UNION PACIFIC CORP

A Dividend Growth Investment Thesis

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DIVIDEND GROWTH
FROM BLUE CHIP AMERICA℠

THE CASE FOR DIVIDEND GROWTH

Executive Summary

In 1869 the transcontinental railway was completed, and suddenly, the U.S. became much smaller. Ever since then railroads have been an integral part of the U.S. economy. We believe that railroads are attractive long-term investments due to their wide-moat businesses that keep disruption at a minimum. We also believe that railroads possess a rare combination of longevity and staying power, making them stand out among other industries. While railroads may lack glamour, they have demonstrated the capacity to consistently generate cash flow and build substantial wealth for shareholders.

At Denewiler Capital Management, our core investment strategy is to increase portfolio income by investing in companies that sustainably grow their dividends year after year. This allows us to have more control over how the portfolio compounds income, while still earning a competitive total return. Therefore, we consider Union Pacific Corp the most appealing choice among its peers, primarily because of its 2.5% dividend yield. Company management has historically shown the ability to consistently increase its dividend without sacrificing the earnings power of the company, and we believe that will continue.

The primary purpose of the following investment report is to explore the railroad industry and showcase the health of Union Pacific Corp. Although we believe the risks associated with Union Pacific's business are constrained, it's important to note that UNP is not entirely devoid of risk. We anticipate a potential return of approximately 114% over the next decade based on the growth of its dividend and overall business performance.

W. Greg Denewiler, CFA®

TERRITORY & BACKGROUND

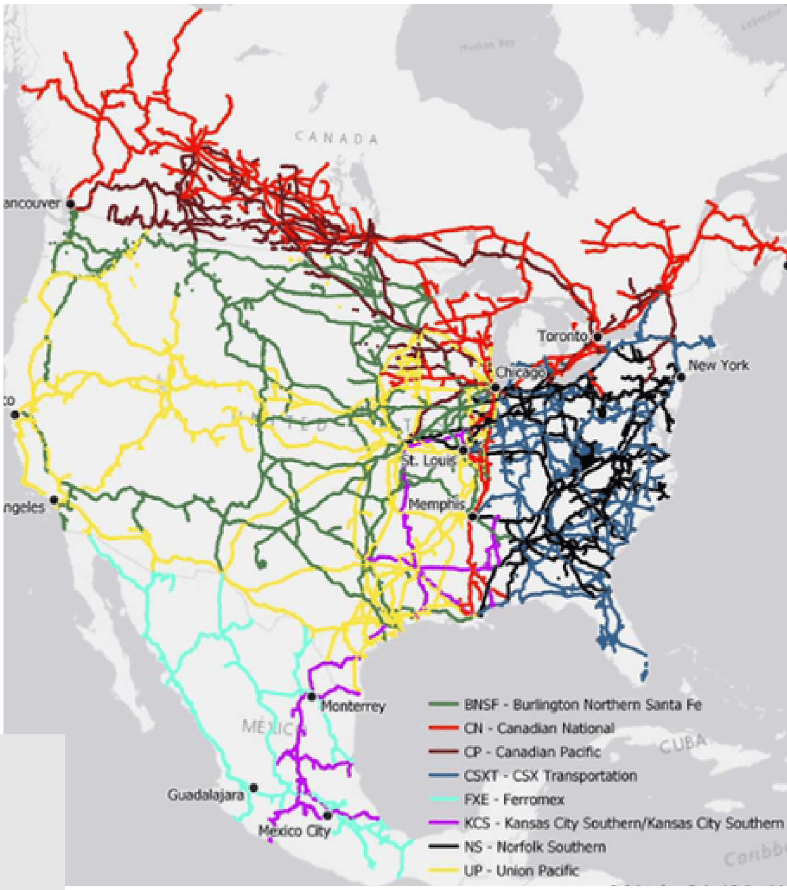
Union Pacific was formed in 1862 when President Lincoln signed the company's charter. Subsequently, Union Pacific would significantly contribute to the westward expansion of the US economy, leaving a lasting impact. Even though Union Pacific (UNP) faced bankruptcy in 1893 alongside 153 other railroads, it has since evolved into a remarkable tale of dividend growth success. It boasts a dividend track record of more than 100 years.

There are only six Class I railroads in the US, and they all operate as a **regional duopoly.** Five of the companies are publicly traded, while BNSF is privately owned by Berkshire Hathaway. Even though each company has a specified territory, the national rail network is intricately connected. Since there is limited track space, the railroads must coordinate the use of some assets. Even though they compete against each other, they jointly own assets such as bridges, terminals, stretches of track, etc. According to Union Pacific's public disclosures, it shares 50% ownership over the Alameda Belt, Houston Belt & Terminal, Longview Switching Co., and others, with its direct competitor BNSF. This type of symbiotic relationship is common within the industry.

-BNSF & UNP (WEST)
-CSX & NSC (EAST)
-CNR & CP (NORTH)

The American railroad industry is highly established, with limited opportunities for new entrants. The US Government is unlikely to grant additional land leases and the unsubsidized cost of laying extensive new track is prohibitively expensive. Although the industry has undergone consolidation, additional mergers may raise concerns under antitrust laws.

While this may appear to limit future growth for the industry, **it creates scarcity and provides pricing power.**



A UNIQUE INDUSTRY

> **Union Pacific Railroad... is one of America's most recognized companies. We provide a critical link in the global supply chain by linking 23 states in the western two-thirds of the country by rail. We serve many of the fastest-growing U.S. population centers, operating from all major West Coast and Gulf Coast ports to eastern gateways. We connect with Canada's rail systems and are the only railroad serving all six major Mexico gateways. We provide value to roughly 10,000 customers by delivering products in a safe, reliable, fuel-efficient and environmentally responsible manner.**
>
> **-UNP Investor Relations**

As highlighted in 2020, supply chains serve as the lifeblood of the US economy, with railroads playing a crucial role. In 2022, it was estimated that a shutdown of railroads would incur a daily economic output cost of $2 billion. Consequently, railroads are subject to government regulations, but these regulations do not impose excessive constraints as the **economy cannot afford to operate without them**.

Beyond their economic importance, railroads are also more efficient to operate than most other forms of freight. According to the Congressional Budget Office, moving products via rail is 60-70% cheaper than trucks. UNP carries 165,000 carloads of freight weighing a total of 8,364 tons per week. One train can carry the equivalent of 300 trucks worth of freight. No other form of transportation can move that level of volume and weight at the same efficiency that a railroad can. This is only further evidence of a **wide moat business.**

When considering environmental impacts, railroads move one ton of freight over 500 miles on one gallon of fuel on average, making them four times more efficient than trucks. Based on 2021 EPA data, railways contribute 2% to greenhouse gas emissions in the transportation sector, whereas aircraft constitute 8%, and medium/heavy-duty trucks represent 23%. Trains are more efficient and cleaner than any other alternative. On longer distances, trains can even compete with comparable delivery times because they avoid traffic, construction, and the mandatory sleep requirements that truckers face.

In a variety of applications, transporting goods via train has cost, environmental, and delivery advantages.

TOP & BOTTOM LINE

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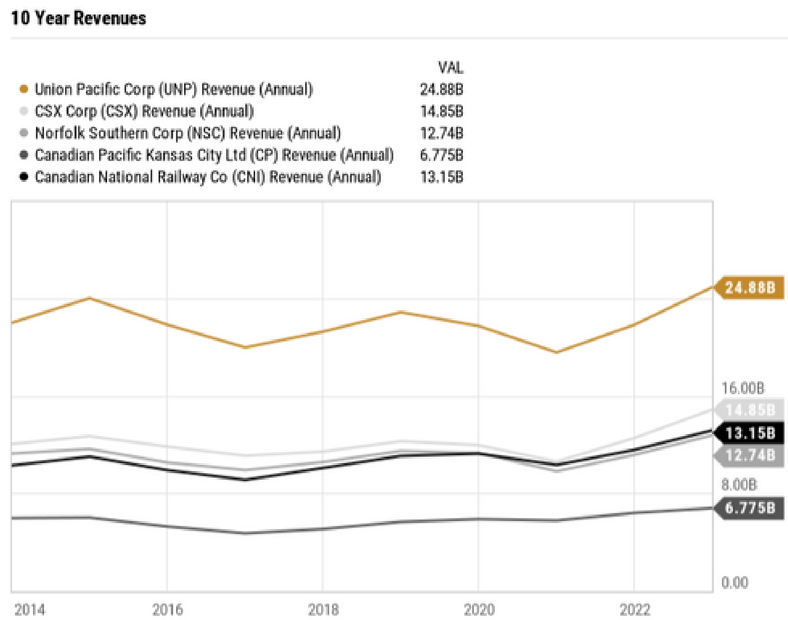
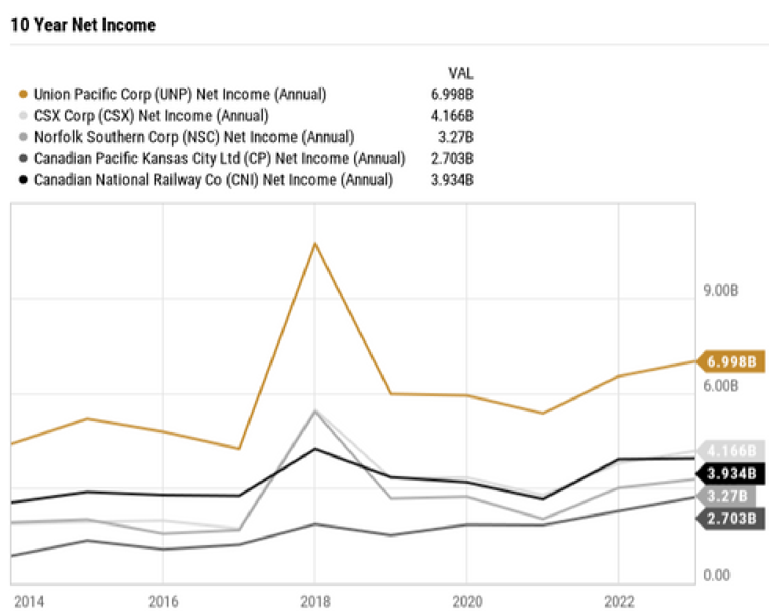
Union Pacific generates annual revenue of $24.88 billion, which is more than double some of its peers. Despite only nominal growth in the revenues of the railroad industry over the past decade, it's important to note that a lack of top-line growth doesn't necessarily imply a lack of overall company expansion. UNP has significantly improved its operational efficiency, which has expanded its profit margins. Consequently, UNP’s net income has **increased at a much faster pace** than its overall revenue.

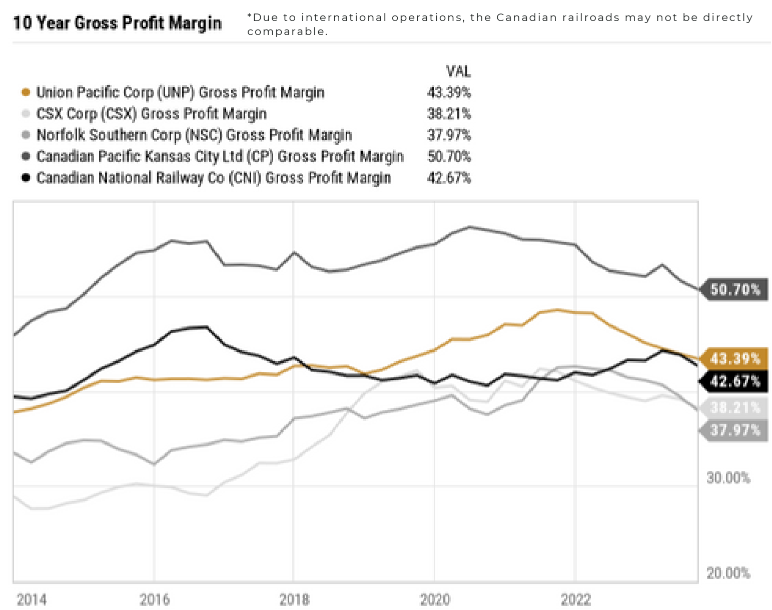


The ongoing ability of UNP to generate consistent revenue, combined with margin enhancement, is a key part of this story because it translates to higher free cash flow. In theory, this should boost the overall value of the company, providing them with a strategic advantage in allocating their surplus capital. More free cash flow creates opportunities for reinvestment in the business, share buybacks, debt reduction, **or increasing the dividend.**



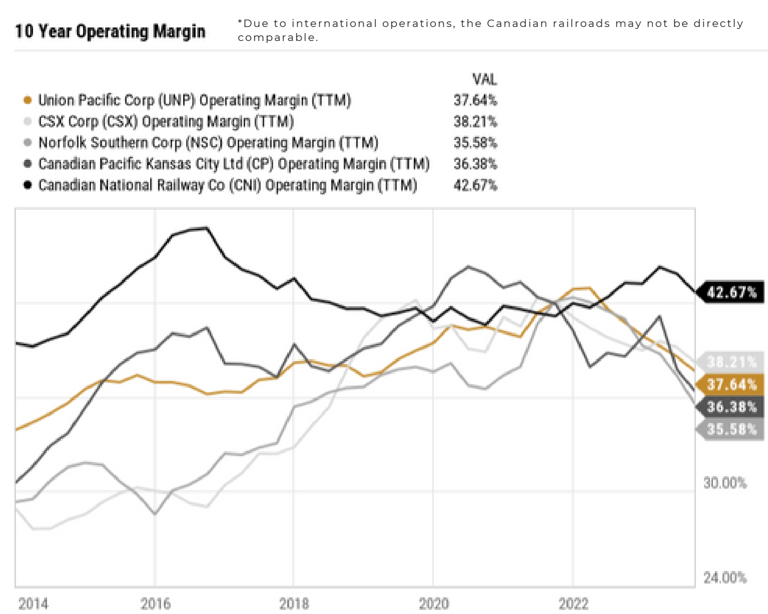
PROFITABILITY

In this case, gross profit margin represents the percentage of each dollar of revenue that is available to the company after costs to operate the trains. UNP has the second highest gross profit margin in its peer group. An increase of just a few points in margin can translate to substantial cashflow.



In general, gross profit margins have increased across the board over the past 10 years. Although there has been a slight decrease in gross profit margins recently, this is a widespread trend across the industry that is likely attributable to macroeconomic factors. By cutting costs and increasing efficiency over the past 10 years, **UNP has an attractive gross profit margin** that allows for more cash to flow to the bottom line.

After accounting for depreciation, interest expense, pension costs, and administration expenses, the operating margins of all the railroads begin to converge. This should make sense given the similarity of their business models. Besides recent years, the 10 year trend is largely positive for the industry, and UNP falls in the middle of the pack. However, due to the size UNP's revenues, the resulting cash from operations gives them **a lot of room to grow their dividend.**



RETURN ON INVESTED CAPITAL

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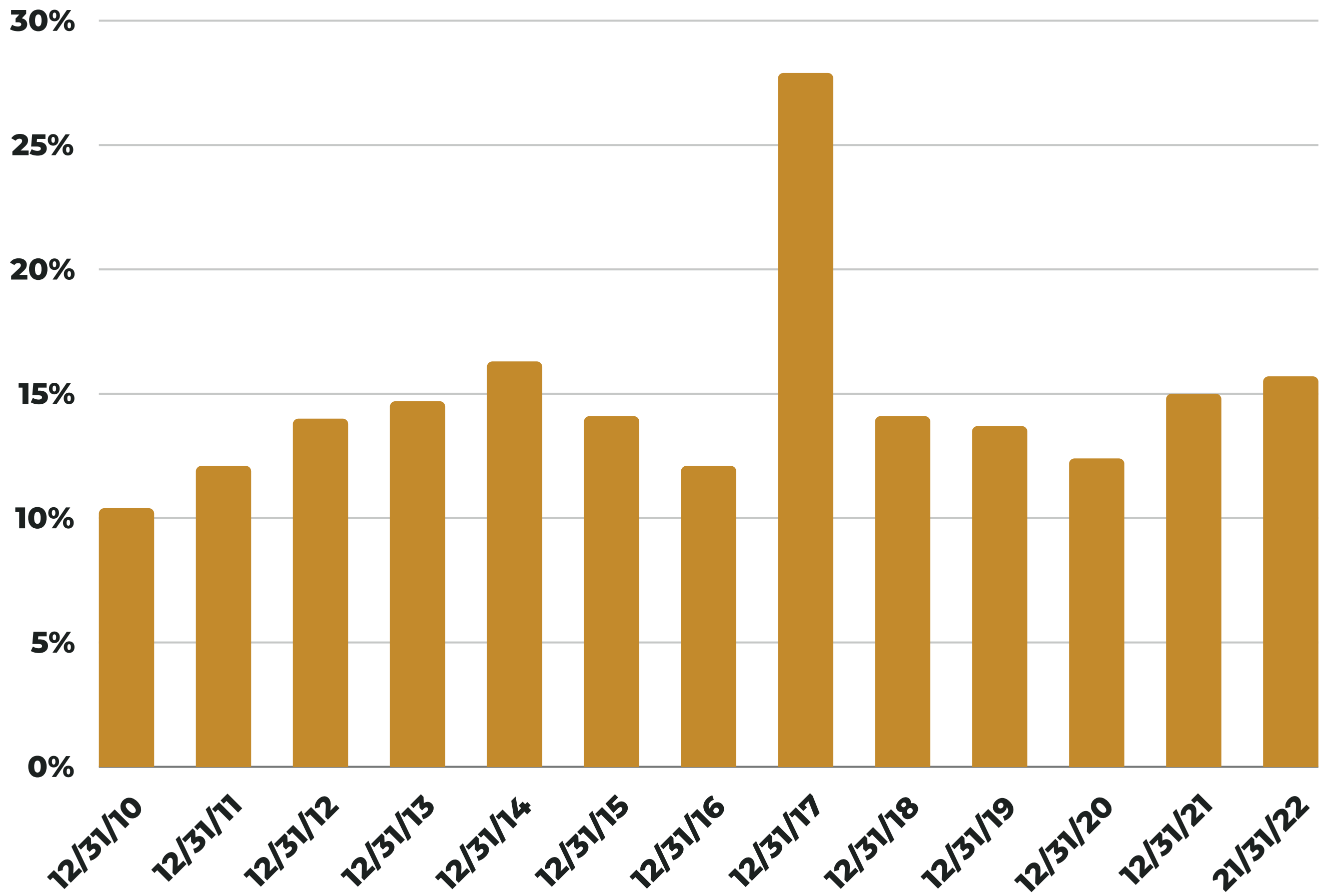
HISTORY OF UNP'S RETURN ON INVESTED CAPITAL



Return on invested capital is a way to measure the effectiveness of how well a company manages their capital. Simply put, a number above 10% generally means that over time a company is earning returns greater than their cost of capital (costs associated with the financing of operations). When evaluating candidates for robust dividend growth, we usually establish a minimum threshold of 10% as a decisive criterion. In the case of Union Pacific, **it has consistently exceeded this 10% benchmark over the last decade,** showcasing both reliability and the capacity to return cash to shareholders.

CAPITAL EXPEDITURES

IN MILLIONS $		12/31 2022	12/31 2021	12/31 2020	12/31 2019	12/31 2018	12/31 2017	12/31 2016	12/31 2015	12/31 2014	12/31 2013
UNP	CAPEX	3,620	2,936	2,927	3,453	3,437	3,238	3,505	4,650	4,346	3,496
	REVENUE	24,875	21,804	19,533	21,708	22,832	21,240	19,941	21,813	23,988	21,963
		14.6%	**13.5%**	**15.0%**	**15.9%**	**15.1%**	**15.2%**	**17.6%**	**21.3%**	**18.1%**	**15.9%**
CSX	CAPEX	2,133	1,791	1,626	1,657	1,745	2,040	2,398	2,562	2,449	2,313
	REVENUE	14,853	12,522	10,583	11,937	12,250	11,408	11,069	11,811	12,688	12,026
		14.4%	**14.3%**	**15.4%**	**13.9%**	**14.2%**	**17.9%**	**21.7%**	**21.7%**	**19.3%**	**19.2%**
NSC	CAPEX	1,197	1,222	1,247	1,241	1,197	1,034	893	1,192	1,313	1,200
	REVENUE	6,775	6,377	5,754	5,871	5,645	5,057	4,706	5,259	5,996	5,956
		17.7%	**19.2%**	**21.7%**	**21.1%**	**21.2%**	**20.4%**	**19.0%**	**22.7%**	**21.9%**	**20.2%**
CP	CAPEX	1,948	1,470	1,494	2,019	1,951	1,723	1,887	2,385	2,118	1,971
	REVENUE	12,745	11,142	9,789	11,296	11,458	10,551	9,888	10,511	11,624	11,245
		15.3%	**13.2%**	**15.3%**	**17.9%**	**17.0%**	**16.3%**	**19.1%**	**22.7%**	**18.2%**	**17.5%**

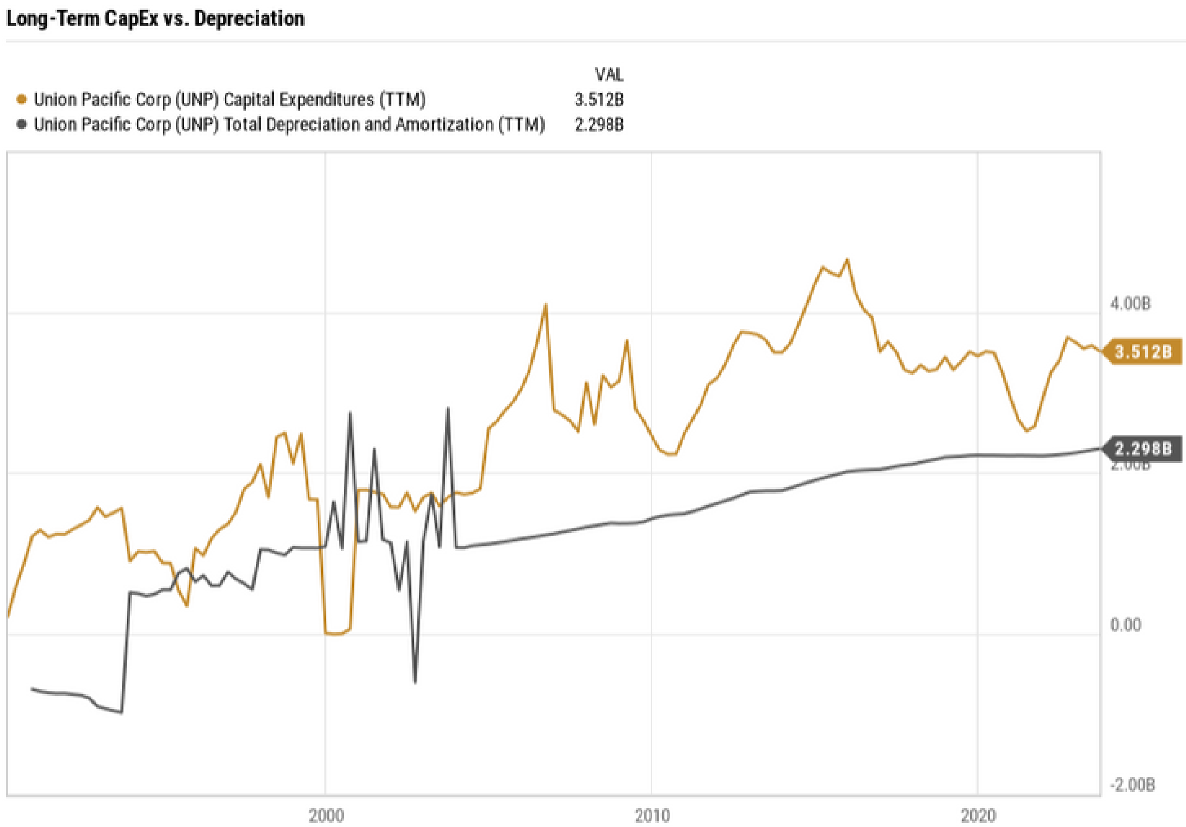
We want to see a company that reinvests in the business to keep it competitive and **mitigate the risk of outdated assets.** UNP has consistently spent between 13% and 18% of revenue on capital expenditures. This is slightly below their competitors but well within the industry average range.

DEPRECIATION

IN MILLIONS $		12/31 2022	12/31 2021	12/31 2020	12/31 2019	12/31 2018	12/31 2017	12/31 2016	12/31 2015	12/31 2014	12/31 2013
UNP	DEPRICIATION	2,246	2,208	2,210	2,216	2,191	2,105	2,038	2,012	1,904	1,777
	REVENUE	24,875	21,804	19,533	21,708	22,832	21,240	19,941	21,813	23,988	21,963
		9.0%	**10.1%**	**11.3%**	**10.2%**	**9.6%**	**9.9%**	**10.2%**	**9.2%**	**7.9%**	**8.1%**
CSX	DEPRICIATION	1,500	1,420	1,383	1,349	1,331	1,315	1,301	1,208	1,151	1,104
	REVENUE	14,853	12,522	10,583	11,937	12,250	11,408	11,069	11,811	12,688	12,026
		10.1%	**11.3%**	**13.1%**	**11.3%**	**10.9%**	**11.5%**	**11.8%**	**10.2%**	**9.1%**	**9.2%**
NSC	DEPRICIATION	656	647	581	532	537	510	483	466	500	549
	REVENUE	6,775	6,377	5,754	5,871	5,645	5,057	4,706	5,259	5,996	5,956
		9.7%	**10.1%**	**10.1%**	**9.1%**	**9.5%**	**10.1%**	**10.3%**	**8.9%**	**8.3%**	**9.2%**
CP	DEPRICIATION	1,221	1,181	1,154	1,139	1,104	1,059	1,030	1,059	956	922
	REVENUE	12,745	11,142	9,789	11,296	11,458	10,551	9,888	10,511	11,624	11,245
		9.6%	**10.6%**	**11.8%**	**10.1%**	**9.6%**	**10.0%**	**10.4%**	**10.1%**	**8.2%**	**8.2%**

In the railroad industry, operating assets usually consist of expensive and heavy equipment. We prefer companies that depreciate their assets at a reasonable rate, as long as their capital expenditures are at least in line with depreciation. This provides for a newer asset base, which likely decreases operational risks while increasing business efficiency. UNP's depreciation is similar to the other railroads, and **we view it as reasonable.**

CAPEX & DEPRECIATION



For a company like UNP, staying competitive hinges on modernizing and upgrading its asset base. Achieving this necessitates capital expenditures, and it's particularly promising when a company invests beyond merely replacing depreciated equipment. In the case of Union Pacific, its capital expenditures have **consistently exceeded depreciation** by a comfortable margin over the past decade.

DEPRECIATION SCHEDULES

IN YEARS	Rails	Locomotives	Cars
UNP	43	18	23
CSX	41	26	32
NSC	na	21	na
CP	na	27	26

Over the long term, UNP invests approximately the same amount as other railroads, staying in line with industry averages. Additionally, they depreciate their equipment at comparable rates. We see this as a positive for the company in the long run as it **reduces the risk of derailment.**

DEBT

Union Pacific carries a total debt load of $33 billion, with around 25% or $8.25 billion coming due within the next five years.

A 2% INCREASE IN INTEREST RATES

would only increase their debt costs by $160 million annually through 2025 - a very manageable number considering they have over $ 8 billion in operating cash flow.

We view it as a positive move that UNP issued $5.4 billion in debt in 2022, capitalizing on lower interest rates. Although a portion of this debt was used for buybacks, it's noteworthy that the average interest rate on their entire outstanding debt falls within the range of 2.2% to 7.1%.

Furthermore, their maturities surpass the typical timelines of most companies, with one issue maturing as far as 50 years from now in 2072. The extended duration of their debt maturities serves as additional evidence that railroads are confident in their long-term viability. Remarkably, one railroad has a maturity extending to 2170. It's uncommon for investors to commit to industries for such an extended period, **spanning 150 years.**

Maturity	Issues ($M)
2023	1,681
2024	1,4341
2025	1,526
2026	1,015
2027	1,285
Thereafter	28,158
Total Principal	$35,101
Unamortized Discount & Deferred costs	(1,775)
Total Debt	$33,326

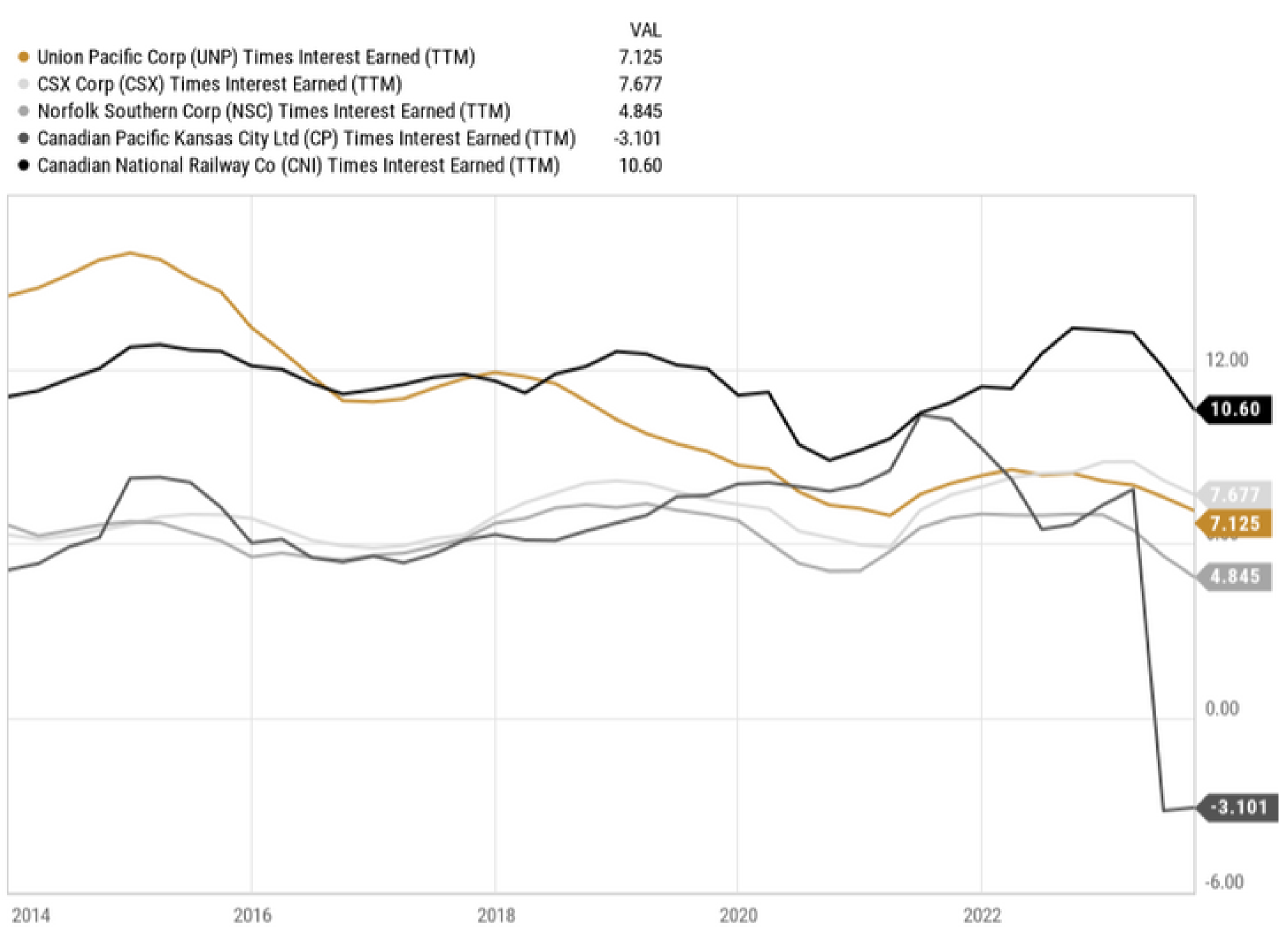
	Debt Rating	Free Cash Flow to Net Debt
UNP	A-	17%
CSX	BBB+	22%
NSC	BBB+	14%
CP	AA-	15%

Even with UNP's higher debt levels, they have strong free cash flow to service their debt.

DEBT SERVICE

The times interest earned ratio indicates how much earnings before interest and taxes (EBIT) a company has to cover interest payments on their debt on a trailing twelve months basis. This reinforces the stability of the railroads.

10 Year Times Interest Earned



Union Pacific has a times-interest-earned ratio of 7.5, which means they have **7.5 times more EBIT** than is required to pay their annual interest cost. Norfolk Southern experienced a major derailment this year, lowering their EBIT and subsequent times-interest-earned ratio. Canadian Pacific acquired Kansas City Southern this year, which skewed its ratio as well.

EXCESS FREE CASH FLOW

For investors, free cash flow is a vital metric as it signifies the cash a company generates from its operations after deducting the capital expenditures essential for sustaining and growing the business. Although the specific definition and calculation of free cash flow may vary among companies, it serves as a gauge of the company's financial well-being and its ability to undertake strategic initiatives while also providing returns to shareholders. Over the last decade, Union Pacific has consistently excelled in producing **noteworthy and positive free cash flow.**

IN MILLIONS $	12/31 2022	12/31 2021	12/31 2020	12/31 2019	12/31 2018	12/31 2017	12/31 2016	12/31 2015	12/31 2014	12/31 2013
Annual Pretax Income	9,072	8,478	6,980	7,747	7,741	7,632	6,766	7,656	8,343	7,048
CapEx	(930)	(991)	(633)	(958)	(1,009)	(859)	(901)	(1,327)	(1,120)	(861)
Free Cash Flow	8,142	7,487	6,347	6,789	6,732	6,773	5,865	6,329	7,223	6,187
Common Dividends Paid	(3,159)	(2,800)	(2,626)	(2,598)	(2,299)	(1,982)	(1,879)	(2,344)	(1,632)	(1,333)
Excess Free Cash Flow	**4,983**	**4,687**	**3,721**	**4,191**	**4,433**	**4,791**	**3,986**	**3,985**	**5,591**	**4,854**

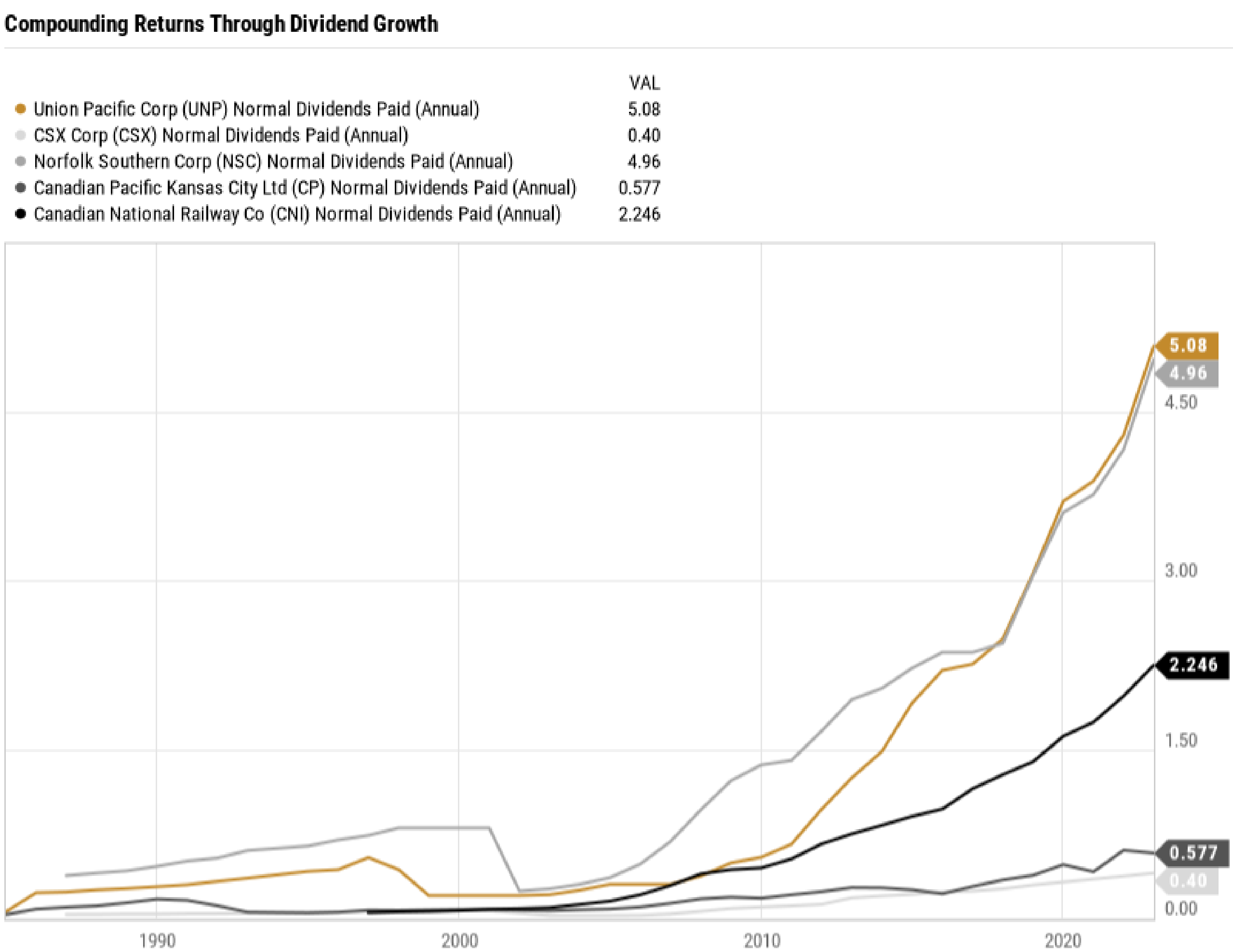
Union Pacific can utilize the surplus free cash flow it generates for various purposes, including expanding dividends, continuing stock buybacks, expediting debt repayment, or reinvesting in the business beyond basic annual maintenance.

The surplus free cash flow alleviates typical concerns linked to Union Pacific's higher debt levels, as there is ample cash to cover it. Additionally, expecting future dividend growth is reasonable because the company has the necessary cash for sustainable expansion.

The free cash flow that UNP generates is part of what makes this story a compelling investment opportunity. Increased cash generation can contribute to a higher stock price, but more importantly, it provides investors with **a broader margin of safety.**

A DIVIDEND SUCCESS STORY

Union Pacific's dividend policy is a key factor in why we consider it an attractive investment. Over the past few decades, UNP has consistently raised its dividend, achieving a **10-year annualized growth rate of 15.1% and a 20-year annualized growth rate of 17.4%.** The company is well-managed, and crucially, it has a track record of generating excess cash flow beyond its capital expenditures and debt costs. This enables UNP to incrementally increase its dividend each year with a high level of predictability.



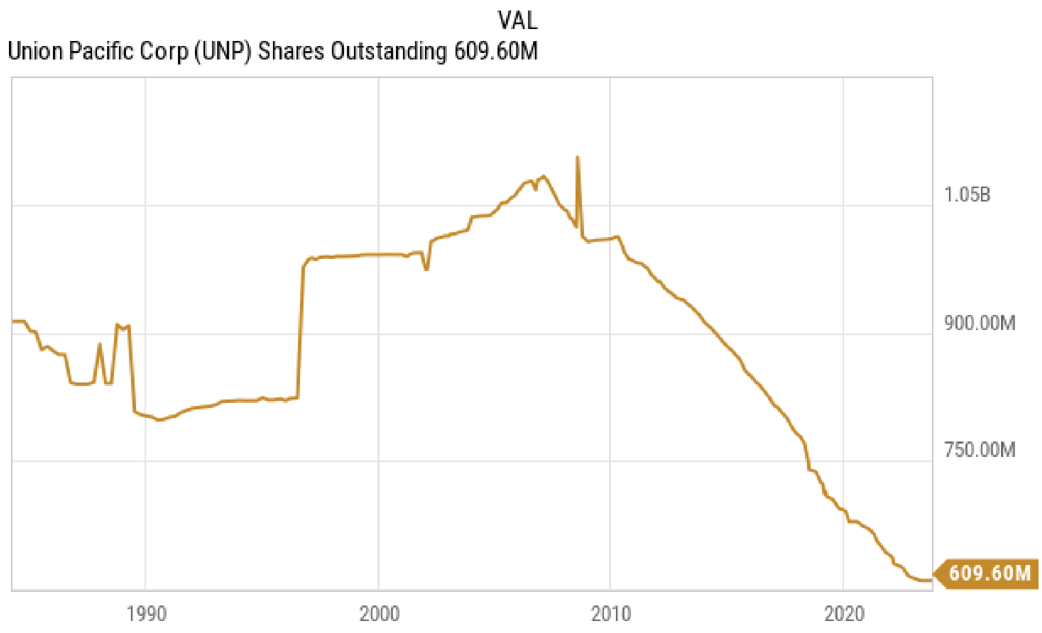
UNP's impressive long-term total return is largely attributable to its aggressive dividend growth, a crucial factor not to be overlooked. Even though we expect a slowdown in Union Pacific's dividend growth rate from its 20 year average, **we find an average of 7%/yr as highly achievable over the next 10 or 20 years.**

YIELD FROM MULTIPLE SOURCES

Union Pacific Corp	12/31 2022	12/31 2021	12/31 2020	12/31 2019	12/31 2018	12/31 2017	12/31 2016	12/31 2015	12/31 2014
Shareholder Yield (TTM)	**6.8%**	**6.0%**	**4.4%**	**6.2%**	**9.3%**	**5.4%**	**5.5%**	**7.2%**	**4.3%**
Dividend Yield	2.5%	1.7%	1.9%	2.0%	2.2%	1.8%	2.2%	2.8%	1.6%
Net Common Buyback Yield	5.0%	4.5%	2.7%	4.6%	8.2%	3.8%	3.7%	5.2%	3.1%
Net Debt Paydown Yield	0.6%	0.2%	0.1%	0.4%	1.1%	0.3%	0.4%	0.8%	0.4%

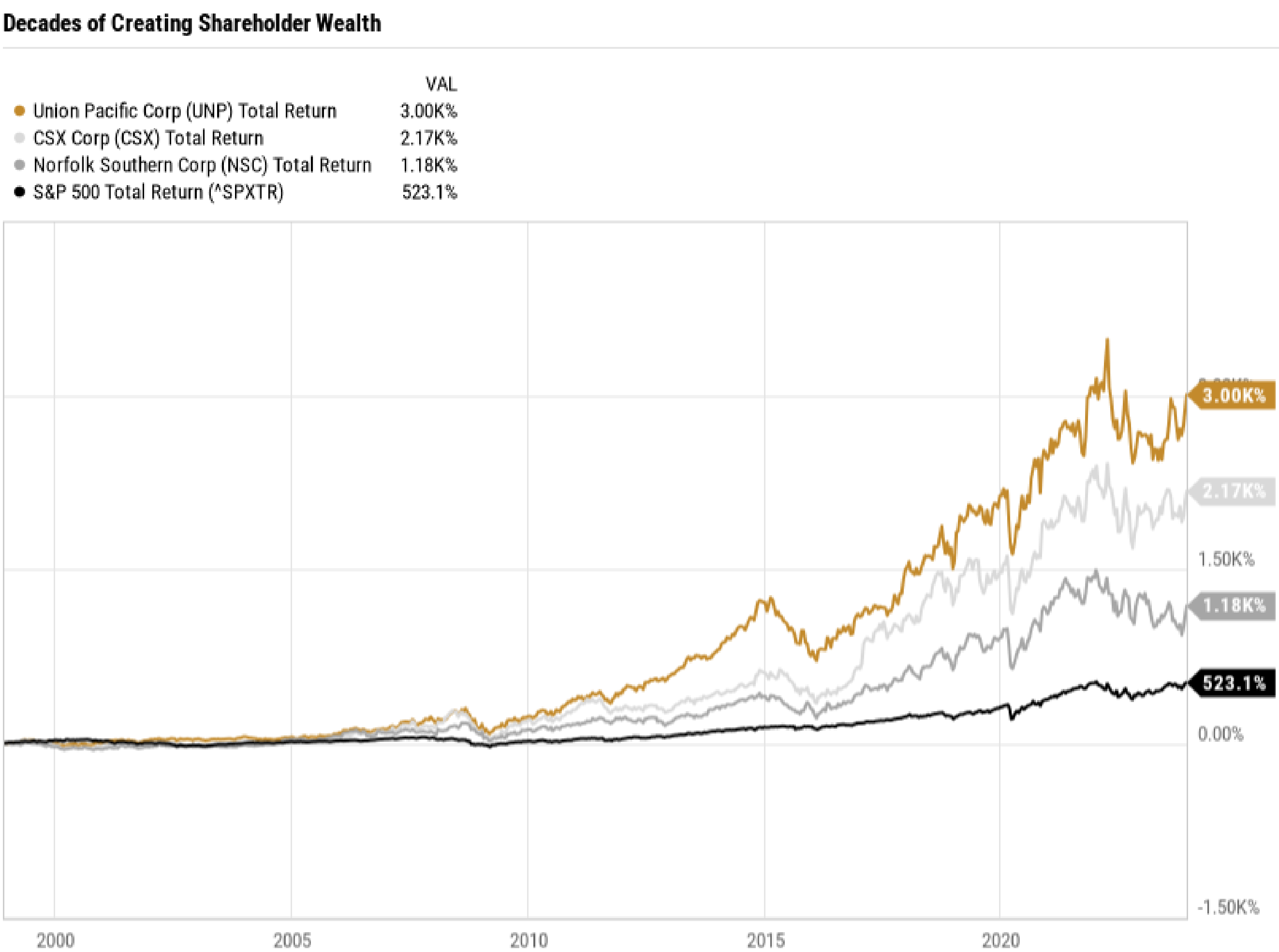
Shareholder yield is an alternative way to measure how much a company returns to its shareholders on a wholistic level. It is much broader than a simple dividend yield because it accounts for dividend yield + share buybacks + debt reduction payments. **Being a UNP shareholder has historically paid well.**

Since 2006, UNP has been actively repurchasing its own stock. This method of value return reduces the number of outstanding shares, leading to an increased ownership stake for existing shareholders.



HISTORICAL RETURN

The railroads have been great long-term investments. On a total return basis, UNP has **outperformed the S&P 500 in the last 10, 20, and 25 years.**



10 Year Total Return

254%

20 Year Total Return

2,340%

15 Year Total Return

1,250%

25 Year Total Return

3,000%

*Period from 12/1/1998, 12/1/2003, 12/1/2008, 12/1/2013 through 12/1/2023

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RESILIENCY THROUGH RECESSIONS

Beyond UNP's impressive historical performance, history has shown that the company tends to perform well through recessions.

Recession	UNP Performance	S&P 500 Performance
Oct. 1973 - Mar. 1975	3.27%	-22.9%
Jan. 1980 - Jul. 1980	+30.1%	+12.7%
Jul. 1981 - Nov. 1982	-21.5%	6.8%
Jul. 1990 - Mar. 1991	+4.1%	+4.8%
Mar. 2001 - Nov. 2001	-2.1%	-1.8%
Dec. 2007 - Jun. 2009	**-17.4%**	**-37.9%**
Mar. 2020 - Apr 2020	-0.01%	-1.4%

*From the first day of the beginning month, through the last day of the ending month for each period.

While UNP is not immune to recessions, and its business performance can be influenced by economic downturns, investors acknowledge the economic importance of railroads. **The enduring and predictable nature of their operations likely bolsters their resilience during times of uncertainty.** Additionally, one could argue that well-managed businesses with robust dividend policies, such as UNP, may experience more stable stock prices during recessions.

COMPARISON TO BNSF

Berkshire Hathaway purchased BNSF for $34 billion in November of 2009, making it the only private railroad of the six majors. Though it is owned by BRK, they file separate financial statements with the SEC. In 2022 BNSF had revenue of $25.8 billion. Below is a comparison of UNP with Berkshire's BNSF.

BNSF spent 13% of its revenue on Capex in 2022, making it the lowest of what the other major railroads spent on capital expenditures. BNSF also had a 33% operating profit margin, which is also the lowest of the major railroads.

BNSF paid a distribution of $5 billion to its parent company in 2022. Based on the acquisition price of $34 billion that Buffett paid for the railroad in 2009, that distribution implies a current return of 15% on his initial purchase price. At times, we may envy the opportunities available to larger institutions, yet we frequently overlook the potential of compounding. As an illustration, UNP was priced at $30 in November 2009. If you had bought the stock then, with the current dividend at $5.20, your yield on cost would now be **17%**. Just considering 2022, your return surpasses that of Berkshire Hathaway.

This is an example of how being a stockholder can sometimes be as profitable as owning the entire company.

IN BILLIONS $	UNP	BNSF
Assets	$65	$92
Equity	$12	$47
Debt	$32	$23
Operating Income	$9.9	$8.6
Cash Flow	$9.9	$8.7
CapEx	$3.5	$3.4
ROIC	15%	7.8%

INVESTMENT THESIS

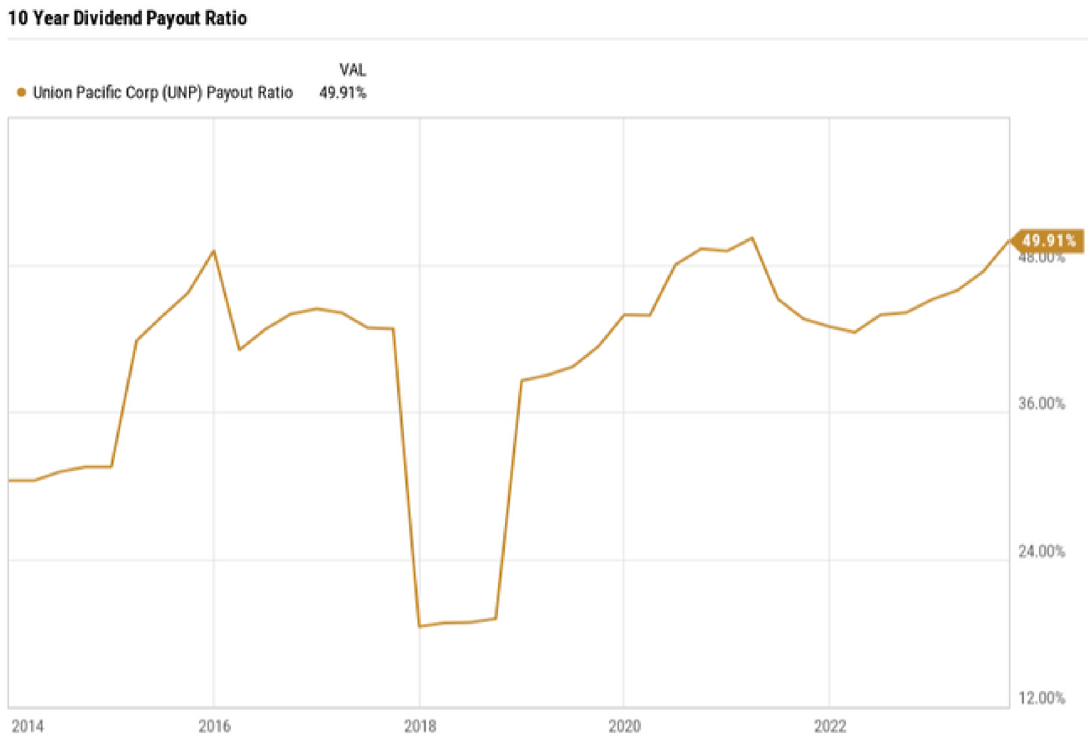
For dividends to increase, there must be a corresponding growth in earnings. Since 2012, earnings per share (EPS) has experienced a 200% growth, and over the last two decades, **earnings have surged from $0.94 to $10.42.** The EPS estimates for the next few years are as follows:

2024 $11.61
2025 $12.84

We employ a straightforward model to determine the required dividend for a doubling within 10 years. Assuming a 7% annual growth rate, the dividend is projected to reach $9.56 by 2032. We then analyze the historical trend of the company's dividend payout to estimate the necessary earnings growth by 2032. Assuming the company maintains its historical payout ratio, we establish a basic expectation for its performance.

For UNP, with analysts estimating earnings of $12.84 in 2025 and our projected 7% growth rate for the dividend to reach $5.95 in 2025, this implies a payout ratio of 46% in 2025. The historical payout chart on the next page supports the reasonability of this expectation.

UNP Purchase Price	**$212.38**
Dividend Growth	**7.0%**
2023	$5.20
2024	$5.56
2025	$5.95
2026	$6.37
2027	$6.82
2028	$7.29
2029	$7.80
2030	$8.35
2031	$8.93
2032	$9.56
Total Dividends	$71.85
Forecasted Terminal Yield	2.5%
Implied Stock Price	**$382.40**
10 Year Total Return	**114%**



The implied 46% payout ratio is a rough average of what Union Pacific has maintained over the last ten years. This is evidence that it is a valid and reasonable assumption for our model.

The estimated 2.5% terminal dividend yield is derived by projecting the current yield to 2032. To calculate the 10-year return, we add the total dividend income over the period to the implied stock price based on the projected dividend yield.

In this scenario, if the dividend reaches $9.56, and the stock maintains a 2.5% yield in 2032 (with a presumed stock purchase price of $212), **the total return without compounding would be approximately 114%**. Considering a dividend payout ratio of 46%, earnings would need to reach $21 by 2033, implying a growth rate of 7% per year. This should be relatively achievable for UNP.

We hold the belief that major railroads exhibit a high level of stability and have a remarkable history of generating wealth for shareholders. To illustrate, consider the outcome if you or your parents had invested $1,000 in UNP stock on June 1st, 1972. Factoring in multiple stock splits and assuming reinvestment, you would now possess 2,530 shares. With the current dividend of $5.20, your annual dividend income would be $13,156, all stemming from an initial investment of $1,000. Moreover, the 2,530 shares would currently be valued at $536,430.

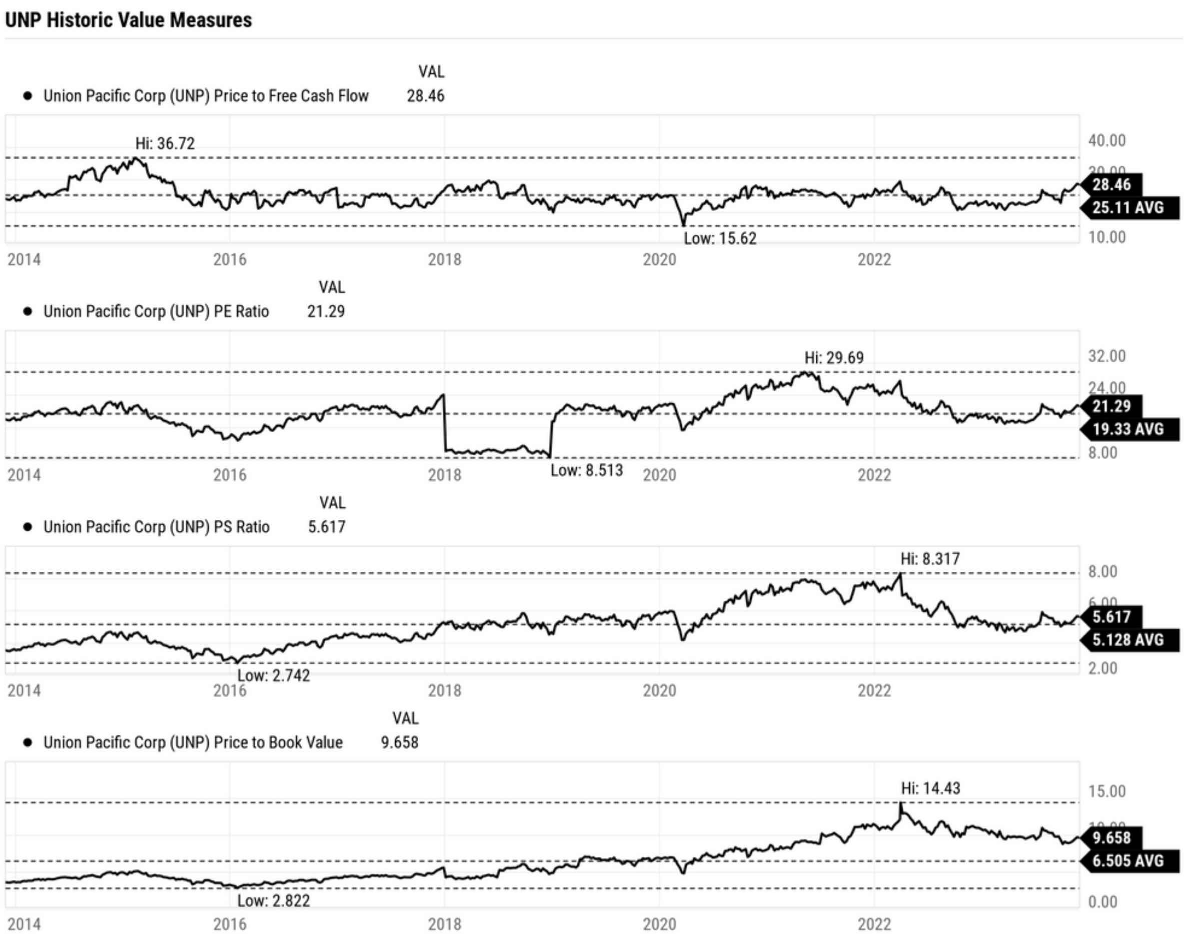
Each of the five major railroads has proven to be an appealing investment, consistently outperforming the long-term return of the S&P 500. We opt for UNP over the other publicly traded railroads primarily because it aligns with our dividend growth criteria and it appears healthy enough to maintain that going forward.

- Replicating a railroad and laying a competing track of length is an exceedingly challenging task. As a result, railroads are positioned with one of the lowest risks of disruption, compared to other industries
- Trains have a shipping cost advantage over trucks of about 5.1 cents vs. 15.6 cents per mile.
- The continuation of share buybacks will contribute to the further growth of earnings per share. Due to potential antitrust challenges in acquiring another major railroad, railroads are somewhat compelled to emphasize returning capital to shareholders.
- UNP has low interest rate risk since 75% of UNP's debt matures after 5 years.
- There is limited regulation risk due to the importance of trains to the American economy.
- Railroads constitute an environmentally friendly industry, emitting fewer pollutants than trucks. Any advancements in technology or fuel development should directly benefit the railroad sector.
- Railroads are poised to reap the benefits of Artificial intelligence. AI is expected to enhance efficiency and productivity, potentially by increasing the number of trains operated in a 24-hour period or aiding in customer scheduling. Moreover, the industry faces minimal risk of AI rendering it obsolete.
- Management has not indicated any significant new risks in the 2022 10k risk factors section when compared to 2021.
- With a new CEO boasting 40 years of industry experience, Jim Vena has been recognized for implementing the Precision Railroading Method. Under his leadership, there is a specific emphasis on reducing dwell times and enhancing asset utilization..
- Railroads likely have the lowest disruption risk of any other industry.

While there's no assurance that railroads, particularly UNP, will sustain their past performance, **we believe there are compelling reasons for a dividend growth investor to consider UNP**. However, it's crucial to take into consideration the price you pay.

VALUATION

In our view, Union Pacific presents itself as a strong candidate for dividend growth. However, price is what you pay, value is what you get. To increase the likelihood of exceeding our total return hurdle rate, it is important that we exercise discipline with our investment.



At around $200 per share, UNP would trade below the 10-year average of price-to-free-cash-flow and price-to-earnings. To paraphrase Buffet, it is usually better to buy a great business at a fair price rather than a fair business at a great price. **We will attempt to take a full position in UNP if it falls below $200.**

RISKS

There are risks associated with every investment. Beyond market risks, such as changes in interest rates or an extended economic downturn, etc., we identify the following risks with UNP:

- **Derailments and toxic waste spills.**
  - This is likely the most serious factor that directly poses a risk to the stock and financial performance.
  - A recent example is the Norfolk Southern derailment in East Palestine, Ohio that occurred on February 3, 2023.
- **Regulation resulting in higher safety and track spending.**
  - All else equal, this would likely contract margins, reduce profitability, and make it more difficult to grow the dividend.
  - We find that while the likelihood of this risk causing material change to the industry is low, it is ever present.
- **Other business risks including**
  - Strikes, labor, and fuel costs.
  - The inability to pass through inflationary cost pressures.

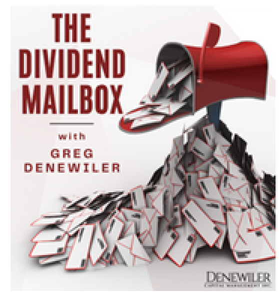
Investing is inherently uncertain, and there are always company-specific risks that remain unknowable. Nevertheless, we perceive UNP as having strong potential to achieve both dividend growth and an attractive total return over a 10-year horizon.

DENEWILER
CAPITAL MANAGEMENT INC.

MORE ON DIVIDEND GROWTH

In Episode 28: “UNP Deep Dive” we explore Union Pacific in detail.

Our episode catalog includes topics such as the principles of dividend growth investing, the mindset necessary for disciplined investment approaches, and other company spotlights.



ABOUT US

With over 30 years of experience in financial services, Denewiler Capital Management is committed to making your assets work for you. We recognize that wealth is not an end itself, but a path to opportunities and a means for achieving your goals. Our investment philosophy is designed to provide growing income streams that build wealth and support lifestyles.

SOLUTIONS

Wealth Management

- *Dividend Growth From Blue Chip America.*
- Credit and Fixed income Exposure.
- Cash Management.

Financial Planning

- Retirement planning & cash flow management.
- Life-stage transitions & major purchases.
- Complex employer retirement plans.
- Tax efficiency & optimization.

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