



# Transcript

Q4 2023 Earnings Call

**January 30, 2024**

**Canadian Pacific Kansas City Corporate Participants:**

Keith Creel – President & Chief Executive Officer  
Nadeem Velani – EVP & Chief Financial Officer  
John Brooks – EVP & Chief Marketing Officer  
Mark Redd – EVP & Chief Operating Officer  
John Orr – EVP & Chief Transformation Officer  
Chris de Bruyn – VP, Capital Markets

# MANAGEMENT DISCUSSION SECTION

## Operator

Good afternoon. My name is James, and I will be your conference operator today. At this time, I'd like to welcome everyone to CPKC's Fourth Quarter and Full Year 2023 Conference Call.

The slides accompanying today's call are available at [investor.cpkcr.com](https://investor.cpkcr.com). All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. '[Operator instructions]'.

I'd now like to introduce Chris de Bruyn, Vice President, Capital Markets, to begin the conference.

## Chris de Bruyn

Thank you, James. Good afternoon everyone, and thank you for joining us today. Before we begin, I want to remind you this presentation contains forward-looking information. Actual results may differ materially.

The risks, uncertainties and other factors that could influence actual results are described on Slide 2 and in the earnings press release filed with Canadian and U.S. regulators. This presentation also contains Non-GAAP measures outlined on Slide 3.

Please note, in addition to our regular quarterly financials, there is supplemental Q4 and full year combined revenue and operating performance data available at [investor.cpkcr.com](https://investor.cpkcr.com), which some of today's discussion will focus on.

With me here today is Keith Creel, President and Chief Executive Officer; Nadeem Velani, our Executive Vice President and Chief Financial Officer; John Brooks, our Executive Vice President and Chief Marketing Officer; and Mark Redd, our Executive Vice President and Chief Operating Officer.

The formal remarks will be followed by Q&A. In the interest of time, we'd appreciate if you could limit your questions to one. It's now my pleasure to introduce our President and CEO, Mr. Keith Creel.

## Keith Creel

Thanks, Chris, and thanks, everyone, for joining us today, giving us a chance as a team to share our fourth quarter results as well as our view for this exciting year ahead in '24 that we have to create value for our shareholders, for our customers and our CPKC family.

So, with that comment, let me start by thanking the CPKC family. 20,000, three-nation-strong family of railroaders, industry-best, their body of work enabled the results that we get to talk about today. And obviously, the work that's ahead of us as we create value for all of our stakeholders.

And I can tell you as a leader, it's my honor to be able to be with the colleagues that are with me here today to represent their body of work. So, with that said, let's speak to the results.

For the quarter, this team delivered revenues of \$3.8 billion, which is up 4%; volume growth of 4%, an operating ratio that represents 220 basis points of improvement versus last year to 58.7%. Core EPS of

\$1.18, also up 4% versus last year.

And for the full year, revenues \$13.9 billion, up 5% and volume growth of 1%, a very unique industry story, an operating ratio of 62%, Core EPS was \$3.84, up 2% versus last year. So, stand-alone certainly unique and impressive results, even more so when you think about this is a railroad in the early stages of an integration, working against a challenging macro environment all at the same time.

So here, we are 10 months into our forever story at CPKC and I'm telling, I'm extremely proud of the progress this team has made across the organization, be it operationally, sales and marketing, finance, IS, all areas of the business. This is a team that's committed to creating value as we said we were doing exactly what we said we would do.

And I can tell you a tremendous amount of work went into preparing for this merger for this combination and even more so has gone into executing it. As leaders, I believe this. We're not here to sustain performance, we're here to leave it better. We're here to make an impact to improve upon it. And that's exactly what this team has been doing for the last 10 months.

We've launched new services, market solutions across the industry that this transaction has uniquely enabled be it our 180/181 service, our Mexico Midwest Express, which is the gold standard in the industry in spite of what anybody else might say, trying to imitate it.

It's best-in-class delivering fast, reliable, single-line service across a very fluid and always open border. The closed loop service solution for the automotive industry that provides a differentiated level of service and reliability that the OEMs are embracing and recognize the value that that creates in their reliable supply chains.

Connecting origins, destinations of ECP, MMC, and forest products, again, with a unique single-line service across all 3 nations. We've made gains in operating efficiency service, reduced assets, we've increased velocity. We've reduced dwell, we've eliminated handles. We've also made strong progress, I'm very pleased to say on the labor side.

On the U.S. side, we've expanded our very unique hourly agreements, which I believe gives us a unique competitive advantage, not only to serve our customers, but also to attract and retain the best railroading talent in the industry.

And in Mexico, establishing trust and respect with our one union that's there working towards agreements that not only improves service but also benefit the employees. So, it's truly a win-win for Mexico, for employees, as well as our customers that utilize our service.

Also through the year, while we're doing all that, we've continued progress on our hydrogen locomotive program. We've now got 2 low horsepower hydrogen locomotives that are servicing customers every day in Calgary come rain, come shine, come snow, reliably producing the zero emissions for Calgary customers in that market as well as we fabricated our first high horsepower locomotive, which we completed late last year.

It completed its first test movement. We'll be putting that into service later this year in a coal-loop with a

tender car, cycling coal between the coal mines of British Columbia and the tidewater in British Columbia in partnership with our largest customer Teck Coal creating a green corridor.

And above all that, while we're doing that, most importantly, we've improved and continue to make vast improvements in our safety performance as a combined company, building upon CP's long history of industry-leading safety performance.

So, all that to say, we've entered 2024 in a position of strength, industry-leading results, and we're going to continue to build upon that. And mother nature has humbled us a bit. In the first month, that said, it's a challenge. It's not an excuse. We're well-positioned to recover. We've regained our momentum that we started the year with, and we're in a great position to continue that through this quarter and into the balance of the year.

So, let me close by saying '23 was a very special year. We brought 2 great companies together, CP and KCS, to create a very unique industry-leading most relevant rail network in CPKC.

We've connected a continent in a way that's never been done before, and I would suggest will never be done again. Since the combination took effect in April, we've seen us steadily build momentum. And I can tell you we're just getting started. 2024 is shaping up to be an exciting more year than 2023.

So that said, let me hand it over to Mark, I want him to expand speak to some operational points. John is going to bring some color on the markets and Nadeem will bring us home on the numbers and then we'll open up for questions. So, over to you, Mark.

## **Mark Redd**

All right. So, first of all, thank you, Keith. Good afternoon. I'd like to just, first of all, thank the operating team for their continued hard work in delivering safe, reliable service across this great network.

If I think about bringing two networks together, certainly, this isn't easy, and there's been still a long list of opportunities out there, but I'm pleased with the progress we're collectively making.

Also, I'd like to thank this team's effort the combined CPKC network as we enter 2024 in a place of strength as Keith noted. While we've been dealt with some weather for the first part of the year, we are well-positioned to rebound quickly and have done so.

As I look at safety, I would remind and I'd like to recognize the entire team for the tremendous safety results that we've had. I'm extremely proud to say again, 2023, we have the lowest FRA train accident frequency on Class 1 railroad, building on the CP 17 consecutive years in the industry. This is an impressive milestone, highlights the team's dedication to excellence while ensuring that safety remains its top priority.

It also showcases the strong commitment to safety that both KCS and CP brought together in this merger. As I look at the operating performance year-over-year for the quarter, the FRA personal injuries landed at 1.10, which is a 15% improvement.

FRA train accident frequency was a 1.08, which is a 23% improvement. If I look at locomotive productivity improved 13%, our train speed at 6%, our fuel was 2% better, and our average terminal dwell was down 11%, a strong indicator of how well our network is performing.

As I talk about this, I think about the backdrop of all-time record highs of GTMs 5% year-over-year and 11% sequentially.

From a safety perspective, I think about 27 subdivisions and around 2,600 miles of dark territories now protected with CPKC's broken rail detection system.

We plan on putting 8 more additional subdivisions in 2024. So, I look at the acoustic bearings, we're looking at adding an additional 5 across the network, which will expand on our detection capabilities.

If I look at our capital projects for the year 2023, we in-serviced 3 new sidings and constructed -- will construct 5 more in 2024. This is all part of the \$275 million merger commitment that we have.

If I look at the Laredo Bridge, we're 45% complete at this point, we remain on target to be done by end of the year. We're also investing in capital in Mexico to increase capacity, fluidity across the North-South corridor between Laredo and San Luis Potosi.

All of these projects will support growth, further improvement in the network performance. And as I look at 2024, we'll continue to build the momentum that we've generated in this past year in 2023.

We continue to work strong with John's team to provide service and generate industry-leading growth that this network can achieve. And with that, I'll turn it over to John.

## **John Brooks**

All right. Thank you, Mark, and good afternoon, everyone. So, having now wrapped up our third quarter as the combined CPKC, I'm as excited as ever, I can tell you, about the opportunities that sit in front of this company. It's a unique franchise.

The year and quarter ended on a strong note, and we are well-positioned to continue delivering differentiated growth in 2024.

Now, looking at our results. On a combined basis, we had record freight revenue up 4% on 4% RTM growth versus pro forma CPKC a year ago, in line with exactly what we spoke about during our third quarter call.

Cents per RTM was flat year-over-year with fuel and other freight offsetting a continued strong pricing environment. Now, taking a closer look at our fourth quarter revenue performance, I'll speak to the FX-adjusted results on a comparison versus CPKC had the combination occurred in 2022.

Starting with bulk. Grain revenues were down 3% on a 7% decline in RTMs. Canadian grain volumes were down 15% year-over-year, driven by a weaker harvest for the 2023-24 crop year, particularly in our CPKC draw territory.

Additionally, we saw the Canadian farmer be more price-sensitive and hold on to more of their crop, which added to the weakness in this volume on the quarter. While this was a headwind to closing out 2023, ultimately, this grain will still move and it provides some modest upside into 2024.

Now, that being said, we will still expect to see weakness year-over-year in Canadian grain to persist until we get to the new crop. U.S. grains were up 3% as we benefited from a solid harvest, steady market demand and growth from synergies as we continue to connect new origination and destination pairs across our new network.

Additionally, we continue to see investment in growth in our 8,500-foot model. By the end of 2024, 60% of our franchise in Canada will be 8,500 foot capable, including all 8 of the 8,500-foot elevators that Richardson International is developing across our network. We continue to roll out this model and work with customers down in the U.S. and ultimately down into Mexico to roll out this high-efficiency operating model.

Moving on to potash. Revenues were up 16% on 20% volume growth. The volume increase was driven by strong supply chain performance and higher volumes of export potash with Canpotex as we work together to find additional outlets for volume given the Portland terminal outage during the first 2 months of the quarter. In early December, the Portland terminal came back online and were able to quickly return to a full run rate by the end of the year. We are positioned well for strong potash growth in 2024.

And to finish out the bulk business, coal revenue was up 32% on a 33% volume growth driven by favorable compares following last year's outage at Teck's Elkview mine.

Now, moving on to the merchandise franchise. ECP revenue grew 6% on 3% volume growth. Refined petroleum products and asphalt grew, driven by new market share and growth also within plastics to the Midwest. We will continue to benefit from the new business wins that started up in Q3 and Q4 of last year as some of this growth was muted by a facility outage and a slower ramp up.

With solid demand fundamentals, ongoing ramp of these business wins and continued synergy gains, we are setting up for a strong 2024 in ECP.

In Forest Products, revenues were up 2% on a 1% increase in volumes. Despite a softer demand in our base business in this area, we have seen nice synergy wins in this space as customers take advantage of our new single-line haul network connecting new markets.

The metals, minerals and consumer products portfolio was up 3% on flat volumes. We continue to see strong growth in steel out of our production facilities across our network, supporting industrial and infrastructure growth across North America.

This quarter, however, in this area, was offset somewhat by weakness in frac sand to the Bakken and also the Permian Basin as we saw an earlier seasonal downturn and some growth in in-basin sand.

Automotive revenues continue to be strong, up 22%, on 19% volume growth, another record quarter for our automotive franchise. Our automotive franchise is benefiting from new business, solid continued production from our OEMs and steady equipment supply driven by improved operations and cycle times,

particularly in Mexico.

We are pleased with the new agreements we have developed that enable closed-loop service solutions, providing this industry service reliability it has never had in the past, including the use of our new auto compound in the Dallas Metro area and linking customers' traffic between the U.S., Canada and Mexico via our single-line haul service.

For automotive, 2024 is positioned to be an exciting year as we see a path to record volume on our franchise.

On the intermodal side, revenue was down 11% on flat volumes. Domestic intermodal continues to be challenged by lower retail volumes, ample truck capacity and some general market softness.

Now, our MMX 180/181 that Keith spoke to, cross-border service, continues to perform very well. This is truck-like service with a safe, reliable border crossing between Mexico and the U.S.

We saw growth in this service in the fourth quarter, particularly across our North-bound volumes. While the base demand in domestic intermodal is something that myself and my team are watching closely, particularly across Canada, the opportunity for cross-border intermodal will continue to see steady synergy growth from over-the-road conversion and new customer solutions as we move throughout the year.

As part of those new solutions, I'll remind you, we are very excited to break ground in February on the new Americold facility co-located in our intermodal terminal in Kansas City. This partnership with Americold is another step in creating new rail options for shippers in a market that is dominated by trucks.

Moving over to International Intermodal. After a challenging third quarter, this business has picked back up. We ended the quarter with volumes up 2%. Although we remain cautious on our outlook for 2024 in this space, we are certainly encouraged by the recent trends.

We are also encouraged about the progress we are making at the port of Lazaro Cardenas. In 2023, the terminal saw TEU growth of 30%, while CPKC volumes grew by 35% versus 2022.

Our customers are enthusiastic as we continue to develop this service and educate them on the supply chain alternatives. When you combine this with our 50% ownership in the Panama Canal railroad, we are excited about the unique solution CPKC can offer ocean carriers and their beneficial cargo owners.

In closing, despite some early weather challenges in January, we are entering the year with strong momentum. While we have a known headwind from Canadian grain and the macro backdrop remains uncertain, we have strong line of sight to remain uniquely positioned to deliver long-term growth.

Our synergies in 2024, combined with base self-help initiatives and a disciplined pricing approach will continue to be an exciting story and differentiator for us in this industry. So, with that, I'll stop, and I'll pass it over to Nadeem.

**Nadeem Velani**

Great. Thanks, John, and good afternoon. So, first, I'd like to thank the CPKC family of railroaders for working tirelessly throughout the year to bring our two companies together. 2023 was truly historic, and I'm extremely proud of the hard work and dedication that the team has displayed.

Looking at the quarter, CPKC's reported operating ratio was 61.8%, and the core adjusted operating ratio led the industry for the second quarter in a row coming in at 58.7%, which was a 220 basis point improvement versus Q4 2022.

Earnings per share was \$1.10 and core adjusted combined earnings per share was \$1.18, up 4%, which was also industry-best on the quarter. On a full year basis, CPKC's reported operating ratio was 65% in the core adjusted combined operating ratio came in at 62%.

Earnings per share was \$4.21 and core adjusted combined earnings per share was \$3.84, up 2% year-over-year.

Now, taking a closer look at our income statement, reported operating expenses for Q4 and full year are provided on Slide 14.

Combined operating expenses for the Q4 are on Slide 15. Similar to what we shared last quarter, our combined operating expenses illustrate the estimated effects of the acquisition for the fourth quarter as if the acquisition closed on January 1, 2022, and I will only speak to FX-adjusted fourth quarter operating results in these prepared remarks. We've included full year results in the appendix for reference.

To start with comp and benefits, its expense was up, was \$637 million, up 2% when compared to combined comp and benefits expense a year ago. This includes \$7 million of integration-related expenses.

The increase was driven primarily by wage inflation, increased incentive comp and higher volumes. Average headcount was down slightly sequentially in Q4. Looking at 2024, we expect headcount growth to be below volume growth on a year-over-year basis.

Partially offsetting the increase was lower current service costs in the DB pension plan resulting from higher discount rates and lower stock-based comp. Looking at 2024, we expect to have a \$16 million headwind resulting from lower discount rates, which is more than offset below the line.

Fuel expense was down 8% year-over-year. The decline was primarily driven by a 10% decline in combined fuel price, along with a 2% improvement in fuel efficiency that Mark mentioned, partially offset by a 5% increase in GTMs year-over-year.

Materials expense was down 9%. The decline was largely driven by reduced locomotive maintenance material spend.

Equipment rents was \$76 million, down 1%. Improvements in efficiency and an increase in receivables drove the improvement. This is partially offset by an increase from inflation and lower use of CPKC intermodal equipment by other roads.



Depreciation and amortization expense was up 6%, resulting from a higher asset base.

Purchased services and other was relatively flat year-over-year, a reduction in casualty expense and gains in efficiency were offset by volume-related increases and inflation.

Before moving below the line, I'll make a couple of comments on inflation. This past year, we were not able to reprice our entire book to offset the impact of inflation on our cost structure, which created a headwind to OR throughout 2023.

As we move into 2024, the impact of inflation on our expenses is moderating. Additionally, the pricing environment remains strong, and we will reprice a portion of our contracts that did not renew during the period of higher cost inflation in 2022 and 2023. Putting these together, we should see some catch-up and a tailwind to OR in 2024 from inflation dynamics.

Moving below the line. Other expense was up \$12 million in the fourth quarter.

Other components of net periodic benefit recovery decreased \$34 million, reflecting higher discount rates compared to 2022. We expect this line to increase by approximately \$23 million in 2024 from \$327 million in 2023, offsetting the headwind in comp and benefits from the current service cost.

Net increase in net interest expense was \$206 million or \$200 million on an adjusted basis. The decline was driven by a reduced debt balance.

On the quarter, income tax expense was \$275 million and \$314 million on a core adjusted combined basis. Looking ahead to 2024, expect CPKC core adjusted combined effective tax rate to be approximately 25%.

Turning to Slide 17. We continue to generate strong free cash flow with cash provided by operating activities of \$1.3 billion in Q4.

Our first call on capital continues to be the business and growth. And in the quarter, we reinvested just over \$700 million to end the year, in line with our outlook to invest \$2.7 billion in capital on a combined basis.

Looking to 2024, we will remain disciplined in our approach to capital allocation, and we expect capital spend to be \$2.75 billion for the year. This reinvestment in the business builds off of record capital investment as a combined company in 2023, and our network is well-positioned from a capacity perspective to absorb the growth that we have in front of us this year.

We generated \$785 million in adjusted combined free cash flow on the quarter and just under \$2.2 billion in 2023. Our adjusted combined leverage was 3.4x to end the year on our path back to our target leverage of 2.5x. We expect to reach this target late 2024 or early 2025, at which point we will evaluate shareholder returns with our Board.

Looking ahead, despite a known headwind in grain John mentioned, and a still somewhat uncertain macro, we expect to deliver double-digit core adjusted combined earnings growth from the core business in 2024.

We also anticipate generating strong free cash flow while making record investments in the network to sustain future growth and getting back to our target leverage. Putting all of this together, CPKC offers a truly differentiated investment profile, and I'm excited to continue delivering on the commitments that we have made to our shareholders.

Looking back, we ended 2023 with strong momentum and best-in-industry earnings results with the best yet to come. The network is performing well. Synergies are ramping, and we are well-positioned for a strong 2024. It's an exciting time to be railroading at CPKC.

With that, let me turn it back over to you, Keith.

## Keith Creel

Thanks, gentlemen. Operator, let's open up the line for questions.

## Question & Answer

**<Operator >**: [Operator instructions] I will take our first question from Walter Spracklin with RBC Capital Markets.

**<Q – Walter Spracklin>**: Thanks very much operator,. Good afternoon everyone. So, on the double-digit earnings growth, I know, Nadeem, that's consistent with what you provided at Investor Day there in July.

Later in the session at that day, you kind of gave us an indication into a doubling of your earnings growth by the end of that multi-year period, suggesting kind of a mid-teen EPS growth in the early year and then perhaps ramping once you're able to kick in the buyback. Is that still the case that in the early year here in the year 1, the mid-teen cadence is still holding and then ramping after that? Or have conditions changed that would cause you to change that overall view?

**<A – Nadeem Velani>**: Well, since we gave our guidance in June, Walter, nothing has changed other than I'd point out that we had a grain crop that came in maybe a bit weaker starting in the grain crop starting in August. So, that's going to hurt us near term a little bit probably Q2 of this year.

Other than that, the model remains the same. We're going to support the business with the sustained organic growth. We're going to have the benefits of synergies since we're ahead of schedule on.

And then we're going to see continued margin improvement and then the benefit in the outer years of share buybacks and shareholder returns. So, nothing has changed on that thesis. We've guided to double digits for this year. We're obviously not going to get a benefit from buybacks in any fashion.

We're not going to buy back stock until we get our target leverage back. So, that's going to hurt us compared to the outer years of that 5-year outlook. But that's the only change. I'd say that the macro environment is probably a little bit weaker still in terms of the intermodal side that John mentioned.

But other than that, we're right on track, right on our plan to that guidance we gave you.

**<Q – Walter Spracklin>**: Okay I'll keep it to one. Thanks very much.

**<A – Nadeem Velani>:** Thanks Walter.

**<Operator >:** The next question will come from Tom Wadewitz with UBS.

**<Q – Thomas Wadewitz>:** Great, thanks. Good afternoon. Wanted to see if you could give a little bit of a perspective on what's underneath the earnings guidance just in terms of how are you thinking about RTM growth? Do you think of like mid-single digits? What kind of what ballpark should we be in? And then how do you think about the magnitude of improvement in operating ratio that would fit into a base case?

**<A – Keith Creel>:** Tom, that's a great question. I'll tell you this. This is what we're expecting. Low single-digit RTM growth, double-digit EPS, and margin improvement.

Now tell me what the back half of the year looks like coming, what the macro is going to do, we've taken, I believe, an appropriate conservative approach and if the back half surprises and some of those weaknesses that Nadeem spoke of, be it domestic, be it a normalized grain crop or maybe a little bit better, then there's some upside there. But we've taken a modest approach, a responsible, reasonable, conservative approach, and we expect to hit these results.

And again, if we get a couple of things that might turn our way, then we certainly have an opportunity to exceed them.

**<Q – Thomas Wadewitz>:** Okay great, thank you.

**<Operator >:** Our next question will come from Fadi Chamoun with BMO.

**<Q – Fadi Chamoun>:** Good evening, thank you. At the June Analyst Day, you indicated you had \$240 million of kind of actual annualized revenue synergies, and you suggested you had a pipeline line of sight to \$950 million. I'm just wondering like as we stand today, what does it look like? And how you feel about the pipeline for 2024 in terms of these revenue average?

**<A – John Brooks>:** Hey Fadi, it's John. So, as I said, I feel really good. I think we made great progress in the first 10 months. I can tell you we've got some contracts and some wins in 2023 that we haven't realized yet. They're just starting to ramp up, and I think we're going to see a progression with those.

I still think we got a long tail on the 180/181 product as we move through 2024. And hopefully, we see some of the domestic intermodal trends or macro trends, maybe move in our favor a little bit.

And honestly, that includes Lazaro also. It's been quite an educating process with the steamship lines and beneficial cargo owners around what that port potentially could do. To be honest, I'd hope that'd be a quicker startup, but we are starting to gain some traction there. So, I think we guided to – we mentioned \$350 million, we were very comfortable we're on that pace.

I would tell you right now that we've slightly exceeded that we're ahead of that and well on the way to those numbers we talked about it at Investor Day.

**<Q – Fadi Chamoun>:** Thank you.

**<A – Keith Creel>:** Thanks Fadi.

**<Operator >:** Next question will come from Chris Wetherbee with Citi.

**<Q – Chris Wetherbee>:** Hey thanks, good afternoon. Maybe a question on pricing. So, you guys noted that there's a little bit of catch-up going on in '24 in terms of some of the contracts that you didn't get a shot at over the last couple of years, and you have moderating inflation. That's a little bit different than what we've heard from some of the players in the space, particularly some of the U.S. names. So, maybe if you could just put a little bit of color around sort of the pricing environment that you're seeing? And is this sort of upside opportunity in the U.S. versus Canada, if there's any sort of difference there, kind of what the contract renewals are coming in at?

**<A – John Brooks>:** Yes. Chris, John. A couple of thoughts on that. One is I'll tell you, Q3 and Q4 were quite strong. Some of the best rail pricing that I've seen. And again, I think part of that was us through the year kind of catching up to some of those inflationary numbers.

So, we're going to get a tailwind on that. There's been a fair amount of repricing as we've dug into the book of the new company and some of those contracts have rolled over, there's been opportunities where we felt that we needed to reprice some of that book.

I'll remind you, we took control in April of last year. So, a lot of the contracts leading up to that time, KCS stand-alone had renewed on their own. So, I can tell you, my team is kind of getting a first look at a number of those contracts that rolled over to start this year. And the results, I think, most importantly, the results in those areas continue, I would say, on the trajectory of what we saw in Q4.

So, again, my expectation will be the first half of this year remains strong on that front, and we'll see what the back half comes when we get there.

**<Q – Chris Wetherbee>:** Great. Thanks very much.

**<Operator >:** Our next question will come from Steve Hansen with Raymond James.

**<Q – Steve Hansen>:** Yeah. Good afternoon, guys. Thanks. Look, your network-wide improvements in speed and dwell have been pretty striking over the past several months, notwithstanding the last week or two. I'm just hoping you could point to where these gains have been coming from more specifically on a geographic basis and what that might imply for some of the prior congestion issues you've acknowledged in Mexico? And then I guess, ultimately, what it means for bringing on the revenue synergies down there as well.

**<A – Keith Creel>:** Steve, great question. Let me say this, and I'm going to have two gentlemen that are driving this every day, both Mark's part of the story, John's part of the story and their teams. That's the beauty of this. It's not singular. It's diversified. What Mark has done in Canada relative to driving dwell down, train speed up 100 series trains that never ran better.

The focus there and the intensity and the opportunity to drive not only train speed, but asset turns and locomotive velocity and fuel efficiency. Mark and the team are doing a phenomenal job. And at the same time, part of the task force, we've taken a challenge, which comes with growth. We turned it into an opportunity.

And John took this team and has turned it into an organization that's focused on process, focused on PSR principles, where we turn assets, where we get better for our customer, we whiteboard with GM, we whiteboard with Stellantis, we whiteboard with Bartlett, we whiteboard with our customers so that we can identify what's possible and then we work to strive to achieve the art of the possible.

And it's all about asset turns, speed and velocity. And as a result of that, too, although I said I'm going to let these guys talk, I get a little carried away here. Part of what we learned that we're super excited about is with a little bit of strategic investment, much like in the playbook of PSR in the past, this isn't about cutting costs. It's about strategically and surgically investing money, to create capacity and resiliency to eliminate bottlenecks, turn assets more. It's about locomotive productivity.

It's about train speed, it's about crew productivity. It's about fewer recrews, it's about turning assets, creating capacity through doing that for our customers so that we can create more loads with less cars. It's PSR 2.0, and John has done a masterful job of integrating and starting that evolution in Mexico since that task force was created. So, again, a couple of highlights, John, a couple of highlights, Mark, you guys have done it. I'm the proud guy that gets to talk about it.

I love it when I see it happen, but let me give these guys a chance to share a couple of highlights for you, Steve, as well as for the rest of our investors to give you some meat on the bone, so to speak, not just a bunch of rhetoric, but real life examples of the art of the possible.

**<A – Mark Redd>**: Yes. So if we think about just 100 series in Canada, I mean we've shortened some of the trains up just a bit, just to get more track speed across the network. And we've been able to produce locomotives by doing that. We've been able to give a product to John that he can sell to the marketplace.

So, that's some of the areas that we focused on. A large focus on KCSR property, where we've had boots on the ground at the switching yards and we spoke about this in the previous quarters, we spoke about some of the in-train repairs that we're doing at Kansas City and really just ramping up mechanical operations.

Some of the things we haven't spoken too much about. It's not train speed, it's not this other stuff, but it's about working in diesel shops. We're going to take 2024, spend some time in the diesel shops and do our own overhauls, where we've had to do that in the past and give it to third parties.

We'll do more of that in-house. We'll also leverage the tie plant that we have in Shreveport, Louisiana, leverage the wheel shop that we have in Winnipeg and use that cross-border to in-house our wheels, put the timber in the right of way where we need to and enhance our engineering gains as well.

We reduced some of that headcount and engineering gains, but also this would be the first year that we can work towards system gains with KCSR and also the SOO line. And with that, I'll hand it over to John to talk a little bit about Mexico.

**<A – John Orr>**: Yes. Thanks, Mark and thanks, Keith. I think I'll use the same phrase because we've got the same approach. We've taken the boots on the ground effort to help stabilize and improve Mexico operations in 2023. For the task force was a tri-national task force of railroaders who went to the central part of Mexico around the automotive hub to really streamline the businesses there and unlock the potential of the fluidity in the south of Mexico and work progressively northward and improved our dwell in San Luis Potosi, Monterrey and our border terminal at Sanchez Yard.

That all started to really pull together the velocity, the resource utilization, the improvements on locomotive use, locomotive productivity and even labor productivity. Since then, the task force has worked to embed best practices that we shared or inherited from the CPKC merger. And now, we're turning our attention to improving cycle times on some of the bulk business, or some of the more complex, larger customers in the steel and metals sector.

And we're using the time that we spent boots on the ground to really pinpoint structural improvements, engineering out choke points, and that's reflected in our 2024 capital allotment, as you said, Keith, very precise and targeted to continuing the fluidity, the opportunity to grow the business and to continue to pivot to growth.

**<Q – Steve Hansen>**: That's brilliant, guys. Thanks.

**<Operator >**: Our next question will come from Scott Group with Wolfe Research.

**<Q – Scott Group>**: Hey, thanks. Afternoon. John, with everything going on at Suez and Panama, just curious your thoughts if Vancouver or Lazaro or if one is better positioned than the other to to benefit from that? And then just separately, Keith, I know we've got the labor negotiations going on up in Canada. Any update you can give us on how to think about that.

**<A – Keith Creel>**: Scott, let me start with that one on labor. I'll give you a quick update and maybe steal a little bit of John and let him add some more color. So, on the labor side, list, and I remain cautiously optimistic. I'm realist with the table. We actually reengage today through, we're with the TCRC through the end of this week. I believe CN is doing the same thing, and I'm going to remain optimistic we can get to a negotiated settlement. That said, if not, investors are going to have a heads up; effectively the way the process works, if you reach an impasse, either party could file for conciliation.

And from the time that happens, that it would be very public if it happens if we're to serve notice or they're to serve notice. It's a 96-day process before you would at the earliest experience a potential strike.

So again, I'm going to give this thing optimism. I think it's in our best interest just in our employees' best interest in our customers' best interest, obviously, and the nation's best interest to keep everybody working. And I hope that's what happens. But again, if not, you're going to have quite a bit of heads-up in time to be aware of what's going on.

And relative to the Suez, the Panama, Lazaro, West Coast U.S., West Coast Canada, let me just say this, and I'll hand it over to John. Lazaro's a whole lot closer to Panama than Prince Rupert is. Over to you, John.

**<A – John Brooks>**: Scott. Look, Lazaro, Panama is another tool in our toolbox. I'll tell you right now, like I'm really surprised volumes have recovered pretty strongly in Vancouver. And I don't think that has anything to do with -- that is a whole different issue, and I don't see that really being a volume driver to our West Coast ports. But I do see our value proposition of multiple less port outlets, the ability to get through the Panama Canal, utilizing the railroad down there being an opportunity for us.

It just broadens the discussion with all these customers. And I fully expect you're going to see us continue to ramp up the volume through that terminal down in Lazaro. Honestly, the big thing I'm watching right now is the East Coast labor situation. And that's the area that really could present itself some

opportunities for us.

**<Q – Scott Group>**: Thank you, guys. Thanks

**<Operator >**: Our next question will come from Benoit Poirier with Desjardins Capital Markets.

**<Q – Benoit Poirier>**: Yes thank you very much. Good afternoon everyone. With respect to the situation in Mexico with the decree now being in force and given the fact that you've submitted your feasibility study to the Mexican government, what are the next steps? And if you could talk a little bit about the benefits of the second bridge in Laredo and kind of the benefit and positive impact we should expect on volume, dwell and velocity, that would be great.

**<A – Keith Creel>**: Benoit, great to hear from you. Let me, at a high level, I'll start with the Laredo Bridge. Obviously, doubling our capacity and the ability to essentially create a double track across the border point that allows trains to pass and not trains to stage or wait in queue. We've driven a lot of improvement, John and team prior to our acquisition and even in trust we took windows where they used to have to be in queue 12 hours or 8 hours and cut them down to 4 hours.

So, there's been dramatic improvement, but 4 hours in queue versus no hours in queue, it's material. I don't know exactly what number has been on it yet. We'll see, but I can tell you it gives us, again, it adds to the unique structural and strategic advantage that our network represents to our customers that ship over that water.

Shifting to the passenger rail. I'm a bottom line, upfront guy, let me say this. I have zero expectations or belief that Mexico's ambitions and intent to integrate and initiate passenger rail service in concert with freight rail service will impact our ability to hit our synergies or any of the targets of our multi-year guidance. I think that's an important place to start.

Number two, we speak with a bit of experience. And I'm saying this from a place of the utmost humility, we didn't always get this right at CP. We made a commitment shortly after I came to CP, I don't know, probably 2, 3 years into it.

Quite frankly, I got tired of being kicked in the tail by Amtrak complaining about their service. And I said, listen, we can do both. As long as you've got the right infrastructure, you have a schedule, we're a scheduled railroad. Those faster trains don't just show up, let them on time and get them out of the way and they don't become a problem as long as you have the infrastructure, you'll be able to handle both.

So that said, when I first became the CEO this combined entity, I knew that Mexico, different nation, different expectations, completely autonomous, sovereign. The important part to me was to understand and learn what I didn't know about Mexico. So, I made it an initiative, an important initiative, to get in front of the President of Mexico right out of the gate. Pat and team had built a phenomenal relationship of respect based on performance and in years of history with the Mexican government regulatory environment.

So, I said, let's go to Mexico, let's meet with President AMLO. In that initial meeting, and I shared this, he told me his vision about creating prosperity in the country, and he explained the need for passenger service in Mexico, and he also said to me that your concession requires it. Well, obviously, I've done a little bit of homework, I had a lot of time preparing to get this merger, number one, get it accomplished. Number two, get it approved, I did a lot of reading. And of course, I read about this concession. And it



said that that's part of the concession. If they say they want to run passenger trains, you got to figure it out.

So, with that said, when he told me that, I said, "Listen, President, I get it, I understand it. There's a way to be both and be successful. We need to define and understand what capacities need to be able to succeed at both.

So, we automatically, and this is May of last year, said, you know what, I'm going to pay for the study. I'm going to get an industry expert that knows how to define what capacity is required for both. And I'll let you know what the results are, and we can talk more at a later time. When we did that, we initiated an RFP. We selected HDR, which are industry experts in determining the rail capacity that's needed.

We engaged in that and started that well before that decree came out in November of 2023. So, we were not surprised. Now the decree expanded the scope of it. That said, it had a date to your point, Benoit, we had to submit January 15, what our intentions were and our intentions were to do exactly what we said we would do. We'll work with you, Mexican government to identify the capacity needed so that we can protect our growth today as well as the future growth that's planned for the country in Mexico that brings prosperity to everyone and great paying jobs, and our customers are investing in this capacity and we'll figure out what we need to run faster trains successfully.

So, that was submitted January 15, and essentially, that's what it says. We're going to include in the additional scope after we finish this initial study, those additional lines they'd like to look at. But I felt again, it was important to make sure that not by the written word that was submitted, that by our interaction with the President to make sure that, that was represented in its best possible light.

So, no better way to do that than again, request a meeting with the President. So, a week ago yesterday, myself, John Orr, Oscar, who is the President of our CPKC de Mexico property, we met with President AMLO, at the Presidential Palace with President AMLO, we had the Minister or the Secretary of Interior and Infrastructure, SCT.

We had the Secretary of Economy, we had the Secretary of the Interior overall. So, we had 3 secretaries and the President, hour and a half meeting. It was our meeting to explain to the President what we intended, what we expected. So I gave him an update on the merger, and we spent an hour talking about what they needed, they being Mexico relative to passenger trains, what it would take to get it done, and I explained to the President that we had engaged into a study, we gave him the time line, we expect results, which will define that infrastructure in May.

I explained to him that it's important to Mexico to establish passenger service. It's also important to Mexico and our customers to make sure that we protect freight service. And we need to do both and do both well. He committed to me that he's aligned with exactly what my expectations are. They want to do well in passenger. They want to do well in continuing their economic growth and prosperity in the middle class, great paying jobs they're creating and the manufacturing that's coming to Mexico.

He does not want to jeopardize any of that. So, these are two complimenting initiatives that will get executed. And that said, one of the last points I'll make, and I said this to President AMLO, I said, not only can we create a great passenger service with the right infrastructure and right investment.



We also protect that great freight service and you're not only going to get passengers out of cars with passenger trains, you're going to get trucks off the road onto freight trains. And I said that is a win-win if I could ever put one together for the environment for the people of Mexico for the rail network in general. That's serving all stakeholders' best interest.

And that resonates. It resonated with the President then. He's committed. I'm going to go back. I'm going to meet with him again. We're going to go back and represent the results of the study before the administration changes, likely in June.

So again, to me, it's just more of what we planned for. We're not surprised. We're going to be able to do both, do both well. We'll protect our customers' interest. We'll protect the Nation's interest, and we'll get it done, and we'll be proud of the results when it's over.

**<Q – Benoit Poirier>**: That's a great answer Keith, thanks for the time.

**<A – Keith Creel>**: Thank you, Benoit.

**<Operator >**: Our next question will come from Jon Chappell with Evercore ISI.

**<Q – Jonathan Chappell>**: Thank you, good afternoon. John, you mentioned doing a little bit better than the \$350 million of revenue synergies. I assume that it's not completely linear. There's probably some areas where you're doing better than you originally thought and some where maybe there's been a few challenges. Can you speak to the latter part, where there may have been some challenges? And do you think you eventually get to the initial projections? Or is there something structural that may have kept you from hitting that point? Or is it more just kind of the macro headwinds that we keep hearing about?

**<A – John Brooks>**: Let me just first say it's macro and timing, Jon. I feel good about the synergies and hitting them. Certainly, I think I mentioned earlier, I thought we would see a quicker ramp up on Lazaro, but it has been an education process with the steamship lines, it's been an education process with beneficial cargo owners. And frankly, it's a lot of work around making sure that we have a seamless border, a seamless product for those shippers.

I can tell you that it's been a ton of work, and I sit here today with a lot of confidence that the team will deliver and you're going to see that begin to build itself in 2024. As much as I'm super proud of the service, the safe border on 180/181, the overall environment on the macro, trucking spot prices, and that has made that a little bit more of a challenge than certainly I think we initially anticipated.

But again, in a really good position. Schneider National, our partner there has had a stronger start-up than we ever could have anticipated. We're working in some specific areas to introduce some retail products on that train. We got some of our partners in Canada when you think about growth in reefers in that beginning to start up on that service.

So, that intermodal area has been just a little bit tricky, but I'm looking for big things in 2024. To go along with an area of surprise like the automotive sector that we've just seen a lot of success in creating as Keith spoke about that closed-loop system in that area. So, I hope that's helpful, Jon.

**<Q – Jonathan Chappell>**: Yeah very. Thank you, John.

**<A – John Brooks>**: Yeah.

**<Operator >**: Our next question comes from Konark Gupta, Scotiabank Capital.

**<Q – Konark Gupta>**: Thanks operator, good evening everyone. I just wanted to understand, if you improve synergies you reported within the 2023 earnings, what would 2024 earnings look like?

**<A – John Brooks>**: Say that again.

So I'm thinking in terms of passing out the double-digit EPS growth for '24, maybe more from Nadeem or John. If you increased 2023 synergies you realized how much 2024 earnings would grow without growing synergies?

**<A – Nadeem Velani>**: You want to understand what our '24 synergy incremental is versus '23, how much of that of our double-digit earnings is?

**<Q – Konark Gupta>**: Yes, maybe. That's a right way to think.

**<A – Nadeem Velani>**: Yes. We're not giving that granular of guidance at this point. So, we've given you an indication of where we see our synergies. We've told you that we're at a \$400M kind of run rate, and we're going to ramp up over the course of the next 3 years. We initially guided to \$1 billion over that first 3 years, and that we're on pace.

So, I think you can kind of do the math yourself. So happy if you want to follow up with Chris and Ashley after the call. Maybe you can ask your question.

**<Operator >**: Our next question will come from Ken Hoexter with Bank of America.

**<Q – Ken Hoexter>**: Hey, great. Good afternoon and thanks for the detailed answers so far. Maybe Nadeem, if I can follow up on the cost side synergies there. There's been a lot of questions for John on the revenue side. Can you talk about how well you've executed to your target so far? Where you see that going where you can see some of those synergy goals on the cost side? And then thinking about headcount, how do we think about that going forward relative to your RTM, I think Keith threw out there a low mid-single-digit RTM growth as part of the double-digit earnings growth. How does headcount play in that?

**<A – Nadeem Velani >**: Yes. Great, Ken. So, if you think about what we had guided to on the EBITDA synergies on the expense side, we had talked about \$180 million in the first 3 years. So, it's very much on target. The headcount piece of that initially is a big part of it, just given near-term attrition, some of the -- as the team combined, some people chose not to be a part of the team. And so, you can imagine that at the more senior level, some of those costs were a little higher.

So, from a G&A type of head count, we're fully on track, a little bit ahead of schedule. From an operating synergies, we're going to see that increase in year 2. Certainly, that's going to ramp up. If you think about early on, focus on the U.S. part of the network, think about where some of the challenges on the network were more on the Mexico side.

So, we weren't getting a huge amount of operating synergies near term as kind of Day One. But as you've seen the results this quarter and we've talked about the huge improvements, both across the network on the former KCSM and the KCSR, the synergies on the cost side is really starting to ramp up on that front. And that's what's given us the ability to deliver the ORs that we have in the back half of the year and lead

the industry.

So, I'm really bullish on where we see the operating synergies coming in. If you think about some of the procurement, some of the sourcing synergies, those take time as contracts come up and you can negotiate with your vendors. We're on track in the first year, actually slightly ahead of pace.

This year, we'll start seeing additional synergies on that front as additional contracts come to the table. So, all in all, we're slightly ahead of schedule on the expense side. Again, it's a smaller piece of the total synergy pie, but we're slightly ahead of pace. And I think this year, we're going to see more of the value come in as we run this network as well as it can. So, very excited about that.

**<Q – Ken Hoexter>:** And thought on the head count versus the volumes going forward?

**<A – Nadeem Velani >:** Headcount, we're talking low single-digit type of RTM assumption. I see a flattish type of head count for the year.

**<Q – Ken Hoexter>:** Great, thanks for the time. Thanks.

**<Operator >:** Our next question will come from Justin Long with Stephens.

**<Q – Justin Long>:** Thanks and good afternoon. And Nadeem, you mentioned the assumption for low single-digit RTM growth this year. I'm assuming that includes a benefit from synergies. So, is there a way to think about the organic volume growth that you're assuming for the business? And then Nadeem, it would also be helpful to get a little bit of color on first quarter OR, if you can, just given some of the weather disruption we've seen thus far. I know you said you could make up a good bit of it, but curious how you expect that to net out to margins.

**<A – Nadeem Velani>:** Yes. So, think about this year, the headwind on grain on the Canadian grain side is going to be made up on kind of base growth. So, I'd say almost flattish on the base organic side from a volume point of view and then the synergies driving low single digits. And as Keith mentioned, we're being conservative, and I think that's appropriate at this point in the macro and at this point, not knowing what specifically what intermodal looks like in the back half and where the grain crop comes in. So, that's our view.

I think more of the growth on the revenue side, we feel very good about the pricing and that just -- I think, a good output as far as what that brings to the earnings cadence. As far as the Q1 OR, yes, January started off great, and then winter hit and some of these challenges that we had in minus 40, minus 45 ambient temperature without even the windchill. So, the network is recovering. Network's recovered quite well. There's a lot of business to be moved.

And depending on what February looks like and how we close March and Q1 on the weather side, we think we can make up a lot of that volume and get back to kind of a more normal environment Q1 as far as weather that's going to help us kind of deliver, I think, a better year-over-year OR and strong earnings growth. So, more to come. I think we'll have to see how winter plays out, but demand is there. The network is there, and we plan on executing.

**<Q – Justin Long>:** Very helpful, thank you.

**<Operator >:** Our next question will come from Cheryl R. Radbourne with TD Cowen.

**<Q – Cherilyn Radbourne>:** Good afternoon. I was wondering if you could give us some color on crude by rail volumes in Q4 and whether you think that's an area which can have some upside for you, just with the completion of big TMX expansion running into another issue here?

**<A – John Brooks>:** Yes. Thanks, Cherilyn, it's John. I think our Q4 numbers were off a little bit. We had some facility issues that really drove that. I can tell you, we've got a '24 plan that is stronger in the crude by rail space.

We expect our DRU business to continue strong, and we've picked up a couple of other business opportunities. The phones are ringing a fair amount around TMX and those issues. But it's just really not an area we're chasing. If the right opportunity presents itself, we'll go after it. So, I think all that you put that into the mix, probably there's a little bit of upside in 2024, but not massive.

**<Q – Cherilyn Radbourne>:** Thank you.

**<A – John Brooks>:** Yes.

**<Operator >:** Our next question will come from Brian Ossenbeck with JP Morgan.

**<Q – Brian Ossenbeck>:** Hey good afternoon. Thanks for taking questions. Just wanted to see if you could give us an update on the COFECE, saw the headlines a little while ago. I'm not sure if we've seen the final scope of that review yet. Obviously, something that KCS went through a few years ago, didn't have much impact. So, I just wanted to see updated thoughts on that. And then, John, maybe you can give us some update on just the fluidity of the border crossing, you mentioned that a couple of times with 180/181. Is that actually showing up in conversions? Are shippers willing to move some freight, especially as they see the second bridge of Laredo coming on towards the latter part of this year?

**<A – Keith Creel>:** Again, bottom line up front, you answered the question. The COFECE piece to me is the government regulatory body that's charged in Mexico with protecting and making sure competition exists.

There have been 2 different historical COFECE engagements with KCS De Mexico. Nothing has come out of those. I can tell you this one is not targeted at CPKC. We've not been served. This is an industry-wide review. And in our case, I know this: the facts don't support anything but pro-competitive. We said we're going to create competition. We've done nothing but create competition. I can also say this: now that we've got control. I've looked at the rates we might be guilty of not charging enough for this premium service, but certainly not guilty of charging too much.

So, again, whatever that scope is, whatever that review is, I have nothing to tell me with any indication that we're going to do anything but be supportive of our case not dilutive of our case.

And let me be quick about the border as well in the interest of everybody's time as far as the way we've executed. That border has been fluid. That border has not been shut down, not just because it's the best route going into Mexico, but also because it's the most secure route. And that didn't happen because of CP that happened because of the hard work and effort over many, many years of investment, multi-layers of security by the KCS team that have established a very secure border that's only getting more secure as we progress into this.

We build a second bridge, you've got more capacity that's even more secure, more reliable and more fluid

in spite of what might be happening at other borders that don't represent those same value propositions or securities elsewhere coming into Mexico, between Mexico and the United States.

So, again, another unique value creating opportunity for us to go to the marketplace. And when I kind of look at it this way, and I said this actually I was talking to my Board, obviously, they asked some of the same questions. What does this all this mean? And I say I look at it this way.

There's a lot of trucks every day, there's 1.8 million. There's 10,000 a day. However you do the math. There's going to be truck capacity going across that border, there's going to be train capacity, and you've got a choice. It's a value proposition. You can ride the Falcon, you can ride the Gemini, whatever you want to call the other alternative services, there's a value proposition.

If you're prepared to risk some of those very obvious undeniable experiences that our shippers -- peer shippers have experienced and price doesn't matter, then you know what? I kind of look at that as that's your value proposition. But that's not ours. We're going to provide a reliable, premium service that warrants and commands and we're never going to apologize, expect a premium price.

It costs a lot of money to provide the reliable service. Our customers that have rewarded us with business that demonstrated it matters. And I can tell you this last episode of challenges that the border has experienced. Ours has not experienced the same thing. And as a result, those customers that have chosen to move with us have expressed their deep appreciation and they're rewarding it with business.

So, again, I make a choice every day, if my products got to get from point A to point B. I've got a rate I can pay if I want to put a U.S. postal and I'm saying this in American terms, and I've got a rate if I want to pay FedEx or UPS, you've got to decide what matters to you and your value proposition and where you choose to put your freight and make your decision.

And I believe that this value proposition matters even more so than it ever has.

**<Q – Brian Ossenbeck>**: Understood, thanks Keith.

**<Operator >**: Our next question --

**<A – Keith Creel>**: Oh we've got one more? All right. Please go ahead.

**<Operator >**: Our next question will come from Brandon Oglenski with Barclays.

**<Q – Brandon Oglenski>**: Hey and thanks Keith for letting me sneak my question in here. John, maybe I'll close out with you on the low single-digit growth outlook this year. I mean I get it, there's a lot of uncertainty in the macro. And obviously, you've talked about intermodal and grain, but I think the commentary is pretty upbeat on merchandise. Can you talk about the incremental customer opportunities you see there playing out in 2024 and maybe where you see positive variance to where the industry is going to see growth rate in merchandise?

**<A – John Brooks>**: Yes, Brandon. So, historically, the legacy CP franchise was not with particularly the strongest merchandise/ECP franchise, but this new combination is it's an area of strength, and I'm super pleased with what the team has been able to deliver in that space early in 2023. Honestly, if you think about the synergies we've talked about that, that's been an overweight area.

That's an area that we achieve more and it's on the backs of on-trip plans, good local service, get those cars and steel cars cycled and tank car cycled. So, as I said, we had some good wins in the back half of the year in terms of share and synergies in that merchandise/ECP space. We haven't even felt the benefits to the bulk of those agreements. We're going to see that ramp up.

And I'm really bullish on our steel franchise between not only our Mexico production facilities supporting the growth down there in the automotive industry and other industries, but also our steel facilities in the U.S. and Canada. So, that's an area to keep an eye on it. I think you're going to see some strong growth, thanks, Brandon.

**<Q – Brandon Oglenski>**: Thank you.

**<Operator >**: We have reached our allotted time for Q&A. I would now like to turn the call back over to Mr. Keith Creel.

**<A – Keith Creel>**: Thanks, Operator, listen, again. Thanks for joining us this afternoon. I hope that you leave this call understanding what we said in the very beginning. We are in the middle of creating history. We've created a very unique network, bringing these two wonderful companies together.

We've got a unique value-creating opportunity that, it's going to prove the test of time. In a hard macro environment, we've shown growth. In the middle of integration, we've shown growth.

And when I say growth, I'm not talking about just RTM growth, RTM growth, earnings growth, and we've shown an ability to improve margins all at the same time, while we've never invested more to create more supply chain resiliency at the time our three nations have never needed it more. This formula works. It's standing the test of time. It's going to be here for generations to come.

We're on a journey with the best railroaders in this industry, a very unique value-creating story for our employees, our communities, our shareholders, all stakeholders, that again, will become, in time, the most relevant rail network in North America. We thank you for your trust. We fully intend to reward you for it. Those that trust us and make your investment decisions with us, have a safe and productive day, and we look forward to sharing our first quarter results in the months ahead.

**<Operator >**: This does conclude today's conference call. You may now disconnect.