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Transcript

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Corporate Participants:
Keith Creel – President and Chief Executive Officer, Canadian Pacific
Chris De Bruyn – Director Investor Relations and Treasury, Canadian Pacific

Other Participants:
Allison Landry – Analyst, Credit Suisse

QUESTION AND ANSWER SECTION

Allison Landry

Analyst, Credit Suisse

Okay. Thank you everybody. Next up, we have Canadian Pacific, Keith Creel, the Chief Executive Officer. So I'm just going to turn it over to Keith for a couple of opening comments and then we will jump into Q&A.

Keith Creel

President and CEO, Canadian Pacific

So let me start by saying hello to some of my colleagues I see in the audience. How are you, Sammy? Good to see you. A lot of people around the industry today, I guess. Okay. Well, listen, operating railroad. So let me start with some operating comments. I'm extremely, extremely pleased with the way the railroad is running today. We just recently went through a leadership transition. Robert Johnson retired, Mark Redd took over as EVP of Operations in September and we haven't missed a beat. And that's not to say that Robert wasn't doing a phenomenal job but a challenge to me, a challenge and a true measure of a leader is the legacy they leave and how it runs when they're not there. Robert worked extremely hard in partnership with me and others to make sure we developed our bench. We've got a strong bench, the best in the industry, and the results today, as I look at the railway, moving record GTMs now, records in train speed, records in locomotive productivity, records in car mile per car day. So all those things allow us to provide the service we provide as well as control our cost, which is critical to the success on how you run a PSR railroad day in and day out. So that's doing extremely well for us. On the volume standpoint, we expected volumes would be back half-loaded, maybe not as much as they are. The 1st October was a little bit disappointing. We had wet harvest. We had a slow grain movement to start. We had weak fundamentals in potash but we hit the bottom first part of November and we're climbing back out of that. So I think at the bottom, we were off 11% on an RTM basis and this morning, we're less than 6%. So, we're clawing that back. The fundamentals remain to allow us to continue to do that. We'll make ground up again in December. So we fully expect if not flattish, we're not going to be far from it and with our great expense control, we feel very confident about the guidance we've given for the quarter as well as for the year. The DRU announcement that was made, I guess, last night, that's something that's been in the works for quite some time and it's quite unique and exciting for this company given our franchise strengths with origination in Hardisty. There's a couple of positives to that. There's always been, as we know, volatility with crude. This creates a long-term story. This creates continuity, a 10-year contract with ConocoPhillips in partnership with KCS to get this crude down to Port Arthur, Texas at a facility that's being built by USD. It's extremely compelling from a value proposition for this franchise, again, creating a stream of revenue long-term. But also from a risk profile, you're talking about a product with this volatility being taken out of the product. It's going to be a bitumen that literally a pure bit which is not hazmat. So, from a risk standpoint, if you're insuring the company or the communities we operate in and through, again, a safer railroad is a better railroad. So, that's extremely exciting for us as well. And then the other piece is the opportunity for expansion. Essentially, it's 100,000 barrels is what they announced. COP's got half of that but essentially, you're talking about two trains per day with the ability to double. So, as we go forward, again, we think that's extremely exciting and unique to this franchise from a value proposition standpoint. So all in, things are in pretty good place. Again, for our railroad, we think we've hit the bottom. We feel pretty confident about that. Demand is coming back. Potash is normalizing. You've got the first half of next year very favorable from a comp standpoint. So, you're talking about a railroad that's led the industry in growth two years now and we fully expect to do that in 2020 with great cost control and margin control. And so it's, again, from an investor standpoint and from a railroader standpoint at CP, it's a great place to be today.

<Q – Allison Landry>: Maybe sticking on the volume side, obviously things started the quarter a bit weaker. You mentioned seeing some second derivative improvement. As we think through the rest of the quarter, I guess the rest of the month, what are some of the areas that you're confident you'll continue to see that RTM decline get better as we move through the balance of the year?

<A – Keith Creel>: Sure. The grain is moving now, which is a positive. I think we just announced this week a record November. We hit a unload record at Thunder Bay last week. So, the grain pipeline is charged, it's moving. We think that's going to give us continued strength and momentum. We've normalized on potash demand. We realize that Canpotex is still out negotiating. They're still working with China. That's not resolved yet but from what has been resolved and solidified in the potash space, we're normalized. And the balance of – we picked up in November, that's going to continue in December. We see line of sight to the first quarter. So, we are assuming that Canpotex gets their contract resolved with China. We think at a macro level, that's going to happen so in the fourth quarter, strength there. Then the other piece that's helping us is crude. Crude by rail's increased. The fundamentals, I heard JJ talking about it just a moment ago, the spreads are there, our customers are there, our capacity is there. We're going to exit fourth quarter with our highest ever crude by rail month with fundamentals and just strength of that in 2020. So, again, you put all that together, it gives us some great confidence as we go into 2020. But the momentum and to your point, the first half, Yang Ming's coming online from a 2020 growth standpoint. We've got our compound – our Automotive Compound that we opened up in the first quarter of 2019 that sold out. We'll get a full year impact of that in 2020. We've also got additional TYT. We announced that. That didn't get a lot of coverage last week, perhaps because of the news being consumed with CN challenges with their strike. But that's another opportunity for us. We're really excited about building a transload facility in Montréal to bring additional carload traffic to the railway in a market that we have not served as well as we could given the market opportunities. That comes online probably in the second quarter 2020. So again, there are a lot of self-help initiatives and revenue opportunities for growth that again will allow us to exceed the industry and lead the industry in growth in 2020, which we're all very excited about.

<Q – Allison Landry>: So, is it fair to say that despite of just the broader economic weakness and that clearly there's several different things that you just highlighted that should be positive for RTM growth in 2020? So at this point, are you still confident in that sort of mid-single-digit range that was part of the longer-term guidance?

<A – Keith Creel>: Yeah, absolutely. We said a year ago, if I go back to our Investor Day, that we were going to do double-digit earnings growth. We'll do that. We feel very confident in 2020 and that we'll land on a number in January. We'll give guidance in January, but that range is certainly within the art of the possible, for certain.

<Q – Allison Landry>: Okay. Going back to the DRU sort of before this announcement and thinking about crude by rail, I think you've talked about maybe that being a two- to three-year sort of opportunity until pipelines come on. How does this facility and just this potential trend in these units? How much could that or how long could it extend the life of crude by rail?

<A – Keith Creel>: I think they're two separate discussions. That piece of crude by rail, that isn't incremental business. That's part of existing oil that's moved through the pipeline today. So, that locks it in for 10 years plus, I think, in perpetuity as long as we're using fossil fuels. But the balance of it, we still have an issue with takeaway capacity. We said two years ago, it's a two- to three-year story. I said a year ago, it's a two- to three-year story. I still have to plan that way. I think eventually, the pipelines are going to be built. I don't think it's going to be inside of three years so I still see it as a two- to three-year story for us to be able to fundamentally continue to move. And then the other part, the fundamentals of it, what the government did I think was unique given the election year last year. I think there were some lessons learned in that. I think that normal market behavior prevails and I think at end of the day, it's going to go away. It's not forever but there's still a pretty good tail to enjoy over the next two to three years.

<Q – Allison Landry>: Okay. And so, the DRU, is there any offloading facilities at the destination that would be required to be built to get the crude off the tank cars?

<A – Keith Creel>: Yeah. That's the one that is going to be built at Port Arthur. In partnership, the KCS and USD, they're building the facility. It's going to come online 18 to 24-month timeframe, so sometime in 2021. Second quarter 2021 we'll be shipping crude to it.

<Q – Allison Landry>: Okay. Maybe if we could talk about the Teck announcement this morning. You guys put out your press release. I think it said a roughly 1% impact to earnings in 2021. Maybe if you could just talk a little bit about what Teck's strategy is and any thoughts just on that contract overall.

<A – Keith Creel>: Well, I have to probably let Don explain Teck's strategy because I sometimes scratch my head thinking about it. Teck needs supply chain reliability techniques to be able to export coal and if Teck feels like they need to get more outlets to do that, that's Teck's choice. At the end of the day, the way I look at it, I may remind everyone we came into this, and by we I mean Hunter and I, when we came to CP, we've never been a big fan of long-term contracts. They lock you into bad economic cycles. This contract, although it's large in revenue, when it comes to the bottom line, is not the most accretive contract we have. Now, I love business and we make money on it and we make more than we did then because we've improved the way we operate it. We extracted our own value from lowering our operating cost. But when I look at the total book of business, Teck's a great customer. They always will be. It's still going to be a large chunk of revenue but it's going to be less. It allows us to create capacity in a lane that's premium. People are willing to pay a premium for the capacity going into Vancouver. So, to me, the way I look at it, I can look at my book of business that I can prove the quality of the revenue and it's an opportunity. And again, if I do nothing with that capacity, which is not a reasonable assumption at all, it's a 1% hit to my earnings. So I'm not losing sleep over it. I see this as an opportunity for us to strengthen the franchise. It doesn't diminish the franchise at all to diversify and to sell that initial capacity, quite frankly, at a more profitable place.

<Q – Allison Landry>: Okay.

<A – Keith Creel>: And then the other piece we're going to look at is what we do with Teck. I mean, Teck has enjoyed a great service from this company for the duration of this contract. We're a valuable player for them. We allowed them and helped them enjoy a low-cost product, which allows them to grow their market share in the world marketplace. So there's a value for that, so we're going to look at the book of business, even going to Kamloops. I mean Kamloops is an interchange too and I reminded Don of this, and I'll remind CN of this, that interchange is not designed to have – handle that kind of tonnage. It's going to require significant investment. And we will require that Teck, in partnership with CN, makes that investment to make sure we protect the fluidity of that network because that's our mainline. We have to. We're going to do that for the balance of our customers. But when we look at the book business that we have and when we renew our contract with them, if we do a contract for that tonnage, 100% of that's going to go to be handled by us regardless to Kamloops. We're going to make sure that we extract the right value for the service we're providing. So again, it's an opportunity for the overall book, it's an opportunity for that book. They're valued customers, but we're going to make sure that the value we provide is realized in the marketplace.

<Q – Allison Landry>: Okay. Could we talk about the CMQ acquisition?

<A – Keith Creel>: Yeah, yeah.

<Q – Allison Landry>: It gets really interesting. Yeah, it's not the biggest deal, but it seems to be pretty significant in terms of longer term strategy and maybe signifies where CP is in the PSR life cycle. So just curious to get your thoughts on how that fits into the network and future growth and if you could talk about the access to Saint John and then...

<A – Keith Creel>: Yeah.

<Q – Allison Landry>: ...parts of the East and the West.

<A – Keith Creel>: So we see it, we're excited about it. Strategically, it's not the biggest deal in dollar terms today but it's not what it is. It's what it can be and what it will become. It gives us access to East Coast, to your point, Searsport as well as to Saint John to deepwater ports. They both have their own revenue streams. Actually, if you look at Saint John, DP World's invested hundreds of millions of dollars to improve the capacity of that port. They're the busiest port in the East Coast in Canada, which creates an opportunity for us in partnership with the Irving railroad that gets into Saint John to grow in forest products, to grow in chemicals, refined fuels, automotive. You're talking about customers and I've been dealing with this for the last seven years that I've been at CP. They have not had optionality. They have not had a competitive option for 25 years. Our predecessor sold that railroad years ago. The way they ran the railway then I got to respect their decision. I guess they felt like they couldn't make money. It's obviously ran differently today. That gives us a lane that gets us from the East Coast into Montréal and Toronto. Line of sight, it's 200 and some odd miles shorter. We will be able to get from Saint John to Montréal in 24 hours. So, on its best day, my competitor can't compete with that again because of the strength of the franchise running shorter route miles. And it's not a few shorter route miles, it's a material difference. So, we're excited about the opportunity it's going to give us to partner and to grow and to give our customers optionality both those that we have today and some that we don't enjoy today because we haven't had that optionality. So, we think it's a very exciting niche acquisition for this company that's going to help fuel our growth in the years to come.

<Q – Allison Landry>: Okay. Are the customers in that region that you mentioned, obviously there's the Irving refinery but you mentioned chemicals and some other commodity type. Is that currently a truck move that you can convert to rail or is it business that CN is moving but it's just out of route or the route is much longer?

<A – Keith Creel>: I think some of all that. It's obviously going to be the Port of Saint John could become, in small part, a large part a competitive option to the Port of Halifax. Irving's obviously a piece of that, how much traffic is routed out of route to Montréal that might be better served running the shortest route to Montréal. I mean, the art of the possible, there's a lot that's out there. So, again, we've had customers coming to us asking us for solutions and some of it doesn't have a solution today. So, some of it is going to be truck competitive but it's compelling. It's extremely compelling for us and the other piece, to be able to take our culture, to take our safety record, to take our resources and invest in a railway that, in my assessment, has been underinvested in to improve the reliability, the service and, most importantly, the safety is something that excites us at our railroad as well. So, taking our culture – our safety culture, our investments, and our opportunities to that line is going to be an exciting opportunity.

<Q – Allison Landry>: So, is there is an immediate CapEx needed to bring it up to your standard – mainline standard?

<A – Keith Creel>: Yeah. I mean, obviously, we're going to bring it to the CP standard. I know the numbers. They weren't overinvesting in the railway, I'll tell you that and it was not – it hasn't been maintained to a CP mainline standard, which we'll bring it up to. But we don't see anything that's going to change our capital envelope.

<Q – Allison Landry>: Right.

<A – Keith Creel>: But I'll tell you that scale will be dramatically more than what they were investing, but it's not going to change our books.

<Q – Allison Landry>: Right.

<A – Keith Creel>: I mean, and I had literally, we're making a plan day one to make an impact there so we had, in concert with the management at CMQ, they allowed us to get out and take a look – a deeper look at the railway. I had my chief engineer last week high railing as well as my senior vice president of the mechanical and engineering group to make sure we can quantify and protect the capital surgically, strategically and hit the ground running as soon as we take it over so we can start to improve the safety and the operational ability of the railway from day one. That's what our focus is and that's what our objective is and we'll do it.

<Q – Allison Landry>: Thinking about the short line acquisition strategy more broadly, is that something you would expect to continue to engage in? Are there potential properties that – when Brookfield closes on the Genesee transaction that might become available that you're interested in where you have some additional connectivity?

<A – Keith Creel>: There's one that we might be interested in if it made sense, but there's none as compelling as this that are end-to-end that allow us to reach two ports. So, this is unique. But again, we'll take a look if Brookfield makes them available. There is one up in Québec that might make sense for us. If it were the right price and the numbers were in the right place, then we would consider. But other than that, if I look at the balance of the railroad, there's some other short lines in the U.S. that we – our predecessors sold off or leased off that we'll continue to look at. And when those renewals come up, if they make sense, there's a chance we may take them back over. But again, it's just got to make sense when the time comes.

<Q – Allison Landry>: Okay.

<A – Keith Creel>: But right now, that's the one that's compelling. The other thing we don't talk a lot about, we chose, and I've said this, we're railroaders. We're not truckers. Number one, we don't have that core expertise so we chose as opposed to buying trucking companies to partner with trucking companies. So, we have some very strategic partnerships that we signed in the Canadian space that allow us to create a competitive alternative to purchasing without the risk of purchasing. So, it's not that we sat still in that space either. So we feel very confident. Strategically, we're doing the right things, focusing on our core strengths, extending our reach, making something that's going to be a long-term play, and at the same time, not being caught off-guard to being detrimentally impacted by alternative strategies that's been employed in the marketplace.

<Q – Allison Landry>: Thinking just more broadly about growth and not to spend too much time on the short lines but CP has been very visible with the short line community in terms of development and really trying to work with them to bring additional business to the railroad. Could you speak about that and what you're currently moving with short lines and then how that fits into the mid-single-digit RTM growth longer term?

<A – Keith Creel>: Yes. It's rare but we have experienced growth. We started I guess two years ago. We just had our second short line conference. CP had not engaged in that in more than a decade. So, we saw as an opportunity to strengthen the partnerships and extend our reach and it was material growth for that portion of the business. And it continues to do the same thing in 2019 and we'll do the same thing in 2020. Now, how much of our single-digit is, I have to get with John, he'll give you the exact numbers, but I could tell you, we value our short line partnerships. In partnership, they're an extension of our sales team. They're an extension of our railroad and we can still generate carloads coming to our railroad by doing that and the strategy has proven well for us. It gives us reach in places we don't have, again, without the risk of having to buy the network. So, it's worked well for us and we'll continue to do it.

<Q – Allison Landry>: Any questions from the audience? Could we talk a little bit about pricing, if you've seen any sequential deceleration because of the weaker macro backdrop and your initial thoughts on 2020?

<A – Keith Creel>: Yeah. There's been some weakening, obviously because we were enjoying a lot of tailwinds with demand and capacity. We've said 2% to 3%, 3% to 4% in the strongest environment. We were at that 4% number. We still see 3% to 4% in our same-store price, that's what we've been realizing and we don't expect that's going to change in 2020.

<Q – Allison Landry>: Okay. Maybe turning to the OR, any change in your expectations for Q4 given weaker volumes? I know you said the network is running very well.

<A – Keith Creel>: Yeah.

<Q – Allison Landry>: Service is good. Anything we need to think about there?

<A – Keith Creel>: Yeah. I would say stock base comp has become a quality headwind for us. So, that's going to be a bit more challenged. Revenue is a little bit softer but still, to your point, with strong expense control, we may not be flat. We may not get to flat, but we're going to be pretty close.

<Q – Allison Landry>: Yeah.

<A – Keith Creel>: And it's not going to change our year-end outlook. Again, I think we're at a very good place there. So, it's not a place and in all honesty, if this APMC contract gets wrapped up, which – that may happen, that could become a positive story for us. But excluding that, and I have in every comment I've made, great expense control, maybe not flat because we had the land sale last year. But still, we led the industry in third quarter. We fully believe we're going to lead the industry again in fourth quarter and it sets us up well with those fundamentals, especially with the performance we had in the first quarter last year to carry that momentum into 2020.

<Q – Allison Landry>: As you think about the operating ratio next year, your expectation for solid volume growth, where are you from a resource standpoint? Is there any rightsizing that needs to be done? What are your expectations for head count next year in order to accommodate that growth? Anything on the cost side that stands out?

<A – Keith Creel>: I think there's no huge fundamental rightsizing. We're staying rightsized along the path. I looked at it last weekend. We had several hundred employees laid off so we still have some labor capacity in our back pocket that we've invested in already. We'll finish the year – year-over-year, probably down about 2% head count and looking – assuming mid-single-digit RTM growth. Next year, you'll see a couple percentage points movement.

<Q – Allison Landry>: Okay.

<A – Keith Creel>: But we fully expected this to productivity gains. We've got several things we don't talk a lot about but as an operating guy, I get excited about that we'll get the benefit from in 2020. As we continue to invest on our hopper fleet, we're running longer trains that haul more grain per car. So, that's going to give us incremental margin improvements. You've got a PSR railroad world which is evolving in 2020. UP is working in partnership with Canpotex and working in partnership with CP to run big trains to Portland and historically, those have been 130-car trains. We're starting around 188-car train. So, you're moving again. You're creating capacity, incremental fuel expense. You get better locomotive productivity and you get lower labor cost. And then conversely, going to the West Coast, instead of 172-car Canpotex train, a 200-car Canpotex train. So, given a large part of our portfolio is bulk, when we start to move the needle in those areas, this productivity story is not over at this railroad. I get extremely excited thinking about the puts and the takes of all of that because I understand the puts and the takes of all that in a way that's hard to put in your models. But it gives us underlying strength that our guidance we'll continue our margin improvement.

<Q – Allison Landry>: Okay. And putting all that in context, with respect to the 75% incrementals that you guys have talked about, I think ex-D&A.

<A – Keith Creel>: Right.

<Q – Allison Landry>: Would some of those things that you're talking about with UNP and increasing train length, is that part of that or would that be...

<A – Keith Creel>: No that's separate, yeah.

<Q – Allison Landry>: Okay.

<A – Keith Creel>: No that's separate, yeah.

<Q – Allison Landry>: So you could potentially see stronger than the 75% next year?

<A – Keith Creel>: Yeah, incrementally strong, depends on how much. If you got to get critical mass, we'll be ramping up to that just like we're ramping up to the 8,500-foot trains. I mean, I think by the end of this crop year, we've looked at it with the capital investment that's going on. We're going to have 20% of our originating terminals that are able to launch an 8,500-foot train in land and in lockstep on the South Shore. To the investment that's going on, you're going to get to a point early 2021 where you're going to have both a North Shore facility as well as a South Shore facility that can land an 8,500-foot train. So, as we go into 2021, you'll really start to see the needle move with our fleet becoming exponentially larger than it is with that large grain car and facilities able to launch and land them.

<Q – Allison Landry>: Okay. Are there opportunities in other commodity types to increase train length that meaningfully?

<A – Keith Creel>: Not to that material amount. There's always going to be incremental opportunities. I mean, our average train length is 7,600 feet and we've got a railroad that can handle 11,000-, 12,000-foot trains. So, that's what's driving that margin opportunity. So, yeah, we'll continue to eat at that. It won't be large chunks. It's going to be continual improvement, continually gain as we become better railroaders.

<Q – Allison Landry>: Okay. Any questions?

<Inaudible>

<A – Keith Creel>: Quarters. Yeah, largest quarter in the history of the company, yes.

<Q – Unverified Participant>: Can you maybe spend a second on that? So, if I look at the WCS differential in the fourth quarter of last year, it was extremely wide. Can you just remind me why we didn't see similar volumes last year, what changed? Because if I look at the spread that drives the volumes, right, last year, I can't remember what the difference, but it was like $35.

<A – Keith Creel>: Yeah.

<Q – Unverified Participant>: This year, it's – I don't know off the top of my head but close to $20.

<A – Keith Creel>: Last year at our railroad, I'm talking about CP, we restrained demand. So, there was a lot more demand out there that we just didn't put on the railroad because we had not positioned ourselves from a crew standpoint and a locomotive standpoint to jeopardize the fluidity of our network. So we said no, more so than perhaps our competitor did.

<Q – Unverified Participant>: Okay.

<A – Keith Creel>: This year, we don't have demand restrained. We've invested in the people, we've invested in the locomotives, and then we layer in not just the spread but the way the economics work of our contracts with our take-or-pays. So we're in a unique position year-over-year where we're seeing that growth and those fundamentals just get better into the next year.

<Q – Unverified Participant>: So you think the durability of those volumes today are strong?

<A – Keith Creel>: Yes, yeah.

<Q – Unverified Participant>: And what type of price differential do you think we need to ensure that durability or the contract allow for those volume to...

<A – Keith Creel>: I think the normal or natural number is around USD $15, USD $16 but that doesn't take into account what's baked into those take-or-pays. I mean so that in and of itself will lower that number.

<Q – Unverified Participant>: But based on real economics today, USD $16 without it – without the take-or-pay...

<A – Keith Creel>: Yeah.

<Q – Unverified Participant>: ...component of the contract the volume moves.

<A – Keith Creel>: That's correct, yes.

<Q – Unverified Participant>: And how much do you know is going to the West Coast, East Coast versus straight down to the Gulf?

<A – Keith Creel>: The lion's share is going to the Gulf. There's very little that's going to the West Coast, some but it's not anywhere close to what's going to the Gulf.

<Q – Unverified Participant>: Is it because we can't get to the West Coast because we look at California...

<A – Keith Creel>: You still have the same refining demand and refining capacities that you have on the Louisiana Gulf or the Texas Gulf.

<Q – Unverified Participant>: So just last one, I apologize, but with California threatening to ban fracking and steam floods, those refiners do run heavy. Is there a way to get more volume to the West Coast if the demand was there?

<A – Keith Creel>: Yes, absolutely. Yeah, you've got three ways. You've got Vancouver, which is problematic politically because of where it goes – where the crude goes through. So that's not something that we've ever suggested. Obviously, if a customer wants to take it that way but we're not incenting it to go through Vancouver. The other gateways that we have that are unique to CP are the south of Calgary, with the BNSF, and then down in the edge of B.C. with UP. So, we have a UP or BN alternative going to the West Coast that avoids Vancouver, but three gateways. One is dual-served, two are single-served by CP.

<Q – Allison Landry>: Another question over here.

<Q – Unverified Participant>: Just back to labor for a second. As you look into 2020 and 2021, what type of – what's up for renewal and with CN's issue that they just had, how do you expect everything to kind of play out over the two years?

<A – Keith Creel>: Yeah. We had nothing in 2020. We had signed our next 2020, 2021, let me think about this. The years run together. We signed a four-year deal with Running-Trades last year, so that would be a 2018, 2019, 2020, 2021. So, it's 2022. So, we have labour peace, I guess, is the best way to explain it till 2022. And I fully expect we'll have beyond that. That's an area that we've been focused on, thinking about that, improving the relationships with our employees, rebuilding bridges. We did – there's a lot of hard selling, a lot of eggs cracked, for the lack of a better term, a lot of change that we had to drive restoring this railroad we're beyond that. We're at a place now that we're working in partnership with our employees and they're enjoying in the success. There's a lot of pride in this company more so than any I've ever worked in in my life. We're tied to the fabric of this country and to be able to create the kind of success that we're creating, which is only enabled by all of our employees, by who's leading company it's all of us working as a CP family. It's a pretty exciting place to work.

<Q – Allison Landry>: Maybe just switching gears a little bit. Well, first, I want to ask about the buyback you guys temporarily paused and has that resumed post the CMQ deal or when would you expect it to?

<A – Keith Creel>: Yeah. We've got a board meeting week after next. It will be our recommendation to resume by the end of the year and you can expect similar to what we've done in the past.

<Q – Allison Landry>: Going back to sort of the overall PSR topic. You mentioned UNP and some changes, and you guys are working together collaboratively. Have you noticed any changes in the way that BNSF is operating or trying to operate in conjunction with CP?

<A – Keith Creel>: I'd – specific initiatives, no, but as a railroader looking outside looking in, I know they're focused on running their railway better and I do see the railway running pretty well. They may not call it PSR, but certainly they're focused on running the railroad in a fluid fashion and we've not had any issues or bottlenecks with them.

<Q – Allison Landry>: Right.

<A – Keith Creel>: And certainly I know I can pick the phone up and call the BNSF if we see an opportunity to work together to create a better product for our customer. They've demonstrated a willingness to do that and I don't see that changing. They're just not as intently focused, I would say, as CP. But eventually, as UP continues to gain ground from a cost standpoint, it's a pretty tough thing to compete against if you allow your margin disadvantage to become a competitive disadvantage. I know that because we were there. So, in time, whether you call it PSR or not PSR, running the railway more efficiently, more disciplined, rightsizing assets, it's just good business. It's not the big enemy that everybody thought it was. People just didn't understand it. People are now starting to understand the power of it. They're just in different places in trying to adapt it and implement it. It's our strategic advantage, but it's something they're all working on and I encourage them to continue to do it.

<Q – Allison Landry>: Do you think eventually all of the North American rails will have to do PSR?

<A – Keith Creel>: Yeah. I think this makes too much sense it's the right way again to run the business. Well, you call it what you want to call it but it's just the disciplined approach running any business where you manage capital, you provide good service, you control cost, I mean look at any how to run a business successfully manual. That's sort of what it is. It's the foundation of it.

<Q – Allison Landry>: Do you think that BNSF or whatever other rails, do you need somebody with senior PSR leadership experience in order to implement it?

<A – Keith Creel>: I think that helps, obviously. It's not rocket science so you just got to have the intestinal fortitude to lead and make it important from the top to the bottom. It can't just be catchwords. It can't be phrases. You have to make tough decisions. You got to sit down with customers to discuss discipline in pricing, discipline in the way you operate. You got to sit down with unions and discuss discipline and structure in the way you operate. It's just a disciplined way to run a business and again, I think it's unavoidable. If you're going to make money in a capital-intensive industry and sustain profitability for your shareholders and service for your customers and jobs for your employees, it's the recipe to success.

<Q – Allison Landry>: Why do you think that – just we know the formula and the five principles and it was never a secret. Why is execution so difficult? And it seems like the rails where it has been successful, you have needed somebody like yourself and Jim Vena, somebody that has deep PSR experience in order to really get that message down to the lowest level employee, organize everybody collectively around improving the business. So, is it – I guess the question is with a thin talent pool remaining, how does that play out in the future?

<A – Keith Creel>: I think that that's a challenge, but I think it's a challenge that can be overcame if you invest and train and teach your people. And if you create a culture of that, the people that you work with and lead understand that's the way we're going to do business. So, the level of success that any of those railroads have is going to be commensurate with a level of commitment to it. It's not flavor of the day. If you walk away from it, it's not the easy way to run the business. The easy way is to let people do what they want to do and I'm a human being, I'll do what I'm allowed to do, too, right? And often that's not the best outcome for the business. It's just human nature but if you create a culture where people know they've got to work safely, know they got to work efficiently and they know what's in it for them, and they know why the customer needs it, it's the recipe to making it work. So, again, as long as the senior leadership understand the importance of it and they support those fundamentals and they make the tough decisions and they say no when they need to say no, they say yes when they need to say yes, they run it with constructive tension and they have intestinal fortitude to do that and explain it, coach, teach and train, it's doable. So, I'm their biggest fan. I want them to succeed because I know the industry gets better and I know we all connect. Capacity is going to be created, fluidity is going to be improved, customer service and experience is going to increase and down the line, I fully believe the thesis you're not going to build more railroads. There's a whole lot more capacity that this allows to be unlocked. But once you've consumed that capacity with population growth, at some point, you're going to have to have consolidation. It's going to be further up, but eventually, it's going to happen. And those railroads that master and do this correctly and provide good service and provide a competitive option and invest in running the railway safely, they're going to be in those discussions. That's my vision for this company. That's exactly what we'll do as long as I have anything to do with this railway.

<Q – Allison Landry>: Just no change in your view on future consolidation?

<A – Keith Creel>: Not at all. It's just future. It's not immediate.

<Q – Allison Landry>: Right.

<A – Keith Creel>: But it's future.

<Q – Allison Landry>: Okay. Any last questions?

<Q – Allison Landry>: Okay. Thanks for your time.

<A – Keith Creel>: Thank you.

<Q – Allison Landry>: Thank you.