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# Norfolk Southern Corp. (NSC)

## Q4 2021 Earnings Call

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Greetings. Welcome to Norfolk Southern Corporation's Fourth Quarter 2021 Earnings Call. At this time, all participants are in listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder this conference is being recorded.

It is now my pleasure to introduce Meghan Achimasi, Senior Director of Investor Relations. Thank you, Ms. Achimasi, you may begin.

## Meghan Achimasi

*Senior Director-Investor Relations, Norfolk Southern Corp.*

Thank you, operator, and good morning, everyone.

Please note that during today's call we will make certain forward-looking statements which are subject to risks and uncertainties and may differ materially from actual results. Please refer to our annual and quarterly reports filed with the SEC for a full discussion of those risks and uncertainties we view as most important.

Our presentation slides are available at nscorp.com in the Investors section along with our reconciliation of non-GAAP measures used today to the comparable GAAP measures. Along those lines, recall two adjustments during 2020, including a non-cash charge in the first quarter of 2020 related to the sale of 703 locomotives for $385 million, and a $99 million impairment charge in the third quarter of 2020 related to an equity method investment. We will speak to full year comparisons excluding those charges from 2020. A full transcript and download will be posted after the call.

It is now my pleasure to introduce Norfolk Southern's Chairman and CEO, Jim Squires.

## James A. Squires

*Chairman and Chief Executive Officer, Norfolk Southern Corp.*

Good morning, everyone, and welcome to Norfolk Southern's fourth quarter 2021 earnings call. I'm pleased to be joined by Alan Shaw, President; Cindy Sanborn, Chief Operating Officer; Ed Elkins, Chief Marketing Officer; and Mark George, Chief Financial Officer.

Let me start by acknowledging and thanking the entire NS team for the tremendous effort that's gone into the fulfillment of our financial targets established in our three-year strategic plan. 2021 serves as the pinnacle of the plan and is marked by the achievement of our 60% full year operating ratio and record productivity levels across our operation. Through a multi-year effort we delivered on our commitments, overcoming significant headwinds associated with, first, freight recession and then a global pandemic over the course of our plan.

In the past three years, we've produced industry-leading total shareholder return. We've grown EPS by 27%, reduced our operating ratio by 530 basis points and returned nearly $10 billion back to our shareholders in the form of share repurchases and dividends. We met and exceeded our goals, albeit with a very different formula than originally anticipated given the volume headwinds, demonstrating our ability to adapt and innovate and our dedication to deliver upon our commitments.

I'm so proud to be a part of this team and humbled to serve as its leader. We're poised to build upon our momentum and write a new record book. The company is in rock solid position and we have the right team to guide our next chapter of success. With that, I welcome Ed to his new role as Chief Marketing Officer and congratulate Alan on his appointment as President.

It's my pleasure now to turn the discussion over to Alan for a detailed look at the fourth quarter and full year results. Alan?

## Alan H. Shaw

*President, Norfolk Southern Corp.*

Thank you, Jim. As Jim noted, 2021 represents the culmination of our multi-year plan, and I'm pleased to share with you the progress we made in the fourth quarter.

As you see from our results on slide 5, revenue growth of 11% outpaced our expense increase of 8%, producing an 18% improvement in earnings per share and a fourth quarter record operating ratio of 60.4%. For the full year revenues improved 14%, which more than offset a 6% increase in operating expenses.

We delivered the hallmark 60% operating ratio for the full year, an improvement of 430 basis points over the adjusted full year 2020 result and our sixth consecutive year of improvement.

We are excited to share more details of our results. And you'll hear from both Cindy and Ed of our work to iterate on the next phase of our Thoroughbred Operating Plan that will serve as the framework for our continued progress on service, productivity and growth.

I'll first turn to Cindy for a review of our operations. Cindy?

## Cynthia M. Sanborn

*Executive Vice President & Chief Operating Officer, Norfolk Southern Corp.*

Thank you, Alan, and good morning. During the fourth quarter headwinds from the tight labor market created acute operational challenges across several parts of our network. While working to overcome the workforce planning hurdles, we remain focused on leveraging productivity initiatives to move freight for our customers. These efforts did bear fruit but our service quality was significantly below where we needed it to be. I'm going to discuss with you today the strategic approach we are taking to change this.

Turning to slide 7, pronounced changes in business mix were evidenced by the unit volume decline of 4% while GTMs were up 1%. Productivity gains were key to handling volumes in the quarter as the transportation workforce contracted by 8%.

The reduction in crew starts of 4%, growth in train weight of 10% and growth in train length of 8% were critical elements of this productivity formula as well. Though our active locomotive count increased by 5% as the network slowed, we kept focus on efficiently deploying those locomotives on the larger trains, which helped drive the 3% improvement in fuel efficiency.

As I mentioned a few moments ago, you can see the degradation of network fluidity on slide 8. We regained a modest amount of ground over the holidays and as we're entering the first quarter, our improvements have been sporadic as COVID-related absences have more than doubled from where they were in December.

Let me be clear, our top priority is to drive the service improvements our customers expect and need and we will get there. We are working very hard to leverage an increased hiring pipeline as well as productivity initiatives to drive our performance.

Next, I'll provide more details on the hiring process on slide 9. We've made significant progress in ramping up resources to improve the pace of hiring while pursuing productivity.

And as shown on the slide, we are pulling five key levers to do so, including, number one, incorporating additional recruiting and training resources to increase hiring. Employees from across the company have volunteered to provide support in our principal training facility and it's all hands on deck.

Number two, streamlining the hiring and onboarding process. We've trimmed weeks from the process of first identifying a candidate to have them on board. Three, increasing trainee pay and offering incentives such as signing, retention and referral bonuses.

Four, lengthening and combining trains. We've made solid progress in this regard. And finally, five, we're using a variety of techniques to optimize our existing crews, including realigning crew districts and making crew bases more fungible.

Our people are getting creative and rising to the challenge, and resource additions are bearing fruit as we've onboarded over 3 times more conductor trainees in January than any month in 2021.

These trainees will promote throughout the second quarter, which is when we expect to start improving train and engine service staffing levels. We do expect to see some relief in critical crew basis during Q1 as trainees that started in 2021 became promoted, though we are still experiencing high levels of attrition in those same areas.

On average, we expect the number of certified train and engine employees in 2022 to approximate that of 2021 and are expecting GTMs per employee to increase. So when looking at the year as a whole, our plan is to leverage productivity gains to absorb volume growth while getting the workforce rebalanced to drive improvements in service quality.

Let's unpack the productivity discussion a little more on slide 10. We've improved average train weight and length 21% and 20%, respectively, since mid-2019 when TOP21 was launched. This has been a key to our success and will continue to be so going forward. Larger trains reduce labor intensity, improve locomotive productivity, improve fuel efficiency and provide our customers with a platform for growth.

We have efforts in the pipeline to continue this trend. First, on the infrastructure front, in 2021, we launched work on nine siding extensions, one of which was quickly completed and in service by the fourth quarter. Most of the others will be completed throughout 2022.

Second, our very capital-efficient and high-performing DC to AC locomotive modernization program is ongoing. As a reminder this is a dual-purpose program to rebuild engines at the end of their life while converting them to the latest and greatest technology. In 2021, we improved our fleet composition to nearly 60% AC power and 65% of our road fleet is capable of distributed power. Both of these aid with running larger trains.

Lastly, our operating plan and growth initiatives must be well aligned to add capacity to existing trains, which brings me to slide 11. In 2022, we have already kicked off the next generation of our PSR-based operating plan, which we are calling TOP SPG. While you may be familiar with NS's legacy of Thoroughbred Operating Plans, or

TOP, the next-generation SPG represents a new era of service, productivity and growth, three equally important facets of our new operating plan.

We are embarking on this next era because we have significant improvements that need to be made in each of these areas, service, productivity and growth, to reach our full potential. We are taking a ground-up approach to the development of the plan in order to explore what is possible when we remove historical constraints and take a fresh look at our business.

We are leveraging lessons learned from the first three years of PSR operations under TOP21 and using a rich data set to execute in a customer-centric collaborative process. We look forward to keeping you updated as this initiative unfolds throughout the year.

Thank you and I'll now turn it over to Ed.

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## Claude Elkins

*Chief Marketing Officer & Executive Vice President, Norfolk Southern Corp.*

Thank you, Cindy, and good morning, everyone. Now beginning on slide 13, I will highlight our results for the fourth quarter. Total revenue improved 11% year-over-year to $2.9 billion as strong demand and favorable price conditions more than offset the 4% volume decline in the fourth quarter.

Volume was impacted by the continuation of the extraordinary global supply chain disruptions and slower network velocity. Pricing and strength across all markets contributed to the 15% increase in revenue per unit, and we reached record revenue per unit less fuel across all of our markets. This demonstrates our ongoing commitment to execute our yield up strategy and drive value for both our customers and our shareholders.

Within merchandise, volume growth in the fourth quarter was led by our chemicals franchise as rising economic activity drove demand for chemical products, particularly for crude oil and natural gas liquids. Gains in our metals business also contributed to growth with volume in these markets up 6% year-over-year on sustained high demand from the strengthening manufacturing sector. Partially offsetting merchandise growth was a decline in automotive shipments, which were down 9% year-over-year due to slower velocity coupled with strong comps in the fourth quarter of 2020 when the industry was boosted by pent-up demand.

Merchandise revenue per unit increased 6% year-over-year, driving total revenue growth of 8% to $1.7 billion for the quarter. Revenue per unit less fuel for this market reached a record level in the fourth quarter. We've demonstrated year-over-year growth in this metric for 26 of the last 27 quarters, which further demonstrates our ability to drive sustainable revenue growth.

Our intermodal franchise continued to face pressure from supply chain volatility, resulting in a volume decline of 7% year-over-year. Strong consumer demand and elevated imports stressed these supply chains and exceeded drayage capacity and equipment availability. This negatively affected both our domestic and our international markets. But despite these headwinds we achieved record intermodal revenue in the quarter, up 14% year-over-year, and that was driven by increased fuel revenue, storage revenue and price gains. Revenue per unit less fuel grew for the 20th consecutive quarter.

Now turning to coal, revenue increased 21% year-over-year in the fourth quarter, which was driven by price gains and higher demand in a tightly supplied market. Coal revenue per unit reached near record levels and increased 16% year-over-year. Our export markets continue to benefit from high seaborne coal prices which increased the competitiveness of US coals in the global market. Shipments of domestic met and coke were particularly strong this quarter on higher demand to support steel production.

If you'll turn to slide 14, full year 2021 revenue grew 14% to $11.1 billion on 5% volume growth. All of our markets posted gains, reflecting strong demand for our product coming out of the pandemic, tempered by supply chain pressures experienced throughout the year. Revenue growth was strongest in our merchandise franchise, where all lines of business, but particularly metals and construction, benefited from higher demand and favorable price conditions associated with the economic recovery.

Intermodal growth was driven by elevated consumer activity and tight truck capacity. Coal revenue increased on higher seaborne coal prices and growth in steel production activity. We reached record levels of both revenue per unit and revenue per unit less fuel. Both metrics were up year-over-year due to price gains, storage charges and higher fuel revenue in the case of total revenue per unit. And as markets have evolved, we've leveraged favorable conditions to drive improvement for our bottom line.

Now let's look ahead to our outlook for 2022 on slide 15. We're optimistic that our business will continue to grow despite the ongoing uncertainty in the economy. We're increasingly confident that supply chain conditions, including rail network velocity, will improve as the year progresses.

Overall, the demand environment for our service is strong. We're committed to working with our customers and channel partners to develop sustainable solutions to maximize our opportunities ahead. We remain focused on our ability to deliver value for our customers and leverage market conditions throughout 2022.

As Cindy explained, both our hiring plan and the development and implementation of TOP SPG will deliver increased fluidity, efficiency and network capacity as the year progresses and our volume pattern will follow that same sequential improvement trend. This will allow our customers to provide additional value to their customers for their product and build a strong platform for future growth.

Market conditions for our merchandise franchise are expected to be favorable with several customers announcing expansions in the New Year that will create opportunities. In addition, industrial production is projected to grow 4% in 2022, which will drive demand for most of our markets, particularly for our steel markets.

Residential construction spending is forecasted to grow more than 6% this year, following the sharp increase in 2021, supporting continued gains in several of our industrial markets. US light vehicle production is expected to reach 10.3 million units this year, which is approaching pre-pandemic levels of 2019. This recovery will have a positive impact on both our automotive and our metals volumes in 2022.

Demand for our intermodal market is expected to remain favorable despite continued headwinds associated with supply chain congestion impacting our ability to capture new opportunities. These headwinds are expected to ease in the second half of the year, creating a more favorable environment for growth.

And furthermore, a robust consumer economy, elongated inventory replenishment cycles and a tight truck market support our growth plan. Durable goods consumption is expected to improve 3% and that's on top of the near-record 19% growth in 2021. This also bodes well for our intermodal franchise.

Our outlook for coal is more guarded as some of the drivers of 2021 growth shows signs of easing in 2022 despite some potential opportunities in the near-term. Seaborne prices remain high. However, they have begun to decline, leading subdued optimism going into the New Year.

Expected increases in global production will likely contribute to downward pressure on these seaborne coal prices and lower the demand for export coal. In the utility markets, while there's been strength associated with higher natural gas prices, that upside will be determined by coal supply as production levels remain high.

Now before I turn it over to Mark, I would like to highlight our new insights portal on slide 16. The pandemic has pushed manufacturers to redesign their supply chains in favor of certainty of supply and locating inventory closer to customers. Our best-in-class industrial development team is at the forefront of these efforts, and they launched an innovative solution to drive value for our customers and support development in the communities that we serve.

NSites is a comprehensive search tool for rail served industrial sites and transload facilities on our network. It allows users to create customized search parameters to quickly identify industrial sites that meet their unique needs.

And more importantly, this portal makes it easier to do business with NS and helps our customers make informed long-term investment decisions that will promote economic activity and create jobs. We're excited to provide this product to our customers and help them expand their business on Norfolk Southern.

Overall, we are grateful for our strong customer partnerships. And we look forward to growing our business in 2022 with a continued emphasis on improving our service and driving value for our customers and for our shareholders.

Now I'll turn it over to Mark for an update on our financial results. Thank you.

## Mark R. George

*Executive Vice President-Finance & Chief Financial Officer, Norfolk Southern Corp.*

Thank you. Starting with slide 18, as Ed noted, revenue was up 11% despite a 4% volume decline. This more than offset an 8% increase in operating expense, which led to 140 basis points of operating ratio improvement to a fourth quarter record of 60.4%.

Improvements in RPU, coupled with strong productivity, led to record Q4 operating income with growth of 15% or $145 million. And we set another record for free cash flow, up 30% or $642 million for the full year.

Moving to a drill-down of operating expenses on slide 19, while operating expense grew $134 million or 8%, it is up less than 3% or $44 million, apart from fuel cost increases. The $90 million headwind from fuel is driven almost entirely by price. You'll see purchase services and rents of $46 million with the majority of the year-over-year increase driven by the same drivers we talked about on the Q3 call.

Higher expenses associated with Conrail, higher technology spend associated with our technology strategy, higher drayage expense associated with more hourly drivers used to alleviate terminal congestion primarily in Chicago. And we continue to see inflationary pressure on lift expenses going forward as it relates to contractor labor availability.

Moving on to compensation and benefits, it is up 2%, but you'll note the $33 million in savings from 6% lower head count and that more than offset increases in pay rates and overtime. Meanwhile, incentive compensation comparisons in the quarter are a headwind of $24 million. Materials claims and other expenses were all down year-over-year.

Turning now to slide 20, taking a look at the rest of the P&L below op income, you will see that other income of $21 million is unfavorable year-over-year by $22 million, due in part to lower net returns from company-owned life insurance, but also fewer gains on the dispositions of non-operating properties.

Our effective tax rate in the quarter was in our expected range at 23% and similar to last year. Net income increased 13%, while earnings per share grew by 18%, supported by 3.3 million shares we repurchased in the quarter.

Turning to full year highlights on slide 21. As a reminder, these highlights are compared to adjusted results for 2020, which excludes both the noncash charge for locomotive rationalization in 1Q and the impairment charge in 3Q. Increased demand across all markets and strong results [ph] for yield up (00:23:59) resulted in 14% year-over-year revenue improvement.

Expenses increased at less than half that rate, up 6% compared to 2020 as we continued our operational transformation while responding to market changes. We produced record operating income of over $4.4 billion, up 28% from $961 million versus the adjusted 2020 results.

And as Jim noted in his opening remarks, we brought our operating ratio down to 60.1%, a quarter milestone for our company. That is 430 basis points of year-over-year improvement in line with the guidance we provided.

Rounding out the results, net income increased 27%, while diluted EPS increased 31%, augmented by our strong share repurchase program enabled by record free cash flow that we will wrap with on slide 22.

Free cash flow is a record $2.8 billion for 2021, up 30% year-over-year and we reported a strong 93% free cash flow conversion for the year. Property additions were about $100 million lower than our $1.6 billion guidance due to timing issues related to the continued supply chain disruptions. This shortfall in 2021 will carry over into 2022.

The sharply higher profitability in the company in 2021 allowed for an over $2 billion increase in shareholder distributions for the year. We had two dividend increases in 2021 and more than doubled our share repurchase spend. And I'll point out we just increased our dividend again by $0.15 or 14% to open 2022.

And with that, I'll turn it back over to Alan.

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## Alan H. Shaw

*President, Norfolk Southern Corp.*

Thank you, Mark. Turning to slide 24, I will wrap up with our 2022 expectations. As you heard from Ed, based on our assessment of economic indicators, we expect markets related to manufacturing and consumer activity to drive growth. We expect total revenue to deliver upper single-digit growth with merchandise and intermodal both increasing solidly, and coal resuming its long-term secular decline.

We will develop and leverage our new TOP SPG operating plan to accelerate our service recovery and drive additional efficiency into the organization in support of Norfolk Southern's and our customers' growth. You'll hear a lot more about TOP SPG at our upcoming second quarter Investor Day.

From an operating ratio perspective, we expect the first half of this year to look similar to the back half of 2021, with robust demand and service improvement driving stronger performance in the second half of this year.

With this positive momentum in revenue, productivity and efficiency and based on our current expense projections, we expect to achieve greater than 50 basis points of OR improvement in 2022 and we won't stop there.

In addition, we expect a dividend payout ratio range of 35% to 40% and capital expenditures in the range of $1.8 billion to $1.9 billion. We anticipate using remaining cash flow and financial leverage to repurchase shares. As you've heard from Cindy, Ed and Mark, we are optimistic about service, productivity and growth in the year ahead, and we'll advance productivity initiatives to attract business to Norfolk Southern more profitably than ever. We are committed to further efficiency improvements to create long-term sustained value for our customers and shareholders. Thank you for your attention. We'll now open the line for Q&A. Operator?

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Thank you. And our first question today comes from the line of Brandon Oglenski with Barclays. Please proceed with your question.

**Brandon R. Oglenski**
*Analyst, Barclays Capital, Inc.* Q

Hey, good morning, everyone. And congrats, Jim, on quite a career. Alan, congrats as well moving up here. I guess coming out with this SPG approach, and I guess I heard there was going to be an analyst meeting, but how can you tell us, how does this differ from the PSR journey that you guys have taken the last few years? And is this a view that balances growth and cost efficiency and price?

**Alan H. Shaw**
*President, Norfolk Southern Corp.* A

Good morning, Brandon. It's a continuation of our PSR journey. It's the next generation of it. We implemented TOP21, it was really largely focused on our merchandise network. This is going to be focused on all of our service products. It's a comprehensive plan. We are really expecting and challenging ourselves and demanding of ourselves to have an output that delivers longer trains, a balanced network that's going to promote better resource efficiency, which is going to give us room to grow. It's going to deliver an operating plan that our field can execute on a daily basis. So it's going to improve our service product as well.

**Brandon R. Oglenski**
*Analyst, Barclays Capital, Inc.* Q

Thank you.

**Operator**: Our next question comes from the line of Jordan Alliger with Goldman Sachs. Please proceed with your question.

**Jordan Alliger**
*Analyst, Goldman Sachs & Co. LLC* Q

Yes. Hi, morning. I'm just sort of curious as you sort of think about yields, revenue per carload as we look forward over the coming year and taking into account price, mix and everything else. I guess, A, how do you see the opportunity around price, particularly with the tightness continuing; and then how do you think about overall yield as it's certainly moved throughout the year. Thank you.

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**James A. Squires**
*Chairman and Chief Executive Officer, Norfolk Southern Corp.*

A

Hi. Thank you for the question. And it's an inflationary environment out there in the US. There's a lot of demand. The US consumer wants to grow and we intend on delivering value to our customers. So we expect as the year progresses we're going to see a balance of volume and price that will accelerate as the year moves on.

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**Jordan Alliger**
*Analyst, Goldman Sachs & Co. LLC*

Q

Thank you.

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**Operator**: The next question is from the line of Chris Wetherbee with Citigroup. Please proceed with your question.

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**Christian Wetherbee**
*Analyst, Citi Investment Research (US)*

Q

Great. Hey, thanks. Good morning and congrats, guys. I guess I wanted to maybe dig into that volume and service relationship a little bit deeper. So it sounds like the first half of the year, both service and volume will be a little bit muted, but do you expect to see improvements as it goes forward? Can you give us a sense of maybe where you're going to see some of those opportunities or some of the improvements in the service side hit first and what that means or unlocks in terms of opportunity on the volume side. Just want to get a little bit of a better sense of how much volume is sort of included in that upper single-digit revenue growth target for the year.

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**James A. Squires**
*Chairman and Chief Executive Officer, Norfolk Southern Corp.*

A

Cindy, why don't you take the efficiency piece of that and talk about what you view as the trajectory for operations and service improvements throughout the year? And then, Ed, maybe you can tackle the revenue implications.

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**Cynthia M. Sanborn**
*Executive Vice President & Chief Operating Officer, Norfolk Southern Corp.*

A

Yes. Okay, Chris. So from a service standpoint, we are really focused on improving our availability of crew resources to help us with service. We had some accelerated attrition in several core locations of our network that we had to really increase the pipeline for those locations, and that's largely in place. In fact, of the conductor trainees we have out right now, whether in classroom or in the field, 50% are aimed at those core locations.

So as they onboard into the Q2 and the rest of the hiring plan that we have as well, I think we'll start to see our service measures improve and in the back half kind of accelerate. I would also add that TOP SPG is an accelerant as well as we take a look at our service product and take a look at our service plan, as Alan noted, will also be helpful as we think through train length, balance for our crews and how we operate the railroad and improve executability, which is also a catalyst.

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**Claude Elkins**
*Chief Marketing Officer & Executive Vice President, Norfolk Southern Corp.*

A

And when we look out in 2022, what we see is really with the exception of coal, very healthy commodity markets. There's a lot of demand out there right now as we are able to deliver more payload capacity to our customers, they're going to move it. And I've already said that we have a strong US consumer. We have record low inventory sales ratios. We believe that there's going to be continued demand, particularly for durable goods that will bode well for us and for our customers as we're able to deliver more and more value to them as the year progresses.

**Christian Wetherbee**
*Analyst, Citi Investment Research (US)*

Q

Got it. Thank you. Appreciate it.

**Operator**: Our next question is from the line of Jon Chappell with Evercore ISI. Please proceed with your question.

**Jonathan Chappell**
*Analyst, Evercore ISI*

Q

Thank you. Ed, sticking with you, I've been trying to tie some of these things together. First of all, the high single-digit, just a clarification from the high single-digit revenue, should we think kind of mid single-digit RPU and mid-single-digit volume?

And secondly, to plan to that again, capacity is at a premium here, you're clearly ramping up the trainees. It sounds like that's the second quarter, maybe you're not right-sized from an employment standpoint for a few more months. Are you being more selective in the cargo you're willing to move right now in an attempt to maximize mix margin and maintain or improve fluidity with the hope that there's more of an inflection in the second half of the year volumes?

**Claude Elkins**
*Chief Marketing Officer & Executive Vice President, Norfolk Southern Corp.*

A

Yeah, we stay very close to our markets and to our customers in those markets. And I think we have a pretty good handle on where the demand is. There's pretty strong demand really from every market that we serve currently. And what we intend to do is, as the year progresses, again, we're going to be able to deliver more and more value to those markets and to those customers, whether it's on the bulk side, where we have strong demand, or on the consumer product side, which includes both portions of our industrial products business and of course, our intermodal and automotive franchise.

**Jonathan Chappell**
*Analyst, Evercore ISI*

Q

But are you maybe not taking on as much freight as the demand [ph] get pace (00:35:05) just in order to get that service to where it needs to be and the network right-sized from a labor standpoint?

**Claude Elkins**
*Chief Marketing Officer & Executive Vice President, Norfolk Southern Corp.*

A

Well, I think Alan said it and Cindy, we're going to get our network running the way we need it to run with SPG. That's going to offer us the opportunity to deliver more value to our customers through service that they need, the productivity that everyone expects and frankly a long-term platform for growth across all the markets we serve.

**Jonathan Chappell**
*Analyst, Evercore ISI*

Q

Okay. Appreciate it. Thanks, Ed.

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**Operator**: Our next question is from the line of Ravi Shanker with Morgan Stanley. Please proceed with your question.

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**Ravi Shanker**
*Analyst, Morgan Stanley & Co. LLC*

Q

Thanks. Can you just unpack the pricing environment a little bit more, kind of what do you expect in terms of core price on a relative basis fine for 2022? And kind of how do we think about kind of accessorials kind of impacting the trajectory of RPU, especially in the back half of 2022? Thanks.

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**Claude Elkins**
*Chief Marketing Officer & Executive Vice President, Norfolk Southern Corp.*

A

When you look at the indices out there, there's clearly a lot of inflation in the US and global economy. There's a lot of demand and currently we are servicing our customers. And we're going to continue to deliver value to them in the long term.

Price is a substantial portion of our plan. It is an intent focus of us going forward as we're able to deliver value to our customers. We want to be able to deliver value for our company and our shareholders. And that's the combination and the recipe that we're focused on.

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**Operator**: Thank you. Our next question is from the line of Brian Ossenbeck with JPMorgan. Please proceed with your question.

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**Brian P. Ossenbeck**
*Analyst, JPMorgan Securities LLC*

Q

Hey. Good morning. Thanks for taking the question. So maybe for you, Cindy, we've seen a couple of facilities have engaged shutdown. I hear you're trying to hire a lot more on labor just as everybody else across the industry. Is there an equipment shortage issue or maybe a volume balance that you're also trying to work through? And can all that be solved by labor? What else has to go right to get things kind of back on balance?

And then maybe a quick follow-up for Ed, I hear you on the secular decline for coal in 2022, probably a good place to start expectations. But given that coal inventory levels on the utility side are pretty low, could we see some potential restocking this year or maybe just not going to count on that? Thank you.

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**Claude Elkins**
*Chief Marketing Officer & Executive Vice President, Norfolk Southern Corp.*

A

Yeah. I think your first question was on intermodal. And I'll start there. We are part of a network that spans not only the United States but also the global economy.

And we are working really hard to make ourselves more efficient on the intermodal side. That includes, of course, everything we've done to deliver value to our customers by reconfiguring some of our terminals, adding chassis and working very, very closely with our customers.

As warehouses are able to develop more throughput and more productivity on their side, it will help us not only absorb the volume that wants to move that way, but also help us deliver additional value and improve the velocity of our own network.

Same is true on the other end, on the port side. As imports are able to become more fluid, we're able to deliver more value in conjunction with them. I think your second question was on coal. Would you mind repeating that part?

**Brian P. Ossenbeck**
*Analyst, JPMorgan Securities LLC*

Q

Oh, sure. Just given where utility stockpiles are right now, obviously a lot depends on how much demand there will be. But could there be a scenario where you see some restocking here on the utility side in the US throughout the rest of the year?

**Claude Elkins**
*Chief Marketing Officer & Executive Vice President, Norfolk Southern Corp.*

A

Still, utility stockpiles are low. And it's really going to be a combination of the expectation for weather and demand. And frankly, the utility's appetite for inventory replenishment is going to dictate where that goes. I would characterize our position on coal pretty simply as we're trying to be very realistic but also opportunistic when it arises.

**Brian P. Ossenbeck**
*Analyst, JPMorgan Securities LLC*

Q

All right. Thank you, Ed.

**Operator**: Our next question is from the line of Scott Group with Wolfe Research. Please proceed with your question.

**Scott H. Group**
*Analyst, Wolfe Research LLC*

Q

Hey, thanks. Good morning, guys. Any thoughts on just some of the extreme volume weakness to start the year and when it gets better? And then, Mark, maybe just some thoughts on some of the individual costs, items for 2022, the outlook, I think you've got some tough comps on gains on sales, maybe just some color on what you're assuming there? And then lastly, anything in terms of first half or second half margin expectations would be helpful. Thank you.

**James A. Squires**
*Chairman and Chief Executive Officer, Norfolk Southern Corp.*

A

I'll start and talk about volumes to start off the year. I think every US railroad was slow out of the block, so to speak. Intermodal was particularly, I think that was really a combination of some weather there around the holidays, a holiday that fell on a weekend and probably some COVID impact, either upstream or downstream with warehouses, et cetera, and truckers, but we've seen that demand ramp up since a slow start. On the commodity side of the business, on the bulk side, there's a lot of demand out there, and we're working hard to put every available resource against it.

**Mark R. George**
*Executive Vice President-Finance & Chief Financial Officer, Norfolk Southern Corp.*

A

Yeah. And Scott, just to get to some of the cost items, typically, you would ask about sick comp and then on a per employee basis. And I think I guided this past year to $33 million being the area to expect in that back half, and that's where it ended up being coming out for 2021.

And I would say it's probably going to be in that same vicinity here in 2022 is we're going to have a little bit of inflation in wages, but that will be largely offset by tailwinds from lower incentive comp assumptions. So, that's probably the best way to think about the comp and ben line.

Purchased services had ramped throughout the year. As we told you, we started light in 2021. There were things being pushed out with some of the dynamics that were going on. So I would look at the kind of back half of 2021 as a good run rate to assume for 2022 there.

Similarly, I would say where we ended up on materials, if we could avoid growth off of that 2021 base that would be great. But you have to expect there's inflation that we're fighting there. So, I would expect a little bit of creep there.

And similarly, with rents it kind of ramped toward the back half of the year now. And I think the current levels here where we're looking at rents, with network velocity down, it puts pressure on our rents. As the velocity starts to increase, we'll be taking on more volume which will replace that. So I think pretty flat rents here from Q4 levels. So hopefully, that helps.

And I think from a margin perspective, as Alan said, we're probably going to be sideways here to start the year, and we're going to see some sequential improvement from there as volume starts to come onboard the network. More volume, I should say.

**Scott H. Group**
*Analyst, Wolfe Research LLC*

Q

Just when you say sideways, can you just clarify maybe I missed what you meant?

**Mark R. George**
*Executive Vice President-Finance & Chief Financial Officer, Norfolk Southern Corp.*

A

No. Sideways from the Q4 levels here of OR. We've got a 60.4% OR we posted. We had something similar there in Q3. I think we're going to go a little bit sideways from those levels until we start taking on more volume, and that's when we'll see that improvement in the operating ratio.

**Scott H. Group**
*Analyst, Wolfe Research LLC*

Q

Okay, helpful. Thank you, guys.

**Mark R. George**
*Executive Vice President-Finance & Chief Financial Officer, Norfolk Southern Corp.*

A

Thank you.

**Operator**: Our next question comes from Ken Hoexter with Bank of America.

**Ken Hoexter**
*Analyst, Bank of America*

Q

Hey. Great. Good morning. Jim, congrats on the next phase. Always enjoy the trips, and congrats to Alan and Ed as well. Just Alan or Ed, just to clarify on those numbers on the volume side there as volumes are down 14%. Can you parse that by the crew shortage, weather or COVID? Should we still expect to see negative first quarter volumes and then kind of ramping up, I just want to understand your kind of cadence as you look at those volumes, just conflicting with kind of the strong demand comments. And then, Cindy, you mentioned the locomotives pulled out of storage. What do you still have left? And is that for the CapEx plan? Or is there still plenty as you pull those [indiscernible] (00:44:09)?

**Alan H. Shaw**
*President, Norfolk Southern Corp.*

A

Sure. I'll start with the volume comment. We're watching the volumes very closely and staying very close to our customers as this month has evolved and as this quarter continues. I think we're going to continue to see the relative acceleration of strength that we've seen so far on the intermodal side continue. And we're putting resources up against demand on the bulk side. And that's really where we expect to see TOP SPG help us deliver additional value.

**Cynthia M. Sanborn**
*Executive Vice President & Chief Operating Officer, Norfolk Southern Corp.*

A

And Ken, on the locomotive question. The engines that we pulled out were really kind of what we would call kind of a dynamic storage environment where we would have them as protect units in case we had some sort of line outage that would prevent a terminal from operating on time with its outbound trains because the inbound trains were impacted from coming in. And so we activate units.

And then as the backlog came into the terminal, we would then lay down different units. So it was fairly dynamic, and it's a good process for us to have to help us deal with variability on the network that we have from time to time. So essentially, we activated all of those units and there are still units in storage that we would need to do a little bit more work on to activate them, but we have not done so.

**Operator**: Next question comes from the line of Walter Spracklin with RBC Capital Markets. Please proceed with your question.

**Walter Spracklin**
*Analyst, RBC Capital Markets*

Q

Yes. Thanks very much, operator. Good morning, everyone. So on the operating ratio improvement of 50 to 100 basis points, generally, that's something that given the pricing that you're achieving and some block and tackling that you do through the year that that's a more kind of normalized annual level that we would expect to see of a railroad. Curious if that's your view on it. Are you in a steady state now level of operating ratio with any major improvements or closing the gap kind of done and really just kind of on that standard level? Or do you see upside to that 50 to 100 basis points if some of your initiatives take hold here in 2022 and allow you to achieve something better than that?

**James A. Squires**
*Chairman and Chief Executive Officer, Norfolk Southern Corp.*

A

Walter, the operating ratio guidance for this year is reflective of what Mark talked about in terms of just the trajectory of OR, particularly in the first half of the year. We're going to fix our service product and we're going to get resources in place, and we're going to implement TOP SPG, which is going to make us less resource intensive. It's going to allow us to grow and provide value to the market and it's going to allow us to provide a very efficient product. What that does is that gives you kind of a sideways OR in the first half of the year and then some pretty meaningful change in improvement in the second half of the year.

**Walter Spracklin**
*Analyst, RBC Capital Markets*

Q

Okay. Appreciate the time.

**Operator**: Next question is from the line of Allison Poliniak with Wells Fargo. Please proceed with your question.

**Allison Poliniak-Cusic**
*Analyst, Wells Fargo*

Q

Hi. Good morning. Just want to ask about technology. I guess, firstly, how impactful is it to support your SPG initiatives going forward? And I guess, along with that, do we assume technology investment starts to accelerate here if that's the case or does it just get pivoted to different initiatives under that operational plan, any color there?

**Alan H. Shaw**
*President, Norfolk Southern Corp.*

A

We've got a fairly robust operations planning model that we will utilize with TOP SPG. And frankly, TOP SPG is a clean slate. We're going to put everything out on the table. We're going to redesign our network based on what's best for Norfolk Southern. And the outcomes of that are going to be a balance between service productivity and growth.

Jim started us on our digital transformation. And you've heard us talk about technology improvements and customer-facing technology, technology improvements and our efforts to improve our efficiency on line of road and in our intermodal terminals. And we're going to continue that because we fully believe that that is going to help us better utilize our resources and make us more consistent and more reliable going forward.

**Allison Poliniak-Cusic**
*Analyst, Wells Fargo*

Q

That's great.

**Alan H. Shaw**
*President, Norfolk Southern Corp.*

A

A great example is the one that Ed highlighted with NSites.

**Allison Poliniak-Cusic**
*Analyst, Wells Fargo*

Q

Does that mean that some of those – I know productivity is important there, but some of those more customer-facing technology investments, do they start to take more precedence here? Or is it still very well-balanced under all of that?

**Alan H. Shaw**
*President, Norfolk Southern Corp.*

A

It continues to be a balance. We will continue to recognize that our relationships with our customers are shifting from B2B to B2C. And Cindy has really helped us focus our technology on operations and productivity improvements as well.

**Cynthia M. Sanborn**
*Executive Vice President & Chief Operating Officer, Norfolk Southern Corp.*

A

And Allison, I would put the operating side or the operating improvements into three big buckets. They'd be mobility, automation and predictive analytics. And we've got a robust set of initiatives in each of those areas. And we've talked about them in prior earnings calls. So that is a big part of our productivity opportunity.

**Allison Poliniak-Cusic**
*Analyst, Wells Fargo*

Q

Great. Thank you.

**Operator**: Our next question comes from the line of Tom Wadewitz with UBS. Please proceed with your question.

**Thomas Wadewitz**
*Analyst, UBS Securities LLC*

Q

Yeah. Good morning. So, I guess, I've got kind of two broader things. The – SPG, I'm wondering, when we think about PSR having train schedule focus, running longer trains, I know there are a lot of different pieces to it and we have certain metrics that we'll watch to see how you're doing. Should we be considering different metrics for the output of SPG, train length velocity, dwell time, are those going to be the kind of the right metrics or are there different things that we would look at for kind of outputs of SPG?

And then I guess the other topic would just be on labor. Do you think you're at steady state on labor or when you talk about elevated attrition, is there still risk that you don't make the progress because you're kind of fighting against that attrition and that remains a challenge. Thank you.

**Alan H. Shaw**
*President, Norfolk Southern Corp.*

A

Tom, I'll start first. With respect to the metrics for TOP SPG and what we'll be looking for is what we outlined, improve service, improve productivity and a platform for growth. And then I'll let Cindy talk about the specifics of that.

**Cynthia M. Sanborn**
*Executive Vice President & Chief Operating Officer, Norfolk Southern Corp.*

A

Yes. So Tom, from an SPG perspective, we think it's very PSR-based at its core. It's three main things. It's driving train length, it's driving balance and it's driving executability which then provides service. So as you put those together with SPG, meaning Service, Productivity and Growth, all three of those initiatives drive growth in the future as well as service in the present.

So we're really excited about it. We had a TOP21 in 2019. A lot has changed since 2019. And so it's really good timing for us to take on this initiative as well.

Let me go to the labor side. I think we are an attractive company to work for. And we are able to attract people to work for us. And I think, as I've described, our hiring plan is very robust as we head into the first quarter. But a lot of that work has been done in 2021.

In fact, six straight months of increased conductor trainees, and 10 out of the last 12 months, we had an increase in conductor trainees. So we're going to continue working towards getting onboarding folks that want to be here.

We have folks that do come, are excited about working for us as a company, our benefits that we provide and enjoy working on the railroad. So we'll find those folks and bring them on board. It is a challenging environment, but we feel like we'll be able to get the people that we need.

And from a measurements perspective, when we look at dwell and train velocity, I mean, those really are the key ingredients to seeing how we're performing. We have a lot of internal measures, both customer-facing and network performance and specific customer measures.

So I don't know that SPG changes the measurement outlook. I think what you will see is an improved service product. And you will see that in the measures that you can see publicly now.

**Thomas Wadewitz**
*Analyst, UBS Securities LLC*

Q

Has the attrition stabilized? Can you give a quick comment on that? That seems like kind of a key variable.

**Cynthia M. Sanborn**
*Executive Vice President & Chief Operating Officer, Norfolk Southern Corp.*

A

It's about the same. I think it's very hard to predict. When we looked at the challenges of last year and did a lot of introspection about what we could have figured out, what could we have done differently.

And we have about – it is right out of 100 hiring locations and saw some outpace, unusual attrition at 12 of those hiring locations. And those are still challenging locations from an attrition standpoint, but think we've got our hiring plans aimed to manage through that the best we can.

We've got some that we're really seeing an improvement in our pipeline. Some are staying about the same, but we've got our great HR team working on sourcing folks even in a challenging environment because, again, we're a compelling company to work for.

**Thomas Wadewitz**
*Analyst, UBS Securities LLC*

Q

Great. Thank you.

**Operator**: Our next question comes from the line of Justin Long with Stephens. Please proceed with your question.

**Justin Long**
*Analyst, Stephens, Inc.*

Q

Thanks and Jim, Alan and Ed, congrats on all the transitions. I had a two-part question. First for Cindy, just curious when you think service can get back to pre-pandemic levels when you put all the pieces together?

And then for Mark, when you look at the implied incremental margins, excluding the big gain on sale from last year of $55 million, it seems to imply incrementals in the mid-50s.

I know the network challenges are weighing on that number, but any thoughts on where incremental margins could normalize once we get through some of these network challenges in the second half of this year and into 2023?

**Cynthia M. Sanborn**
*Executive Vice President & Chief Operating Officer, Norfolk Southern Corp.*

A

Justin, I'll start with service levels. I think we'll be challenged in the first quarter. I think we'll start to see some improvement in the second as our new employees come on board.

And then I think we'll be back to planned levels of what velocity we have in our plan and what dwell we have in our plan, and that should look close to what you described as pre-pandemic levels. So that's what we're aiming for. And I think TOP SPG helps us with that as well.

**Mark R. George**
*Executive Vice President-Finance & Chief Financial Officer, Norfolk Southern Corp.*

A

Yeah. And Justin, I would say to the incremental margin question, your math is right. That's the way it calculates. And look, we have a little bit less tailwind than we did last year when you think about incrementals. A little bit on the coal side, coal pricing and coal volumes won't be as robust. We've got that property gain compare, that also impacts the year-over-year look at the incrementals.

And as volumes increase, some of the accessorials come down, and that is also an impact as well. And, look, the inflationary environment is certainly stronger than it was last year, although we're hoping that incremental pricing will help mitigate that. So those are really the drivers here of why you see the step-down in incrementals from say, last year, full year to this year, although incrementals in the fourth quarter is kind of consistent with what you're seeing in the guidance for next year.

**Justin Long**
*Analyst, Stephens, Inc.*

Q

Okay. Thank you.

**Mark R. George**
*Executive Vice President-Finance & Chief Financial Officer, Norfolk Southern Corp.*

A

You're welcome.

**Operator**: Our next question is from the line of Amit Mehrotra with Deutsche Bank. Please proceed with your question.

**Amit Mehrotra**
*Analyst, Deutsche Bank Securities, Inc.*

Q

Hey. Thanks a lot. Hi, everyone. Mark, I just wanted to follow-up on that question, maybe just ask it a little bit of a different way because I know there's a lot of focus on operating ratio on incremental margins, which is perfectly valid. But the industry and I think you guys are also kind of moving to more of an investment for growth phase, and so I'm just trying to think about maybe the right way to think about prospective performance is really about earnings growth potential and total earnings growth potential as opposed to just exclusively on operating ratio expansion.

And I'm wondering to get your thoughts on that and it looks like kind of low double-digit earnings growth is what you guys are pointing to for this year. And if you think that type of level or trajectory is kind of sustainable over the course of many years?

**Mark R. George**
*Executive Vice President-Finance & Chief Financial Officer, Norfolk Southern Corp.*

A

Yeah, Amit. The bottom line growth is obviously a function of margin expansion and the top line growth. So as the runway for margin expansion lessens, you're going to have to rely more on top line growth. And that's why there is a G in the SPG. We're looking to grow this business, and we're not waiting until we get to margins at the right level to do that. So, the incremental this year for example, that we're guiding to, if we can outperform on the top line and even get more revenue and more volume onto this railroad, that should really help the incremental equation.

So every extra point of revenue growth you get, I do believe you'll have stronger incrementals. And certainly, as we look out from 2022 and when we're back to where we want to be from a service level perspective, provided the external environment is supportive from an economic growth perspective, we would hope to be able to outperform on the top line and have that be a primary catalyst for that bottom line growth in conjunction with continued improvement on the OR, because you are going to have accretive incrementals. It's just I think your incrementals will be larger the larger your top line growth is.

**Amit Mehrotra**
*Analyst, Deutsche Bank Securities, Inc.*

Q

So, just if I understand what you're saying, I guess, the optics around the muted incrementals this year, the answer to your previous question is really reflective of the first half, but the operating leverage in the business in terms of 60% to 70% incrementals, that's still the right way to think about prospective incrementals in a more growth year environment. Is that correct?

**Mark R. George**
*Executive Vice President-Finance & Chief Financial Officer, Norfolk Southern Corp.*

A

Yeah. I mean, I'm not going to range bound it for the future. But, yeah, I do believe incrementals should be better when we don't have some of the headwinds that we're dealing with this year.

**Amit Mehrotra**
*Analyst, Deutsche Bank Securities, Inc.*

Q

Yeah. Okay. Thank you very much. Appreciate it.

**Mark R. George**
*Executive Vice President-Finance & Chief Financial Officer, Norfolk Southern Corp.*

A

Okay.

**Operator**: Our next question comes from the line of Ben Nolan with Stifel. Please proceed with your question.

**Benjamin Joel Nolan**
*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Yes. Thanks. I was a little curious on the coal side. Certainly, from what we've heard from some of your competitors, you have a lot more optimism for this year with respect to exports and just coal volumes in general. Is this something that you're hearing from your clients or just macro view, maybe just a differentiated opinion? I wonder if you could put a little color around that.

**Claude Elkins**
*Chief Marketing Officer & Executive Vice President, Norfolk Southern Corp.*

A

Sure. This is Ed. Thanks for the question. If you look at the futures, they're all pointing in a downward direction for 2022 as it progresses into 2023. The indices are already down a little bit from where they were in the Q4. Mix is going to play a part, of course. And on the seaborne side, in particular for export I think there's 20 million tons of new capacity that's coming online globally. And while demand right now, I think, is being held up by some supply issues, will we keep up with that additional production that's coming online. We're very guarded on that.

**Benjamin Joel Nolan**
*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Okay, all right. So, just macro then. I appreciate it. Thanks.

**Operator**: Thank you. Our next question is from the line of Bascome Majors with Susquehanna. Please proceed to your question.

**Bascome Majors**
*Analyst, Susquehanna Financial Group LLLP*

Q

Yes. Thanks for taking my questions. I mean Alan, you've been at the railroad for 27 years. You've been in the marketing officer seat for seven. There's probably not a big customer you hadn't met with multiple times. So I know you're probably not going to have the traditional kind of 100 days to start the CEO role in a couple of months here in May when you take over, but can you give us a little view on really what your near-term objectives are and what constituencies you want to engage with when you do initially take the reins?

**Alan H. Shaw**
*President, Norfolk Southern Corp.*

A

Yeah. The near-term objectives are improving service, continuing the phenomenal momentum that we've had with our efficiency. And when you provide a safe and efficient and reliable service product, you can grow. We've got this fantastic franchise that faces the fastest-growing segments of the US economy. We're positioned really well over the long term. The folks that I've been spending the most time with right now have been our ops team.

And it's the Ops leadership and our craft employees out in the field. And I'm really engaging in conversations with them, I'm listening and getting their feedback on how we continue to focus on efficiency improvements and restoring our service levels to where we all want it because that's going to be a big boost to our efficiency and our margins as well, as Mark noted.

**Bascome Majors**
*Analyst, Susquehanna Financial Group LLLP*

Q

Thank you.

**Operator**: Thank you. Our next question is from the line of Jeff Kauffman with Vertical Research. Please proceed with your question.

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**Jeffrey Kauffman**
*Analyst, Vertical Research Partners LLC*

Q

Thank you for taking my question. And congratulations, Jim, and congratulations, Alan on the executive changes. Just two quick modeling questions [indiscernible] (01:02:46) the same one. So did I understand you right in that share repurchases going forward are more a function of left over cash flow after dividends and free cash and that you're not really looking to lever up to repurchase shares? And then the second part of that, just any guidance on tax rate for 2022?

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**Alan H. Shaw**
*President, Norfolk Southern Corp.*

A

Yes. Jeff, that's exactly right. The share repurchase is a function of leftover cash. So as earnings grow, we're also growing our CapEx, but whatever money is left over, being committed to our credit rating. Whatever money is left over, we distribute to shareholders in the form of dividends, which we've increased and share repurchase. So that's that. And then with regard to the tax rate, we typically guide to 23% to 24%. And we're not anticipating any change to the corporate tax rate in 2022 so that guidance is maintained.

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**Jeffrey Kauffman**
*Analyst, Vertical Research Partners LLC*

Q

It's my one and a half. Thank you.

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**Alan H. Shaw**
*President, Norfolk Southern Corp.*

A

Okay.

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**Operator**: The next question is from the line of David Vernon with Bernstein. Please proceed with your question.

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**David Vernon**
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Hey. Good morning, guys. Jim, I'd love to get your perspective on a couple of regulatory issues. Obviously, there's more discussions around the access to data, open access and hearings coming up in the next couple of quarters here. How worried should investors be about this issue? Can you help kind of frame your perspective on what the proposed changes could mean from a business impact standpoint for Norfolk Southern? And then if you could also kind of comment a little bit around kind of what the objectives are around the responsive application filed in CPKC? Like what is the size of the opportunity that you're seeing there from looking for more access over the Meridian and potentially more of the KCS? Thanks.

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**James A. Squires**
*Chairman and Chief Executive Officer, Norfolk Southern Corp.*

A

To tell you what, David, let me take the first part of that regarding the STB proceedings in flight, and then I'll ask Alan to address the CPKC matter. With respect to the STB proceedings, we've made known to the STB that we oppose 7/11 forced access. I personally was in front of the vent sitting commissioners late last year and made the case with our team. Based on the potential for operational disruption, supply chains in flux, the outdated nature of the evidence in the record much of it years old, and we think stale. And so we made our case, and we will continue to do so as these proceedings unfold. Alan, talk a little bit about CPKC.

**Alan H. Shaw**
*President, Norfolk Southern Corp.*

A

Yeah. So the STB provides us a form to protect our customers and our shareholders' interest. We've had a very constructive dialogue. And for us, it's really centered around the Meridian Speedway, which is part of the fastest route between the Southeast and the Southwest, which are the two fastest-growing regions in the country. We're convinced that that is only going to continue to grow. And we're going to make sure that we protect our shareholders and our customers' interest there. It's a big part of our plans moving forward.

**Operator**: Thank you. At this time, this concludes the question-and-answer session. And I will now turn the call back over to Mr. Jim Squires for closing comments.

**James A. Squires**
*Chairman and Chief Executive Officer, Norfolk Southern Corp.*

Thank you, everyone. We look forward to talking with you again next quarter.

**Operator**: Ladies and gentlemen, thank you for your participation. This does conclude today's teleconference. You may now disconnect your lines, and have a wonderful day.