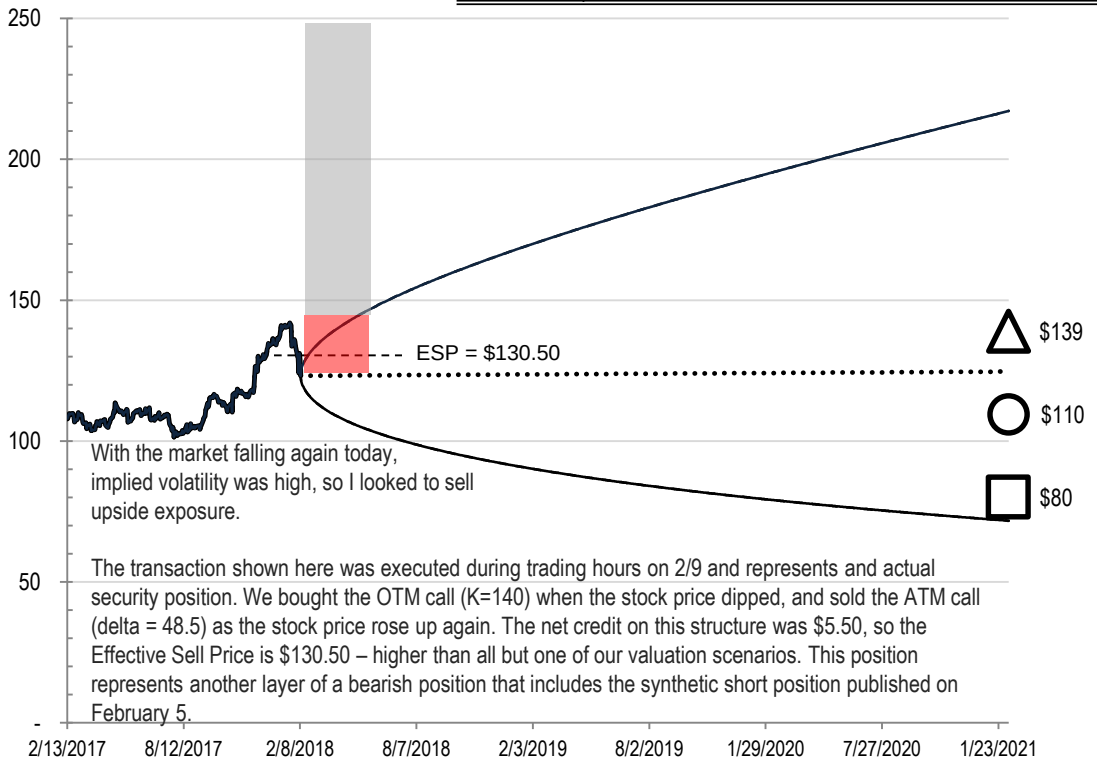
FRAMEWORK Investing

B / S	P / C / S	Strike	Exp.	Premium
Buy	Call	140.00	MAY 18 '18	($1.51)
Sell	Call	125.00	MAY 18 '18	$7.01
Bearish Call Spread				$5.50

FWI Tear Sheet : Union Pacific (UNP)

Bearish Call Spread (High Conviction)

Data as of 9 February 2018, Stock Price: $123.17



Framework's Take

This is a follow-up investment to ongoing 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

Revenues	Great pricing power due to regulatory leniency. Volumes from all segments at risk from trade probs (China/Mexico). Proj: +8% (Best), +3% (Worst).
Profitability	Phenomenal! Mid-20% OCP margin levels. Better than some tech firms…(ahem, IBM). Proj: 26% (B), 24% (W)
Investment Level / Eff.	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)
Balance Sheet	Regulatory leniency is big positive. Exposure to trade frictions is a big negative.

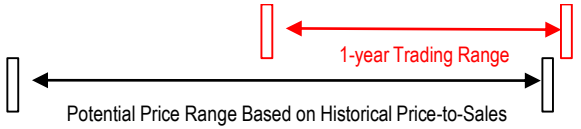
Valuation & Return

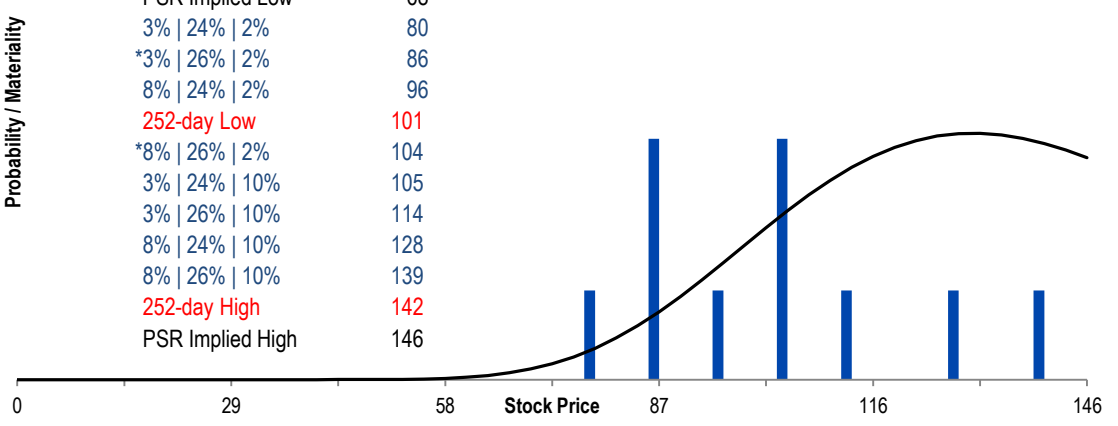
Valuation Uncertainty: High

	Low	Likely	High
Stock Fair Value ($)	80	110	139
Stock Return (%)	-35	-11	13
Option Period Return (%)	28	28	-43
Option Annual Return (%)	147	147	-87

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
252-day Low	101
*8% | 26% | 2%	104
3% | 24% | 10%	105
3% | 26% | 10%	114
8% | 24% | 10%	128
8% | 26% | 10%	139
252-day High	142
PSR Implied High	146





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 accepting $20 of upside risk to generate $5.50. Good news about freight volumes, stock buybacks, or quarterly earnings would work against our bearish position.

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Financial statement and market data by: YCHARTS

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