NEWS
www.cpr.ca (TSX:CP) (NYSE:CP)

Transcript

Citi 2020 Global Industrials Conference

February 20, 2020

Miami Beach, FL

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

Other Participants:
Chris Wetherbee – Analyst, Citi

QUESTION AND ANSWER SECTION

Chris Wetherbee

Analyst, Citi

Very pleased to be joined by Canadian Pacific for this next discussion. To my left here we have the President and CEO, Keith Creel. Keith, thanks very much for joining us today. I think what we'll do is I'll turn it over to Keith just to run through sort of a brief update on the rail where we stand sort of here in the middle of the first quarter. And then we'll jump into Q&A. Certainly would love to have the audience participate so just raise your hand. We can get you get you a mic and get some questions going. But again Keith thanks so much for joining us. Appreciate it.

Keith Creel

President and CEO, Canadian Pacific

Okay. Thanks, Chris. Thanks for the opportunity to come and talk about our CP story. And I think the better – to put a bit of better context for how the year started let's go back to 2019. So 2019, is a year of growth for this company. We're the only railway in North America that experienced positive growth. Now, would I consider it a knockout year from a growth standpoint? I think you've got to understand the comparison in the market that we were in. And so we've led the industry the last two years. As we've effectively created our own self-help counter to maybe some of the cyclical nature of the business initiatives with our customers that drive that revenue growth. So we're creating our own success in that space. We go into 2020 with some momentum. We had a pretty tough, from a comp standpoint, very tough in fact a very tragic first quarter last year with a very sad derailment that we had west of Calgary where we lost three of our employees. And it happened to be in the density, the most dense part of our network. So obviously there was a cost impact and service impact and a revenue impact. So from a comparative standpoint with that out, we should have a stronger first quarter obviously. So January with the help of those self-initiatives we've got Yang Ming that came online which is a contract we won last year. That's CAD $150 million annual contract that started. So, we're driving growth in international intermodal, domestic intermodal. We've got a great product with capacity inland at our terminals with the shortest and fastest most reliable lanes in Canada. That's allowed us to continue a third year of growth in that space. We've got crude oil obviously. Growing year-over-year, we exited fourth quarter of last year 36,000 carloads and we expect – if you annualize that, we expect that to happen in 2020. So, 140,000 to 150,000 is what we're looking at, somewhere in that range. And then we've also got our grain network is starting to really hum. We've got our investment that we announced two years ago with the CAD $500 million replacing and retrofitting and modernizing our grain fleet which was going, what I would have said, was the worst in the business to probably one of the best. And it's a unique opportunity for us in that it drives an ability to move more grain per train because the key on the car so to speak is as much hauling more and the cars are shorter, so we can haul more cars per train. So, you put all those things together even with all the choppiness, we're seeing revenue behave the way we expected it to. And in fact, if you think about what corona may or may not do and is doing already to a point, certainly, it's delaying our potash which is a big chunk of our business. There's some supply chain challenges with the weather. Specific to the West coast, it has affected our coal business, given the mudslides that we had out there and the snowfall in Vancouver and the rain in Vancouver. But in spite of all that, we're looking at right now almost 7% carload growth and we're pushing 5% on the RTM side which is what I pay a lot to – I'm sorry 6% carload growth and 5% on RTMs.

<Q – Chris Wetherbee>: Yeah.

<A – Keith Creel>: With March to come yet. So, we expect to have a strong first quarter. We said and I think Nadeem led with his chin a little bit that the art of the possible was the 60% OR in the first quarter. We still see that as the art of the possible.

<Q – Chris Wetherbee>: Okay.

<A – Keith Creel>: So that sets us up for a good year, there's obviously still a lot of innings in this game, so to speak. We're in the first quarter. There's 10 plus months left. But this company has some momentum. We have an opportunity with – I talked about Yang Ming, we have an opportunity with our grain product where we're hauling more per car. We're setting records every month with the grain that we're moving. That's a great product as we expand out that 8,500- foot network that we've talked about so often as the terminals get built in the countryside and we have the terminals coming online in Vancouver and we're the supply chain in the middle with a unique car set to be able to optimize that. Those are all – and I could talk a lot about in detail every lane but those are some of the things that are allowing us to be different than the rest of the story, so to speak, that gives us confidence and conviction about our, not only our guidance but our future because the things I'm excited about in 2020, I've got more on the list that are in play.

<Q – Chris Wetherbee>: Yeah.

<A – Keith Creel>: That are going to happen in 2021. And then 2022, we just bought this railroad, this little railroad we sold, my predecessor sold 25 years ago. We've got a route now to the East Coast that I'm super excited about. It's going to get us into Saint John. We took it over January 1 with the US portion is still under review by the STB. We expect to get a ruling. Timing wise, they committed the 1st of May when we would take it over completely 1st of June assuming it's positive and we do assume it will be positive. In the meantime, it's been running trust but with that said, I wanted to see the network. I went out there three weeks ago, I guess, I took a surprise trip, I flew into Saint John, I met with the Irving family. I looked at all of their facilities and the potential for opportunity to create when you look at it, it's similar to what we've done across our network. If you look at the way a crow flies, you can just look at line of sight and distance, and distance matters. On my best day, if I can get to Montréal, Toronto and Chicago which are key markets that we serve in 24, 36 to 48, 72 hours, that's compelling. And I'm doing it because I'm running a shorter distance. That's the art of the possible. That railroad itself, it's not going to move the needle now, for us to do that this year or next year, we're focusing on investment to make sure the railroad is safe to bring it up to a CP safety standard, to be able to turn those assets safely and efficiently because that's part of – that's the recipe of our operating model. So once we get beyond that investment, and that's within our own capital envelope, I look at the end of 2021 and 2022, I see – right now we inherited about a $40 million USD railroad at a 90% operating ratio, we're not doing our job if that's not a USD $60 million, USD $70 million railroad 2022 and beyond with CP-like margins. Now, there's a lot of work to be done, but I'm telling that the interest is there and it's not just a wish. I think it's truly possible.

<Q – Chris Wetherbee>: Got it. Okay. That was a great opening comment so I appreciate that. There's a lot to unpack within that, so we'll kind of dig right in. Just to get it out of the way, what's sort of thought around the coronavirus? How does that sort of manifests through the CP network? Is it primarily

international intermodal, you mentioned potash though, too. So can we think about a little bit of how that might play out over the course of the next month or two or so?

<A – Keith Creel>: Listen, I'm not an expert. My guess is going to be as good as yours. We could compare notes, but I'm not going to tell you it's not going to have some impact. You can't shut the factories that produce the goods, that go on the ships, that come to the trains, that feed North American appetite for goods down and not have some kind of impact. I don't think though that at this point my guess is based on what I'm seeing, what I know, it will have some impact but I think it's going to bounce back and I think it might put some pressure on the supply chain but I think what we lose we'll recover most of it in the second quarter and the third quarter. I think at our numbers though because again we're unique, we've got this new contract, we're up double digit in international intermodal over last year. Some of it's going to be muted because of our own growth story. But we're paying attention to it. In that space we'll see – well, I think I know of one or two blank sailings now, that could increase, so I expect some impact there. The other place I look at, obviously you talked about the potash. The potash – we went into the fourth quarter and in our numbers, we didn't move near as much potash as we normally would because that contract with China was not signed.

<Q – Chris Wetherbee>: Yeah.

<A – Keith Creel>: And they were in a place and I think because of a lot of issues that were episodic issues with the swine flu that they experienced their consumption of potash was not as great as it was and their on-dock inventories moved up. They had an ability to create a whole lot of leverage in the marketplace so to speak because they're such a big purchaser of the product and they didn't settle and that normally would have happened in the fourth quarter or early first quarter. So what we assumed would have happened early first quarter because of the coronavirus because people were at home and the people that negotiate and sign these deals can't even meet. That's naturally normally can delay this. But again I think it gets resolved maybe I hope next month but if not it's going to happen and I think we'll pick it all back up in the second, third and fourth quarter. That's what I would expect. And again if you look at my compares a normal shipping product in the fourth quarter against one that was not normal last year again helps us fuel optimism that we're going to be fine.

<Q – Chris Wetherbee>: Okay. Okay. No that makes sense. And then let's talk a little bit about – start with crude by rail. It's a topic we get a lot of questions about. Obviously you mentioned the 36,000 carloads and on pace to maybe 140,000, 150,000 over the course of the year. I guess the first thing I wanted to talk about was slow order has been lifted.

<A – Keith Creel>: Yeah.

<Q – Chris Wetherbee>: Has that had any sort of – is there anything to think about lingering impacts of that when you think about your potential for crude by rail in the first quarter and then maybe for the full year?

<A – Keith Creel>: I don't – no. I mean, I think you've got to separate the two as much as you possibly can. In Canada, if we go back to 2013, we had a horrific accident in Québec that killed 47 people. And it was a crude train obviously. So there's understandably so hypersensitivity about making sure that crude moves, we know it has to move and it's moved safely. So when you have a series of unfortunate incidents, and we had two derailments ourselves and CN had some challenges theirselves. When you

look at it in totality you've got to take a pause and say wait a minute do we need do something differently. And that's what the government did. Their initial response, and I've been candid about this, it was overreaching.

<Q – Chris Wetherbee>: Okay.

<A – Keith Creel>: Out of an abundance of caution because they applied it to the entire network everything, not just crude. And I not going to say this is just a crude problem or a crude challenge or a crude opportunity. The conversations I had with the Minister, with the government as well as with the experts that work in Transport Canada, listen there's nobody more seized with concerned than us. I'll let our track record stand for ourselves. We're not a perfect railroad but in this space we've created a whole lot of success because of our process, our people, and our technology. We've been the best by long way for 14 years. That's not by accident.

<Q – Chris Wetherbee>: Yeah.

<A – Keith Creel>: So with that, said let's pay attention to the data and let's see where the data leads us. So let's – I understand we've got to do this for now, but when we have these discussions, let's get the right people to the table and let's make their actions be targeted and specific to mitigate risk and to give us the best answer.

<Q – Chris Wetherbee>: Yeah.

<A – Keith Creel>: And that's why you saw a revision come out two or three days ago that we've been operating on since. And that's a much better place. Obviously, the concern is still there. We have unique investments within our own capital envelope in all of those spaces. Process, people, technology, that will allow the best to get better. But as I've told the Minister and I would tell anyone the truth. There's an inherent risk in what we do. The only way I can tell you we're never going to have a derailment is we never run a train and there are all kinds of unintended consequences for that as well. Just like planes and trains and automobiles.

<Q – Chris Wetherbee>: Yeah.

<A – Keith Creel>: But I can tell you that when we make a mistake or if there's a lesson to be learned, this is an organization that believes in getting better every day. And we're going to be objective, and we're going to be transparent, and we're going to use data, and we're going to take action. And that's exactly what we're doing. And that's what's going to fuel what has been good to become better for this railway.

<Q – Chris Wetherbee>: Yeah. Got it. So when you think about the future – I feel like I've asked you this question on several conference calls and you give a fairly similar answer, but I'm going to ask you again anyway. What do you think the capacity is to move crude by rail on the network, so you're talking about 140,000, 150,000 this year?

<A – Keith Creel>: The reason the answer is the same is because the story is truth. We got burned by crude, no, maybe burn is a bad word to use. Our shareholders took a hit...

<Q – Chris Wetherbee>: Yeah.

<A – Keith Creel>: …because of our optimism in the crude business back in 2014. We believed what we are being told and I believe that the customers, based on the economics, believed they were going to do that at that time too, well the world changed and the price of oil in the CAD $100 a barrel, it dropped substantially. So the economics disappeared and there were no levers for the railway to protect itself and to protect its investment. So I learned and I said you know what, when it came back and we knew eventually it would because we knew what was being built from the production side versus what wasn't being built and delayed on the pipeline side. So that's essentially what's driving crude today. It's, there's not enough takeaway capacity in the pipeline to handle the product. So, as we ramp back up, we constrain demand. I didn't want to be the king of crude. I wanted to have the right amount of crude that would not cause me to go on a spending spree and sink capacity and that's going to be trapped for decades that I'm not going to need when it goes away because it eventually will go away.

<Q – Chris Wetherbee>: Yeah.

<A – Keith Creel>: And those are the discussions we have with the customers. Listen, I want to haul your product, I'm going to move it safely. I'm going to move it efficiently, but I can't let that demand outstrip my capacity and adversely affect my business that I've got that's going to be here now, 12 years from now, 50 years from now. I owe more than that to my customers, and I owe more than that to you.

<Q – Chris Wetherbee>: Yeah.

<A – Keith Creel>: So, we didn't get into a space, we're handling what we can handle without adding a tremendous amount of capacity. Our capacity in our contracts, on our take-or-pays were tied to what do we have to invest in locomotives to haul the business. They own the railcars not us. And there's a couple of surgical like in and around Hardisty, we put some additional tracks in. I'm talking about these safety enhancements we're making to the railroad. So all that was baked in. So we're not in a capacity constrained space. And then what's going to happen and a lot of people don't understand the true power of this, that thesis that it goes away, it will eventually go away when the pipelines are built. Now when that happens, I don't know if it's three years, four years, five years it will happen. When it happens, what's going to be left is what makes sense to be in the railcar. That's where this whole new narrative about the DRU comes in. And that is a unique value proposition for this company because at this point, although two locations have been talked about, there's only one where there's a shovel on the ground and it's exclusively served by this franchise and it's at Hardisty in partnership with Gibson and in partnership with the USD which are two very progressive forward-thinking companies that know first mover advantage. So they've partnered with ConocoPhillips with CP, with KCS to create a business case that's driving investment to build this DRU at Hardisty. So today, to simplify this, we're hauling three starts a day of typical crude oil. So it's heavy Alberta crude which is 70% bitumen and 30% diluent. The economics to make a pipeline competitive in simple terms is take the diluent, eliminate that cost and fill that tank car up now with 30% more pure bitumen. So there's more product moving per car to the refineries. You create the supply chain in the middle, USD is building through KCS, is at Port Arthur, they're building the facility to take it out of the railcar and then the rest of the magic that I love about it as much as the business is the safety aspect. It's not a hazmat product anymore. If you have an unfortunate derailment, if something happens, I don't have the environmental risk. I don't have the public risk. I don't have any of that risk and it becomes a revenue stream for this company that as long as we burn fossil fuels in this nation and I don't see that going away anytime soon, although we'll get better at it, it's going to be on our revenue stream, and it's scalable. And that's the next phase of it.

Once this thing takes hold and people – I think people, being the oil companies, realize they can diversify their own supply chains, they can have the pipeline, they can have the crude by rail pipeline from a DRU which is a pure bitumen. And they also can have the water. And through those three supply chains, they get reliability in their supply that gives them power to make money in their markets which is going to benefit us. So I think other oil companies eventually will come to the table. In this location, bolt on more, bolt on more right now, the nameplate capacity when it opens is advertised at 100,000 barrels. And in simple terms, every 50,000 barrels is train start. So, two trains a day out of the three that we're running out there today, it's not new revenue. It's not incremental. It's going to displace existing. Risk profile is more powerful for us and more exciting for us, length of haul changes too. So, the revenue per car is not as high because the risk is not – is high on a per mile basis. But I'm hauling it, instead of Emerson, the preponderance of it, I'm hauling it to Kansas City, so length of haul extends. So it – in and of itself, that's a 10-year deal that we signed. It comes online next year. It's rough numbers, CAD $100 million a year in revenue with a potential the footprint to double when the business comes and the ability for us to move it without additional capacity in the network when business cuts other than crews and locomotives.

<Q – Chris Wetherbee>: Yeah.

<A – Keith Creel>: So it's a powerful game-changer. I think for oil companies, for this railway, and eventually, there are other players, Cenovus has talked about building one in Edmonton. But in Edmonton, the benefit for Cenovus is they're dual-serve. CP and CN both have access to their facility and/or if Exxon or Imperial Oil were ever to do something in Edmonton, CP and CN have access. So I'm not disadvantaged at all at Edmonton. It's competitive. CN and CP are there. At Hardisty, we provide a great service. We charge a fair price. It's a solution – a supply chain solution that's going to be baked in for a long time. So, again, it's a super exciting development within the crude oil space that makes it – we're going to talk about it for a long time story, instead of its eventually going to go away.

<Q – Chris Wetherbee>: And so you mentioned the 10-year contract and obviously, those are interesting terms for those of us who observe the railroad. You don't see that many deals that long. It feels like that's partly generated by the idea that this seems, from an economic perspective, competitive or closely competitive with pipe. Can you talk a little bit about, sort of, what the business looks like and for your customers that competition relative to pipe is, is it close?

<A – Keith Creel>: Yeah. That's what drove it. It is.

<Q – Chris Wetherbee>: Yeah.

<A – Keith Creel>: Yeah. It's pipeline-competitive. That's – talk to the oil companies for the details, but you condense the difference and you essentially make up with the additional bitumen that's in the car, as well as what they can refine from that pure bitumen on the receiving end. It washes out all the difference in transportation cost and it makes it barrel competitive. That's the way I understand it. And the only reason it's a 10-year deal is because everyone is sinking a tremendous amount of capital. If you're going to make an investment of that magnitude on both ends, you need to have some assurance of what your deal is going to look like for 10 years. That's good for all of us.

<Q – Chris Wetherbee>: Yeah.

<A – Keith Creel>: We all can plan to it. It's profitable for all of us, it's value-add for all of us. So in a case like that, I'm not a long-term contract guy. But to get it off the ground and get it started and create that supply chain, it makes good sense.

<Q – Chris Wetherbee>: And last question on this, do you have capital that you need to deploy to service or are you...

<A – Keith Creel>: Locomotives and people.

<Q – Chris Wetherbee>: Okay. Got it. Makes sense. Okay. Absolutely, go for it.

<Q – Audience question>: Indiscernible

<A – Keith Creel>: It won't be a year but, yeah, it's going to happen.

<Q – Audience question>: Indiscernible

<A – Keith Creel>: When you say light shale, are you talking about the south down in the Bakken or... are you talking to Bakken stuff or the heavy Canadian stuff? Light shale oil?

<Q – Audience question>: Indiscernible

<A – Keith Creel>: Yeah. So if you look at the numbers with what's been brought online and what's planned to be brought online unless that changes, unless somebody backs away from a commitment, there's enough opportunity. You're going to have to have a pipeline going West which the government is committed to doing at some time. It won't be without its challenges. I think Enbridge is going to come on first going East and then of course, eventually the Keystone Pipeline. If you put all those three in play, I don't see crude moving in a train unless it makes good economic sense and this DRU is the only thing when all that happens, it's going to make it – make economic sense itself or maybe a surge. If there's a supply chain disruption, a pipeline shuts down, railroads in the past were a fringe player. We were an insurance clause, so to speak. Those assets cost too much, to make long-term investments to be in insurance clause, that's why I'm so excited about this piece. So in the meantime, we're going to continue to move it all as long as we don't outstrip our capacity on our network. I'm not going to build the church for Easter Sunday for business that goes away in three or five or six years because it's a 40-year decision, I'm going to prepare for that chunk that's going to stay there and I'm going to help make sure it's reliable when it gets to the end markets because it creates value for our customers so that they'll build more of it and then we'll benefit from that as well.

<Q – Audience question>: Indiscernible

<A – Keith Creel>: Yeah.

<Q – Audience question>: Is there something that we should [indiscernible]…

<A – Keith Creel>: You know what unless you saw a headline that somebody has given up on their project, it's just timing and I don't want to say it's – I don't want to be disrespectful and say it's noise. It's just part of the process and it's complicated. But I think at the end of the day, there'll be built.

<Q – Chris Wetherbee>: Sure.

<Q – Audience question>: Indiscernible

<A – Keith Creel>: You're answering my question for me because that's the key focus. Listen, Teck is a great customer. They ultimately make a decision how they feel best to run their business. I'm not going to be critical of that. But when a decision is made that as an operating leader that understands the operation, and in a unique way and I've got to be careful – I've got knowledge of both networks because I've ran both. I understand what it can do and what it can't do. And I understand that if investment is not made surgically and specifically in preparation for that, in that interchange, and I know that our competitor is are investing in their yard, but to get to that yard. It's a three-mile connecting track that connects to my main line. So I can't speak for what CN is doing. I can just tell you that what I need and what I expect and what the infrastructure requires to be able to handle that volume of tonnage, and I can tell you that we're having those discussions now. I knew that this might happen and I said then and I've said as soon as it happened out of respect for Don and Teck because we have a vested interest in helping them moving as much coal as we possibly can and I want it to work. I don't want it to not work. But I'm going to use my knowledge and influence to make sure the right investments are being made between Teck and CN to handle it and if not I'm going to protect my network. I'm going to protect my franchise because that I owe to every customer. So I'll originate the coal. We'll handle two-thirds of the mileage to Kamloops assuming they get what needs to be done between now and then and they have time to do it and they're working on it, I'm going to be an optimist and say the interchange works if they listen and we're certainly going to be a voice that says they must and if they don't we're going to protect our franchise. And in the meantime I think Teck is going to understand and appreciate not that they don't now the value of our service but even more so. Because to me just simply said when you PSR – PSR is about turning assets. It's about velocity. It's about a continual stream like a supply chain. And any time you enter complexity into that supply chain, you have the potential to slow it down. And if you slow it down and you can't move as much then ultimately the product, the end game is not a win, so I want Teck to win and I'm going to do my best to influence as best I can but what's left the two-thirds that we haul that whole new contract has to be renegotiated. And we're going to make sure that Teck, number one, realizes and appreciates and ultimately pays us fairly for the service we provide. So I see that as an opportunity. It's an opportunity for Teck. It's an opportunity for us. So it's a space that we have to manage and the numbers that we've used rough numbers that's CAD $120 million of revenue, CAD $100 million to CAD $120 million of revenue for us on today's numbers, on today's contract. Now again, I'm going to renegotiate that contract and the world has changed when that contract was signed 10 years ago. And our costs are different and our investments have been different, so you can expect that the quality of that revenue when we haul those two-thirds miles is going to improve. And what's left, the capacity between there and Vancouver, there's plenty of grain and plenty of potash and in the future even in 2022, plans for another coal mine, another met coal producer that owns land that's in the process of investing now to bring on additional met coal tonnage from those same areas in Southern BC that we'll be originating and that we'll be taken to West Shore when that comes to fruition.

<Q – Audience question>: Indiscernible

<A – Keith Creel>: The answer is absolutely. There's a plan and it has to be managed and it's certainly I'm paying attention to that because again, uniquely I understand the pinch points there in both networks. I understand what has to work. That coal is going to be going to the north shore, CN is the one that operates it over there. There are agents so to speak to get to the north shore and we're their agent on the south shore for some of our business. That's a piece of the business that does potash and coal. And then you've got two big grain producers over there and you've got the biggest grain terminal that's

coming online later this year in North America that's over there. So there's a whole lot of tonnage pointed to the north shore, and I don't care how much capacity you build over there, you got to be able to get it there too, right? So I'm seized with the concern to make sure the right investments are made so that we can keep that corridor fluid. So again, that's a space that it's not going without attention. Some of it's CN is doing, some of it CP is doing, I think as long as we have constructive dialog and we manage how much goes to both places. A lot of us – those of us that lived through it understand. And I think my competitor would say this, there's enough business in Canada and the service is good enough, the capacity is there, if properly spread out there's space for everybody. We go after and try to earn business for our railroad that naturally fits our network best, that serves that thesis about turning assets and shortest routes. And we don't own the car so we give you value and you own for your cars, we give the reliability. You save money ultimately, I'm not selling you rates I'm selling you a – I'm selling you a transportation solution. But if you offload and unhealthy load up a particular lane, you destroy that service opportunity. I'm not going to let that happen to my railway. And if something anybody else is doing that impedes that I'm going to be a voice. I feel like I have a responsibility to do that. So we'll continue to manage that, we'll continue to pay attention to it. That lane is working well right now for both railroads and I'm going to do my dead-level best as a leader to influence that to make sure it stays that way.

<Q – Chris Wetherbee>: Sure.

<Q – Audience question>: Indiscernible

<A – Keith Creel>: I'm sorry – greater diversion toward Ridley?

<Q – Audience question>: Yes.

<A – Keith Creel>: I mean that's possible. Obviously once they get it over there where they go with it, it's ultimately their decision. But...

<Q – Audience question>: Indiscernible

<A – Keith Creel>: Well, I don't know what other it would be, I guess. I mean you could think about potash. Could you try to – I could give you scenarios, but none of them make a whole lot of sense to me. And I think our value proposition and our access, we can talk about potash. If you were to think about trying to put that additional tonnage, the quantums are so large. There's no way in the world that it would handle it, number one. And number two, our destinations are more – are superior. Instead of going to one location, we go to two on the West coast. We get tidewater at Portland with partnership with UP, which a large chunk of Canpotex's potash exports. They own the facility. So, that's a CP-UP to the West coast. And then we also go to Neptune. Now, if it's going to go to Ridley, the thing you fight going to Ridley is distance. When you think about that coal move that coal move to Vancouver in simple terms, multiply times 2 to get it to Ridley. Double the assets, double the cost, I mean you can't move it for free. You need – you're going to need more cars, you're going to need more locomotives. It's going to cost more money. Do you get to a point where you can't make money on it? So, I just think that's a complicated answer. Anything can happen. It just didn't make a whole lot of business sense to me. I just don't see that as a reality. Not in huge quantum levels. I just don't think there's that much money to be made in that business to be able to justify that.

<Q – Chris Wetherbee>: Sure.

<Q – Audience question>: Indiscernible

<A – Keith Creel>: It's not going to happen soon. Number one, we don't have – I'd say a dog in that fight. We're not at the table. So, it'd be inappropriate. For me, the big four in the US are driving that agenda. If they can get it done, one obstacle has been removed, they had to negotiate, but they still had to negotiate. And that's a big, big emotional barrier to overcome. And I'm not saying that they can't, I'm just saying that if they do, it's going to take some time. And I would assume too if they do, we're not going to be disadvantaged by it. But I'm going to tell you even if I had it tomorrow, you can't just lay it all over the entire railroad and especially in a PSR railroad. If you do PSR, your running – you're creating capacity because you're running longer trains with fewer train starts and you're moving that supply chain. And if you've got a network, put it like this. If the train isn't reliable enough to get across the network when you've get single track and meets and you stop it on the runway for the lack of a better term, you've got a problem. Everybody else is sort of circling around trying to get on the ground. If you've got one man trying to tackle a 10,000-foot train and put it back together again, there's complexities that get involved in that. So I would be very cautious. And for the incremental expense of having a second man or woman on that locomotive, I think we pay for it in those kind of situations. Now, that's not to say, there aren't other applications in the industry, local service. There is a portion of in my mind, that we can use that to stay competitive and to control our costs and not risk safety. And it makes sense, so I'm their greatest fan if they can do it, great. They got to negotiate. It's got to make sense for the employees, the unions, our members, as well as for the company. And if they can find that solution, I'm sure that we'll be able to do it too. But again, it's not going to be a universal application on my railroad. It's just that doesn't makes sense everywhere. So, it's going to be a while.

<Q – Chris Wetherbee>: So, one of the things I've been thinking about and it's great to have your perspective on this is, thinking about Canada in general, from time to time, we get the contracts switching hands as we've seen it with intermodal on your behalf, and then a portion of the Teck contract recently as well. You look out a few years, what do you think the landscape looks like in Canada? And maybe this is a broader than just sort of Canadian term, I asked this to JJ earlier, I'm kind of curious your perspective of what you think is there enough business out there for both of you guys to continue to sort of thrive and grow to the potential that you'd expect? Or does it end up being competitive on the margin because there are some limitations to that?

<A – Keith Creel>: Well, I think part of the business. I mean competition is always going to be there. You've got two strong railroads. They've got a great franchise. The markets they naturally serve best, again same operating models if you operate them with that same discipline. There's some markets they serve best and I'm not going to go chase that business. I'm just not going. I'm not going to go create a solution for a customer that's not the best solution. That's how I protect myself in my mind. I don't want to get in a pricing game.

<Q – Chris Wetherbee>: Yeah.

<A – Keith Creel>: And that's unhealthy. Nobody wins in that. I think what we've done and if you look at our strategy over the last three years, it's all about identifying solutions to help the customers save money, make money, maybe save money is not the right answer. Part of the way you make money is you either grow the revenue and/or you save money. So it's a full circle solution. And if we identify those mousetraps for the lack of a better term, we create stickiness with our customer. This Vancouver auto compound is a very compelling one. So you're talking about a marketplace, now this sort of get

down to 10,000 feet. I'll get down to 3,000 feet. In Vancouver, automotive compound is on Annacis Island, it's an island, so you can't expand. There's limitations, it's ran by the SRY. It's not ran by CN or CP. So if you're bringing stuff off tidewater, you go to that island. If you're shipping too in the past you go to that island. It's expensive and the service because it's so congested and it's in such demand, is not the best. So we get into a situation, okay, we've got all this capacity, we talked about this in our Investor Day and this was in the works already. We'd already thought about this. What's the art of the possible? How can we take this, the surplus value we have in land assets and create solutions that connect it in stickiness to our railroad? So we said, okay, Vancouver. We've got 150 acres around our intermodal terminal. We've got interstates all the way around us. You've got a intermodal terminal and a rail yard sitting side by side, with all this land I said wait a minute. We started talking about it to John and his team. Well, what about an automotive compound. Well, okay. What is it going to cost? Well, we own the land. It's incremental rev – I'll tell you what it cost, it was – I think it was a CAD $15 million investment.

<Q – Chris Wetherbee>: Yeah.

<A – Keith Creel>: Well, CAD $15 million is still CAD $15 million. I said well, I'll tell you what, you got to invest. You got to take some risk. We believe in the product. We believe in the theory. Let's go to Detroit and let's talk about it. We talked about it with all the OEMs. And Ford, they were the first mover. It made a whole lot of sense because they're shipping and paying a whole lot of money for service, that isn't as reliable as they need it to be. We said, okay, here's what we'll do. We'll build this facility, you backstop the deal. You're first mover. You're going to get the great service. You're going to get half the capacity. And I'm going to market the balance of it. So we opened it literally. We built it and opened it. It's been open almost a year now, and it consumed half the capacity and it's created a solution that I think Ford would tell you they're happy with. It's lowering their cost. It's giving them great service. And we took that extra capacity into the marketplace and I'll tell you by the end of this year that terminal will be full. And that's creating a revenue stream for this company that's compelling in of itself, but the other thing when you connect all the dots and you start thinking about this, now let me take you back two years ago. Two years ago I talked about some of that business swinging and creating unhealthy supply chains, when we are retooling our railroad, some of that business swung to our competitor, a company called GLOVIS. And GLOVIS is the shipping arm of KIA and Hyundai and all that stuff is coming in predominantly for Canada markets. It's coming into Vancouver. So they ended up the way – they forward position their vehicles. They produce them. They ship them over the sea and then they pull them from those supply points. Well, in a PSR railroad you normally don't have, you don't keep things on the ground, you keep things turning. When they forward positioned those cars didn't turn, we had a portion of the business, our competitor had the other portion. A 100% of the business swung to our competitor. They came to us. They wanted us to move it at a rate. I was not about to move it for – the margins and I'm not doing this for practice. They went to our competitor and they had a problem digesting all that volume. So GLOVIS calls us. We need some help. I said well, listen I'll help but I'm not your insurance clause. Let me give you a solution and this is what we'll do. And we went to them. We've got land in Woodstock, Ontario which happens to be located between the two Toyota facilities where they build the RAV4, where we have neat car supply. Okay. We also have land outside of Montréal at a place called Les Cèdres that you've heard us talk about. It’s sunk capital. It was bought by my predecessors with the thought that one day we'd move out of Montréal and build a new terminal. When we PSR it I've got a lot of capacity in Montréal. So this is a surplus asset. We said, okay, here's the

solution. You build your own compounds on my land. We'll lease you the land. Your capital, you build it. You can have your own parking lots. I'm going to serve it to and from. We sold that solution. And in September all that business comes to us and it's prepared and ready to handle it. We put a switch in they put the facility in. The beauty of it is, now think about that auto compound. Before with GLOVIS coming online in the business model, I had to send empties all the way to Vancouver to haul the loads back East. Now, what am I doing? I'm sending loads to Vancouver to haul the loads back East.

<Q – Chris Wetherbee>: Yeah.

<A – Keith Creel>: So we've created a triangulation where it's load/load, that not only gives us assurance in service, assurance in supply chain for the car supply, it gives both customers a benefit from the revenue. You create a mousetrap like that, unless you have the physical assets, how do you replicate it?

<Q – Chris Wetherbee>: Yeah.

<A – Keith Creel>: And when you're running the shortest routes, my network is advantaged because it's literally several hundred miles shorter. Because I'm going like this and they're going like that, even on their best day against my best day, if they could build the same facilities, I'm going to beat them from asset turns.

<Q – Chris Wetherbee>: So there's a lot of stuff that's natural to the network with the solutions over there...

<A – Keith Creel>: It's just – I can talk about every – and that's the art.

<Q – Chris Wetherbee>: Yeah.

<A – Keith Creel>: That's how you – we talk about self-help. We design with our franchise solutions that make good sense to our customers that help them win and when they win, we're going to win.

<Q – Chris Wetherbee>: Yeah.

<A – Keith Creel>: And then there's always going to be some of that stuff. The wholesale stuff, some of the steamship lines, it's the same strategy with the steamship lines. A lot of the steamship lines, they've gone through a lot of challenge and consolidation, price matters. But you got some that service matters too.

<Q – Chris Wetherbee>: Yeah.

<A – Keith Creel>: And if you can find the right combination with the right partners where you got to give them a fair price, but you gave them a great service, and that's their value proposition. And that's what we're doing and that's the people we partner with. It's hard to compete against that.

<Q – Chris Wetherbee>: Got it. Well, I have a lot more questions, but we are out of time. So I appreciate it, Keith. Thanks so much for joining us today.

<A – Keith Creel>: Thank you, Chris.

<Q – Chris Wetherbee>: Thank you.

<A – Keith Creel>: Thank you.