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Transcript

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Webcast

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Maeghan Albiston – Assistant Vice-President Investor Relations & Pensions, Canadian Pacific

Other Participants:
Fadi Chamoun – Analyst, BMO Capital Markets

QUESTION AND ANSWER SECTION

Fadi Chamoun
Analyst, Scotiabank
Okay. Good afternoon, everybody. And welcome to our ESG and Growth Conference. This is our second presentation today with Canadian Pacific Railway. So we are delighted to have with us Nadeem Velani, Executive Vice President and CFO of CP Rail; and Maeghan Albiston, Assistant Vice President, Investor Relations and Pensions.

So CP has embarked on this very exciting journey to combine with Kansas City Southern, formed really a true North American rail network covering Mexico, US and Canada. We are excited to discuss today the current state of the business and this transformative acquisition as well as CP is developing a number of exciting technologies focusing on the ESG side as well.

So I'm going to pass the call first to Nadeem and Maeghan for some brief introductory remarks and then we can start the Q&A session following that. Nadeem, please take it away.

Nadeem Velani
Executive Vice-President and CFO, Canadian Pacific

Great. Thank you, Fadi. And despite not being able to be together in person, I'm proud to be here in our Calgary headquarters where our solar energy farm here in Calgary last week just received the 2021 Railway Association of Canada environmental award for the benefits that we provide here. Our solar electricity generation system is one of the largest ones in Alberta, largest private solar farm, and we expect to generate more power than we consume annually. So pleased to be here, and thank you for hosting us. It's a terrific event that BMO hosts.

So... Let me also take a moment here just to thank our 12,000-strong CP family, who've shown just tremendous resilience. This team of railroaders came together, we've been dealing with a lot this year, whether that was initially at the beginning of the year with the polar vortex and wildfires in BC, and now, most recently, some tremendous flooding that took – that occurred in British Columbia.

Our 12,000 team of railroaders literally were moving mountains to get the supply chain back up. And we had 30 distinct outages on our network with 20 of them categorized as a significant loss of infrastructure. The teams worked day and night to restore service in only 8 days, while also ensuring essential critical supplies such as food, water and generators delivered to isolated communities. The incredible effort, once again, this demonstrates why we're fortunate to have the best team of railroaders in the industry.

You've likely also seen the impact of the floods in our weekly volumes. We do view the volume as largely delayed, but not lost given the highway infrastructure damages that's still also being addressed. So, while we've restored service in our western corridor, our Canadian competitor that was challenged as well and had a much longer outage. I will remind you that we work together collaboratively in directional running going in and out of Vancouver. So, as their network disruptions, only was back up and running this weekend, given where we are in this time of the year, some of those volumes, we do expect to be pushed into Q1.

So, don't see, don't expect too much on the cost side. A lot of the costs will be capital, but certainly, near term, we've seen that the volumes are not being as strong as we're accustomed to. And you mentioned our CPKC merger, on that front, we have a number of continued positive developments.

First of all, the STB has deemed the merger application we submitted at the end of October as complete and set the procedural schedule for the regulatory review process which we anticipate will be completed in Q4 2022. Secondly, we also received the necessary approvals from both regulators in Mexico that were required to close in to trust. So, the remaining steps that we have to close into voting trust are the shareholders votes at CP and KCS, our shareholder vote takes place tomorrow and the KCS vote is on Friday, December 10. So, we expect to be in a position to close this transaction a week from today on December 14. So, we're certainly excited for what will be a milestone event and changing the dynamic in the rail industry going forward.

So, a lot of work remains, but we are tremendously excited to see the progress and even more excited about the opportunities in front of us and the value that will be created bringing these two franchises together. This is a deal that's going to benefit customers, employees, shareholders and when you look at the truck conversion opportunities, there are certainly sustainability benefits for society as well.

So with that, let me pass it over to Maeghan to expand on that some of the other comments on the sustainability side.

Maeghan Albiston

Assistant Vice-President Investor Relations & Pensions, Canadian Pacific

Thank you, Nadeem and thanks Fadi for having us. We're happy to be here and I'm thrilled to have the opportunity to talk about sustainability at CP. CP has long been committed to ESG disclosures and practices. We were early adopter of sustainability reporting and actually first published our first sustainability report in 2001. So, it's hard to believe that's nearly 20 years ago.

Likewise, CP has been disclosing to the CDP, formally known as the Carbon Disclosure Project for the past 15 consecutive years. And 2021 has been a particularly active year on the sustainability front as we released our climate strategy this summer, which included science-based targets for reducing emissions by 2030, and more specifically as part of that we're targeting to reduce locomotive emission intensity by 38% and plan to reduce GHG emission for non-locomotive operations by at least 27%.

As the majority of our emissions come from locomotives, fuel efficiency has long been a focus for us on the sustainability side. CP's fuel efficiency is 11% better than the Class 1 average, and through a number of emissions initiatives we've improved our fuel efficiency by 20% over the last decade. But we're not satisfied with just continuing to focus on fuel efficiency. We're proud to taking a leadership role as well in our industry by developing North America's first freight locomotive powered by hydrogen, and this pilot project was something that we launched a year ago, and while it is still in its early innings we're very encouraged by the progress being made and expect to begin testing next year.

Beyond our environmental programs, we're proud of our strong safety culture and have been North America's safest railroad for the last 15 consecutive years. And we continue to invest in technology such as broken rail detection, automated track inspection, wheel-life forecasting to make us safer and more reliable. So a lot of momentum and exciting progress on the sustainability front, and I can continue to list a long list of initiatives and success stories, but given time constraints I'll maybe stop there so we can open it up for a broader set of questions.

<Q – Fadi Chamoun>: Okay. Great. Thank you both for these brief remarks. Maybe just kind of follow-up on kind of your comments, Maeghan, to just keep it on the ESG side, and in an ESG conference, so locomotive is the biggest source of emission for any railroad obviously. You're

exploring hydrogen, you're exploring some alternative fuels. I think it looks like battery electric locomotive at least for short haul and local yard operation maybe viable in the next three or five years. Like, how are you thinking about – I mean, obviously the hydrogen seems like a more of a longer-term exploration into the long-term potential of that technology, but in the next three or five years where you see it's going to move the needle the most in terms of your locomotive emissions?

<A – Maeghan Albiston>: Yeah. So I'd start off by highlighting that when it comes to our emission reduction targets they are not contingent on the success of our hydrogen locomotive project that would be additive to those targets, and potentially move us well beyond those. On the topic of our hydrogen project, CP does have a long history of implementing programs and technologies that are designed to improve fuel efficiency. We were an early adopter and tester of low emitting technologies such as – we've done tests on biofuels, other battery powered solutions. And over the last decade we've certainly seen the results of that. A year ago, we began work to build and design the first hydrogen-powered line haul freight locomotive, and the project itself will convert three types of diesel electric locomotives into zero-emission hydrogen powered locomotives using fuel cells and batteries to power the electric traction motors.

But what's unique about our project is that, this isn't about designing new locomotives, rather we're designing things in a modular way so that we can retrofit existing locomotives. This to us is a capital-efficient solution, but it's also well within our wheel house. We haven't purchased a new locomotive in over a decade. We've built up strong background and expertise in modernizing existing locomotives, and we think that this certainly overlaps with that approach. We're also very fortunate to have a lot of that expertise in-house, and we like the idea of being able to control our own destiny so to speak.

Dr. Kyle Mulligan and the team that he's assembled are certainly experts within their chosen fields, but more importantly they're also qualified conductors, locomotive engineers, railcar mechanics, locomotive inspectors. And so they think like PSR railroaders and they understand the practical implications of the trade-offs of their decisions. So we're very encouraged by the progress to-date. I think to your question more pointedly Fadi, we see a path to being able to test within our yard situation starting as early as next year, and with our hopes to then moving that on to freight line haul over the longer term. So still very early innings. But we're very excited by the early progress, and given our unique skillset and background, tremendous opportunity.

<Q – Fadi Chamoun>: Okay. Any thoughts on kind of the current plan around locomotives that are carrying kind of the heavy freight, the heavy – is there a possibility like your competitors are doing or your peers are doing in terms of blending fuel and maybe achieving little bit more emission on the immediate term before between now and hydrogen, obviously there is going to be a little bit more time, but is that part of the strategy?

<A – Maeghan Albiston>: Yeah. There is definitely parallel streams looking at alternative fuels as well.

<Q – Fadi Chamoun>: Okay. I want to switch over to kind of the KSU transaction. Is the approval from Mexico final at this point? Do you need more process with the Mexican regulator or this is it – you've got everything you need to really close that transaction?

<A – Nadeem Velani>: We received the two approvals we needed over the last several weeks. So we're all complete on that front.

<Q – Fadi Chamoun>: All set. Okay. And then on the STB side, obviously everything has kind of been working pretty well so far. The approval of the merger application and the timeframe and all that.

Are there milestones that you're looking for in the next kind of few months, because like as this process goes through the regulatory process, are there any milestone you're watching out for?

<A – Nadeem Velani>: I think the key milestones obviously as I mentioned shareholder votes and then we plan on closing in to trust next week. Beyond that we'll continue to work through feedback from the STB any sort of – there is going to be regulatory concession asks from a variety of stakeholders, we'll work through that, we'll work through the environmental aspect of the application. We've been working through that since last March. So that is moving forward. Other than that, as far as milestones to look for, I think as we continue to – we'll continue to update the market as we make progress.

But certainly based on the feedback and the timeline that's laid out by the STB, the 12-month timeline is something that we feel confident about. And within that feedback from the STB there is a number of, I guess, milestones around feedback process and timelines for stakeholders to put in their feedback. Apart from that you should see us continue to drive the transaction forward in terms of the key application aspects, so environmental and regulatory concessions.

<Q – Fadi Chamoun>: Okay. And I mean, with respect to some of the larger entities that are kind of affected with this transaction and kind of specifically the Western U.S. railroads, do you preemptively engage with them on this process earlier on, or is this more kind of reactionary process you'll see what kind of transpires out at the whole thing and then you respond to it?

<A – Nadeem Velani>: No, I mean, certainly we want to be proactive as much as possible and work and collaborate with industry and with customers and communities. So where it's feasible, we'll certainly look to be proactive and work together rather than going through call it a concession kind of formal asks. So we're optimistic, the uniqueness of the transaction where its procompetitive and there aren't concessions that would be required to offset losses of competition, it's an end-to-end, no overlap.

So as far as expectations on concessions, we have very low expectations in terms of what would be required beyond what we've already committed to, which is to keep gateways open at fair terms. So we're optimistic that we'll be able to come to agreements with key stakeholders. But there is precedent with the STB, and so certainly if we had to go down that path relying on the precedence and law to uphold what we feel is the right approach to work with peers, would be the backup.

<Q – Fadi Chamoun>: Okay. That's clear. So I wanted to get your thoughts on something with respect to the – I guess, call it, synergies or operational synergies between the two entities. You've highlighted cost reduction or cost synergies of about $200 million, I guess, they are detailed very well in that merger application ever further. But I'm just thinking in terms of, you're an industry unit cost leader, and you're taking a model that you applied really on a smaller network into a much larger network. It feels like there is an opportunity that is not kind of necessarily included in those cost saving opportunities that you highlighted in the merger application. Any insights into that kind of what do you think is the potential here from taking that model from a small network into a much larger network?

<A – Nadeem Velani>: Sure. I mean, as CFO it is my job to kind of maintain some level of conservatism and achievability and ensure that our track record of overachieving continues. But as we continue to peel the onion and uncover the power of this combination, it's tough not to get overly enthusiastic and excited about what the potential is there for as far as both on the revenue side and on the cost side. This is truly a combination about growth. That's going to drive the value, as I mentioned, for our customers and key stakeholders and shareholders, et cetera, and it's

something that we've been focused on for a number of years with CP and KC being the two fastest growing railroads in the last three years. But we do have a DNA of doing things on the cost side and having an efficient railroad.

KCS has done a tremendous job of lowering their costs, but they are early in the PSR story, they are early in as far as transforming their network and combining our team with their team, combining that single line service that improves service, and it is going to naturally reduce costs. So have we been conservative in what could be the potential - absolutely. But again, we like to have a track record of being able to overachieve. And four years from now would we have it look back and say that we did better on the cost side, I would expect so. But also at the same time I fully expect this to be better on the revenue side. So as we grow with the low incremental costs I think certainly you're going to see naturally our unit cost for the CPKC combined network continue to be an industry leader.

<Q – Fadi Chamoun>: Okay. So yeah, obviously extending that operating model into the larger network will improve your cost of operation, your cost per ton, and you talked about the growth. So I'm thinking like, in terms of the financial framework, you start to hit kind of on that higher teens ROIC and kind of very strong margins obviously. Is there a point an inflection – like not inflection point but I guess, is there a certain point beyond which you start to think that this lower cost curve should be taken to market to grow faster rather than kind of push the margin higher but really push the growth higher. Like how do you think about these trade-offs?

<A – Nadeem Velani>: Yeah. No, certainly, we've been – our return on invested capital is close to 17% at CP, that's something that we're focused on. The return, the return focused as opposed to how well can you go in terms of operating ratio or how high can you push the margins. So, we want to have balanced approach, though this is a growth story, the transaction, but it's going to take time. It's going to take some capital investments. It's going to take investment by customers as well, as John and our sales and marketing team engage with customers.

They're very excited about this opportunity and they're looking at their own investments going forward and saying for example in the grain side where do we invest in elevators or how can we take advantage of this unique combination and improved service and better opportunity to expand their reach. That takes – that investment takes time for us to be able to see that revenue come to our railroad.

At the same time, our investments into infrastructure, we've been very clear we want to invest in capacity, invest in CTC and broken rail protection. So, invest in the network on the KCS side as well as CP side. We're going to invest in engineering, and ballast and ties and so forth. And that takes time as well. So, you're going to see growth kind of staggered through the post-regulatory approval starting in 2023 and it's going to take some time to see those synergies come through, because we want to do it in a way that it doesn't detriment to service. But you want to make sure that as you take on this business that you're complementing and enhancing service to your customer. So, getting the capital in place, getting the team in place, getting the origin-destination and to take advantage of this single line service that can improve the offering to customers and improve their supply chain is going to be key.

So certainly, to answer your question, are we going to try to do everything for everyone, it's going to be difficult to try to take on too much, so we have a measured plan to do the USD$1 billion, is there more opportunity than a $1 billion of revenue synergies, I certainly believe so. As we speak to our customers, the feedback is certainly there is a much bigger pie than that. But you want to be measured in how you take on that business again to protect service.

<Q – Fadi Chamoun>: Okay. The – you mentioned the capacity in the kind of capital plan that needs to go in place. I think in our merger application, you talked about doing some USD $275 million I think kind of plan to double track or sidings, I guess, between Chicago, Kansas City and into Minneapolis. You have to wait until the merger is complete to start that process, is that right?

<A – Nadeem Velani>: Yeah. I mean, we can –is there predesign work and planning and service design planning that can take place absolutely. KCS is going to be run independently by their team. We're not going to have any control or influence over their investments into how they run their network et cetera. CP, we will also run our company as we do today. But as we look forward of what this combination will look like a year from now once we get ultimate approval, there's pre-planning, pre-engineering, there's work on our network that can be done today on CTC, on sidings and capacity, on terminals, lands for growth on whether that's investing in assets as well as rail cars, locomotives, et cetera. That can all be done as we speak, as we head into 2022. Systems as well. Things that you can be doing to plan to – for ultimate approval or what the combined entity is going to look like. IT systems are going to be a key aspect of it as well, so pre-work you can do to ensure that you have a seamless integration once you get approval is necessary.

<Q – Fadi Chamoun>: Okay. Yeah, I mean, I guess that line between Chicago and Kansas City becomes a crucial line for all the revenue. Energy that you are targeting, do you have kind of visibility or anticipate any issues on kind of community issues or environmental issues to get the permits that you need or this is not a process that is as intense as I'm thinking.

<A – Nadeem Velani>: No, I mean, we're not going to ignore that aspect of it. It's important to be – to operate it responsibly and be supportive of the communities we operate in from a safety point of view, from a capacity point of view. And so, part of our environmental assessment and working with our communities as part of this application process, will be to ensure that we have the support and we can communicate our story of why this is a positive to the communities we operate in.

Remind you, as part of this growth, we also have a significant jobs that we'll be bringing into the North America, both in the US and in Canada. So, things like that, that support, what was this pro-growth, pro-competition deal brings to the table, it's important to highlight all of those benefits as well. And again, as we've seen in COVID, the last few years, here the importance of supply chain reliability, access to goods in key markets I think is an important aspect of the story as well. And again, the environmental benefits we talked about, getting trucks off the road, what that means in terms of emissions and what that means in terms of communities as well of having less road traffic on highways that the tax payers are accountable for.

<Q – Fadi Chamoun>: Okay. You talked about the revenue synergies, potentially favorable feedback from the customers. I think you presented fairly robust revenue projections and measured application of what is kind of the conversion opportunity that you see and pretty detailed. Is the feedback from the customer or is the kind of growing confidence in this revenue opportunity coming from inorganic growth that is really coming from other modes, maybe trucking or other things like that? And maybe is there a specific commodity type that you feel that maybe represent a bigger opportunity than others?

<A – Nadeem Velani>: Yeah. No, certainly, if you think about what we move and where – what KCS moves and the network reach, Intermodal and a push towards nearshoring is a big part of the growth that we see going forward, and COVID has certainly only accelerated that shift towards nearshoring, there is – the amount of trucks that are being shipped across the border into Laredo that aren't being able to fully convert to rail just given the lack of service offerings and competition is going to drive forward the big part of our synergies.

So, when you look at the reefer business for example and the amount of produce coming north out of Mexico that will serve the North East and serve the Midwest and in the Canada, that opportunity is certainly much more sizable than we initially estimated. And so, as we engage with customers as we get the feedback and we – as I mentioned peel the onion, it gets us even more excited about what we can do on as far as our revenue synergies.

So, Intermodal, both domestically and internationally, the Port of Lázaro Cárdenas has been underutilized, about half capacity. We've seen some of the challenges on some of the US ports, we've seen how Canada has shown resiliency, Vancouver has been able to be successful as far as maintaining its reliability aside of kind of near-term challenges with the floods I mentioned. But if you think about what our combined network going from Vancouver into Mexico, it's a single-line service and then you'd factor in as well Port of Saint John. I think International Intermodal and the conversion that could be for CP, KCS vis-a-vis other railroads, I think it's going to be a key enabler of roads and probably in area that we – you've underestimated as part of our synergies.

And then if you think about grain and bulk, our strong origination franchise, destinations key into Mexico and to lower Midwest. As I mentioned in my opening remarks, some of our key customers have come to us to say, we're investing in this plant or this facility, we're investing in and we're looking for elevators to land some of our products. And as we look forward, we're extremely excited about the CPKC franchise and what this could mean into – to our – some of our end markets. So, those decisions are taking place as we speak.

Similar to when we acquired the CMQ, we had a view of what we could do on the revenue side, but it wasn't necessarily, you don't get as much visibility until you really get a chance to kind of peel the onion, engage with customers, look at the key markets in detail and enable to grow that synergies out of that transaction significantly higher than expected and we fully expect to do the same on the CPKC transaction.

<Q – Fadi Chamoun>: Okay. Maybe quick question specific on the Port of Lázaro Cárdenas, under the current structure, KCS has had a tough time integrating that port with the American – the North American supply chain, hasn't really worked to divert traffic to. Do you believe that with the integration of the two networks, that port could become potentially a source of cross-border traffic as well?

<A – Nadeem Velani>: Yeah. Maeghan jump in. But let me start just by saying that, first of all, I think the nearshoring, as I mentioned, is going to accelerate that opportunity significantly. I think the push on ESG and the benefits of rail is going to drive that opportunity significantly higher, too, just in terms of the number of trucks entering the US, coming in out of Mexico and what that can mean for rail conversion.

And then lastly, if you think about the challenges, let's say, that KCS has had in terms of their network reach, so not being able to go single-line service beyond Kansas City, now you're expanding that network opportunity much further north into a third country as well single-line service, I think that's just a huge catalyst for that port and that opportunity.

So Maeghan anything else you want to add?

<A – Maeghan Albiston>: Yeah. I think that you've hit the key points there Nadeem for – as we see it, it's that extended reach and being able to offer additional key markets for our key customers that we think is really key for long term.

<Q – Fadi Chamoun>: Okay. We've few minutes left, can we switch over a little bit to 2022? Kind of a bridge year, I guess, that you're going through. You've got some grain challenges, which I think are very well-documented at this point. But your non-grain business have done pretty well this year. I calculated last night that you're up over 4% ex-grain so far this year, 11 months into the year, obviously. And you've got some good momentum on the merchandize carload side, especially some of the chemicals and petroleum, and I mean that's across the board.

So as you go into 2022, how do you feel about kind of the overall non-grain growth opportunity for CP Rail? Is there kind of inorganic growth opportunity that you see happening as well? I'm just trying to see kind of what is the play forward for next year ex-grain, obviously?

<A – Nadeem Velani>: Sure. So I mean if you look at, there's been a lot of volatility in the last few years. I think the supply chain disruptions are well-documented and what that's meant to international intermodal, domestic intermodal to an extent and then if you think about chip shortages and what that's meant to the auto franchise. Right now, we're in a very strong position as far as the auto franchise. We're getting orders at a much more normal level, normal being pre-COVID pre-chip shortage. I think we have 1,900 orders on the book for this week, which is a significant step-up from where we have been throughout 2021. So optimistic on the auto side.

International intermodal, as we speak, there's several vessels waiting off of the coast to get into Deltaport, and so I think there's near term a good inventory of volume that's out there that we'll start seeing later this month and into the beginning of 2022.

We also have a number of wins on the international intermodal side, business wins versus our competitor on with Maersk and COSCO and OOCL. So certainly, we see international intermodal being quite strong into 2022 and we've got some very easy compares that we'll be facing. From an inorganic side of the things, we have a new plastic facility with Inter Pipeline that they had invested in infrastructure, we had invested in, and that facility will be opening up. So we'll see strong volumes, opportunity to grow our merchandize business. Our DRU that we began second half of this year, that is up and running, very strong, working with ConocoPhillips. They've been very pleased with that supply chain and that product. And so, that's just starting to ramp up as we speak. And the team is focused on with that next tranche of 50,000 barrels of capacity that we could sell.

Potash, it's been challenged in second half of this year, again supply chain challenges. But the outlook for 2022 is very strong. Again as COVID has reminded us the importance of a fluid supply chain and our franchise is set up extremely well with Canpotex and with Mosaic, so that should be a very strong contributor to growth in 2022.

US grain is running very strong. Our franchise is, again, set up well. We think that's going to be a key growth enabler. And then as we look into a more normal grain crop in the second half of 2022, I think that can be a very strong driver of volumes. 2021, again, has been with significant challenges just on the weather side and disrupting the network, so a more normal kind of operating environment, I think, alone sets us up well for volume growth.

So despite the headwinds on Canadian grain in the first half of the year, those are real and we're facing those today, there's a lot of positive that gets me very excited about what 2022 could look like.

<Q – Fadi Chamoun>: Okay. That's a great rundown. On the DRU unit you mentioned, has the conversation regarding the second phase advanced or is still kind of tentative at this point?

<A – Nadeem Velani>: Yeah. Certainly, I mean, we've been working through ensuring that the supply chain is working the way it is, that the product is transloading in the right manner. And so, it's your usual kind of test runs of the supply chain. So now that's operating very well. So now it's the time to think about what does this mean in terms of future growth. Dare I say the spreads have widened up on crude side, so we're moving a lot crude today than we were the previous 6 months, and so some cautious optimism on crude as a whole.

But certainly, the DRU facility that's unique to CP is something that I think is going to drive further growth. And I'll remind you, we took out some of that growth out of our initial – post our initial view of the synergy assessment. So could that be upside as far as our synergies? Absolutely. But we didn't put it in as part of our baseline.

<Q – Fadi Chamoun>: Okay. A couple of quick small ones. On pricing, in 2022, we saw a big kind of lift in pricing this year across the industry. How do you think of 2022, does it get better or is it same from a pricing perspective?

<A – Nadeem Velani>: Yeah. I think it's going to be better. I think we've seen pricing improve, the cadence of price opportunities improve through 2021. Certainly, inflation, something we're watching closely. And every day it seems that we're going to have inflation accelerating. And now, latest view is maybe latest COVID variants will hinder inflation or temper inflation to an extent. So certainly, that is going to be a key aspect of the conversation when we think about pricing. But the other key consideration is truck rates and driver availability and shortages of trucks, and what that's meant as far as pricing.

And so, that gap between rail to truck pricing is getting larger. And I think that creates an opportunity for rail pricing to solidify. I'll remind you how we think about it at CP, it's got to be tied to the service proposition.

So as we continue to improve our service and continue to drive value for our customers' supply chain through reliability and improving their – lowering their carrying costs, et cetera, that's going to add value to them and that does create opportunities for pricing. And so, we've seen pricing strengthen closer to the 4% range recently versus closer to 3% at the beginning of the year.

<Q – Fadi Chamoun>: Okay. Last question. For the last 3, 5 years, you've talked about kind of the pipeline of inorganic growth opportunities for CP, both coming from other railroads as well as kind of you stimulating the market to some degree to bring traffic on CP through using your capacity, using your network capacity to bring – as we sit today, for the CP stand-alone franchise, are these opportunities kind of get consummated to a large degree?

Do you still feel that you have a strong pipeline for the next 2 to 3 years that you're going after? Does that kind of inorganic contribution that we have experienced starts to wind down for the CP stand-alone again compared to the past few years? And if you have any examples that you can provide will be great, too.

<A – Nadeem Velani>: Sure. So I'd say that there's nothing about our culture that ever has wind down kind of part of it. I sit here just giving you that rundown of the opportunities ahead of us, and where we are today, I'm as excited as I've been as far as our growth opportunities, CP stand-alone, put aside the transaction for a moment. Our service has never been as strong. Our relationship with customers selling that service has never been so strong.

The challenges that our competitor, Canadian competitor has seen as far as their service has given us a lift in terms of our ability to have very concrete conversations with customers around

opportunities. Many of the wins I've spoken to earlier was customers coming to us saying, we need an alternative. We need an option. We're not going to – we don't want to be stuck with one rail supplier. We want to give you part of our business a split part of the pie, so we have resiliency in our supply chain.

That story is far from over. And it's opportunities beyond just the large lumpy international intermodal customers. We've been able to grow our domestic intermodal, our auto franchise, our merchandise base, but it takes time. You can't take on the growth all at once. And so, why I'm so excited is the fact that we haven't done it all. There is a pipeline of opportunities ahead of us over the next several years that keeps us very excited and keeps us enthused and energized. So it's far from over, Fadi.

<Q – Fadi Chamoun>: Okay. I think we have to leave it right there. Thank you so much, Nadeem and Maeghan, for your time today. Appreciate it. And have a good rest of your day. Thank you.

<A – Maeghan Albiston>: Thank you, Fadi.

<A – Nadeem Velani>: Thank you, Fadi.