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**THE PREHN INSTITUTE | RESEARCH**

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# Owning the Toll Booth

*A fundamentals-first look at Norfolk Southern (NSC): how a 150-year-old freight-rail network really makes money, where it is vulnerable, and how it stacks up against its closest peers — explained simply enough for a ten-year-old.*

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**REPORT SCOPE**

Plain-English explanation of the video.

**RATING**

None

**PRICE TARGET**

None

**BOTTOM LINE:**

Norfolk Southern is a classic “own-the-toll-booth” business: a physical network of roughly 19,500 route-miles across 22 eastern states that competitors cannot realistically rebuild. That structural moat shows up in the numbers as a wide gross margin (45.3%) and best-in-peer-group free-cash-flow conversion (levered FCF margin 31.4%). But it is not a flawless compounder today. Return on invested capital (7.3%) trails the strongest peers, the most recent EPS reading fell sharply year-on-year, and interest coverage (5.0x) is the thinnest in its peer set. The Winston app assigns NSC a Winston Score of 40/100 — the framework is flagging returns and earnings-consistency, not the moat. The swing factor is a proposed merger with Union Pacific that would create North America’s first true coast-to-coast railroad. It is a genuine catalyst and a genuine risk: it still needs regulatory approval, faces organised opposition, and is not targeted to close until around 2027. This report contains no buy/sell rating, no price target, and no technical analysis — only the fundamentals, the framework, and the risks, so you can judge for yourself. FULL DISCLAIMER — PLEASE READ. This document is produced by The Prehn Institute for educational purposes only. It is not financial, investment, legal, or tax advice, and not a recommendation, solicitation, or offer to buy or sell any security or to adopt any investment strategy. Nothing here is personalised advice; it does not consider your objectives, financial situation, or needs. All investing involves risk, including the possible loss of principal; past performance does not indicate future results. Figures may contain errors, become out of date, or be revised by the company. Statements about the future are opinions, not guarantees. You should do your own research and consult a licensed financial professional before making any decision. The Prehn Institute and the author (“Winston”) may hold positions in securities mentioned. This report is intended to be FTC compliant: it is educational content, we are not compensated by any company mentioned to produce it, and we make no performance promises. By reading further you accept these terms.

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Felix Nikolas Prehn is an economist and former investment banker. He writes and lectures on how the financial markets work, with a focus on how ordinary savers can protect what they have built.

## The Prehn Institute

Felix Nikolas Prehn is the founder of The Prehn Institute. It publishes research on the financial markets and provides instruction in how they work. It gives no financial advice.

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# 1 • the Business in Plain English

**Forget the trains for a second.** The easiest way to understand a railroad is to stop picturing locomotives and start picturing a private

**road that everyone else has to pay to use.** Imagine the only bridge across a very wide river. If you want your truck of cereal, your coal, your new cars or your online-shopping boxes to reach the other side, you pay the owner of that bridge — every single time. A railroad is that bridge, stretched across half a country.

**It is a toll booth on the real economy.** Norfolk Southern does not make cereal, cars or chemicals. It makes money by charging other businesses to move their heavy things from A to B. The whole economy has to feed coins into the machine, which is exactly what makes the machine interesting to an investor.

**The scale is enormous.** Roughly 40% of America's long-distance freight moves by rail. The physical stuff that builds ordinary life — grain, chemicals, lumber, car parts, fuel — a large slice of it rides the rails at some point.

**And it is remarkably efficient.** A single gallon of diesel can move one ton of freight roughly 500 miles by train. No fleet of highway trucks comes close on cost per ton-mile. Cheaper and more fuel- efficient is a durable advantage, not a fad.

**Why a beginner should care.** Most investors chase the shiny, fast- moving "traffic" — the exciting story stocks. A railroad is the opposite: slow, physical, unglamorous, and very hard to kill. You cannot download a train. You cannot 3D-print a national rail network. Even artificial intelligence, which threatens to reshape so many businesses, mostly helps a railroad by making it run leaner — it does not replace the tracks.

That single idea — "own the toll booth, not the traffic" — is the lens for the entire report.

Cereal & groceries

Cars & parts

Coal & chemicals

Online orders

& freight

→

The Toll Booth the rail network

→

Railroad owner collects the fee

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# 2 • the Industry & Why It Is So Hard to Compete with

**You cannot build a second one.** The single most important feature of the freight-rail industry is that its assets are effectively impossible to recreate. Nobody is going to acquire the land, win the permits and spend the decades required to lay twenty-thousand miles of brand- new track next to an incumbent's. The route is the moat.

**A handful of giants.** The big North American networks — the industry calls them "Class I" railroads — can be counted on your fingers. When only a few companies control something the whole country needs, economists call it an oligopoly. For customers that can be frustrating; for owners it is a structural source of pricing power.

**Pricing power, defined simply.** If you must move a mountain of grain across the country, you cannot casually "shop around" for a different national railroad the way you shop for a cheaper airline seat. That scarcity lets railroads raise prices gradually over time and still keep the freight.

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# The smartest-money precedent

**Buffett bought the whole toll booth.** The clearest illustration of how professionals value this industry is Warren Buffett. In 2009–2010 his company, Berkshire Hathaway, bought an entire railroad — BNSF — for about $44 billion, the biggest deal of his career at the time. He famously described it as “an all-in bet on the economic future of the United States.”

**An important accuracy note.BNSF** An important accuracy note. Buffett bought BNSF, not Norfolk Southern, and the Union Pacific–NSC merger discussed later is unrelated to Berkshire. We reference Buffett purely to show why the industry’s economics attract patient, long-term capital — not to imply any endorsement of NSC.

The takeaway: the most careful investor alive looked at every business on earth and chose a railroad. The reasons were the moat, the oligopoly and the pricing power — the same three lenses we now turn on Norfolk Southern.

The whole country needs rail ~40% of long-distance freight

→

Only a handful of “Class I” giants impossible to replicate

→

Oligopoly = durable pricing power the investable edge

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# 3 • How Norfolk Southern Makes Money

**The network.** Norfolk Southern operates roughly 19,500 route-miles of track across 22 eastern states plus Washington, D.C. Picture the entire eastern half of the United States — its ports, factories and big cities — laced together by one company's rails. That network is the toll booth, and it is the reason the business exists.

**The revenue model.** Customers — manufacturers, energy producers, chemical companies, farmers and retailers — pay Norfolk Southern to haul heavy cargo long distances. Revenue is essentially volume (how many loads move) multiplied by price (what each load pays). Because the network is a shared asset, adding another load on an existing route is very profitable once the track, crews and locomotives are already in place.

**The one number professionals watch.** The most important efficiency gauge in this industry is the operating ratio — in plain English, how many cents it costs the company to earn one dollar of revenue. An operating ratio of 65% means it costs 65 cents to bring in a dollar, leaving 35 cents; 70% leaves 30 cents. Lower is better, and a falling operating ratio is the sound of a railroad getting stronger. Norfolk Southern has been working to push this number down by cutting waste and running more efficiently.

**Where the risk lives.** The chief competitive threat is trucking. If diesel gets cheap enough, some freight can shift from rail to road. And because railroads move the raw materials of the economy, volumes rise and fall with the business cycle — a point we return to under Risk Factors.

In short: a wide, hard-to-copy network; a simple price-times-volume revenue model; and a management focus on the operating ratio. Next we translate all of that into the actual financial statements — every figure sourced from the Winston app.

NORFOLK SOUTHERN — BUSINESS SNAPSHOT

Item Detail

Sector / Industry Industrials / Railroads

Network ~19,500 route-miles, 22 eastern states + Washington, D.C.

What it hauls Coal, chemicals, autos & parts, grain, lumber, intermodal / consumer goods

Closest direct peer CSX (the other large eastern U.S. network)

Main structural risk Freight lost to trucking; cyclical volumes

Market capitalisation ~$73.6 billion

Source: Winston app. Network figures are approximate and widely reported.

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# 4 • Financial Analysis: Margins, Cash Flow & Debt

**Profitability: a wide moat, visible in the margin.** Norfolk Southern converts about 45.3 cents of every revenue dollar into gross profit (gross margin 45.3%) and about 21.9 cents into bottom-line profit for shareholders (net margin 21.9%). A gross margin in the mid-40s is exactly what you would expect from a business with a genuine moat: it has room to absorb shocks and still make money.

**Returns on capital: the soft spot.** Return on invested capital (ROIC) is 7.3%. That is positive and real, but it trails the strongest peer in this report (Union Pacific at 11.6%). Railroads are extraordinarily capital-hungry — track, bridges and locomotives cost a fortune — so the return the business earns on all that capital is a fair test of how well it is run. Here, NSC is middle-of-the-pack, not best-in-class.

**Cash generation: the standout strength.** This is where NSC shines. Its levered free-cash-flow margin is 31.4% — the highest in the peer group in this report. In plain terms, a large slice of every sales dollar ends up as actual spendable cash after interest and investment. Its cash conversion cycle is also negative (about −70 days), meaning it tends to collect from customers before it has to pay its own bills — a favourable, flexibility-boosting trait.

**Debt: manageable, but keep an eye on it.** NSC carries about $17.1bn of total debt against $15.8bn of equity, for a debt-to-equity ratio of roughly 1.08x, and financial leverage (assets ÷ equity) of 2.85x. That is normal for a capital-heavy railroad and actually lower than Union Pacific and CSX. The item to watch is interest coverage of 5.0x — adequate, but the thinnest cushion in this peer set.

**Growth & valuation.** Revenue was essentially flat (+0.2%) and the latest EPS reading fell about 26.6% year-on-year — a reminder that this is a cyclical business, not a straight-line grower. Shares trade at about 27.6x trailing earnings and 21.7x forward earnings; the fact that the forward multiple is lower than the trailing one tells you the market expects earnings to recover from here.

NSC — PROFITABILITY & CASH

Metric Value Read

Gross margin 45.3% Wide moat

Net margin (to common) 21.9% Healthy

Return on invested capital 7.3% Below best peer

Levered free-cash-flow margin 31.4% Best in group

Cash conversion cycle −70 days Favourable

NSC — BALANCE SHEET & DEBT

Metric Value Read

Cash & equivalents $1.34bn —

Total debt $17.10bn —

Net debt $15.76bn —

Total equity $15.80bn —

Debt / equity 1.08x Moderate

Financial leverage (assets ÷ equity) 2.85x Normal for rail

Interest coverage 5.0x Thinnest in peer set

P/E (trailing) 27.6x

Forward P/E 21.7x Recovery implied

Revenue growth (YoY) +0.2% Flat

Latest EPS growth (YoY) −26.6% Cyclical dip

Dividend yield 1.66% —

Market capitalisation ~$73.6bn —

Winston Score 40 / 100 Returns & EPS gaps

Source: Winston app. Ratios are derived from the most recent reported figures. No price target or rating is expressed or implied.

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# 5 • Felix's "How to Pick Great Stocks" Scorecard

“We look neither for value stocks, nor for growth stocks. We look for quality stocks.” — Felix. Below we run Norfolk Southern through that quality checklist using Winston-app data. This is an educational framework, not a recommendation.

QUALITY CHECKLIST APPLIED TO NSC

Question Metric (NSC) What it tells a beginner Read

Is the business profitable? Gross margin 45.3% A wide gross margin signals the size of the moat and the ability to absorb shocks.

Strong

Operating efficiency Net margin 21.9%; operating ratio focus

The pros track the operating ratio — cents to earn a dollar. NSC is pushing it lower, but isn’t yet best-in-class.

Improving

Return on capital (ROCE/ROIC) ROIC 7.3% Measures management effectiveness with all the capital employed.

Positive, but trails the best peer.

Below peers

Is it generating cash? Cash conv. cycle −70 days

Negative cycle means it collects before it pays — efficient and flexible. Strong

Leveraged FCF margin 31.4% The share of sales that ends up as real cash. Best in this peer group. Best in group

Is it financially stable? Leverage 2.85x; D/E

1.08x

Financial risk gauge. Normal for a capital-heavy railroad; lower than UNP and CSX.

Moderate

Interest cover 5.0x Comfort in paying debt interest. Adequate, but the thinnest cushion here — watch it.

Watch

**Valuation** (least important) P/E 27.6x; Fwd 21.7x A snapshot plus a forward view. The lower forward multiple implies expected earnings recovery.

Full

Earnings growth consistent? EPS −26.6% YoY Reveals whether the business is reliable or cyclical. NSC is cyclical — earnings dipped.

Cyclical

EPS rising consistently? Recently declined Shows whether shareholder value is compounding or being pressured.

Currently pressured.

Pressured

MOAT Structural You cannot lay a second national network. Class I oligopoly = durable pricing power.

Exceptional

Source: Winston app. Framework: The Prehn Institute “How to Pick Great Stocks.” Educational use only.

**Reading the scorecard.** On Felix’s quality lens, Norfolk Southern is a real “quality” candidate on the two hardest things to fake — a structural moat and genuine cash generation. Its levered FCF margin is the best in this peer group, and its gross margin confirms the pricing power the toll-booth model predicts.

**Where it falls short today.** The framework is equally clear about the gaps: return on capital sits below the best peer, interest coverage is the thinnest here, and earnings recently fell year-on-year because volumes and costs move with the economy. That combination is exactly why the Winston app scores NSC 40/100 — the model is docking it for returns and earnings-consistency, not for the moat.

## Is it a “growth” stock?

No — and it doesn’t pretend to be. Felix’s separate growth-stock rules (strong revenue growth that beats the sector, low debt, large fast-expanding TAM, founder heavily invested) largely do not fit a mature railroad. The nearest thing NSC has to a growth story is the proposed Union Pacific merger, which is a one-off structural catalyst rather than organic growth. We assess that next.

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# 6 • How Nsc Compares with Its Peers

RAILROAD PEER COMPARISON

Metric NSC UNP CSX CPKC CNI

Gross margin 45.3% 45.7% 37.5% 48.3% 41.9%

Net margin 21.9% 29.2% 21.6% 27.0% 27.2%

7.3% 11.6% 8.7% 5.4% 8.7%

Levered FCF margin 31.4% 23.1% 29.2% 13.4% 20.7%

Financial leverage 2.85x 3.59x 3.26x 1.89x 2.77x

Interest coverage 5.0x 7.6x 5.6x 6.2x 7.1x

P/E (trailing) 27.6x 23.8x 30.6x 18.8x 16.4x

Forward P/E 21.7x 18.9x 20.3x 12.7x 12.5x

Dividend yield 1.66% 1.92% 1.11% 0.77% 2.09%

Market cap $73.6bn $171.7bn $92.8bn $81.1bn $75.7bn

Winston Score

Source: Winston app. For lower-risk, diversified exposure see Section 10. No rating or price target implied.

**NSC vs. the group.** On profitability, NSC's gross margin (45.3%) is right alongside Union Pacific and well ahead of its closest direct rival CSX (37.5%). On turning sales into cash, NSC is actually the leader of this group, with a 31.4% levered FCF margin.

**The honest gaps.** Union Pacific out-earns NSC on both net margin (29.2% vs 21.9%) and return on capital (11.6% vs 7.3%), and carries a higher interest-coverage cushion. That is why UNP screens with a higher Winston Score (54 vs 40). Among this set the Canadian names (CPKC 64, CNI 61) score highest, helped by lower leverage and cheaper valuations — a useful reminder that "best business" and "best stock right now" are different questions.

**Why compare at all?** Peer context stops you from falling in love with a single story. NSC's cash generation is genuinely excellent; its returns on capital and earnings consistency are genuinely behind the leaders. Both things are true at once.

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# 7 • the Catalyst: The Union Pacific Merger

**The big idea.** There is a proposed merger to combine Norfolk Southern with Union Pacific and create North America's first true

**transcontinental railroad.** Explained simply: the company that owns much of the eastern network and the company that owns much of the western network would stitch their maps into one seamless coast-to- coast toll road — a single railroad from one ocean to the other.

**Why it matters.** A combined network would span dozens of states and connect around a hundred ports. For whoever owns it, that is a wider, deeper toll booth than anything that has existed before — potentially more efficient routing, fewer hand-offs between carriers, and new pricing opportunities.

**What it could mean for an NSC owner.** The deal was structured so that Norfolk Southern shareholders would receive stock in the combined company plus a cash component for their shares. In other words, the appeal is being an owner before the map gets redrawn. (We deliberately quote no share price, cash-per-share figure or price target — that is outside the scope of this educational report.)

**The crucial caveat: it is not done.** A merger of this size needs approval from federal railroad regulators (the Surface Transportation Board), and that review takes a long time — the plan is not targeted to close until around 2027. It also faces real, organised opposition: large shippers worried about pricing, some politicians, and some rail unions. Regulators could approve it, block it, delay it, or force significant changes.

This is the "Money-in-Motion" part of the story: a genuine catalyst that could re-rate the business, wrapped around a genuine, binary regulatory risk. Prudent readers treat it as an option, not a certainty.

East network Norfolk Southern

+

West network Union Pacific

→

One coast-to-coast toll road first true transcontinental • dozens of states • ~100 ports

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# 8 • Risk Factors

A real analyst shows you the downside. None of these mean “avoid”; they mean “invest with your eyes open.”

**Regulatory risk (the merger).** The Union Pacific tie-up could be rejected or heavily modified by regulators. Much of the excitement around the story rests on a deal that is not guaranteed to happen.

**Timeline risk.** Even in the best case, the merger is years away (targeted ~2027). Patience will be tested, and a lot can change in the economy before then.

**Cyclical risk.** Railroads rise and fall with the economy. In a recession, less “stuff” moves, so tolls shrink. NSC’s roughly flat revenue and its ~27% year-on-year drop in the latest EPS reading are live evidence that this is not a business that only goes up.

**Safety-headline risk (East Palestine).** In 2023 a Norfolk Southern train derailed in East Palestine, Ohio, causing a serious chemical spill. It was a human and environmental disaster, it cost the company heavily in cleanup and lawsuits, and it damaged public trust. A railroad’s most valuable invisible asset is the belief that it is safe and reliable; once broken, that must be earned back with better safety, cleaner operations and time. One more serious accident could dent both the business and sentiment.

**Returns & efficiency risk.** ROIC of 7.3% trails the best peer, and interest coverage of 5.0x is the thinnest in this peer set. If the operating ratio stops improving, the quality case weakens.

**Valuation risk.** At ~27.6x trailing earnings, a good deal of optimism is already in the price. If the merger falls through or earnings stay soft, the multiple could compress.

**Deal-falls-through risk.** If the merger dies, the extra enthusiasm currently attached to the story can come straight back out.

RISK CHECKLIST AT A GLANCE

Risk In one line Flag

Regulatory Merger could be rejected or altered High

Timeline Even if approved, it’s ~2027 Med

Cyclical Volumes & EPS fall with the economy High

Safety-headline Another accident dents trust & cost Med

Returns / coverage ROIC & interest cover trail peers Med

Valuation Optimism already in the price Med

Deal-falls-through Story premium can unwind Med

Source: Winston app and widely reported company events. Educational use only.

**A moat that compounds.** The single biggest opportunity is boring and durable: NSC owns an asset no one can rebuild. As long as the eastern U.S. economy needs to move heavy goods, the toll booth keeps collecting. Moats like this are why patient capital — Buffett’s BNSF being the textbook case — is drawn to the industry.

**Best-in-group cash generation.** NSC turns more of its sales into free cash than any peer in this report (levered FCF margin 31.4%). Cash is what funds dividends, debt reduction and reinvestment — and it is the hardest number to fake.

**Self-help on efficiency.** If management continues to push the operating ratio lower, profit can grow even with flat volumes. Efficiency gains flow almost directly to the bottom line on a network that is already built.

**The merger optionality.** The proposed Union Pacific combination is a rare, structural catalyst. If it clears regulators, the combined coast- to-coast network could be worth more than the two parts — and current owners would be positioned before that re-rating. Treat it as upside optionality, not a base case.

**Recovery leverage.** Because the latest EPS reading was depressed, a normal cyclical recovery in freight volumes could show up as outsized earnings growth from a low base — which is precisely what the lower forward P/E (21.7x vs 27.6x trailing) is hinting at.

**A hedge against the flashy end of the market.** This is exactly the kind of physical, real-economy business that tends to hold up better when crowded, expensive “story” stocks deflate. Owning the toll booth is a fundamentally different risk than owning the traffic.

💡 LEARN HOW TO PROTECT WHAT YOU’VE BUILT

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# 10 • Lower-risk Exposure: Sector & Industry ETFs

If you like the railroad story but do not want the risk of a single company, a fund spreads your bet across many names. We have selected the funds below for you as illustrative, lower-concentration ways to get exposure. This is education, not a recommendation — always check current holdings and fees on the Winston app or the fund provider before acting.

ILLUSTRATIVE FUNDS FOR DIVERSIFIED TRANSPORT / INDUSTRIAL EXPOSURE

Ticker What it is Why it can be lower risk than one stock Trade-off

IYT iShares U.S. Transportation ETF Holds a basket of major U.S. transport companies, including the large freight railroads, alongside airlines, truckers and logistics firms. One bad company matters less.

Still concentrated in “transports,” so it moves with the economic cycle.

XTN SPDR S&P Transportation ETF Equal-weighted transportation basket, so no single railroad or airline dominates the fund. Spreads risk broadly across the sector.

Equal weighting means big, high-quality names get no special emphasis.

XLI Industrial Select Sector SPDR Broad U.S. industrials — railroads are just one slice alongside aerospace, machinery and defense. The most diversified of the three.

Railroad exposure is diluted; you’re buying “industrials,” not “rail.”

**How to think about the choice.** Moving from a single stock (NSC) to a transportation fund (IYT or XTN) to a broad industrials fund (XLI) is a dial from concentrated to diversified. More diversification usually means smaller swings and less exposure to any one accident, lawsuit or failed merger — at the cost of diluting the specific thing you liked about NSC in the first place.

**A simple mental model.** If you are highly confident in the specific NSC thesis (moat + cash + merger optionality), a single stock expresses that best but carries the most company-specific risk. If you mainly like “railroads/transports as an idea,” a fund lets you own the theme without betting the farm on one management team.

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# 11 • the Ten-year-old Summary

**Imagine one giant bridge.** Norfolk Southern owns a huge “bridge” of train tracks across the eastern United States. Anyone who wants to move heavy things — food, cars, coal, boxes — has to pay to use it. That is how the company earns money.

**Why the bridge is special.** Nobody can build another bridge next to it. It is too expensive and takes too long. That is called a moat, and it is the best thing about this company.

**What it is good at.** It keeps a lot of the money it collects as real cash

- ✓ more than the other big train companies we looked at. Its “bridge” is wide and hard to copy.

**What to be careful about.** Right now it doesn’t earn quite as much on its money as the best of its rivals, and its profit recently went down, because when the economy slows, fewer things need moving. In 2023 one of its trains crashed and spilled chemicals in Ohio, which hurt people’s trust and cost a lot to clean up.

**The big maybe.** It might join with another giant train company (Union Pacific) to make one enormous coast-to-coast bridge. If the government says yes, that could be great — but it might say no, and that wouldn’t happen until around 2027.

The one sentence to remember. Own the toll booth, not the

**traffic** — a slow, boring bridge can be a smarter thing to own than the flashy stuff everyone is chasing.

Own the toll booth, not the traffic

↓

Great moat can’t be copied Great cash best in its group Watch returns & the merger

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# 12 • Conclusion & What We Are Watching

**Our analysis suggests** Norfolk Southern is a genuine quality/moat business with best-in-peer-group cash conversion, held back right now by below-peer returns on capital and a cyclical earnings dip. The Winston Score of 40/100 captures that tension: the framework loves the moat and the cash, and flags the returns and earnings- consistency.

**We expect** the investment debate over the next stretch to hinge less on quarter-to-quarter volumes and more on two structural questions:

1. does management keep grinding the operating ratio lower, lifting returns on capital toward the best peers; and (2) what do regulators ultimately do with the Union Pacific merger.

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# Our watch-list

**Operating ratio trend** — is the machine still getting leaner?

**ROIC vs peers** — closing the gap to Union Pacific would strengthen the quality case.

**Merger milestones** — regulatory decisions, conditions, and the timeline toward ~2027.

**Interest coverage** — the thinnest cushion in the peer set; watch it if rates or debt rise.

**Safety record** — the rebuild of trust after East Palestine.

**Freight volumes** — the cyclical pulse behind the earnings.

**The bottom line, restated.** This is a toll booth with a wonderful moat and excellent cash generation, priced for a recovery and carrying a real, binary merger catalyst. Understanding one great business, however, is not the same as protecting your money when the whole market turns.

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# Appendix a • Plain-english Glossary

Every term a beginner needs to read this report, explained the way you would explain it to a curious ten-year-old. Definitions are educational, not advice.

**Gross margin.** Out of every $1 a company charges, how many cents are left after paying the direct cost of doing the work. High and steady gross margin is a sign the business has real pricing power.

**Operating ratio.** A railroad's favourite scorecard. It is the share of every revenue dollar eaten up by running costs. An operating ratio of 65% means 65 cents of costs and 35 cents of operating profit. Lower is better.

**Net margin.** Out of every $1 of sales, how many cents are left as final profit after everything — costs, interest and tax. It is the "keep" number.

**ROIC (return on invested capital).** For every $1 of money put to work in the business, how many cents of profit it produces each year. It answers "is this a good machine for turning money into more money?"

**Free cash flow (FCF).** The real spendable cash left over after the company has paid to keep its tracks, engines and equipment in good shape. Profit is an opinion; cash is a fact.

**Levered free-cash-flow margin.** Free cash flow expressed as a share of sales, after interest on debt. It tells you how much of each sales dollar becomes cash the owners can actually use.

**Cash conversion cycle.** How many days cash is tied up before it comes back through the door. A negative number (like NSC's) means the company effectively gets paid before it has to pay others — a good thing.

**Financial leverage.** How big the whole business is compared with the owners' own money in it. More leverage can lift returns in good times and hurt in bad times.

**Debt-to-equity (D/E).** A simple balance between borrowed money and owners' money. Higher means more borrowing.

**Interest coverage.** How many times over the company's operating profit could pay the interest on its debt. A bigger cushion is safer; a thin cushion is a risk to watch.

**P/E ratio (price-to-earnings).** The price of the shares compared with the yearly profit per share. A rough gauge of how expensive the stock is versus what it earns today.

**Forward P/E.** The same idea, but using next year's expected profit. If it is lower than today's P/E, the market is expecting profits to grow.

**Dividend yield.** The yearly cash dividend as a percentage of the share price — the "rent" a share pays you for holding it.

**Moat.** Warren Buffett's word for a durable advantage that stops rivals from stealing a company's profits — like a castle protected by water. A railroad's moat is that no one can build a second national network next to it.

**Class I railroad.** The official label for the largest freight railroads in North America. There are only a handful, which is why the industry behaves like an exclusive club.

**Surface Transportation Board (STB).** The U.S. regulator that must approve big railroad mergers. It is the referee standing between the proposed Union Pacific deal and the finish line.

**Winston Score.** The Prehn Institute's single 0–100 quality read for a stock inside the Winston app, blending the quality checklist used throughout this report.

**ETF (exchange-traded fund).** A single ticker that holds a basket of many companies at once, so your bet is spread out instead of riding on one name.

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# Appendix B • Methodology, Scope & Data Notes

**What this report is.** A fundamentals-only educational study of one business, Norfolk Southern (NSC). It walks through what the company does, how it makes money, how strong its finances are, how it stacks up against its closest peers, the one big catalyst on its horizon, and the risks and opportunities that come with it.

**What this report is not.no technical analysis, no buy** What this report is not. It contains no technical analysis, no buy

**or sell rating, and no price target.** Nothing here tells you to buy, sell or hold anything. It is designed to make you a better-informed reader of one company, not to make a decision for you.

**Where the numbers come from.** Every company and stock figure

**The quality lens.** We deliberately view NSC through Felix's "How to Pick Great Stocks" quality checklist rather than as a cheap-versus- expensive debate. Quality investing asks a simple question: is this a wonderful business, and is it run for the long term? The scorecard in Section 5 applies that lens metric by metric.

**Why these peers.** We selected Union Pacific (UNP) and CSX as the other large U.S. Class I networks, and added the Canadian majors CPKC (CP) and Canadian National (CNI) for context. Comparing a company only against its true peers is the honest way to judge whether its margins, returns and balance sheet are strong or merely average.

**Why these ETFs.** The funds in Section 10 (IYT, XTN, XLI) are named only as illustrative, lower-concentration ways to get exposure to the transport and industrial theme — not recommendations. Always check a fund's current holdings and fees on the Winston app or the provider before acting.

**Time horizon.** This is a snapshot built around the most recent reported results and the last few months of context. Markets move; the figures here are a starting point for your own, ongoing homework.

**Accuracy & limitations.** Structural facts (industry share of freight, fuel efficiency, the Berkshire–BNSF precedent, network size, the 2023 East Palestine derailment and the proposed Union Pacific merger) are widely reported and used for explanation only. Data can contain errors and is revised over time; always verify current figures independently, including inside the Winston app, before making any decision.

**A note on independence.** This report is educational content

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REFERENCES

# Sources & disclosures

## SOURCES

1. Primary data source. All company and stock figures in this report — margins, returns, cash-flow, balance-sheet items, valuation multiples, dividend yield, market capitalisation and the Winston Score — are sourced from the Winston app, The Prehn Institute's stock-analysis platform: app.goatacademy.org. Figures reflect the most recent reported data available in the app at the time of publication and may be revised.
2. Framework. The Prehn Institute "How to Pick Great Stocks" quality checklist (gross margin, operating efficiency, ROCE, cash conversion, leveraged FCF margin, leverage, interest cover, valuation, earnings/EPS consistency, and moat).
3. Structural / industry context. Widely-reported, non-price facts used for explanation only: the share of U.S. long-distance freight that moves by rail; rail fuel-efficiency (approx. one ton moved ~500 miles per gallon of diesel); the "Class I" railroad structure; Berkshire Hathaway's ~$44bn acquisition of BNSF (2009–2010) and Warren Buffett's "all-in bet on the economic future of the United States" description; Norfolk Southern's approximate network size (~19,500 route-miles across 22 eastern states plus Washington, D.C.); the 2023 East Palestine, Ohio derailment; and the proposed Union Pacific–Norfolk Southern merger to create a coast-to-coast railroad, its need for Surface Transportation Board approval, its approximate ~2027 timeline, and the opposition it faces.
4. Method note. This report contains no technical analysis, no buy/sell rating and no price target. Any forward-looking statements are opinions about business fundamentals and industry structure, not predictions of share prices. Readers should verify current figures independently, including within the Winston app.

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DISCLAIMER (repeated). This report is for educational purposes only and does not constitute financial advice. It is not a recommendation to buy or sell any securities. All investments involve risk, including the loss of principal. This report is FTC compliant. Past performance is not indicative of future results.

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