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<u>PARTICIPANTS</u>
Nadeem Velani, Vice President & CFO Canadian Pacific
Kevin Chiang, Analyst CIBC World Markets

Good morning, everyone. I know people are still working their way in the room, but with a tight schedule, I thought we'd get things started on time. So welcome. My name is Ed Dodig. I head up CIBC's equity markets team. And it's my privilege to welcome you all to our second CIBC's Industrials Conference and Tour. This event is a great way to connect both investors and executives from leading issuers to discuss opportunities and other topics in the industry. Once again our hosts Jacob Bout and Kevin Chiang have assembled an impressive roster of speakers and itinerary for the next couple of days.

When we met last year, the market landscape looked a little different. The start of 2016 saw a significant correction in equities and headwinds associated with low commodity prices. As we turn to the year ahead, the improved 2017 outlook for industrials has reflected, one, a stabilization in commodity prices. Two, a pickup in economic growth in Canada and the U.S. Three, improving freight volumes. And four, an optimism around infrastructure spending.

Some key themes around freight volumes, big infrastructure coming down the pipeline and heightened political uncertainty are top of mind in this space. Lots of engaging discussion to look forward to on these and other topics over the next two days, and on Friday, we'll be hitting the road for a site tour.

I also want to take this opportunity to say thank you for putting your trust in CIBC. Our goal is to be the number one banking client relationships. That means putting our clients first and adapting to a changing banking industry and delivering innovative solutions to help you succeed. Thank you for your business and for your trust. We want to continue to build up momentum and business as we move forward.

Please enjoy the conference and reach out to Jacob, Kevin or myself or any other CIBC staff here if you have any feedback or questions. Thank you, and enjoy your day.

MANAGEMENT DISCUSSION SECTION

Kevin Chiang: Good morning, everybody. Jacob and I would also like to personally thank everybody for joining us here at our Second Annual Conference. We are going to kick it off again this year with CP. It's my pleasure to introduce Mr. Nadeem Velani, CFO of the company, been with CP since 2013. I think he is going to kick it off with some opening remarks and then we'll jump right into Q&A. So, Nadeem, I'll pass the podium off to you.

Nadeem Velani: Thanks, Kevin. It's a pleasure to be here in Toronto batting lead-off at your conference. As Kevin mentioned, before we head into fireside chat, I thought I'd take a few minutes, give an update on CP, CP's story, which I think has been somewhat underappreciated the past year.

We'd start with the network. In the past, I think this was considered a structural disadvantage by some, but certainly we don't see it that way. We see a network with a very strong origination franchise which can support our growth agenda. We have the benefits of a network with the shortest route miles in key corridors in Canada and to the U.S. Midwest.

From Vancouver to Chicago, for example, we're about 185 miles shorter than our rail competitor, it's about 8% faster and in terms of – or shorter I guess. And from Toronto to Calgary, similarly we're about 144 miles shorter by distance and about 7% shorter relative measure. We do have a much more southern network as well, with eight border connections between Canada and the U.S. We also connect with U.S. carriers at Minneapolis, Chicago, Kansas City and Albany. So, not only do we have a network advantage in our own territory, we have the best connectivity with Class 1 partners in the U.S. Northeast and Pacific Northwest.

If you look at what we actually haul in our network, our book of business is both commercially and geographically diverse. 38% of our book is what we refer to as global, so traffic moving in and out of a port. 31% of our business is cross-border between Canada and the U.S. And roughly two-thirds of that is Canada to the U.S., so mainly AG products, other raw materials, autos and forest products. The balance either stays domestically within Canada or domestically within the U.S.

In terms of what we move, last year we were 44% bulk, 34% merchandise and 22% intermodal. Given a bumper grain crop, improved economics for our commodity customers and volumes set to move from the new K+S mine later this year, we do feel optimistic about our bulk outlook. The majority of our merchandise traffic is chemicals, plastics, metals and minerals, with only 2% of our business now crude. So we do feel that the mix of business in merchandise is much more favorable given the majority of headwinds on crude are now behind us.

Finally, our intermodal franchise is majority domestic traffic, which we feel can be a growth engine for CP for the next several years at least - so certainly a very balanced book of business with a favorable mix in this environment.

If we look at where we are in the story, so in terms of the next chapter, we do feel that we – it will be a focus on growth and we're set up well. So five years ago we began overhauling the company, increasing investments in the physical plants, introducing a new operating plan, redefining the corporate culture, all to support a precision railroading model. The results are pretty compelling and undeniable. We are the safest railroad in North America and we're the safest CP has ever been. Trains are longer, faster, cars spend less time dwelling in terminals, assets are used much more efficiently, and service is reliable fast and consistent.

Late last year, we introduced the next step, so trip plans. This year, we think the trip plans will help us take service to the next level. Each shipment has a plan and we track performance for each car. If something doesn't go according to plan, we have the ability to drill down to the root cause. We think this is a critical step towards the model of a selling service, giving the customer a better product and supporting our overall growth strategy.

We also have the right team to convert service into growth. So Keith's transition to CEO has been rather seamless. The board has been successfully planning this for four years since they recruited Keith. We've enhanced our sales and marketing team very recently. So John Brooks is our new Chief Marketing Officer. John has held senior responsibilities in all the lines of business within CP and has been in the railroading business for more than 20 years.

We also recruited Jonathan Wahba as our new Vice President of Intermodal and Grain. Jonathan previously worked for another Canadian railroad, held leadership positions at Schneider National as there Head of Canada and more recently was the COO of Kriska Transportation Group. So Jonathan brings a lot of experience in domestic intermodal, rail and trucking. Tommy Browning, who is our Vice President of Bulk and Merchandise, is a strong leader and veteran railroader who began his career at Illinois Central in operations before working in many key sales and marketing roles at both Canadian railroads.
We also feel like we've got a world-class operating team with a strong bench. We have Robert Johnson is our Executive Vice President of Operations. We have a team beneath him of Tony Marquis, who's been in the industry for decades, again, working at both Canadian railroads, our Head of the Western region as used to work in the U.S. at Head of Transportation at Kansas City Southern. So behind Keith and below Robert on the operating side, we feel we have a very strong team that is relentless in their pursuit to run the most efficient railroad in the world.

So putting all of these elements together, our performance, our service, taking it to the next level with our trip plans, leveraging our network strengths, combined with an incented sales team, disciplined and focused operating team, this is our platform we feel for growth.

If you look at our financial performance since the management change, you can see how the company has transformed, and the financial improvements are pretty impressive. Our operating ratio has improved by almost 20 points. EPS has grown 137% since 2012. Free cash flow has tripled. Our adjusted return on capital has increased from 10% to mid teens. I think that it's all the more impressive that this was achieved in a very anemic economic backdrop, and without the benefits of operating leverage the last few years.

As we look forward, it's important to note our agenda is not just about cutting costs and having the lowest operating ratio, although we do think we can have the lowest operating ratio. We believe in the right mix of sustainable, profitable growth, continued margin improvement, disciplined capital investment will generate strong return on invested capital and ultimately create long-term value for shareholders. We've also changed many of our compensation metrics to reflect this with ROIC becoming a much greater component of our incentive comp.

So what does this mean in terms of 2017? We do expect to see positive volume growth this year. We also see opportunities to take out additional costs to improve our margins, and we have a great deal of confidence that we'll be able to deliver high single digit EPS growth. And despite being the only rail CFO to announce an increase in capital investment this year, we expect another CAD 1 billion plus of free cash flow.

So two months into the year, things are tracking very well and pretty much in line with our expectations. We did expect to have negative RTMs in Q1 given the tough crude comps and challenging, difficult winter compares as well. Right now, we're tracking down about as of this morning by 1.7% RTM decline. But if you exclude crude – getting tired of saying that, but soon we won't have to say that, but excluding crude, we're actually seeing positive volume. So we're set up well heading into Q2 where comps overall get a lot easier across the board. So it's still early but we are cautiously optimistic that the volume environment is improving, and we have a team that is excited about our prospects and energized and ready to deliver. So with that, Kevin, I'll join you by the fireplace here.

QUESTION AND ANSWER SECTION

Kevin Chiang: Yeah. Perfect. Thank you, Nadeem. That's a great overview. Maybe I'll kick it off and you highlighted a number of the successes you've seen and the transition to the newer executive team. You've been the CFO for about six months now, give or take. When look at the near-term and medium-term and even longer-term strategic initiatives you'd like to put in place as the CFO, can you lay out what you'd like to see happen over the next say three to five years at CP under your watch?

Nadeem Velani: Sure. I mean, I think for us right now, near term it's been a lot of structural changes in the org and the team putting the team in place that can kind of deliver value to the operating and sales and marketing team. Overall, finance has been in a bit of a silo at CP for years, and so I've brought it upon myself to change that. Having worked in the industry for 20 years almost and many years at CP, it's given me a chance to see where we can improve. And getting closer to the business, getting our finance team, putting them in the position to really work with the business, allow them, give them the tools and the information to make the right decisions, whether it'sthe sales and marketing team or the operating team, has been the near-term focus.

I mean, if we look at over the medium term, over the next three to five years, it's really centered around our financial strategy in terms of reinvesting into the business for the long term, optimizing our capital structure, making sure that we have a strong investment grade rating, we want to protect that, and really optimizing the use of our cash flow to have sustainable returns for our shareholders. So, there's nothing sexy in there, but it's kind of the life of a CFO at a railroad, so...

Kevin Chiang: Right. And you mentioned the CAD 1 billion plus of free cash flow you expect this year, and it looks like that free cash flow generation at CP is going to continue to grow here. When you get past some of that deleveraging in the near term, how do you look at the buyback versus the dividend? I think historically you've looked at the buyback as your primary lever to pull. Does that change as you move forward from here, balancing the two between the buyback and the dividend?

Nadeem Velani: Yeah, I think we've definitely been very focused on the buyback and as we mature, I think we'll see a – as we go beyond the next several years where we become less of a growth story, and we don't see that for the next foreseeable future, but we do see buybacks as being an integral part of our shareholder return philosophy. So that's not going to change. What we want to do is balance it though a little bit. You saw us increase our dividend last year by 43%, we have a 1% yield.

We're mindful of the stock price too. We want to make sure that we're buying for value, we do see value at these levels. And I think what you can guarantee is we will distribute the – return the cash back to shareholders. It's just the matter determining where the sweet spot is and where the stock is trading. I'd say bottom line is that we will see a much more balanced approach going forward.

Kevin Chiang: That's great insight. I'll mention now, if there's any questions, if you want to raise your hand, I'll get to you if there's any questions in the audience.

Maybe turning to one of your other slides, you highlighted the bench strength you have on the sales front, you've made a number of new hires there. When you look at the opportunity to sell the lower cost structure you've created here at CP, where do you see the growth specifically coming from, especially relative to maybe some of the initiatives that you'd put out at your last Investor Day? I know the world has changed dramatically since then but where do you see growth coming from commodity by commodity or sector by sector?

Nadeem Velani: I think the world changed about a month after we had that Analyst Day. I would say that the premise doesn't change though in terms of focusing on the merchandise side of the house. I think it's been overlooked historically at CP. And it's centered around the fact that it's much more service driven, something that we've changed that culture. And having a product to sell in the marketplace is an important factor, having a product that you can count on that's reliable, having a sales team that actually knows how to sell service. These are all the things that we've been focused on improving the last several years. So we do feel that the trip plans, that that's going to help trigger that and push that even further.

So really we feel that merchandise side of the house is going to be kind of an untapped area. We do think that domestic intermodal, we've been more focused there than international, we would love to continue to participate in international. We're not getting out of that business, we just need to be able to generate the rate returns. And we do think that the domestic intermodal side has much more potential in the near term. There is opportunity to take trucks off the road. Again, it's service driven in many cases. It's shipments at a time – I think having Jonathan now as part of the team as we've been growing, one of the few last year that was actually growing domestic intermodal, and we've continued this trend into the first part of this year. So, we're optimistic about what we can convert from the road into rail there.

Kevin Chiang: Okay. And on the international intermodal front, it seems like it has been less of a focus. But with the change in the shipping alliances, does that impact how you look at that longer term, does that positively impact how you see volume in terms of maybe negatively impact based on your port network?

Nadeem Velani: I think, like I said, we grew last year with our customers. I think it's a testament to how they're performing in their markets and how we're supporting them as partners. I think the alliance changes could have some favorable impacts. Again, it's early in that process but we're optimistic that that can be supportive to our international volumes, absolutely.

Kevin Chiang: Okay. Any questions in the audience? In the back there.

Question: [indiscernible] (17:33-17:54)

Nadeem Velani: Sure. So there's a few scenarios depending on what comes into play. So it's not clear. We have looked at what the opportunities could be. Certainly our U.S. side of the house, it's about 30%, 35% of our income, we would get a benefit – get our tax rates, which is currently effective tax rate is about 26.5%, that could get as low as 20% to 22%, that type of range. Again, it does depend what type of tax reform comes into play. So it's – I am cautious to give much more insight than that, other than to say we will participate and it will be upside to CP in terms of our earnings. Maybe something that's more of a 2018 story than near term but definitely supportive, yeah.

Kevin Chiang: Any other questions? Maybe turning to the domestic intermodal front, a lot of reports out there about tightening truck capacity in the U.S., increasing regulation at the end of this year with the ELD mandate. Are you seeing that roll through in your domestic intermodal franchise and in terms of that resulting in some switching from truck to rail? And is that having a positive impact on pricing today, or is that more of a H2 story let's say three to six months from now?

Nadeem Velani: Yes. No, I think from a pricing point of view, I think that that's fair. There is a bit of a lag effect, certainly higher OHD and tightening in capacity and, to be fair, a bit of a supportive – more supportive economy is helpful. It is helpful for our volumes. We've been – mid last year we introduced a new product working with a partner selling our cross-border domestic intermodal traffic, and it's from a very small base but it was growing quite substantially and that pattern has continued.
Certainly, as you described, what's happening to our truck competitors in terms of the market and capacity is also supportive.

So we have seen strength in volumes there and part of the reason why we feel domestic intermodal can be a bit of a growth engine for us.

In terms of the pricing, I think it is a bit of a lag effect. I think, overall, pricing is across the board – I'll take a minute here – has improved. I think inflation has certainly been down the last 18 months or so and it has led to pricing come down just with inflation coming down as well. But overall, we do see some tightening in capacity and we do see the ability to extract more value from a pricing point of view. So we're probably in that 2.5% to 3% range right now but we do feel in the back half of the year, closer to 3% is probably where we'll be. And so, it is somewhat tied to the lag effect and overall tightening in capacity across the board.

Kevin Chiang: Okay. I know a lot has been made about M&A in the rail industry, and I'm not going to focus on Class 1 mergers, but when you look at your network – and you put up a great map up there, do you see bolt-on acquisitions as a use of capital to extend out that network, similar to what maybe your major domestic competitor has done over the past 10, 15 years? Is that something you see CP needing to do or maybe a product offering, maybe you need to bolt on a product offering there from an M&A perspective?

Nadeem Velani: No, that's fair. I don't think it's something that we need to do. I think at CN, certainly the opportunity was right and it was a big part of the growth story was the bolt-on acquisitions of many little pieces of the network. That being said, there's not a lot out there that you can acquire. Are there short lines, are there small arrangements that you can make or are there railroads that you've leased out historically that you can bring back in? Yes and no, it all comes at a price. So I don't think we need them per se. But in terms of improving our product, I think you saw us last year, we invested in – just here in Southern Ontario in a transload property that, again to your point, is supportive of improving the product offering. So it allows you to get more traffic from truck onto the rail network. It's something that anything you can do to improve the supply chain to bring more – make it easier to do business with the railroad is certainly something that we'll look at, and it's something that you'll see us probably focus more on than, say, the larger M&A.

Kevin Chiang: Okay. Maybe just turning to Q1 volume trends. You laid out some of the puts and takes there. When I look at two specific commodities though, Canadian grain and coal, they've been a little bit more challenged in the first quarter there. Can you provide some color as to what you're seeing from that perspective? Are these transient issues or maybe something more underlying structurally?

Nadeem Velani: Yeah. I think, number one, having grown up in Southern Ontario and living in Calgary for the last four years, we didn't have much of a winter in Calgary, but it came back pretty strong this past year. And so certainly weather comps are much more difficult, and that's the number of avalanches and the number of incidents that have hurt the railroad in terms of – both railroads in terms of winter operating conditions. So it's bit of a challenge to the supply chain in total.

I think on the coal side, I mean, we've seen some – reading from our and hearing from our customer, our major customer, they've highlighted that maybe some of the volumes got pulled forward into Q4 last year. And so there's a bit of a buildup in inventory here in Q1 that I think the market needs to work itself through. There's been, again, supply chain challenges on a few fronts. One of the key ports has had some downtime recently with maintenance and so forth. So we do think that that's behind us, and March has come on very strong across the board both on the grain side and coal is starting to see some traction here. So we are very optimistic about Q2 though where we stand here. So, so far a week into March, I mean, volumes are up mid-single digits. So, it's early but, again, it's going in the right direction.

Kevin Chiang: That's great color. Any questions in the audience? Up front here.

Question: [indiscernible] (25:13-25:22)

Nadeem Velani: Are you referring to the Globe article?

Question: [indiscernible] (25:26)

Nadeem Velani: Yeah, I would just say that we do have long-term agreements with the majority of our unions that – and we have a very supportive employee base. I'd say that we are in the midst of starting to negotiate with one major union, our TCRC. Sometimes these articles do appear and the timing is kind of curious to see when some of this stuff comes to the forefront. We are – railroads are a big target, we have a lot of interaction with communities and so forth. Other than to say that anything in there that we think needs to be corrected, we'll take very seriously and we look at very closely. We're not going to just ignore feedback from our employees. I mean, it's the opposite, we welcome it and we think it's an opportunity to learn and improve and change for the better where it's needed. So I'll leave it at that.

Kevin Chiang: Was there a question in the back there as well? Yeah.

Question: [indiscernible] (26:45)

Nadeem Velani: Sorry. Say that again.

Question: [indiscernible] (26:51-26:57)

Kevin Chiang: Plans to grow (26:58) crude by rail.

Nadeem Velani: Yeah. Well, right now we're not growing it, but it's one of those markets where you're really dependent on spreads and on pipeline capacity and on – we have a product and we'll – and offering to move the product and so forth and we have a strong service but it's tough to get really dependent on crude. So it's been going down 40%, 50%, 60%. Our view of the world this year and in that guidance I gave you is not that it's going to grow, that it's going to continue to decline. Again, a lot of our tougher comps are now behind us, and Q2 we lapped where – the impact of the Alberta wildfires. So again, we do think it's going to be less bad, but in terms of plans to grow crude by rail, that's not a playbook that's – at the top of our playbook I should say, so...

Kevin Chiang: Maybe an energy commodity that has done well though is frac sand. That's been a real boom the past quarter or two. Can you speak to maybe some of the opportunities that CP has there in terms of growing their frac sand business?

Nadeem Velani: Yeah. Sure. I mean, our network is well positioned in a lot of the major shale areas. A lot of it's going to the south. We do connect with all – like I said, our network advantage with our connectivity with the U.S. railroads does allow us to participate quite well in those markets. We've seen frac sand grow pretty dramatically here, which has been a positive surprise. It's about a run rate of about 50,000 car loads as we exited Q4 last year and I think last year we did about 35,000, 38,000 car loads. So certainly it can be a driver of growth and we are seeing it currently.

Kevin Chiang: That's excellent. And when you look at the network with volumes coming back now, or starting to come back across the network, you have Hunter who looks like he's going to join CSX here, do you see an opportunity for – and given his views on the need for maybe M&A or some sort of increased co-ordination between the Class 1s to deal with the growth in volumes, do you see an opportunity there to partner with CSX or are you seeing more partnerships throughout Class 1s to deal with some of the volume trends that he and Keith have said will be a roadblock longer term in terms of network flow and in terms of some of the bottlenecks that they foresee, say, in the next five, 10 years?

Nadeem Velani: Sure. I mean, we've always been very proactive – I mean, led by Hunter of course, that coordinating your efforts with the other Class 1s – I mean, we look at the overall North American rail system as one network. And if you could look at it that way, you can extract a lot more capacity, you can give your customers a lot better service. The amount of handoffs that we have as rail to rail, you can't do it all on your own. So anytime you can coordinate and work better with your rail partners, it's a better bottom line, more efficient, more capacity, better service for the customer. So we've never shied against that. We think we've been pretty proactive in trying to work with our rail partners, whether it's through running rights or interchange agreements, and that will continue. Certainly having Hunter within the rail community as a Class 1 CEO, we think can only be positive in our relationships with the U.S. railroads as a total.

Kevin Chiang: Yeah. We have about a minute and a half. So, maybe I'll end it off with – you've seen a little bit of a market share shift in international intermodal and on automotive. And I think these have been lower margin books of business for you. Do you see other commodities or other contracts that maybe shouldn't actually be your network given their margin profile or do you think we've kind of cycled through some of those markets share losses here and then we're kind of bouncing off the bottom?

Nadeem Velani: We really need to end on that question? No, I think we've always been very vocal that we're going to do what's right. We're going to be disciplined in our approach to pricing, we're going to be disciplined in our approach to markets, and we need to generate a return on what we move. And so, some of those market share losses, if you will, they were in cases where we were the smaller player on the majority of what was being moved, and if you look at what the network opportunity was on and what the – where it should naturally go, we will put our best foot forward but at the end of the day, it's got to be at the right price and the right return. I think as long as our competitors are rational and remain rational, we'll have a – I don't think we're going to see a lot of market share losses. I think we have an opportunity to regain some traffic in areas that we haven't been able to provide a solid service historically at CP. So I do think that there's more upside than downside risk for us going forward.

Kevin Chiang: Well, we've run out of time. And you've definitely setup a network that looks like it's primed for some revenue growth. So thank you very much, Nadeem.

Nadeem Velani: Great. Thanks, Kevin.