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Transcript

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Webcast

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Nadeem Velani – Executive Vice-President and Chief Financial Officer, Canadian Pacific
Maeghan Albiston – Assistant Vice-President Investor Relations and Pensions

Other Participants:
Brian Ossenbeck – Analyst, JP Morgan Securities LLC

QUESTION AND ANSWER SECTION

Brian Ossenbeck
Analyst, JP Morgan Securities LLC
Okay. Thank you everybody for joining us this morning. Good morning. Thank you for joining the virtual version of the 11th Annual US All Stars Conference with JP Morgan. I'm Brian Ossenbeck, I cover the transports and logistics for the firm. I'm very happy to have Canadian Pacific with us today. Joining us is the company's CFO, Nadeem Velani. I'll turn it over to Nadeem for a little bit of introductory remarks, how the railroads are operating right now, and then we'll jump into some Q&A. So, if you're on the live stream on the video, feel free to go ahead and drop in questions on the e-mail, and I'll try to filter those and get them to Nadeem as we go through. So, Nadeem, thank you for joining us. We appreciate your time and I'll kick it over to you if you're going to make some introductory comments.

Nadeem Velani
EVP and CFO, Canadian Pacific
Thanks for having us, Brian. Always a pleasure to join you on the fireside chats and be at this virtual one at the London All Stars. So, it's good morning from Calgary here where the sun hasn't even risen. But not that you can see much of the sun these days given the smoke that's been coming from the south. But fortunately, these are not dark days for CP. So, let me start just by saluting our 12,000 strong CP family that continue to deliver impressive results in this uncertain time. This crisis has certainly brought the CP family closer and I couldn't be prouder of the continued effort and resilience of the CP team of railroaders. The women and men of CP have been shining examples of the importance of CP's role in supporting critical supply chains, the communities we operate in, and the Canadian North American economy.

From a business point of view, the network continues to operate extremely well, a credit to the best team of railroaders in the industry. Train weights continue to be up 7% and lengths continue to be up 8%. As the volume returns, we are retaining our operational efficiencies. Crew costs are down 12% on the quarter. Crew starts are down 16%. In fact, the first week of September, our crew costs per 1,000 GTMs hit an all-time weekly best.

Q3 has played out as expected. We knew this would be a backend loaded quarter and that's what you're seeing play out. We've steadily been building momentum that I fully expect to carry into Q4. And increasingly, I'm more confident that we are seeing a V-shape recovery. As of this morning, our RTMs for the month of September have now turned positive. They're up 6%, and for the quarter, we are down 8%, which is slightly better from a volume standpoint than we had anticipated ourselves. We do have a couple of OR headwinds on the quarter to note. We won't have a fuel lag benefit that we saw in Q2. And year-over-year, both FX as well stock-based comp will be headwinds given the extremely strong stock performance. That being said, I expect us to have one of the best operating ratios for the quarter in the industry again.

I'm certainly more optimistic for the full year than I was a few months ago despite the FX and stock comp headwinds as we're more bullish on Q4 volumes. I fully expect fourth quarter year-over-year OR improvement and a 200 to 300-basis point improvement in the OR for the full year. That's a tremendous result given the macroeconomic volatility we've all experienced this year. You should expect CP to have the best revenue performance, lowest OR, and best train accident ratio in the industry in 2020, what we

consider the triple crown. And when you add on to that fact that we will likely deliver a return on invested capital in excess of 16.5%, it explains why we have been the best performing rail from a shareholder return perspective for the last three years.

And the story is far from over. 2021 is setting us up for what I increasingly expect to be a tremendous year as we're getting greater visibility to a strong pipeline of opportunities across the book business. Going specifically, looking at our intermodal, we're working with the Port of Saint John and local partners to create a compelling opportunity for an ocean carrier to call Saint John. In fact, we moved our inaugural train through the port in early August as Hapag-Lloyd called the Port of Saint John to adjust for the Montreal longshoremen strike. We also see opportunities in domestic intermodal by leveraging our 200-mile routing advantage versus the competition to compete with trucks in a historically underserved rail corridor.

On the automotive side, we opened up our Vancouver auto compound 18 months ago and have sold out capacity to Ford and now Fiat Chrysler which started in July. Glovis, the supply chain arm of Kia and Hyundai, have begun ramping up their volumes on CP. This was yet another market share win we realized in the past few years but the full shift in share has only begun in September. In fact, in September to-date, our auto RTMs are up 47%.

Looking at merchandise, we have partnered with Suncor to provide service from Edmonton to their expanding Vancouver export terminal. Inter Pipeline, we'll be serving IPL's new polypropylene facility in Alberta in the Industrial Heartland and we expect to see volumes starting in late 2021.

On the grain side, in the 2019-2020 crop year, we moved the most grain the company has ever moved in our 139- year history. The 2020-2021 crop is also set up potentially to be a record crop and we have the capacity, service and are leveraging our hopper car investments and strategic partnerships with key customers to drive further growth for CP. As we saw during the course of the pandemic, the world needs to eat, and grain has provided our franchise volume support regardless of the macro environment.

We indicated there would be opportunities to backfill the capacity coming online with reduced coal volumes in 2021. And the announcement this week of the Maersk facility to be built on our property in Vancouver is capitalizing on that and is probably what I'm most excited about heading into 2021. This will create a one-of-a-kind solution to the capacity constraints customers face in that region and that is the tip of the iceberg. We still have more than 100 acres of land we can develop. The opportunity matches CP's strategic land with a new customer, looking to control their end-to-end supply chain, reduce third-party truck involvement, and remove thousands of trucks round trips from the Lower Mainland Vancouver roads supporting our ESG initiatives.

We are investing in sustainability as demonstrated by our recent solar garden announcement at our Calgary headquarters. Our head office will be solar powered beginning in 2021. We are extremely proud to be named Canada's Top 50 Corporate Knights for the first time and had the highest ranking among the transportation and infrastructure companies in Canada. And we're going to continue to grow while building on our track record of being the safest railroad in North America for the last 14 years. Safety is a journey and it is never over. We are improving safety through a number of initiatives, including our investment in broken rail technology that will enable us to identify broken rail in dark territory at a fraction of the cost of full-centralized traffic control.

We continue to reward our shareholders. We announced a 15% dividend increase in July, the fifth consecutive year we've increased the dividend, and we are the fastest growing dividend rail in the industry. Additionally, our share buyback program that we announced last December is now 60% complete while we maintain a strong balance sheet.

So, Brian, I'm sure you can tell I'm extremely proud of our performance and I'm even more excited about the opportunities we see ahead of us. So, maybe with that, I'll take some questions from you.

<Q – Brian Ossenbeck>: Great. Well thank you, Nadeem. That was a good update and a lot to cover here in the next half hour or so. One of the things we've been seeing and obviously you've been delivering on the last couple of years is volume growth has been top of the industry. Before the pandemic, you're looking at being three years in a row which is pretty much unheard of. So, you haven't – you didn't drop as much in 2Q, but you didn't bounce as much at least until recently. So, what – you mentioned potash and autos, you got the recovery going on there. Things are building. Is this a V-shape for CP or in your specific end markets or do you feel more confident in just the overall set up as you look across the broader economy?

<A – Nadeem Velani>: Yeah, I think there's a number of specific kind of self-help that I'd say that we've had in place and the reason why we've been outperforming the industry on volumes for three years now. But I'd also add to that that there's some, call it, macro benefits that we're also seeing. Certainly, the consumer is back, so our retail volumes are extremely strong and sets us up extremely well given our unique customer base. So, in Canada, we're serving some of the biggest retailers in Canada such as Loblaws. You've got the Home Depots of the world, Canadian Tire to name a few.

So, that's driving a lot of the, call it, consumer demand-driven or consumer demand-driven volumes. Autos have come back in a very strong way, I think for the industry as a whole, but I mentioned some of the unique initiatives that we have on that are market share driven or us creating supply chain solutions for our customers for new customers. And so, we see that as a very specific benefit to CP. We talked about the grain crop, potash is set up extremely well. Canpotex, we're the majority customer per – or shipper for Canpotex, and they're sold out through the end of the year, and things look very strong for 2021. We have some very easy comps in the back half of this year on potash.

I think there's a number of very strong areas. We're probably seeing the bottom as far as some of the negatives. So, frac sand, it's not as bad as it was a few months ago. Crude, while down 80%, 90% is showing signs of life. So, some of the areas that have been the worst for us are starting to see the bottom and come off of the bottom, which also bodes well. On the international side, international intermodal, we face the Port of Montreal strike which hampered the volumes in the first half of this quarter. That's over, and now there's an opportunity to start seeing volumes pick up. I think the – overall, we're going to see a very strong fall peak, and it'll probably take us right through the holiday season. So, I think all of those reasons are why we feel more optimistic, I'd say, as we finish 2020.

<Q – Brian Ossenbeck>: Okay, great. So, on the Port of Montreal strike, how did that play out? And what do you think that did for the opportunity at Saint John's because I think that's maybe the possible silver lining from all this? So, was there material impact in the quarter? Is that volume lost? Or are you able to pick it up in another port, and be able to talk about that opportunity as you work towards to develop another access point into east?

<A – Nadeem Velani>: Yeah, no, it's – certainly, there are some volumes that were lost. There was some service that our customers were impacted by just having containers on the ground and dwelling for quite some time. There are some things that were done industry wide to improve – to offset that. So, specifically, there were some ships diverted to Port of Saint John to other ports in the east. And net-net, we're glad it's over.

It did give us a chance to show the capabilities of the Port of Saint John and get a good test market for us as far as what that service could look like, very – we didn't have a lot of time to get that up and running, us and our partners, DP World and the Port of Saint John. But that's something that – it gets us a chance to kind of showcase what's the art of the possible. And so, we're pretty excited about what that could look like in the future and we have reason for optimism that we could see a call in the Port of Saint John in the next year or two.

<Q – Brian Ossenbeck>: Okay. So, going over to the other side of the West Coast, have you seen any new benefits into Vancouver. I know you've probably got opportunity to talk about the Maersk transload facility that you announced earlier this week. But as you're seeing more interest as the West Coast got congested last month, obviously, it's a pretty big surge, but it does highlight some need to diversify. So, what can you tell us about at least the Maersk opportunity, what that can possibly lead to? And then the things already on the ground are being built with the green terminals with the terminal expansion in the intermodal side, how is all that progressing as you see the volume start to pick up again?

<A – Nadeem Velani>: Sure. I mean, I think the Canadian ports as a whole in the West Coast have shown the resiliency, have shown the service that can be provided by both the Canadian railroads to service Canada and the Midwest. And we've seen market share shift over the number of years now, up north, I think predominately based on service, but then you factor in, it is a cheaper option than some of the US West Coast ports, currency plays a role. I think the strong service as well that the labor, a bit more labor certainty, I'd say, in that part of the, in the northern part of the ports in Canada relative to the US.

So, I think you'd put that all together and we've seen market share shifts over time and we've seen strong demand over time, and certainly, our partners there have done a fantastic job the last few years of increasing capacity, of investing in technology that are improving the overall, the throughput as well. And that's something that we're excited about heading into the next several years.

When we look at, at what we announced as far as Maersk, it was a really exciting announcement. Like I said, it's one of the most, things I'm most excited about for 2021. It's the fact that it's being built on our property. It's further evidence of the power of our land holdings to provide unique solutions for our customers. It's a strategy we've been talking about for a number of years and it's a strategy that's paying off.

For a customer to invest and pick a partner long-term, it shows the confidence that they have in our service and the fact that they also want to diversify their overall supply chain. So, to us, Maersk opportunities, it is a one-of-a-kind solution and the good thing, as I mentioned, it's just the tip of the iceberg. We have another 100 acres there that that we can sell and not only in Vancouver but across our network. And so, in this case, we've got the largest container shipping line in the world. And to me, there's – I'm excited that we have this new customer and there's an opportunity to potentially hopefully do more with them.

<Q – Brian Ossenbeck>: Shift gears to the OR commentary here. You said the 200, 300-basis point improvements for the full year 4Q OR improvement which I think is pretty much consistent with what you said on the last earnings call. Maybe you can – if you can put some more details around I guess the good news headwinds from stock-based comp you know what and fuel which is just what the market's giving you, if you can just put a few more details on what that means for 3Q and how we should think about the balance between the back half of the year.

<A – Nadeem Velani>: Sure

<Q – Brian Ossenbeck>: fitting into that 200 to 300 basis points.

<A – Nadeem Velani>: Yeah, I mean, first of all, I've always felt looking at one quarter's OR in our industry isn't the best measure. You're always going to have some level of volatility in the OR just given what we know, the nature of railroads. It's an outdoor sport. You're going to have weather, you're going to have seasonality with volumes, you're going to have accruals and fuel surcharge, timing issues, and things like that. So, we had I think a 57 OR in Q2 which was the best in the industry by far. We did get some benefit from fuel surcharge timing that helped the quarter.

And so, it's going to hurt Q3. And so, we've also seen a very strong run up in the stock. We've seen the Canadian dollar come on from a bottom of CAD 1.45 low during the heart of the pandemic to improve to CAD 1.30 over recently so that, that does have a negative impact to our top line. But from a macro point of view, that's a positive. That shows that there's some resilience in the Canadian economy. It means typically that commodity prices have improved. And so, there's positives as far as our volumes of what that, why the FX, Canadian dollar has improved. So, overall, our OR, I do think for this year, we're going to have a very strong result. If someone had told me years ago that we'd be able to put up that kind of level of high 50s type of OR in the heart of a pandemic when you'd see volumes and revenues down in the 8%, 9% level, we'd have thought we were crazy, but it just shows just how far this transformation has gone. Just how, if you look at the industry, what – the industry has delivered as well and how you can not get locked in on preconceived notions. So, as we continued to take on volumes at a low incremental costs. We talked about our incremental margins of 75%. And as you continue to invest in the network, investing capacity, run longer trains through co-investment with customers on the grain side, on the coal side, potash side, it creates opportunities to get operating leverage.

And at the same time, it creates opportunities for customers to lower their transportation costs as we turn their assets faster and provide better service for them. They get opportunities to compete in their market. So, I fully expect us to be able to continue to improve the OR. It's not something that we are solely focused on. We're very focused on our overall return metrics, measured by return on invested capital. But if you're doing the things right, if you're pricing for the service that you provide and typically that should be above inflation as customers get their benefits as well, you get the benefits of pricing, you get the benefits of the investments I mentioned, and run longer, get the operating leverage. You should still see 100 basis points kind of improvement year-over-year. That's a challenge we have internally as well.

<Q – Brian Ossenbeck>: Yeah, I think yesterday, John was talking about a derailment in Vancouver. So, it seemed like it was still early, but was any other impact from that that you're seeing on the network and I think 3Q is always going to be a tough comp considering due to the basically all-time record last year.

<A – Nadeem Velani>: Yes

<Q – Brian Ossenbeck>: So is that pretty much the challenge here?

<A – Nadeem Velani>: Yeah, no, the timing wasn't ideal. It's never a good time but this was in the, probably the busiest week we've had in, I don't know six, seven months at least probably the year so far. It was a derailment on our competitor's line that we both have a co-production agreement into Vancouver. They had an outage there. It was our train. Unfortunately, it did take out some capacity and it did impact the overall supply chain and you'll see part of that impact over the next seven days until both networks can get back in balance. I think we did a very good job of continuing to move trains through that corridor and the line is back up and running as of 4:01 AM this morning. And so, hopefully, the worst is behind us from a capacity and supply chain impact and we'll be able to recover. The volumes are – or it will mean that some of the volumes are pushed into probably the first week of October, but it's not a meaningful impact, I think. The grain is still going to move, the potash will be moved and coal and so forth, but it's just a bit of a timing issue.

<Q – Brian Ossenbeck>: Got it. So, going back to the incremental margin, you talked about 75% ex-fuel and D&A and stock comps, I guess more of a peer number. Given train lengths and weights are up 6%, 7%, I'm assuming that that can be more or less sticky depending on the mix and the customer profile, but is that still coming out of the pandemic and into the V-shape? Is there a reason to believe that that 75% could actually move up with these longer trains and heavier trains or is it still a little too early to tell kind of what's structural and what's maybe more temporary as we go through all of this volatility?

<A – Nadeem Velani>: Sure. So, we did a – I think our operating team did a fantastic job of managing through the pandemic and revisiting what we can do to take out fixed costs and look at what could be more structural. We didn't have yards to close. We didn't have some of those, I guess the big fruits to pick. But you can always look at your processes and look at what can be better, what can be more efficiently, where you need to backfill, if necessary, as far as where attrition can be helpful to you.

So, I'm encouraged by what we've been able to achieve and what we've been able to do and how we can continue to take some of the silver linings that came out of this and use it as an opportunity to keep it embedded into our structural costs. So, I'm optimistic that we'll continue to be a leader and, as far as ORs, and we'll continue to see an improvement in the OR over the next several years.

Last quarter, I talked about having that much more confidence and probably for the first time you've heard me say this Brian in my years, that mid-50s is achievable. And I think part of it is coming out of this pandemic, what we've seen as far as what we can actually achieve in such a negative volume environment and still deliver the results that we've delivered is what's giving me that much more confidence as well as that pipeline of growth initiatives I mentioned. So, does it mean the 75% incremental margins has upside, I mean, I don't want to go that far yet, but certainly, we've been able to get some structural costs.

<Q – Brian Ossenbeck>: Got it. So, when you think about just the network in general from a resource perspective, how has that been – I know CP was pretty active and one of the first to talk about negotiating terms to come back quicker, taking care of the family considering there is so much volatility and they didn’t know what was going to happen, they needed them to come back you wanted them to stay close. So how has that worked relative to expectations, the recall rates, and I think you were one of

the few who were actually kind of spending through the downturn and maybe pulling forward some maintenance to get some better return on that. So, where do you feel like resources are now versus how you had planned for this to sort of play out?

<A – Nadeem Velani>: Sure. So, I think number one, our team does a fantastic job of planning and forecasting, and that plays a critical role especially when you have volatility in volumes that we've seen. So, we don't typically look to use a Hunterism "you don't build the church for Easter Sunday". So, we always do look to constrain things to an extent because you do have volatility and things are not always going to be as maybe as customers believe or their optimistic view.

So, that being said, the way we're organized here at CP with our market strategy and asset management team kind of in the heart of our operations team, marketing sales group and our financial planning team, it's a very collaborative kind of culture. It's a culture that that starts at the top from Keith that has set the tone of just how we operate. The constructive tension that we have as part of our culture that pushes each other. And the more you communicate, the more visibility you get into what you can achieve.

So, as far as our volume planning, that's been done extremely well. We're the only ones to give guidance in the heart of this pandemic, and it's for a reason. I think we look to push ourselves, and we also look – feel that we have the confidence to have visibility into the business. And I think that that's a testament to the team.

So, with that, I think we've done a good job of forecasting as far as what we think in this kind of uncertain times what the market would look like, what we need to do. And with that, as you mentioned, we set up some labor agreements, we did some innovative things to keep our – keep paying the medicals for healthcare for those in the US and keep them in a situation that they can take care of their families and take care of their own health issues. At the same time, it allowed us to recall employees back faster than your typical two to three-week timeframe.

We did some innovative things on the Canadian side as well. So, that's allowed us to recall employees much quicker than the industry and much quicker than historically and allows us to be in a position to move these volumes as they come back in a V-shape manner. So, we're in a very good spot there. From a capital point of view, we are a bit of an outlier compared to our peers and we are spending historically the most capital that this company has ever spent. This year, we will invest in the network and that's an opportunity to take advantage of track time, take advantage of – even to source things at a cheaper cost because we did feel that volumes would come back. And when they did, we want to be able to take them on and provide strong service and take it on that low incremental cost and make these investments at a time when you could get – be much more efficient.

So, I think we only had I think six days where we lost time as far as our ability to get track time on the engineering side in the second quarter. And I think typically previous year, we're out 30 days where we didn't get full track time. So, we've been able to take advantage of that window of opportunity of volumes being down. And so now, as volumes have come back, most of our engineering work is complete now when volumes are returning positive. And so, I think that that was done very effectively by our engineering team and by our operating team and it will serve us well for a number of years.

Again, when we look at our capital, we don't look at it on a one-year basis. We do have a long-term plan that we've been talking about, doing some of this siding work or doing investments in equipment for many years. And case in point on the hopper cars on the grain side, we had committed to this CAD 500 million investment for 5,900 cars I think three years ago or in late 2017, early 2018 and it's something that we were committed to do once we had visibility on the returns. And regulatory approval on the bifurcation of the rates on hopper cars would get our return that we could satisfy our investors. And so, ultimately, that's been something that we'll be able to do over the next two years and it's not just reacting to all of a sudden, you've got an increased record crop that you need to invest in hopper cars. This is a multi-year plan that we look at our capital investment. So, again, something unique in the Canadian industry.

<Q – Brian Ossenbeck>: Yeah, and if you ever tell us what the return on that was, but it's probably pretty nice to collect on those hopper cars, came at a great time. So, when you think of the walk to the 55 or mid-50s OR, how do you just conceptualize the buckets? Is it profitable top line growth with investments, something like the hopper cars, is it still the productivity, the incremental improvements from the day-in and day-out, sweeping the corners, as Hunter used to say, so how do you just look at the different components from, I guess, the volume productivity perspective and then obviously price to get down to keep making these incremental improvements to get to that point?

<A – Nadeem Velani>: Sure. And by no means will I say it's easy. The team has a lot of work to do. Each year, you start off with a headwind with depreciation. You get a headwind with cost inflation and so forth that you have to overcome. So, obviously, doing it in a volume environment, in a positive volume environment with the incremental margins I mentioned of 75% certainly helps. You do need to have service. You need to have something that provides customers with opportunities to like I said serve their markets better, turn their assets better, provide them efficiencies so you can price stronger than inflation. That certainly does play a role. There is that sweeping the corners; that never stops. That's something just ingrained in our DNA of looking to do things better. We, for example, coming out of this pandemic, there's certain things, certain processes, certain resources that you didn't need during the heart of this and my team questions internally the leaders of the organization, why do you need to bring those things back, why do you need a consultant, why do you need a resource in certain areas, why do you need people to backfill in certain areas when you didn't need them now. So, it's kind of a zero base start again to our 2021 cost structure, so always questioning things.

And then we've had a lot of investments on customer facilities, but we've also recently last few years invested in our Alyth yard in Calgary, our main facility here, and getting the benefits of what that means as far as pure handlings, ability to run longer trains, it does provide better service that has upstream impacts in other work locations and downstream impacts in other locations where it can take out costs and improve overall asset turns. So, you get benefits from investing in multi-year kind of projects. One thing that we're going to be looking at over the next several years is investments in our Bensenville yard, Bensenville facility. We'll have opportunities to optimize our Chicago work centers and that's going to add productivity to the bottom line. Over time, it's going to provide again greater capacity. It's going to provide opportunity to sell new services in key markets. So, having that multi-year kind of areas where you can support cost reduction in a number of factors allows you to kind of continue to improve over time. It's not just one silver bullet of closing a yard or what have you, it's kind of across the board.

<Q – Brian Ossenbeck>: Great. So, when you look at all that, you mentioned a bit earlier, but how does technology fit into the strategy at CP going forward either from the autonomous train and track inspections? This year, we're finally – the industry is finally going to get it PTC. The deadline has come, most people have gone operational already. I'd be curious to hear about the technology aspect but also on PTC because it's finally here, you obviously have the split network, Canadian and US, so I'd be interested in your vantage point on having it on some and not on all of it and if that makes any difference to you?

<A – Nadeem Velani>: Sure. So, technology is maybe an area that we don't get as much credit as maybe we deserve. I mean we're doing a lot of very innovative things and we've done a lot of very innovative things over the years. We're the first, one of the first companies, certainly, the first Canadian railroad to implement RPA and supporting our operations and supporting our customers' service center to automate kind of low value, high volume work. That's something that's been successfully implemented and we're looking at ways of expanding that across the network. We have a train vision system. It's a high-speed infrared camera-based train inspection system that's capable of producing full body high resolution images of up to 70 miles per hour. It detects 87% more required repairs than what a visual inspection would do and allows us to do preventive maintenance before an issue comes up. So, it uses infrared imaging better than say maybe what some of our competitors are using. And that's something that we're working towards an exemption with the Transport Canada for potash trains of doing visual inspections for potash in 2020. So, that's something that I think can be very effective in improving our overall safety and reducing our costs as well.

On the wheel side, we've been expanding our cold wheel technology to evaluate air brakes and descending grades and using wheel temperatures and it's something that we've been very excited about. This cold wheel technology has been exempted for some commodities such as coal and potash from a visual brake inspection. So, that's been allowing us to reduce our dwell by one to two hours per train in each direction.

On the vehicle track inspection, we've been using technology mounted on our locomotives to identify track defects and track deviations by measuring movements. We have an algorithm that analyzes data and sends notifications to the field personnel if they need to remediate anything. We have autonomous vehicle track interaction systems that analyze more than 600,000 miles a year.

On the blockchain side, we joined last year the Blockchain in Transport Alliance. It's early days, but we're looking at supporting and developing blockchain standards on that front. So, we look at technology as a way ultimately to improve our safety and allow us to do things better than what we've done in the past basically as far as the human component of inspections. And so, it's something that we will continue to invest in. We've been doing a lot of the stuff in-house. I think you might have met during our Analyst Day Dr. Kyle Mulligan, who continues to find new innovative ways to make the company safer and reduce incidents and so forth. So, that's a few of the examples.

On the PTC side, yeah, it's been a small piece of our network. Obviously, our US network is about 30%, 33% of our overall network. We're watching what's occurring kind of in the industry closely as well as far as how opportunities to leverage our technology to do different things. I mean that was a massive investment by the Class I rails, and certainly, it's something that can be used as a platform as a way to leverage as an opportunity to do things differently. Let's say, for us, we're more in the watching space and we're not going to be a leader in that area. But we are communicating with our Class I partners as

well to see what opportunities that collectively the industry can look at, leveraging out of that investment. But I'd say, it's still early days from a CP perspective.

<Q – Brian Ossenbeck>: Got it. So, when you think about the safety focused on the network, obviously, that ties into some of the commodities in the DRU, the diluent recovery unit, and those investments are a part of that for the pipeline like quality and cost to move crude. So maybe we can just talk about those given the energy volatility, given the focus on safety, and then similarly, when you think about crude by rail coming down quite a bit, you've obviously protected the capacity with liquidated damages. But how does – I guess how does that all transition when things kind of anniversary out and I'm assuming there's probably some continued protections on the DRU side, so maybe you can just wrap in the safety part and then also the financial aspect in terms of how you protect and get compensated for the capacity and for the work that you're doing?

<A – Nadeem Velani>: Sure. Yeah. So, we are certainly very excited about the diluent recovery unit that is coming online in the first half of 2021. We have a 10-year agreement with ConocoPhillips, effectively about CAD 100 million in revenues, to start moving its crude out of the Hardisty. With ConocoPhillips, we'll interchange that with one of our US rail partners and that should see – like I said, it should be something that we expect to be kind of take out the volatility out of moving crude by rail.

It is a safer product. So, DRUbit has a – it's a safety and reduces environmental risks in transportation. It allows you to have greater takeaway capacity. And so, with that, it allows overall better economics for everyone. It lowers that spread needed significantly and it allows crude by rail to be kind of an ongoing revenue piece as opposed to being volatile with spreads.

We have the – that facility is – that's the first stage of something that can be scaled up. It's something that – they've sold I think 50% of the capacity and I think the capacity overall is 100,000 barrels per day. So, we're optimistic that there could be more to come even other facilities are looking at that type of technology and that type of facility that could come online. So, CP is positioned very well in a very strong space.

As far as crude carloads, we've seen that, as I've mentioned this quarter, will probably be the bottom line as far as crude carloads. We've done a very – our sales and marketing team have done a fantastic job of protecting our top line when it comes to crude. So, the lessons learned from the last energy – volatility in prices, the energy crisis that hit in 2014-2015, those lessons were learned as far as when volumes ramped up in 2017-2018, the new contracts that came on had protection of liquidated damages. These aren't going to anniversary out any time soon. We see and we have the protection for a number of years. So, our crude by rail revenue line item is not going to disappear in 2021 or 2022. So, this is long lasting protection and it's the right thing to do. We've invested capital, we've invested in people and in training, and we've protected capacity to allow for these volumes if it were to move or if it didn't move, so that's why the liquidated damages exist.

<Q – Brian Ossenbeck>: Got it. I think we're just about out of time. I think I can squeeze in one quick one. I think I know the answer given your previous stance on it, but Class I M&A, there's obviously been a reported bid out there for one of your peers. Certainly, it seems like a lot going on within CP in and of itself without taking on anything else like that, but given previous history and some of the comments on, I figure I'd ask for your updated thoughts on that topic in particular.

<A – Nadeem Velani>: Well, I'd say I don't have much of an update. We've had a long lasting premise. Our view back when we looked at acquiring maybe some of the Eastern rails unsuccessfully. Our view was that you could operate those railroads at a much lower operating ratio and implementing PSR, I think our numbers where you could get an OR closer to 58. We've seen that play out in Jacksonville and we're starting to see some positives kind of across the board in the Eastern rails.

We've always felt - so those were unique opportunities. From an overall view of consolidation, we felt that the population growth with demand for capacity, with demand for rail, you're not going to build new railroads and the ability to increase capacity by implementing PSR by having likeminded – companies being run with likeminded people and also being able to run networks as one would allow incremental capacity and it would allow for better service. And so, ultimately, that has always been our view that consolidation is a great way to provide capacity and better service, take trucks off the road. So, we've seen PSR implemented pretty much across the industry. That's something that's probably pushing out consolidation for some time. There has been some increased capacity come online. There's been better interchange. That being said, running one network as a whole, you're always going to be able to improve the service and increase capacity. So, that's always been our premise. I'll leave it at that.

<Q – Brian Ossenbeck>: Unfortunately, we're going to have to leave it there too. But thank you very much, Nadeem, for the update. It's very comprehensive, very useful. So, thanks for fielding and taking the questions. And we look forward to talking to you I guess in a few weeks with earnings.

<A – Nadeem Velani>: Sounds good.

<Q – Brian Ossenbeck>: So thanks again for joining us. Thanks to everybody on the call. Appreciate your time.

<A – Nadeem Velani>: Thanks for hosting us, Brian, and maybe next year we'll be hopefully in person or even in March in New York

<Q – Brian Ossenbeck>: I'll be there in person hopefully.

<A – Nadeem Velani>: Yeah, excellent. Thank you, Brian.

<Q – Brian Ossenbeck>: That's right. Look forward to everything. Thanks, Nadeem.

<A – Nadeem Velani>: Thanks.