



NEWS

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Transcript

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Industrials Conference

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Corporate Participants:

Keith Creel – President & Chief Executive Officer, Canadian Pacific

Maeghan Albiston – Assistant Vice President Investor Relations, Canadian Pacific

Other Participants:

Ken Hoexter – Analyst, Bank of America Merrill Lynch

QUESTION AND ANSWER SECTION

Ken Hoexter

Analyst, Bank of America Merrill Lynch

We're going to jump right into Canadian Pacific. With us today is Keith Creel, CEO; and Maeghan Albiston, Investor Relations. So, welcome. Again, I'm Ken Hoexter from Bank of America Merrill Lynch. I'm the Airfreight Surface Transportation and Marine Shipping analyst. Keith has been with CP since 2013 and served as CEO since January of 2017. He's representing the company here for the fourth time. If we include the two turns as EVP of Ops and COO at Canadian National, we welcome Keith for his sixth time joining us at the Transport Conference. So always a friend to us here. So thank you, Keith.

And we're just going to jump right into Q&A. So I'll move back over to the seat. And Keith, I don't know if you want to make any kind of opening – maybe a couple of minutes on just kind of how you're viewing things as we start off the second – or I guess we're halfway through the second quarter, maybe just jump in with a couple of thoughts.

Keith Creel

President & CEO, Canadian Pacific

Yeah. Number one, thanks, Ken, for having me back. I saw, Rob I guess he had the 10-time...

<Q – Ken Hoexter>: 10-time or so...

<A – Keith Creel>: So I've got four more.... I like presenting so I think I'll be here and go do that, so. Now, listen; thank you for being an opportunity to speak. I can tell you this, the second quarter is playing out in line with our expectations. We came out of a very challenging first quarter for a lot of reasons. We had a tragic accident. We had some very challenging winter weather.

But with that said, we recovered quite well. The resiliency of the network was there. The operating team restored service quickly. We snapped back as soon as the weather backed off from us effectively. We started to see momentum probably the last 10 days of March and it carried in April. We had a phenomenal April. Train speed's up, train length up, train weight up, dwell down. So all the operating fundamentals that need to happen and that you should expect to see in a precision scheduled railroading occurred quickly.

So service was restored. Our customers, we started to move the revenue needle as well, had a record volume, best-ever month of grain moving in Canada for the Canadian Pacific in April. And overall, those fundamentals continue. So, we see strength across the markets. Six of our nine business units are up. The only softness we see – it's not softness that's macro related or demand related, we've had a little bit of a challenge on the coal side, Canadian coal, it's more supply chain related. The demand's there, Teck is bullish. We don't see those fundamentals changing, but year-over-year it's a little bit off because of the supply chain challenges, be it at Westshore or be it their expansion that's going on at Neptune. But we see that normalizing itself. Potash is strong, grain continues to be strong. We're bucking the industry trends in automotive from a combination of our service and some of the market share wins as well as our partners.

We've got some pretty robust demand and growth out of Toyota. Specifically, they retooled a facility in Woodstock. They did produce the Corolla at one plant they produced the RAV4 at the other. RAV4s a hot selling vehicle for Toyota. They flipped over the Corolla factory to be all RAV4s. So now from a demand standpoint, we don't have bi's and tri's, we have all bi's which is positive. But also from the cost standpoint, the service standpoint, we don't have bi's and tries, we have bi's. So our costs are down and the revenue's up. That's compelling any way you look at it. We've got our new facility that came on line early. We talked about this in our Investor Day. We made a decision last year to build an automotive compound using some of our existing land in Vancouver. We said we'd be on line end of the first quarter. We came on a month early, under budget. Ford is the anchor tenant. So we're watching those vans fill up. They're only going to get about half of the capacity and we're actively in discussions with other OEMs about consuming the balance of it.

So overall, we're in a pretty good place unique to this industry and unique to CP.

<Q – Ken Hoexter>: Just stepping back, I mean, it's a little different for this discussion I guess than other ones I'm going to have through the day because unlike the other rails, you're actually ahead of our target at quarter-to-date by over 100 basis points. So, it seems to – like with this week's I guess where this week was a little bit tough for the industry but your RTMs are up over 7%, above our 6% target. So, when I think about that I'd ask everybody about the macro to start just given what's going on with trade tensions with the kind of macro-economy and why we're seeing that softness. You're bucking that trend. You just ran through a lot of items with maybe some contract wins. Is that what's different? Is it more contract wins? Is it economic? Maybe you can talk about your view on the underlying macro as well.

<A – Keith Creel>: Yeah. I think, well, some of its macro and some of it's contract wins and share repatriation, and also share wins from truck. So, we're 40% bulk railroad. Right now that happens to be a good place to be. We've got the – overall, the commodities are strong. The price of coal's strong, the grain's sold out. The potash, which is unique to our railroad, we moved three-quarters of the potash that's – comes out of the ground in Canada at CP. So those fundamentals are helping us compared to maybe a U.S. rail; they wouldn't see the same business mix opportunities. But more uniquely from a market share service offering, we've got great service, we've established a reputation, we've repatriated business we said we would all along, and we're getting additional opportunities because we have capacity on our network, and we talked about those at the Investor Day.

So it's all about protecting our service offering because if you lose that, you lose the value proposition and you also lose the cost control and, at the same time, it's taking the capacity we have and converting it into growth which, you know, the auto compound's one example. GLOVIS is another example. We started to onboard some of the GLOVIS business, but not all of it ; just a small piece of it coming from the US. It's literally we built a facility. I've talked about Woodstock a moment ago with the co-location of the two Toyota factories. We've got bi-levels coming there. We've got car supply coming there to need to originate loads. Now, with GLOVIS, GLOVIS's inbound cars coming in those bi-levels that would have come empty otherwise.

So, you get economics loaded load which is compelling and it also is compelling from a service standpoint because it gives you guaranteed car supply for the outbound loads. That and above in 2020 100% of that business is coming to us. So, as good as things look for CP now, which is what's driving my underlying confidence in our ability to meet or exceed our guidance...

<Q – Ken Hoexter>: Just to clarify the guidance being the...

<A – Keith Creel>: ...double-digit earnings growth and solid...

<Q – Ken Hoexter>: ...mid-single digit RTM.

<A – Keith Creel>: mid-single digit RTM growth. So, I feel convicted we're going to meet or exceed that in 2019. But I feel better about 2020 and 2021 because we've got deals that have been negotiating and things being signed that gives us additional confidence in our numbers for 2020 and 2021 growth. So, it's just a unique time to be in this business, and it's unique for our company.

<Q – Ken Hoexter>: So finally seeing that top line focus that we – you kind of – when CP focused first back in Hunter's kind of launch of the crude by rail focus, now all the projects you're starting to see come on line and contractually looks good for the next year and two years?

<A – Keith Creel>: Yeah. The engine's fixed and we created capacity and we're doing exactly as we said we're going to do by selling that capacity.

<Q – Ken Hoexter>: So you mentioned the OR – or EPS growth, mid-teens growth. So you recently reiterated that you'd meet or exceed double-digit EPS growth for the full year. And Nadeem noted we should expect the rest of the year in the 50s for the operating ratio. We also target mid-teens growth. What pushes you above or below that from your point of view?

<A – Keith Creel>: Below, let me start with the below. The only below that would push us below that, I believe, is some macroeconomic environment that shifts demand to a point I can't predict. We're aware of the politics, we're aware of the back and forth on the U.S. as well as the Canadian side. It's a politically unpredictable environment to be in. So, if that triggers macro that affects all of us, then obviously it does. But outside of that, I see more potential for upside.

Our guidance, and I'll still be conservative about this, crude is very unpredictable. Volatile is probably the better way to describe it, but we've been prudent in our guidance. We have not baked in a big tailwind from crude. At the same time, I believe and know to be true that as long as there's oil coming out of the ground it's got to go somewhere. We say that pushes it to a railcar, and as long as that takeaway capacity is exceeded by what they're producing or doesn't meet what they're producing, rail's going to be in the game. So if it comes back strong second half, we've got contracts coming on line with take-or-pays, minimum volume commitments. We've got Suncor coming on line second half, we've got Cenovus coming on line, and then we've got the extension of the Alberta government coming on line. Those are all pluses that add some potential tailwind.

<Q – Ken Hoexter>: Yeah. Certainly. So let's step back to the operating side for a second if we can. I mean, your operating service metrics have rebounded following the harsh weather you just ran through. I mean, velocity up 11% year-over-year, the third of most rails. Despite all the precision railroading that are now being launched from the other rails, you're still kind of at the top of the group. Dwell is down 14%, the second of most – of all the rails.

When you step back, I mean, the one thing I've been amazed at through almost 20 years of following this group is that when you make that fundamental step in precision railroading, you keep finding ways to improve. Do you feel after having done this at CP for the years you have that you're nearing the end of

that operational improvement, or do you still find ways to find that operational improvement potential?

<A – Keith Creel>: Listen, this is a human business. People run this business, computers don't ultimately. And as long as you have people running the business, people are going to – you're going to have turnover, you're going to have change, you're going to have mistakes, you're going to have opportunities. You just got to get out and be willing to turn the rocks over and look for the opportunities. I took a train trip, inspection trip two weeks ago, and I started in Chicago and I went over to Davenport where we were flooding. We hang a right at Savannah and we go north and went up to Minneapolis and came back to Chicago over the north route. Just on that trip alone, as good as they were doing, if you look at just the numbers, year-over-year, it looks good. But if you look at what's going on and you go out there and you ask the right questions and you look at, are they backhauling cars and how many jobs do you have in this location and what's the track speed here and why is that slow order there. If you get involved in the details, this is an operating business and you run it like an operating business, there are going to be operating opportunities. If you ever think that there's not, you're going to be in trouble. And as long as you take that approach and you understand there has to be a constructive tension and a level of accountability and requirement for your officers to run it that way, you can always find opportunities.

<Q – Ken Hoexter>: Sounds good. So, let's talk about the equipment then. Your update on kind of what's going on on locomotives. Obviously, you had to get some additional supply well, no, your peer got some additional supply during the winter. Where do you stand now in terms of anything left in storage and...

<A – Keith Creel>: Yeah. We still got I don't know 150 locomotive still in storage, but they're really just our seed supply for our modernization. So we did, I want to say, 80 locomotives last year. We're doing 60 this year. That decision to do that is turning out extremely well. We've got a locomotive that so far up until yesterday literally the first EMD locomotive, the modernized EMD locomotive which were road back ninety's that CP had parked forever came off the line in Muncie, Indiana. So EMD has modernized that locomotive. Before that, everything has been GE. And the product they've been giving us has been a great product. It's got the reliability of the old technology with new electronics on it, so you get the fuel efficiency and we're getting the reliability. The fly rates or the failure rates on these locomotives are the best in the industry. So, eventually, the new technology will catch up, but there's just, as I said when we made the decision, I don't want to be the early adopter of the technology, I don't want to work all the bugs out. When it's as reliable as the modernized locomotives, I'll buy some, but not until. So that strategy is working well for us.

So, we're in a good place on locomotives. We continued investing on the hopper fleet. That's something we don't – haven't gotten to a critical mass yet when we start to move the needle, we're up to – Maeghan just corrected me, we were at 5-something last I looked at it, and now we're up to 800 cars on a journey to buy 5,900 which is going to replace 7,000. So we've got 5,900 high throughput, low-cost, highly-reliable grain hoppers replacing 7,000 low capacity, unreliable, high bad order rates. So again, the service experience for the customer is better, the cost is better, and the reliability is better for the railroads. So that's moving in the right direction as well.

<Q – Ken Hoexter>: So, let's go to John Brooks's area on the marketing side for a second. You kind of ran through a lot with the autos. You mentioned the grain, let me come back to the grain just given almost a quarter of your revenues and you posted record levels the last few weeks. We've started off the quarter with double-digit volumes. Maybe, is that clearing out the backlog? Is that, I don't know, anything to do with the China-U.S. constraints on their buying so they are picking up? Maybe walk through what led that improvement, and then how are the ports doing in handling this level of

capacity?

<A – Keith Creel>: Yeah. I would say, for us, obviously there were some pent-up demand not on the intermodal side. We popped back from that pretty fast. There was some grain that needed to be moved. We're not behind like we were we're staying caught up, but the demand's still there. So it's not tailing off. So that drove some of our uptick in volume. Again international intermodal, domestic intermodal, we've got a new customer on boarded we didn't have at all last year on the domestic side, Dollarama, which is a big domestic shipper in Canada. It's moved 100% to CP. So we brought that on in January, February, and we're now seeing the full value of that. So that's driving incremental volumes for us, and again sort of bucking the trends on the automotive side on the base very strong fundamentals with potash and with coal overall. So it's – other than U.S. grain, it's really sort of all of the above. I mean, we're getting pushed on each front.

<Q – Ken Hoexter>: So at Analyst Day, you showed us the new hopper cars. Maybe talk a bit about how that is trending. I think it was ultimately about a 40% increase in capacity if I remember right?

<A – Keith Creel>: Yeah, the way it works, Ken. Our – again this is unique to CP because we didn't invest or have the money to invest. Our demographic of our grain fleet was the worst in the industry. So, we had a large chunk of our cars that were 263 capacity versus the normal industry standards of 286. So we just couldn't carry as much per car, which means you didn't carry as much per train. This new car is shorter, so we can haul more cars in a given train length and it also carries more grain. So if you take the old model, the 263, seven thousand, 112 car grain train that CP was running and you replace it with just the cars alone, the 112 of the same cars, it's 25% more grain. Now if you take that to our 85 hundred-foot model which we're moving to, which is going to be 134 cars of this new fleet, it's 40%. So it's a needle move for us.

<Q – Ken Hoexter>: And what percent of the fleet has converted now

<A – Keith Creel>: We're not even getting the benefit of that yet...

<Q – Ken Hoexter>: Oh, you're not.

<A – Keith Creel>...because we've got 800 cars. We've got to have critical mass and you won't see that true conversion until you get a terminal in the prairies that can launch, and there are a few. G3 is building some, we've got some with Pattison. But to this point, there's nowhere they can land them. So, to really dedicate 134 of those cars and get critical mass and tie a locomotive to it and run it like a conveyor belt, you're going to get to 2020 before you're able to do that, but it's going to be compelling for this company in 2020 when we can.

<Q – Ken Hoexter>: But in the interim you can add these sort of cars to the existing 112 car length...

<A – Keith Creel>: Yeah. You're getting a little bit more. Well, 25% is apples-to-apples, so it's a mix. You might get 10%.

<Q – Ken Hoexter>: Because you're blending them in. Okay.

<A – Keith Creel>: For the mix, because you're blending it. Yeah. You don't get the full effect yet. But the thing you do get immediately, the reliability rate on the fleet's increasing every car we put in because

you got a brand new car replacing a 40-year-old car. So, obviously you're not bad ordering, it's running, hauling more and it's lower cost.

<Q – Ken Hoexter>: Yeah. Tell me, intermodal you mentioned which is again almost a quarter of your revenues. You dug in to a lot of the potential for expiring contracts. You just mentioned the Dollarama contract which are now sole served on CP. Should we still expect more opportunity of you mentioned win backs, or is it more taking from the truck market?

<A – Keith Creel>: Both

<Q – Ken Hoexter>: Still. You still...

<A – Keith Creel>: Domestic is – just, it is what it is. We've got a superior franchise from a rail standpoint domestically in the key markets in Canada, because we have shorter routes and we have capacity at every terminal. So, that's compelling in the marketplace and that's compelling even against truck. And still in Canada we haven't experienced the electronic logs yet. That's coming. That's supposed to happen the end of this year, maybe it happens sometime – in 2020. But when it does happen, that's more tailwind. It's going to help both roads in Canada.

But in the international space, we won the Ocean Network contract last year based on our service, based on our capacity. We've protected that. We're giving them what I call a market differentiating service for their customers. So, those that are partnering with us are able to compete best against those that are not. And then we're not competing and protecting business. As we go into next year, our competitors' business we're competing for some of that, some of it makes sense and we're only competing for that which makes sense to our network because I'm not going oversell this network and I'm not going to compromise my ability to give service and control my cost.

I'm not going to grow for growth's sake. If it doesn't make sense for this company and for our customers so we can grow together, it destroys value. So we're not going to lose that discipline. But with that said, that discipline is what's allowed us to have very constructive discussions about winning some of this business. And there's some exciting developments in the future that we'll be able to talk about soon. But I have, not guesswork, not hope, I'm convicted that you're going to be pleased with the same things I'm pleased with right now as soon as we're able to talk about it.

<Q – Ken Hoexter>: Sounds great. I like the trend. So one more on Brooks's side which is the crude by rail, and you mentioned before it wasn't in your targets yet, the growth trajectory, right. You mentioned Suncor, Cenovus, and the Alberta government. So maybe talk about the ramp and the timing for that, that we could see coming on just given that...

<A – Keith Creel>: Yeah, so we've ramped a little bit. Year-over-year first half we were up versus last year. It wasn't monumental. Obviously, the bottom fell out and the spreads collapsed. But with that being said, the second half I see an opportunity with these contracts coming online that we discussed, we could exit the year 125,000 run rate on a carload basis. And then if you annualize that into next year, assuming the spreads don't collapse again, those same contracts, that same demand level says there's upside in 2020.

Now, our guidance, we've taken a modest approach. We're not baking all that in. We haven't counted on all that as well. So, you could say there's some upside opportunity. But again, it's

volatile. I'm not going to bet the house on it. We're right-sizing assets based on the contracts we signed that have minimum volume commitments, take-or-pays in them. So, fundamentally, we're only spending money where we're backstopped by the contracts and we're not taking an aggressive approach on what are our expectations are, which I think is the right way to do this.

We could have had a lot more business first half especially in January of what was moved in Canada, but we chose not to. We chose not to over-stress our network. We chose not to try to bring more locomotives forward and create, especially in winter, compounding impacts that carry and prevent you from recovering the railroad. We would not have been able to recover the railroad as fast as we did if not for the decisions we made. And I think it was the right thing to do.

So now, we're just now onboarding the employees, the training that we've done, to be prepared for the busy second half. So, we're not long employees, we're not long locomotives, and we've recovered our business and our profitability and, most importantly, our customer service very quickly which again it bodes well for – if you're really going to run a precision scheduled railroad, low cost, profitable, sustainable growth, it's not just catchwords, that's the way you do it. And what you're seeing this company do is only because we have done it and we continue to do it.

<Q – Ken Hoexter>: So I want to come back to yields on that side, but you just mentioned employees, so let me just stick with that for a second. So it was up about 200 sequentially. Was that due to weather, or is that just given the growth that you're seeing? And I guess to put that in perspective, I mentioned to CN before, you actually average almost 5,000 gross ton miles per employee, they're below you at about 4,500. Does that highlight efficiency advantages or is that a length of haul and mix issue? Do you view it as more room to go on that efficiency on a per employee base?

<A – Keith Creel>: Yeah, there's definitely more room to go obviously as we convert these grain opportunities, potash opportunities, so we'll continue to get more productive. We're not as good as we can get. We never will be. I'm never going to accept that. But I think it's truly a reflection of the differences running the railway more efficiently. Sweating assets, maintaining the discipline, make sure that we right-size the assets continually, even when things are good. Like now, I look at the numbers every morning. Look at my phone calls and my texts. I get up, I look at the numbers, I see the trends. I understand the cycles of this business and our team understands the cycles and this is a cyclical business. And the key to making money and the key to staying ahead from a metric standpoint and to maintain that constructive tension is exactly that: you've got to stay ahead. If I wait 'til June to adjust my assets because there's a lull right now in seeding, for instance, then I missed the opportunity because by the time I see it, if I wait 'til I see it, the customers – the demand's back and I'm going to irritate my customers and not provide the service.

So once you get into, if you understand the cycles of the business and you have the discipline to catch it ahead of time, being two weeks ahead of instead of two weeks behind it, that's what makes a difference and that's what continues to drive productivity gains. And if you want to get into the compares some of the differences between doing it well and doing it maybe not quite as well.

<Q – Ken Hoexter>: So I want to get back to the yields. You remain at the top end of your target range, 3% to 4%. Do you expect that to hold? Is there something – I mean, given your domestic intermodal it's

not like you're having an issue, but domestic intermodal overall trucking seems to be a little bit looser. Maybe talk about your pricing at the rail side.

<A – Keith Creel>: We still...The Canadian roads are a bit unique. We've always been conservative from pricing. The 2% to 3% is the weak market, the 3% to 4% is the strong market. We're renewing business similar the upside of the strong market. And again, because of our service offering and the demographic again is different in Canada, the length of haul in domestic intermodal move is substantially different than the length of haul in the U.S. and it's hard to replicate. So, if you create truck-like reliability, truck-like speed or better, and you've got the economic advantage and the cost advantage on the railway, it's compelling for the customer and it's allowed us to take trucks off the road, put them on railcars and it's sticking and staying. I don't see that changing.

<Q – Ken Hoexter>: So, given the weather impact on the OR in the first quarter, let's go to Nadeem's world for a second. He noted that you expect to be in the 50s for the rest of the year. Just, is there any lingering impact in that early part of the second quarter, or do you see that improvement potential that quick in 2Q back into the 50s?

<A – Keith Creel>: Yeah, it's absolutely there. Nadeem wouldn't have said that if he didn't feel convicted about it and I wouldn't have allowed him to say that if I didn't feel convicted about it. What we do is not easy. I'm not going to say that it's a lay-up. You've got to work hard. You've got to railroad every day. It's an outdoor sport. But if you control what you can control and you do it well, that's the outcome. That's what happens. You do the math. Again, unless there's some macroeconomic shock I'm not aware of and as long as our railroad stays fluid and we keep our trains on the track, which we do a pretty good job of, the floods, that threat has been imminent. It's impacted us more – we don't talk about it but I can tell you the last five weeks I've been literally in Davenport, I took that trip, we closed the railway down. We lost the railroad. It finally came up. We fought it for six weeks and we were out for a week where we had to divert over the BN and over the UP. But we're back now. The river continues to go down. There's cost associated with that. There's impacts associated with that that will come out. So again, when I look forward things we can control, we will. And the macro looks good, I don't see anything that keeps us from hitting that number.

<Q – Ken Hoexter>: So, we just heard you've been a proponent on kind of fixing Chicago for so many years. It was, I guess, part of also the bid years ago for the eastern rails. UP talked about taking six yards down to three in the Chicago area. Jim just talked about that. When you look at the congestion and the overhang that Chicago has had over the years, do you start seeing that reduced given the move by the other rails to precision railroading, or is this something that's just postponing the next crunch when volumes tick up, or do you see real, true fundamental change accelerating Chicago?

<A – Keith Creel>: I see both – the answer is yes and yes. I'm seeing it now, I'm seeing fluidity, I'm seeing capacity being created. You can't apply PSR and not do that because it means turning assets faster, not leaving cars in terminals long, not having as many cars in the terminals. So if you take all the roads, and most roads, all but one are at one level or another they're applying PSR, Chicago is the common point. You can't improve on all those other railroads and Chicago not improve. So, capacity's being created, which is going to help all roads in the entire industry whether you're PSR or not PSR, you're going to see a benefit in Chicago.

But again population growth is population growth. It prolongs the discussion. I think inevitably – and this is a five- plus year discussion, not an immediate discussion – you're still going to need additional capacity. You're only going to ring so much out of Chicago and once you've PSR'd every railroad, that's the common point where cars are still going to be interchanged. The only way you take that next incremental step is you effectively optimize a longer network to get cars out of there completely. So I think eventually you'd still have the same discussions. What I do think though, down the line once customers – and right now there's pushback with PSR because customers don't understand it. Change is always scary. Some railroads have done it very aggressively, and I've been part of those aggressive marches myself in my career. Once customers understand they can trust it and they experience the value in it, then you get to a point down the line where I think two like-minded railroads will see the customer value in creating a longer network that has more capacity, less hand-offs, better service offering, and then you get to a discussion where you can talk about pro- competition. You can talk about pro-service. You can go to the STB with a compelling value proposition. And I think you'd come to a world – and this isn't tomorrow, this is down the line – where customers will be proponents, not opponents.

I mean, you think about it. I said this in my last meeting. In this industry – this isn't unique to CP – it changes a bit depending on what road, but essentially we own half the cars. The railroads don't own half the cars. That means the customers own the other half. And if you're a customer that owns those assets, you've absorbed all that capital cost, you've got it there because you think you need it right? Well, if you think you can get by and have faith and trust that you can get by with 20% less and your capital costs are 20% less and at CAD 100,000 a pop those cars are pretty expensive, you get to a point where the owners of the cars will say, you know what, it make sense, let's do it.

And I know that to be true because I've been through this evolution. I've been with customers that would have fought me tooth and nail three years ago, customers that left us three years ago because they didn't want to go through the pain and suffering of a PSRing a railroad that now are coming back and they're trusted partners. And they're like, we just didn't want to be here for the fallout, but now that you've got the capacity, we want the service, we want the reliability. We can grow in the market because we're more reliable for our customers, you can grow together. That's a beautiful thing. You just got to get through there. It's an evolution, it does not happen overnight, but ultimately if you do it right it's the outcome and it's where we get to.

<Q – Ken Hoexter>: That's great to hear because that's kind of what we've been waiting to hear that, they're coming back part of the equation. So, we talked about Chicago, the one thing maybe we don't talk enough about in Vancouver given the importance to both of the Canadian rails in terms of export, imports, intermodal, and the bulk side, but there's a lot of projects going on in Vancouver.

<A – Keith Creel>: Yeah.

<Q – Ken Hoexter>: Can you talk about from your perspective how that is helping the capacity and the growth potential?

<A – Keith Creel>: I think it's early...

<Q – Ken Hoexter>: Or maybe stalling it?

<A – Keith Creel>: Yeah, no. It's early in the stages. The place that's sort of came out on the other side is Deltaport. So Deltaport in 2017 and 2018 it was a story of we're going to increase our capacity, we're going to invest in new technologies, we're going to invest in new assets at Deltaport which is run by GCT to increase our capacity by 40%. So, there were a lot of growing pains and a lot of pain and suffering, but they're now producing routinely a 30,000 foot day is not abnormal. Whereas in the past the 22,000, 23,000 was the best they could sustain. So they're doing what they said they were going to do and we're starting to realize the benefits of that.

That like type investment is occurring on the South Shore. So the South Shore, you've got Centerm going through an expansion. We've partnered with our partners, be it Pacific, be it AGT, be it Cascadia to expand capacity, to take the footprint that we have and optimize it to create more capacity. That's oncoming. Neptune's going through an expansion right now. You're soon going to be able to pump more coal through there, and more potash through there. You've got G3 being built. G3 will be built and online in 2020.

So, Vancouver will always be a place we've got to pay attention to, but they're doing the right things; maybe not at the speed I'd like and maybe not all the things I'd like them to do, but they're taking the right steps to increase capacity and drive supply chain reliability, which bodes extremely well for CP and it's critically important to Canada.

<Q – Ken Hoexter>: Yeah.

<A – Keith Creel>: So it's not without growing pains, but it's growing.

<Q – Ken Hoexter>: Let me open up to any questions. Oh, right. Yeah, yeah. So let's go to the regulatory side then. I mean, the CTA or the Canadian regulators have been active whether it's on providing service on – now getting more active on investigations. But now you've had an appeal and in the process you were absolved. But how do you think about that? Is that a proper process where the customers just get more access and like this one it works out in the end, or does it disturb you that you're seeing more of that proactive investigation authority...

<A – Keith Creel>: Yeah.

<Q – Ken Hoexter>: ...just being used that isn't normal business?

<A – Keith Creel>: Well, I'm never going to advocate for more regulatory activity. And I was surprised at the manner they handled that review, we voiced our opinion. We think that without coming with evidence and with facts and just rhetoric and larger organizational concerns, we don't think that's fair ball. But with all that said, the facts are the facts. And if you do your job and this case has proven that when you do your job they'll recognize that, I think that's encouraging.

<Q – Ken Hoexter>: Yeah.

<A – Keith Creel>: At the end of the day that could have come out a whole lot of different ways, but they listened to the facts and they based their decision on the facts, and the facts are we do a good job in Vancouver, we did a good job in Vancouver. Our competitor has some challenges. We work with them to help, but ultimate, at the end of the day, we did our job and we served our customers well and we'll continue to do that.

So, the outcome – but again I'll go back to where I started, I'm not going to advocate for activity by the government, and right now it's a politically charged environment. It's politically sensitive. It's an election year. Sometimes things that normally wouldn't happen outside an election year happen in an election year. But again, as long as they stick to the facts, I think CP is going to be fine.

<Ken Hoexter>: Alright, Keith, always a pleasure having you here. Thank you very much. Appreciate the time.

<Keith Creel>: Thank you, Ken.

<Ken Hoexter>: Thank you.