

28-Apr-2021

Norfolk Southern Corp. (NSC)

Q1 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

It's now my pleasure to introduce your host, Meghan Achimasi, Senior Director of Investor Relations for Norfolk Southern Corporation. Thank you. You may begin.

Meghan Achimasi

Senior Director of Investor Relations, Norfolk Southern Corp.

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

Our presentation slides are available at nscorp.com in the Investors section, along with our reconciliation of non-GAAP measures used today to the comparable GAAP measures. Along those lines, recall that in the first quarter of 2020, we launched a rationalization of our locomotive fleet by 703 units, which resulted in a non-cash charge of \$385 million. So we will speak to the quarterly results excluding that charge. A full transcript and download will be posted after the call.

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

James A. Squires

Chairman, President & Chief Executive Officer, Norfolk Southern Corp.

Good morning, everyone, and welcome to Norfolk Southern's First Quarter 2021 Earnings Call. Joining me today are Cindy Sanborn, Chief Operating Officer; Alan Shaw, Chief Marketing Officer; and Mark George, Chief Financial Officer.

Norfolk Southern started strong in 2021. Our successful implementation of precision scheduled railroading translated into solid financial results. Our team delivered all-time records for operating ratio and free cash flow, and achieved first quarter records for earnings per share and operating income.

Norfolk Southern employees accomplished this despite significant supply chain disruptions brought on by severe weather nationwide in February. For the quarter, revenue increased 1% due primarily to volume growth, up 3% year-over-year. At the same time, expenses declined 3% or \$48 million compared to our adjusted first quarter 2020. Throughout the quarter, we continued to streamline resources, resulting in impressive gains in workforce asset and fuel productivity.

Looking ahead, we remain intent on achieving strong revenue growth and efficiencies to propel the bottom line and create shareholder value. Investments in technology and sustainability will be critical, and I'll provide some recent examples of these after we review the quarter.

But first, let me turn the call over to the team to go through the quarterly results in more detail, starting with Cindy.

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

Good morning. I am excited to share our first quarter achievements and what we have in the hopper looking ahead. Our team on the ground is proving its capability and motivation to move quickly on advancing efficiency and restoring service reliability. We've also introduced a few new team members with PSR experience, who are leading initiatives alongside our field team to increase productivity inside our major hump and flat switching terminals. These actions are having an immediate impact for our shareholders and our customers.

Slide 6 shows our operational indicators. While volumes were variable in the quarter, efficiency gains were consistent. By absorbing additional volumes within our existing train network, despite how those volumes varied during the quarter, we were able to realize substantial gains in train length and train weight and improve fuel efficiency. Productivity initiatives such as locomotive horsepower optimization and additional usage of distributed power were key to this success. Execution of our efficient scheduled railroading plan enabled us to handle more freight with fewer resources compared to a year ago.

Let me add some more color on train length. We are committed to improving productivity by running longer trains, and accomplishing that involves targeted investments within certain parts of our network. During the quarter, we completed an initial assessment of incremental infrastructure that will aid our long train initiative.

As a result, we've begun construction on a long siding extension in the Chicago-Atlanta corridor that will be complete ahead of this year's peak season, and then we have identified two others that we will begin construction on this year. We will quickly identify and address opportunities to efficiently deploy capital to support both train consolidation and organic growth.

Moving to slide 7. Weekly carload fluctuations tell an important story of the quarter. Volumes rose quickly coming out of the New Year's holiday and were running several percentage points higher than last year until severe winter weather arrived in February. This affected both railroad operations and our shippers, with Chicago being hit the hardest by both snow and extreme cold. While we kept mainlines fluid, overall supply chain congestion slowed traffic through terminals. I would like to especially recognize our field operations, engineering and signals teams for ensuring a safe and efficient operation despite historic cold deep into our network. Their work is critical to the success of NS and our customers.

Beyond the weather episodes, we continue to adjust our yard network to handle volume increases expected during the year. We are focusing on driving improved efficiency and reliability at our key terminals, which in turn creates a capacity dividend that enables us to absorb both volume variability and overall growth. We are continuing our yard internal focus in the second quarter.

Slide 8 shows that to start the year, network fluidity was comparable to 2019 levels. But a condensed winter that followed in February impacted our velocity and terminal dwell and snarled supply chains in general. As you see by the network performance trends over the past seven weeks, we continue to progress and are committed to further improvement to get our service reliability to where we want it to be. Additional progress creating consistent fluidity leads to enhanced railcar velocity, which in turn benefits our shareholders and customers.

I'll finish on slide 9 by explaining how we continue Norfolk Southern's operating transformation during the quarter and how it showed up in the results. We've undertaken a series of focused initiatives to improve capacity and drive down dwell at our major terminals, including current humps as well as flat switching operations. These improvements support the longer and heavier trains we are running, allowing us to operate efficiently with fewer

resources. Finally, Q1 reinforced the benefits of effective interline cooperation, and we are building on that even though the winter weather is passed.

The results show in both productivity and asset usage. These trends have been improving since we implemented TOP21 in mid-2019, but the team has been able to both accelerate and extend the improvement, and we are very well-positioned to continue these trends, leveraging our efficiency initiatives with rising volumes. Thank you for your time, and I'll turn it over to Alan.

Alan H. Shaw

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

Thank you, Cindy, and good morning, everyone. Beginning on slide 11, we experienced significant volume volatility in the first quarter. We delivered a strong start to the year with January volume exceeding last year, while February was challenged with winter weather events that disrupted supply chains across the country. Progressing into March, business levels improved as supply chain fluidity started to recover, and we adjusted to dynamic shifts in the freight environment.

I will now turn to slide 12, highlighting our revenue and volume performance for the first quarter of 2021. Despite the difficult operating conditions, overall revenue improved 1% year-over-year to \$2.6 billion, while volume grew 3%. Revenue per unit, excluding fuel, improved in each of our individual business units this quarter, reflecting our commitment to grow yield as part of our long-term strategy, though total revenue per unit and revenue per unit, excluding fuel, were down slightly due to the mix of intermodal volume growth with declines in merchandise volume.

Merchandise revenue fell 4% from prior year levels on a 3% volume decline. This segment faced difficult pre-COVID comps in the energy sector. Partially offsetting these declines were gains in soybean, steel and automotive shipments. March US light vehicle sales surged to a 17.7 million unit seasonally adjusted annual rate, the second highest March ever, while inventories are at a 10-year low. Merchandise revenue per unit, excluding fuel, reached a record high for the quarter, delivering 24 consecutive quarters of year-over-year improvement in this market.

Intermodal revenue and volume both increased compared to the first quarter of 2020. Volume growth was driven by a continuation of the inventory replenishment cycle, combined with the tight truck market and strength in consumer activity as retail sales grew 9.8% in March, the largest sequential increase since May 2020 when sales initially rebounded as states reopened from shutdowns.

Intermodal revenue per unit, excluding fuel, improved 6% year-over-year, supported by continued strength in the LTL market driven by growth in e-commerce. This marks the 17th consecutive quarter of year-over-year improvement in this metric and a record high.

Our coal business delivered 5% revenue growth in the quarter. Volume gains were driven mostly by export thermal shipments as the global economic recovery continued, as well as tailwinds from China-Australia trade tensions. Domestic met and coke volumes continued to improve as demand for finished product accelerated. Utility demand was down as it continued to be pressured from product substitution and lower industrial load. Revenue per unit improved 3% year-over-year, inclusive of a \$9 million incremental gain from volume shortfall revenue.

We have an unrivaled consumer-oriented franchise that continue to benefit our customers and shareholders throughout the quarter, although severe weather certainly impacted business levels. Particularly in February, our

diverse industrial franchise serves the improving manufacturing economy and we saw gains from rising commodity prices.

We are delivering sustainable revenue growth, in line with our long-term strategy to capitalize on the strength of our franchise and provide value-added solutions in the marketplace.

Moving to slide 13. Our outlook for the remainder of the year is strong. Consensus for US GDP growth is north of 6%, the highest in the last 40 years. PMI rose to 64.7 in March, hitting the highest level since 1983, while inventories remain low. These are expected to be key factors driving robust economic activity for the rest of 2021. We remain confident that our markets will achieve volume growth in the high single digits this year, and our franchise is poised to capitalize on the expected growth that will drive value for both our customers and our shareholders.

Merchandise growth will be driven by continued expansion in the manufacturing sector. Elevated demand levels, coupled with low dealer inventories in the automotive segment will drive volume gains. However, the current semiconductor chip shortage creates uncertainty as to the timing of the recovery.

US light vehicle production currently is expected to exceed pre-pandemic levels in 2021. That production growth, along with the return of total industrial production to pre-pandemic levels will drive steel demand, which is another market where we expect to generate volume growth as the year progresses. We also anticipate our energy markets within merchandise will benefit from the return of gasoline demand in the consumer travel sector as the economy fully reopens.

Our intermodal franchise will continue to build on the momentum associated with the ongoing US economic recovery. And expected rise in consumer spending, low inventory levels and continued tightness in the trucking sector are all key factors boosting growth opportunities.

Spending on durable goods is expected to grow 15% in 2021, which bodes well for our domestic intermodal franchise that is closely correlated with consumption markets. International intermodal will benefit from the resumption of global trade activity. Coal business will remain challenged in 2021. The export thermal market continues as a near-term strength, although with a lower RPU than average.

Domestic met and coke volume is expected to improve in line with the economic recovery. Natural gas and renewable energy source conversions will continue to negatively impact the utility markets. Decisions on stockpile levels will be determined by summer weather and gas prices.

In summary, we expect to generate revenue growth in 2021 as economic conditions continue to improve. As the needs of our customers constantly evolve, we remain diligent in delivering valuable transportation solutions to the marketplace. We continue to focus on initiatives to drive growth, margin improvement and a strong service product. We are confident in our ability to leverage our value in the marketplace to secure new opportunities, to support our customers' growth and grow our margins.

I will now turn it over to Mark, who will cover our financial results.

Mark R. George

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

Thanks, Alan. As Jim mentioned, the OR and EPS records we achieved in the quarter came through disciplined cost control while handling additional volume in the midst of pretty challenging operating conditions.

On slide 15, walking you through our summarized results compared with an adjusted first quarter 2020, we reported an OR of 61.5%, which was a 220 basis point improvement and an earnings per share improvement of \$0.08. I will note that the \$0.08 improvement in EPS was dampened by the absence of a gain recognized last year from a 2012 income tax refund that equated to \$0.09. So, core EPS improvement in the quarter was \$0.17.

Moving to slide 16. Revenue grew 1% in the quarter, due primarily to the 3% increase in volume year-over-year, with growth in intermodal and coal more than offsetting declines in merchandise. At the same time, we drove operating expenses down by 3% as we harvested additional benefits from workforce and asset productivity. The volume growth, coupled with the productivity, drove the operating ratio down to a record low 61.5%, improving 220 basis points year-over-year and 30 basis points sequentially versus Q4.

This produced operating income of \$1 billion, another record, up \$62 million or 7% year-over-year. And we generated first quarter free cash flow of \$750 million, also a record, up \$161 million or 27% versus the first quarter of 2020.

Moving to a drill down of operating expense improvement on slide 17, the reduction of \$48 million or 3% comes with improvements in nearly all expense categories. Material and other were collectively down \$15 million or 9% as we continue to see lower spend associated with fewer but more productive locomotives, thanks to the rationalization of equipment last year.

Fuel expense was down \$12 million with benefits evenly split between price and reduced consumption, thanks largely to a 3% improvement in fuel efficiency. Comp and benefits declined \$11 million or 2% from lower employment costs related to a workforce that was 12% smaller than a year ago and 2% smaller than the fourth quarter.

Partially offsetting these tailwinds are headwinds this year from higher incentive and stock-based compensation. Purchased services and rents were collectively down \$10 million or 2%, as reduced freight car expenses more than offset higher spend associated with technology investments and increased intermodal volumes.

When matched to a 3% volume increase, the 3% decline in OpEx provides another quarter of additional productivity, building on the work we've done over the past several quarters, as you'll see here on slide 18. From the quarter that we launched our TOP21 operating plan, we have made meaningful progress on our workforce productivity, with GTMs per employee up 16% since the third quarter of 2019, and a 340 basis point improvement in our operating ratio. And we remain intensely focused and committed to drive further improvements.

Turning to slide 19, for the remainder of the P&L below operating income, you'll see that other income net of \$7 million is \$15 million or 68% unfavorable year-over-year, due primarily to lower net returns on our company-owned life insurance investments. Our effective tax rate in the quarter was just over 22%. And recall, last Q1, we had the 2012 tax refund that resulted in a lower effective tax rate. As a result, net income increased by 1% compared to pre-tax earnings growth of 5%. Earnings per share rose by 3%, supported by 2.3 million shares that we repurchased in the quarter at an average price of \$254.

Wrapping up now with our free cash flow on slide 20, free cash flow at \$750 million was buoyed by strong operating cash conversion and a relatively modest \$265 million in property additions in the quarter, which was below our annual targeted run rate for the year due to timing issues, including weather-related delays in capital spend. Shareholder distributions totaled \$840 million, an increase of \$132 million versus prior year, thanks to our recently increased dividend and a meaningful increase in our share repurchase activity to nearly \$600 million.

With that, I'll turn it back over to Jim.

James A. Squires

Chairman, President & Chief Executive Officer, Norfolk Southern Corp.

Thank you, Mark. You've heard this morning about all the productivity improvements stemming from our adoption of PSR. Our company is also in the middle of a digital transformation. We expect investments in technology to drive the next phase of improvements in service growth, efficiency and sustainability at Norfolk Southern, and we're already making great headway. Slide 22 shows a few recent examples.

The introduction of new mobile apps and a redesign of our customer portal are giving customers a more user-friendly and truck-like experience, delivering real-time shipment intelligence, facilitating truck-to-rail conversions and reducing emissions. We're putting an easy to use mobile application in the hands of our train conductors, streamlining internal workflow and improving shipment visibility for customers. We're digitizing our internal and external communications through a new CRM platform, enabling better, faster decision-making.

We're using new information systems to promote intermodal equipment utilization and efficiency at our intermodal terminals. We're using predictive analytics to reduce locomotive failures and plan maintenance proactively. Machine vision technology is creating a path to automated track and freight car inspections with manifold benefits to safety and deficiency.

On slide 23, we show that NS has been a sustainability leader for over a decade. Years ago, we recognized the importance of reducing our environmental footprint, beginning in 2007, when we first established our sustainability program. We've been reporting on our results ever since, delivering on the goals we set forth. Here, we highlight a few key milestones and also show a few examples of external recognition, including recently being named by the Wall Street Journal as one of the 100 Most Sustainably Managed Companies. In summary, we have a track record of leadership on sustainability, which is good for business and the right thing to do for all our stakeholders.

Although we don't generally update guidance, given the unusual circumstances in the first quarter with February's extreme cold and a global supply chain disruption, let me wrap up by restating our confidence in our ability to meet the mark for full year 2021, with the expectation that strength in consumer-oriented and manufacturing markets will drive 9% revenue growth year-over-year.

For the full year, we expect to achieve more than 300 basis points of OR improvement versus our adjusted 2020 result. And we expect to end 2021 with a 60% run rate OR. As we've said before, once we achieve these targets, we won't stop improving. So, we're optimistic about growth in the year ahead and all the initiatives we have underway to create long-term sustained value for our shareholders.

Before we open the call to Q&A, I want to quickly address the proposed transactions involving another Class 1 railroad. We're watching the situation closely, but we won't be discussing the proposals or industry speculation generally. As the regulatory review process unfolds, there will be opportunities for further discussion.

As our first quarter performance demonstrates, we remain focused on enhancing operational efficiency and delivering value for our shareholders and customers, and we look forward to addressing your questions about our results and outlook.

So with that, we'll open the call to questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting question-and-answer session. [Operator Instructions] Our first question comes from the line of Chris Wetherbee with Citi. Please proceed with your question.

Chris Wetherbee

Analyst, Citigroup Global Markets, Inc.

Q

Hey. Thanks. Good morning, everybody. I wanted to see if we could start with the outlook, particularly the operating ratio. So, strong performance in the first quarter, if you look at normal seasonality, it actually seems like you're on kind of a 60% or maybe even sub-60% run rate as it stands right now based on what you've been able to achieve first quarter through the rest of the year in the last five years. So, maybe you can give us some thoughts on sort of your view on that progress towards that 60% run rate? Are there some things from a cost perspective that we should keep in mind as the year progresses? Or maybe is there the opportunity to potentially exceed your expectations?

James A. Squires

Chairman, President & Chief Executive Officer, Norfolk Southern Corp.

A

Good morning, Chris. Let me begin by pointing out that while seasonality certainly hasn't been repealed, it was a strong first quarter and somewhat anomalous given the surge of volume we've experienced both in the first quarter and the fourth quarter due to the economies reopening.

And also, we were out there with some bullish guidance, a pretty bullish outlook on the economy during 2021 early. In January, we forecast a 9% volume growth for the year. So, we got ahead of this. We were feeling bullish about the economy and the business opportunity way back in January. So, here we are now. We've posted a great first quarter. It's a good start to the year. We're off and running. And we remain optimistic about the year to come. I'm sure we'll talk a lot more about the specifics during the call. But we remain optimistic. We're going to continue to push. We expect to be where we said we would be, back in January, by the end of this year in terms of OR.

Chris Wetherbee

Analyst, Citigroup Global Markets, Inc.

Q

Okay. Okay. That's helpful. I appreciate it. And then maybe just a follow-up on sort of the progress making the workforce productivity you highlighted on slide 18 and some of the other efforts that you're making around PSR. It seems like the process is unfolding quite nicely. So, can you talk maybe about sort of the bigger picture maybe beyond 2021, what maybe the opportunity is for you to continue to improve the cost structure of the business?

Cynthia M. Sanborn

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

A

Yeah, Chris, this is Cindy. I'll answer your question. I appreciate the question. As we talked about it and you saw in Mark's notes or slides around GTMs per employee, that was a record for us this quarter, even with all the challenges that we faced. And we're going to continue to see opportunities as we consolidate trains, get longer trains. We are making some investments that I called out in my remarks to help us with train length by investing in some sidings. So part of PSR, and as I've learned it through the last few years, it is about getting your plan right-sized for the time and then continuing to tweak it, continuing to find efficiencies in places that maybe you don't expect.

I think we'll be able to see continued improvement in locomotive utilization, fuel, head count, all of those areas beyond 2021. I mean, we're not – as Jim described, when we were thinking about where we should be at the end of this year – we're not going to stop with where we end up. We'll continue to find those opportunities. So, I feel very, very good about what the team has accomplished so far and even with a very challenging, very volatile first quarter of this year. And I think that gives me great confidence that we'll continue through 2021 and into 2022 with very good efficiency performance.

Chris Wetherbee

Analyst, Citigroup Global Markets, Inc.

Q

Okay. Very good. Well, thanks very much for the time. Appreciate it.

Operator: Thank you. Our next question comes from the line of Justin Long with Stephens, Inc. Please proceed with your question.

Justin Long

Analyst, Stephens, Inc.

Q

Thanks, and good morning. Jim, I know you said you weren't going to comment on the proposed mergers from the Canadian Rails and KCS. But I did just want to ask generally if you had any thoughts around rail mergers and your willingness to participate in further consolidation if the opportunity were to present itself?

James A. Squires

Chairman, President & Chief Executive Officer, Norfolk Southern Corp.

A

Well, Justin, I recognize that this situation is kind of dominating the airwaves right now and that there are a lot of interested industry stakeholders focused on the proposed transactions, including NS. And we will be protective of our shareholders' interests and our customers' interests. We will be active participants in any transaction that may transpire out of this. With that said, I really think it would not be fruitful for us this morning to focus on other people's deals, hypothetical knock-on effects, what the STB may do, et cetera. But rather, let's focus on our first quarter, which I humbly submit was pretty spectacular, and our outlook for the rest of the year.

Justin Long

Analyst, Stephens, Inc.

Q

Fair enough. Maybe for my follow-up, just to circle back to the guidance for the OR improvement of 300 basis points or greater than 300 basis points this year is somewhat open-ended. Mark, I'm curious, has anything changed in terms of your expectation on head count this year? And then maybe you could comment on yields and what you're thinking for RPU as well?

Mark R. George

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

A

Sure. With regard to head count, you may recall back in January, Cindy and I reiterated that we would expect head count and employment levels to be flat to down over the course of this year despite the volume guidance that we gave, which was high single-digits leading to revenue that would be roughly 9%. We're tracking to that right now, and we actually believe that we will continue to stay on that guidance for the balance of this year. So, we're feeling good about the way that's unfolding and transpiring. Alan, you want to talk a little bit about yields and RPU?

Alan H. Shaw

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

A

Yeah. Justin, we had talked about a – to expect a reduction in revenue per unit in the first quarter and then year-over-year growth in quarters two through four. That's still our anticipation. I expect that we'll see RPU growth through the remainder of the year and full year. We're sticking with our 9% revenue guidance for the year. Most of that is associated with volume increases, so RPU will improve slightly. That's more of a reflection of mix with intermodal growing pretty rapidly and strength in the lower RPU export thermal market than it is with respect to price.

Justin Long

Analyst, Stephens, Inc.

Q

Okay. I appreciate the time.

Operator: Thank you. Our next question comes from the line of Scott Group with Wolfe Research. Please proceed with your question.

Scott H. Group

Analyst, Wolfe Research LLC

Q

Yeah, thanks. Good morning guys. I just want to start just a couple of things on the cost side. Compensation per employee was up a lot. Any thoughts on how to model that? And then, we've just seen a little volatility in purchase services costs. Just any thoughts on how to model that, if that stays down year-over-year or if that starts to trend higher? Thank you.

Mark R. George

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

A

Yes. Thanks, Scott, for the question. Yes, comp and ben per employee was up 11% in the first quarter, and really, roughly half of that was related to the incentive and stock-based comp headwind that we reported there on the slide in the first quarter. And you can expect that that kind of headwind will persist throughout the balance of this year.

The other half of the headwind is really split between the increase we saw in the first quarter in overtime, which shouldn't persist throughout the balance of the year, as well as the normal, couple few points of wage inflation headwind, as well as some little uptick in payroll tax that should also persist. So, there'll be some level of comp headwind. It won't be 11% in the balance of the year, but maybe a little bit more than half of that is probably a good way to model it.

Now, for the purchased services, it was a low quarter for us, for sure. I think the rest of the year is going to depend on kind of the volumetric pieces that we continue to work on. But engineering, remember – or engineering spend – that will step up during the summer months. And also IT, a lot of the IT investments are going to really start to hit us more in the back half of the year – second, third, fourth quarter. So I do think that you'll see purchase services up from this level, probably back to where we were in the fourth quarter. That would probably be a good way to model it quarterly going forward.

Scott H. Group

Analyst, Wolfe Research LLC

Q

Okay. And then, Alan, just quickly for you, I – can you just talk about the underlying pricing environment and what you're seeing there?

Alan H. Shaw

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

A

Yes, Scott, it's improving as you would anticipate. We're seeing commodity prices move up. Steel prices are at record highs. You're seeing strength in lumber. We're seeing strength in grain products, seeing strength in plastics. And as we progress through the first couple of months of the year, we've raised our plan on our transactional business within intermodal.

Now, recognize that's a very small component of our franchise. However, we are seeing continued strength in the trucking market. And some of the things I'm reading, Scott, are pointed at the fact that truck capacity is actually projected to tighten throughout the year from a very robust environment right now. So, we're feeling pretty good about the pricing environment for the remainder of this year and as we move into 2022.

Scott H. Group

Analyst, Wolfe Research LLC

Q

Okay. Thank you, guys.

Operator: Thank you. Our next question comes from the line of Allison Landry with Crédit Suisse. Please proceed with your question.

Allison M. Landry

Analyst, Credit Suisse Securities (USA) LLC

Q

Good morning. Thanks. So, some of the other rails that have implemented PSR provide trip plan compliance metrics for carload and intermodal networks. Is this something that you guys look at closely? And if so, could you just sort of give us a sense for where you might be tracking on this metric or whatever metric you think is most relevant? Just really trying to understand how network reliability has improved and where it stands today, outside of looking just at the public service metrics that we can see weekly.

Cynthia M. Sanborn

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

A

Yes. Allison, thank you. What I will say is what we share with you is what we're really working on. And you've seen since I've been here, we're – not necessarily service related – but we added train length to some of the measures that we provide some color on. On the service piece, we did have service delivery index, SDI, and found that, that wasn't something we were really managing to. What we were managing to more as we put in PSR was car velocity. And so, that's going to be the area that we're focusing on and have developed that measure, broadly created the ability to drill down for accountability at local levels, looked at it beyond just the geographic component, also the car type component of car velocity, what car types are moving faster than others. And that's really where we're going to be headed in how we think about that and talk about that. And in time to come, we'll also share that with you.

Allison M. Landry

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Perfect. Cindy, also you talked about the use of distributed power. Obviously that, I'm sure, is contributing to the improvement in fuel efficiency. Could you give us like what percent of the trains are now equipped or

running with DPUs? And then, just in terms of closing the gap with some of your peers in terms of gallon per GTM, when you sort of think about the ways that you can improve that, are DPUs and expanding the use of them, a big driver or is it more increased train length and weight? If you could sort of speak to the different drivers, and if you expect the fuel efficiency to – or the improvement to accelerate as we move through 2021? Thank you.

Cynthia M. Sanborn

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

A

Okay, Alison. I would say that all of the above that you mentioned, including energy management, are levers for us to continue to improve in locomotive utilization and therefore, fuel demand. So, I see a very strong opportunity to continue to run our trains at full capability of the locomotives. We call that full pen. I've talked about that on earlier calls.

In our manifest network, we're at full pen maybe 13% to 15% of the time at this point on a district-by-district basis, so we see some opportunity there. You talked about distributed power, we have – actually, we increased distributed power utilization on trains that we use distributed power by 11% – almost 12% in the quarter, first quarter. It is a record for us and the last record was fourth quarter. So, we have real good trajectory with distributed power, which, to your point, is also beneficial to us from a fuel perspective. So, we've got a lot of work to do on fuel, and those are the areas that we're working on to get us there.

Allison M. Landry

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thanks, Cindy.

Operator: Thank you. Our next question comes from the line of Ravi Shanker with Morgan Stanley. Please proceed with your question.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Thanks. Good morning, everyone. A couple of questions on intermodal, maybe looking out a little bit here. Cindy or Alan maybe, what percentage of your carload volumes do you think will be intermodal about, maybe three years from now, kind of just looking at the growth trajectory there versus the other end markets? And also, how does the mix in intermodal today compare to where it was a few years ago, kind of, just trying to see if that mix gap that has traditionally existed is closing or not?

Alan H. Shaw

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

A

Ravi, yes, we're expecting intermodal to lead our growth for the next couple of years. Actually, I should point to consumer-oriented products. We've got an unrivaled intermodal franchise in the East. We also serve more US vehicle production than any other railroad in North America. And we've got a consumer-oriented merchandise franchise, where we're actively focused on providing a truck-like product there to compete with trucks. So, we're really intent on providing the simplicity of truck, coupled with the efficiency of rail. And that – that revolves around a very highly reliable and predictable service product with very good digital tools for our interface with our customers.

So that's where you're going to see the growth markets from us, and then we'll participate in the ebbs and flows within the commodity markets. You don't have to go back that long. 2011, we had \$3.5 billion of coal revenue and about 45% of our overall revenue was associated with the energy markets.

Now, we've got about \$1 billion of coal revenue and we've got about \$2 billion in the energy markets. And so despite that mix and despite that shift, we've improved our margin profile as well. So, we're very confident in our plan going forward. We've got a robust franchise that faces the fastest-growing segments of the US economy, which is going to benefit our customers and our shareholders.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Thanks for that update. And also there, just following up on the kind of digital update that you gave, which is very useful. I'm wondering if you guys have spent much time at all thinking about autonomous truck and kind of how that might come into the network or kind of influence the truck market over the next several years? And just kind of what your view there is.

James A. Squires

Chairman, President & Chief Executive Officer, Norfolk Southern Corp.

A

It's a threat, and we view it as such. Time horizon is somewhat uncertain, but it's certainly something to be aware of and to be planning for, and we are. And we are doing so through efforts to automate our own operations and to go down the path of more efficient and productive railroading via automation, via digital investments ourselves.

Mark R. George

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

A

And that said we know that in our industry, we've got a much more attractive sustainability profile. Even if trucking goes on an automated fashion, we still provide a better sustainability solution.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks, everyone.

Operator: Thank you. Our next question comes from the line of Thomas Wadewitz with UBS. Please proceed with your question.

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Yes, good morning. Wanted to see if you could comment – I guess, this is probably for Cindy – just the, obviously, there's some constraints across the system. I think we've seen it in some of the intermodal terminals, some of it's kind of in your control, probably a lot of it's not. But how do you think about where you're at from a fluidity perspective at some of your key intermodal terminals and kind of what needs to be done to see that improve?

James A. Squires

Chairman, President & Chief Executive Officer, Norfolk Southern Corp.

A

Alan, why don't you take that one?

Alan H. Shaw

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

A

Yes, Tom, if you'll permit, I'd like to cover that because it involves that intersection between our network and our customers' network. What you've seen and what you continue to see is stress across the entire supply chain. That

can be with warehouses, which are having trouble with productivity associated with COVID protocols, they're also having trouble with labor staffing. You see that in the drayage community as well. And so, that could back things up.

Despite that, we delivered 13% increase in intermodal revenue, ex-fuel surcharge, in the quarter on top of 11% improvement in intermodal revenue, ex-fuel surcharge, in the fourth quarter. We've got a great franchise. We've got the best channel partners in the industry. We are collaborating with them on how to solve some of these issues and help them grow even more.

Cynthia M. Sanborn

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

A

And I'd add to that, Tom, from the network perspective, we work really closely with intermodal – intermodal terminal folks – to make sure we are moving trains appropriately for support with the customer freight that can actually be offloaded. So, there's good coordination so that any challenges within the terminals do not spill over onto the [ph] line of road (44:39).

Thomas Wadewitz

Analyst, UBS Securities LLC

Q

Right. Okay, and then for a follow-up. Cindy, you had implemented some changes in the Southeast part of the network. I think – I believe it was fourth quarter – and you made changes, sometimes there are, I guess, the adjustments to the new schedule or new flow of traffic. And then you've also had weather and growing volumes. How do you think that that – did that work well – and how you think about kind of additional schedule changes? Or do you think you kind of stick with the current schedule and just execute against that?

Cynthia M. Sanborn

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

A

Yes. Thanks for the question. So, the Southeast plan that you described, we actually started implementing in November, very beginning of November. And we're largely through some of the adjustments that we needed to make as we came into the first part of the year. So, that was working well.

Then we kind of hit this volatility that I described in my prepared remarks that was induced by weather that was – and also volume. And so, I had to step back from the Southeast plan and almost go all the way back to the changes with TOP21 and our terminal footprint and how it's changed, the consolidation of trains to make longer trains and how that's been beneficial to us, and we really pressure tested it with volume.

And we had to make some adjustments, some in the Southeast plan, certainly across the North. And you saw our service product maybe as we came out of March, we were starting to really see some improvements in dwell and train velocity. But we did have to do some tweaks. We had to get back in there and make some changes. They were highly productive. They helped us be more effective and efficient. And I think we'll continue to see the service-related measures improve.

Real pleased with some of the work, particularly at Bellevue and Elkhart, that has taken place over the last couple of weeks and months. And I think we're really on a good glide path. I will also say that all the changes we made, the volatility that we worked through in the quarter, we didn't see cars on line jump up. We were able to continue to move, continue to work with our customers so that we didn't see a drag on additional car volume that was sitting on the network. So I feel really good about where we are and a lot of good work went into getting us to this point. I'm very, very pleased with the team.

Thomas Wadewitz

Analyst, UBS Securities LLC



Great. Thank you for the perspective.

Operator: Thank you. Our next question comes from the line of Amit Mehrotra with Deutsche Bank. Please proceed with your question.

Amit Mehrotra

Analyst, Deutsche Bank Securities, Inc.



Thanks. Good morning, everybody. Mark, you provided that cost structure slide in the past, a fixed versus variable cost structure and kind of the implications for incremental margins. The cost structure, I guess, is obviously evolving as you implement PSR, but there's obviously a lot of revenue growth year-on-year in the second quarter and hopefully beyond. I know you guys have this OR target out there that's helpful. But what's the right calibration for incrementals on that growth – on that outsized growth in 2Q and beyond – just relative to the cost structure disclosures you provided in the past?

Mark R. George

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



Yes. Thanks, Amit. So look, our outlook is to generate strong incrementals throughout the balance of the year, and that's how we're going to accrete and grow our operating ratio – or sorry – shrink our operating ratio.

Our goal here is on pretty much all line items to absorb and hold the – absorb the volume and hold the cost as flat as possible – and that's kind of the challenge in the mandate we've given to the organization. And that's going to really translate into the OR improvement that we're projecting.

So as I mentioned, you'll have some geography – purchased services really started off strong – probably going to see that pop a little bit for the reasons I just cited a few minutes ago. But when we look at some of the other line items, like rents and comp and ben, et cetera, our goal is really to just try to hold firm and absorb volume. So, I think you're going to see good incrementals for the rest of the year.

Amit Mehrotra

Analyst, Deutsche Bank Securities, Inc.



So if I'm just interpreting your comments, kind of this \$1.6 billion OpEx base is kind of the neighborhood you're going to be in over the course of the year as revenue ramps. Is that correct?

Mark R. George

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



That's kind of where we're targeting. I mean, I'm not going to get more precise than rounding to the hundreds of millions. But, yeah, that's our goal, is to sit there and try to hold costs while we absorb the volume.

But, of course, one of the variables, Amit, of course, is fuel – fuel will go up throughout the balance of the year. We are projecting that, but we should have some – hopefully, some lag on fuel surcharge should help mitigate some of that, too.

Amit Mehrotra

Analyst, Deutsche Bank Securities, Inc.



Okay. That's helpful. Thank you. And then just one quick follow-up for Alan, I guess. The coal yields consistently kind of surprise to the upside. And I'm just wondering if you had kind of your best guess in terms of where you think coal yields will shake out as we progress through the remainder of the year.

Alan H. Shaw

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

A

Yeah, Amit. Good morning. I'd prefer to surprise the upside than the downside on yields. We did call out a specific volume shortfall accrual in the quarter that was \$9 million ahead of last year. So with that respect, that helped.

We had a lot of cross-currents with respect to our overall yield in coal as well. I talked a lot about export thermal. For us, Norfolk Southern, we were able to deliver 66% growth in export thermal coal in the quarter. And that's due very specifically to the great service product that we've had into that market. That's – we're happy to have that business. It's accretive to our margins, our bottom line and helps OR. However, it does come with a lower overall RPU.

Then within the utility franchise, we actually had more growth in our utility North – pardon me – Utility South franchise than Utility North, which is positive for overall RPU. So, there's a lot of things going on within coal. With export thermal as the growth driver, that, going forward, that's primarily going to put pressure on overall RPU.

And frankly, we'll see what happens in the utility franchise. We've got a number of plants right now, whose stockpiles have deteriorated over the winter, but very few are in the process of rebuilding stockpiles now, which is frankly what you would expect during shoulder months. So, that's a point of caution going forward is utility volumes and how that shakes out and then what the impact that is on overall RPU.

Amit Mehrotra

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Okay. Makes sense. Thank you very much. Congrats on the good results. Appreciate it.

Mark R. George

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

A

Thanks, Amit.

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

Jordan Alliger

Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Hi. Good morning. Just a quick question on intermodal and the pricing, it seems like the yield up maybe is turning a real corner, 6% ex-fuel. I'm just curious, specifically on intermodal yields, given the truck tightness and hopefully service getting better, as you alluded to, I mean, is this a yield number, sort of a core yield number that we could think about going forward from here?

Alan H. Shaw

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

A

Hi. Jordan, we had some positive mix associated with our intermodal franchise. We saw domestic volumes increase more than international volumes through the quarter. Domestic, it's generally a 53-foot container relative

to 40-foot containers that has a higher RPU. And then even within that, you see that supercharged LTL premium market, which is benefiting RPU.

I'll remind you and everyone else, that we've got 17 consecutive quarters of overall RPU improvement in our intermodal franchise, through cycles in the market. There was a – contract rates in the truck market went down last year – and yet our intermodal RPU, ex-fuel, was up 3.4%. There was a truck recession in 2019 and yet our intermodal RPU, ex-fuel, went up 2.4%. So, we take a very steady approach to valuing the quality of our product. And in our approach with our channel partners, we really want them to be able to grow and compete.

And so, what they're looking for from us is rate surety over the course of the year as they go into their bid-cycles. Over time, our intermodal RPU, ex-fuel, and our pricing has outpaced that of the contract market and the spot market. And we're leading in growth. So, I think we've got the right strategy going forward to deliver value for our intermodal channel partners and our shareholders.

Jordan Alliger

Analyst, Goldman Sachs & Co. LLC



Okay. Thank you.

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

Brian P. Ossenbeck

Analyst, JPMorgan Securities LLC



Hey, good morning. Thanks for taking the question. Maybe one for Cindy, can you just give us a sense as to, how you see resources in terms of head count out in the field, if any of the different regions require a little bit more attention or not, how the recall from furlough is going, how retention is going, that sort of thing, especially when you look at the strong growth you're expecting.

And you mentioned there's a few – sounded like leaders – maybe a little bit higher up, we saw one announced. Are there any other folks with maybe a bit more PSR experience that you're looking to bring onboard?

Cynthia M. Sanborn

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



Yeah. Brian, so on the head count side on [indiscernible] (55:23), I mentioned – or you saw and I'll start with this – you saw it in Mark's slides that we're continuing to improve in our productivity. We are – and we are guiding to be flat to down from where we ended December. All of that is still in play.

We are, however, we have recalls, furloughs in many of our locations, where we're out of furloughs. And we are doing some spot hiring. It's not broad-based. And frankly, it's to help offset attrition slightly. We do have attrition that continues quarter-by-quarter or year-by-year. So, we are doing some hiring. We want to make sure we provide a good service product to our customers.

We're very integrated with what the forecast looks like with Alan's team and have spent a lot of time, working on a training plan, that gives us a lot more agility and being able to respond when we need to in places where we do see attrition and we need to backfill. We've kind of decentralized our training and gotten it down to a short – a much shorter period of time, about eight weeks – where we're actually training folks in the places where they're

going to work. So they're still going to be a very safe employee, but we are able to condense the amount of sort of speed, I guess, improve the speed to market, if you will, and respond to needs of service.

So, we've got to provide a good service product to our customers. We'll, with the volume that we're seeing, we will need to hire, but I feel really good about the process that we have and the ability for us to continue to manage that and overall still improve our productivity around T&E productivity. So, and I forgot your second question.

Mark R. George

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

A

PSR talent.

Brian P. Ossenbeck

Analyst, JPMorgan Securities LLC

Q

Yes. PSR talent?

Cynthia M. Sanborn

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

A

Yes. So yes, we did publicly announce Hunt Cary joining from UP. He and I worked together over several different stops in our career in different railroads. He's been a real good add, integrated well with the team. And there are several others down in the organization that we have brought on.

And if we have a need, we will continue to find good fits for them within NS. And I think part of it is the integration of it, and that's gone very, very well. And I think the long-tenured NS folks are happy to have the additional support and helping them make through the changes that we need. So feel really good about where we are, and we'll always be looking for places where we can bring external folks in with PSR experience that can help us get the – achieve our goals.

Brian P. Ossenbeck

Analyst, JPMorgan Securities LLC

Q

All right. Okay. Thanks, Cindy. One quick one for Mark. Can you just – obviously very strong quarter – but can you give us some sense as to, if you quantify the impact of weather or I guess more specifically on fuel with the timing lags, how that impacted the quarter would be helpful to put into context as well? Thank you.

Mark R. George

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

A

Yes. We didn't really quantify weather. I mean, certainly, it did have an impact. We felt it in the form of higher overtime, certainly higher reworks. We had some snow removal costs as well. We just didn't think it was material enough to break out.

And look, overall, fuel was a headwind in the quarter because we didn't really get the lag benefit of the fuel surcharge coming through here in the first quarter. So we had \$34 million of headwind in fuel revenue, but we did have very good fuel efficiency performance that provided a good tailwind for us on the expense side. And I think you saw the numbers on the slide for fuel.

Brian P. Ossenbeck

Analyst, JPMorgan Securities LLC

Q

Right.

Mark R. George

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

A

Thanks, Brain.

Brian P. Ossenbeck

Analyst, JPMorgan Securities LLC

Q

All right. Thanks, Mark.

Mark R. George

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

A

Take care.

Operator: Thank you. Our next question comes from the line of Brandon Oglenski with Barclays. Please proceed with your questions.

Brandon R. Oglenski

Analyst, Barclays Capital, Inc.

Q

Hey. Good morning, everyone. Alan, I wanted to come back to intermodal pricing because I think on the January call, you did imply that you weren't going to get a lot of pricing benefit from the tight trucking market until 2022. But I think you did mention a few mix impacts on yield and I think the suggestion was that those yields are going to be sustainable throughout the year. But can you talk maybe more explicitly on pricing in that market and any differences between domestic or international?

Alan H. Shaw

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

A

Yes. Brandon, what we are – what we're seeing is the pricing environment continues to improve. The truck capacity tightness, we expect is going to last through this year and into next year. I was looking at something last night, and it makes sense. Warehousing and trucking are pulling from the same blue-collar pool out there. And you know what's going on in the warehousing market, rates are up 8% year-over-year. And as people are forward positioning inventory next to the end markets, that's a tight market.

So in our transactional intermodal business, we are updating our price plan. However, as I noted, that's a relatively small component of our overall price. Our – I've talked through our rate structure with our customers. And so, you can see that over time, we're going to exceed contract and spot rates. As I noted, it's over time. We have long-term contracts. We want to make sure that we provide our channel partners, who are phenomenal at growing, with surety on their rates as they go through bid season. So, we take a measured approach. It takes time. Over time, it's the right thing to do for our customers and our shareholders.

Brandon R. Oglenski

Analyst, Barclays Capital, Inc.

Q

Okay. So just to clarify, it's mostly mix than that we saw in the acceleration in yields?

Alan H. Shaw

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

A

Yes.

Brandon R. Oglenski

Analyst, Barclays Capital, Inc.

Q

Okay, and then one last quick follow-up for Cindy. Cindy, you mentioned that you guys are really focused on car velocity, which I think I can understand from your perspective. But ultimately, don't your customers care about a service delivery index or am I just not understanding that correctly?

Cynthia M. Sanborn

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

A

Well, I think we all agree that moving a car faster is good for both asset utilization and our customers. So, that is really kind of a happy medium with solving all of those issues. And we have – we measure our local delivery processes, our in-transit processes as well. But ultimately, if any of those break down, you're going to see that car velocity. So that's why we're focusing on that. But we're very – we feel very, we have very – we have quite a bit of focus, in general, on serving our customers well. And Alan and I talk about that quite a bit and make sure we are aligned on that topic.

Alan H. Shaw

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

A

Cindy's focus is on running a highly efficient, highly reliable and fluid network. And within our interactions with our customers, we have shared KPIs that are individual to those customers. It's not an index. So, we're having conversations every day with our customers that are metrics-based on the quality of the product that we're delivering and the value we bring into the market.

Mark R. George

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

A

Much more granular than SDI, of course.

Alan H. Shaw

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

A

Yes.

Brandon R. Oglenski

Analyst, Barclays Capital, Inc.

Q

Appreciate it. Thank you.

Operator: Thank you. Ladies and gentlemen, our final question this morning comes from the line of Ken Hoexter with Bank of America. Please proceed with your question.

Ken Hoexter

Analyst, BofA Securities, Inc.

Q

Great, thanks for squeezing me in. Congrats on a solid job here. So Cindy, a lot of information on PSR and the improvement. Where do you think you are on the path here in terms of the – when you step back – the humps, the flat switching? Is the major stuff done and now it's the incremental improvements? Do you still see when you look at this the opportunity for capital investment? You mentioned some of the sidings. Is there any other kind of projects that you look at that still need to be implemented to get any more step function gains or is this just kind of

maybe incrementals? And then just a side question. Any real estate gains in the quarter or planned through the year?

Cynthia M. Sanborn

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

A

All right. Ken, I think that we still have some structural work that we need to do, whether that's from train size perspective or continuing to move forward with some terminal efficiencies beyond the footprint that we have today. But that's going to depend on volume and where traffic wants to go. It's – we want to make sure that we serve our customers well and we do it in an efficient, reliable way. So, I think there's still more structural work to be done. And then we'll, as to your point, continue to tweak and refine from there. But I think – I see a great opportunity ahead of us.

Mark R. George

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

A

And Ken, let me answer your question on real estate. We had a pretty light quarter. We only had about \$4 million of operating gains this year from the sale of real estate in the first quarter, and that was versus \$11 million last Q1. So, it was actually down \$7 million year-over-year. And again, we'd tell you to guide, to bookmark around \$30 million to \$40 million over the course of the year. And we'd stick with that. I mean, there are years where we do have outsized specific items where – when that happens, we'll call it out and let you know. But for the time being, I'd bookmark \$30 million to \$40 million for the year, even though we're a little shy of that run rate here in the first quarter.

Ken Hoexter

Analyst, BofA Securities, Inc.

Q

Thanks, Cindy and Mark. So, and then my follow-up Jim, you mentioned, I would love to ask about M&A in terms of the impact in the industry. It doesn't sound like you're going to answer. But on the technology side, the autonomous track and car inspections, are there anything new that you're working on as we prepare? Do you think kind of going to one-man crews is the next step in this phase? You were asked about autonomous before? Just interested in, kind of, you mentioned a lot of step-up in tech investments. It seems like an opportunity to keep making some strides. So maybe you can follow-up on the tech side.

James A. Squires

Chairman, President & Chief Executive Officer, Norfolk Southern Corp.

A

Sure. Happy to. Yeah, I would say broadly that our focus when it comes to technology-led productivity and efficiency gains has been on the asset base, on the track structure, in particular. We've put a lot of time and attention into automating, digitizing our track inspection protocols and accumulating that data and using it to more efficiently maintain our track. It's a huge part of our asset base so you can understand easily why we would start there.

We have begun to extend out into other parts of what we do. We're working on automating freight car inspections using machine vision systems. We are working hard on automating our crew room – reporting for duty, how we report out the conductors work in the yard and on line of road, so that gets automated. And so many aspects of how we do our work in the field will be automated, put on a handheld.

And we're leveraging the PTC network in a variety of ways as well – the communications network – to think about automating train operations, too. Next-generation automated train operations presents a terrific opportunity for us to operate more efficiently and more safely.

James A. Squires

Chairman, President & Chief Executive Officer, Norfolk Southern Corp.

And so I'll close on that note. And I want to thank everyone for your questions this morning, and we look forward to talking to you next quarter.

Mark R. George

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

Take care all.

Operator: Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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