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EDITED TRANSCRIPT

NSC - Q1 2020 Norfolk Southern Corp Earnings Call

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Co. reported 1Q20 adjusted EPS of \$2.58.



APRIL 29, 2020 / 12:45PM, NSC - Q1 2020 Norfolk Southern Corp Earnings Call

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PRESENTATION

Operator

Greetings, and welcome to the Norfolk Southern Corporation's First Quarter 2020 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce Pete Sharbel, Director of Investor Relations. Thank you. Mr. Sharbel, you may begin.

Peter Sharbel - *Norfolk Southern Corporation - Director of IR*

Thank you, and good morning, everyone. Please note that during today's call, we may 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 norfolksouthern.com in the Investors section along with our non-GAAP reconciliation. Additionally, a transcript and downloads will be posted after the call.

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



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James A. Squires - Norfolk Southern Corporation - Chairman, President & CEO

Good morning, everyone, and welcome to Norfolk Southern's First Quarter 2020 Earnings Call. Joining me today are Alan Shaw, Chief Marketing Officer; Mike Wheeler, Chief Operating Officer; and Mark George, Chief Financial Officer.

Before we discuss our financial results, I'd first like to thank our employees for their dedication during these unprecedented times. Norfolk Southern employees are proud to be delivering an essential service. In a video message to employees, dispatcher Misty Braden expressed the sentiment well when she said, "We supply America with the goods that they are short of right now. And I hope everybody that works for Norfolk Southern feels essential after this." It is truly inspirational to watch our employees rise to the challenge.

In response to the COVID-19 pandemic, we established 3 simple goals early on: protect our employees, serve our customers and exercise strong financial discipline. I'll talk briefly about the steps we're taking in each area.

Our first responsibility is to protect our people. We acted quickly based on CDC guidelines and took extensive measures to keep employees safe. We transitioned most of our office employees to remote work in a matter of days. For employees whose jobs require them to work on-site, we implemented social distancing and established rigorous cleaning protocols for their work environments. Our preventive measures, combined with the diligence of our employees, have kept the number of confirmed COVID-19 cases at Norfolk Southern low. I'm also pleased to report that our employees are working safely through the many potential distractions. Our thoughts are with all those whose lives have been impacted by the virus.

Our second goal is to continue providing an excellent service product for our customers, and that's exactly what we're doing. Our customers are making rapid adjustments to their operations due to the impacts of the coronavirus, and we are right there with them every day as a valued partner. They count on us for reliable service, close collaboration and nimble operational adjustments, and we are delivering.

We'll address our third goal, which is to exercise strong financial discipline throughout the balance of this call. The work we've done to implement our strategic plan has made us an even more resilient business, putting us in a good position to navigate the current market disruptions.

I'll now turn to our financial results for the quarter. Allow me to first remind everyone of our announcement on April 16 of a noncash charge of \$385 million related to the ongoing disposition of 703 locomotives. Thanks to the excellent execution of our strategic plan, our fleet today is more efficient and we are able to operate with significantly fewer locomotives. Mark will provide additional color. But as you can see on Slide 5, we've provided an adjusted view of our financials to exclude this charge. This is what I will reference in the rest of my comments this morning.

Adjusted EPS for the quarter was \$2.58, and the adjusted operating ratio was 63.7%. These numbers improved upon last year's record results by 3% and 230 basis points, respectively. Within the context of an 11% volume decline, they are remarkable achievements that demonstrate this team's urgency to transform our company. We also set records in metrics such as train performance, terminal dwell and shipment consistency, among others, and accelerated crew start reductions in excess of declining volumes for a third straight quarter.

When coupled with the ongoing realignment of resources around our new operating model, we reduced operating expenses by \$202 million in the first quarter when excluding the noncash locomotive charge.

Our team is committed to driving improvements across the network and significantly and consistently lowering our operating ratio. We are focused on the factors within our control. And confident that by continuing to adjust and successfully execute our strategic plan, we are building a stronger, more resilient and a more profitable Norfolk Southern.

I'll now turn the call over to Alan and the team to begin detailing our first quarter results and our progress executing the strategic plan. Alan?

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Alan H. Shaw - Norfolk Southern Corporation - Executive VP & CMO

Thank you, Jim, and good morning, everyone. The first quarter started with the impact of low natural gas prices and mild weather on our coal franchise. In February, we saw the initial impacts of the COVID-19 crisis impacting international intermodal volume.

As COVID-19 evolved into a global pandemic, a majority of our markets experienced volume declines, with business levels further impacted by plummeting energy prices. In the face of this challenging environment, we are flexible and responsive to market changes and customer needs, adjusting our operating plan and resources where necessary.

We remain focused on our long-term strategy, with an emphasis on superior service to our customers and margin improvement, demonstrated by consistent growth in revenue per unit and revenue per revenue ton mile over the last 3 years.

Our service is the best in Norfolk Southern history, a testament to the commitment of our employees to respond to rapidly evolving customer requirements and delivering exceptional service product, while producing structural and volumetric improvements to our costs.

Moving to Slide 7, the impacts of COVID-19. Energy and excess truck capacity lowered our revenue by 8%, with the volume decline partially offset by RPU less fuel growth in all 3 business groups, marking our 13th consecutive quarter of delivering year-over-year RPU growth.

Merchandise revenue was down 1% as record RPU partially offset a 5% volume decrease. Automotive carloads declined due to plant shutdowns late in the quarter in response to COVID-19. Steel volumes continued to be impacted by weak demand and frac sand faced pressure from low energy prices, while favorable spreads allowed increases in crude oil volumes.

Intermodal revenue declined 9% driven by a loose truck market, lower demand and the early negative impacts of COVID-19 in our international group. RPU gains propelled by our strong service product, offset some of the impacts of the volume decline. Coal volumes and revenue were both down 31% year-over-year driven by extremely low natural gas prices throughout the mild winter. Our export franchise also experienced slight volume losses due to low seaborne prices.

Moving to our outlook on Slide 8. We continue to monitor the combination of COVID-19 pandemic and energy decline and the unprecedented impact on our markets. We project year-over-year volume declines across all business groups, with large impacts in the second quarter and future volumes dependent upon the depth of the downturn and the timing of the reopening of the economy as well as energy prices. We are partnering with our customers to affect necessary short-term adjustments that allow for quick and decisive reactions to market changes, remaining in close collaboration with our customers and economic allies that place their confidence in Norfolk Southern.

The chart on Slide 8 classifies our markets by revenue and the sensitivity to both COVID-19 and energy. The Agriculture, Forest & Consumer group includes, among other markets, food products, which remain in high demand, and ethanol, which will decline due to demand and energy prices. Lower consumer spending and disruptions in the supply chain will likely continue to impact Automotive, intermodal and other consumer-driven products. Intermodal will be further influenced by low oil prices and the associated competitive dynamics with truck. Shutdowns in Automotive and other manufacturing will drive declines in the already soft steel market. Our crude market will be adversely impacted by low energy prices and decreased demand from COVID-19 disruptions. Natural gas prices and mild weather, coupled with declining industrial and commercial load, will negatively impact our utility market. Lastly, export coal will continue to be pressured by lower seaborne coal prices and COVID-19.

We maintain strong customer relationships, built on collaboration and constant communication, which facilitated our flawless implementation of PSR last year. We continue this approach as we adjust our network to conserve resources while continuing to meet our customers' needs. The economic headwinds will significantly impact 2020 revenue. The strength of our franchise, our commitment to collaboration, deep customer relationships and superior service product provide the foundation for success through this downturn and as economic conditions improve. Our portfolio ranges from the most powerful intermodal franchise in the east, to broad participation and over 50% of the consumer, industrial and energy markets that drive the U.S. economy. We are leveraging our deep market knowledge to partner with our customers, innovate logistics solutions for evolving supply chain requirements, securing new opportunities in the near term and for when markets normalize.

I will now turn it over to Mike for an update on operations.

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Michael Joseph Wheeler - Norfolk Southern Corporation - Executive VP & COO

Thank you, Alan. Today, I will update you on the state of our operations.

The first quarter continued our story of superior service and improved cost structure, leading to increased operational leverage even in the face of declining volumes. We are continually improving our operating plan and using PSR principles to deliver superior execution.

Going to Slide 10. Continued improvements in train speed and terminal dwell despite tougher year-over-year comps drove record quarterly terminal dwell, train performance, customer service at the carload level and unprecedented executional success in the service-sensitive intermodal segment. We achieved these milestones with fewer assets and lower employment levels, further reducing our cost structure and driving efficiency. These trends have continued into the second quarter.

Moving on to our service and productivity metrics on Slide 11, which I have shared with you in prior calls. These metrics measure important productivity and customer service levels and are indicators of our success meeting our productivity goals. The service delivery index measures our on-time performance at the shipment level and is indexed to 2018. Our first quarter 2020 performance is at our 2021 goal, and we are confident we will maintain these service levels throughout the year. Our lowest T&E headcount on record drives substantial year-over-year productivity while still providing stellar service.

As I will show you on the next slide, we continue to aggressively size our train plan to the changing business levels. We continued our momentum of train weight improvements, showing further progress in the first quarter. Remember that we retargeted this goal to 6,700 tons in light of continued changes in the coal market. Productivity driven by our TOP21 operating plan will boost us towards this goal despite the challenges of the current volume environment.

We made considerable progress in locomotive productivity in 2019 by rationalizing our fleet, a trend that continued in the first quarter of 2020. Our active locomotive fleet is almost 15% lower in 2020 than in the first quarter of 2019. And our recent locomotive disposition announcement reinforces our commitment to getting the most out of our fleet.

We also thought it will be useful to show you our year-over-year progress in fuel efficiency. This is an area of focus for us. And the improvements in gallons per ton mile reflect the results of efforts on many fronts, including increased train weight, continued rationalization of the DC to AC upgrade of our locomotive fleet, increased use of energy management technology and completion of our full PTC footprint.

Finally, even after we raised the bar on the cars online goal, we continued to beat our targets. First quarter results were measurably better than goal, and we set a new record earlier this month. To be clear, this count includes cars in storage that can be brought out as business rebounds.

Slide 12 shows our fifth consecutive quarter of accelerated reductions in crew starts. We are continuously improving our TOP21 plan and are now completing Phase 3 of the program. This will deliver the 3 phases of the program in 18 months instead of the anticipated 3 years. The first quarter saw 19% fewer crew starts, showing increased leverage between crew starts and volume. After we complete Phase 3 of TOP21, we will continue to optimize the operating plan, in part by combining traffic of all types on single trains and reviewing our yard network for further rationalization.

Before I shift to discussing Norfolk Southern's operational response to the COVID-19 pandemic, I want to emphasize our positive operational momentum. We are making progress through long-term structural changes in our asset base, service levels and productivity drivers. We will continue to build on our progress from 2019, following PSR principles, while proactively adapting our operating plan to the economic environment.

Turning to Slide 13. I'm very proud of how Norfolk Southern's railroaders have dealt with both the threat and the business impact of the pandemic. We took early proactive measures to protect our workforce and make sure that being at work continue to be the safest part of an NS employee's day. Because the railroad was very fluid and service levels were very high, we were able to quickly store surplus equipment while also mobilizing employees to provide extra manpower in hot zones like Northern New Jersey. We made special efforts to assist customers by expediting shipments of goods in short supply or that were urgently needed. All the while, we maintained service levels and the railroad has run even faster in April.



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As you can see on Slide 14, the pandemic also mandated a proactive response to the drop in volume. Tactically, we very quickly, over just a few days, removed the blocks in trains carrying auto parts and finished vehicles from our TOP21 plan. Crew starts dropped almost as quickly as volume, enabling us to preserve leverage even as shipment counts declined. We will again redesign the operating plan as auto volume rebounds, using our operating leverage to handle returning volumes in the most efficient way possible.

While we do not yet know the shape of the recovery curve, we are taking this time of lower traffic as an opportunity to challenge ourselves and our capabilities to improve our TOP21 operating plan in the long term. For example, we are successfully handling carload traffic on premium intermodal trains, blending previously separate service networks in a way that allows us to maintain service frequency and train size while reducing costs. In addition, we are taking hard looks at our yard and terminal network, testing what we can live without.

I will now turn it over to Mark who will cover the financials.

Mark R. George - Norfolk Southern Corporation - Executive VP of Finance & CFO

Thank you. And good morning, everyone. Before I get into the review of adjusted financials, just a moment to talk about the locomotive write-down that we disclosed 2 weeks ago. Simply said, it's a capacity dividend of our TOP21 PSR implementation, which has resulted in the decongestion of our yards and road network, allowing cars to turn quicker in the terminals and trains to move faster on the network. The blending of our discrete networks resulted in fewer but longer trains. Fewer trains, along with better balancing of our routes, require fewer locomotives. We entered 2020 with roughly 1,000 locomotives on the sidelines out of the approximate fleet of 3,900. We spent time this quarter aligning on exactly how many locomotives we would need, even at 2018 volume levels. Our operations team essentially modeled the capacity requirements in a post-PSR world and determined that, of our stored locomotives, 703 are deemed excess and available for sale while the balance are held for surge and in cycle for AC upgrades. In fact, 298 of the 703 were effectively sold in Q1, while the remaining will be marketed for sale or scrapped in the next 12 months. The \$385 million is essentially the remaining book value on those locomotives that otherwise would have been depreciated in the P&L in the years to come. In the process, the team targeted removal of the oldest, least reliable and least efficient of the locomotives and eliminated entire model lines, moving us to a more homogenous fleet of 10 models from 19. With that, we were able to also eliminate inventory and rationalize mechanical resources.

So moving now to Slide 17. And the remaining slides will reflect adjusted results, excluding the impact from the locomotive write-down. Recall this slide format we introduced last quarter to show large and anomalous events that impact our results. There is just one item in the quarter worth calling out, and that is a onetime benefit on an income tax refund related to the 2012 tax year. That provided \$0.09 of EPS tailwind in the quarter and contributed to the 12.6% effective tax rate. No other meaningful adjustments in Q1 of 2019 or 2020, so the improvement in the operating ratio of 230 basis points was core.

Now moving to the adjusted results on Slide 18, a very strong operational quarter, as both Jim and Mike described earlier. Revenue was down 8%, driven by an 11% volume contraction that was partially offset by the strong RPU improvement that Alan spoke to, thanks to our effective yield up strategy, enabled by our enhanced customer service delivery.

Operating expenses were 11% lower, almost mitigating the revenue decline in dollar terms. And that resulted in the strong 230 basis point OR improvement, which follows the 240 basis point core OR improvement we showed in Q4 despite a softer environment during that time. And you see on the right very strong free cash flow performance, a record \$589 million, which is 42% greater than Q1 of last year.

So now drilling into the operating expense categories on Slide 19. We drove down compensation and benefits in the quarter 14% year-over-year on a 19% reduction in employees versus Q1 of 2019. Employee count was down 6% sequentially from Q4. Our employment levels declined throughout the quarter. And this, along with lower costs associated with benefits, overtime, reworks and incentive compensation, saved us \$105 million. Fuel was down \$61 million from a combination of lower prices as well as lower consumption from both volume and also efficiency gains. Consumption declined 15% on a 10% decrease in GTMs despite significant adverse commodity mix. Materials and other spending was down \$24 million or 13%, led by a \$15 million reduction in material spend. Gains on operating properties amounted to \$11 million, which was lower than the \$17 million recorded in Q1 of 2019. Purchased services and rents was down \$21 million or 5%, with purchased services alone down 7%. Rents were actually up 5% in the quarter due to lower equity income from the TTX joint venture that more than offset savings from lower rent spend.



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So when looking at the big picture, the underlying change to our cost structure continued to shine through in the first quarter as we reduce and realign resources around our new operating model.

Moving to Slide 20. Let's take a look at our summarized first quarter financial results below the income from operations line. Other income was down \$22 million from lower investment returns on corporate-owned life insurance. And the lower effective tax rate of 12.6% was driven by the refund I discussed earlier as well as benefits from stock-based compensation. This first quarter low ETR will provide benefit to the full year effective tax rate as we expect the remaining quarters to return to the guided range of 23% to 24%.

Moving now to Slide 21. As mentioned, we generated a record Q1 free cash flow of \$589 million, thanks to expanding margins, but also from constraining our capital spend, which was \$100 million less than last year. And we returned \$708 million to shareholders in the quarter with a solid dividend bolstered by our continued share repurchase activity.

Now let's talk outlook on Slide 22. Obviously, the economic environment has progressively worsened here in Q2. And while we can't be certain of the severity and duration of the downturn in 2020, we do know that revenue will be much lower than we thought at the beginning of the year. So we have pulled our guidance for flat revenue for 2020 as well as the guidance for OR improvement. We are modeling a number of revenue scenarios so that we are positioned to respond as a scenario starts to play out. We are focused on what we can control, service and costs. We feel that with modest revenue contractions, we can manage to match it with cost takeout, but steep revenue declines, you just can't keep up with, certainly not in the short term. To help you in your modeling and for illustrative purposes, you see the P&L cost categories that provide a general sense how they are correlated to volume changes. Most categories have an element of cost that is directly tied to volume and on a mostly immediate basis, fuel being the most obvious. But there are also structural components that take longer to move as well as gray areas that are also subject to volume, but pretty dependent on management decisions that are influenced by the expected duration of the downturn and the anticipated pace of recovery. We never want to cut in a way where we can handle volume when a recovery occurs, which would then adversely impact customer service. And we absolutely won't compromise on network safety.

In aggregate, roughly 50% to 60% of our costs could be categorized as volume variable and semi-variable. The balance is structural cost, and there is a reason I refer to this category as structural instead of fixed, which connotes permanent. We have been and continue to work on structural costs, trying to eliminate, not just variabilize them, and we are looking at all structural buckets, including even the biggest one, depreciation, a category that many would consider truly fixed. We have to look at how we can keep this bar from getting fatter and certainly adding fewer assets over time helps, but there are even unique opportunities to make it skinnier.

Our recent locomotive action, for example, will generate roughly \$25 million of annual depreciation savings going forward. So all structural cost is under constant review by this committed leadership team that's dedicated to evaluating all opportunities.

So while a deep revenue decline may put short-term pressure on the OR, I have every confidence that when we are on the other side of this market dislocation, we will be coiled up with great operating leverage to deliver significant OR improvement.

Let me wrap on Slide 23. Given the steep drop in the markets and the lack of clarity on the slope of recovery, it's important to share with you a bit about our financial standing.

On top of significant expansion of free cash flow generation, we also maintained a solid balance sheet, with good debt capacity and robust access to credit markets. We have relatively light levels of debt maturities in the next 2 years. More importantly, we have already significantly dialed back on our capital spend budget for 2020, recognizing the challenging environment that we are entering. Property additions will be limited to roughly \$1.5 billion this year regardless of revenue, which is a reduction from our 2019 spending levels by \$500 million or 25%. It's the right thing to do. It would be the lowest level of spend in absolute dollars since 2010, while not jeopardizing safety, service or near-term revenue opportunities.

So we feel real good about our liquidity and our ability to weather this storm. Thank you. And I'll turn the call back over to Jim.

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James A. Squires - *Norfolk Southern Corporation - Chairman, President & CEO*

Thank you, Mark. There's much for us to be proud of in our report today, from our strong first quarter financial performance, to the incredible job the men and women of Norfolk Southern are doing to keep the trains running. Our industry faces a difficult volume environment with an uncertain trajectory. By executing our strategic plan, exercising capital discipline and serving our customers well, Norfolk Southern is poised to emerge stronger and ready for growth as the economy recovers.

Thank you for your attention. And we'll now open the line for Q&A. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Jason Seidl of Cowen.

Jason H. Seidl - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

I hope everyone is doing well. I wanted to jump on the outlook question. I think one of you mentioned sort of not cutting too much into the system, not only for safety, but to handle the rebound whenever it does come. How much in expenses do you think you're holding in anticipation of that? Let's say, if you look at the Automotive sector, for example, plants being shut down. How much more expenses is Norfolk sort of maintaining right now? And how do you think about forecasting some of these areas for headcount or equipment demand?

James A. Squires - *Norfolk Southern Corporation - Chairman, President & CEO*

Jason, it's Jim. We are committed to managing our volume variable and structural costs through this downturn. So you saw evidence of that in the first quarter with adjusted expense reductions totaling \$202 million. We are pulling every lever at our disposal when it comes to cost reductions in this environment, and that's the right thing to do given the trend in the revenue this year. Nevertheless, we do believe we are capable of responding to the upturn, which will come as volume growth resumes. We expect to generate significant operating leverage, and that will result in rapid margin improvement and bottom line growth.

Jason H. Seidl - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

And right now, how are you guys looking at the anticipated rebound? Because clearly, we're going to see 2Q that's going to take a big step down, right, from -- even from the weakness in 1Q. But what is Norfolk looking for in terms of a gradual recovery? And how should we think about headcount throughout the system as we move throughout the quarters?

James A. Squires - *Norfolk Southern Corporation - Chairman, President & CEO*

Well, growth will resume. And when it does, as I said, we will have the resources in place, and we expect to generate significant operating leverage. Let me talk a little bit further about kind of next steps in terms of cost reductions, and I'll ask Alan to comment on the top line outlook. So we're pressing the TOP21 accelerator right now. And that -- as Mike said, that means crew start reductions going forward, a hard look at our yard and facilities network, blending more trains, the kind of step straight out of the PSR playbook to continue to drive down costs.

So Alan, what about the revenue outlook?



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Alan H. Shaw - *Norfolk Southern Corporation - Executive VP & CMO*

Jason, we're staying very tight with our customers and modulating our expenses appropriately because we're going to make sure that we're there as they start to recover. The first step would be, say, reopening within auto manufacturing, and that's generally targeted to start slowly in the middle of May. That should pull some additional raw materials through the pipeline as well, say, steel, for example, and some plastics. And then as I noted on Slide 8, it really is about just the reopening of the economy and an improvement in energy prices. Resolution of that is open-ended, and so it remains critical for us to stay close and tight with our customers as we plan going forward.

Operator

The next question is from Allison Landry of Crédit Suisse.

Allison M. Landry - *Crédit Suisse AG, Research Division - Director*

So a good progress on the OR improvement in the first quarter. So I know you've looked to -- the 2020 guidance expect some near-term margin pressure. But I don't think I heard you comment on the 2021 OR guidance. So is this impact? And do you think a 60 is still achievable?

James A. Squires - *Norfolk Southern Corporation - Chairman, President & CEO*

Allison, we did not pull our guidance for 60 in 2021, and we're still focused on getting to a 60 OR as fast as we can. The timing and shape of the recovery will likely have an impact for sure. But one thing is for certain, as I said, we get to the other side of this and growth resumes, our operating leverage will be very powerful and should drive rapid OR improvement and bottom line growth.

Allison M. Landry - *Crédit Suisse AG, Research Division - Director*

Okay. And then just sort of in light of the collapse in volumes, are you seeing any increased resistance from customers with respect to the yield up strategy? I think we've heard from a number of shippers that said they're being asked for monthly volume commitments and liquidated damages in exchange for 1-year contracts. So just hoping to get your thoughts on whether this is leading to some share losses to truck and if you're considering any changes to the pricing strategy in order to keep more volume on the network?

Alan H. Shaw - *Norfolk Southern Corporation - Executive VP & CMO*

Allison, there are a lot of unknowns in the market space right now. Our critical role in the nation's economy and our customers' supply chains is clearly evident right now. That is not an unknown. We are pricing to the value of our product. We're pricing to the value of our franchise. And we're very confident in our understanding of the market. We're maintaining a long-term view of this, and we're maintaining a long-term view of our business decisions to benefit our shareholders. We understand that, eventually, we are going to cycle through this market. And we've got a great franchise and a great approach to support our customers' growth when that occurs.

Operator

The next question is from Scott Group of Wolfe Research.

Scott H. Group - *Wolfe Research, LLC - MD & Senior Transportation Analyst*

So I want to ask a few things on the costs side. Maybe just starting with labor. Comp per employee was up 6% sequentially -- 6%, sorry, 6% year-over-year. Any thoughts on how we should be thinking about comp per employee going forward? And then any thoughts on where -- what you're doing with headcount right now in -- given the volume environment?



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James A. Squires - Norfolk Southern Corporation - Chairman, President & CEO

Mark?

Mark R. George - Norfolk Southern Corporation - Executive VP of Finance & CFO

Yes, Scott. You're right, the comp per employee did move 6% sequentially. But remember, these are quarter-to-quarter, in particular, is very lumpy. And you're always going to have some noise on the timing of when you have incentive, accrual top-ups or write-backs. So I think you've got to look at it more over time. And when you look at it over time, you're always going to be fighting inflation, wage inflation. So that's certainly something that we're dealing with every year. And -- but generally, we're really shifting our focus to the absolute comp and bend numbers, which, as you know, have gone down and continued to decline, in part from the volume, but in particular, from the PSR actions that we've taken.

Scott H. Group - Wolfe Research, LLC - MD & Senior Transportation Analyst

I guess I'm not sure I follow. So as we think about going forward, it was -- I guess was there anything unusual in this first quarter on the comp per employee? Or should we assume like that this level continues going forward? Meaning, in the first quarter, you had headcount down 6% sequentially, but I think labor cost -- total labor cost, to your point, were only down 1% or 2% sequentially.

Mark R. George - Norfolk Southern Corporation - Executive VP of Finance & CFO

You had some incentive accrual disparities between quarters. So that's one thing where in Q4, you had -- based on the way the year ended, you ended up having a benefit or a pickup from writing back some of the incentive accruals. So that certainly dropped the Q4 number and creates a little bit of a tougher compare sequentially. I think from here, you'll see that it's going to be more even throughout the year.

Operator

The next question is from Brian Ossenbeck of JPMorgan.

Brian Patrick Ossenbeck - JP Morgan Chase & Co, Research Division - Senior Equity Analyst

Mark, can you go back to the locomotive slide and maybe just walk us through the potential benefits, some that you maybe recognized already or called out like the depreciation? And then if you can lay out the different components on the labor side, maybe even further on the D&A side, on the efficiency side for fuel? And just how do you think about what this has done for Norfolk so far? And what it could represent in the future, call it, this year, next year as it rolls out completely?

Mark R. George - Norfolk Southern Corporation - Executive VP of Finance & CFO

Sure. I mean we talked a little bit about the locomotives first. And again, we took out 250 locomotives last year as we launched the TOP21 strategic plan. And mainly, those were on the sideline, but they were with a lot of other locomotives that we had on the sideline. We knew that every quarter throughout this year, we were probably going to see -- we were going to convince ourselves that we were going to have more and more surplus locomotives. So rather than leak it out over time, we really held hands as an organization and said, look, we've got very good progress here on liberating assets in the field, where can we be in a post-PSR world with regard to locomotive needs? And there were several iterations. I think the PSR experts that we have in-house really pushed the envelope and said, look, we know where we can get to. So we had 1,000 when we started the year on the sideline. The numbers initially started with 400, maybe 450. The team iterated several times and ultimately got back to a number of 703, where we said that is absolutely doable. Even if we go back to 2018 volume levels, we can still manage with the remaining fleet.



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So we decided rather than just leak this out over time to take a look at it, it was clearly a significant portion of that particular asset base. So we decided the right thing to do, the appropriate thing to do is to actually pull it out of group accounting and write it off. The benefit of doing that, first off is, we get the organization focused on removing assets. And I think that's a very important thing for any company when you have surplus assets is to eradicate them because assets attract cost. You got yard congestion in our case. You've got network congestion by parking all these excess locomotives. Let's commit to get rid of them quickly. And then they will attract less cost, less maintenance, and less attention and less property tax. Whatever you can assign to it, we'll end up being savings. So it's healthier just to get to recognize what surplus upfront and move as quick as possible to remove them from the company's properties.

And then by removing them from group accounting, you also now have taken that \$385 million asset. And you avoid depreciating it over many years and absorbing it into your remaining assets. It seems like it's a very unusual form of accounting that's relatively unique to our industry, where you have group accounting attaching excess book value from discarded assets to remaining assets and depreciating further over time. So we avoid doing that. We get rid of it. We get the depreciation benefit in the future. So that's really how this came about.

Brian Patrick Ossenbeck - *JP Morgan Chase & Co, Research Division - Senior Equity Analyst*

Okay. Can you offer any commentary on just what that means for maintenance or mechanical resources, fuel economy going from a -- to a more homogenous fleet? Anything beyond the D&A that you're looking to realize in the next couple of quarters or into '21?

Mark R. George - *Norfolk Southern Corporation - Executive VP of Finance & CFO*

Yes. Clearly, they attract less maintenance. And part of that \$385 million was a little bit of inventory that went for the model lines that are no longer here, the 7 model lines we eliminated. So that's another trailing benefit that we have. And -- but yes, clearly, we're going to have some mechanical benefit from this, savings that arise from having fewer locomotives and a more streamlined fleet model.

Maybe, Mike, you want to make some comments.

Michael Joseph Wheeler - *Norfolk Southern Corporation - Executive VP & COO*

Yes. I mean it helps your whole material network because you're managing less materials with less models. A lot of these models were smaller type models, and so that helps you be efficient. And it's also going to help our shop footprint going forward as we continue to rationalize that. You've heard some of the things we're doing there. And those are coming to fruition now, and those will help that as well. So yes, there's a lot of ancillary benefits to this going forward.

James A. Squires - *Norfolk Southern Corporation - Chairman, President & CEO*

And remember, Brian, we got rid of 300 of those already in Q1. So the physical assets have been removed. And there's just the remaining 400 now that over the next 12 months, hopefully, in the next 9 months or so, will follow.

Operator

The next question is from David Ross of Stifel.

David Griffith Ross - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD of Global Transportation and Logistics*

I wanted to talk a little bit about Phase 3 of TOP21, where you mentioned combining the cars of all different types under a single train. Where are you in that process? Has that been done yet? What's left? And how might mix in the second quarter as you're doing this, I would say, not look



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normal depending on the restart of the economy and which commodity types come back online? And is that going to create any issues at completing Phase 3?

James A. Squires - *Norfolk Southern Corporation - Chairman, President & CEO*

Well, Mike went through the steps that we have taken under TOP21. And essentially, we have completed all of the network redesign to this point that we had mapped out through 2021. So all phases of TOP21 that we had initially signaled we would implement, we have implemented at this point. Going forward, our focus, as we've said, is on additional crew start reductions, blending more trains and a hard look at the facilities we use, the yards we use to support network operations.

Mike, anything to add?

Michael Joseph Wheeler - *Norfolk Southern Corporation - Executive VP & COO*

Yes. We've been talking with you on all the quarters about our blending of our networks. We've first started talking about blending bulk into the general merchandise, and we did that. And then we started blending the automotive into the general merchandise as well. And that was a big part of TOP21 last year, very successful. And as we've continued on, we've blended general merchandise and bulk into the intermodal network. That's been very successful. And then now we're in the process of blending traffic even into our premium network. So we have really blended all the different traffic types into our network. So we're to the point now where a train is a train. So our Phase 3 implementation is really in place. And the beauty of this as you go forward and traffic comes back, we are blended now that a train is a train, and it can ride on a train that gives us the right service requirement that it needs, but also as efficient as it can be. So we're really in a good place with our network with the TOP21 implementation. And going forward, we're just going to continue to optimize the network as traffic comes back on.

Alan H. Shaw - *Norfolk Southern Corporation - Executive VP & CMO*

David, if I could add one thing. It also benefits us and our customers in that it provides us with a broader product offering. And no longer do we need to find enough density for a point-to-point intermodal train. We could find smaller blocks of intermodal and put it on a merchandise train and open up some lanes, which we're doing.

Operator

The next question is from Jordan Alliger of Goldman Sachs.

Jordan Robert Alliger - *Goldman Sachs Group Inc., Research Division - Research Analyst*

I just wanted to follow up a bit on the price for the yield question a bit. Obviously, volumes have been impacted pretty heavily here thus far as you said. I think you mentioned down about 30%, which is trailing the industry to some degree. I'm just curious -- at the same time, your yields are tending to be better. So I'm just curious if some of the volume discrepancy may be related to that. Or how do you deal with price or yield in the face of these steep declines going forward?

Alan H. Shaw - *Norfolk Southern Corporation - Executive VP & CMO*

Jordan, at Norfolk Southern, we are fierce competitors, and we are determined to make decisions in the long-term best interest of our shareholders. We've got a deep knowledge of our markets. And we're confident in our ability to price to the value of our service product, which is outstanding, and our franchise, with a focus on margin improvement and also providing our customers with a platform for growth. And you can see this in our RPU and revenue per revenue ton mile trends over the last 3 years. It's a consistent and a strategic approach for us. There are some specific market



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forces that are impacting our volumes. Last year, 60% of our coal volume was in the utility coal network. That volume was down 44% in the first quarter of this year. We participate in the energy markets, whether that's frac sand or ethanol, and those have been pressured. They've been pressured for much of the year, as I called out. And separately, we also are highly integrated with customers who are integrated steel mills. So that has taken a hit throughout the year.

One thing to point out is we are running against our toughest year-over-year comps of the year. I believe week 20 of last year, so mid-May, was our highest volume week of the year. So that's causing part of the volume decline year-over-year. But we also understand, and it's important to note that, our opportunities are within that \$800 billion plus truck and logistics market. We've got the most powerful intermodal franchise in the East. And as you know, we are aligned with the best channel partners in the industry. We've got a diverse merchandise network with a great service product. We're staying very close to our customers, and we're collaborating with them right now on near-term opportunities as they adjust the supply chain dislocations and on longer-term opportunities. So we're confident about where we're headed.

Operator

The next question is from Brandon Oglenski of Barclays.

Brandon Robert Oglenski - Barclays Bank PLC, Research Division - VP & Senior Equity Analyst

I guess if we could just follow up there though. I mean in an environment coming out of post-COVID, are you talked with your customers right now about what it's going to take for recovery and get them back up to prior volume levels? And does that include changes in service patterns or pricing? Or I guess what's the path forward once we get beyond the shutdowns here?

Alan H. Shaw - Norfolk Southern Corporation - Executive VP & CMO

Yes. Brandon, I think you are going to see some differences in supply chain requirements moving forward. There's going to be potentially more forward-positioning. There's going to be more of an emphasis on reliability and consistency. And frankly, that benefits Norfolk Southern because we've got the best intermodal franchise in the East. When the recovery happens, people are going to be focused on capacity, cost, service and ESG. And Norfolk Southern offers all of that relative to our primary form of competition, which is truck. So we touch over 50% of the consumption and the manufacturing and the economy. We're staying close to our customers. Even now, we're launching innovative service products. So we're pretty confident about where things are headed once the economy reopens.

Brandon Robert Oglenski - Barclays Bank PLC, Research Division - VP & Senior Equity Analyst

Okay. I appreciate that. And then maybe a follow-up for Mark or Jim. You guys did say that some of your cost variability is dependent on service product expectations. And Jim, I thought, was pretty bullish that you're not backing off of the 2021 OR target. So I guess are you putting a cost structure in place where you see line of sight to achieving that type of operating ratio at some sort of volume level in the future?

James A. Squires - Norfolk Southern Corporation - Chairman, President & CEO

Well, the question is not if, but when we get to a 60 operating ratio. That remains our goal. We're going to get there as quickly as we can. And yes, that will be through a leaner cost structure with the kinds of cost structural initiatives that we've been through this morning. And so yes, that's very much part of the outlook, and we believe we will have strong operating leverage when growth resumes, which it will.

Operator

The next question comes from Bascome Majors of Susquehanna.

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Bascome Majors - *Susquehanna Financial Group, LLLP, Research Division - Research Analyst*

Mark, most of the Class 1s have pulled the guidance like you did today, but several have continued to provide investors with some sort of framework to think about kind of a worst-case free cash flow scenario in their own stress tests of the business. How should we think about free cash flow for Norfolk this year?

Mark R. George - *Norfolk Southern Corporation - Executive VP of Finance & CFO*

Thanks, Bascome. So we've modeled a number of different scenarios, and we haven't picked one because we know whatever one we pick, we'll be wrong. But we've modeled high single-digit declines to mid-upper teen declines on revenue and volumes to 20s and 30s. And in all those circumstances and cases, you're going to see that we've modeled free -- positive cash flow contribution. We're going to grow cash flow this year regardless. But one thing we are doing is to preserve cash, you would have noticed, we've really taken a significant chunk out of capital expenditures this year to make sure that we maintain the proper balance and we augment our liquidity in certainly what is going to be an uncertain time, because we don't know how deep this will go and how long it will last before a recovery begins again. So in pretty much all the scenarios we've modeled, we're still generating positive cash flow and positive free cash flow. And we feel actually very good about our whole liquidity equation as well. As you can see from the slide I shared, we've got plenty of vehicles to go for credit if we need it. And again, the capital reduction is also very, very meaningful to us as well as, frankly, a very strong cash balance that we're sitting.

Bascome Majors - *Susquehanna Financial Group, LLLP, Research Division - Research Analyst*

So on the January call, maybe to take that a step further to the structural discussion. You said one of the biggest surprises coming into this industry from the outside was the capital intensity of the business, and that was going to be a priority for you to take a hard look at that as the CFO. You've been going through this process of broader structural cost reductions. Any update you could have on some opportunities you think where you could kind of change that equation longer-term in NS?

Mark R. George - *Norfolk Southern Corporation - Executive VP of Finance & CFO*

Yes. I mean I think you see a little bit of evidence of that here with the capital reduction that we've done very early in the year. You don't cut \$500 million or 25% out of your annual capital spend easily. So we really got together as a team and similar to the whole locomotive discussion I just went through, we iterated several times on what we could do to reduce capital spend and get to a new baseline level, for which, to be honest, we're at -- this is a low level. We haven't been here since 2010 in absolute dollars, but we felt it was the right thing to do because we sensed that there was going to be volume pressure. Sure enough, it's come and it's real in front of us. So I'm glad we've gone through this exercise. From here though, as revenue grows, I would hope that we're able to contain growth in CapEx at a more moderate pace, below the pace of revenue growth in the future and maybe grow into a lower percentage of revenue, below the 16% to 18% at some point. So that's one thing that I think the organization is very keen on.

And then the second, frankly, is what we talked about with regard to the locomotive rationalization itself. We took a long hard look at the assets in that particular pool. And frankly, we're going to shift over now and look at other pools of assets we have as well and make sure -- one of the perils of group depreciation is that you're not necessarily motivated or incentivized to be looking at the assets once they're on the books. In this case, I think we have to look at that because they do attract cost. Do we have a lot of buildings out there along the network that maybe we don't need any more? Structures that, again, attract maintenance cost, they attract electricity cost. They attract property assessments. Those are like one area we might look at. We've seen our coal franchise shrinks considerably. Do we have surplus assets in coal that we need to reexamine and relook at? So we're asking these questions as a team. The team is open-minded about it. And I think, again, you see in the first quarter some evidence of that.



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Operator

The next question is from Ravi Shanker of Morgan Stanley.

Ravi Shanker - *Morgan Stanley, Research Division - Executive Director*

I just wanted to follow up on the discussion about the incremental margins when volumes do come back. You have a pretty illustrative cost structure slide on Slide 22 of your deck, it's really helpful, which shows that you have a pretty variable or semi-variable cost structure which should help you on the way down. But I mean how does that not become an impediment to incremental margins on the way back up again, given that just by very nature, if it's more variable, a lot of those costs need to come back?

James A. Squires - *Norfolk Southern Corporation - Chairman, President & CEO*

Well, we do expect to be able to hold the line on many of the costs within our cost structure as volumes return, and they are in line with the operating leverage in the model. Now certainly, we will have some volumetric expense increases with volume on the way up as is the case on the way down. But the key will be to hold the line in terms of additions to the asset and resource base as much as we possibly can, we know we can do that and ride that wave of volume upsurge, which should generate rapid and significant operating ratio improvement and bottom line growth.

Ravi Shanker - *Morgan Stanley, Research Division - Executive Director*

Okay, okay. And as a follow-up, how would you characterize the competitive environment in the East? I mean, obviously, we know what's happening in the truck side, but just more with your rail competitor.

Alan H. Shaw - *Norfolk Southern Corporation - Executive VP & CMO*

Yes. Trucks are very competitive right now. Those are the opportunities for us. That is supported by our -- the strength of our franchise. And those are the service products that we're developing right now as to help our customers and as they deal with changes in their supply chain, and we're working on near-term solutions and long-term solutions. As I've noted, we've got a wonderful merchandise franchise with broad exposure to the U.S. economy. We've got a great intermodal franchise, the best in the East. And we've got an outstanding service product. And just within intermodal, you can go back 3 years, go back 4 years, you go back 5 years, and you can see that Norfolk Southern and our customers have paced the growth in the entire industry during that time period. You can go all the way back to the recovery from the Great Recession in 2010. So it's -- as I've talked about before, we are making decisions in the long-term best interest of our shareholders. That includes our market approach and our willingness to partner with our customers to support their growth over the long term.

Operator

The next question comes from Ken Hoexter of Bank of America.

Kenneth Scott Hoexter - *BofA Merrill Lynch, Research Division - MD and Co-Head of the Industrials*

Great job on the cost side and the locomotive move. Mike or Jim, just an interesting move in shutting the yards and some of the other steps you're taking during this volume downturn. Maybe can you talk a bit about what moves you could see becoming more permanent? Are there some examples that you can talk to? I know you talked a little bit about the blending of the trains. But I just want to understand, as the business comes back, what are the steps that you're taking you see could be a bit more permanent?



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James A. Squires - *Norfolk Southern Corporation - Chairman, President & CEO*

Yes. Sure. Thank you. As you've noted, we've been looking at our term loan yards for long term. Since the Great Recession, we've either idled or converted 5 of our hump terminals. We did 2 of them last year. And we're continuing to look at that. And those are long-term structural cost reductions. And you'll see more of that as we go forward. I would also note that we've talked about, we've shut down a lot of our smaller outlying yards, brought that traffic in and consolidated it. And as Mark noted, those are assets over time that will go away and take less cost. But we continue to look at it and find out what we can live without and we've got a lot of opportunities out there that we're looking at, more to come, and you'll hear more about it as we go forward. But yes, those are things we're looking at and are going to do.

Kenneth Scott Hoexter - *BofA Merrill Lynch, Research Division - MD and Co-Head of the Industrials*

Okay. Alan, maybe just -- I appreciate your competitive comment before when you were talking about the competitive market. But just looking at coal being down 60% this past week and really taken a beating lately, how do you plan for this? Is that -- are you looking at the business structurally disappearing? Is it something that's just a mild winter and you expect it to come back as the export and domestic markets come back? Maybe just talk about your views on that market a bit.

Alan H. Shaw - *Norfolk Southern Corporation - Executive VP & CMO*

Ken, we understand that our utility coal -- the nation's utility coal franchise is in a secular decline. And so what you see from us is a response and working with our customers on ways to promote coal dispatch relative to natural gas. But also, we're adjusting our franchise as well. You saw that in several short line activities. You saw that in idling of Ashtabula. Just this quarter, you saw in the sale of our Pocahontas Land Corporation assets. Stockpiles in the utility coal franchise right now are incredibly high. They're at about 125 days coal burn and March was at a national record low at 29 million tons. And so I think coal is -- our utility coal franchise is going to be pressured for a considerable amount of time. We need to get the economy back and running so industrial and commercial load comes back. And we're also going to need to see an overall increase in energy prices. Prices in the PJM are in the teens right now for electricity, and that is not going to promote coal burn.

Operator

The next question is from Chris Wetherbee of Citi.

Christian F. Wetherbee - *Citigroup Inc, Research Division - VP*

Maybe, Mark, could drill in a little bit more specific around some of the CapEx comments. I think when you outlined or when the company outlined the plan, the PSR plan, locomotives were a kind of decent sized chunk of the 16% to 18% CapEx spend over time. I think it seems like some of the actions you guys have taken recently have the potential to really rationalize that, even just obviously, this year, but potentially in 2021 and 2022. Is that the right way to think about it? Or could there be other puts and takes that might drive that number back up into that sort of longer-term range? Just want to make sure I understand that this is sort of a spin that likely is going to come down relative to maybe what you thought it was 1.5 years ago or so.

Mark R. George - *Norfolk Southern Corporation - Executive VP of Finance & CFO*

Yes. Thanks for the question, Chris. I'm going to tag team this with Mike. But the reduction in the CapEx is really a little bit across the board. Not so much on the locomotives, but in other areas, whether it's IT, a little bit of our maintenance. We've really taken a look at all the various categories and tried to bring it down a notch, even some of the terminal spends, especially given the volume pressures that we have. So it really went across the board. And we know though, like I mentioned earlier, we're going to have pressure to raise from here. But I want -- Mike, maybe you can talk a little bit about locomotives and cat 1 versus non-cat 1 on the ops stuff.



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Michael Joseph Wheeler - *Norfolk Southern Corporation - Executive VP & COO*

Sure. Yes. On the locomotive DC to AC conversions, we're committed to that revitalization because we've got some DC locomotives out there that upgrading to the AC is really cost efficient from a capital standpoint and been really pleased with the reliability from this. So that project will continue on going forward over the next couple of years. It's the right thing to do. And what we did push out, we had taken some opportunistic additional DC to AC conversions that we were looking at this year. We're pushing those out. We're not going to do those. Some rebuild of our yard in local fleet, we've pushed out. So the DC to AC conversions will continue at the pace that we've talked about in the past.

Relative to the capital expenditures, we are very fortunate that we've got some great technology in our company, particularly on the engineering side. We are making sure that we are putting our rails, ties and ballast in the right locations. We've got technology these days that are -- they're using machine vision to determine whether ties are good or not. They're even doing x-rays internally. So we're making sure that when we put ties in, we're putting them in the right place at the right time. Same thing with rail, where we're using predictive analytics to determine where the rail needs to be replaced at. And that's allowing us to really pinpoint our asset replacements. And we're really comfortable with the fact that we are doing the right thing for maintaining this railroad in the long term, both on the locomotive reliability front as well as the track infrastructure.

Christian F. Wetherbee - *Citigroup Inc, Research Division - VP*

Got it. Okay. That's very helpful. I appreciate the color. And then maybe a quick follow-up. Alan, when you think about the truckload market, I think there's a building sense that coming through this downturn when volume comes back, we could be coming into a somewhat tighter truckload market than what we sort of exited. So can you talk about sort of how that kind of plays into the strategy on the intermodal side and what the opportunities might be there for you?

Alan H. Shaw - *Norfolk Southern Corporation - Executive VP & CMO*

Chris, that's very similar to what you saw in 2009 and 2010, isn't it? Where you saw some pretty considerable supply reactions on the truckload side to a steep downturn in spot prices. So for us, it means continuing to collaborate with our best-in-class supply chain partners and our channel partners on how we give them an exceptional service product, how we look for new opportunities, new lanes for them to grow into. And then it's also selling the things that are going to be pretty darn valuable post-COVID-19, which is capacity, a lower cost structure than truck, it's service and it's ESG. And we've got the best intermodal franchise in the East. So we're in great shape there.

Operator

The next question is from Justin Long of Stephens.

Justin Trennon Long - *Stephens Inc., Research Division - MD*

Maybe to follow up on that last question. Regarding domestic intermodal, obviously, one thing that's changed is the fall off in fuel prices. So I was wondering if you could comment on the gap in pricing between contractual intermodal pricing and contractual truckload pricing in your network today. And as you think about domestic intermodal going forward, do you feel that it is still a GDP-plus growth business whenever things recover even if fuel prices hang out around current levels?

Alan H. Shaw - *Norfolk Southern Corporation - Executive VP & CMO*

Justin, the gap has certainly closed. The real pressure is coming from that spot truck market. And at some point, as the economy starts to improve and as there are supply ramifications throughout the truckload market, that's going to particularly affect the spot market. So it's important for us to maintain that vision as we're approaching the market and not chase the spot truck market. You've heard me talk about that before. That's not



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within the long-term best interest of our corporation. So we're focused on what we can deliver, and that is a great service product, a great intermodal franchise that has allowed our customers to outpace the industry and growth over any number of years.

Justin Trennon Long - *Stephens Inc., Research Division - MD*

Okay. And maybe looking bigger picture at the volume performance of the business. Obviously, it's weak across the board right now, but there's a pretty substantial difference in the year-to-date volumes at NS versus your eastern competitor. I'm curious if you could just comment on that gap. Have there been any major market share losses this year that are driving that? Is this a function of mix? And as you look at that gap, how should we be thinking about the actions you're taking to close that gap and the timing around that going forward?

Alan H. Shaw - *Norfolk Southern Corporation - Executive VP & CMO*

So Justin, one of the things that I had talked about is the utility coal franchise, which is last year was 60% of our volume -- utility -- of our coal volume in the first quarter is down 44%. So that's having an impact on us. The ethanol markets, whether that's inbound feedstock such as corn or outbound ethanol, is having an impact on us, frac sand, we've talked about the energy impact. Integrated steel mills is having an impact on our franchise. And frankly, the spot trucking market is having an impact on intermodal. And we saw an impact on international intermodal in Asia business in February. And so all of that contributes to tougher year-over-year comps, as I noted, we're still riding or comparing against fairly elevated volumes of last year. We'll get through that in week 20 in which our volumes were at the highest level of last year. And just overall, we understand the markets, and we're pretty confident in our knowledge of the markets. And we're very confident in our ability to price to the value of our product and the value of our franchise and make the best long-term decisions for our shareholders. And you see that in RPU, in revenue per -- revenue ton mile trends, not just this quarter but over the last 3-plus years.

Operator

The next question is from Jon Chappell of Evercore ISI.

Jonathan B. Chappell - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Mark, first question for you. You spent a lot of time on the CapEx changes. Any comment on capital returns? Should we assume that given a bit more of a disciplined manner in CapEx, that you'd be pressing the pause button on the buyback program? And so there's a little bit more clarity on coming out of this?

Mark R. George - *Norfolk Southern Corporation - Executive VP of Finance & CFO*

Yes. Thank you, Jon. Certainly, we were -- we continued full steam in Q1 on the share repurchase activity. Now obviously, as we do see the markets are contracting significantly, we are going to take a more conservative approach to looking at share repurchase, while maintaining flexibility for when depending on the depth of decline, but also the pace of recovery. So I think we will certainly take a more muted approach here.

Jonathan B. Chappell - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Okay. And then a follow-up for Michael really quickly. You guys talked about the locomotive plan and a lot of the service metrics that have been taken. But when you look at the PSR implementation from, say, May 1 relative to where you were sitting on February 1, what are some of the other adaptations you've made to the plan for 2020 given the precipitous fall in volume?



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Michael Joseph Wheeler - Norfolk Southern Corporation - Executive VP & COO

Well, I think the thing that is beneficial for us is that we're able to adapt quickly, right? As volumes come out, we've been able to take the crew starts out. You saw that in my slide. I'll note that in April so far, we've pretty much matched the volume decline against -- with the crew start decline. That's around 30%. So it's matched it pretty well. So the thing that we've come out of this with is a really nimble organization that can adapt quickly to volume changes, whether that's on the downside like we've shown or on the upside when it occurs and we're going to get a lot of leverage when that happens because of it.

Operator

The last question comes from Thomas Wadewitz of UBS.

Thomas Richard Wadewitz - UBS Investment Bank, Research Division - MD and Senior Analyst

I wanted to follow-up a little bit on train starts and leverage. Maybe if I can refer, Mike, to your slide. I think it's Slide 11. So you're improving on all the metrics. I guess the train weight expansion or probably moving with train length has been more muted. Obviously, a function of tough volume backdrop. So how do you think about coming out the other side where the ratio might be, or how rapidly you might need to bring back train starts? Or is there a period of a couple of quarters where you just really see that metric expand a lot and you don't have to add train starts back, you just run longer trains?

Michael Joseph Wheeler - Norfolk Southern Corporation - Executive VP & COO

It really will depend on where the traffic comes back and what type of traffic it is. Obviously, if it's full bulk, you're going to get more of an incremental train starts. But if it's just across the board, we've got capacity still in our train lengths to add train lengths before we have to do a lot of train starts. We've got capacity in the terminals as well with the -- both the road crews, the local service crews and the yard crews to handle the capacity. So we've got a while before we have to make train start increases. So we're still going to continue to get the upside leverage as this thing spools up. It's in a great place.

Thomas Richard Wadewitz - UBS Investment Bank, Research Division - MD and Senior Analyst

So you -- but you think there could be win volumes? I mean, obviously, this is looking out to the other side. But do you think you could actually run without adding trains for a while where you see positive volumes?

Michael Joseph Wheeler - Norfolk Southern Corporation - Executive VP & COO

Correct. Yes. Depending on where the traffic comes from. And that's our plan. That's our plan, and that's our goal. And that's the ability of this organization to do that.

Operator

This concludes the question-and-answer session. I will now turn the call back over to Mr. Jim Squires for closing comments.

James A. Squires - Norfolk Southern Corporation - Chairman, President & CEO

Thank you for your questions this morning. We look forward to talking to you again next quarter. Stay safe, everyone. Thank you.



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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.

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