April 29th, 2025

Executive Summary

Introduction

This document presents our recommendation regarding Canadian Pacific's final offer to Norfolk Southern. Our analysis has focused on operational, financial, and regulatory aspects of the proposed transaction to determine if it delivers sustainable value for NS shareholders.

Problem Statement

Norfolk Southern is facing real challenges. Since 2015, its revenues and profits have been falling as coal shipments dropped and cost savings efforts stalled. The stock price fell from around $117 to the low $70s, and the company now has one of the worst cost structures among major railroads. Management has promised to fix this by cutting costs and improving operations enough to bring the operating ratio below 65 percent by 2020. However, there is little proof they can actually deliver, given past failures. At the same time, Canadian Pacific has made an offer that gives shareholders cash, stock, and a protection if the merger does not go through, but the board first said the offer was too low and warned it could hurt service and customers. Even if Norfolk Southern now wants to accept, there is still a real risk that regulators will block the deal. Shareholders must now choose between betting on a risky self-help plan that may take years to show results or accepting an offer that gives value today but depends on an uncertain approval process.

Solution

The best solution for Norfolk Southern shareholders is to accept Canadian Pacific's final offer. The proposal fairly values Norfolk Southern when accounting for the realistic capture of expected synergies. It includes a Contingent Value Right (CVR) that protects shareholders if the deal is delayed or blocked, limiting the downside risk. The merger would unlock significant operational improvements, financial efficiencies, and strategic advantages, creating a stronger and more competitive network. While regulatory risks remain, the deal structure, including the voting trust and early operational changes, reduces these risks meaningfully. Compared to the uncertain outcome of the standalone plan, CP's offer delivers a clear and superior path to maximize shareholder value.

Conclusion and Recommendations

Canadian Pacific's final offer presents the best available option for Norfolk Southern shareholders. It delivers a fair valuation today, protects against downside risk through the CVR, and offers significant upside from synergies and operational improvements. The regulatory process is a real challenge, but the structure of the deal and early improvements under the voting trust reduce the risks. Compared to the uncertain and slow path of a standalone turnaround, this proposal gives shareholders a faster, clearer way to unlock value. We recommend that Norfolk Southern shareholders vote to accept Canadian Pacific's final offer and move forward with the steps needed to complete the transaction.