CSX

2022 FOURTH QUARTER EARNINGS CONFERENCE CALL



1.25.2023

Forward Looking Disclosure

This information and other statements by the company may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act with respect to, among other items: projections and estimates of earnings, revenues, margins, volumes, rates, cost-savings, expenses, taxes, liquidity, capital expenditures, dividends, share repurchases or other financial items, statements of management's plans, strategies and objectives for future operations, and management's expectations as to future performance and operations and the time by which objectives will be achieved, statements concerning proposed new services, and statements regarding future economic, industry or market conditions or performance. Forward-looking statements are typically identified by words or phrases such as "will," "should," "believe," "expect," "anticipate," "project," "estimate," "preliminary" and similar expressions. Forward-looking statements speak only as of the date they are made, and the company undertakes no obligation to update or revise any forward-looking statement. If the company updates any forward-looking statement, no inference should be drawn that the company will make additional updates with respect to that statement or any other forward-looking statements.

Forward-looking statements are subject to a number of risks and uncertainties, and actual performance or results could differ materially from that anticipated by any forward-looking statements. Factors that may cause actual results to differ materially from those contemplated by any forward-looking statements include, among others; (i) the company's success in implementing its financial and operational initiatives; (ii) changes in domestic or international economic, political or business conditions, including those affecting the transportation industry (such as the impact of industry competition, conditions, performance and consolidation); (iii) legislative or regulatory changes; (iv) the inherent business risks associated with safety and security; (v) the outcome of claims and litigation involving or affecting the company; (vi) natural events such as severe weather conditions or pandemic health crises; and (vii) the inherent uncertainty associated with projecting economic and business conditions.

Other important assumptions and factors that could cause actual results to differ materially from those in the forward-looking statements are specified in the company's SEC reports, accessible on the SEC's website at www.sec.gov and the company's website at www.csx.com.

Non-GAAP Measures Disclosure

CSX reports its financial results in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). CSX also uses certain non-GAAP measures that fall within the meaning of Securities and Exchange Commission Regulation G and Regulation S-K Item 10(e), which may provide users of the financial information with additional meaningful comparison to prior reported results.

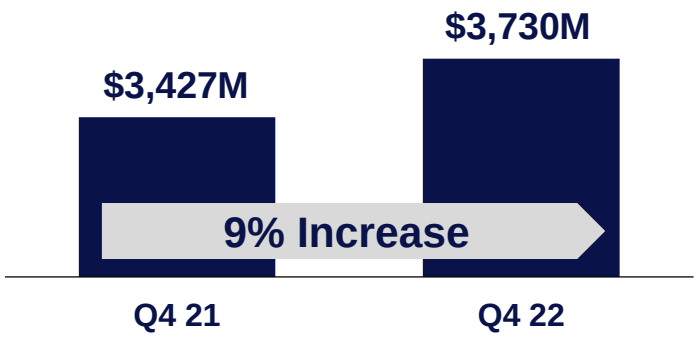
Non-GAAP measures do not have standardized definitions and are not defined by U.S. GAAP. Therefore, CSX's non-GAAP measures are unlikely to be comparable to similar measures presented by other companies. The presentation of these non-GAAP measures should not be considered in isolation from, as a substitute for, or as superior to the financial information presented in accordance with GAAP. Reconciliations of non-GAAP measures to corresponding GAAP measures are attached hereto in the Appendix of this presentation.

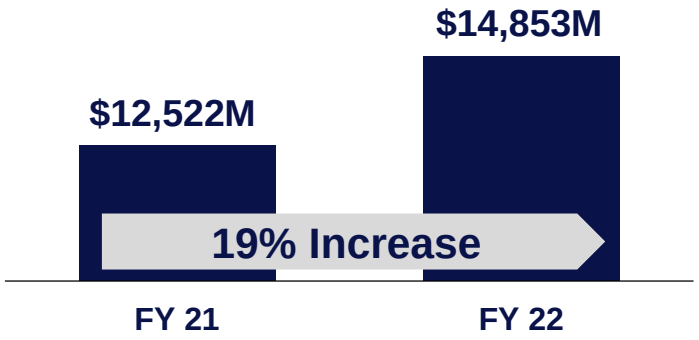
EXECUTIVE SUMMARY

Joe Hinrichs
President and Chief Executive Officer

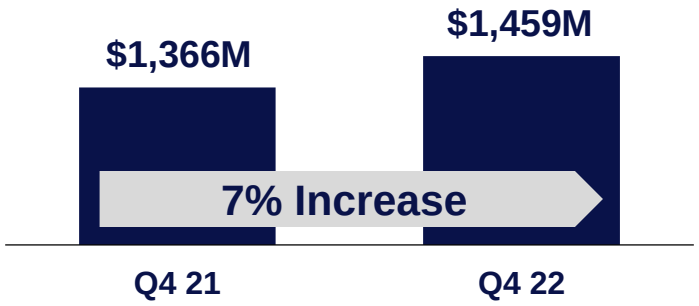
Fourth Quarter & Full Year Financial Highlights

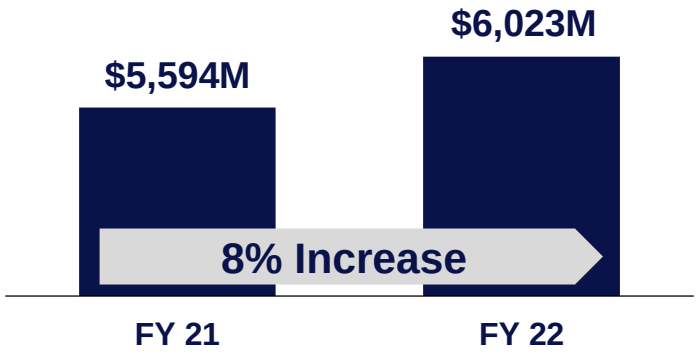
Revenue



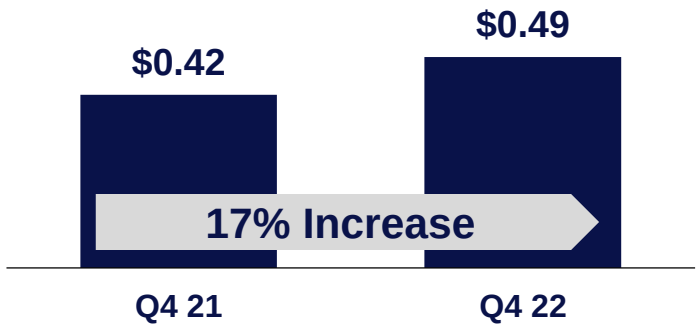


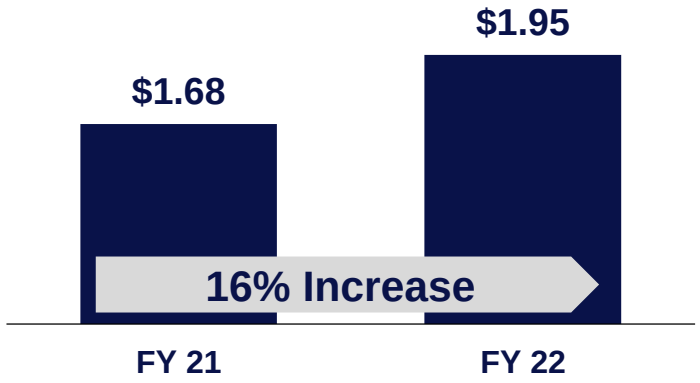
Operating Income





Earnings Per Share





Customer service momentum gained strength through the quarter

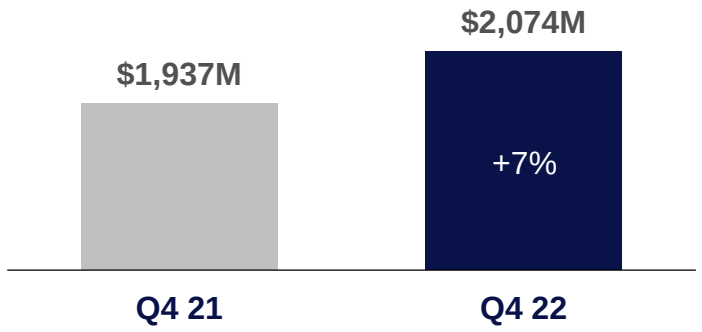
Note: CSX achieved double-digit Operating Income growth before the impacts of the Virginia Real Estate transaction.

SALES & MARKETING REVIEW

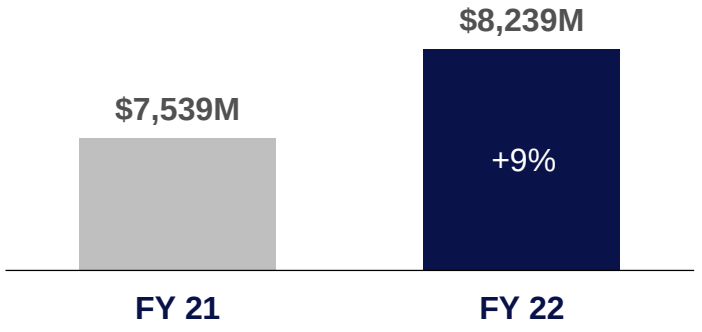
Kevin Boone
Executive Vice President of Sales and Marketing

Merchandise Volume & Revenue Summary

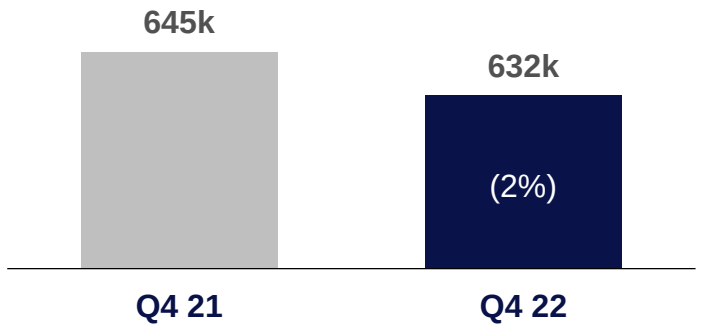
Q4 Merchandise Revenue



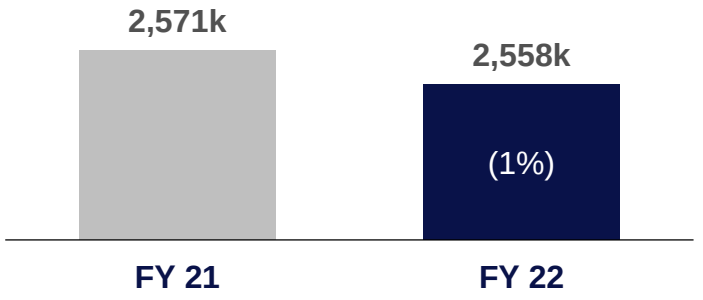
FY Merchandise Revenue



Q4 Merchandise Volume



FY Merchandise Volume

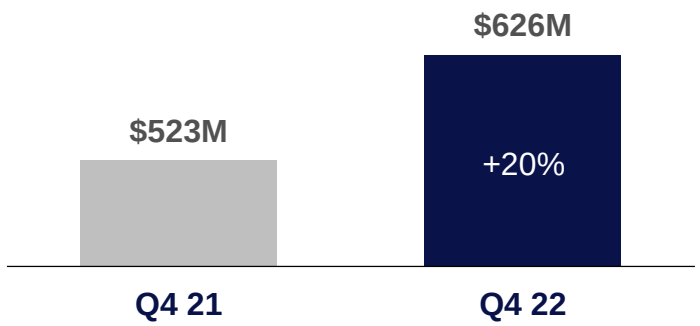


2023 Commentary

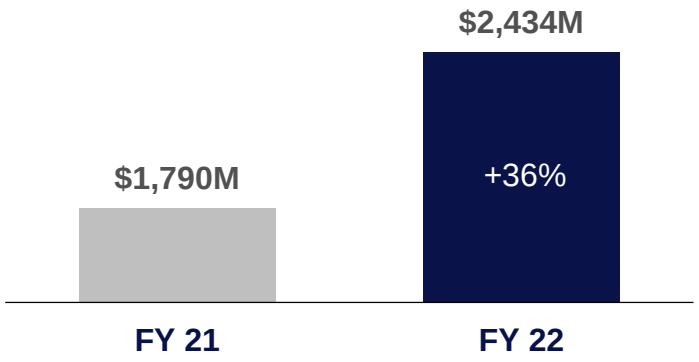
- **Supportive pricing environment** underscored by strength of recent contract renewals
- **Volumes supported by:**
  - Automotive inventory replenishment, strong aggregates demand, and first half volumes from Pan Am acquisition
  - Growth partially offset by weaker housing and domestic chemical markets
- **Continued service improvement** leading to share gains across portfolio

Coal Volume & Revenue Summary

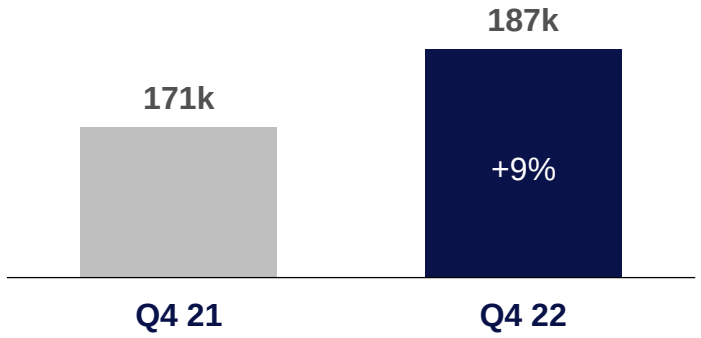
Q4 Coal Revenue



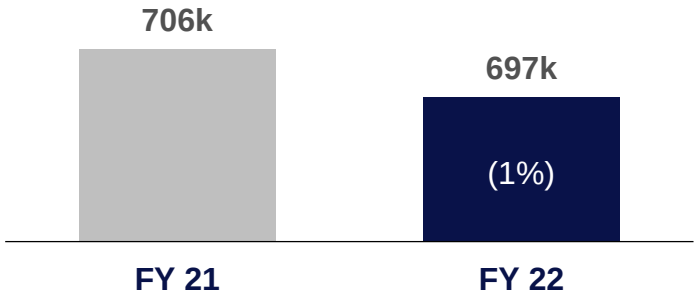
FY Coal Revenue



Q4 Coal Volume



FY Coal Volume

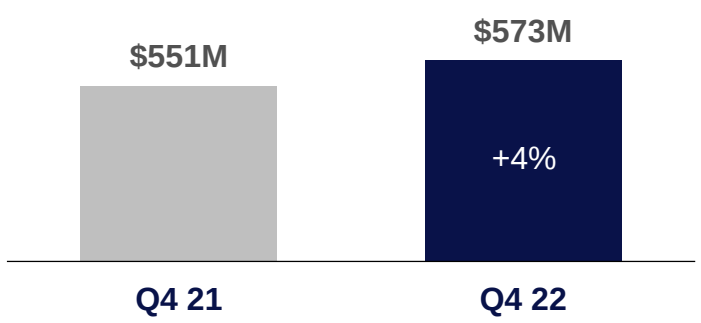


2023 Commentary

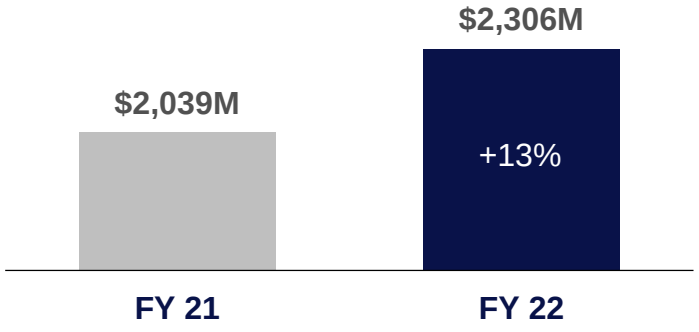
- **Export coal volume growth** expected in both metallurgical and thermal markets
  - New 4 million ton capacity mine to ramp up starting 2H
  - Lapping issues at Curtis Bay and Mobile export terminals
- **Domestic coal** supported by steady demand, low stockpiles
  - Announced plant closures expected to be offset by supply shift to other plants
  - Steel production benefitting from recovering automotive industry and infrastructure demand
  - Lapping mine production issues

Intermodal Volume & Revenue Summary

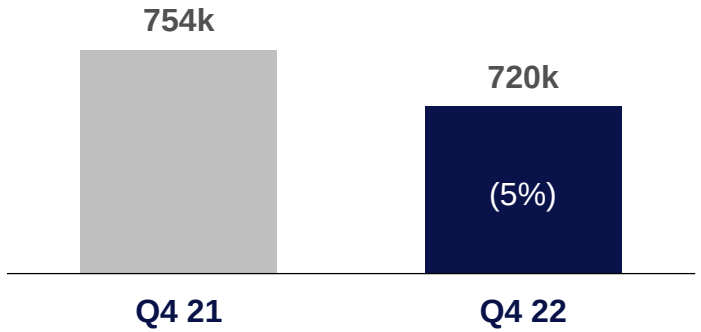
Q4 Intermodal Revenue



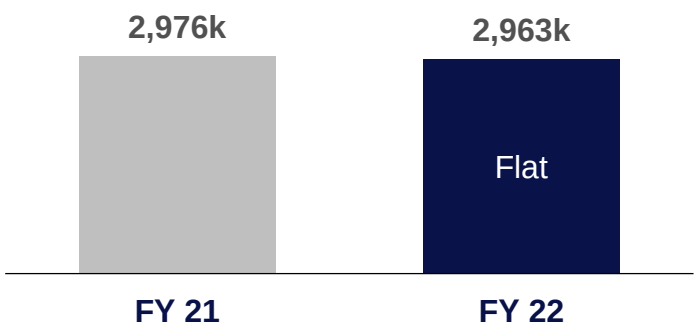
FY Intermodal Revenue



Q4 Intermodal Volume



FY Intermodal Volume



2023 Commentary

- **Softening international demand** reflects slowing imports and full inventories
- **Developing strategic opportunities for domestic intermodal**
  - Continued volume growth opportunity from truck conversion
  - Solid growth continuing from direct partnerships
  - Supply-side constraints mostly eliminated; chassis and container supply adequate

Expanding Environmental Leadership

- Developing awareness that rail's efficiency advantage reduces supply chain emissions
  - CSX customers avoided 10 million tons of CO_2 emissions in 2022
- Exploring new technologies to increase fuel efficiency and further reduce our environmental footprint
  - First rail to pilot innovative Zero-to-Zero Trip Optimizer solution
- Recognized as an industry leader with multiple environmental and sustainability awards

2022 CSX ESG Awards & Recognition

Fortune: World's Most Admired Companies

S&P Global: Corporate Sustainability Top Performer

Dow Jones Sustainability Index

Climate Leadership Hall of Fame

Newsweek Most Responsible Companies List - Top Transportation Company

100 Best Corporate Citizens by 3BL Media

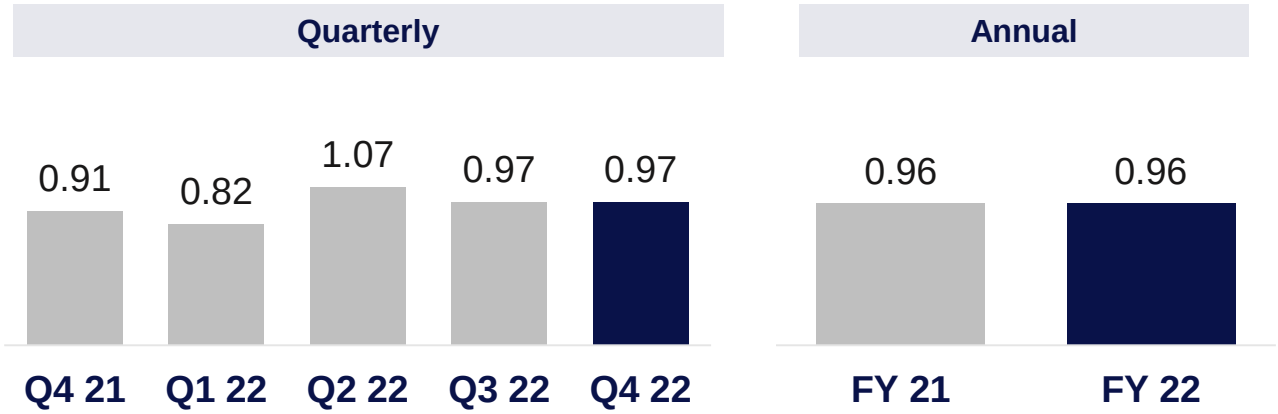
Inbound Logistics: G75 Green Supply Chain Partner

OPERATIONS REVIEW

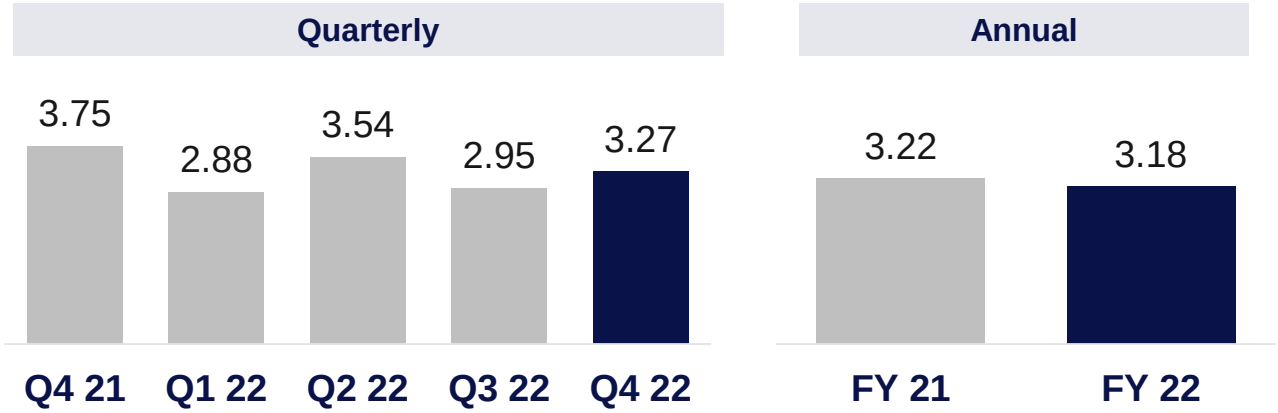
Jamie Boychuk
Executive Vice President of Operations

Fourth Quarter & Full Year Safety Highlights

FRA Personal Injury Frequency Index



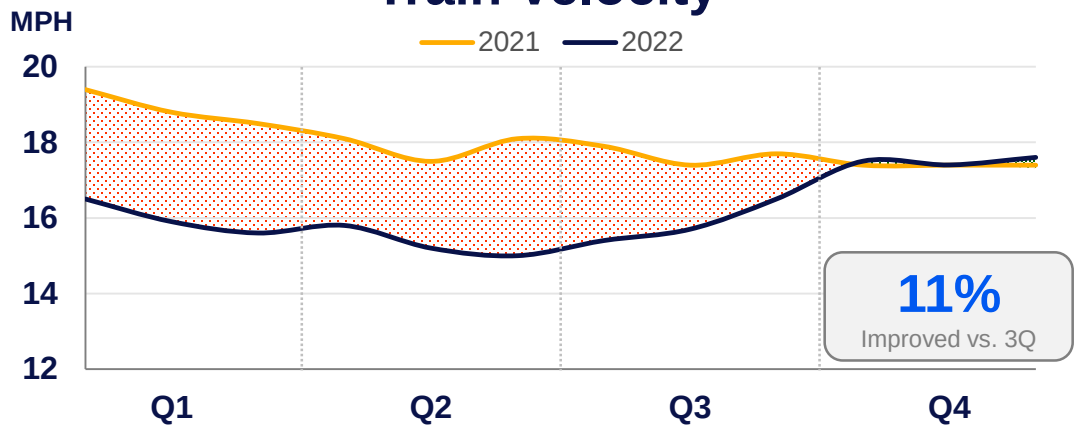
FRA Train Accident Rate



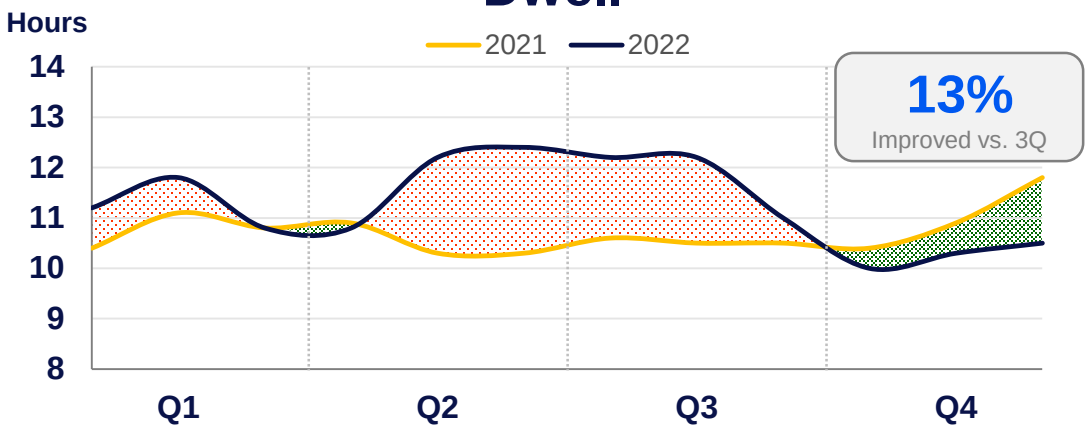
- Safety is a guiding principle at CSX
- Focus on instilling safety culture in new hires and eliminating life-changing events
- Reduction of human factor incidents and new hire safety performance will be key for success in 2023

Operating Highlights

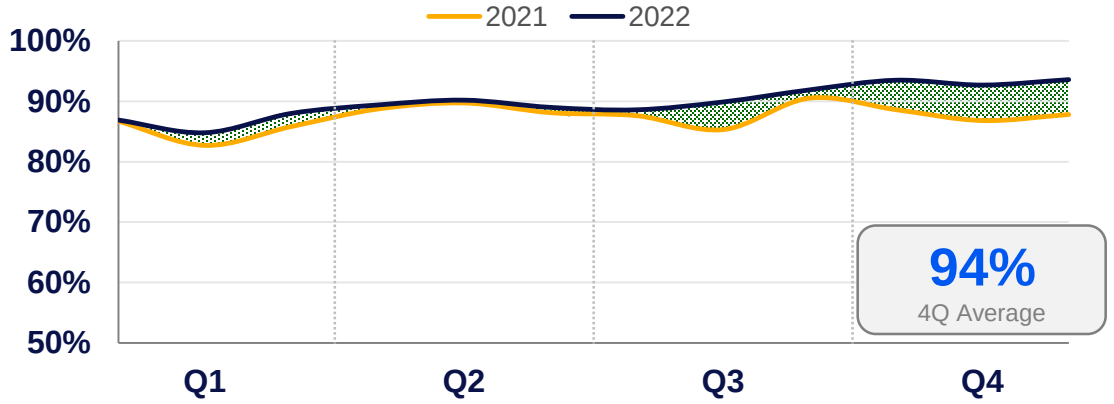
Train Velocity



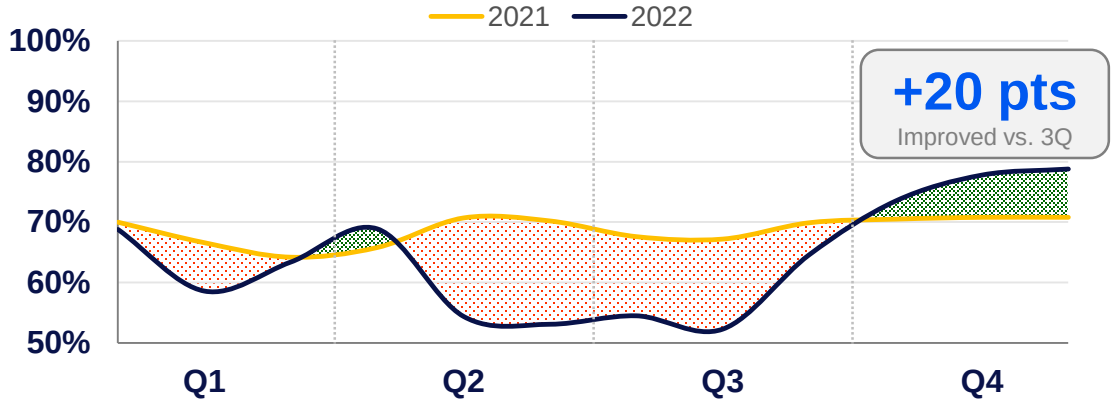
Dwell



Intermodal Trip Plan Performance

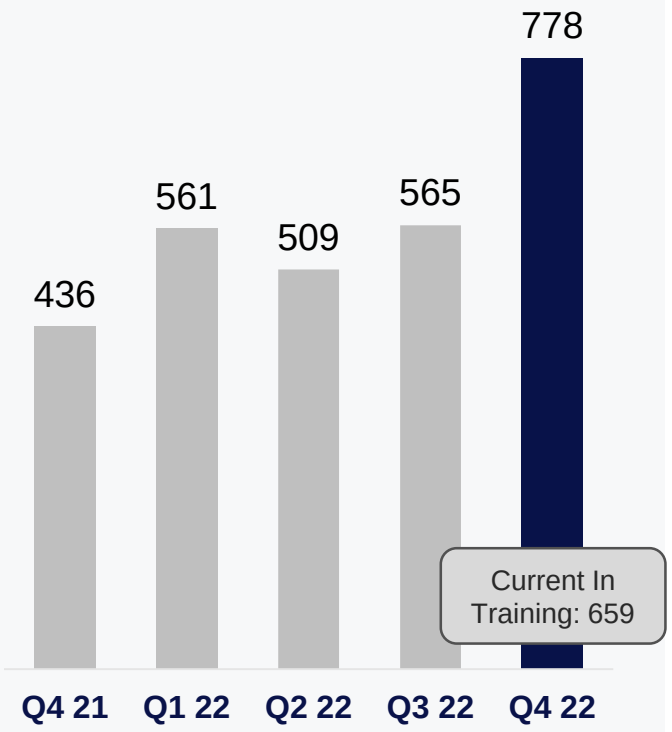


Carload Trip Plan Performance

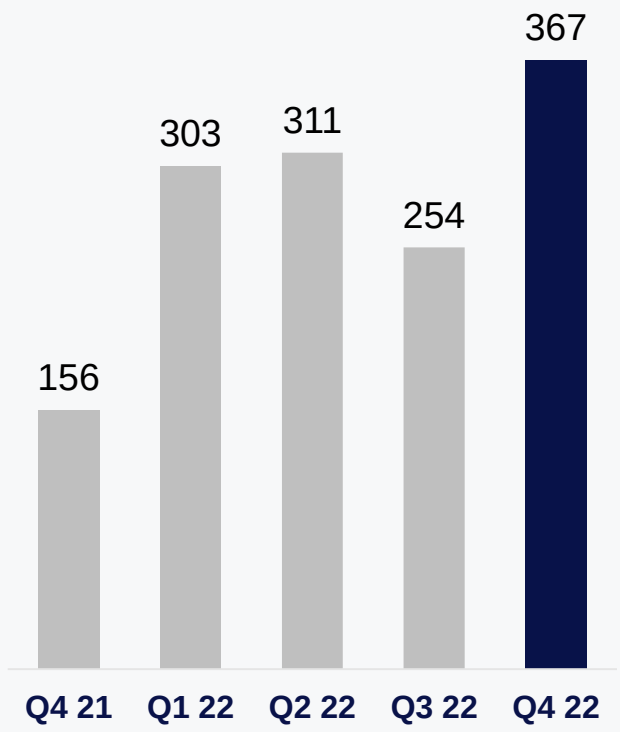


Fourth Quarter T&E Hiring Highlights

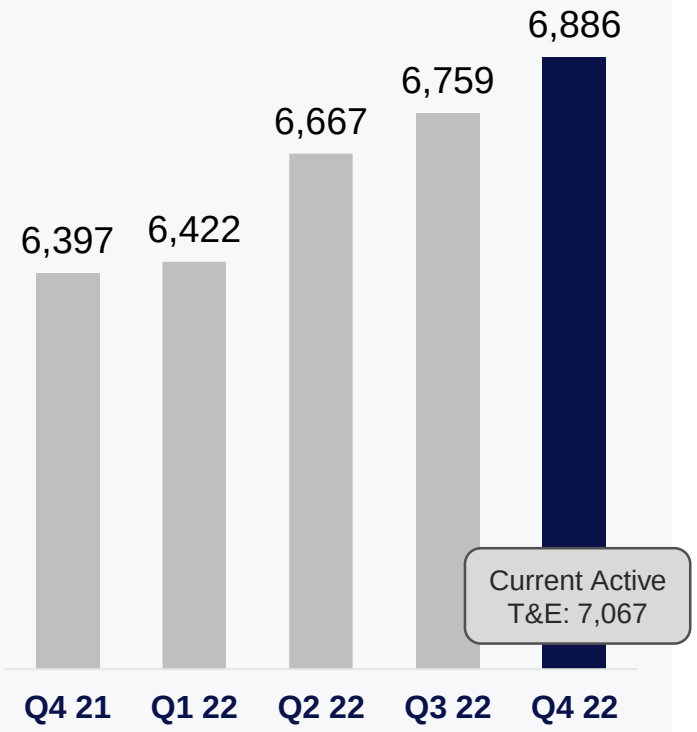
Employees in Training
Average Daily Employees



Conductor Promotions
Total Employees



Active T&E Employees
Average Daily Employees



Note: All figures exclude employees added due to the acquisition of Pan Am; current figures reflect most recent weekly average for week ending January 20, 2023.

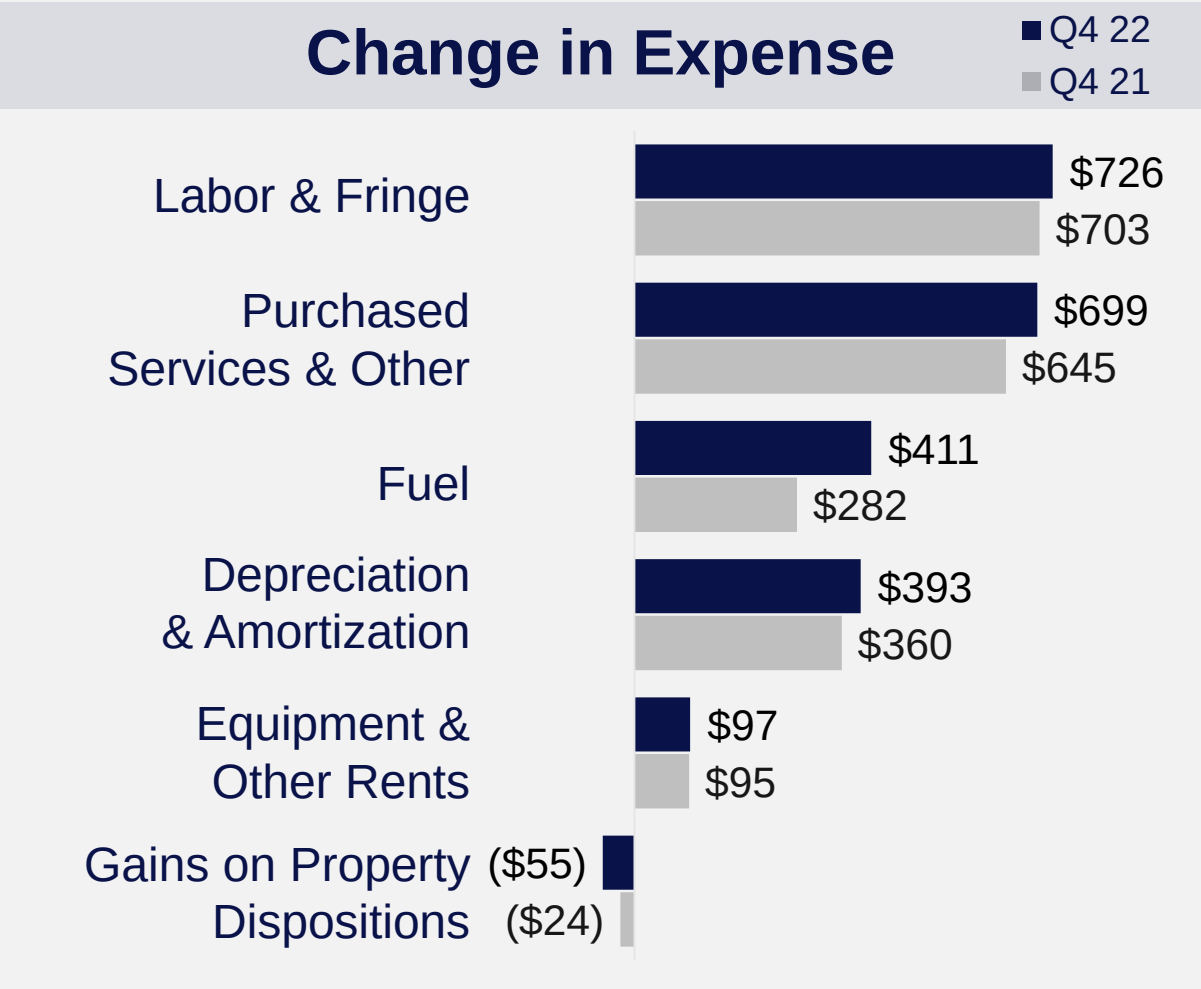
FINANCIAL REVIEW

Sean Pelkey
Executive Vice President and Chief Financial Officer

Fourth Quarter & Full Year Earnings Summary

	Fourth Quarter Income Statement			Full Year Income Statement		
Dollars in Millions	Q4 2022	Q4 2021	Variance	FY 2022	FY 2021	Variance
Revenue	$ 3,730	$ 3,427	9%	$ 14,853	$ 12,522	19%
Expense	2,271	2,061	(10%)	8,830	6,928	(27%)
Operating Income	**$ 1,459**	**$ 1,366**	**7%**	**$ 6,023**	**$ 5,594**	**8%**
Interest Expense & Other Income – Net	(155)	(161)	4%	(609)	(643)	5%
Income Tax Expense	(286)	(271)	(6%)	(1,248)	(1,170)	(7%)
Net Earnings	**$ 1,018**	**$ 934**	**9%**	**$ 4,166**	**$ 3,781**	**10%**
Earnings Per Share	**$ 0.49**	**$ 0.42**	**17%**	**$ 1.95**	**$ 1.68**	**16%**
Operating Ratio	60.9%	60.1%	(80 bps)	59.5%	55.3%	(420 bps)
Income Tax Rate	21.9%	22.5%	60 bps	23.1%	23.6%	50 bps
Average Shares Outstanding, Assuming Dilution *(Millions)*	2,085	2,217	6%	2,141	2,255	5%

Fourth Quarter Expense Up $210M On Fuel and Inflation

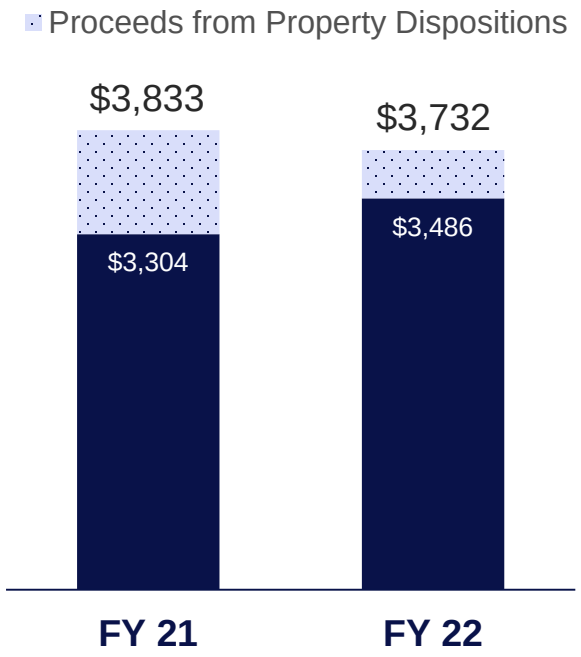


- Higher fuel price was the largest driver of the expense increase
- Labor inflation and additional headcount were partially offset by lower incentive compensation
- PS&O increase was primarily from inflation and elevated terminal costs
- Depreciation expense increased partially due to impacts of Q4 equipment study

Full Year Cash Flow and Distributions

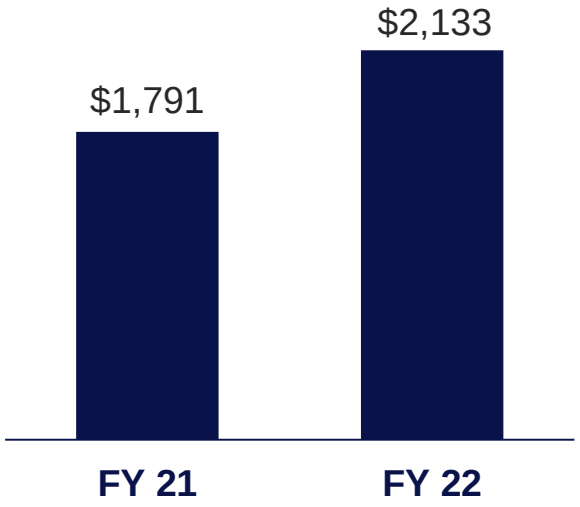
Free Cash Flow Before Dividends*

In Millions



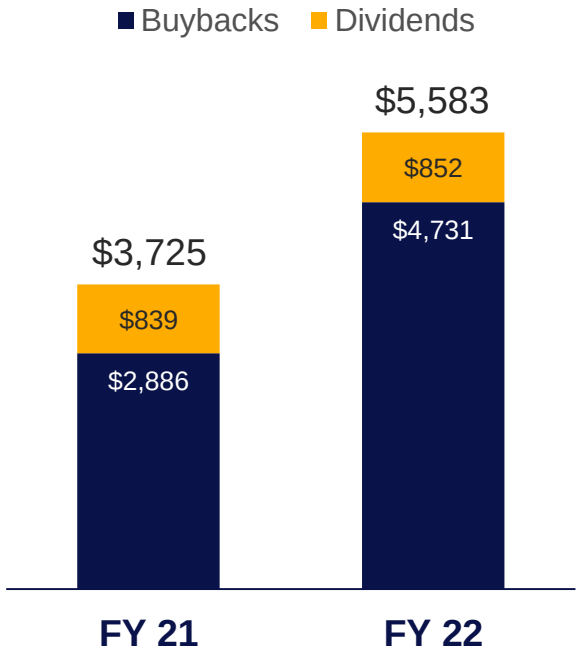
Capital Expenditures

In Millions



Shareholder Distributions

In Millions



* See Appendix for Non-GAAP reconciliation

CLOSING REMARKS

Joe Hinrichs
President and Chief Executive Officer

Guiding Principles Enabled by ONE CSX



Operate Safely

- ✓ Eliminated life-changing events
- ✓ Expanded safety culture to new hires

- › Reduce human factor incidents
- › Expand predictive analysis, automated inspections



Optimize Asset Utilization

- ✓ Maintained balanced operating plan
- ✓ Targeted investment in capacity and operations technology

- › Dynamic network planning
- › Selective, profitable service additions



Control Costs

- ✓ Sustained strong core profitability in volatile macro environment
- ✓ Generated substantial free cash flow

- › Reduce excess operating costs
- › Maintain cost discipline while pursuing growth



Improve Customer Service

- ✓ Added needed T&E resources
- ✓ Facilitated meaningful service improvement

- › Align service metrics with customer experience
- › Take truck share through consistency, ease-of-use



Value & Develop Employees

- ✓ Successfully on-boarded over 2,000 new conductors
- ✓ Visited 20+ locations in first 100 days

- › Increase local-level employee engagement
- › Improve crew quality-of-life

The ONE CSX company culture seeks to build positive relationships with employees, customers, and all CSX stakeholders to achieve collective success

2023 Guidance Summary

- **GDP+ volume gains, supported by solid Merchandise and Coal growth**
  - Merchandise growth supported by service recovery, modal share gains, strength in Automotive
  - Coal volume up on higher export shipments with Curtis Bay recovery and increased production at CSX-served mines
  - Near-term headwinds facing international Intermodal
- **Pricing reflects higher inflationary environment; revenue headwind from intermodal storage**
  - Supplemental revenues anticipated to decline by ~$300 million
  - Export metallurgical coal benchmarks have rebounded, but 2022 comps are challenging
- **Focus on efficiency gains to counter strong inflationary pressures**
  - Asset productivity to exceed or approach prior record levels
  - Operational momentum and customer service gains to drive capacity
- **Capex expected to be ~$2.3 billion, up modestly due to inflation and increased spending for strategic projects, including Pan Am and Quality Carriers**

APPENDIX

Non-GAAP Free Cash Flow Reconciliation

Non-GAAP Free Cash Flow Reconciliation

Free Cash Flow

	Twelve Months Ended	
Dollars in millions	**Dec 31, 2022**	**Dec 31, 2021**
Net Cash Provided by Operating Activities	**$ 5,619**	**$ 5,099**
Property Additions	(2,133)	(1,791)
Proceeds and Advances from Property Dispositions	246	529
Other Investing Activities[(a)]	n/a	(4)
Free Cash Flow Before Dividends (non-GAAP)	$ 3,732	$ 3,833
Operating Cash Flow Conversion*	135%	135%
Free Cash Flow Conversion*	90%	101%

[(a)] Effective first quarter 2022, the results of other investing activities will no longer be included in free cash flow. Prior year has not been restated as the change is immaterial.

*Expressed as a percentage of net income


CSX