold	Pass/Fail
Gross Profit Margin	43.67%	Above 20%	Pass
Operating Expenses to GP	62.70%	Below 80%	Pass
R&D to Gross Profit	0.00%	Below 10%	Pass
Depreciation	22.56%	Below 10%	Fail
Interest to Operating Income	11.68%	Below 15%	Pass
Net Profit Margin	27.20%	Above 10%	Pass
Current Ratio	0.90	Above 1	Fail
Obligation Ratio	4.05	Below 5	Pass
Adjusted Debt to SE	1.35	Below 0.8	Fail
Return on Equity	35.00%	Above 15%	Pass
Return on Capital	17.00%	Above 15%	Pass
Dividend Payout Ratio	43%	Below 60%	Pass
Preferred Stock	None	None	Pass
Capital Expenditures	15.75%	Below 25%	Pass
Net Earnings Trend	Increasing	Increasing	Pass
Retained Earnings Trend	Increasing	Increasing	Pass

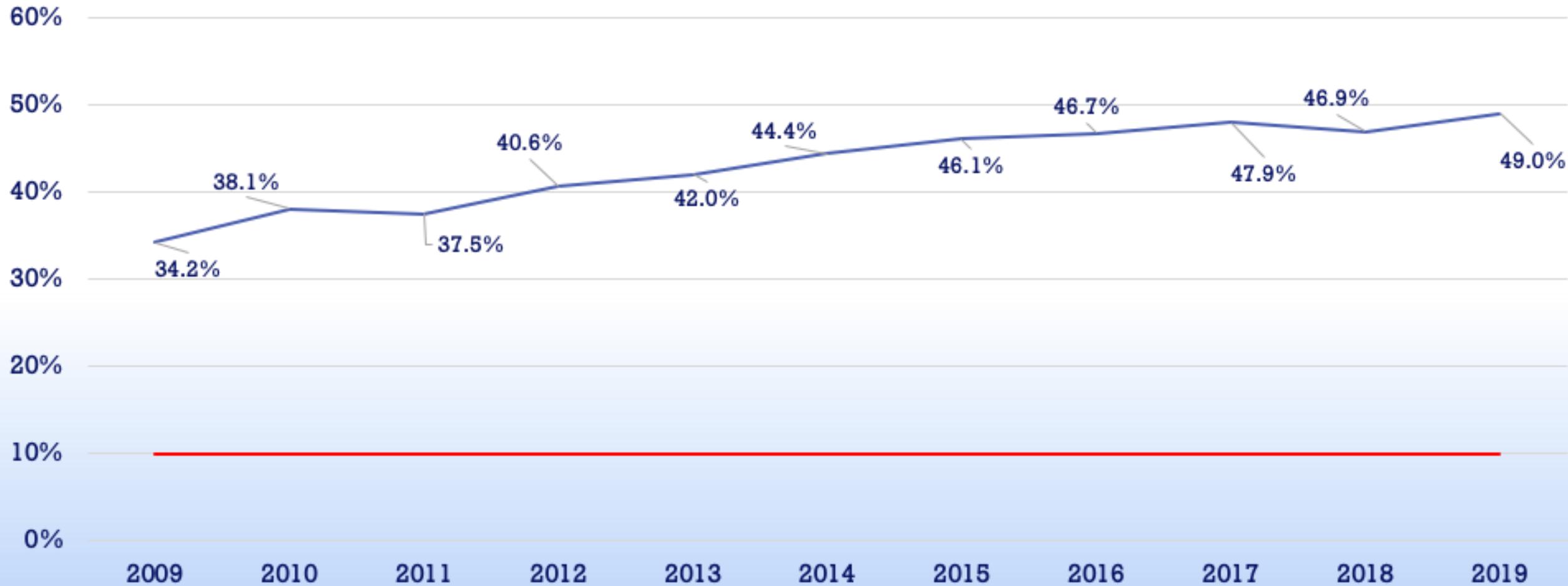


GROSS PROFIT MARGIN





OPERATING PROFIT MARGIN



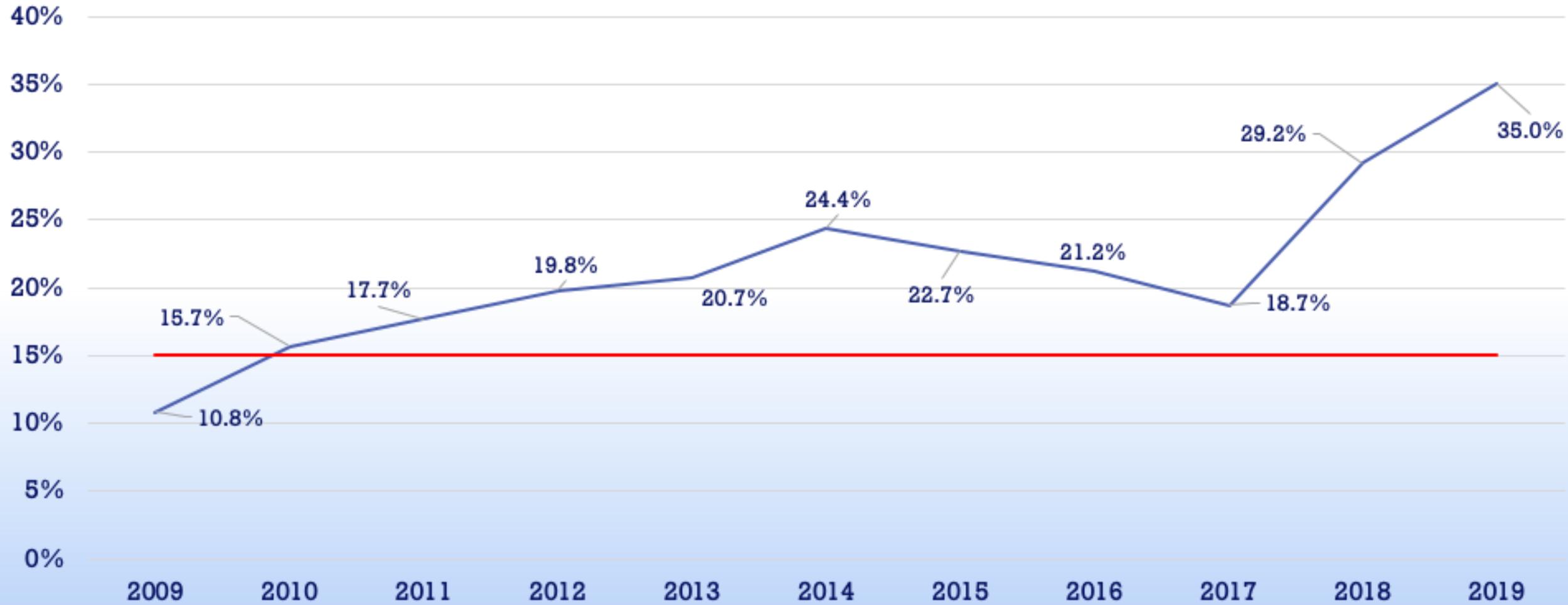


NET PROFIT MARGIN



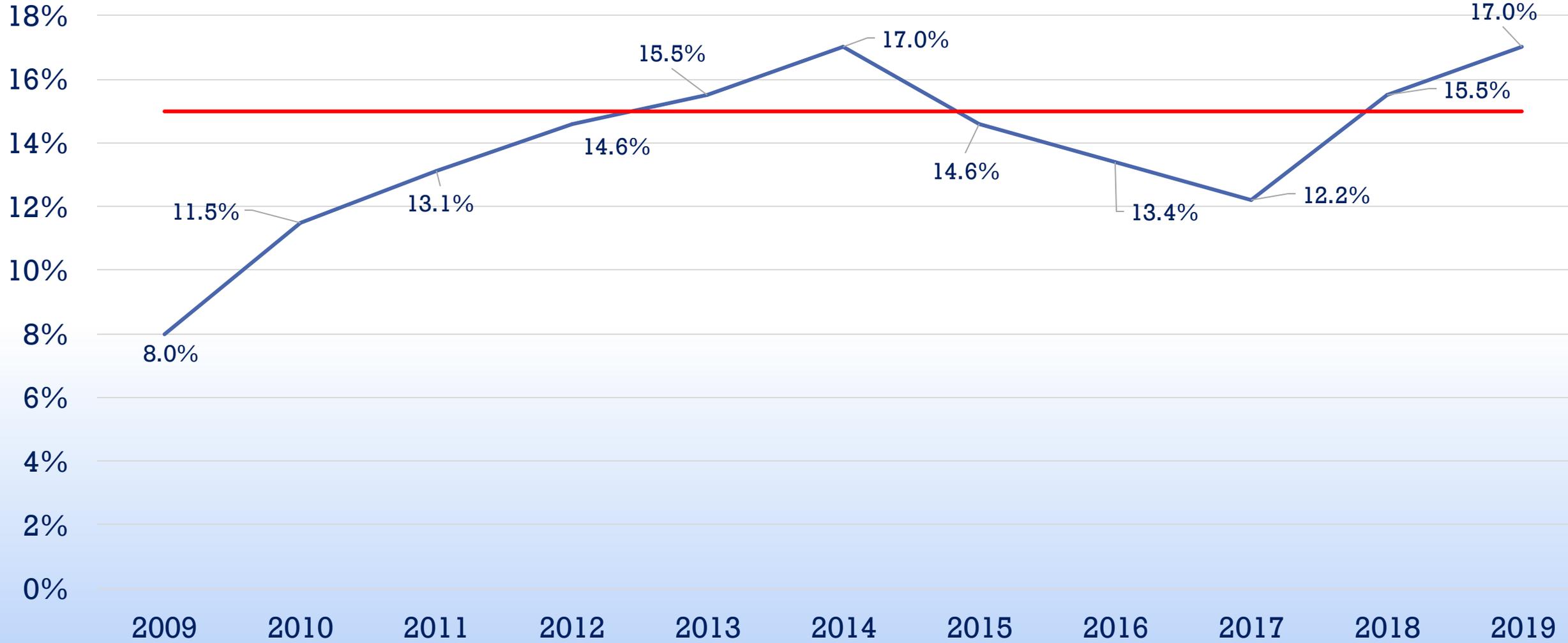


RETURN ON EQUITY





RETURN ON CAPITAL



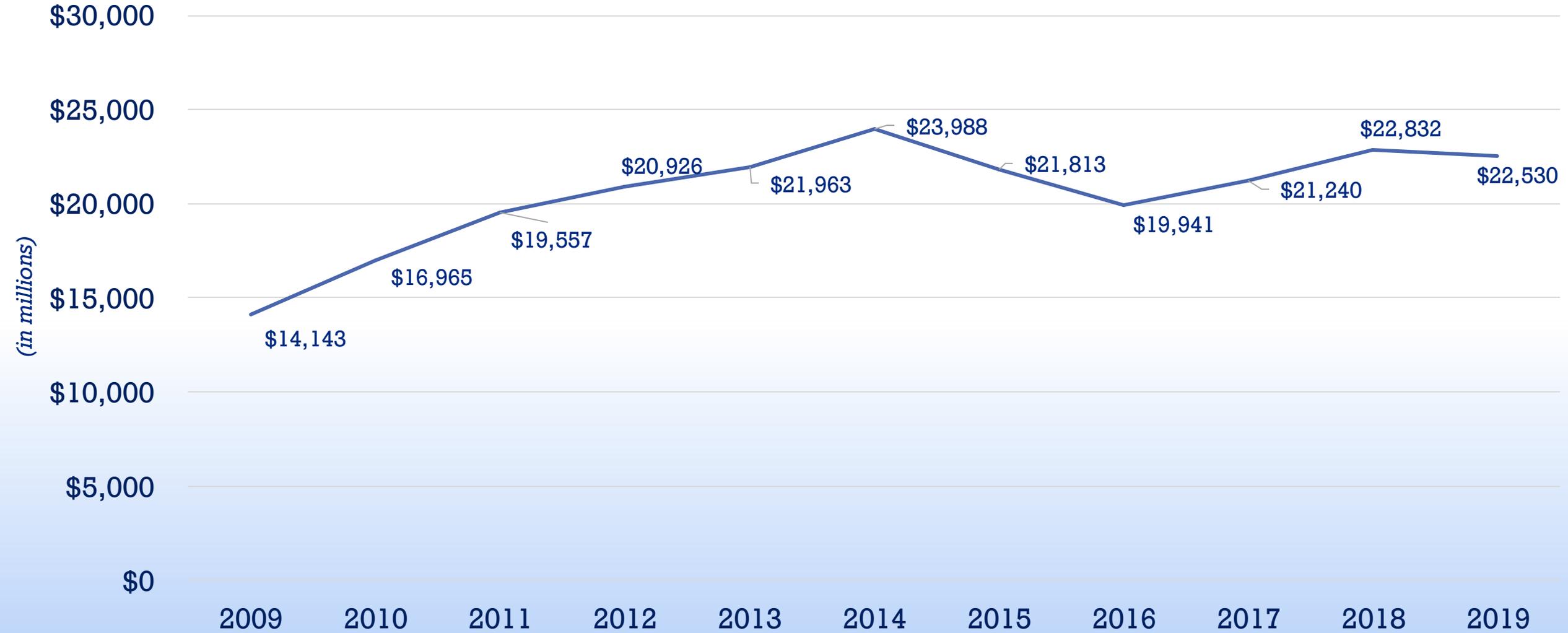


SHARES OUTSTANDING



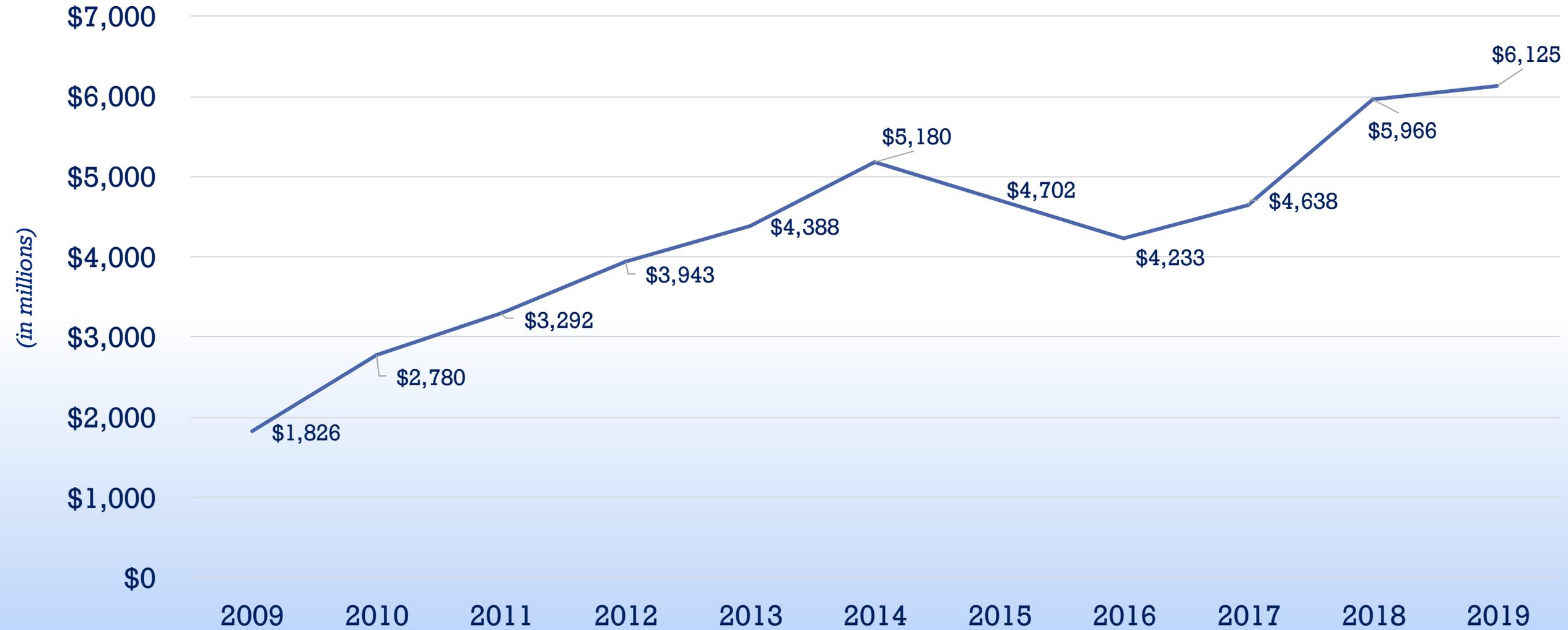


REVENUES





NET INCOME





RETAINED EARNINGS





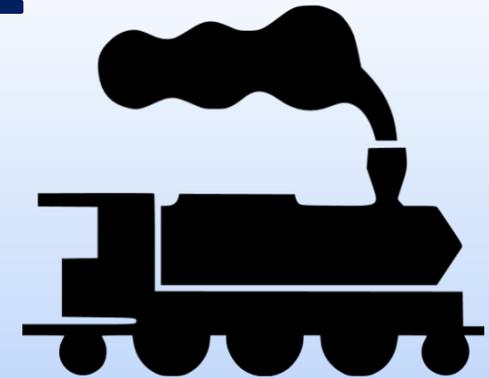
LONG-TERM DEBT





OBLIGATION RATIO

Long Term Debt	\$22,955 mil
+ Leases (7)	+ (\$419)(7)
+ Pension Shortfall	+ \$20
- Cash	- \$1109
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Net Income	\$6125
= Obligation Ratio	= 4.05 years



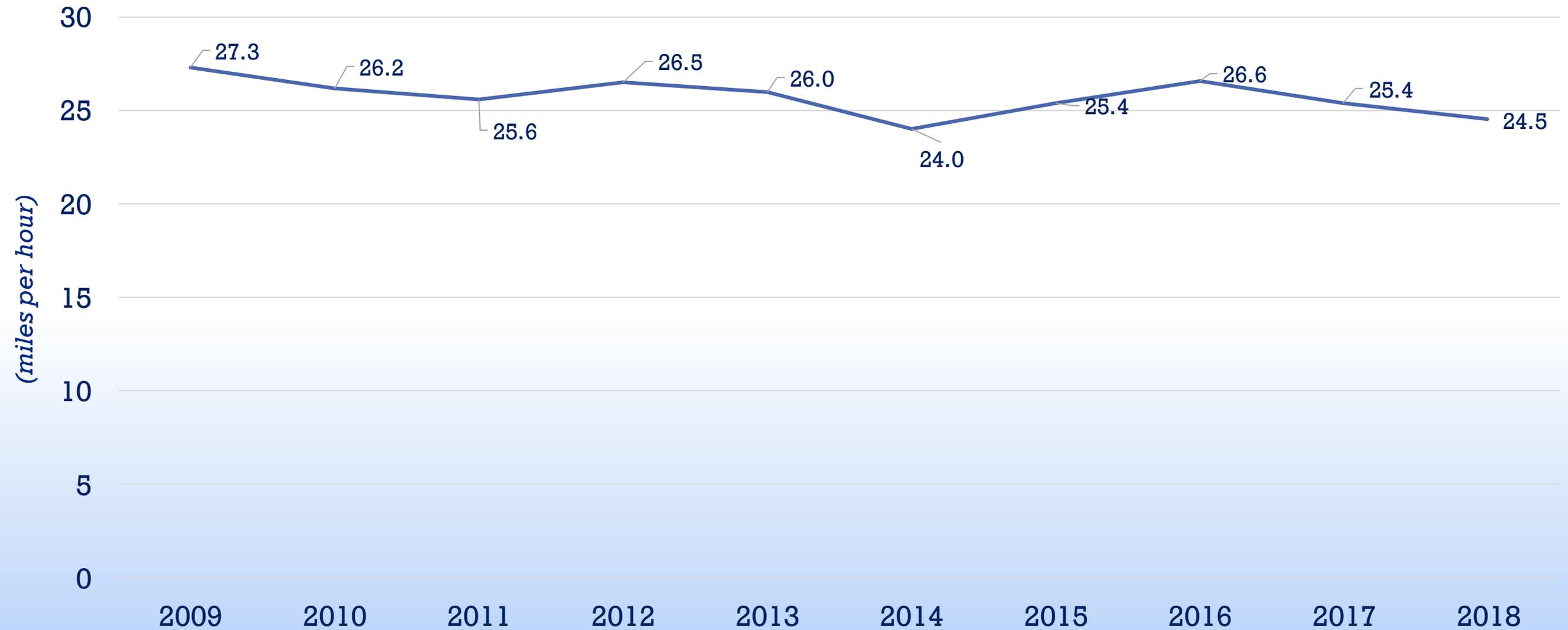


COMPANY SPECIFIC METRICS



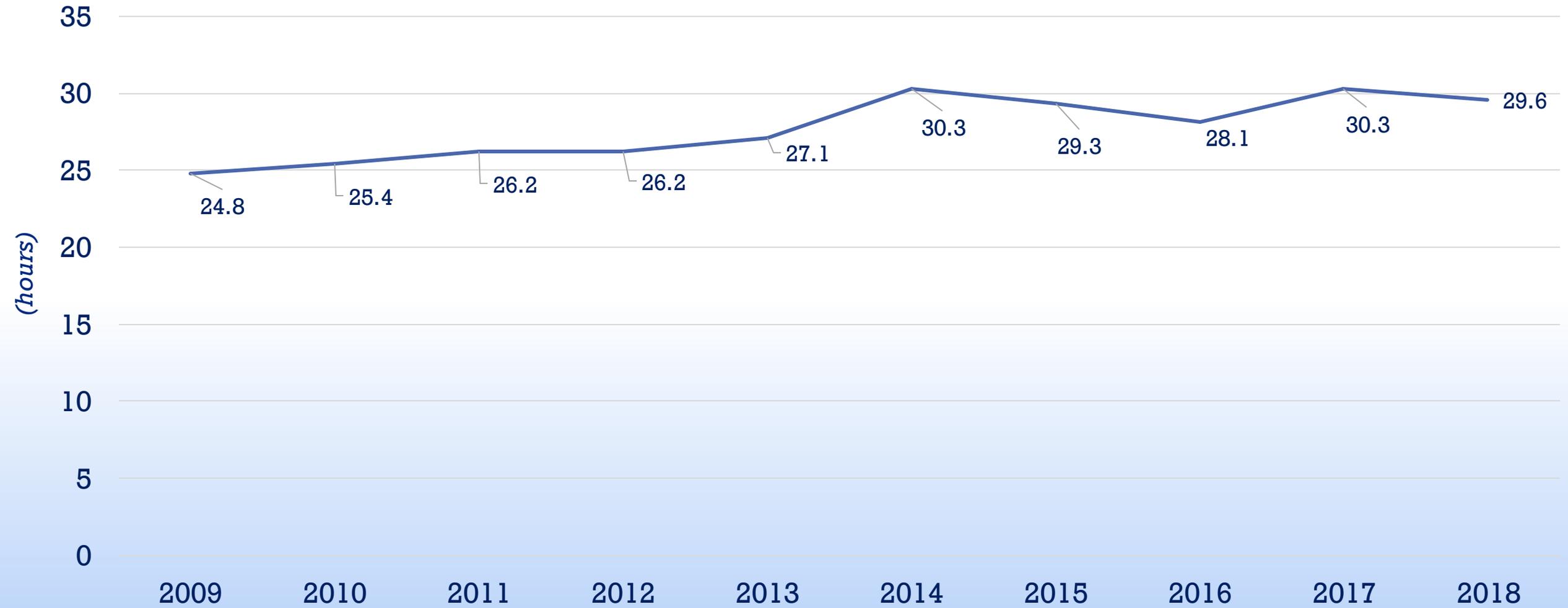


AVERAGE TRAIN SPEED



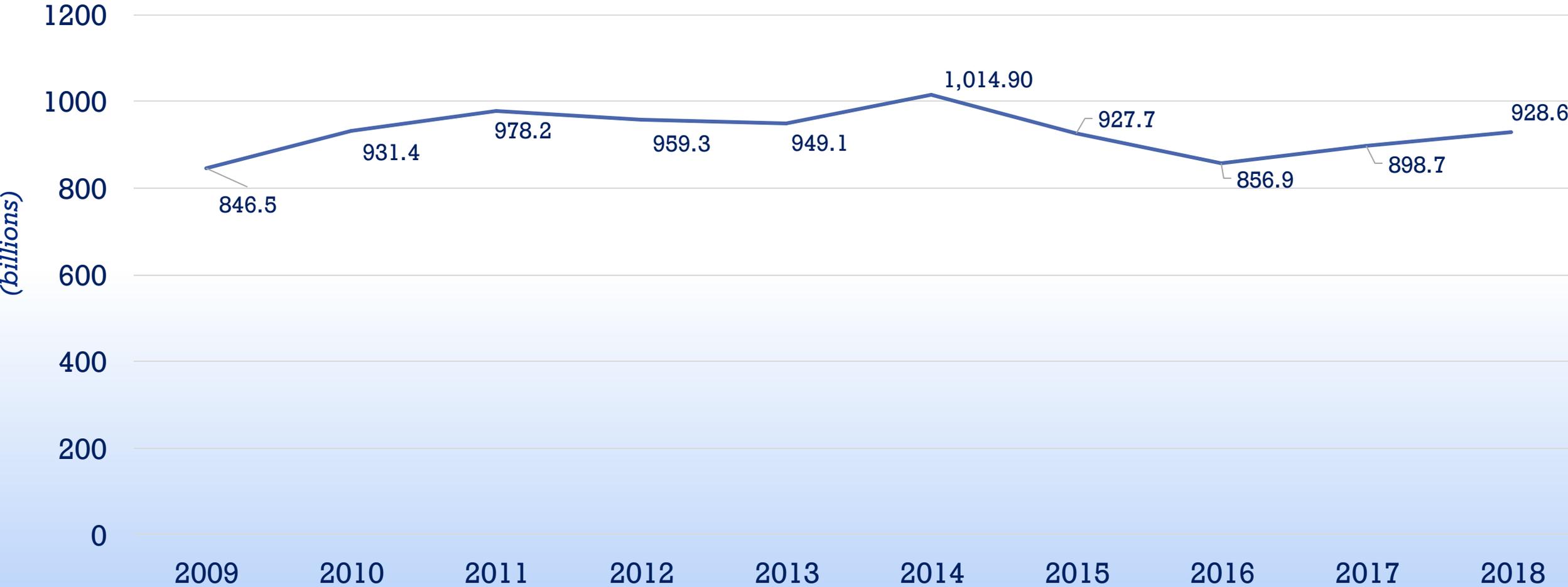


AVERAGE TERMINAL DWELL TIME



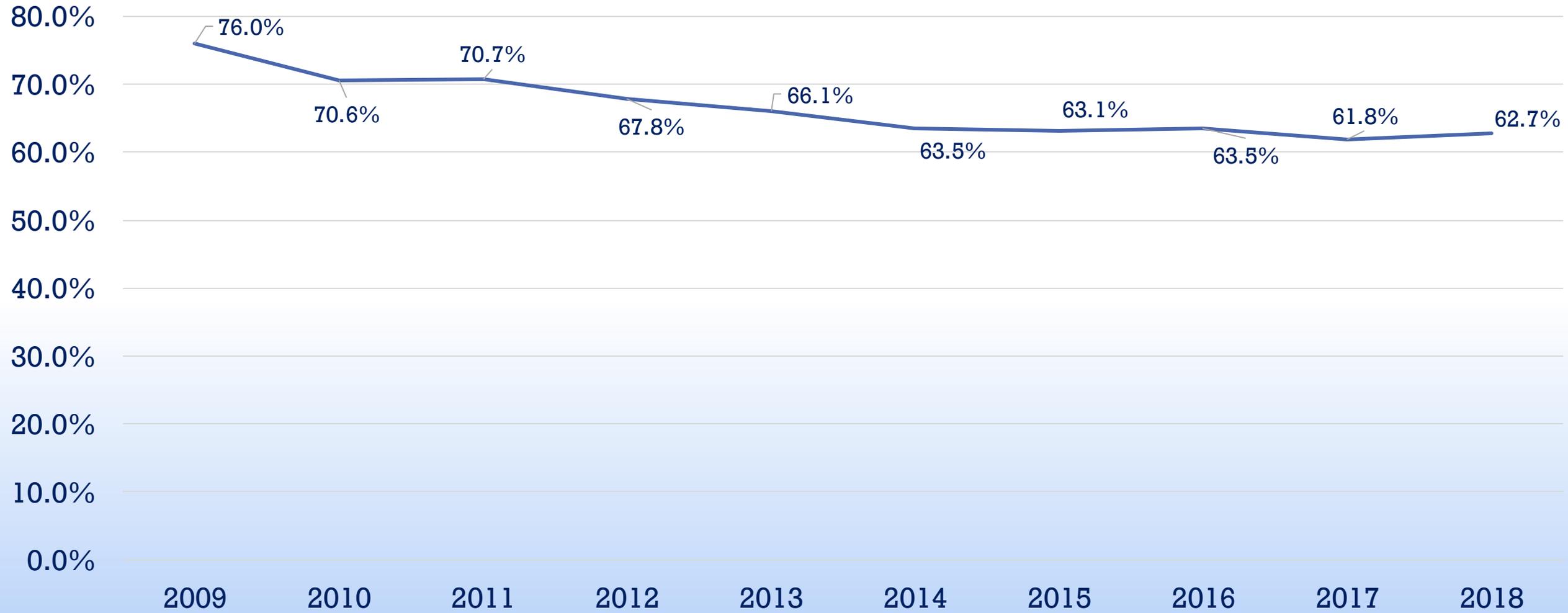


GROSS TON-MILES





OPERATING RATIO



DUPONT ANALYSIS





HISTORICAL DUPONT

Year	Total Asset Turnover	Net Profit Margin	Financial Leverage Multiplier	Return on Equity
2019	0.37	27.19%	3.44	34.79%
2018	0.39	26.13%	2.90	29.55%
2017	0.37	21.84%	2.33	19.00%
2016	0.36	21.23%	2.80	21.45%
2015	0.41	21.56%	2.64	23.19%

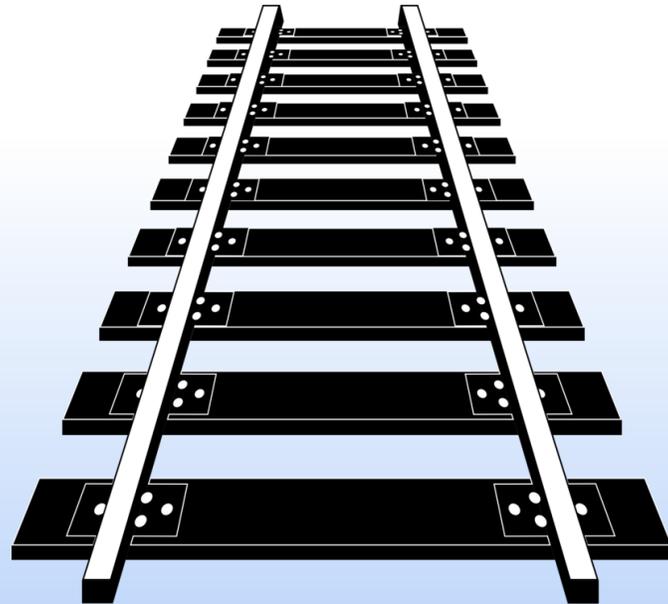


INDUSTRY DUPONT

Company	Total Asset Turnover	Net Profit Margin	Financial Leverage Multiplier	Return on Equity
	0.37	27.19%	3.44	34.79%
	0.36	29.64%	2.38	25.08%
	0.32	27.90%	3.27	29.47%
	0.31	23.98%	2.46	18.41%
	0.35	30.05%	3.12	33.14%



INDUSTRY BREAKDOWN





INDUSTRY BREAKDOWN

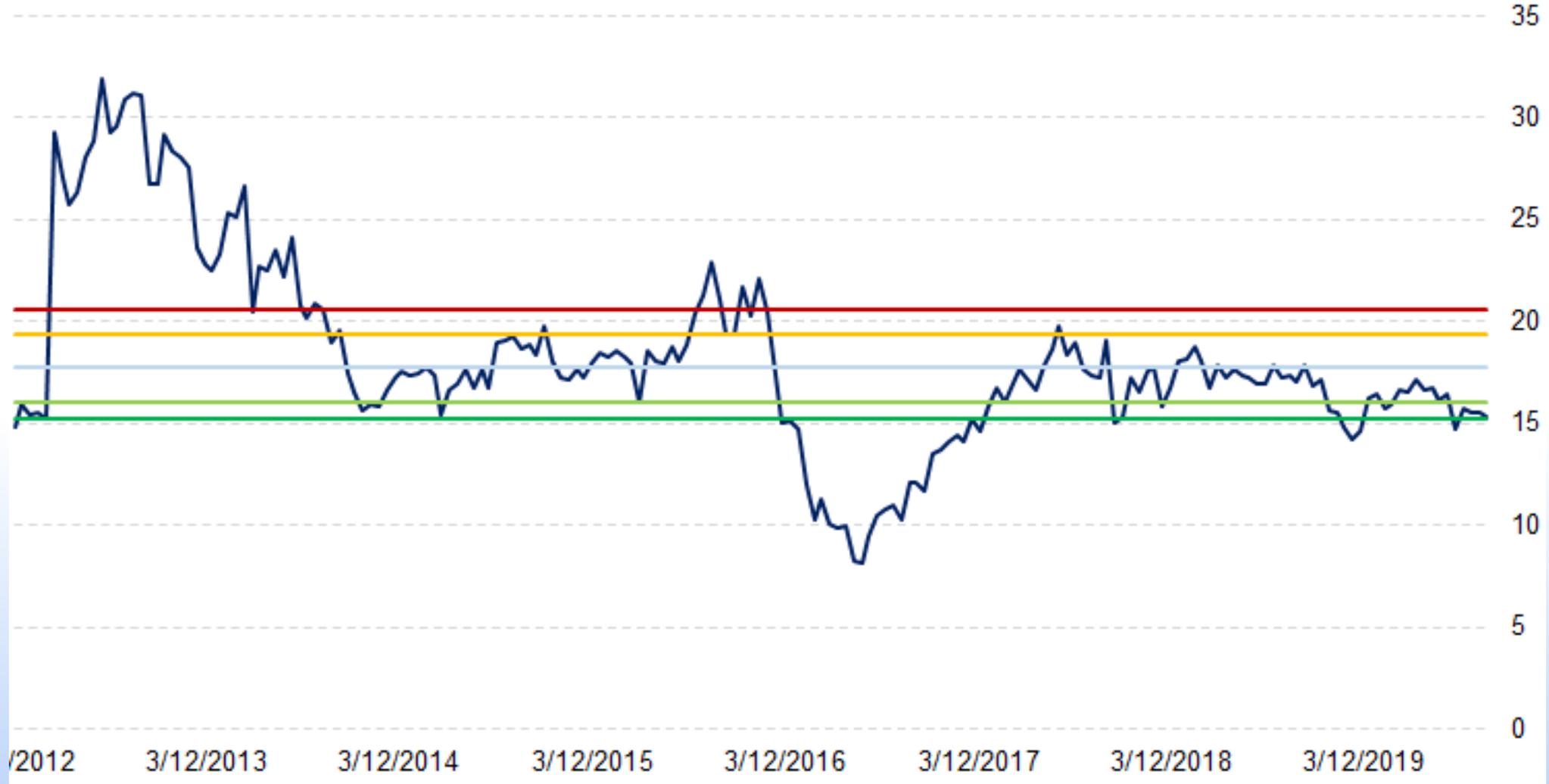
Company					
Market Cap	114.86B	64.3B	54.68B	47.45B	31.36B
Revenue	22,253	11,356	12,195	11,502	5,797
P/E	19.50	18.94	17.00	17.72	17.96
P/S	5.30	5.58	4.68	4.24	5.40
P/B	6.46	4.55	4.69	3.15	5.72
EV/EBIT	15.88	15.49	13.49	14.04	14.99
ROA	10.00%	10.58%	9.03%	7.48%	10.63%
ROE	31.95%	25.03%	27.06%	17.93%	33.06%
Operating Margin	38.93%	41.65%	40.80%	35.69%	39.55%
Net Margin	27.88%	29.64%	27.90%	23.98%	30.05%

VALUE BANDS



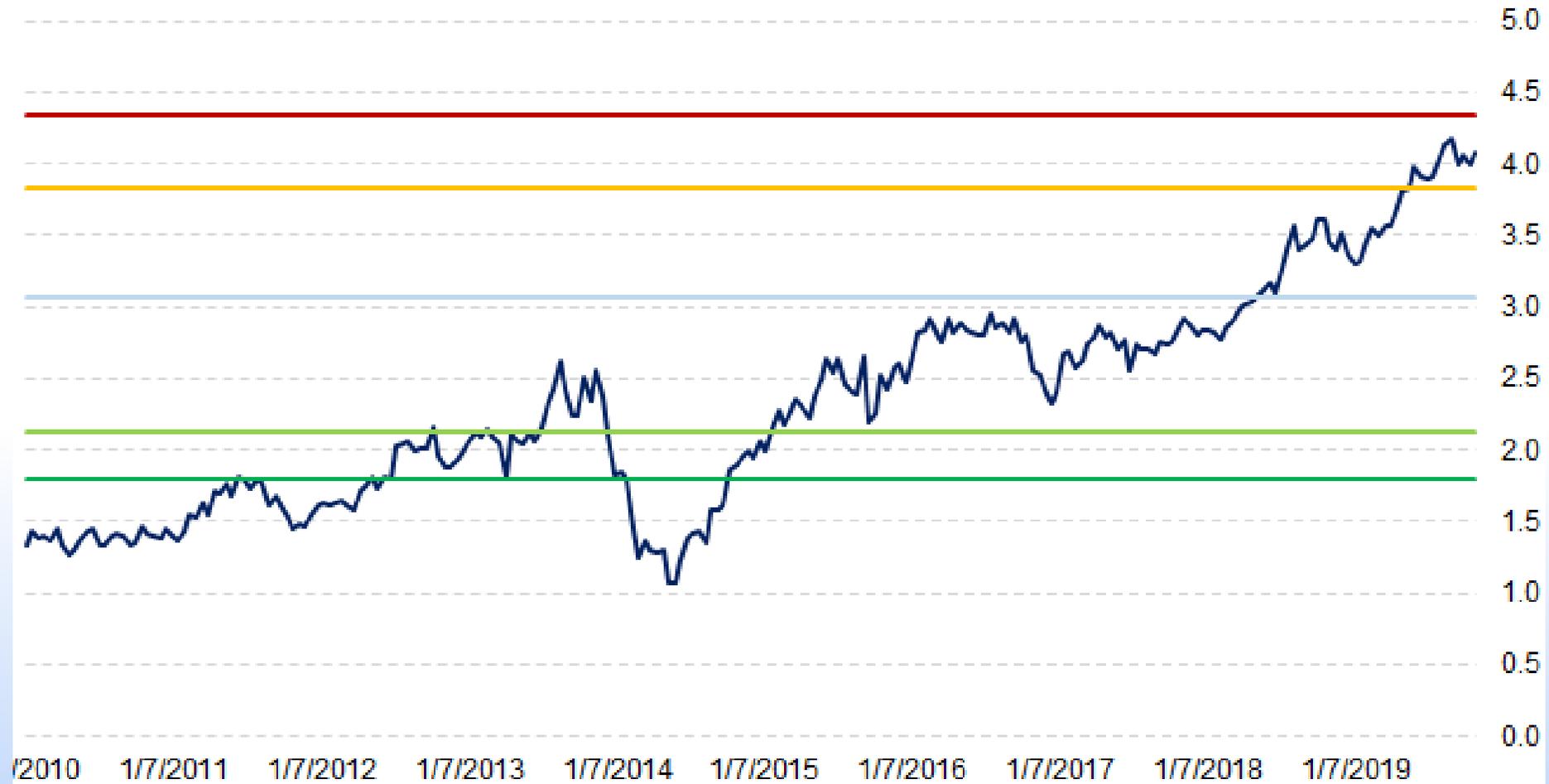


PRICE TO EARNINGS



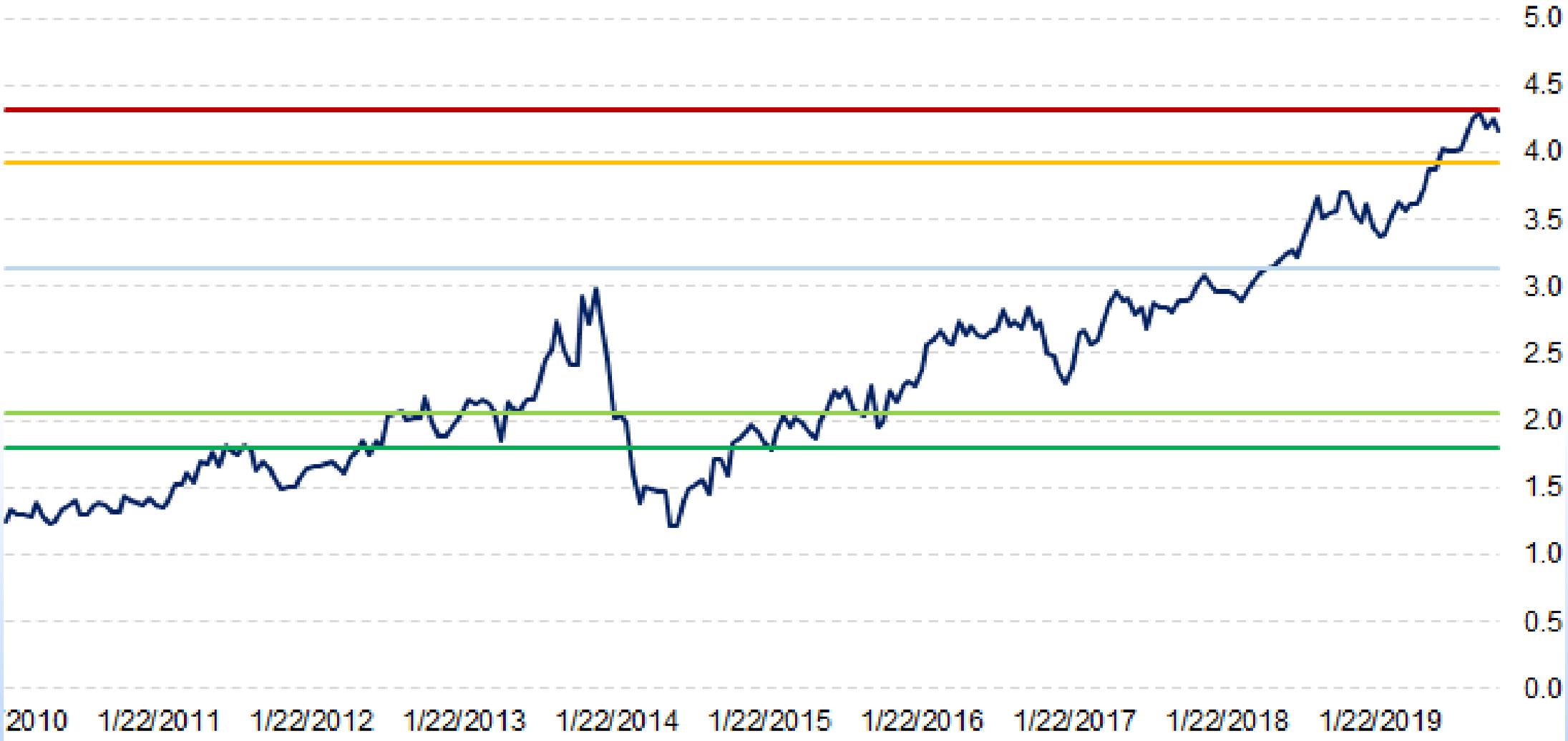


PRICE TO SALES



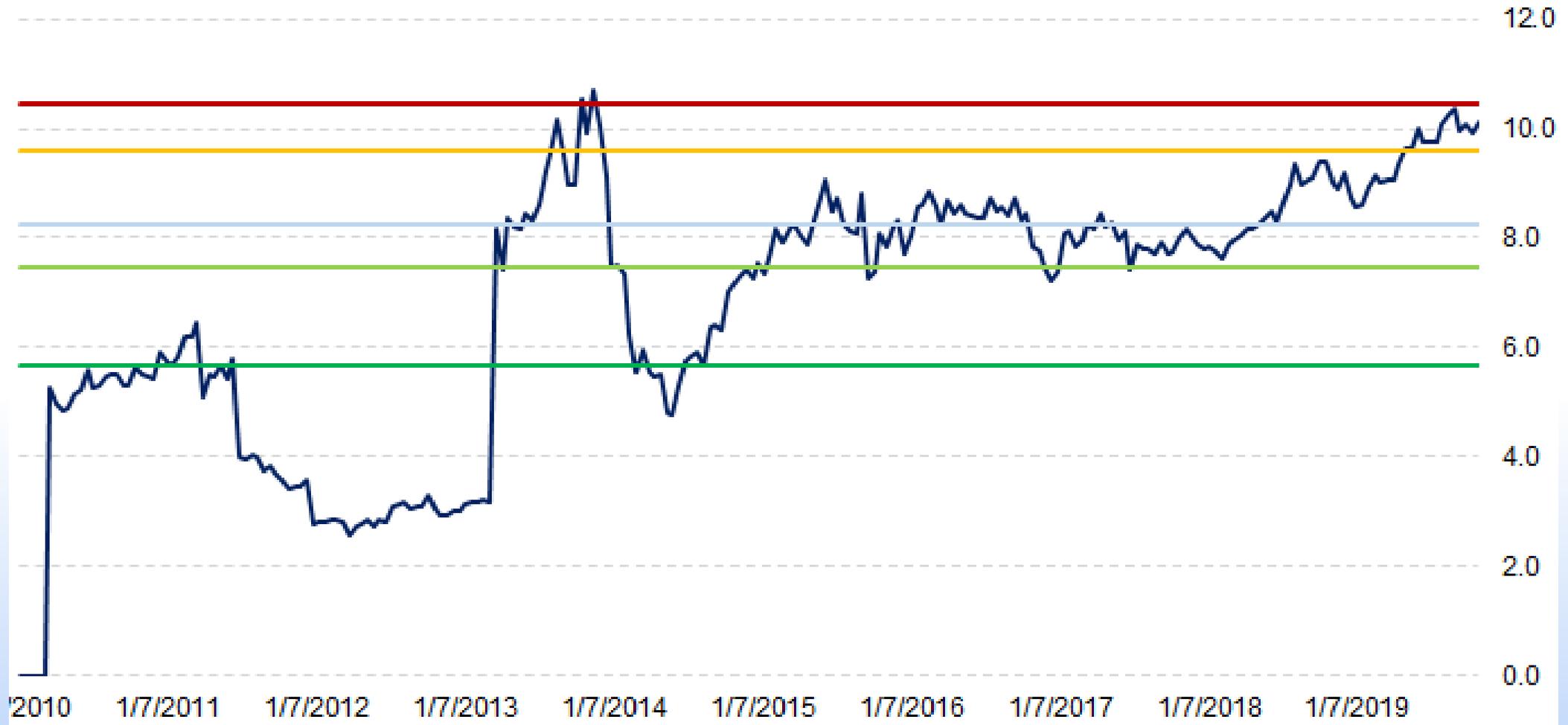


PRICE TO BOOK



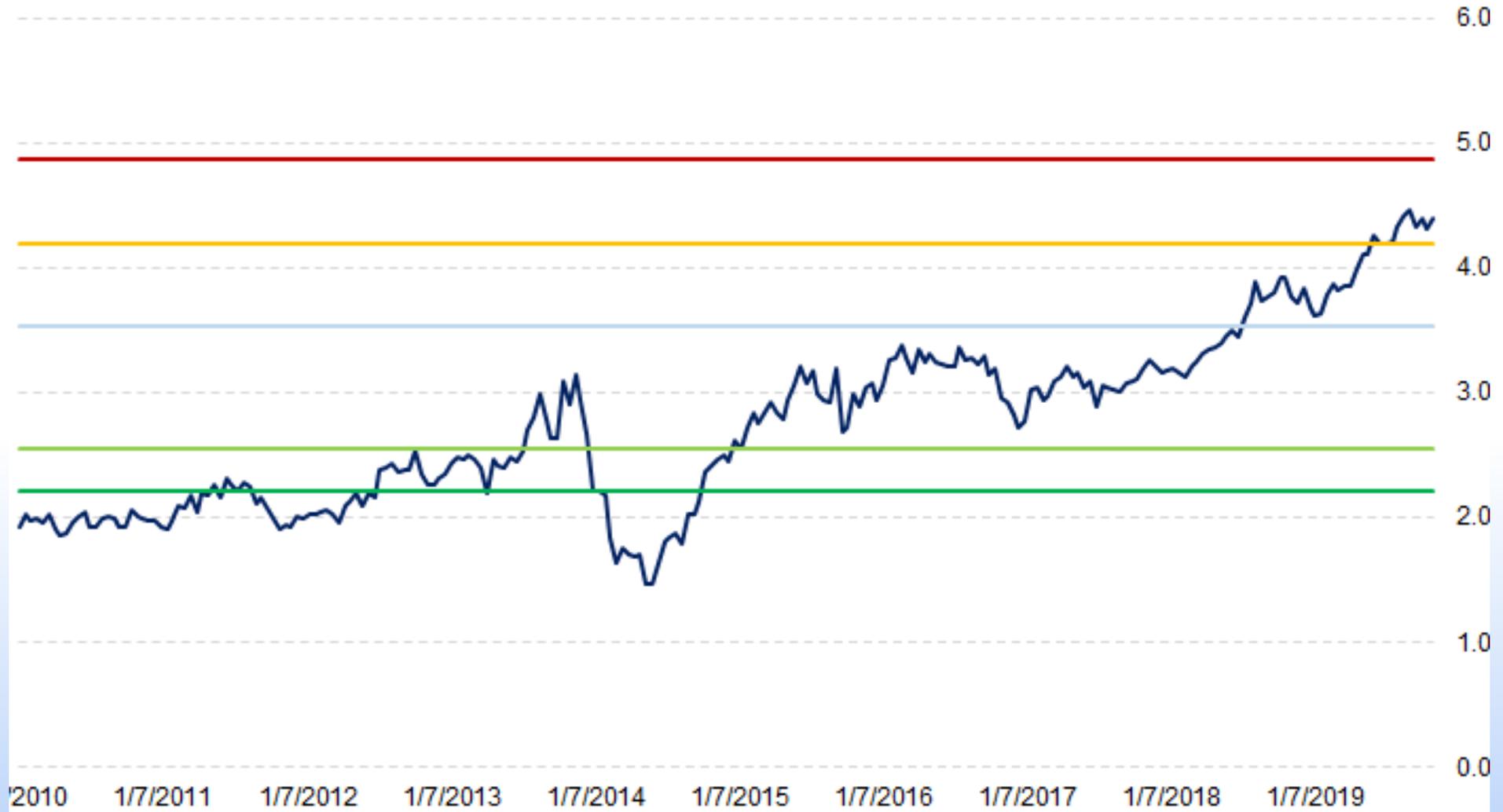


EV TO EBITDA

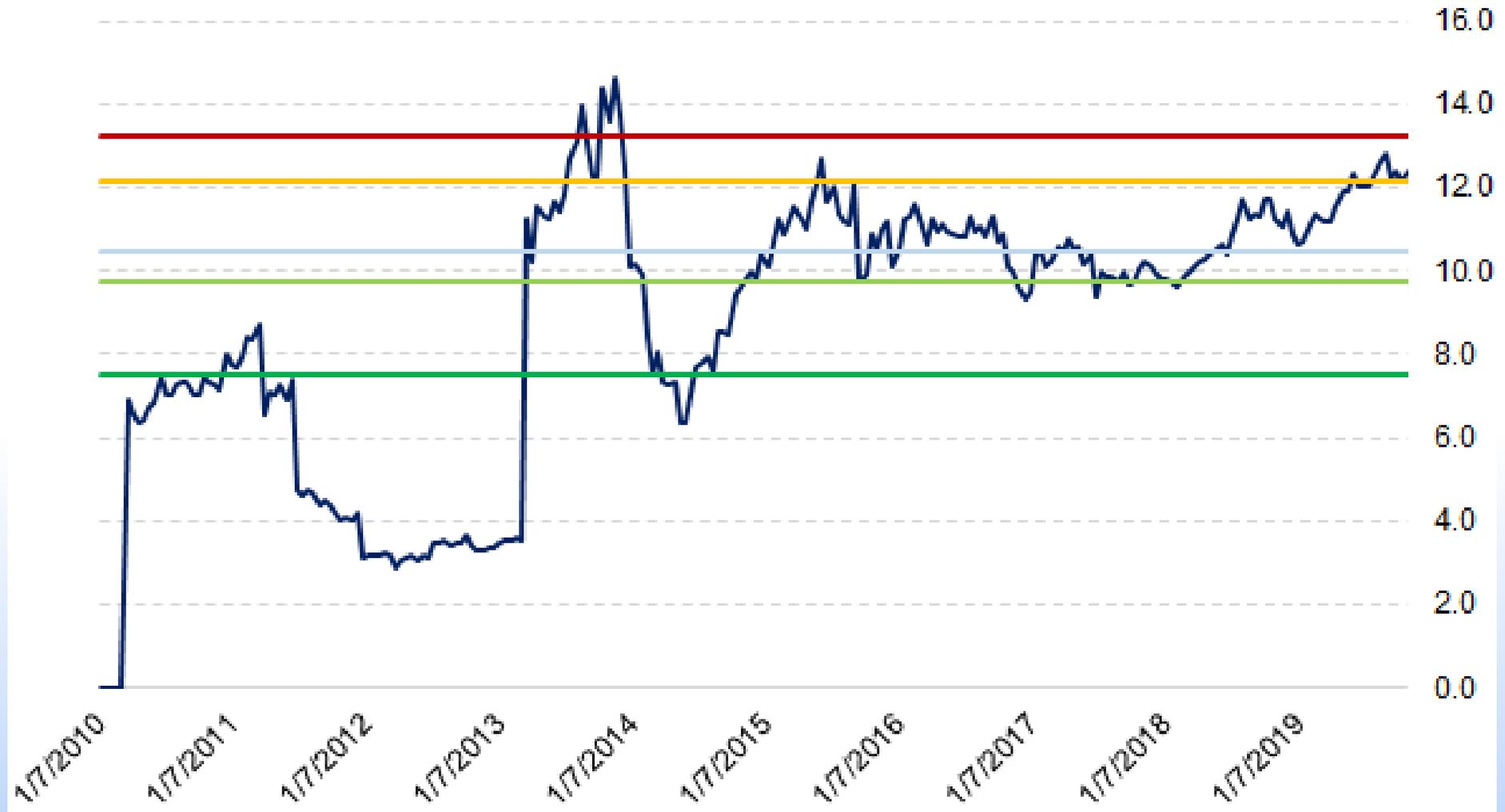




EV TO SALES

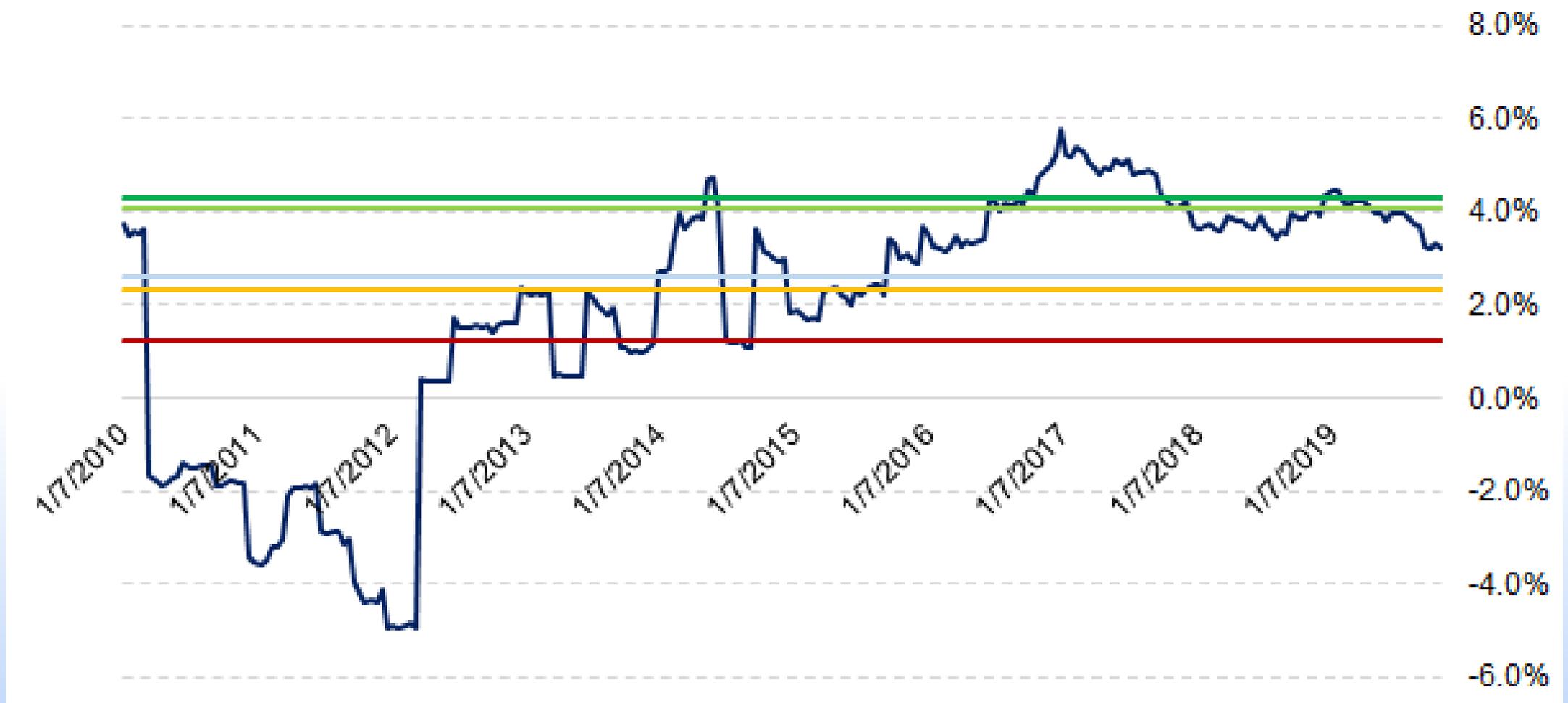


EV TO EBIT



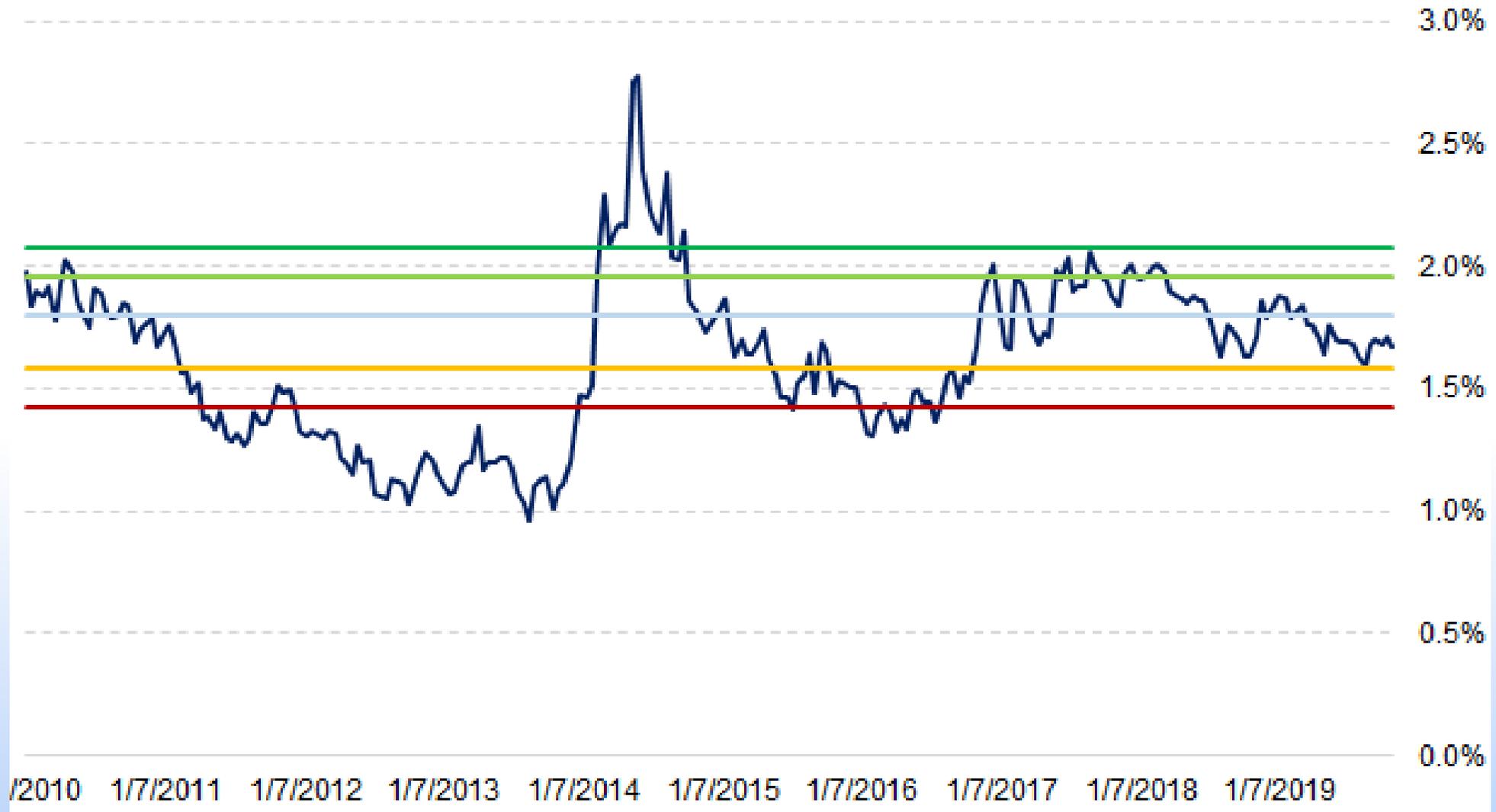


FREE CASH FLOW



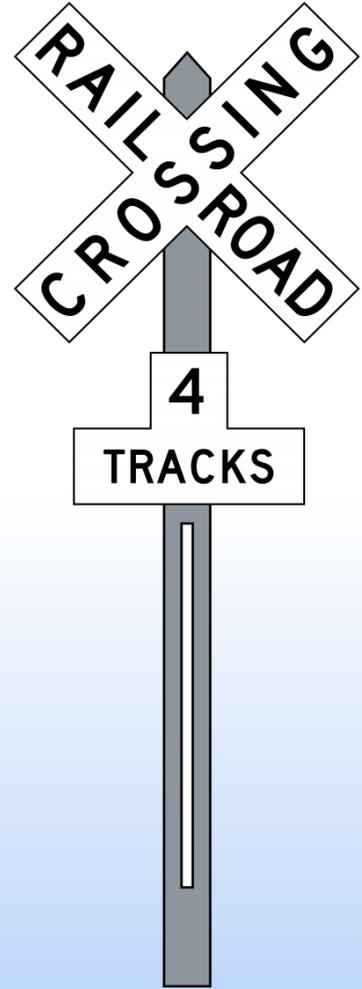
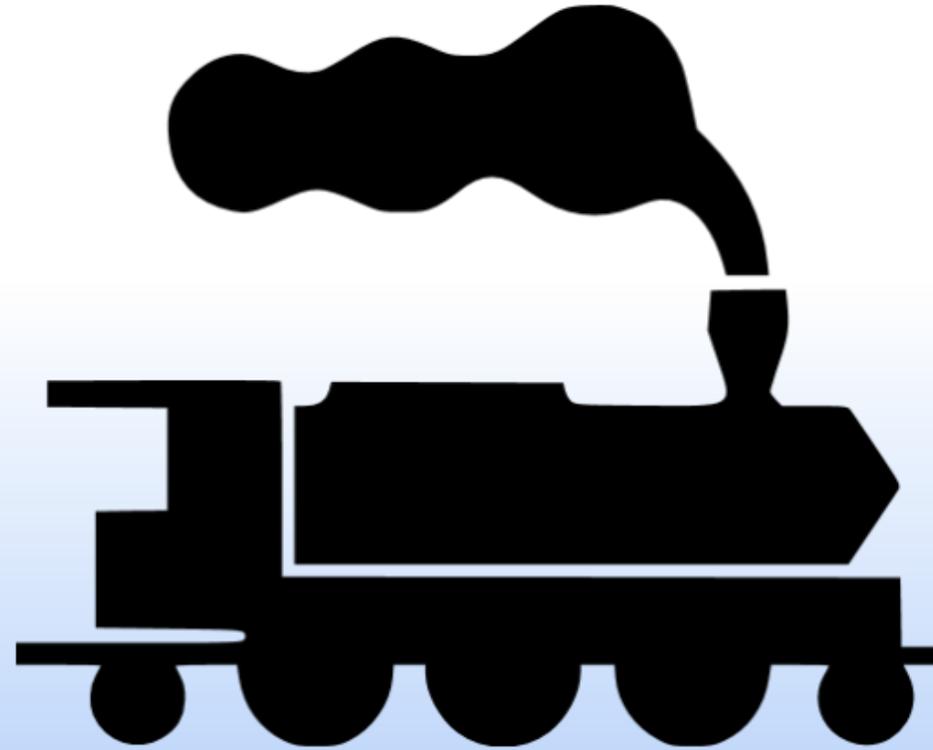
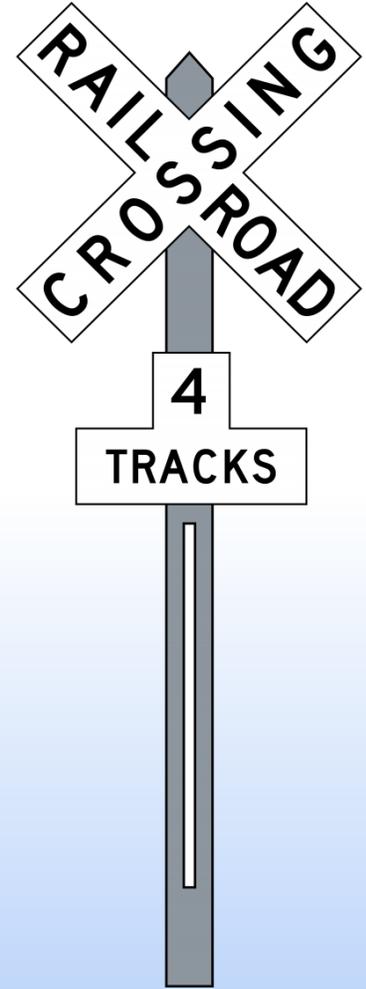


DIVIDEND YIELD





CONSCIOUS INVESTOR





CONSCIOUS INVESTOR 10 YEARS

	12/09	12/10	12/11	12/12	12/13	12/14	12/15	12/16	12/17	12/18	EPSttm	Years
EPS (\$)	1.875	2.765	3.360	4.135	4.710	5.750	5.490	5.070	13.360	7.910	\$8.48	10
SPS (\$)	14.002	17.256	20.375	20.996	22.680	25.539	24.019	22.800	25.402	29.493		10

	HGROWTH	STAAGR
EPS (\$)	17.40%	79.61%
SPS (\$)	6.48%	91.77%



CONSCIOUS INVESTOR 6 YEARS

	12/09	12/10	12/11	12/12	12/13	12/14	12/15	12/16	12/17	12/18	EPSttm	Years
EPS (\$)	1.875	2.765	3.360	4.135	4.710	5.750	5.490	5.070	13.360	7.910	\$8.48	6
SPS (\$)	14.002	17.256	20.375	20.966	22.680	25.539	24.019	22.800	25.402	29.493		6

	HGROWTH	STAAGR
EPS (\$)	14.32%	78.72%
SPS (\$)	3.68%	94.18%



CONSCIOUS INVESTOR 4 YEARS

	12/09	12/10	12/11	12/12	12/13	12/14	12/15	12/16	12/17	12/18	EPSttm	Years
EPS (\$)	1.875	2.765	3.360	4.135	4.710	5.750	5.490	5.070	13.360	7.910	\$8.48	4
SPS (\$)	14.002	17.256	20.375	20.996	22.680	25.539	24.019	22.800	25.402	29.493		4

	HGROWTH	STAAGR
EPS (\$)	20.87%	71.61%
SPS (\$)	7.51%	95.75%



CONSCIOUS INVESTOR SAFETY

			-10%	-77%	-32%	-88%
	Price	EPSttm	P/E Ratio	HGROWTH	Payout	STRETD
Default	\$167.95	\$8.48	16.40	15.01%	36.2%	13%
Safety	\$167.95	\$8.48	14.89	3.45%	24.8%	1.53%



CONSCIOUS INVESTOR KILL IT

		Cut	-10%	-80%	-100%	-100%
	Price	EPSttm	P/E Ratio	HGROWTH	Payout	STRETD
Default	\$167.95	\$8.48	16.40	15.01%	36.2%	13%
Safety	\$167.95	\$8.48	14.73	3.00%	0.0%	0.0%

DISCOUNTED CASH FLOWS





DISCOUNTED CASH FLOW — BASE ASSUMPTIONS

Stage 1: PARAMETERS

Earnings per Share (EPS): \$8.49

Expected Growth Rate (10 Years): 12.5%

Terminal Growth Rate: 4.00%

Years of Terminal Growth: 10

Discount Rate: 9.5%

Stage 2: Results

Fair Value: \$183.52

Margin of Safety: 9.84%



DISCOUNTED CASH FLOW — BULLISH ASSUMPTIONS

Stage 1: PARAMETERS	
Earnings per Share (EPS) \$8.49	
Expected Growth Rate (10 Years): 15%	
Terminal Growth Rate:	4.00%
Years of Terminal Growth:	10
Discount Rate:	9.5%

Stage 2: Results
Fair Value: \$217.80
Margin of Safety: 24.03%



DISCOUNTED CASH FLOW — BEARISH ASSUMPTIONS

Stage 1: PARAMETERS	
Earnings per Share (EPS): \$8.49	
Expected Growth Rate (10 Years): 8%	
Terminal Growth Rate:	4.00%
Years of Terminal Growth:	10
Discount Rate:	9.5%

Stage 2: Results
Fair Value: \$135.08
Margin of Safety: -22.49%

INTRAPORTFOLIO VALUATIONS

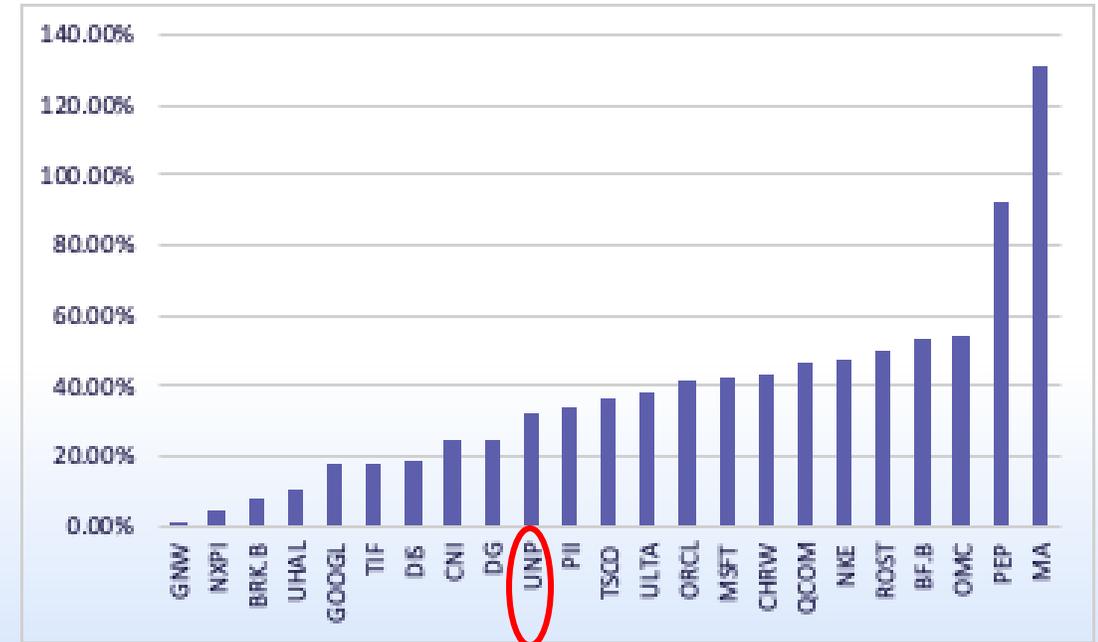




INTRAPORTFOLIO ROE

Symbol	ROE
GNW	1.22%
NXPI	4.08%
BRK.B	7.87%
UHAL	10.21%
GOOGL	17.76%
TIF	18.07%
DIS	18.92%
CNI	25.06%
DG	25.08%
UNP	31.95%
PII	34.33%
TSCO	36.61%

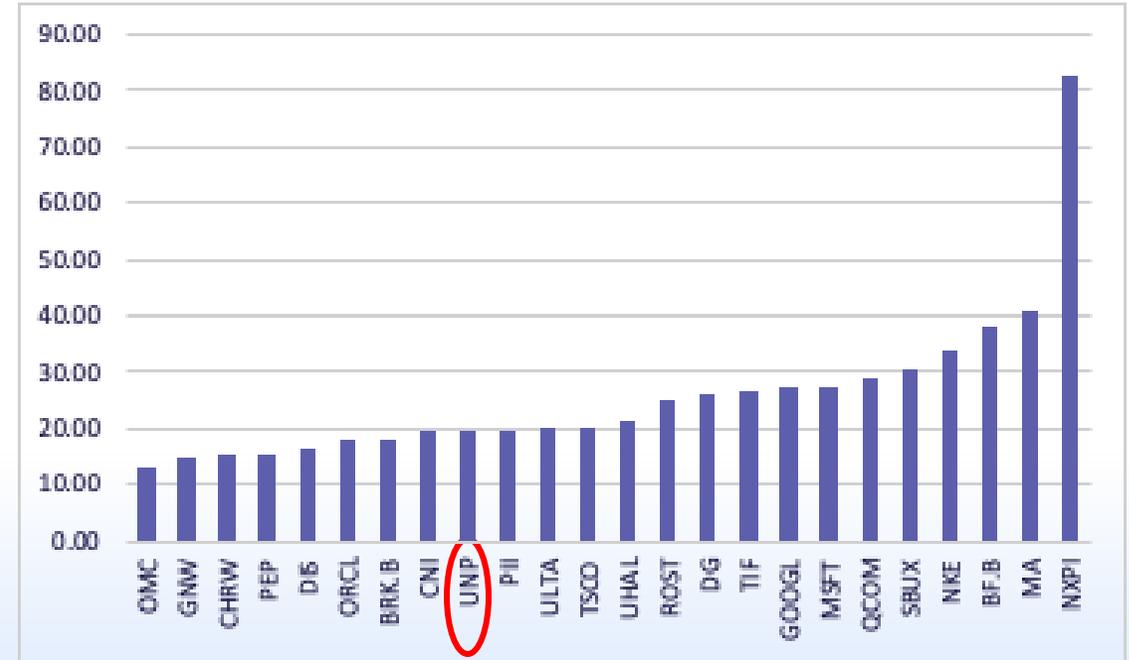
Symbol	ROE
ULTA	37.80%
ORCL	41.32%
MSFT	42.69%
CHRW	43.42%
QCOM	46.92%
NKE	47.91%
ROST	49.68%
BF.B	53.53%
OMC	54.16%
PEP	92.43%
MA	131.53%





INTRAPORTFOLIO PE RATIO

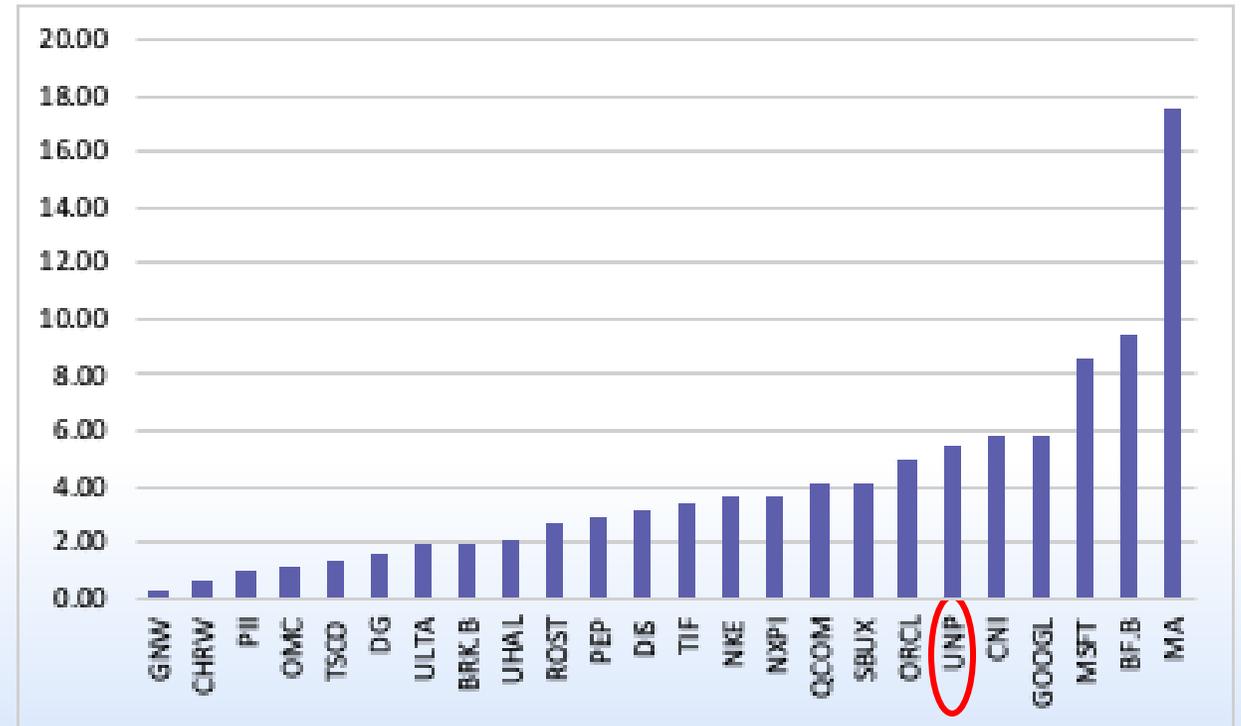
Symbol	PE Ratio	Symbol	PE Ratio
OMC	13.01	UHAL	21.39
GNW	14.60	ROST	25.08
CHRW	15.56	DG	25.95
PEP	15.57	TIF	26.99
DIS	16.36	GOOGL	27.10
ORCL	17.90	MSFT	27.23
BRK.B	18.17	QCOM	28.79
CNI	19.44	SBUX	30.67
UNP	19.78	NKE	33.65
PII	19.90	BF.B	37.95
ULTA	20.37	MA	41.10
TSCO	20.40	NXPI	82.60





INTRAPORTFOLIO PRICE TO SALES

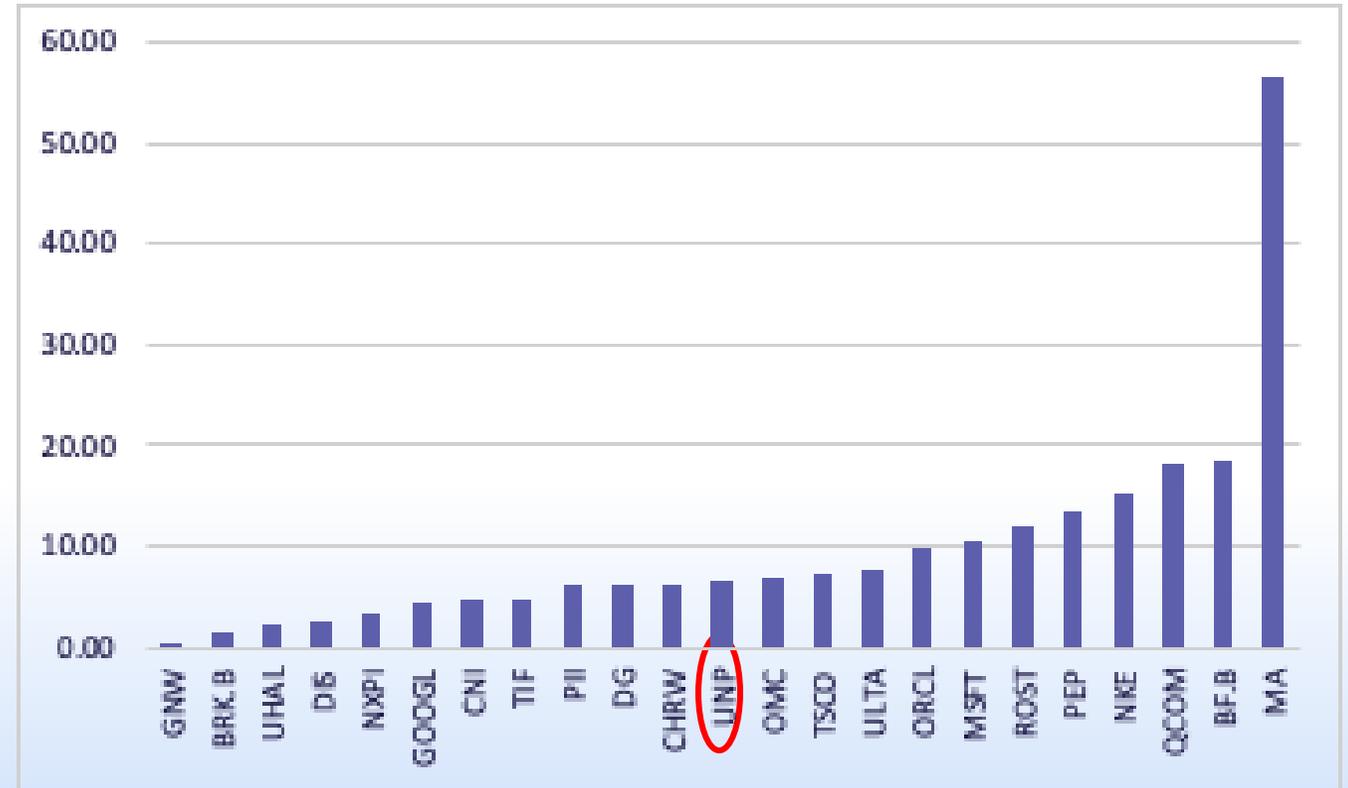
Symbol	Price to Sales	Symbol	Price to Sales
GNW	0.26	TIF	3.45
CHRW	0.67	NKE	3.64
PII	0.94	NXPI	3.68
OMC	1.15	QCOM	4.08
TSCO	1.37	SBUX	4.19
DG	1.59	ORCL	4.98
ULTA	2.00	UNP	5.40
BRK.B	2.01	CNI	5.76
UHAL	2.10	GOOGL	5.79
ROST	2.62	MSFT	8.62
PEP	2.93	BF.B	9.39
DIS	3.18	MA	17.53





INTRAPORTFOLIO PRICE TO BOOK

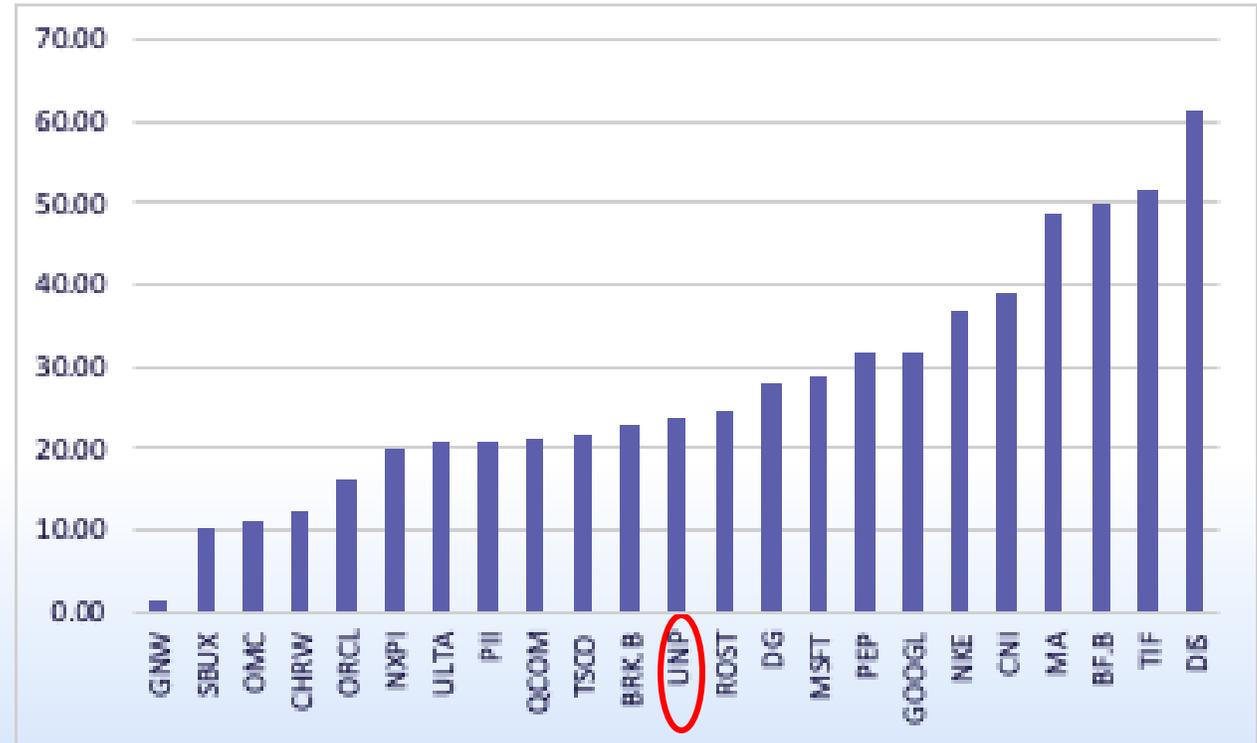
Symbol	Price to BV	Symbol	Price to BV
GNW	0.16	OMC	6.83
BRK.B	1.37	TSCO	7.44
UHAL	2.08	ULTA	7.65
DIS	2.59	ORCL	9.78
NXPI	3.42	MSFT	10.40
GOOGL	4.47	ROST	12.11
CNI	4.63	PEP	13.51
TIF	4.71	NKE	15.31
PII	6.12	QCOM	18.12
DG	6.16	BF.B	18.64
CHRW	6.31	MA	56.54
UNP	6.47		





INTRAPORTFOLIO PRICE TO FREE CASH FLOW

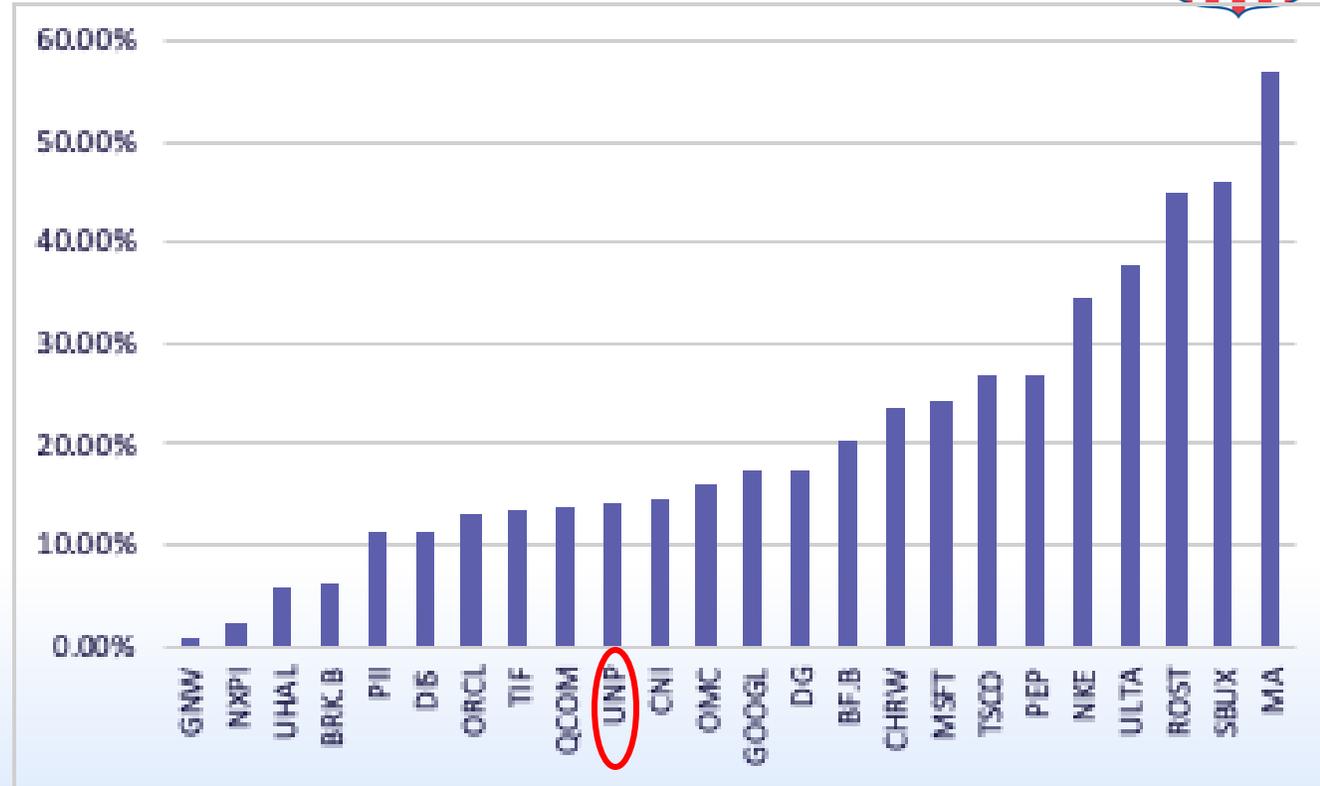
Symbol	Price to FCF	Symbol	Price to FCF
GNW	1.19	ROST	24.54
SBUX	10.43	DG	27.84
OMC	10.93	MSFT	28.97
CHRW	12.30	PEP	31.64
ORCL	16.19	GOOGL	31.93
NXPI	19.95	NKE	36.87
ULTA	20.72	CNI	38.75
PII	20.84	MA	48.54
QCOM	21.10	BF.B	49.79
TSCO	21.52	TIF	51.75
BRK.B	22.72	DIS	61.44
UNP	23.69		





INTRAPORTFOLIO ROIC

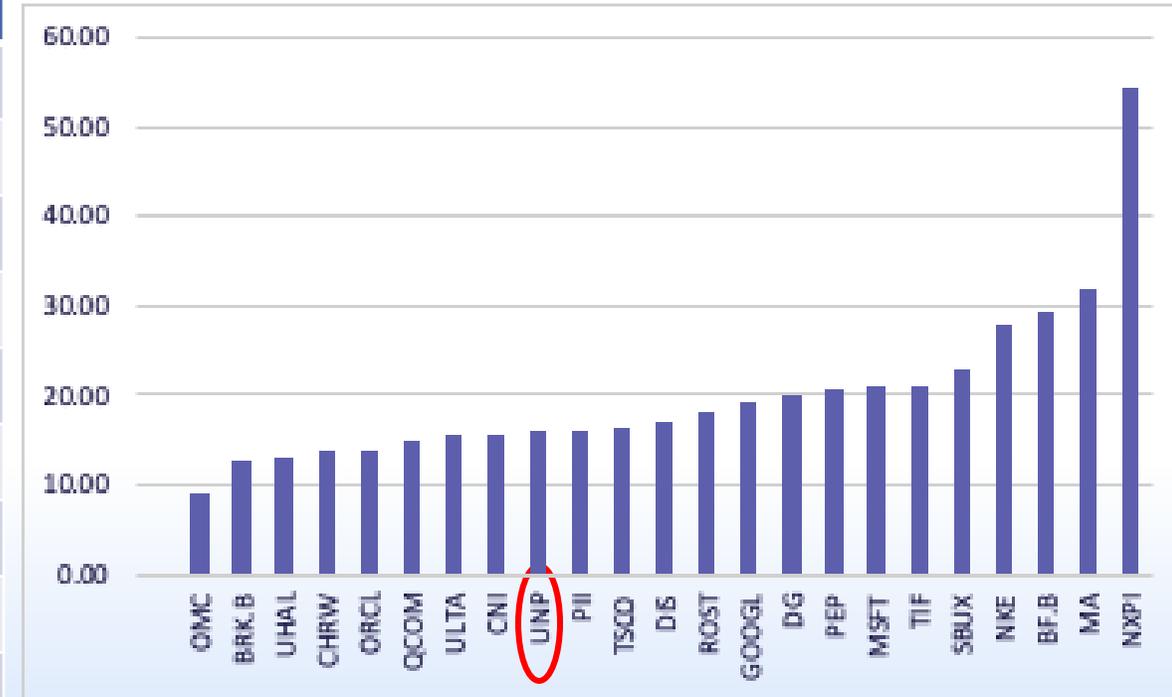
Symbol	ROIC	Symbol	ROIC
GNW	0.83%	GOOGL	17.39%
NXPI	2.28%	DG	17.58%
UHAL	5.72%	BF.B	20.39%
BRK.B	6.17%	CHRW	23.64%
PII	11.19%	MSFT	24.30%
DIS	11.44%	TSCO	26.89%
ORCL	13.10%	PEP	26.91%
TIF	13.65%	NKE	34.39%
QCOM	13.87%	ULTA	37.80%
UNP	14.06%	ROST	44.89%
CNI	14.50%	SBUX	45.91%
OMC	16.19%	MA	56.75%





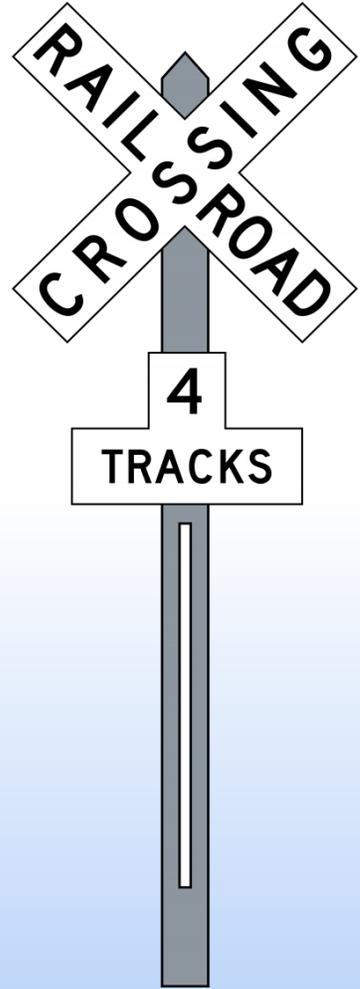
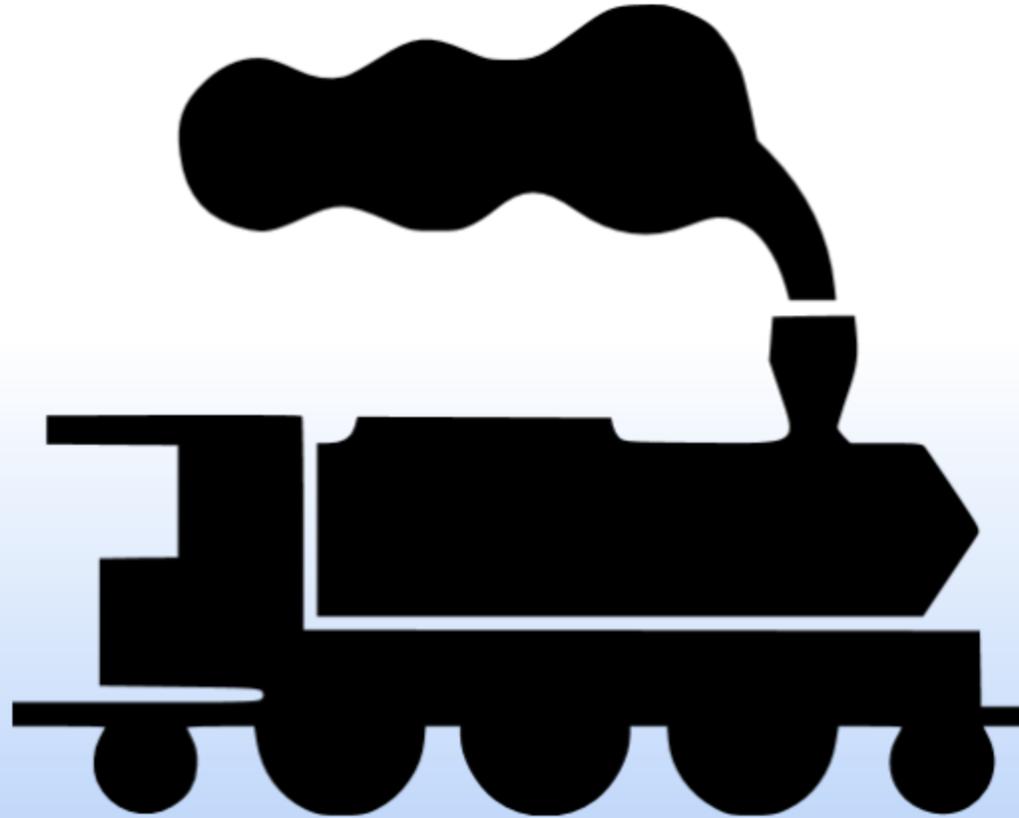
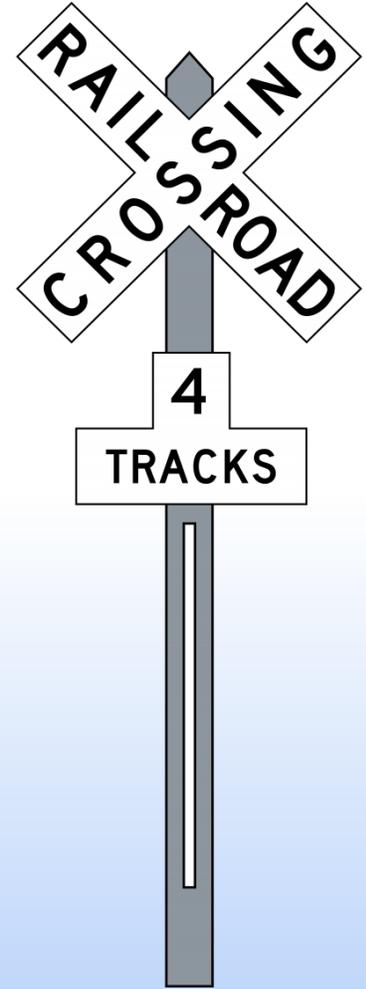
INTRAPORTFOLIO EV/EBIT

Symbol	EV to EBIT	Symbol	EV to EBIT
OMC	9.23	DIS	17.19
BRK.B	12.60	ROST	18.28
UHAL	13.28	GOOGL	19.24
CHRW	13.79	DG	20.09
ORCL	13.97	PEP	20.73
QCOM	14.75	MSFT	20.95
ULTA	15.54	TIF	21.23
CNI	15.70	SBUX	22.81
UNP	16.02	NKE	28.00
PII	16.15	BF.B	29.57
TSCO	16.29	MA	32.11
		NXPI	54.32





CONCLUSION



CONCLUSION

Predictable and consistent company
with a wide moat

Industry revenues expected to grow
5x to \$400 billion by 2040

Huge network, practically
impossible to replicate

Transports items we need everyday

Fair price for a wonderful business



RECOMMENDATION

To be decided by the other team:

- Limit Order at \$155
 - 80 shares
- \$160 put, premium of \$745
 - Expiration: 12/20/2019
 - Effective entry: \$152.55



QUESTIONS?

