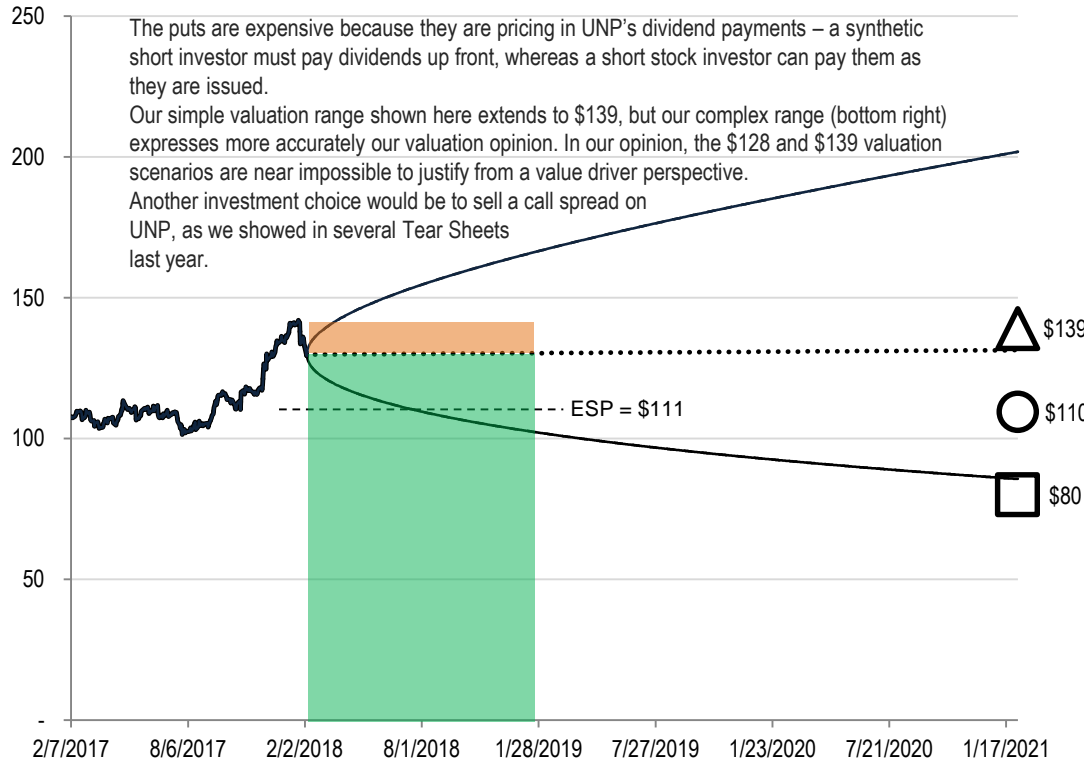


B / S	P / C / S	Strike	Exp.	Premium
Buy	Put	140.00	JAN 18, '19	\$19.00
Synthetic Short				\$19.00

# FWI Tear Sheet : Union Pacific (UNP)

## Synthetic Short Position (High Conviction)

Data as of 5 February 2018, Stock Price: \$130.08



### Framework's Take

This is a follow-up investment to our heretofore disappointing bearish investments in Union Pacific. We have [many articles](#) on the Framework site related to Union Pacific as well as a [Guided Tear Sheet](#) Mini-Course. The passage of the tax bill thrilled investors who don't understand that statutory tax rates differ quite a bit from cash tax rates. UNP was bid up from the \$115 level to the present very quickly as the tax package was forced through. UNP's business hasn't gotten any better though, and we see the high stock price as a function of investors' reduced risk aversion than as one of rational expectations about the firm's future business.

### Drivers

<b>Revenues</b>	Great pricing power due to regulatory leniency. Volumes from all segments at risk from trade probs (China/Mexico). Proj: +8% (Best), +3% (Worst).
<b>Profitability</b>	Phenomenal! Mid-20% OCP margin levels. Better than some tech firms... (ahem, IBM). Proj: 26% (B), 24% (W)
<b>Investment Level / Eff.</b>	25% of profits spent on cap improvements. Highly effective over last 5 years, less effective going forward. Proj (med-term growth): +10% (B), +2% (W)
<b>Balance Sheet</b>	Regulatory leniency is big positive. Exposure to trade frictions is a big negative.

### Valuation & Return

### Valuation Uncertainty: High

	Low	Likely	High
<b>Stock Fair Value (\$)</b>	80	110	139
<b>Stock Return (%)</b>	-38	-16	7
<b>Option Period Return (%)</b>	28	1	-100
<b>Option Annual Return (%)</b>	26	1	-100

### Historical Metrics

	Historical Median	
	5-year	10-year
Revenue Growth (%)	5	7
Profit Margin (%)	22	20
Med-term Growth	High	High

### Market Risk

We are risking \$10 of capital to generate what we think will be about \$15 of return. 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	68
3%   24%   2%	80
*3%   26%   2%	86
8%   24%   2%	96
<b>252-day Low</b>	<b>101</b>
*8%   26%   2%	104
3%   24%   10%	105
3%   26%   10%	114
8%   24%   10%	128
8%   26%   10%	139
<b>252-day High</b>	<b>142</b>
PSR Implied High	146

