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NSC - Q1 2019 Norfolk Southern Corp Earnings Call

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OVERVIEW:

Co. reported 1Q19 net income of \$677m and EPS of \$2.51.



APRIL 24, 2019 / 12:45PM, NSC - Q1 2019 Norfolk Southern Corp Earnings Call

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Greetings, and Welcome to the Norfolk Southern Corporation First Quarter 2019 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It's 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, Rob, and good morning. Before we begin, 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.

The slides of the presenters are available on our website at norfolksouthern.com in the Investors section, along with our non-GAAP reconciliation. Additionally, a transcript and downloads will be posted after the call.



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

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

Good morning, everyone, and welcome to Norfolk Southern's First Quarter 2019 Earnings Call. Joining me today are Alan Shaw, Chief Marketing Officer; Mike Wheeler, Chief Operating Officer; and Cindy Ehrhardt, Chief Financial Officer.

At our recent Investor Day in Atlanta, we described our team's commitment to reimagining possible for Norfolk Southern. That commitment is unwavering. We are finding that the more we adopt new practices and ideas, the more we can drive bottom line growth and shareholder value. The results showed in the first quarter. As indicated on Slide 4, income from operations was \$966 million, an increase of 16%. Net income was \$677 million, up 23% over the prior year. And EPS was \$2.51, a 30% increase. The operating ratio improved 330 basis points versus last year to 66%. All of these figures were first quarter records.

Underlying the financial achievements were dramatic improvements in network performance. Key service and productivity measures also moved in the right direction. The stage is now set for implementation of our new operating plan, TOP21, which will drive further operational, service and financial progress.

Now to provide details on our first quarter results, Alan will cover revenue, Mike will cover operations, and Cindy will go over the financial results. I'll now turn the call over to Alan.

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

Thank you, Jim, and good morning, everyone. I'm pleased to discuss our first quarter results that demonstrate our ongoing progress in driving top line growth and margin expansion, enhanced by the initiatives introduced at our February Investor Day. Our results highlight our yield-up strategy, with a focus on testing the limits of market-based pricing, reflecting the value of our network and product, allocating resources to opportunities with the greatest return and reducing network complexity to develop a valued service product we execute every day.

Our continued emphasis on collaboration between Norfolk Southern and our customers strengthened our ability to deliver pricing increases and service improvement, resulting in solid revenue growth. As Mike will discuss in a few minutes, our customer-facing metrics are trending in a positive direction. As we continue improving our service product, we are effectively aligning with our customers around mutual goals of more reliable and frequent service with better velocity. This provides both Norfolk Southern and our customers with a platform for growth while we both compete in an evolving marketplace.

Our initiatives are delivering results. Slide 6 highlights our first quarter year-over-year revenue growth of 5%, the ninth consecutive quarter of year-over-year revenue gains and a record for first quarter revenue. Strong pricing in all business groups and higher fuel surcharge revenue improved revenue per unit by 4%. Our pricing success increased merchandise revenues 5% year-over-year despite a 1% decline in volume in the first quarter. Strong service levels and demand increased corn and feed volumes. This is offset by decreases in our automotive business impacted by declines in U.S. light vehicle production and railcar availability due to disruptions across the U.S. multilevel network.

Our intermodal franchise continues to thrive, with first quarter revenues increasing 6% year-over-year on a 2% volume gain. In particular, international growth is up significantly due to a rise in import volumes as a result of tariff uncertainty. These gains were partially offset by declines in domestic shipments that faced difficult comparisons to double-digit growth last year and were negatively impacted by winter weather and laying rationalizations as part of our strategic initiatives to yield up and optimize our network.

In our coal franchise, our efforts to realize the value of our service product through pricing resulted in a 6% improvement in revenue per unit, maintaining revenue of \$435 million despite a 5% reduction in volume. First quarter volumes declined in the export market due to decreases in metallurgical coal availability and weaker thermal seaborne pricing. Utility volume was relatively flat as gains from improved network velocity were offset by planned outages and inclement weather.



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All business groups posted significant gains in revenue per unit, with merchandising intermodal delivering records in revenue per unit less fuel. Our yield-up initiatives generated strong pricing in the quarter, and we are committed to leveraging our long-standing customer relationships and our improving service product to ensure we deliver value to our shareholders. These gains marked 9 consecutive quarters of year-over-year total RPU growth despite the negative mix associated with continued strong growth in our intermodal franchise. Accessorial charges increased during the quarter. As we stated, our intent is to align our accessorial program with the mutual goals of Norfolk Southern and our customers to turn equipment faster, increasing network fluidity and velocity and improving our service product while creating a capacity dividend that facilitates growth, both for Norfolk Southern and our customers. These efforts, along with other strategic initiatives, have improved our service product and reduced Cars-On-Line. In the first quarter, we saw some customers turning back leased equipment while continuing to grow on Norfolk Southern. We are achieving better operating alignment between our customers and Norfolk Southern, generating capacity in the process.

Moving to Slide 7. Our customers are optimistic about growth, and the economic outlook remains positive, with consumer spending rebounding in March, consumer sentiment at elevated levels, manufacturing still in expansion mode and jobless claims at the lowest in 50 -- lowest level in 50 years. The truck market remains tight by historical standards, although certainly not as tight as last year and continues to benefit our intermodal and merchandise businesses. We expect our merchandise volumes for the remainder of the year to be relatively flat compared to 2018. Forecast for manufacturing and consumption are positive, with increased demand expected from most of our customers. However, pipeline activity is expected to negatively impact demand for NGLs and limit overall volume growth.

Intermodal is expected to continue its growth trend, albeit at a slower pace than in 2018. Improved service levels, continued relative tightness in the trucking industry and forecasted growth in consumer spending will drive demand for domestic shipments, while our franchise strength will continue to improve international volume.

Overall coal volumes are expected to be down in 2019. Utility demand continues to be impacted by lower natural gas prices. Export is expected to decline in the second quarter due to lower API 2 pricing, supply issues at select mines and difficult year-over-year comparisons related to high mine inventories during the same period last year. We anticipate sustained pricing growth throughout 2019 across our merchandise and intermodal business groups. Coal pricing will be influenced by the seaborne market. Continued improvement in our service product in collaboration with our customers will enhance our pricing and yield-up initiatives as we work to fully leverage the value of our product.

In summary, our focus on yielding up to drive revenue and margin growth supported by our improving service product delivered strong top line results in the first quarter. We are on the right path and will continue working to achieve the objectives we outlined at our Investor Day. We look forward to a strong year for both Norfolk Southern and our customers as we work together with common goals to be more efficient and meet the market demand.

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

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

Thank you, Alan. Today, I will update you on the state of the railroad and the status of our TOP21 operating plan. First quarter 2019 was a quarter in which we drove significant service improvements for our customers and achieved a record first quarter operating ratio.

Moving to Slide 9. Our focus on strengthening our network is evident in our performance metrics in the first quarter as well as the positive feedback we receive from our customers. And we are sustaining the performance and driving further improvement in the second quarter. Specifically, our terminal dwell for the week ending April 12 was the lowest on record. We are also pleased with our resiliency and how well we bounced back equally from February's polar vortex and winter weather.

This operational performance has been achieved by the earlier-than-anticipated completion of our initial round of Clean Sheeting and through implementing 60 mile an hour speeds for non-intermodal trains on primary routes. We have established an excellent foundation for our new TOP21 operating plan that will be fully implemented by the end of July.



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Turning to our service and productivity metrics on Slide 10, which we presented at our Investor Day in February. These metrics are aligned with our new strategic plan, which is built upon our implementation of key PSR principles and providing a service product that will allow us to continue to grow. The blue bars represent our respective goals for 2019, which I will speak to regarding our progress, starting with the service delivery index, which is the on-time delivery performance of our scheduled shipments indexed to 2018. This is a customer-facing metric, which combines shipment consistency, which is a measure of trip plan adherence for general merchandise and automotive traffic, along with intermodal availability. Due to our improved execution, we are on track to meet our goal for 2019 as we are delivering significantly more shipments on time to our customers. And I personally met with many customers who are confirming the improvements we are seeing in this metric.

We are on track to meet the T&E productivity goal for this year. Throughout the first quarter, we were able to reduce T&E headcount as a result of improved velocity and fewer reworks, a trend that will continue for the rest of the year as we fully implement our TOP21 plan and onboard fewer conductor trainees.

While we are currently flat on train weight, it has been driven by reduced train lengths during the polar vortex and our initiative to speed up the coal network by running shorter, faster trains. We are confident we will achieve this goal for this year as our new TOP21 plan will reduce train miles and circuitry. The plan also creates heavier trains. We are tracking ahead of our locomotive productivity goal for this year as we aggressively stored the older, less reliable locomotives and return leased locomotives.

Lastly, our velocity improvements increased service frequency to our customers and aggressively scrapping older, lower-capacity cars have allowed us to accelerate our progress on reducing Cars-On-Line and exceeding our goal. Not only has this freed up capacity that can be used for growth, it also allows our customers to reduce assets in their fleet, which will continue to reduce Cars-On-Line overall. Additionally, as you may recall, this number includes cars in storage, which is approximately 11,000. They are, however, available to our customers as we look to continue to grow with them. All of these initiatives contribute to the capacity dividend we spoke to at Investor Day.

I would also like to update you on the progress of our new TOP21 operating plan on Slide 11, which is well underway. As you may recall from our Investor Day, our new operating plan will have 4 major objectives: operate as one network, a balanced train plan between terminals, serve our customers frequently and reduce dependence on major terminals. We have already implemented some of our operating plan changes. These targeted implementations of train plan changes are before we roll out the full TOP21 operating plan. This year's iteration of TOP21 is focused on our general merchandise, unit train and automotive business. Future iterations will focus on intermodal. Two key pillars of the new operating plan will be expanding the use of distributed power, which utilizes locomotives on the head and middle of the train as well as driving more unit train business to manifest, which we have already implemented some targeted conversions similar to the coal right in the intermodal train 23G, which we showed you at Investor Day. We also have converted some coke business coming out of the Central App coal fields going to the north as well as some stone in ethanol business in the South, just to name a few.

As previously mentioned, increase in the merchandise train speeds from 50 mile an hour to 60 mile an hour, which is the speed intermodal trains currently operate at, allow us to continue to co-mingle networks. These routes are shown on the map. Additionally, we are working closely with our customers to collaborate on the new operating plan changes. This year's iteration of TOP21 will be fully implemented by the end of July. And after that, we will begin on the next iteration of the operating plan. We will also identify additional opportunities to realize incremental improvement. As we eliminate work, we will attrit out headcount and take out yards and locomotives, all while improving or maintaining customer service.

We are excited about our strong momentum we are delivering across our operations and for the full implementation of our new operating plan to unlock the value inherent in our network. I will now turn it over to Cindy who will cover our financial achievements.

Cynthia C. Earhart - Norfolk Southern Corporation - Executive VP of Finance & CFO

Thank you, Mike, and good morning. I'll start with our record operating results on Slide 13. The 5% increase in revenues, when combined with a slight decrease in railway operating expenses, resulted in a first quarter record for income from railway operations of \$966 million, 16% higher than last year. We also achieved a first quarter record operating ratio of 66%, improving on last year's result by 330 basis points. We have started 2019 with positive momentum and are on track to deliver at least a 100 basis point improvement in our full year operating ratio as we discussed at Investor Day in February.

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Let's take a look at the component changes in operating expenses in more detail on Slide 14. In total, operating expenses were \$8 million lower than last year's expenses. Fuel, materials and other, and compensation and benefits were all lower than last year. These were partially offset by higher depreciation and purchase services and rents. Lower fuel price drove the decline in fuel expense.

Material and others was lower due to increased gains on the sale of operating properties and the reduction in network velocity-related costs that we experienced last year.

Compensation and benefits was also down due to lower employment levels, higher capitalized labor and a reduction in overtime and recre expense. These decreases were partially offset by higher wage rates.

We expect headcount for the remainder of the year will continue to decline and that our year-end headcount will be down at least 500 as compared to prior year. Depreciation was up, reflecting capital additions. And finally, purchase services and rents were up due to intermodal volume-related increases and increased IT spending, partially offset by favorable equipment rent expense, which is attributable to improved network velocity.

Summarizing our financial results on Slide 15. Income from operations was a record \$966 million for the first quarter. Other income increased by \$36 million primarily as a result of higher investment returns on our corporate-owned life insurance. Interest expense on debt was up \$13 million over last year due to higher overall debt balance compared to March of last year.

Wrapping up our bottom line results. Net income was \$677 million, up 23%, and diluted earnings per share was \$2.51, a 30% improvement, and both of these measures were first quarter records.

Slide 16 depicts our first 3 months of cash flow. Cash from operations totaled \$881 million, generating \$414 million in free cash flow. We are committed to returning capital to shareholders as evidenced by our \$730 million of capital returned in the form of dividends and share repurchases during the first 3 months, a 45% increase over last year. Our first quarter record results reflect progress implementing our new strategic plan. Improved network velocity and the additional capacity generated by Clean Sheeting set the stage for implementation of the new operating plan in the coming months, and as a result, the achievement of our financial goals. Thank you for your attention. I'll turn the call back to Jim.

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

Thank you, Cindy. The operational and financial progress we made in the first quarter gives us increased confidence we will achieve our full year and longer-term goals. All of us are energized and united in our focus on delivering value for our customers and shareholders. Thank you for your attention, and we'll now open the line for Q&A. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Allison Landry with Crédit Suisse.

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

I just had a couple of housekeeping items I wanted to ask about. But first, could you quantify the gain on sale? And then in the comp and benefits line, what was the benefit from capitalized labor? And did you receive any payroll tax refund from the Railroad Retirement Board?

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

Cindy?

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Cynthia C. Earhart - Norfolk Southern Corporation - Executive VP of Finance & CFO

Yes. Allison, in terms of the gain on sale of operating property in the quarter, it was about \$11 million higher than last year. The capitalized labor increase was about \$8 million, and we did not have anything included in comp and benefits related to any kind of refund this quarter.

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

Okay. Okay. That's helpful. And then in terms of the decline in domestic intermodal, are you guys seeing a shift back to truck because of looser capacity? And are broadly lower truck rates a risk to your overall pricing outlook? And if not for 2019, is it for 2020? So if you could help us think through that.

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

Alan?

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

Allison, we're still very confident in our pricing plan and our volume outlook for intermodal franchise. As I have discussed, we're hit with some pretty tough weather conditions, which impacted not only our network but the overall freight movements. And we had some lane rationalizations, which, in the near term, slightly impacted volumes. Going forward, we're optimistic about growth in domestic as our channel partners, and we're pleased with the progress of rate increases that we're seeing as we're going through bid season right now.

Operator

The next question is from the line of Jason Seidl with Cowen and Company.

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

I'm going to stick on intermodal, but I'm going to go on the international side here. How should we look at volume growth going forward considering that you guys talked about benefiting a little bit from a tariff pull-forward in 1Q?

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

Jason, as you noted, it was above norm, and the first quarter had pretty close to 10% volume growth in the international network. We certainly don't expect that to continue as we move throughout the year, and we expect it to move back towards trend.

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

And that's going to be sort of lower single digit?

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

That's lower single digit, GDP plus, but we're encouraged by the way it's continuing to stick in there. Part of that is our alignment with the vessel companies and the shipping lines that are adding capacity to the East Coast.



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

Okay. That's good color. My follow-up is going to be about sort of dealing with customers, dealing with the Surface Transportation Board, sort of a similar question I asked you, Alan, when you were down at [Neers]. How is that going? I mean we know we normally don't see railroads implement PSR, and there's no problems, but there's immediate service improvements. Has that been easier dealing with customers, dealing with the Surface Transportation Board? And do you think it's actually helped you any -- in terms of going to the customers for price increases?

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

Jason, it's Jim. Let me take the part of that, that relates to the STB and then Alan can address your question about our customers. Let me say that we are in constant communication with the Surface Transportation Board, and we are looking forward to telling our story at the upcoming hearing. We think we have a great story to tell. Our service is significantly improved over last year, our network is running very well, and we think that the way that we have implemented accessorial charge increases is pro-customer as well because if they are aimed at increasing efficiencies that will benefit both of us. Alan?

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

Jason, we've been very clear from the beginning that as we implement PSR, we're going to pivot a little bit, and we're going to do it over time, and we're going to collaborate with our customers. We're going to be very transparent, and we're going to be pro-growth. And we've done all of that. And our customers see it. They appreciate it. More importantly, they see the improvements in velocity. They see the improvements in the reliability of our service. And it reduces their overall costs because their turning back equipment. And they want a service provider that's going to provide a platform for growth, and that's who we are.

Operator

Your next question comes from the line of Ravi Shanker with Morgan Stanley.

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

Apologize if I missed this. Can you just quantify incentive compensation this quarter versus last year? And also I think you mentioned in your slides that you had capitalized labor as a tailwind in the comp and benefits line. Can you just elaborate on that a little bit more and kind of what's driving that and kind of how we see that trending for the rest of the year?

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

Cindy?

Cynthia C. Earhart - *Norfolk Southern Corporation - Executive VP of Finance & CFO*

Ravi, yes, in terms of the incentive comp year-over-year, it's very similar between both periods. On the capitalized labor, it was \$8 million for the quarter, and that really relates to the fact that we had additional capital spending in the quarter. If you look back at the cash flow statement, you can see that the velocity of the network really gave us the ability to get out there early in the year and perform work at a lot faster pace than we were doing this time last year. And so that's how that capitalized labor relates.



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Ravi Shanker - Morgan Stanley, Research Division - Executive Director

And is that a similar level we can expect for coming quarters?

Cynthia C. Earhart - Norfolk Southern Corporation - Executive VP of Finance & CFO

Yes, I think it's very similar.

Ravi Shanker - Morgan Stanley, Research Division - Executive Director

Got it. And just to follow up on the truck market, again. Obviously, you've been very clear with your yield-up strategy here. Just how environment-sensitive is that? I mean if we do see the truck market loosen more and potentially volume start shifting back to truck, are you guys going to stay the course with pushing for big price increases? Or will you be kind of sway a little bit as the wind is blowing?

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

We are fully committed to testing the limits of market-based pricing. We've been able to grow our intermodal franchise in tight truck conditions and in loose truck conditions. Right now, the truck market is not nearly as tight as it was last year, but it's still tighter than overall balance. And there is an inherent advantage to intermodal relative to truck in terms of cost structure. And as we continue to improve our service product and provide that capacity for growth, we're aligned with our channel partners on providing them a good service product that allows them to compete and allows them to grow.

Operator

The next question is from the line of Scott Group with Wolfe Research.

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

So on the labor productivity, so I see a 3-year target of 34%. How come this year is only 3%? What changes that it's so sort of back-end loaded? And then I think Cindy mentioned 500 reduction for the year. You've already done 400, so are we done sort of reducing headcount? Or is there upside to that 500?

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

Well, Scott, Cindy said at least 500 this year. And yes, we have made more progress that even we expected in the first quarter in terms of headcount. So we're -- we have -- we're off to a good start. The implementation of TOP21 will give us another big opportunity to achieve labor efficiency because we'll be running fewer trains, and that will result in fewer crew starts and less need for T&E.

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

Okay. That's helpful. And then maybe for Alan just a couple of things on coal. Sometimes, you give us guidance on sort of how to think about the quarterly run rates on export and domestic, if you can maybe do that. Maybe talk about how much of the export thermal has locked in for the year given where API is. And if we think export thermal is going to be dropping off, what should that mean for coal RPU going forward?



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

Scott, what I'd wanted to was pressures in the export coal market, particularly on the thermal side, and I also note that last year in the second quarter was our highest volume quarter in export coal. We handled a little bit over 7.9 million tons before dropping into the 6 million-plus ton region in the third and fourth quarters. So the comps will be more difficult in the second quarter of this year. On the utility side, stockpiles are down, and so there's the opportunity for stockpile rebuild, although natural gas prices have certainly declined as of recent. On the thermal side, our pricing may be locked-in, however, not necessarily with our -- the suppliers. And so that puts pressure on volumes moving forward, although theoretically that coal could just move into the utility market.

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

So when you think about all the moving pieces, how should we think about coal RPU going forward?

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

I think there's going to be pressure on coal RPU because you're going to see -- potentially, you're going to see pressure on metallurgical seaborne coking coal on that pricing still at elevated levels that allow U.S. coals compete but not at levels that we saw in third and fourth quarter of last year.

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

Makes sense. And then can you just real quickly just give us the increase in the accessorial revenue versus a year ago?

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

It was \$23 million for the quarter.

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

Higher year-over-year?

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

Yes.

Operator

Next question is from the line of Amit Mehrotra with Deutsche Bank.

Amit Singh Mehrotra - *Deutsche Bank AG, Research Division - Director and Senior Research Analyst*

Congrats on the good results. First question, obviously, on the strong OR. First quarter, obviously, is the high watermark for OR in a typical year, and you do usually see a significant step-down in subsequent quarters. I'm just trying to square that with the guidance for at least 100 basis points of OR improvement given you did over 300 basis points improvement in the first quarter. I know there's some maybe outsized benefits in the first quarter, but anything worth highlighting that maybe will shift how we think about the sequential progression in the OR for this year?



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

Well, you're correct that the first quarter typically is the high watermark for the operating ratio. And we would expect to see the operating ratio trend favorably from here. And we expect that we will achieve overall for the full year at least 100 basis points improvement in the operating ratio versus last year's reported OR.

Amit Singh Mehrotra - Deutsche Bank AG, Research Division - Director and Senior Research Analyst

If I look at the last 3 quarters for the last 2 years versus the first quarter, there's over 300 basis point decline in average OR in the last 3 quarters versus the first quarter. Is that the similar type of magnitude this year? Or is the progress in the first quarter so significant that we should think about it differently?

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

We made a lot of progress in the first quarter and that we've got a nice running start on the year. And yes, we would expect to see sequentially lower ORs and for the full year an OR at least 100 basis points lower than last year's reported operating ratio.

Amit Singh Mehrotra - Deutsche Bank AG, Research Division - Director and Senior Research Analyst

Okay. Just 1 follow-up for me on the yield-up initiative. Obviously, there's some good traction there. We saw it in the quarter. But maybe you can just offer some thoughts and just educate me a little bit on how much of your book of business that you've actually gone out to pursue the limits of market-based pricing. And that's really just in the context of maybe what's contractual, what's not contractual, when that contractual business rolls. And then is it just a repricing of what comes up for repricing? Or are there some service adjustments that we should think about that may impact the top line as well?

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

Yes, Amit, we generally touch or have the opportunity to reprice, renegotiate 50% of our business in any given year. We've got about 40% left to renegotiate for this year, and it also includes not only pricing, but it includes looking at lanes that make sense for us and, frankly, lanes in which we don't, which we have too much complexity. And we talked about -- a little bit about that with respect to some of the intermodal lane rationalizations that we affected in the first quarter. However, that's an ongoing initiative for us. We have rationalized on intermodal network in each of the last 6 years starting in 2013. It's a general housekeeping. We did it last year and still we were able to grow our revenues by 18%. It's all part of -- it's not just about pricing, and it's not just about productivity, it's all part -- about margin improvement and making sure that we've got an efficient and reliable service product out there that we deliver every day, and we're pricing to the value of that product in the market.

Amit Singh Mehrotra - Deutsche Bank AG, Research Division - Director and Senior Research Analyst

So -- just so I'm understanding your comment correctly, only 10% of the book of business today reflects your yield-up initiative. And so there's 90% left over the course of the next 1.5 years. Is that the right interpretation?

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

No. Because we've been doing this for quite some time. So we have renegotiated 10% of our book so far this year.

Operator

The next question is from the line of Ken Hoexter with Merrill Lynch.



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

Alan, if I can just stick on the intermodal just to, I guess, clarify some of the network rationalization. Have you quantified what percent of lanes have been rationalized either last year? And maybe is there still a set percentage that's still to come as you think about the network? And then is there anything about that 60 mile per hour that's peaked for the network? I don't know if that's more a Mike question, but -- or is that just so you can match the intermodal speeds on the merchandise side?

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

Why don't we start there, and then Alan, you can come back to the question about the lane rationalization. Mike, talk a little bit more about the speed increases.

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

Yes. So as we co-mingle traffic onto trains, a train becomes a train, and we really don't want to have an intermodal speed and a merchandise speed out there. So we've raised them up where appropriate to all run at 60 mile an hour and take advantage of that velocity improvements and keep everything moving.

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

With respect to the lane rationalization, it's a very, very modest amount. And we really would not expect it to have any sort of material impact on volumes as we look over the course of a year. We implemented these in mid-February, but we've been talking to our customers about it for several months in advance. And so it gives them the opportunity to look for alternative routing on Norfolk Southern. It may have an impact in the first month, but over the course of a year, it won't have any sort of impact at all. As I noted, we did it last year, and we still grew our intermodal revenue by 18%.

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

Wonderful. And then Jim, I guess, as a follow-up, I don't know if this is for you or Mike, but what changes now that you've almost finished the Clean Sheeting and as you go into the next phase of TOP21 in the operation side? Is the Clean Sheeting done and now you jump to, I don't know, changing how you're starting the trains? What is going -- what difference are we going to see when you move to that next phase?

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

Yes. So we have wrapped up an initial round of Clean Sheeting and that has contributed to the network performance improvements we've seen. So we view that as laying a foundation for TOP21, which, as Mike mentioned, we will implement -- the first phase of which we will implement in July of this year. And that's where we really go in and reconfigure the operating plan itself. So we have laid the foundation by going in locally with Clean Sheeting and doing the work in the terminals and local -- with local operations. And then we layer on top of that a new operating plan focused on the 4 things that Mike mentioned before. Mike?

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

The Clean Sheeting has really given us a lot of capacity out on the railroad to put in this new operating plan, and that's what we're so excited about. So we're in good shape going into that because of the Clean Sheeting completion.



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Operator

The next question is from the line of Tom Wadewitz with UBS.

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

Congratulations on all the progress you're making on the initiatives. Wanted to ask you a little bit further about the TOP21. How do we think about the magnitude? I think you're talking about it in terms of, Mike, you're saying this year's iteration of it, which implies you do some more next year and maybe even the following. What are the -- how do we think about the magnitude of change to the train schedule and maybe some of the bigger -- where the bigger changes are in the train schedule with TOP21?

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

Yes. So obviously, 2 big drivers of the new operating plan is going to be reduce train miles and reduce circuitry at the car level. So both of those are good news from a productivity standpoint and a good news from the customer part. And then like we said, we'll be implementing that by the end of July and the resources then will start falling out of that later on in the year.

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

Okay. So -- I'm sorry go ahead.

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

Tom, this is Alan. And we will be communicating the impact on those changes with our customer base well in advance so that it's customer-specific, it's land-specific and it's known. We are all very encouraged by what we're seeing so far because it will improve our velocity and will reduce our circuitry and our train miles and make our railroad more resilient and give a greater capacity for growth.

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

So is there a magnitude though that you can -- let us say, you're saying reduced train miles that makes a lot of sense, but is that 1%, is that 10%? What's the kind of ballpark for change we might anticipate in this first iteration?

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

Well, it's really allowing us to hit the goals that we put out on the service and productivity metrics. This operating plan is what's going to drive us to ensure we hit those goals.

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

Okay. And what about -- I guess for the second question, you haven't really talked about yard productivity. How should we think that presumably as you implement TOP21, there'll be some effect not just on the schedule and the yards you're linked together. So how do we think about the changes that may be taking place in the yards and potentially timing for when you would review how you use yards, kind of how many hump yards you need, that type of topic?



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

Yes. Well, I will tell you, some of our small local serving yards we've actually already kind of taken out and stopped using them. And there are just little ones here across different areas of the network that we got out of Clean Sheeting. On the large terminals, as we implement the new train plan, the work will go away at some terminals. And as that work goes away, then we will rationalize those assets.

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

Reduced dependence on terminals, classification yards in particular being one of 4 fundamentals of TOP21, the other 3 being run one network, balanced flows and more regular service.

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

So we could see evidence of that in second half given you're completing, I guess, the rollout in July.

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

Certainly.

Operator

The next question is from the line of Chris Wetherbee with Citigroup.

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

Maybe for just real quick on weather. Was there any impact from weather on the network on the system, get -- call out from a cost perspective in the quarter?

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

No. We did see the network slowdown during the vortex in February, but as Mike pointed out, we bounced back quickly, and we did not call out any special costs related to that February period.

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

We had a couple episodic areas, but we bounced back quickly and not real expensive. So yes.

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

Okay. That's helpful. And then Alan, I know we keep coming back to this, but wanted to sort of talk a little bit about your comment about testing the limits of market-based pricing, but maybe think about it from the merchandise angle. There's been a lot of focus on intermodal. But just wanted to get a sense of sort of what that opportunity looks like as you're taking the sort of this next run through the book of business. How sustainable and sort of how much opportunity do you feel like you have? It seems like there is a window for you to continue to price through that maybe more than just a 2019 story. I wanted to get some perspective on that.



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

Well, Chris, I agree with that. We've had 12 consecutive quarters of RPU growth in our merchandise network. Our primary form of competition is truck, and our franchise is rich with highway-to-rail conversion opportunities with over 50 million truck shipments a year, in excess of 500 miles touching our network. So we are focused on conversion opportunities within the merchandise network. And if you look at our rate of year-over-year pricing increases, it has improved every quarter for the last 6 quarters. So there is opportunity there. As we continue to improve the reliability of our service product and we layer on top of that a best-in-class consumer-oriented customer experience is going to make is highly competitive with truck.

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

That's really helpful. And then just real quick, in terms of that sort of 40% of the book that's still available for pricing this year, any way to break down what sort of merchandise versus intermodal or potentially coal on that?

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

It's relatively well balanced between the 3.

Operator

The next question is from the line of Bascome Majors with Susquehanna.

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

Can you guys give us an update on where attrition is running across the network right now headcount-wise?

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

Cindy?

Cynthia C. Earhart - *Norfolk Southern Corporation - Executive VP of Finance & CFO*

Sure. Typically, attrition is -- for us is around 2,000 people a year, and I think we're pretty much -- that's pretty consistent this year as has been in the past.

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

Okay. And going back to the KPIs you laid out and reiterated from the Investor Day for the PSR implementation, I appreciate the transparency in setting the 2019 goals incrementally here. And it looks like you also raised the service delivery goals, so that's great. But for the current year, if we take a step back from where you are right now, which is the most stretched of those 5 things that you laid out? And maybe which do you think is going to be most correlated with margin improvement that we can see for the company as a whole?

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

All 5 metrics are important to the success of the plan. And that's why we've laid them out publicly. So I think we're progressing well on each of them. We noted some where things are progressing even better than expected, Cars-On-Line, for example, and you can see in the Cars-On-Line



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goal for 2019, that we're already at 2021 in other cases. We saw some temporary things in the first quarter. Mike mentioned changes in the coal network that detracted somewhat from our train weight goal. But over the course of the full year, we believe that we can hit the goal shown for train weight as well. So I think things are really going well across the board with the productivity initiatives, with the service delivery index and with Cars-On-Line. TOP21 will be a big step change and a big driver of further success, particularly in the productivity metrics.

Operator

Our next question is from the line of Justin Long with Stephens.

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

Congrats on the quarter. So to start with the yield-up initiative, you've talked about growth in higher-return businesses. When you look across your different businesses today, where do you see the highest incremental returns? I know intermodal isn't your highest margin business, but given it seems to be a key growth area, you mentioned a multiyear revenue CAGR of around 10% at the Investor Day. Would that be your highest incremental ROIC business? Or would you say that some areas in general merchandise would be at the top of the list?

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

Well, we think we have margin opportunity across the board. And in terms of the top line initiatives, that's what yield-up fundamentally is about. So there's incremental margin potential in all 3 major lines of business. And merchandise naturally has some significant incremental margin potential because of the way the trains run, and one more car on the train comes with very low additional cost. So the natural economics of that business favor the incrementals. But as we saw last year, we posted very strong incremental margin in our intermodal business as well, and that's partly because of the pressing trend that we were able to drive last year with our customers, with our general partners. Alan, any other reflections on the lines of business?

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

Yes. I'll talk a little bit less about pricing. I'll talk about productivity. Within intermodal, we've worked with our channel partners to provide a more productive, less complex network and, as a result, that, coupled with the strong pricing that we've achieved in the intermodal franchise over the last 6 quarters, has really driven strong incremental margins in our intermodal network, and it now competes very favorably for capital with us. And that's one of the reasons we have the most robust intermodal franchise in the East, and it's a growth driver for us and why we're confident about a 10% revenue CAGR in intermodal. I'll talk about productivity within merchandise. I've previously talked about pricing strength and the momentum within merchandise. I'm very confident that with the implementation of TOP21 this summer, which is targeted towards our merchandise network, we're going to see even better incremental margins in our merchandise network.

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

Okay. That's helpful. And secondly, a couple of quick things for Cindy. So Cindy, any updated thoughts around the magnitude of gains on sale this year? Just curious what's getting baked into the 2019 guidance. And then also, just longer term, thinking about the 60 OR target that's out there, could you talk about what that assumes for the progression of export coal versus where we are today?

Cynthia C. Earhart - Norfolk Southern Corporation - Executive VP of Finance & CFO

Justin, in terms of gains on the sale of operating property, I think in the Investor Day, we gave guidance of around \$30 million to \$40 million annually. Obviously, that's very lumpy. It's very hard to predict. We've said in the past that we're going to continue to look very hard at property that we don't -- we no longer need to use in the business and to try and monetize that, and we're continuing to do that. I think that we would update the guidance



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a bit for this year, probably more in the \$50 million range right now as a good guide (technical difficulty) in terms of export. Alan, if you want to comment.

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

Justin, what we had talked about at Investor Day was a slight decline in coal revenue over the course of the next 3 years, and that's reflective of increased pressure from renewables and natural gas and then the expectation that the elevated seaborne coking coal prices will decline, and you can see that in the forward curve.

Operator

Next question is coming from the line of Walter Spracklin with RBC.

Walter Noel Spracklin - RBC Capital Markets, LLC, Research Division - Analyst

So on the tax rate, the tax rate came in a little bit lower, Cindy. I was wondering if there's anything that you would flag in terms of items in that tax line. And does that adjust -- I believe you were guiding us at 24%. Would that cause you to change your 24% guidance on a go-forward basis?

Cynthia C. Earhart - Norfolk Southern Corporation - Executive VP of Finance & CFO

Yes. The effective tax rate in the first quarter was 21.4%, which had tax benefits, Walter, for stock-based compensation, which is pretty typical of the first quarter. But we also had the benefits associated with those higher returns on company and life insurance. So for the full year, I would expect that the effective rate will be somewhere between 23% and 24%.

Walter Noel Spracklin - RBC Capital Markets, LLC, Research Division - Analyst

And then back to kind of 24% run rate after that, is that right?

Cynthia C. Earhart - Norfolk Southern Corporation - Executive VP of Finance & CFO

Correct. Correct.

Walter Noel Spracklin - RBC Capital Markets, LLC, Research Division - Analyst

Okay. All right. And then Alan, when I look at -- when I tried to put together all of the kind of guidance you gave in terms of coal market down, I think you said your merchandise is going to be flat for the rest of the year and then intermodal up but not quite as -- not at the same growth rate as the year prior. If we put all that into the mix, it seems and feels like we're getting a flat-to-up-slightly type of volume growth for the rest of the year. If I'm off mark there, let me know. But is there anything going into 2020 absent? And let's just not even discuss coal right now, but any of your other markets that would suggest that you would see any volume lift that would take you above this kind of flattish run rate in merchandise and steady low single-digit run rate in intermodal that you would flag? Is there any -- sort of any competitive contracts coming up that you're looking at or anything that would accelerate volume growth going into 2020?

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

Walter, may I clarify, are you asking about the remainder of 2019? Or are you talking about 2020?



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Walter Noel Spracklin - RBC Capital Markets, LLC, Research Division - Analyst

So both. I'm just looking to see if I've got it right with what you said for the remainder of 2019 and that being flat merchandise, down coal, slowing growth in intermodal suggest to me that you're around that maybe 1%, 1.5% level for the full year based on that guidance, and that seems a little muted. And what I'm asking, I guess, is if we're going into 2020, is there anything that you're hopeful of that will kickstart volume growth to somewhat above that kind of 1%, 1.5% range overall.

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

Yes. I would make sure that you recognize when I talk -- if I do talk about slowing growth in intermodal, it's not relative to the first quarter. It's relative to the 18% growth that we had last year in our intermodal franchise. I think the big -- one of the lists that we're going to continue to benefit from is our improved service product, and that takes time for customers to see that and for them to fit that into their supply chains. But you can see that in our results as our velocity has picked up in March, our merchandise volumes picked up in March as well. So we're confident that as we have an improving service product and put on a best-in-class consumer-oriented experience, we're going to continue to compete very well with truck. It's going to enhance our competitive position. And the economy is still pretty strong. As I look at where we are today relative to our outlook at the end of last year, really not much has changed at all. So we feel pretty good about where we are, and we're confident about where we're headed and also recognize that our primary focus is on yield-up and margin improvement, not volume.

Operator

Our next question is from the line of Brandon Oglenski with Barclays.

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

I guess, Alan, along those lines, more specifically, you called out a 5% revenue CAGR for 3 years in merchandise and 10% in intermodal at the Investor Day. Is there any reason why you can't attain those levels this year in those segments?

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

I think we're very confident about our 3-year plan, and we're confident about this year. We're just -- within intermodal, we're coming off of very, very difficult comps related to last year.

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

Okay. I guess in that context, as you improve your service, I mean should we be expecting this as all yield for those next 3 years? Or should there be more volume in that mix looking forward through 2021?

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

We're certainly yielding up, and you can see that in our RPU across all 3 of our business units. But it is a component of volume and price and a balance between the 2.



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

Okay, appreciate that. I know it's been a long call, but, Mike, if we can come back to the security comment you made in about fewer train miles. I mean is this just a function of consolidating train starts, running longer trains and more direct? What was going on in the past that's going to change the circuitry of the network?

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

You're exactly right. It's co-mingling the different lines of business and running them direct, which ends up running bigger, heavier trains, and that results in less trains out there and less train starts.

Operator

The next question is from the line of Brian Ossenbeck with JPMorgan.

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

Just 2 quick ones. Alan, you mentioned customers trying to get interested in improving service product. What areas of growth do you think you'd see the biggest upside? And have you started to have those conversations yet? Or is it just too early to tell?

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

No, absolutely, we're having these conversations. We're having them every day, and they're data-driven. We have shared KPIs with our customers. And those KPIs often form the service delivery index that Mike has talked with you about. Where a service is driving additional volume, you can see it in merchandise, we're going to see it in intermodal, and we've also talked about how improved service enhanced our utility coal volumes in the first quarter, although offset by some weather disruptions and some production issues and planned outages.

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

All right. And then Jim, if you can just talk about the leadership team. You both at executive and sort of the field operational level made some changes. Recently, you've got a new chief transformation officer. I imagine that was part of the plan initially. But maybe if you can just talk about who you brought on, if there's anybody external with more PSR implementation experience. Do you think you can fill those needs internally? And if there are any other big changes or hires that you feel like you need to make given you've got some good momentum going here to kick off the plan?

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

We are focused on driving shareholder value in the leadership transitions and changes that we have made. That's the goal. This being the first quarter of the new strategic plan, it made sense to us to shuffle things around a little bit and get people focused on -- and focused on working intently from a leadership standpoint on the key initiatives and the strategic plans. So that was what was behind the realignment. We have brought in others with PSR experience into our operation in Atlanta to help us push out TOP21. So we were fortunate to have on staff there a couple of individuals with that sort of experience that can work with us and help lead us as we move through TOP21 in the months to come.

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

And Jim, those folks are in the NOC or they are at a higher strategic level? Can you give us some more context as to where you filled gaps there?

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

Sure. You had a chance to meet Mike Farrell in Atlanta at Investor Day. And he's running transportation for us, including the NOC. And then we have working in our NPO a couple of individuals with PSR experience from other [rollouts], NPO being kind of the nerve center for TOP21 rollout.

Operator

Our final question is coming from the line of David Vernon with Bernstein.

David Scott Vernon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

I want to circle back to the T&E productivity metrics on Slide 10, just that '19 to '20, '20 to '21 ramp of sort of 15% gains in T&E productivity after the 2019 period. One would think that most productivity programs like you get a front-end loaded benefit, not a back-end loaded benefit. What specifically is going to change after this year that's going to get you that material shift in T&E productivity into 2021?

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

Well, Mike talked about the iterations of TOP21 with more to come in 2020 and '21 after we implement the first phase of TOP21 this year. So that's what's behind the further increases in T&E productivity in the out years. I will say this -- our overall strategy is to take away the work and then push labor productivity, but we want to make sure the activity is out of the network before we work on the labor productivity side of things. So for that reason, T&E productivity is a little bit back-end loaded.

David Scott Vernon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

And just when you look at the metrics though, it seems like it's a lot back-end loaded. So I'm just trying to get my sense for like what operationally is going to be different about the TOP21 plan after you get out of 2019 that's going to get you that 15% gain per year.

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

But just remember, when we start this in July, as Jim noted, we start taking the work out and the resources come out after that. So you get a run rate after that, that flows into the following years and then as we do the next iteration. And we expect to do the next iteration quicker that will put in the next implementation of the plan, take the work away and those resources come out as well.

David Scott Vernon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

All right. And maybe, Cindy, just as a quick follow-up, on the free cash flow -- the cash flow statement, there was about \$150 million of proceeds from prior land sales. Is there a range of cash that you know is going to be coming in as we get across the rest of this year from prior transactions?

Cynthia C. Earhart - *Norfolk Southern Corporation - Executive VP of Finance & CFO*

No, David, I wouldn't say so. I mean I think, we had a large sale in the first quarter related to our Atlanta office building and -- which we're leasing back, but that was pretty unusual.

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David Scott Vernon - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

So that number should be kind of flattish for the rest of the year?

Cynthia C. Earhart - Norfolk Southern Corporation - Executive VP of Finance & CFO

Yes.

David Scott Vernon - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

It's just smaller related to more -- whatever we assume?

Cynthia C. Earhart - Norfolk Southern Corporation - Executive VP of Finance & CFO

No.

Operator

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

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

Well, thank you to everyone who participated in today's call. In our quest to reimagine possible for Norfolk Southern in the first quarter of 2019 was just the beginning. And we look forward to updating you as we continue implementing our new strategic plan. Thank you.

Operator

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

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