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Transcript

Virtual Q&A with BMO Capital Markets

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Webcast

Corporate Participants:

Keith Creel – President and Chief Executive Officer, Canadian Pacific

Nadeem Velani – Executive Vice President and Chief Financial Officer, Canadian Pacific

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

Other Participants:

Fadi Chamoun – Analyst, BMO Capital Markets

QUESTION AND ANSWER SECTION

Operator

Good morning, ladies and gentlemen. At this time, I would like to welcome everyone to the Canadian Pacific's virtual Q&A with Bank of Montréal. I will now turn the call over to Fadi Chamoun with BMO. Please go ahead.

Fadi Chamoun

Analyst, BMO

Okay. Thank you, Julie. Good morning to everyone joining us on the call today and I hope everyone is keeping well during these difficult times. We are very delighted to be able to host this call with the senior leadership team of CP Rail; Keith Creel, CEO and Nadeem Velani, CFO; and Maeghan Albiston, VP Investor Relations, all with us on the call today. Good morning everyone.

Keith Creel

President and CEO, Canadian Pacific

Good morning.

Nadeem Velani

EVP and CFO, Canadian Pacific

Good morning, Fadi.

Maeghan Albiston

AVP IR and Pensions, Canadian Pacific

Good morning.

<Q – Fadi Chamoun>: So, thank you for giving us the time this morning to get an update and talk about how CP is managing during this health crisis. I'm going to pass this call along to you for your remarks and then we can start our informal discussion and Q&A after that. So with that I'll pass it on to you, Keith.

<A – Keith Creel>: Okay. Thanks, Fadi. Well, listen, I think the first place to start bottom line upfront this company is weathering the storm and weathering the storm quite well. Obviously, there's no shortage of volatility or uncertainty in the marketplace. But at a time like this, I can't think of a more appropriate time to get on the phone and speak and spend time with our investors to remind them and reinforce the strength of the CP story or the values that they're receiving for their investment. CP is uniquely positioned. We've said this for quite some time. We have been on a journey. I can take you back to when I first came to CP. We had a mandate to fix the company. We had a great company that had lost its way and we spent four years of really hard – sledding hard work, leadership change, culture change to help the company realize its potential that as we shifted in 2017 and I took over as the CEO, I had a mandate with my team to grow the company and that's exactly what we've done. So the uniqueness of our story which is turned out to be quite countercyclical to what the industry has experienced has put us in a place with – we're well-positioned with positions of strength even in this storm. And there's a couple of key points, three key points that I'll make. Number one, if you think about our story and our growth and what we did last year, 2018 and 2019, we led the industry in growth overall. 2019 was a year of contraction for the industry. We're the only rail that produced any positive growth period in the industry. And we went into 2020 with some momentum. We had contract wins with Yang Ming. We had contract wins in our ECP business. We got crude that was coming online, strong for us. We've got a bulk franchise that positions us extremely well before and even now where we're benefiting both in price as well as productivity from our investment in the hopper cars that were essentially into their third year of that and this year for the company that, again, is unique to the industry that put us in a place in the first quarter until this crisis happened in spite of the rockslide we had and some of the cold weather we had in January which impacted the supply chain; in spite of the blockades which we experienced as well as our competitor experienced for a prolonged period of time. This company was creating a lot of momentum. You can look at our numbers now: we've created quite a bit of a cushion, a shock absorber. We realize that the economy is going to change dramatically. We understand we're in the middle of a storm, but this is all about controlling and what you can control and if you're a railroad with the uniqueness that had the strength of our story based on our wins, our unique wins and market share gains in the industry. Right now, we'll still close out with one of the best quarters this company has ever had in the first quarter, which gives us a cushion to absorb the storm a bit more than others will. So that gives me conviction. The second theme, the strength of the team. This company is uniquely positioned to weather this storm to go through this cycle and to come out stronger on the other side. This is a handpicked team that I put together personally. There's not one person on our team that's not here that I haven't had some influence in to either promoting, developing or bringing them into their positions. And I'll tell you, yes, I'm biased but I know what's in the marketplace. I've been in this industry now for 28 years. There's not a better team that I would run the railroad with on the upside and especially on the downside. PSR is at the core of who we are. This isn't a team that's trying to create a PSR story. We're not trying to create PSR in progress. This is the case study. We're battled-tested, I guess, is the best way to say it and this is not our first rodeo. And now to the third point, the true power of PSR, if you truly understand the railroad by PSR model day in and day out, yes, it produces great margins; yes, it produces great service for the customer. And if you can convert the service, as we've been able to convert the service the last two years into market share gains and increase business and bring it to the bottom line to drive strong earnings growth year-after-year. That's great. But the most powerful piece of this, and I know this to be true because I've lived it, is actually the strength on the downside; the strength in the tough times, the same discipline that you create to ride the wave and create profitable, sustainable business; the measures we have in place, the constructive tension we have in the company, the way we measure the cycles of our assets; whether it's a car, whether it's a locomotive, whether it's a human being and we're able to pull levers to add or pull resources real-time, not in the rearview mirror but real-time so that we can capture real-time what the opportunity is. It's powerful. If you go back historically, I think about the storms I've been in myself. I was at the Canadian National. Maybe a lot of investors have probably lost thought of this or maybe don't know this if it's a new investor. I was the Executive Vice President of Operations at CN back in 2008, 2009 when we had the last major economic crisis, the recession then. I was at the helm. I was pulling the levers. I was working with the team to make sure that we adjusted appropriately using our principles and our disciplines so that we could weather the storm and come out strong and bounce back strong on the other side. And history shows that's exactly what we did. And guess what? The other gentleman that is on the phone with me, the CFO was right there with me at Canadian National when we were doing it. So two of the key leaders in this company are battle-tested in this environment. We're not learning. We've done it before. We'll do it again. And that's what gives me the conviction that I'm sharing today about the power and the potential of this railway again not only in the good times, which we were doing better than others, but in the bad times. And I think about too, as we walk through what we're going through, the importance and the need, and the level of dependency that the economy has on this company has never been any greater. I can tell you now the goods that we move that we're moving for Canada, not just for our customers but for fellow citizens and fellow Canadians, and for the economy in Canada is essential, whether it's the heating oil, whether it's the propane, whether it's Lowblaws. Lowblaws, we're their biggest carrier relative to the intermodal product that puts the drugs on the shelves and the products on the shelves that we all as human beings are needing critically now as we've been forced to go to our homes and we've been forced to change the way we live. So that supply chain that we're running day in and day out, carrying the Loblaws products, carrying Canadian Tire products, carrying Dollarama products, carrying Home Depot products. We're the work horse in Canada. We're the work horse that's carrying the proponents for that business. So, if you think about those things, again, strong conviction, the company is doing well, we'll continue to do well. And if you flip that to the financial side, think about our balance sheet, the place we're in today. From a balance sheet and liquidity standpoint, due to Nadeem's leadership and his team's execution, having again the best team in the industry, we've never been in a better place. We recently had two successful debt issuances with coupon rates that were unheard of, they are record-setting coupon rates because of the strength of the balance sheet and the strength of the story. We're at a point where we paid off nearly all of our short-term debt. Our credit facility which Nadeem recommended we increase last year and we successfully increased went from USD $1 billion to USD $1.3 billion and it's unutilized. So, we've got the dry powder, we've got the balance sheet, we've got the cash strength to be able to weather this. And again, not just get through this storm, but emerge even stronger on the other side. And I hope you can sense the conviction in my voice. It's a story that, again, is unique to the industry. It's unique in the Canadian landscape. It's unique in the North American landscape. And it allows us and sets us up not only to survive but to thrive in this environment, especially when we come out on the other side. And I can tell you, with the headwinds at our stock, I don't like to see our stock price take the hit it has taken, but in comparison it's weathering the storm and it's a bargain. And I feel that convicted about it being such a bargain and I feel so convicted about this team, I put my money where my mouth is over the last two weeks and I've leveraged up in this company, investing additional funds of my family's money because I believe it's a bargain. And I know with the hard work and the opportunities we have, it's going to make even more money for my family long-term. So, I'm committed to this company. This team is committed to this company. This is an opportunity for us. Yes, it's a challenge. But true leadership – true teams that really get it, they don't make excuses about the challenges. They develop opportunities and solutions, and they thrive in these tough environments. And that's exactly what this company has done and will continue to do. So that said, Fadi, I'll save the time for any questions and just open it up to the floor. We'll address anything that you want to talk about this morning.

<Q – Fadi Chamoun>: Okay. Great. Thanks, Keith for the remarks and definitely the conviction coming here from your tone. So maybe we can start by discussing a little bit what you are seeing in terms of the business backlog with your clients in terms of the outlook? What are they telling you? I suspect you're going to see some pretty tough few months ahead of here. But, if you can give us some feedback what you're seeing up there in terms of your business backlog?

<A – Keith Creel>: Well, like us and like everyone else, Fadi, there's a lot of uncertainty. There's a lot of guesswork still going on and I don't think that's going to change. None of us really know if this is going to be a two month, three months, six months. I mean, it changes every day and whatever press briefing that I look at and every article I read. But while we're not immune and we certainly are going to be impacted like everyone else, we do have some unique, a tailwind type parts of our business mix that again is different than the market. And it has shown and has been part of our strength in the first quarter. It continues to be strong. Grain is about 25% of our book. That's a great success story for us and it's exciting not only in demand, but it's also exciting in the price we're getting for our grain as well as the margins and the cost, the way we're able to control cost and bring it to the bottom line from a hopper car investment. And from the 8,500-foot grain train that that hopper car investment is allowing us to run. I think, right now, we're at 54% market share. And typically, that would not be normal. That's certainly – Canadian National has had some challenges with the blockades getting up to Prince Rupert for – I don't know if that was a week, a week-and-a-half. But typically, in the Western corridor, because they have Rupert and they also have Vancouver, we'd be a little bit behind right now. And then we play catch up once Thunder Bay opens up. Well, Thunder Bay is about to open up and we're not playing catch up we're ahead and we have the best supply chain and the quickest cycle times; again enhanced by our more productive hopper cars with these new hopper cars that are online to be able to continue to gain and sustain and probably gain with that momentum. Potash is another place. Canpotex has not been resolved yet but Canpotex has found other markets for their potash. We're still optimistic that Canpotex's contract with China specifically will get resolved some time in this second quarter. But the volumes we're moving now in March are strong, the orders they have in the books. In April, they're strong and we expect we're going to assume that Canpotex China contract gets resolved and potash will continue to be a strong area of strength for us in spite of the storm that we're going through. And other key piece for our franchise, some of us may have forgotten, I certainly understand and remember. We had terrible, terrible floods and wet weather that affected not only the railway and the river, but also the farms and their ability to apply fertilizer. There's a tremendous amount of pent-up demand for domestic potash. Mosaic, we're their flagship carrier, has a tremendous amount of opportunity to demand in the market space that they're working with us and encouraging us and obviously staying close to us to make sure that we can meet and or exceed. So that's an areaof strength for the franchise is well. Domestic intermodal, as I've said earlier, the who matters. So if you're talking about being partnered strongly with the Home Depots', Canadian Tire, the Loblaws, Dollarama, those products are moving better than they ever have moved because of this storm. We're on track right now to have the strongest March we've ever had in the history of the company on domestic intermodal. Now, yes, will some of that fade off and maybe we won't have the same tailwind we have now. We understand that. But fundamentally, we've got the best product, we've got the shortest lanes, we've got the strongest customers. So, yes, we won't be immune to the storm but the storm is not going to be quite as hard on us as it might be our competitor. So, that's another area of strength for us. Automotive, that's another space we do well in. We've carried some momentum. We're winning share. We've opened up the Vancouver Auto Compound end of first quarter last year. So that has allowed us, from our compares standpoint, to show some strength. That strength will continue the balance of the year as the automotive companies come back online and eventually they will. But again, uniquely positioned when they do, whatever level they're at, we're going to be in a better place than our competitors would be. And the Vancouver Auto Compound itself, we'll be able to talk more about it soon. We've said that the strategy was to build it, Ford backstopped it. We sold Ford half of the capacity and we sold the other half in the open market and used it; that capacity, that opportunity in our negotiations and I can tell you now, we're sold out in Vancouver. Again, I'll be able to tell you more about the specifics of that likely on our investor call but we're in a good place in the automotive market space. And as much as we'll have some headwinds while the facilities are shut down obviously, we're still going to be countercyclical to the industry when they come back. And then the other strength of our automotive franchise as well, who matters, is that our partnership with Toyota being their flagship carrier in Canada and the strength that that represents. So, those are some areas that are very strong for us. The crude piece, as we all can imagine, the spreads have collapsed, which is going to be a headwind to a point but I'll remind you, we didn't base this company's success on crude. We've learned this once. We went through this cycle back in 2014 and we learned two things: if you count on crude for all your growth, what's here today may be gone tomorrow, so you're setting yourself up for failure. So, we didn't connect our guidance, connect our future to crude. And the second thing is the discipline. We can't put assets on the ground, we can't hire, we can't provide locomotives for a market that is here today and gone tomorrow. So, through the lessons we learned and we've talked about this, the good work that John and Coby, and the team did on the marketing side that put some teeth, for the lack of a better term or some stickiness and protection to protect our capital investments in that space is going to pay dividends for us as we go through this storm. So, yes, the crude is going to – not be as strong as it was, not remotely strong as it was but for all those car loads that are not shipping, we're going to get money back in our take-or-pays and our MVCs. This can help offset and I guess minimize the impact of that. So that's another area that is encouraging in the middle of this. US grain, I guess the encouraging part of US grain is that I think it's pretty much bottomed out for us. We took a strategic approach in the market not to chase the rates. There's a shortage of demand because of what China did relative to the US trade wars. They came back and started to buy in the marketplace. But during that trough, so to speak, BN had a lot of capacity. That's our main competitor to get to China. So, it's a CP origin – CP, UP, UP destination going into Portland that competes against BNSF. And we chose not to change rates down to a point we couldn't make money. We just took a decision, you know what, I'm not going to do this for practice. We'll take our assets. We'll deploy them in Canada where there's tremendous demand for the cars that we have we'll make money there, where the margins are good and the business is good. Leave our rates stable and when the demand comes back, we're in a position to benefit well from increased demand on the US side. So I think that could potentially be the second half of the year, a potential upside for us. Our Canadian coal, it's still moving well. Forest products is moving well for us. Frac sand is a space Fadi where we're going to see a little bit of weakening based on the fundamentals, again all tied to crude. But overall, we've got a book of business that we have the record volumes now. The storms hit. We think in April it's going to pull back quite a bit just like everyone else does. But again we're going to do better than the balance because of our diversified bulk heavy franchise that actually is quite a good place to be in the storm today.

<Q – Fadi Chamoun>: Okay. That's a great rundown, Keith. Just a couple of follow-ups just on the back of these comments. First, the automotive side just to make sure we're getting it right: this is the opportunity you talked about that you want to elaborate on in the future is beyond the Glovis and the Ford that has been already announced. There is a little bit more coming, it feels like in Vancouver just interpreting your remarks. The other key one is crude-by-rail. You mentioned that it wasn't really part of your guidance this year. Maybe partially if you can just clarify that?

<A – Keith Creel>: Okay. So you're correct in the automotive side, we've publically talked about Glovis. Glovis is going to come online fully, fourth quarter. I think September, if I remember correctly. So, we don't yet see that in our numbers. What you're seeing in our numbers now is the Ford business going to Vancouver. There's some Glovis movements that are North American, i.e. US to Canada that we've enjoyed. It's in the numbers now Toyota now, but the other contract that was in play which is going to fill up Vancouver as well as give us business in other lanes, density on the network be it in Calgary, be it in Chicago. That's another thing, I haven't really talked about. I didn't mention that. We're building a compound in Chicago on surplus land that we have with Schiller Park which is adjacent to our terminal. It happens to be next door to North America's largest consumption point for automobiles and that's O'Hare Airport. So we've got OEMs, one particular OEM that's taken half of the capacity in that facility and we're in the process now of talking to other OEMs to market and sell the remaining half. That's going to come online at the end of the second quarter. And as far as the crude piece, we took – when I say we didn't make it a part of our guidance. Obviously, there's a base level business that's in our guidance. We took a conservative approach relative to what we thought the opportunity was. And we've got a model and take a look at it. When you offset the loss volume with the penalties or the take-or-pay payments that we received, it's certainly in a very meaningful way lessens the shock of not having that crude to move. But we think, I don't know in a volume business, we were running at the peak, 100, 120 trains. We think through this storm that likely might go to a third of that, maybe a little bit less. But, again, the gap between the peak and the third, we've got take-or-pays that we're going to be benefiting from as long as this spread is compressed and the oil companies aren't shipping crude. And then the other encouraging part of the story, the DRU makes sense regardless of this economic storm. So, the DRU is moving forward. That's going to come online second half of 2021. We've got half of that sold out with deals right now being worked on that soon I believe we'll be in a position, and I say soon over the next 8 to 10 weeks, I think we'll get to a point where we'll be able to talk about selling the second half of that capacity that's going to be at the facility in Hardisty. So, again, I think it's a pretty unique story relative to even some of the choppiness and some of the challenges specifically in the crude space.

<Q – Fadi Chamoun>: Okay. That's great. The domestic intermodal piece of the business, I guess you mentioned the kind of some of these customers, like how much of that domestic intermodal you think is indexed to the retail industry and the consumer industry, basically some of the things that are still running really well right now? And we're hearing that trucking is also having some issues, maybe some overflow from trucking to intermodal, is that the case?

<A – Keith Creel>: Yeah. The trucking capacity is constrained especially in the Montréal and Toronto markets. That's for certain. So, that's driving additional business to the rail. And then as far as the retail piece, the order of magnitude. We're more heavily – our mix more weighted heavily on the retail side than our competitor is. They're probably more heavily weighted on the wholesale side. And then we diversify that a bit. But right now, some of the underlying strength is being driven by those domestic players that I've talked about.

<Q – Fadi Chamoun>: Okay. Just wanted to get your thoughts on, I mean, the energy prices obviously having come down so much and that that could have a very big impact on Alberta and potentially the Canadian economy overall if these prices stay low for an extended period of time and might impact more than crude-by-rail. Just how do you think about the energy business having been also one of your strong growth segment over the last few years in terms of all the adjacent product like refining product and all this, how do you think about that market if we see an extended period of time of this weak energy prices and potential impact on some of the business that is not necessarily just crude-by-rail?

<A – Keith Creel>: So I think, overall, the energy space and I guess the economics of it all, it's all connected and I agree it touches - the tentacles go out to a lot of different locations. So, it's going to be a drag. I'm not going to suggest it's not because when energy is not moving well, that sort of tells you the economy is probably not doing well as well. But I think, uniquely, the crude may not move, but the chemicals, the products, the Shell's of the world, the Exxon's of the world, again I think we're in a pretty unique place with the share that we have and the lanes that we enjoy with those players to do better than what the economy normally would give us in this environment. Now, where the pin is, I don't – it's all kind of guesswork, Fadi but again, I feel strong and feel convicted about the partners that we've connected, our locomotives to that they're strong players. They have the strength to weather the economic storms that we're going to be following or going through. And as a result, because we're partnered with them in these key lanes especially going to Vancouver, and from Edmonton going into Chicago, I think we're going to be fine.

<A – Nadeem Velani>: And, Fadi, I would just add that some of the longer-term initiatives that we've put in place, whether that's plastic facilities north of Edmonton or transload facilities in Southwestern Ontario, some of these have long lead times and are more 2021 type of initiatives. And in times like this, it can be an opportunity to advance these projects and do them in a much more cost-effective manner. So to think more longer-term there are some opportunities as well for us.

<Q – Fadi Chamoun>: Okay. That's great. So I mean, if we could talk a little bit briefly about the pricing side. I mean, usually for your railroad and some other rail, long haul railroad like yours, the pricing tend to be pretty stable over the cycle and during downturns like this. Can you help us think about the areas where pricing might be vulnerable during these types of demand shock that we're experiencing now? What is coming up for renewal over the next, say, 12 months period that might have a kind of challenging conversation with these customers about pricing? How do you think about pricing overall coming into the next kind of two quarters to a year?

<A – Keith Creel>: We've taken a very disciplined approach to pricing. We've always said in the strong markets when we get wind in our back, 3% to 4% is a good number and at challenging times, 2% to 3%. We're not going to back away from that. What we're seeing right now is north of 3%. I think, we, overall, because of our service, our partners are valuing our service in a great way especially given what their experiences have been with the service-challenged competitor it seems like for the last, I don't want to say the last several years but there's been some good times and bad times, I guess, and some choppy times and challenging times. But as of late, it's been extremely challenging which supports the value of our service to our customers. It doesn't make us apologize when we're asking for what I call modest and fair price increases. Now, demand is going to go down. Obviously, when demand goes down, domestic intermodal generally is going to be exposed a bit that's a space. The coal, I think is going to hold out fine. The coal is under our contract as far as demand. I'm speaking more from a demand standpoint. I think it's going to be fine. Our ECP areas, again, that's an area, I think about Shell. That's a contract that's coming up within the next 12 months. It fits your definition but that's a customer that we've given great service to, we've grown share with over the last contract and we're already in discussions for the next one. And I see an opportunity for us to increase our revenue base and our lanes with that customer, not decrease. And at the same, we've talked about what we've done with Suncor, where Suncor is expanding their facility, and that's again part of the strength and the uniqueness of our franchise. We're the railroad that serves the south shore of Vancouver. The location that Suncor is expanding is off of our tracks going down to the south shore. Shell is off of the same track and Shell is looking at expanding their facility to be able to compete and maintain and grow their share in the low-sulfur diesel space. So again, while we're negotiating and we'll be negotiating the master contract, we're in the process of negotiating an expansion for their diesel fuel contract. And all of that is at play at the same time and the value proposition obviously is on the table at the same time and it's a space that I think we'll do well in. So, those are the two main areas that I'm thinking about. But again, back to your question, the domestic intermodal is probably the most price-sensitive. But I think what's going to help us there, Fadi, which actually may give us strength is there's some pent-up demand right now and we've got a lot of demand dealing with the crisis. But as the crisis subsides and it will and we get to a more normalized market, because of what happened prior to, with depleted store shelves and inventories, again with some of these same players, were uniquely positioned that demand is going to be high. And whenever demand is high in that space, that's going to allow us to sustain our pricing ability or at least an ability to take reasonable price. And when I say reasonable, north of 3, better than what inflation is going to be in that market space.

<Q – Fadi Chamoun>: Okay. That's great. Thanks. If we can move out to the cost side of the story, I mean, there has been probably no precedent here to the trajectory and speed of the shutdown of the economy here and the slowdown we're experiencing and also the drop that we are probably going to see in the volume in the next few months. And probably, the recovery could be also as speedy and strong as well on the other end of this. So again, how do you adjust resources for something like this? Like how do you ensure that you're defending the kind of your margins through the downturn, but also making sure that you have the resources to handle what could be a pretty speedy recovery as well on the other end of it?

<A – Keith Creel>: All right. Effectively, once you get into running a PSR, you've got to pay attention to the right levers and the things that we look at, that I uniquely look at on a daily basis, the productivity numbers that are part of our reports and we look at them from a daily standpoint, a seven-day run rate standpoint, a month-to-date standpoint versus last year. So we measure things about five or six different ways that are consistent across all of our productivity measures. So I can see what happened yesterday, I can see what the seven-day trend is versus the seven-day trend last year versus month-to-date and year-to-date. So when you get a feel for those things and you know where the number should be or what your potential is, what good looks like, as soon as you start to see slippage, we have an ability with our measures to drill down to territory specific, to lane specific. So it's not just at a global number. I can take that global number and I can go down to superintendent's territory. I can get it down, instead of a 13,000-mile railroad, for simplicity's sake, I can look at a 500-mile chunk of that and I can look at those measures. And when I look at it in totality, I know where we might be long on locomotives, long on cars, long on people. And we start real time. We look at it daily. We talk about it daily. We adjust weekly. We started this process relative to what we expect and what we've been told and what we think will happen in April. We started this process three weeks ago, four weeks ago, as soon as the start so that we can make sure that we see it to start to move, we anticipate and we'll react. We're not looking in the rear view mirror. We're looking forward because a lot of these things, if you think about this collective agreements, if I think about people, that's one of our most important assets. If we're going to lay people off, the collective agreement prescribes certain amount of time where we have to get people advanced warning. So if I wait and I look at my rear view mirror and I said, we'll wait and then at the last two weeks, my car productivity, my switch group productivity, my cost per crew hour, all those numbers have slipped, I've missed the opportunity. So when you look at it real-time, you make the adjustments, you anticipate a bit, you use a little bit of history and you use a whole lot of experience. And you keep tension in the supply chain and you apply that strategy, that discipline to people, to cars and to locomotives. And then, you've got to think about, okay, what do I do? Are there things that I can do to mitigate the people piece of it? I think about emotional IQ. I think about emotional connection of the company. I think about taking care of employees as best as we possibly can and making sure that they know, before we lay anybody off, we've done everything within our power to make sure that's the last place we go to. For instance, the things that we're facing now, the things we faced last year when we adjusted our resources, the second half of the year to protect our margins. Before I start laying off, I'm not just going to arbitrarily lay off. I'm going to go out and talk to the employees. I'm going to let them know what we're facing. I'm going to say, listen, if there are employees out here that would like to take an unpaid leave of absence, if there are employees out here that would like to advance your vacations, if there are employees out here that would like to do anything with your benefits that you've already earned to minimize the impact to your family and avoid us having to lay people off or as many people off today, then raise your hand. So, we'll have employees that say, you know what, I'll take my vacation early. I've got something else I want to work on for the next few months. If you'll give me a two-month leave of absence, I'll take it. We can do those kinds of things. And instead of having to lay off 100, maybe I'm only going to lay off 90. The dollars and the cents matter obviously but the emotional connection of the company matters most because then the people know, you know what, we're part of a family, we've all got to tighten our belts when we go through tough times but this company cares about me as an individual and they care about our family. Those things matter. And then on the locomotive side, we obviously are retrofitting locomotives. We're going to continue to do that. This is a long-term game. This isn't a short-term game. This is a long game. So, we're going to continue to spend the money to retrofit those locomotives because I know the economy is going to bounce back. Whether it's three months, six months, eight months, we're going to need those locomotives. So, we'll continue to refurbish the locomotives. They're more fuel efficient and they're more reliable than some of the fleet that we have and what we'll do is we bring them online as we'll take the less fuel efficient, the less reliable locomotives and we'll park them. We'll store them serviceable and we'll wait on the demand to come back. And it's the same process with the cars. We'll look at our leases. We'll look at the fleets. We'll look at the TTX equipment we can put down. We'll look at the hopper cars if we need to that we can put down. We'll constrain and take resources out so that the supply chain will run faster. And when you run faster, reliably, you'll be able to move more product, and your costs and your margins are going to be protected. So, it's not any one thing. It's a bunch of singles and doubles that we'll do to protect the margins on the downside and have the resources in hand and even the willingness of the employees to bounce back when the economy bounces back. And we're in discussions now, thinking about the people side, we're in the process now – I can anticipate we're going to be laying off probably 250 people with what we anticipate over the next month is going to happen. But part of those discussions, again, if I talk about the people side, is working with the union, okay, let's talk about what we can do to keep them in here as long as we possibly can, what we can do when the economy bounces back to make sure that our employees are back quicker than they otherwise would be. So, if we're going to do things now that we don't have to do, it's in the best interest of the employees, what can the employees do working with the unions and with the collective agreements to tweak some of what would be a normal call back time which is normally 14 or 15 days, they have that long to report back to work in a lot of our collective agreements if they've been laid off. How about if we adjust that to make it a 48-hour or 72-hour? So, those kind of discussions are fluid discussions and they're going on today with their union leadership as we try to navigate this thing together. And I think that bodes us well for the bounce back.

<Q – Fadi Chamoun>: Okay. I mean, CP, like you've highlighted in your initial comment as well as completely different company than it was in the 2008 or 2009 downturn and even in 2015 and 2016, there's been so much progress on the PSR side the operational side. But if we draw a parallel like if you look back at 2009, your revenues were down 18%. Your EPS was down 38%. Your EBIT was down 35%. Is it kind of realistic to think you should hold up better in a downturn in the next whatever three, six months, whatever this takes than we have experienced in the past maybe on those numbers?

<A – Keith Creel>: Yes. Absolutely, that's the assumption I was making. That's what I would count on. And Nadeem, if you want to provide a little color. We've done a lot of modeling and guesswork just like everyone else. But we've got a few different scenarios and Nadeem could provide a bit of color on that.

<A – Nadeem Velani>: Yeah. Let me tell you Fadi, I would just add in on the downside, if you think about how we're protected, certainly, Keith spoke to the balance sheet. Keith spoke to our financial strength that we've come into this with. When you look at it from an operating point of view, certainly having a currency, the Canadian dollar depreciating does offer significant support at these levels in terms of protection to our earnings, protection to our top line as well just the translation impact. We've also protected ourselves from a labor point of view in terms of contract increases and rate increases for labor for the most part has been tied to some level of growth, RTM increases. We had, with our strong performance from a volume point of view, we had increases in the rate of pay. But on the downside, you see that protected. So, that offers some assurance from that front. When we look at what this could be, I mean, there's various scenarios right? So, it could be a short-term kind of U-shaped recovery or could it be a prolonged recession. I mean, that's the million dollar question. Tough to determine what that's going to be like but we're – to predict what is going to be the outcome, but we're protecting our assets and protecting our resources to look at either scenario. So, near term, as Keith described, we're doing things on labor, on cars, on locomotives. We'll protect our capital as well where necessary. At this point, we don't see a huge need to change our capital investment. In fact, there's some opportunities. If we see additional track time for engineering forces, we can be more productive and we can take advantage of that situation to get more efficient capital spending. And that's what we'll do. But in terms of your question of EBIT impact and so forth, I mean, this a very different company, a very different operating model, different management team that, as Keith mentioned, has experienced this before. And so, if you see significant volume declines, we're ahead of it. We're ahead of it in terms of taking assets out and controlling what we can. And we have the contracts in place that do protect us on the downside particularly with huge swings on volatile commodities like crude. A lot of the growth capital projects that we've put in place also have take-or-pay mechanisms in place that protect our capital investments. So, we feel pretty optimistic and despite the doom and gloom that we will come out of this very strong and I think there are opportunities on the upside to discussion around pricing. With all this fiscal stimulus and so forth that's put in place in terms of – that could create a pretty inflationary environment which is going to be very supportive for rail rates going forward as well. So, we're certainly not hanging our head down in Calgary and we're looking at the opportunities that this also provides us long term.

<Q – Fadi Chamoun>: Okay. But, and Nadeem, if this is more of a prolonged downturn, let's say, we go down a little bit here in the second quarter and we stay at these lower levels, I don't know, let's six, nine months, hopefully not, obviously, we're all hoping for a very quick recovery. But is there a big part of the capital spending that's discretionary that you can start to tackle or that's fairly sticky?

< A – Nadeem Velani>: Yeah. I mean, out of our CAD $1.6 billion of capital, we have CAD $800 million to CAD $900 million which is our basic and maintenance capital which we won't touch and, again, we'll be more productive with that spend. If you break down some of the other major areas, hopper cars is an area that we've been very vocal, a CAD $600 million spend over a four-year time period. Again, that's an area where our first year of that hopper car investment, we couldn't get as many hopper cars as we would've liked because of labor challenges at the factory in Southern Ontario. Well, times like this can create opportunities to get more cars done faster and cheaper. You could see us take advantage of that. We're going to be moving grain for decades, and it is 25% of our business. So, this is an opportunity where we can create greater capital efficiency. So do we have – if some areas where things turn really bad, we could pivot and take CAD $50 million, CAD $100 million of capital out of our budget without impacting the safety or the efficiency of the network? By all means, we do have those capabilities and we could move that way. But as we stand here today, we don't see the need just given the strength of the model, the balance sheet position we're in and our free cash generation. So, we've been relatively conservative from a share buyback point of view, just given the uncertainty in the marketplace. We continue to buy back shares, but we're not going to be overly aggressive just given the credit markets and given some of the uncertainty in the financial markets. But it's something that we also have in our toolkit as to how we look at our overall capital allocation to protect the business.

<Q – Fadi Chamoun>: Okay. Going back to the CapEx and the opportunities, I mean, like hopper car, obviously high return on investment there and you want to do that as long as kind of the economy and the environment is supportive. So, like maybe, Keith, and you, Nadeem, both, like what are, you think, the things that you can do right now in the next 6 months, 12 months that would make the recovery better or stronger? Like how can you influence your outcome when things kind of start to go back to normal that you can do now that probably you would not have been able to do before?

<A – Keith Creel>: I think the biggest opportunity, are to me, and this is from a safety standpoint as well as the productivity standpoint is the infrastructure, the track work that we're doing. We've ramped up and we're spending money on the lanes that we move the crude in which happened to be the same lanes that we move grain and potash in. It's a large piece of our book of business. It's an area that those tracks and, unfortunately, we have some challenging times back. With two derailments, one in December and one in, I guess, the first part of February with two crude trains that really has allowed us to take something that was good and make it better. So we've got a very surgical strategic plan to do track work that we were going to do in the middle of this business. So, specifically as the crude falls off, yes, we'll still be moving grain; yes, we'll still be moving potash. But the crude won't be there to the same degree and we're going to be very surgical and strategic and pragmatic about how we plan our work blocks. So to me, the work that we'll get done with the same capital dollars and that's why I want to protect those dollars to Nadeem's point, we might get a year and a half worth of work done with the same amount of money which is going to put us in a place as we put broken rail protection out on the railway and new ties, new ballast. The work we're doing also on the CMQ is we're bringing that onto the CP family's fold, all that is going to put us in a position of strength so that we're able to move trains more efficiently, safer. They're connected hip and hip and it's a lot of trains outside of crude. It's, again, a large book of our business. It's potash, it's grain and when crude comes back, it's crude, too. You do all of that, it's a network business. You've got locomotives and cars and people, when you can move them faster, safer, you don't need as many of them and it's going to allow us again from a margin standpoint or from a demand standpoint, control cost or to handle more business both of which is going to accretive to earnings. So I see that as an opportunity. That's a silver lining in this cloud storm that we're going through now.

<Q – Fadi Chamoun>: Okay. And Nadeem, if we could talk a little bit about the pension status. I mean, we're seeing a double whammy here of lower asset returns and significantly lower interest rate, but I think you're in a very good pension position coming into this. If you can just update us where the that is and maybe what kind of potential headwind this could represent going into 2021, if low interest rates are likely to stay here for a while and what you can do to kind of mitigate the impact of that if there is a need to do anything on that front.

<A – Nadeem Velani>: Yeah. Good question, Fadi. So just remind you that all of our pension amounts are locked in in 2020 based on where we ended 2019 as far as discount rates and investment returns. So we've also de-risked the plan in a number of ways at the end of last year. So we've put in changes to our fixed income strategy to mitigate the impacts of declining interest rates. So that will serve us well given the current environment and what's taken place in the last six weeks. We also were in a very strong solvency position to start the year. So that's given us a good cushion from a cash point of view. If you think about where our prepayment account has been, we still have $400 million in our prepayment account that, if necessary, in future years we can draw on. So we are – see what happens this year in terms of market performance and return on assets, there could be some income statement impacts into 2021. We won't know until January of 2021. But certainly, we don't anticipate any cash impacts from the near-term return headwinds. So overall, in a very good position as we stand here today.

<Q – Fadi Chamoun>: Okay. And I wanted to ask just kind of bigger picture question to you, Keith. I mean, we saw a couple of years of trade adjustment, trade issues obviously which are impacting the supply chain. And I think this potentially health crisis could impact the supply chain from a near shoring point of view, encouraging companies to maybe near shore, do a little bit more here. How do you think about the impact of these big supply chain potential changes on the railroad business, specifically on CP in particular if we start to see more things being brought back to North America for manufacturing?

<A – Keith Creel>: Well, I think that bodes well for the rail industry overall. Yes, it's going to adversely impact some of the trades that would be coming off the water for all the roads. And listen, we've created a way because we control cost, run a pretty efficient railway and industry getting better at that as well to make money in that space. But rest assured, the margins in that business and even sometimes the cost in that business because a lot of it's dependent upon parts of the supply chain that you don't control yourself are not the most appealing, all things being equal, if you have an opportunity to run an economy that's based on manufacturing and it plays to those strengths. So I think if that happens that the railroads in general are going to be in a much better place than they are today. And the need for rail transportation is going to be even more important to the economy which is going to bode well for all of us.

<Q – Fadi Chamoun>: Thank you. That's great. As we have a little bit of time left, I just want to go back to the question on decremental because I think that's probably one of the kind of questions that is the most on people's mind. If we do see and probably that's the base case right now over the next few months, a pretty sharp decline in volume which could be followed again by a recovery in the third quarter or in the fourth quarter. Are the decrementals that we talked about in 2008, 2009, I mean, it feels like they could be worse this time because you're probably not going to cut resources as much knowing that there could be sharp recovery on the other hand. So is this kind of over a period of year, two years you should – you think you can do much better than you have done historically but maybe the next couple of quarters could be a lot more challenging maybe this quarter, in particular, Q2, could be more challenging on the decremental side? Like how do we think about that decremental as we get through this kind of the worst part of this downturn?

<A – Nadeem Velani>: So, Fadi, I mean, if you think about a reduction in volumes, you're going to have an offset for your variable cost. So number one, you're going to take out 25% to 30% of the cost associated with those revenues. Depending on where they come from, I mean, we're assuming there's – and we're going to see a reduction in crude by rail certainly, you're going to get protection from take or pay contracts that are going to help mitigate any sort of reduction in revenue. You're seeing fuel prices that are coming down significantly. That is going to overall help your margins. We have the benefit of currency that is going to help offset some of the impact of reduced volumes. So if you factor all of that, you add in reduction in incentive compensation, that is going to help offset some of those costs as well. We don't like seeing it from a shareholder point of view, but certainly, stock-based comp and some of those that have been significant headwinds over the last five years also become tailwinds. So when you factor in all of those mitigating factors, you don't see a huge impact of a decrease in volumes. You can offset a significant amount of it. So will it be impactful to overall income to an extent? Yes. Do we have opportunities to offset and control what we can to lessen the impact? Absolutely. And if it's a short-term impact, the pent-up demand and what could be an opportunity from a stimulus point of view is going to help you on the upside. It's going to help you from a pricing point of view, from an overall demand point of view. And you put all of that together and you still have a very strong opportunity ahead of us. And it's the reason why we're still cautiously optimistic despite the challenges we're all facing.

<Q – Fadi Chamoun>: Awesome. On the currency side, look, the US dollar-based business and Canadian dollar-based business, has there been any big changes in the kind of the base business in US dollars that would impact the sensitivity that you've given us in the past or we should assume the same sensitivity right now?

<A – Nadeem Velani>: Yeah. I'd assume the same sensitivity right now. Crude by rail is very US dollar heavy so that will change that sensitivity a bit going forward but not to move the needle.

<Q – Fadi Chamoun>: Okay. I'm going to pass it on to you back, Keith and Nadeem, if you have any closing remarks before we end this call?

<A – Keith Creel>: I just want to – let me finish where we started. I want to thank you, Fadi, for giving us an opportunity to connect with our investors. This is, again, a great time of uncertainty and I'm sure from, an investor standpoint, unsettled would probably be minimizing the feeling that some of us might be facing. But in unsettling times, placing your trust and faith in a story that's unique to the industry that creates a safe haven, for lack of a better term, in the middle of the storm. This team is uniquely positioned with a story that's unlike the industry with a team that's unparalleled in this industry and, yes, there's going to be a storm. But rest assured the ship that we're on if you stick with us, the trust that you place in us, we don't take it for granted. We work hard to earn that trust every day and we'll continue to do that. And I'm certain that once the storm is over, we're going to come out stronger on the other side. And the value proposition is going to be even more compelling than it is today. So with that said, we're going to get back to railroading and focusing on what we do best. And again, thank you for your confidence. Stay safe, stay healthy and we'll all be looking back one day talking about the things we've learned and how we're going to do better the next time, as well as the opportunities that we created when this is all said and done.

<Q – Fadi Chamoun>: Okay. That's great. Thank you so much for giving us the time, for giving everybody the time this morning to give us this fantastic update. And thanks, everybody, for listening in. Stay well. Thank you. Bye.

<A – Nadeem Velani>: Thank you, Fadi.

<Operator>: And this concludes today's conference call. You may now disconnect.