

B / S / P / C / S	Strike	Exp.	Premium
Sell Call	110.00	NOV 17, '17	\$5.25
Buy Call	130.00	NOV 17, '17	(\$0.64)
Bearish "Call Spread"			\$4.41

IOI Tear Sheet : Union Pacific (UNP)

Bearish Short Call Spread (High Conviction)

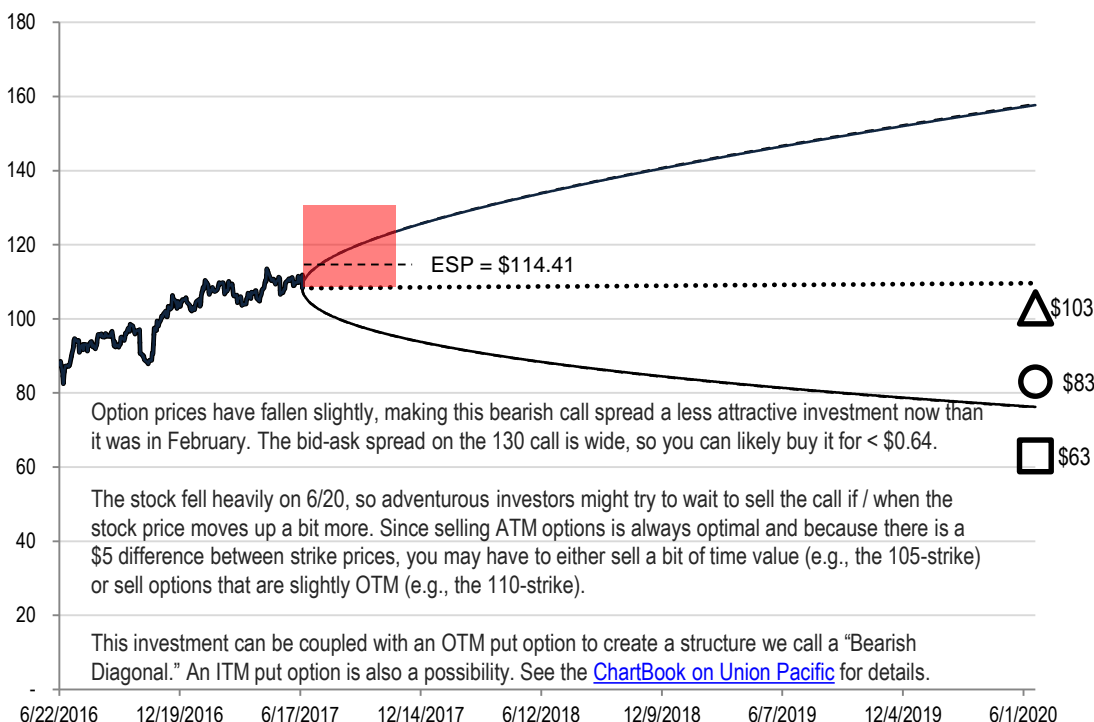
Data as of 20 June, 2017

Framework's Take

This is a follow-up investment to our [Tear Sheet of Feb 23, 2017](#), one option leg of which expired last Friday. We have [many articles](#) on the Framework site related to Union Pacific as well as a [Guided Tear Sheet](#) Mini-Course. Too little time has passed for the economic / business story to have changed. First quarter earnings were good, but recent car load statistics were bad. The firm has bought up several million shares of stock in the 1Q17 but otherwise, we see no change to our valuation drivers. Option market implied volatility has decreased slightly since February, so the BSM Cone is slightly thinner, but the relative relationship of price to value has stayed the same.

Drivers

Revenues	Great pricing power due to regulatory leniency. Volumes from all segments at risk from trade probs (China/Mexico). Proj: +9% (Best), +3% (Worst).
Profitability	Phenomenal! Mid- to High 20% OCP margin levels. Better than some tech firms... (ahem, IBM). Proj: 27% (B), 23% (W)
Investment Level / Eff.	45% of profits spent on cap improvements. Highly effective over last 5 years, less effective going forward. Proj (med-term growth): +7% (B), +5% (W)
Balance Sheet	Regulatory leniency is big positive. Exposure to trade frictions is a big negative.



Valuation & Return

Valuation Uncertainty: High

	Low	Likely	High
Stock Fair Value (\$)	63	83	103
Stock Return (%)	-42	-23	-5
Option Period Return (%)	22	22	22
Option Annual Return (%)	62	62	62

Historical Metrics

	Historical Median	
	5-year	10-year
Revenue Growth (%)	5	7
Profit Margin (%)	23	21
Med-term Growth	High	High

Market Risk

We are risking \$20 of capital on the upside to receive a net credit of (\$5.25 - \$0.64) = \$4.41. Good news about freight volumes, stock buybacks, or quarterly earnings would work against our bearish position.

Scenarios Key
ST Rev Growth | ST OCP Margin | Med-Term Growth

Case / Scenario	Value
PSR Implied Low	57
3% 23% 5%	63
3% 23% 7%	67
3% 27% 5%	74
3% 27% 7%	79
9% 23% 5%	82
252-day Low	82
9% 23% 7%	88
9% 27% 5%	96
9% 27% 7%	103
252-day High	114
PSR Implied High	135

Probability / Materiality

