BLUEGRASS
CAPITAL RESEARCH

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Transportation | *Shipping*
10/31/25

Union Pacific

Full Steam Ahead

Few companies have played as pivotal a role in U.S. history as Union Pacific. More than 150 years after its founding, Union Pacific still plays a key role in the U.S. economy, moving materials and goods that keep industries running. There will always be a need to transport goods, and the structural advantage that railways have over trucks and planes is that they are more cost-effective and carbon-efficient. With UNP owning 13% of the total railways in the U.S., it essentially owns a monopoly over the section of the country that it serves, creating a significant barrier to entry. We believe that Union Pacific's irreplaceable rail network, consistent, solid returns, and limited competition make the company an attractive investment.

Thesis Point 1

With only 7 major companies controlling essentially all railways in North America, there is an incredibly high barrier to entry in the industry. If the company's proposed merger NSC is approved, this would be exaggerated as they would expand to have rail in 20 more states. Once a rail company has its thousands of miles of track (32 for UNP), all of the profits that will be made from goods being transported in that area are locked in for that company. Competitors would not want to build rails in the same area, as that would lead to overcapacity. Neither company would be able to use trains at full capacity, which would likely lead to a price war. Additionally, the amount of regulation in the industry and the massive amounts of capital necessary to build a functioning railway help keep the competition out.

Thesis Point 2

Union Pacific's environmental efficiency provides a structural advantage in a decarbonizing economy. Union Pacific can move one ton of freight 475 miles on a single gallon of diesel fuel, generating a carbon footprint that is 75 percent less than trucks. As shipping companies face more pressure to reduce emissions, trains will become more attractive options.

Thesis Point 3

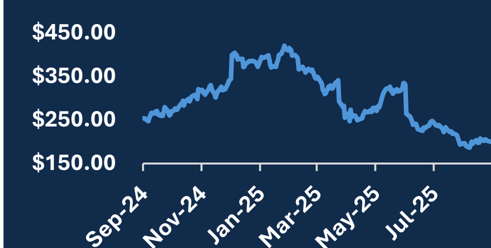
UNP serves industries such as the automotive and chemical sectors, which are positioned to fare well under President Trump. Industrial chemicals and plastics revenues already rose 6% in Q1 of 2025 vs 2024. Motor vehicles and parts shipments also rose 10% yoy. International revenue only makes up about 4% of UNP's earnings from 2024, meaning that more U.S. production will benefit the company. Most of the international revenue comes from their 26% stake in Ferromax, Mexico's largest rail operator. With limited competition in transportation and key sectors like chemicals and automobiles, UNP is well-positioned for sustainable revenue growth.

Company Overview

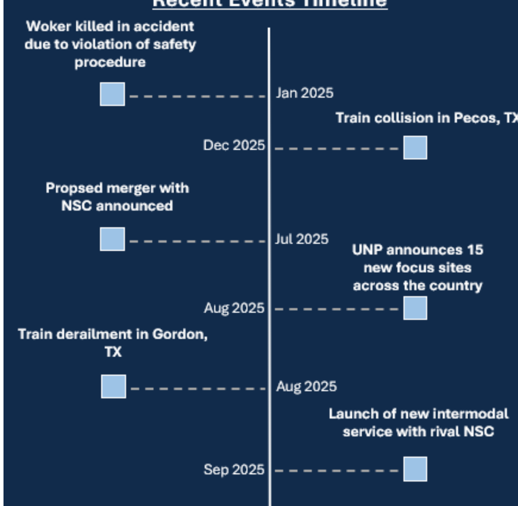
Founded in 1862 by way of the Pacific Railroad Act signed by Abraham Lincoln, Union Pacific is one of the oldest publicly traded companies in the United States. The company is best known for helping to construct the first transcontinental railroad in the United States. Today, the company operates over 30,000 miles of track in 23 states, connecting major agricultural and industrial hubs from the Midwest to the West Coast. With a total revenue of $24 billion in 2024, which was a 11.6% growth from the prior year, UNP is steadily becoming more profitable. EBITDA margins were at 53.1%, which is well clear of the sector mean of 41.44%. With a network that hits nearly every major port west of the Mississippi, UNP is a critical part of supply chains that power manufacturing, construction, and retail sectors.

TICKER:	UNP
RATING:	BUY
PRICE:	$217
PRICE TARGET:	$267
MARKET CAP:	$134m
52-W RANGE:	$204 - $256
P/E:	18.5x
IMPLIED UPSIDE:	22%

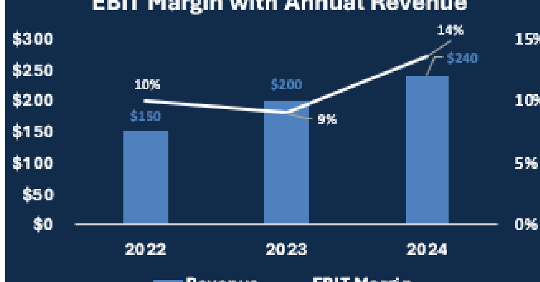
1 Year Price History



Recent Events Timeline



EBIT Margin with Annual Revenue



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Risk 1

The company is facing increasing pressure from regulators regarding emissions and labor practices. Mandatory crew size laws, which have already been set in 12 states, raise the minimum crew size to 2. While UNP does not currently run any 1 man crews, this could limit flexibility as they look to automate operations in the future. Proposed laws on diesel fuel efficiency and advanced safety systems such as Positive Train Control, which cost the company $2.5 billion to install, could raise the company's operating costs.

Risk 2

Union Pacific's performance is heavily tied to the performance of the U.S. economy as a whole. Approximately half of its carload comes from cyclical industries such as automotive, construction, and chemicals. A decrease in industrial production, consumer spending, or agricultural exports could reduce the companies' freight volumes and revenue per carload. Additionally, the volatility of fuel prices remains one of UNP's largest expenses. This helped contribute to UNP's lower revenue in 2023

Risk 3

UNP has to compete with alternative modes of transportation, such as trucks. Advances in electric and automotive could gradually decrease the advantages of rails, particularly on shorter routes. If the company's proposed merger with NSC isn't approved, investors may be concerned that the company has maxed out growth. Supply chain regionalization could also divert flows from the company's western network.

Catalysts

Potential catalysts for UNP include a rebound in U.S. industrial activity and consumer demand, which would drive freight volume up in key segments such as automotive, construction materials, and chemicals. If the U.S. economy continues to improve, UNP should benefit from stronger shipment demand. The company's recent proposed merger with Norfolk Southern should also increase profit in the long run as the company expands its network. Successful implementation of precision-scheduled railroading and network modernization should lower UNP's operating expenses and expand margins, further supporting earnings growth.

Valuation – Price Target of $267

DCF Analysis ($mm)	FY2024 12/31/2024	FY2025 12/31/2025	FY2026 12/31/2026	FY2027 12/31/2027	FY2028 12/30/2028	FY2029 12/30/2029	FY2030 12/31/2030
Revenue	24,250	24,200	24,636	25,023	25,358	25,638	25,861
Revenue Growth	*1%*	*0%*	*2%*	*2%*	*1%*	*1%*	*1%*
U.S.	22,811	23,000	23,460	23,871	24,229	24,531	24,777
Mexico	1,439	1,200	1,176	1,152	1,129	1,107	1,085
N/A	0	0	0	0	0	0	0
EBIT	9,768	9,650	9,115	9,071	9,002	8,909	8,793
EBIT Margin	*40%*	*40%*	*37%*	*36%*	*36%*	*35%*	*34%*
Tax Expense	2,047	2,100	2,005	1,996	1,980	1,960	1,934
Effective Tax Rate	*21%*	*22%*	*22%*	*22%*	*22%*	*22%*	*22%*
NOPAT	7,721.00	7,550.00	7,109.95	7,075.26	7,021.64	6,949.26	6,858.47
D&A	6,747	6,500	6,898	7,069	7,227	7,371	7,500
Capex	3,452	3,200	3,695	3,753	3,804	3,846	3,879
Changes in NWC	(247)	200	(246)	(250)	(254)	(256)	(259)
UFCF	11,263	10,650	10,559	10,641	10,699	10,731	10,738
PV of FCF		10,626	10,126	9,469	8,833	8,221	7,634

Our base case assumes a 12.0x EV/EBITDA multiple and a very moderate 1.1% CAGR, reflecting continued revenue growth. This is supported by the company's strong position to take advantage of a rise in American manufacturing, as well as the proposed merger with NSC. Reference the bottom of the appendix for upside and downside cases.

Conclusion

Investors can find comfort in acquiring a rare opportunity in UNP: an established giant of the American economy that will have continued growth due to their scale, increased American manufacturing, and improvements in train efficiency. UNP has over 150 years of history and isn't going anywhere soon. **We initiate UNP with a BUY rating and a PT of $267.**

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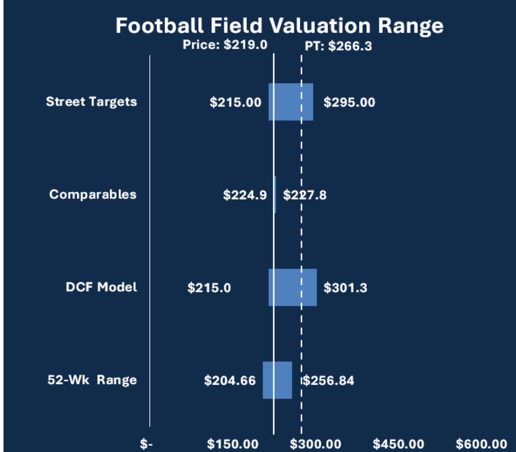
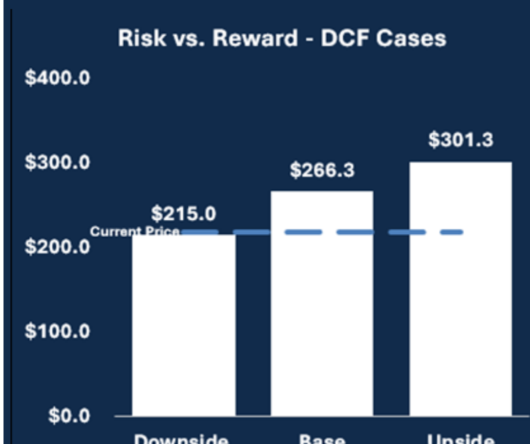
Terminal Value	
Exit Multiple Method	
2034 EBITDA	$16,293
EV/EBITDA Exit Multiple	12.0x
Terminal Value	$195,513
PV of Terminal Value	$136,188
PV of Projection Period	$54,234
PV of Terminal Value	$136,188
Implied TEV	$190,422
(-) Debt	$32,876
(+) Cash	$1,060
Implied Equity Value	$158,606
Diluted Shares Outstanding	593
Implied Share Price	$267.39
Upside/Downside	21.6%





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Income Statement ($mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	24,250	24,200	24,636	25,023	25,358	1.1%
EBITDA	16,515	16,150	16,013	16,140	16,229	-0.4%
EBIT	9,768	9,650	9,115	9,071	9,002	-2.0%
NOPAT	7,721	7,550	7,110	7,075	7,022	-2.3%

Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	68.1%	66.7%	65.0%	64.5%	64.0%	65.7%
EBIT Margin	40.3%	39.9%	37.0%	36.3%	35.5%	37.8%
Revenue Growth	0.5%	-0.2%	1.8%	1.6%	1.3%	1.0%
EBIT Growth	6.9%	-1.2%	-5.5%	-0.5%	-0.8%	-0.2%

Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	11.5x	12.2x	12.3x	12.2x	12.1x	12.1x
EV/Sales	6.7x	6.7x	6.6x	6.5x	6.4x	6.5x
EV/EBITDA	9.8x	10.0x	10.1x	10.0x	10.0x	10.0x
FCF Yield	8.7%	8.2%	8.1%	8.2%	8.2%	8.3%

Comparable Companies

$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
CSX Corporation (NasdaqGS:CSX)	$68,150	$87,348	23.8x	$14,123	$6,538
Norfolk Southern Corporation (NYSE:NSC)	$65,013	$81,611	19.6x	$12,178	$6,056
Canadian National Railway Company (TSX:CNR	$59,546	$74,290	18.5x	$12,200	$6,273
Canadian Pacific Kansas City Limited (TSX:CP)	$70,051	$86,001	23.8x	$10,616	$5,574
Union Pacific	$134,070	$166,946	19.6x	$24,393	$12,366

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margi	EBIT Margin	1 Yr Rev Growth Rate LF
CSX Corporation (NasdaqGS:CSX)	13.4x	46.3%	46.3%	34.3%	(3.8%)
Norfolk Southern Corporation (NYSE:NSC)	13.5x	49.7%	49.7%	38.5%	0.7%
Canadian National Railway Company (TSX:CNR	11.8x	55.4%	51.4%	40.1%	0.6%
Canadian Pacific Kansas City Limited (TSX:CP)	15.4x	52.5%	52.5%	39.4%	4.8%
Union Pacific	13.5x	55.9%	50.7%	40.7%	1.1%

High	15.43x	55.9%	52.5%	40.7%	4.8%
75th Percentile	13.50x	55.4%	51.4%	40.1%	1.1%
Average	13.52x	52.0%	50.1%	38.6%	0.7%
Median	13.48x	52.5%	0.0%	39.4%	0.7%
25th Percentile	13.36x	49.7%	49.7%	38.5%	0.6%
Low	11.84x	46.3%	46.3%	34.3%	-3.8%

Union Pacific		
Implied Enterprise Value (25th Percentile)	$	165,210
Implied Enterprise Value (Median)	**$**	**166,646**
Implied Enterprise Value (75th Percentile)	$	166,946
Implied Share Price (25th Percentile)	$	224.89
Implied Share Price (Median)	**$**	**227.31**
Implied Share Price (75th Percentile)	$	227.81

Weighted Average Cost of Capital ($mm)	
Market Risk Premium	4.53%
Beta	1.04
Risk Free Rate	4.39%
Cost of Equity	7.24%
Weighted Average Cost of Debt	5.00%
Tax Rate	21.00%
Cost of Debt	0.80%
Total Equity	$129,066
Total Debt	$31,816
Equity/Total Capitalization	79.70%
Debt/Total Capitalization	20.30%
WACC	8.04%

Upside Case: For our upside case, we assume that the merger with NSC is completed, giving the company an even larger share. We also assume that the reshoring of manufacturing helps the company to grow revenue.

Downside Case: For our downside case we assume that the merger is not approved. We also assume that the tariffs don't have the anticipated effect and that revenues don't grow.