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# Transcript

Wolfe Research Global Transportation & Industrials  
Conference

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**Webcast**

**Corporate Participants:**

Keith Creel – President & Chief Executive Officer, Canadian Pacific

**Other Participants:**

Scott Group – Analyst, Wolfe Research Group

## QUESTION AND ANSWER SECTION

### Scott Group

*Analyst, Wolfe Research Group*

Great. Hi, everyone. Welcome back. Happy to get going with our next session. Keith Creel, President and CEO of Canadian Pacific. Keith is going to make a couple of quick opening comments, and then we'll get into questions.

### Keith Creel

*President and CEO, Canadian Pacific*

Perfect. Thanks, Scott. It's an honor to be here today. Obviously, the world's changed a lot in a year. I think about a year ago today, and we were the jilted lovers at CP, and here we are a year later, hopefully, we're about to get married. And we've been through – think about this. Since then, we went through the battle of our lives to create this opportunity, this very unique industry, transformational opportunity over the last 12 months. We went through unprecedented fires at CP in July. We went through unprecedented floods. Post getting reengaged to KCS, we went through our closing of trust in December and the floods.

And then we stepped into the first part of this year, things are supposed to get easier, not tougher. And winter came back and reminded us how strong she is, Mother Nature. We dealt with Omicron like everyone else did, lost 10% of our workforce for a two- to three-week period at the same time. Then, as we started to regain our momentum, we went through a strike.

So we had a lot of curveballs. The company showed a lot of resiliency. We still operated well overall, but obviously the financial output of all that was a bit different than what we're accustomed to producing. That said, we said this year was going to be a year of two halves, and it is. It's playing out exactly the way we've expected it to. We've got the first quarter behind us. The second quarter, April is strong, a bit better than what we had planned. May is the same. We see the same thing in June.

Not only do we have underlying fundamental strength across our business book, excluding grain, we have self-help that's coming on the second half of the year. In a world with no fires and no floods and with a normal grain crop, we're setting ourselves up for an extremely strong second half. And then I look for beyond that, I look long picture. I look at first part of next year a favorable ruling is what we would expect from the STB in the first quarter of 2023. And then we get to work realizing these great synergies and realizing the potential of this transaction in this combined network that has never been more needed than it is today.

So we're in a great place. It's been challenging. I'm blessed to serve with these folks. We got a great team at Canadian Pacific. I think it's industry-leading in the good times and bad times. Our results have shown that. And we're partnering with another great likeminded railroad with an energized group of talented railroaders that are running their business independent from us that are as excited about this as we are, and customers that share that enthusiasm.

So we're – this is my 30th year in the industry, Scott, and we're just gaining momentum. I tell you it's probably going to be the best leading for the next innings that are going to be even better than the previous. So I'm enthused and excited and honored that we have a seat at the table to be able to create this for our customers, for our shareholders, for all stakeholders, for North America. And now, in all honesty, is this has expanded not just in North America but even so the world, with the

commodities we'll be able to get to tidewater to help the free world and a world that's changed dramatically over the last three months.

**<Q – Scott Group>:** Great. So there's a lot to get to. And I think thinking about 2023 and beyond is really where I want to focus. But let's maybe do some of the near-term stuff quickly.

**<A – Keith Creel>:** Sure.

**<Q – Scott Group>:** And then – so give us more time for the long term. So just quick snapshot where we are second quarter, RTMs tracking down mid-single digit. How is that relative to plan? What's turned better than you thought? What's turned worse than you thought? And then you've talked about double-digit RTM growth second half of the year. Are we still feeling good about all that?

**<A – Keith Creel>:** So, our demand profile, what we planned and what we expected, mid-single digit down, which if you adjust for grain, that's positive single digit because it's about a 10% or 11% headwind for us. Right now, we are at our worst or I think we're around 12% now. We're getting better every day. We're south of 5%. I think this morning, we were like 4.2% on an RTM basis. So, again, 4.2% is actually 6% if you adjust for the grain. So all the things are playing out. We've got underlying strength across the book of business, whether that's merchandise, intermodal, double digit, domestic. We're about to have our greatest domestic revenue month in the history of the company.

And guess what? Next month, there's still a lot of demand. And maybe some of the dynamics that you might see occurring with spot rates in the US are occurring. It's a natural outcome. But, as we've said, domestic and intermodal is different in Canada because of length of haul, because the networks are so far apart, the railroads really play a key strategic advantage to the shipper even more so in a world where we're seeing fuel prices going up, you're seeing in some cases truck move, a domestic truck move in Canada. If you go to eastern Canada, sometimes the fuel surcharge is as much as the revenue rate is. So you get 100% on fuel alone. So that creates more opportunity for us, which is unique.

And again, when you have the best network in Canada to serve those domestic markets and the best product out there, then we're going to attract business, which is what we're doing. So, across the book of business, again, except grain, strength in coal. We're about to lap the coal from last year, but still, Teck's doing well. We're going to continue to move a lot of their coal. Potash has never been needed more. Effectively, whatever they produce, we're going to be able to move. And we're looking – and part of our plan is to create more export, more opportunity for our partners in business in potash to grow market share on the world forum. We're going to enable that.

Grain, same thing. The US grain product is sold out, tremendous amount of demand. We've created new markets and taking US product into Canada to backfill what would have been feedstock that would have come through a normal grain crop in Canada. Obviously, the drought, it's going to end. We're in a good place I think looking at the second half for moisture levels. In our growing area, seeding is starting to occur. So we're setting ourselves up again. Everything we've said, we get into the second half.

Right now, you get into the third quarter, I see double-digit RTM growth. You get into fourth quarter, I see strong double-digit RTM growth from the strength of the demand and then on a compare basis. So again, what we've said, we're going to get to a place that leads us to positive earnings, that leads us to positive RTM growth for the year in spite of all these challenges and sets us up extremely well for 2023 and 2024.

**<Q – Scott Group>:** Okay. Sounds good on the volume side. And then the other pieces of guidance you gave us, sub-60% operating ratio, second quarter; mid-50s operating ratio, third and fourth quarter. Any sort of update that you want to give us there? How are we feeling about all that?

**<A – Keith Creel>:** Just expect us to do what we said we're going to do. We're going to be a 5-handle second quarter sequentially, a significant improvement over the first quarter. So sub-60% in the second half on the base of – the back of all that density that's coming back to the network. That's just a natural outcome. When you're moving that much volume, you're doing it efficiently. Something we think about – Nadeem made a point to me last week and he's right. This is going to be the first crop year, a normal crop year where we had the density in our new cars to really optimize our 8,500-foot grain model which we help create in Canada. We've got 40% of our origin elevators now that we're going to be able to launch. Load and launch within 14 hours an 8,500-foot train going to two West Coast terminals. They're both uniquely served by CP on the south shore at Viterro as well as on the north shore, the G3 facility.

We can turn those assets and you're going to see us move a whole lot more grain at a whole lot better margin for the customer, as well as for the railroad. So all those things are moving in our direction and wind at our back as we go into the second half.

**<Q – Scott Group>:** So you talked about a lot has changed globally with respect to commodities and that's a Russia/Ukraine comment. And so with coal prices and potash prices and grain prices where they are, right, where do you see the most upside potential over the next 12, 24 months? And if we stay in this high commodity price environment, where are your customers making the biggest investments? So where's – and how are you positioned to participate in that?

**<A – Keith Creel>:** Well, I think you get back to a normalized Canadian grain move you're going to have sold out, which is normal in Canada, okay? But the yields are going to increase. There is going to be more grain per acre to move, that's – we're going to be uniquely benefit from that. You think about potash – you think about our network again and it's unique. We're the main transportation provider for Canpotex. Canpotex is the number one potash producer in the world.

There's more market share to be displaced from ally-shoring, so to speak, to displace Belarus, displace Russia who are number two essentially. Whatever they produce, the market is going to be there to convert. Brazil's taken over as their number one customer. You set ourselves up and you look at we've got the origin strengths now, we get our deal approved pending the STB's approval. We've already been out to see the terminals. I spent the last – probably last month, I've looked at a lot of the KCS's railroad, out on train trips and inspection trips and then helicopters and then terminals. And I'm telling you just exactly what we said, it's a destination-rich network.

So in today's world, if you think about an ability to create a port, and I know Nadeem talked about this a bit, that gets you closer to the market where their market share is growing and will only increase, and you can originate Canpotex tonnage; you can originate K+S tonnage. And that's in today's world, that's an opportunity for this unique franchise. And we're going to be able to connect cradle to grave from origin to destination.

And if you're – I think about it in an operating sense, it's not just a revenue play. It's a customer play. You think about if you're Canpotex and I'll just use this as an example. They have fleet of cars they own; we don't own them. They have state-of-the-art cars. They happen to be the same kind of potash cars that we move our grain in, so very high-efficient, low-cost, reliable asset. They invested in the fleet five, six years ago. They're looking to buy more cars.

Well, do they want to buy 20% more or 20% less? And if you can create a mousetrap, we're able to create tidewater to land this potash at down in Texas through this combined network, the investment it unlocks. You've got an ability to move 2 million, 3 million, 4 million new growth tons at a lower cost that allows the customer, not to have to buy as many cars to feed a market and to create more market share for the next decade plus. Again, that's a unique opportunity for us.

You think about that, I can talk to you about lumber. I can talk to you about propane. I can talk to you about grain. I can talk to you about investments that, not just discussions, but actions that are occurring. I had a meeting last week in Chicago where people were at the point – our future customers, our future partners, pending the approval of this transaction of shovels in the ground building facilities. For us to take what we've done in Canada with the 8,500-foot grain model and the success it's created and create the same mousetrap for the US model, going to tidewater and/or going to Mexico.

So again, those are all things that are in process, not being talked about. They're in process of actually occurring so that when we get this transaction approved, we can hit the ground running. You'll see revenue synergies in 2023, you'll see it in 2024, you'll see it in 2025, and that's just the start.

**<Q – Scott Group>**: Okay. So let's talk about KCS. And you're right, a lot has changed in a year. I think we had you and Pat scheduled to speak together. And then literally two or three days before the conference, we had to...

**<A – Keith Creel>**: They broke up with us, Scott.

**<Q – Scott Group>**: ...scramble it up and put JJ with Pat and you on your own.

**<A – Keith Creel>**: Hey, we all get confused in our life. Getting to our lasting relationships, you got to go through some troubles, right?

**<Q – Scott Group>**: Exactly. So first quarter 2023, right? Is there any risk that we get pushed out any further, or is that – that statutory deadline, that's going to be it, so February 23 is sort of when it will happen?

**<A – Keith Creel>**: Let me speak to the statutory deadline. You're right, we're back on track. We resubmitted our data. The clock started again. The clock says February 23<sup>rd</sup>. That said, the STB has plenary authority. I'm not going to say the STB can't do something new and special, but that's the date. So unless they do something from a statutory standpoint and take action, that's what we're working against.

And the other part to that that runs parallel to it is an environmental impact study. We believe a lot of that work, at least the draft impact study, we should expect to see it over the next month or two. Once that comes up – comes out, we'll assess it, obviously. We think we got a good idea because we did our own studies, and we've hired our own firms to assess all this.

We understand what the impact is. We've continued to work with our communities. We've had some progress as of late, some I can speak to, some I can't yet. But we're starting to move the needle in that space, too. And at the end of the day, we think that that process is going to work out in parallel. We think they're going to complement each other. The STB is going to be in a position, we believe, with this case closed and with the environmental impact study done in its findings to get us to that date. We really think that's the potential outcome.

So worst case that they make the decision in February, you've got a 30-day period before we can take control, assuming – and that's all I'm going to assume based on facts is it's positive and we take control, worst case, March of 2023.

**<Q – Scott Group>**: Okay. Now, every rail is doing what they always do, which is they're asking for something.

**<A – Keith Creel>**: Yeah.

**<Q – Scott Group>**: And so what's reasonable that's being asked for that you can live with? What's unreasonable? Is there anything that when you look at what's being asked if the STB actually goes for it that says, hey, the USD 1 billion of revenue synergies or this of cost synergies or whatever gets tougher to achieve?

**<A – Keith Creel>**: No. I mean, let me bottom line this. I've spent a lot of my time reading and understanding. And I listen to what the STB says. And I know in February of this year in one of their rulings they said that mergers are not meant to fix preexisting conditions or issues. They're meant conditions would come out of in relation to addressing public harm. And in this transaction, because there's no overlap, because we've said it time and time again, it's end to end, it's hand in glove. This creates competition. This creates capacity. There are no losers in this. So what harm is there to fix? That's number one.

So number two, when we speak to reasonableness, if there were reasonable expectations right now from those railroads, we'd have an agreement with every one of them because we remain available to talk about reasonable outcomes. But we're not going to be held hostage. And if it means that the STB ultimately has to rule on what I think are some extremely unreasonable positions, then I'm going to take my chances with the law. And with an STB, their mandate is to serve the public's interests. They take it seriously and they create a stronger US rail network. And this uniquely, I would suggest, especially as of late and everything that the other challenges that the railroads have gone through, that we have stayed out of the fray because we've created a sustainable PSR model the way we do it at Canadian Pacific.

I'd say there's more of a case need for consolidation, not less of a case to diversify, to uncomplicate the US rail network, to create single-line service that allows you to get from origin to destination markets without having to introduce the complexity of handing off a car to another railroad. And you're dependent upon two different railroads for potentially two different outcomes. So I think there's a space for this uniquely. I think it's a stronger case, not a weaker case. And I think, at the end of the day, we'll stand on the facts. And if somebody is reasonable, that being the other railroads, we'll get a deal. If they're not, we won't.

**<Q – Scott Group>**: So you think the service issues that the US rails are having arguably helps your case in terms of protecting against some of the concessions that they're asking for?

**<A – Keith Creel>**: Well, yeah. I mean – I think they're disconnected. I'm just saying it helps in my mind if you're the regulator and you're dealing with some of the challenges that the other railroads have dealt with and you're dealing with the CPKC solution. And I would suggest that CP has had a unique outcome during all these challenges, KCS themselves. We weren't compelled to testify. We're invited. We chose to participate and share our metrics and share our story. We're not a perfect company, but we've been at this a long time. I've been at this a long time. This isn't our first rodeo.

We rode the storm of the pandemic better than any other railroad. For our customers, we maintain our service, for our employees, for our shareholders. And through this storm, we're doing the same thing. We're doing what we know how to do day in and day out. We're running an effective, healthy, precision scheduled railroad operating model, and we happen to be the only railroad that is an ability – has an ability to execute the way we're executing.

And I'm not bragging about that. It just is the fact. The other railroads will – they're going to adapt. They're going to grow. They haven't been through this. This is new to them. This is the right way to run rail networks. This is the right way to run any company that's an operating company. As far as I'm concerned, it's a universal way to run a business. It's a healthy way to run the business so you can create cash flows, so you can continue to invest in the network, so you can grow, so you can create capacity, all those things but it's multilayers. It's not just cut, cut, cut. It's a formula that you have to apply.

And we're going to get an opportunity, I believe, with KCS to do this on a bigger scale and connect three nations at a time where the world has never needed these three nations and the infrastructure this can create more than it does today. I think it's a very unique opportunity, a very unique time and space, and a very unique company that's going to be able to execute this.

**<Q – Scott Group>:** So maybe just given what you just said, as a quick aside, maybe as the thought leader in the industry, right? So right now, this PSR model is under – arguably coming under attack from the STB. Do you think that the service issues right now are being caused by PSR? Is it just that – did they just cut too much? What's the fix here for the other rails that, by the way, you need to – you interchange with and you need them to get better, too, in order to get where you want to go?

**<A – Keith Creel>:** Well, let me say this. Number one, it is getting better. I can see in our cycle times, I can see in the business we do east, I can see in the business we do west. In my conversations I've had with Pat and the KCS and how they're running, things are getting better. But it's not best. It's not best yet. So what I see on the outside looking in, and I – you can kind of predict this. We, in my history of doing this, and I've been doing it for 20 years, I haven't gotten it all right. I've messed things up.

I used to say as a young operating officer, sometimes you got to get burned to learn. But ultimately, you get stronger and you learn from your mistakes. And these other railroads, they're proud railroads that have resources, that have leaders that want to do well for the customer and want to do well for the shareholder, want to do well for the country. They've stumbled a little bit, okay? They've got to learn. But they're smart folks that are committed, and they've got the resources.

And then the reality is the time that they stumble, Scott, everybody else has stumbled, too. You're implementing PSR, you're rightsizing networks based on the businesses at hand, and then you get the tsunami, tidal wave that's been created that was triggered by the pandemic with unprecedented demand, with this hot economy, with all this money and with all the slack in the chain, and it sloshes this way and it sloshes back that way. And so while it's going down, you got to understand, when you go down, you never take it all the way to the bone.

I think about how we handled the pandemic, our business went down a lot, too. We were growing leaps and bounds compared to everybody else. Then we get static. Well, we had all these resources in place because that's the magic of it. You got to have the right number of people, the right number of locomotives, the right number of cars, and you have to have the infrastructure, and it takes time to do that.

Even at CP, we're still investing in our infrastructure. We've never spent more money. We had to build the framework. It's like – and I said this to somebody a couple of weeks ago. I said, you want the economics of a big plane. You want 747 economics and you want every seat filled. But you got to have a runway to land it on. If you don't build the runway to land it on, you're going to have one flight, and it's not going to be a very good outcome.

So it's going to take some time for the railroads to build out their networks. They've got to build out the terminals. They've got to build out their line capacity. They got to make sure they understand the models. You create a plan. You understand the pieces it takes to execute the process and you had to stay there. And when you go through these dips, Scott, the old way – the old railroad historical way, furlough boards. Lay people off, they'll come back. That's just part of the business.

Railroads are always a high-paying job. It's a great place to work. People come, they stay for life. They may complain and gripe sometimes because our jobs are not easy, but they're going to be there through thick and thin. Well, what's happened is the world's changed. And when it went down and they assumed it would come back, those people aren't there anymore. They're working in other places or they're not working at all. They have other choices. They don't want to do the outdoor sports.

So the world shifted on them. They're going to adapt. They're going to adjust. They're hiring. They got the locomotives. But again, it's the locomotives, the people and in the same time, they're going to continue to invest in their capacity, in their terminals, in their lines of road. In two or three years, four years now, you could have the same thing happen, and it'd be a dramatically different outcome. I think it would be more CP-like than what they've experienced in all honesty.

**<Q – Scott Group>**: Okay. Let's get back to CP/KCS. So what – how do you think about the combined railroad and what the growth should look like starting in 2023? Is this – I mean, in the context of the CAD 1 billion of revenue synergies, is it sort of spread equally? Can you hit the ground running where maybe 2023 you get even a bigger than the lion's share of it? How do you think about what this business should be doing?

**<A – Keith Creel>**: I think you need to go back to the one fundamental thing you can never get away from. If you're going to run a PSR railroad, you got to have the infrastructure to do it on. So what unlocks this investment, this transaction is line of road that's connecting – uniquely connects at Kansas City, but it's our line from La Crosse, Wisconsin and the west side of the Mississippi River over to Chicago, at Savanna, Illinois, and then KCS down to Laredo. Well, on both sides, as we put in our plant, we've got about USD 300 million of infrastructure investment. You can't spend USD 300 million in one year. So it's, essentially, to simplified terms, a third, a third, a third. You build the infrastructure and then you layer on top the business.

So when we have our discussions about the business, it has to have a discussion about do we have the capacity to handle it? Do we have the people to handle it? Do we have the locomotive to handle it? So, listen, we got surplus locomotives, KCS is long on locomotives. So that's something that we paid a premium for if we get some expensive locomotives at a nice multiple, but that's in our back pocket. Okay? So that's going to help us avoid future capital. But still, we've got 30 sidings that we're going to invest in, new sidings or extended sidings that it's going to take a three-year plan to do it but, again, in chunks. We're doing some stuff getting ready for it now on our side. They're doing some things independently on their side to build this superspeedway. You start to layer business on it as you do it.

So the way I see it, we would destroy our operating model if we try to bring it all on the first year.



**<Q – Scott Group>:** Okay.

**<A – Keith Creel>:** So we're strategically stacking this. And the discussions that we're having – and I'm part of all these discussions with John and with our asset guy, Mike Foran, because that's how you create the model. We're planning it all. So you're going to see an intermodal train when we start. We're going to create this speedway from Chicago to Laredo.

Then the next step, you're going to eventually see a steamship call on Lázaro on a weekly basis. We create a little bit more density. You're going to see right now discussions that we're having. And this is part of the intermodal play that really, really is getting exciting to me. You're going to see us play our playbook, you think what we did in Canada. We used our land assets that are contiguous to our terminals. We partnered with, we'll use Vancouver as an example, with Maersk. We built a transload facility on our land. We paid to build the building. They paid to equip the inside of it. They're running it and it's connected to the rail, and it's taking trucks off the road.

That same model, think about Toronto, think about our terminal. We've always said this. We're blessed with land assets. My predecessors did that for us. KCS has done it and it's like it's fate. I had no idea until we bought the asset and I started looking at maps and understanding the land assets that they have. We have at CP 1,000 acres we're converting into revenue streams by doing this model. They've got 6,000 acres. 4,000 acres of the 6,000 acres are contiguous to their terminals. They've just never had the reach, the network to justify the investment.

So, think about today and soon, we'll be able to talk about it I think shortly after we get a favorable ruling on this execution. We're talking about a mousetrap that creates a warehouse on our footprint in Toronto, that complements a warehouse that might be on KCS's footprint in Kansas City that complements a warehouse that might be in Monterrey.

Now, think about the last frontier and intermodal movement, over the road truck movement, taking trucks off the road, which is what the STB wants us to do. It's what ESG wants us to do. It's what we need in this industry. Right now, Mexico is sort of the fruit basket of North America now. The fruit, the avocados, all those things that used to be grown in California are being grown in Mexico and there's plenty of it. And right now, it's being trucked into US markets. It's going across the border.

And if you think about the borders, you learn the details. How many people understand that that border is closed at night for the truck? Not for the railway, for the truck. At night, they've got eight hours a day they're not open. On the weekend, same thing. It's much like the West Coast ports in the US. It's not running 24/7. So it's very inefficient. Create a seamless rail network that goes across. Take those products that are coming with a model in Canada where we run reefers.

Right now, truckers provide that service in the US, whether it's protein going south or produce coming north. If you can create an ecosystem with an ability to bring in density off the road, say, in Toronto, cold or frozen goods, put it on the rail, take it to the Midwest, what's the Midwest? What's Kansas City-Omaha? That whole space around Kansas City, that's the protein breadbasket of North America.

That's the beef and the pork that's being trucked into Mexico. Put it on the rail in Kansas City, take it to Monterrey, offload it, get some of those avocados, get that fruit that's got to come back to the Midwest that's being trucked across the border that goes in Toronto. Get some of those frozen French fries that are grown in Saint John that comes into Toronto and put them in that railcar and take them to Mexico. There's this...

**<Q – Scott Group>:** You're getting everybody hungry.

**<A – Keith Creel>:** There's this ecosystem that this rail network is going to create a solution for that has never existed and it's not possible without it.

**<Q – Scott Group>:** So clearly you sound very confident.

**<A – Keith Creel>:** You don't have enough time. I could talk about every business unit.

**<Q – Scott Group>:** But you also said we need to invest a little bit first. And so don't...

**<A – Keith Creel>:** Yeah.

**<Q – Scott Group>:** ...put it all in 2023.

**<A – Keith Creel>:** A responsible PSR is you got to put money in rails, ties and ballast, build the network, the hard assets to be able to execute the operating plan.

**<Q – Scott Group>:** Okay. So, a year ago, maybe me and maybe others said, okay, CP is going to do a 55%, and KSU is going to do a 56% and put it together, and then get all the synergies and keep growing. And we'll be – oh, it's easy. We'll be at a 48% OR in three years, right? What do you think is a better way to sort of think about this?

**<A – Keith Creel>:** I think operating ratio to me is just an outcome of running the business efficiently. I think, when I think about building this railroad, I think about turning assets, I think about creating capacity. And when you do that, when you have the right number of optimized assets and I'll just – let's talk about 110-car grain train right now, and we've run some test shipments, some interline movements over Kansas City with Canadian wheat coming out of Manitoba, going to Mexico City. That's a 3,000-mile length of haul. That's pretty long length of haul, 9.5 days one way.

So you got 20-day trip, I think about tomorrow is 110-car really the optimal model? Or again, back to my point, 134, 135 cars is the sweet spot. It's the sweet spot because I can add 25 more cars. I don't need any more crews and I've got a half a locomotive that's being wasted. So I'm fully utilizing the locomotive, I'm fully utilizing the crew. I've built the physical network to be able to launch and land. That's how you create margin. That's how – and the way we've done it through the investment, Scott, it's the same model when we created in Canada. We weren't hogs about this.

As I said, had the conversation back then when G3 was first being created, I said, if you're going to go to the north shore, build a terminal where we can optimize the train set. We need more capacity. You need more capacity. And guess what you will do, if you invest the money, you build the terminals. I'll buy the cars, we'll split the savings. Same discussions. It's like fast-forward seven years. Last week, sat in Chicago with one of our future customers, same discussion.

Guys, if you want to change the model, you want to be thought leaders, you want to lead the pack. We could do this here. This is what it takes. It takes a partnership. You invest on this, we both share in the winnings. We create a unique mousetrap. Customers win. Economy wins. Stakeholders win. Our employees win. It's truly is the right way to run a business. And guess what the outcome is? You move more product, it's at a lower cost and your margins are pretty darn impressive.

**<Q – Scott Group>:** And has that been – is there – as you've done your work, continue to do work, looking at the tracks, KCS, US, Mexico, is there more to go in terms of taking your model to that railroad?

**<A – Keith Creel>:** We just need – oh, my gosh. Yes, yeah, it's – I mean, it's big scale. I mean, again, I had no idea. I went out I took a trip maybe last month over the Meridian Speedway. So I went from Meridian, did the trip with NS. Obviously, I was just an observer trying to learn about it, understand.

I hadn't been over that railroad since they spent all the money and they created the partnership. And I tell you, I was impressed. I was really impressed with the infrastructure. They got off in Shreveport. I stayed on to Dallas. I got to Dallas and I saw a beautiful intermodal terminal that NS and KCS have built that has a lot of capacity in it. It's leading edge. And that was exciting.

But what I got most excited about is contiguous to it, there's 500 more acres of just flat land. With the railhead coming into it and with the world growing around it and I'm seeing a lumber transload facility. I'm seeing a transload. I'm seeing liquids. I'm seeing Canadian lumber, single line serve. Nobody else can do this coming out of the the Canfords of the worlds, the Interfords of the worlds and the Resolutes of the world, coming from Canadian product to the single largest demand center for lumber in North America in the Dallas markets with a place to launch it in Canada and a place to land it there. And then I see that centerbeam, Scott, getting emptied and then I see Southern Pine that's being produced on the same network where we can triangulate and send the empty right there. You eliminate the empty miles and then you take a little going north.

And I think about – you think about the scale of this. So I went through the math of this yesterday looking at it. We get it, CP a fleet of about 1,000 cars in the centerbeams. CN's got a better origin network but we still have a footprint. We got 1,000 cars. We're getting today 350, 400 boats a week. There's demand for 20% more than that on a weekly basis. I can take my existing fleet. I can eliminate over this network 24 hours each way, 48 hours, that's 2% or 3% more capacity I create with the same fleet. Single line again served. I think about I can take the fleet I've got and I can get 20% more out of it just by cradle to grave. I don't hand the cars off, I run it down this new network that's been invested in. That's a 49-mile an hour railroad, originate it, terminate it, reload it, it's – and again, you think about the margins when you take all that empty – all that deadweight out, so to speak, you create capacity, better utilization of the asset and it's at a lower cost. It's just a natural outcome.

So there's – again, I can talk about that. There's so many examples out here and I'll tell you, I'll say this, case in point, we're landing our second ship Saint John tomorrow. We've talked about this. I think it would probably be, by now you know, the port, the government just released. They've approved as of today the final CAD 42 million that to me culminates a vision that we started two years ago. That port is 100,000 TEU capacity. They had a plan to take it to 300,000 TEU. We get involved – no, here is the vision here. We spent a little bit more money and we're going to get it to 800,000 TEU.

So this is the culmination of two years of vision in partnership, strategic partnership. The money's being spent. By 18 months from now, that's an 800,000 TEU terminal. We bought that railroad trying to take it from US \$40 million to US \$100 million. At the end of the next year, it's \$200 million. There's a need out there for this. There's a need for the capacity. The customers recognize that we're going to be part of their solution. We're going to help them win in their marketplace in a unique way. We're going to blow by the billion dollars in synergy, Scott. It's – again.

And whatever the operating ratio is, we run a railway to our potential. It's going to be best in class. It is. But again, we're not going to get greedy. We're going to pour money back in the network. We're going to be producing, I was talking to Chris about this. You put these two railroads together. If I go to 2023, you're north of CAD 3 billion of free cash flow. That's after the capital that we're investing to create and unlock the initial synergies.

Now, what do I do with that? My debt's back at healthy levels. We've satisfied the rating agencies. We've got – maybe we want to do share buybacks. Maybe we look at by the end things, I don't know

yet things that we can invest in to create mousetrap for customers, to create more capacity for this franchise, for this network, for these three countries. We're in a very, very, very good position.

<Q – **Scott Group**>: So we're unfortunately out of time. But your point is, you think you could be back in the market buying back stock at some point in 2023?

<A – **Keith Creel**>: If that's the best use for capital, sure. Yeah. And in some level, we will.

<Q – **Scott Group**>: Sure.

<A – **Keith Creel**>: But we're going to have – you can't just deploy CAD 3 billion all on infrastructure.

<Q – **Scott Group**>: Sure, yeah.

<A – **Keith Creel**>: We're going to have a balanced approach to it. But yeah, that's our vision right now. We'll finish this year 3.5 times on a view – on a path to get to 2.5 times, which is where we started this path by the end of next year, and then we'll be in a position to start redeploying cash.

<Q – **Scott Group**>: Okay. Fantastic. Thank you, Keith. That was great.

<A – **Keith Creel**>: Thank you.