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Union Pacific Corporation Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from William Greene - Morgan Stanley.

William Greene - Morgan Stanley

I'm wondering if you can comment a little bit on the tradeoff between volume and price. In the past you have said, A; we would be willing to walk from business if it's going to do the right thing for returns and margins, but with volumes doing what they are doing at some point, the negative operating leverage from volume, I would think is going to have to play a role in your thinking. Can you just talk about how that's evolving?

Rob Knight

Well, we're still sticking with our philosophy here, if it doesn't meet our minimum return, we're willing to walk from the business and we have lost some business, we have won some when you look backwards here. Of course, when you're running down 18% on volume, which is what we're running right now, we're going to take a hard look at the future here, but our concentration right now is efficiency, getting costs out, making certain we are still very competitive, but again I think long-term we have to be very careful here in terms of taking a short-term view at the expense of the long-term viability of our company here.

William Greene - Morgan Stanley

So, now does that apply as well to the cost side? So, if you're dealing with down 18% to 20% volumes now, what are you resourcing for, in terms of a volume change, I would think not that level because, that would mean you've taken quite a bit more.

Rob Knight

I don't, listen 18% right now through 21 days with slow start up of the auto sector and many of our customers and autos are obvious, but we sold really across our whole customer group. There was a real slow start up going forward here. I've said before, again to try to predict the future here, I don't think 18% is realistic and where we are going to end up the year here at all, but you could end up with a smaller network with higher quality revenues and better returns.

We are being very aggressive; we are assuming right now that this, again it's going to be a very tough year. We are aggressive on the cost, but I'll also tell you, we've got to protect, but when the business does come back and it will and as you know, we learned a pretty hard lesson in 2003 and 2004,

where we were short of resources. So, we are managing this thing to be aggressive, but be smart and when business comes back.

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