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# Transcript

## Credit Suisse Industrials Conference

### November 29, 2018

**Palm Beach, FL**

**Corporate Participants:**

Keith Edward Creel – President, Chief Executive Officer & Director, Canadian Pacific

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

**Other Participants:**

Allison M. Landry – Analyst, Credit Suisse Securities

# QUESTION AND ANSWER SECTION

## Allison M. Landry

*Analyst, Credit Suisse Securities*

Thank you. I think it's still morning, right? Good morning again. We have CP here with us today. Very excited to have Keith Creel, the President and CEO; and also Nadeem Velani, who's the CFO. I think we're just going to go right into Q&A.

## Keith Edward Creel

*President, CEO & Director, Canadian Pacific*

Sounds good.

**<Q - Allison M. Landry>:** Okay. Maybe just starting out, Q4 trends, the volumes have been very good. A little bit of volatility in the market. Crude prices have gone down. Since we last heard from you on the third quarter call, has there been any change in your outlook for demand broadly or anything that you've heard from customers in terms of concerns about 2019? I mean, tariffs, obviously, is a big discussion, so just curious to hear your thoughts there.

**<A - Keith Edward Creel>**: I would say the same concerns we had the third quarter at a macro level, obviously, exist in the marketplace. But on a more micro level for CP, I don't want to say we're completely insulated, but we're in a very unique position. We saw strength in the third quarter. That strength has continued into the fourth quarter. Our operating team, they're doing a phenomenal job. Mother Nature has been on our side so far. So fourth quarter – third quarter was good. Fourth quarter is – I would say it's getting better. So we're in a very bullish place. There's only one commodity, U.S. grain, and we anticipated that and we knew that and we understand the fundamentals of why that's occurring. So that's certainly a question mark given what may or may not happen in the trade discussions. But outside of that outlier, every other business commodity we're seeing strength. And based on the value of our service and based on our ability to run the railway efficiently and onboard our demand, we're starting with – year over year I look at the metrics quite often. I look at – maybe when you start to put pressure on the network, cost control has been great. We're up on an RTM basis. We're doing – I don't know if I can say the number, but roughly 10% RTM growth year over year. Train speed actually is up. So train speed is improving as we put more demand on the network so it's more fluid, which is, again, a reflection of the capacity and a reflection of the way the team is executing, which is all encouraging. Train miles are down. Train starts are down. So from an operating standpoint, as well as quality of service and quality of revenue, we're in a strong place and we're getting better.

**<Q - Allison M. Landry>**: Great. Sounds like things are firing on all cylinders.

**<A - Keith Edward Creel>**: Yes. Yes.

**<Q - Allison M. Landry>**: From a resource standpoint, do you still feel that headcount and equipment and whatnot is just adequately...

**<A - Keith Edward Creel>**: Yes. The only constraint we've had from resources or from capacity has been locomotives. So in lockstep with business that we've been bringing on, we've brought forward locomotives, as we've talked about, to repurpose, to remanufacture, to re-equip the railroad with those assets that have been sitting in storage since our transformation. So outside of that constraint, we're in

lockstep bringing locomotives on, and we're in lockstep hiring and training people to operate those locomotives. But outside of those two issues, capacity is not an issue at all.

**<Q - Allison M. Landry>**: Are you in the market for new locomotives or are there enough ones in storage that you can refurbish?

**<A - Keith Edward Creel>**: Yeah. No, we're not in the market at all for new locomotives. We still have surplus locomotives through 2019 and into 2020 that we'll be repurposing.

**<Q - Allison M. Landry>**: How many units?

**<A - Keith Edward Creel>:** We've got about 80 online, if I remember correctly, for this year. It's about the same for next year. So we're again in line with the business as it comes on. A lot of – we've talked about this, some of the crude business. That was the issue for us. The track's there, the capacity is there to a point, the people are there just have to hire them and train them and get them qualified. The locomotives were the issue. We're going to bring them out of storage. We have to make a good fiscal business decision to pull that capital forward, which we've done. So we're in a good place overall from a capacity standpoint.

**<Q - Allison M. Landry>**: Okay.

## Nadeem Velani

*EVP & CFO, Canadian Pacific*

**<A - Nadeem Velani>**: Right. And I'll just add that we also have some options with short-term leases that we have locked ourselves in this year that come up next year. So that gives us – if we need additional – if we need to extend those, we have that option. If there's a better market elsewhere, we have...

**<Q - Allison M. Landry>**: Right.

**<A - Nadeem Velani>**: ...these other options. If other railroads implement PSR and create surplus locomotives, that's something that we can look at. So we don't see, certainly, locomotives as an issue.

**<Q - Allison M. Landry>**: Right. Okay. Speaking of that, I think CSX also has a lot in storage. And you've seen CN, obviously, buying quite a few and NS is short. Why aren't those sort of monetized more readily? I'm not asking you to speak for CSX. But just in general, some rails need them and some have them just sitting there.

**<A - Keith Edward Creel>**: Yeah. So for us, we look at it on a case-by-case basis. So obviously, if other railroads were to create surplus locomotives and some are, does it fit our fleet? Are we creating complexity with our own fleet looking at the type of locomotive? We have – we're in a unique position in this industry. All of our road locomotives are AC technology. So some of those locomotives might not be AC.

**<Q - Allison M. Landry>**: Right.

**<A - Keith Edward Creel>**: Some of those locomotives might not be equipped with distributive power. We have 100% AC, which gives you the best tractive effort, which means you can haul more tonnage per locomotive, and they're all distributive power which means we can run longer trains and link up those locomotives. So when you look at it, it might be a surplus locomotive based on what that railroad used. It may not be that easy of a fit for us.

**<Q - Allison M. Landry>**: That makes sense.

**<A - Keith Edward Creel>**: So we'll continue to look at them on a strategic basis. And if they make sense, then we'll buy them and we'll repurpose them. If not, we'll eventually get to a place – I don't see it in the foreseeable future, but probably 2021 and 2022, we might be back in the marketplace. Myself, the way I believe – I believe strongly about this; the locomotives in the marketplace now are new technology. And when I say new, they're a couple years old. There are a lot of bugs that still need to be worked out of them. To run a precision scheduled railroad, you need a reliable locomotive. And I'm not against the OEMs at all. When they demonstrate the new technology can be as reliable as the repurposed technology and they fail at the same amount or they reduce the failure rate, then we'll be interested in buying them. But until that happens – and it's going to take time right for people to work those bugs out – we don't want to be in the marketplace to buy locomotives.

**<Q - Allison M. Landry>**: And there's no tier 3 credit remaining, is that right?

**<A - Keith Edward Creel>**: There's very few. There's very few. They're drying up every day. I wouldn't say none. But here they're becoming a thing of the past. So the way you do it is you have a locomotive where you repurpose. As far as buying a new tier 3 locomotive, they're few and far between.

**<Q - Allison M. Landry>**: Right. What does it cost to refurbish a locomotive versus if you had to buy a Tier 4 today?

**<A - Keith Edward Creel>**: Total cost, it's about USD $1 million less, rough numbers, U.S., to repurpose a locomotive versus buying a new one.

**<Q - Allison M. Landry>**: That's USD $1 million roughly?

**<A - Keith Edward Creel>**: We're doing ours for a little under USD $2 million, and it could be about USD $3 million. That's about 30% more, 35% more.

**<Q - Allison M. Landry>**: Quite a bit.

**<A - Nadeem Velani>**: We get about 18 years of useful life.

**<Q - Allison M. Landry>**: In terms of some of the U.S. rails rolling out PSR, UNP may be a little bit further than what NS is doing. Are you seeing any disruptions on the interchanges? I guess that would be my first question. And then second, since you are very experienced in implementing PSR, can it be done in a phased manner and/or can select principles to be applied for it to be successful?

**<A - Keith Edward Creel>**: Number one, the first answer, we're not – I think it's early stages. We've not seen any interruptions in our interchange locations in the Chicago and/or with the Union Pacific at our gateway. To the second point, can it be done in a phased approach? I'm not going to suggest that it can't. I'm going to suggest I've never had experience doing it that way. Certainly, I would argue that to do a full PSR implementation and realize the full benefits, which means better asset turns, lower cost, better service, I only know one way to do it, and change is hard. Change is not easy and to do it slow takes a lot. And so at the same time, can you make incremental change along the way and can you make benefits and create synergies? Any improvement to me is a great thing. So from an onlooker from the outside looking in, UP, NS, obviously CSX, they're already demonstrating a lot of success. We're their biggest fans. We think this industry overall and not just the numbers, not just the cost of running the

business, but the sustainability, the reliability, the capacity it creates, the service the customer gets at the end of the day is better.

**<Q - Allison M. Landry>**: Right.

**<A - Keith Edward Creel>**: It's a better way to run the rail networks in North America and it's necessary, not just from a financial standpoint, from a capacity standpoint. So we're the biggest fans, and we'll support as much as we can. I guess that's the best way I can put it. I wish them the greatest of success. I do.

**<Q - Allison M. Landry>**: In terms of – we've heard about some external hires at UNP and NS. Are there enough veterans out there to go around in order for it to really be successful? And if not, is there a case to be made for a merger for that reason?

**<A - Keith Edward Creel>**: I would say that it depends on the willingness and the support case-by-case basis at the specific railroad. To fully implement PSR, you've got to have the stomach for the change, you've got to have the tough discussions, you've got to have CEO support, you've got to have board support, and you've got to create some success. And one individual – I'm not going to say one individual can't change a lot because Hunter Harrison originated this and he changed a lot. But I have walked down that road with Hunter a long time. And as much as Hunter was a visionary and Hunter was the driver originally, Hunter had a lot of ambassadors that helped him drive that change. It takes more than one person, in my assessment, Keith's view: could I do this? Could I do what I do alone? No, I've got to have a team of people that understand and subscribe and support the vision that I set. So it starts with the right tone at the top. You've got to set the right vision. One person is better than none, but one person is not as good as 10. And having the experience that I do with the people and knowing the talent that's out there, there's a limited supply of people that truly know how to implement this and lead this. There are some out there, but there's not a shelf full of folks and there's not a long bench of them.

**<Q - Allison M. Landry>**: Right.

**<A - Keith Edward Creel>**: So to say that there's enough to go around an entire industry, I would say no. But I would say in time can you train people? Again, if they're willing to learn and the culture embraces it from a leadership standpoint and you say this is the way and this is what we're going to learn and this is how we're going to do it, you can teach people. It just takes time. It's not going to happen overnight.

**<Q - Allison M. Landry>**: Right. In terms of needing a team, is that at the c-level and another layer beneath, or do you need to go down further in the organization to push the message down?

**<A - Keith Edward Creel>:** Yes. C-layer obviously sets the tone, but c-layers – we're not the ones pulling the pins and running the locomotives and making sure the switch crews go to work on time and making sure the hump count is up and making sure the trains depart with the right cars and making sure the trains are full length versus short length. It's top to bottom. Again, the change has to be initiated by someone. But to affect the change, it's got to be organizational change. It can't be one person change.

**<Q - Allison M. Landry>**: Right.

**<A - Keith Edward Creel>**: So, it's just a huge limitation if you don't get the entire organization behind you.

**<Q - Allison M. Landry>**: Right. In terms of the margin improvement for CP, over the next three or five years, whatever it is, what are some of the sort of – maybe bigger pieces isn't the right word, but maybe like, initiatives you have in place or places where you can improve like train length, matching horsepower, things like that, where are the margin opportunities going forward?

**<A - Keith Edward Creel>**: It's not any one location. The big rocks, we've sort of mined those but it's continual improvement. So I think about what we've done over the last five years, it was all about creating the right network, shutting the work centers down that weren't necessary. We took the hump yards out, we went down to one hump yard. We've optimized that hump yard in St. Paul. We've got key terminals still left in our organization at Calgary, at Moose Jaw, at Winnipeg, Toronto, Montreal, which used to be – at least four of those used to be hump terminals that we've not created efficient switching leads in. So going forward in 2018 and starting 2019 and 2020, we'll complete Calgary. So we started that this year. Next year will be a big year for us. 2020, we'll have a key strategic terminal that will be a world-class switching facility, which will allow us to take work that when we shut that hump yard down, has been pushed out to satellite terminals to sort of spread the workload, we could pull it back in. And when we pull it back in, not only will costs go down because we don't have those outlying points, we're going to generate economies of scale and synergies and we're going to have asset terms that improve. When you think about Calgary strategically, the grain goes through it, the potash goes through it, the crude oil can go through it, the intermodal goes through it, everything goes through our large preponderance of our business which goes to the West Coast, goes through it two times. And if they can move through it faster...

**<Q - Allison M. Landry>**: Right.

**<A - Keith Edward Creel>**: ...and more efficiently, then obviously they're going to be a natural standard. Moose Jaw is the same sort of horse. I mean, Moose Jaw is the gateway to the U.S. for the Canadian Pacific Railway. It's in a strategic location where, again, potash, grain, crude and manifest all touch it. So when Moose Jaw gets better, the network gets better. So when we finish those two locations in probably 2021, maintaining our consistent capital envelope, then we're going to focus on Winnipeg. And once we do Winnipeg, which is the gateway going from sort of the Northern tier CP down into Chicago through St. Paul, then we'll shift our focus on the East Coast. So there is not a shortage of opportunity. We're just doing it in a very structured, disciplined approach. We're maintaining our capital discipline. We're not trying to create Rome overnight. It's not going to happen that way, and we're converting every year and getting a little bit incrementally better. So the big rocks are over but the constant improvement is always going to be there. It's part of the way you do precision scheduled railroading. If you ever think you've arrived and you're as good as you can get, you're kidding yourself because you're only as good as the people executing it. There are a lot of still plays left in this playbook at this railroad from an operational synergy, margin, low cost control of the bottom line standpoint, we haven't converted yet. We just haven't got to that inning of the story yet.

**<Q - Allison M. Landry>**: Right. So I know everybody always focused on like a mid-50s OR or high-50s, whatever it is, I mean, is that really the right way to think about it? I mean, I know Hunter always said he wasn't married to the OR. It's about maximizing EBIT dollars and...

**<A - Keith Edward Creel>**: Yeah.

**<Q - Allison M. Landry>**: ... and just investors we just focus on the OR. So how would you speak to that? And what is the right way to think about the OR? And should investors really be thinking about valuation within the context of an R.O.I.C framework?

**<A - Keith Edward Creel>**: Yeah. I would say that, to me, the most important number is earnings, EPS. I'm going to be driven by that more so than OR. OR, to me – the reason that our OR is good is because we do a good job of running the railroad. It's all about quality revenue and it's about controlling cost and bringing it to the bottom line. This railroad is uniquely positioned to be able to do that. So to me, it's an outcome, it's not the focus. Now when you look at turnarounds and you look at the disparity between what's best-in-class, worst-in-class, it drives a different discussion...

**<Q - Allison M. Landry>**: Right.

**<A - Keith Edward Creel>**: ...which was the discussion that created the opportunity that allowed the transformational change at CP. But at this point, that engine is fixed.

**<Q - Allison M. Landry>**: Right.

**<A - Keith Edward Creel>**: When you're best-in-class, we continue and expect and see an ability through these operational things that I'm talking about, to incrementally maintain our best-in-class. We're going to be best or at best.

**<Q - Allison M. Landry>**: Right.

**<A - Keith Edward Creel>**: But from a business standpoint, OR, to me, only becomes an issue if it becomes a disadvantage. If I have someone, my competitor, that's competing for the same business that has a material advantage over me, we've been through that story before...

**<Q - Allison M. Landry>**: Right.

**<A - Keith Edward Creel>**: ...then I'll be concerned. But until and unless that happens, my focus is earnings growth. And I think the shareholder would appreciate and respect that.

**<Q - Allison M. Landry>**: I would think so. And I mean, I think to your point with a gap, if a gap exists, maybe it's like your – the message is around OR and that's like sort of a metric that the organization can focus on. And then sort of where you are now is, okay, we have – the big transformation is clearly done and now leverage top line growth. Obviously, the industrial recession put a little bit of a kink in that initially, but in terms of where you think you are in sort of this phase of PSR, which I'm sure never ends, how would you frame that and where do you think – I mean, are there significant market share opportunities from a rail perspective that remain, or are you focused more on trucks?

**<A - Keith Edward Creel>**: I think it's both. I would say we're in the early innings. So the first four or five years, we were focused on getting the engine right. So PSR is implemented and you hit the nail on the head. It's not a phase, it's the way you run the business. It's the underlying foundation. If you're going to create long-term sustainable success and create good service for your customer at a low cost to create that compelling earnings growth, it's the way you got to do business. At CP we're in a position now, and we've said this to be true and we knew it to be true and we took a lot of pain to get here, we knew when we made the tough decisions – when it took walking away from a business we couldn't handle profitably or we couldn't chase with price, not becoming a commodity, we took those tough decisions. We lost

automotive business, we lost international intermodal business, we lost big chunks of business and we got beat up in the marketplace for it. But now, here we are three years later. We've got a very disciplined railroad. We're bringing it to the bottom line, we've got capacity which is unique in the marketplace, and we've got a macro-environment which is realizing that capacity matters for a lot of reasons. So the demand is there. We've got diversification becoming a very topical discussion. So from a market share standpoint, when you have great service, low cost and capacity to sell, you're in a good place. So as we go forward in 2019 and 2020 – we've done well in 2018. I look at the discussions, things I can talk about, things I can't talk about. These aren't theories. These are discussions and contracts being signed, which makes me bullish about our opportunities and gives me complete confidence we've got it, and we'll talk more in January, more granular. But we've talked about mid-single digit RTM growth next year. I've got no doubt in my mind that we can do mid-single digit plus in an environment where we can improve the bottom line, too. So if you take that top line growth, better quality revenue, pricing strength, margin improvement, it's pretty compelling for earnings. So this company is in a unique position now, 2019 – business that we've earned that's coming on to us full scale, some of the contracts we've already won. And as we go into 2019, the discussions we're having that will come in play in 2020. If I look at automotive, if I look at international intermodal, if I look at domestic – the domestic story in Canada where the drivers log is the future story, it's not a past story. So some of that crunch that was created in the U.S. is going to happen in Canada as well. Some of that capacity is going to push more business to the railways. And if you're the domestic carrier that has the best network, the shortest routes, in key domestic markets, with the best service and lowest costs, then you're the one that's going to grow. So we'll be able to take shares from the truck, and it's going to come to our railroad and we're going to give great quality service to our customers and they're going to understand maybe some people in the past that couldn't depend on, probably the reliability of a railroad, we're more truck-like. We're dependable at a lower cost and it's going to bode well for our domestic franchise.

**<Q - Allison M. Landry>**: In terms of intermodal, just digging on that and thinking maybe over the last three to four years, there being competitive shifts from L.A. Long Beach to Vancouver and Rupert, and it just seems like there's no stopping that demand. And obviously, that's great for both you guys and CN. Tight truck capacity will help even further. Is there any capacity constraints from, whether it's at the port or anything like that that you foresee at any point in the future? If this sort of really robust growth continues, what are the risks around that?

**<A - Keith Edward Creel>**: Yeah. A year ago, I would've absolutely said yes. Vancouver has always been a place you've got to pay attention to when you're speaking about those commodities, specifically International Intermodal. It's coming in into two terminals. It's coming in on the South Shore, Downtown Vancouver, and then it's coming in down at Deltaport, with GCT, terminal. And the lion's share is coming to GCT Deltaport, both to CN and CP. The operator, GCT, has just undergone an extensive capital investment to increase their capacity which they're just now working through, and its boiler plate capacity is going to increase 40%. So if they bring that on and they get in their rhythm and they're starting to now because they just implemented September, October, it actually was a sort of a retarder to opportunity. If this capacity comes along in 2019 and 2020, that's great reliable service first off, all to both CN and CP to provide to our shipping partners. So that service proposition. Vancouver has grown off West Coast for two reasons: its servicing capacity and its cost. There's a cost advantage coming into the Canadian port. There was capacity at the Canadian port. Capacity is going to increase. You've got a railroad that's parked in there. And I'm speaking specifically CP, we have capacity, we have reach, we

have velocity going into the Midwest. We've extended our reach beyond Chicago going into the Columbus market, the Ohio Valley. It's compelling to a shipping company when you're partnered with that shipping company selling that service and that asset. So I see it's continued demand and I see with this capacity that's been brought on by GCT, it takes away some of the concerns that I've had in the past that a year ago I would've said that over the next two to three years, unless this is fixed...

**<Q - Allison M. Landry>**: Right.

**<A - Keith Edward Creel>**: … that's a concern. But if they do what they can do...

**<Q - Allison M. Landry>**: Yes, yes.

**<A - Keith Edward Creel>**: It's a solution for us and it speaks to the reliability and the opportunity for us all to grow.

**<Q - Allison M. Landry>**: There, with all of this, would you anticipate or have you seen in the last couple of years any price aggressive behavior from the western carriers as they try to take some of that back?

**<A - Keith Edward Creel>**: Not that it's – obviously, it hasn't affected the growth. I can't speak for the Western carriers, but I just think the underlying fundamentals and the advantage of coming into that port with service consistency and reliability, as long as the capacity is there, it's pretty compelling and it's going to be hard to make money competing against it.

**<Q - Allison M. Landry>**: Right, right.

**<A - Keith Edward Creel>**: And I think, in all honesty, there's enough demand out there that just like us, I talk about CN and CP, we need both ports to work right, to handle all of the traffic opportunities coming into Canadian soil. Prince Rupert can do well. Vancouver can do well. We just happen to be married to Vancouver. That's where we operate. And we should do well there and we're doing better every day. So we're uniquely positioned to benefit from that capacity as long as we provide the compelling service...

**<Q - Allison M. Landry>**: Right.

**<A - Keith Edward Creel>**: ...that we're providing. I still think the West Coast U.S. ports, there's still going to be demand and I think they'll do well too. I just don't know if it's going to be the same rate of growth as...

**<Q - Allison M. Landry>**: Right.

**<A - Keith Edward Creel>**: Because it's not the same compelling business opportunity.

**<Q - Allison M. Landry>**: Yeah. You have the environmental fees and all that.

**<A - Keith Edward Creel>**: That's correct.

**<A - Nadeem Velani>**: And you get the added benefit of currency, the Canadian dollar weakening and so forth, but that's always supportive.

**<Q - Allison M. Landry>**: Any questions? If you think about intermodal versus merchandise in the next three to five years, where do you think the bigger growth opportunity is?

**<A - Keith Edward Creel>**: I think they're both pretty compelling. We've got some initiatives. I've got to keep track of what I can and can't say. There are some things that will be driving some business decisions and investments being made in partnership with CP that will drive additional manifest growth, our ECP product to become extremely compelling out of Edmonton going to the West Coast and Vancouver. You will see us talk about those kind of things that give us confidence that that will continue to grow. You'll see international intermodal. There's quite a bit of business that comes into play in 2019 and 2020. All of it doesn't make sense for the Canadian Pacific. We're only going to compete for the business that makes sense for our network, that realizes the value of the capacity we have, and it makes sense for the customer so they can grow. Otherwise, it's just swapping business to swap business.

**<Q - Allison M. Landry>**: Right.

**<A - Keith Edward Creel>**: We've decided several years ago we're going to be strategic and surgical. We're going to partner with those that make sense to us and that we make sense for them, instead of trying to be everything to everyone. So that's been the approach we've taken, and we'll continue to take that as we look at this business in 2019 and 2020. Some of it makes good strategic sense for both partners. And these aren't theories, these are discussions that are ongoing. This selling process takes time. But certainly I expect that CP based on the value of our service and the value of what we can provide the customer, we're going to win some of that business. We're going to repatriate business that will come back to this railroad that they'll realize the value of the service and they'll also realize the value of diversification. And they'll realize the pain and suffering sometimes you go through if you look to put all your eggs in one basket.

**<Q - Allison M. Landry>**: Right.

**<A - Keith Edward Creel>**: There's a lot of risk. You can win big, you can lose big. So there's been opportunities that have been created that make our story even more compelling that we'll be able to realize a benefit from in 2019 and 2020. And these are contracts more so that will be decided in 2019 that will be more material – we'll see the business in 2020.

**<Q - Allison M. Landry>**: In terms of repatriating business, are there any specific commodity types?

**<A - Keith Edward Creel>**: Those are the three areas really. It's going to be continued repatriation in manifest, driven a lot with ECP. It's going to be continued automotive. It's a compelling opportunity for us. We just announced at our Investor Day this compound that we're going to open in the first quarter in Vancouver. We did it based on the fundamentals of one partner. We still have a lot of capacity that there is extreme interest in purchasing to bring additional product into that facility in Vancouver. So automotive will be an area that you'll see us gain share and grow in there as well as other locations. So those are the three. There will be manifest ECP, automotive, and international, in contracts, and continued strength and success in domestic.

**<Q - Allison M. Landry>**: Okay. When you think about – or when you're evaluating taking on business or not and pricing it and all that, how much of a factor is finding backhaul for existing freight that you know is going to be there long term, but really improving the economics on whatever haul it is. Is there a huge opportunity there, and that's still sort of on the forefront?

**<A - Keith Edward Creel>**: Yeah. The backhaul, I don't know if it's a quantum opportunity, but that's part of the topical discussion, and that's part of what CP didn’t get in the past that we get today in

International Intermodal discussion. How can we get the head haul, which is good for the railroad, but the part that's good for the steamship line is how do we reduce their cost in the backhaul?

**<Q - Allison M. Landry>**: Right.

**<A - Keith Edward Creel>**: So if we can use their equipment and put a domestic move in it, then obviously – and if you think about our franchise, if we're telling you – and we know this to be true – we've got the best domestic franchise with the best service, the opportunities for us to take that empty steamship box and put a domestic load in it is pretty compelling. So that's continued part of the story in international and domestic, and when you put those two together, that's how they become more profitable.

**<Q - Allison M. Landry>**: Right.

**<A - Keith Edward Creel>**: So that's just an ongoing continuation of what we're doing. Another compelling piece that we're going to realize, we've talked about GLOVIS. And a lot of people don't get this. This excites me as an operating guy. When we did the GLOVIS deal last year, and that's the business that comes on – I'll remind folks, this is a customer – GLOVIS is the transportation arm for Hyundai-Kia. So that product is imported into the port of Vancouver. It's put into a rail car. It's hauled into the interior of Canada. It's going to Toronto, it's going to those markets in Montreal. In their model, they forward position the automobile and then they ship it from there to the dealership, is they sort of pull it to the dealership. When you run a terminal, the way we run terminals, we turn things over. So that business was creating some challenges for us because you have parked cars sitting on land that you need to be turning cars over in. We ended up losing the contract. We had a percentage of the business. CN got 100% of it, our competitor did. Well, it created some challenges. So GLOVIS came back to us. CP, we want you to help. Well, we're willing to help but we're not going to be your insurance clause. Let's work on a solution. So we worked on a solution which has come into fruition now. We did a deal last year that comes into play in January or February of this coming year. And we'll have 100% of the business in 2020 where we're taking our land at the surplus. There's a place in Ontario by the Toyota plant that's – I got a mind cramp...

**<A - Nadeem Velani>**: Wolverton.

**<A - Keith Edward Creel>**: No, yeah, but, what's the name of the town?

**<A - Nadeem Velani>**: Woodstock.

**<A - Keith Edward Creel>**: Woodstock. Yes. Woodstock, Canada, not Woodstock, New York. That's what sort of – you got to draw the parallel between the two. It's a unique position and location in Ontario. Where we service the Toyota plant, there's a big piece of land there that were allowing GLOVIS to build their own compound. So the only capital expense we have is the switch. They have their own facility, it's their expense, they're going to operate it. It creates a landing spot for those locations. It doesn't congest our network...

**<Q - Allison M. Landry>**: Right.

**<A - Keith Edward Creel>**: ...and they get to enjoy our reliability of our road haul, they get their own facility. We're replicating that outside of Montreal in the land that we have at Les Cedres. So that in and of itself when we did the deal it required backhaul, because think about this, you got loads that are

coming in at Vancouver which means empty models going out to Vancouver to get them. It made sense when we did the deal and I think about the Vancouver compound. Think about when we had these discussions. We're thinking, wait a minute, we've got to get empties out here. We've absorbed the cost in the business, still it made good sense to us so we did it. Now, we're thinking about these empty models, well, wait a minute, if we build this compound and we create a landing spot for vehicles that are built in Ontario or the U.S., that need to go to serve that market. Now I've got a head haul, head haul.

**<Q - Allison M. Landry>**: Right.

**<A - Keith Edward Creel>**: I'm not empty repositioning. When this compound opens up and when this GLOVIS business comes on full scale, what made great sense when we did the GLOVIS deal, now it's compelling because the empty miles are eliminated. So we're creating a closed loop on our network that we control where we can control the size of the trains, the quality of the service. The asset is there. The automotive cars are captured in essence on our supply chain so it's load-load both ways. And it's great service through GLOVIS and it's great service for any of our automotive customers that use the compound, feeding that market where normally it's a challenging expensive market. So those are compelling stories that continue to drive this value proposition.

**<Q - Allison M. Landry>**: Absolutely. How long does it take for something like that to happen? I mean, I know you said you had one part of the contract before and it sort of evolves over time.

**<A - Keith Edward Creel>**: Yeah.

**<Q - Allison M. Landry>**: How long does something like that take?

**<A - Keith Edward Creel>**: The GLOVIS discussion took 90 days to do that deal. This discussion on the compound was just a concept we delved into last year.

**<Q - Allison M. Landry>**: Oh, wow.

**<A - Keith Edward Creel>**: When we started focusing on growth, we looked at transload, we looked at areas that we just haven't had time to look at yet. So how do we grow? How do we make decisions that bring business that's sticky to this railroad? We have land, we have capacity, we can create a mousetrap that can't be replicated...

**<Q - Allison M. Landry>**: Right.

**<A - Keith Edward Creel>**: ...and that's what we've done. So literally, we've taken the concept of the automotive compound. I told the team, I guess it was four months ago, I said if you want to build it, you've got to get an anchor customer that's going to essentially make sure it's the right business decision...

**<Q - Allison M. Landry>**: Right.

**<A - Keith Edward Creel>**: ...where we won't fail because we've got to make sure we're good stewards of our capital. The anchor customer gives us the business case. Everything else is above and beyond, and it just happens to play well with this GLOVIS piece. We put that deal together in four months.

**<Q - Allison M. Landry>**: That's pretty incredible.

**<A - Nadeem Velani>**: And I think that's unique to the CP culture under Keith's leadership. I mean, the different – all the different functions have a voice and it's a very collaborative kind of culture that we have, but it's limited bureaucracy. So we have our mandate, everyone provides their input, gets their perspective, and then you run hard, and it's return based. This land in Woodstock was leased out to a farmer on pennies on the dollar, you can imagine that you can justify a...

**<Q - Allison M. Landry>**: Right.

**<A - Nadeem Velani>**: ...a pretty significant return and...

**<Q - Allison M. Landry>**: Yeah.

**<A - Nadeem Velani>**: Again, it's something unique to CP and how we can kind of drive decision-making so much faster and get those returns.

**<Q - Allison M. Landry>**: And similar – not just sort of in scope what you guys did with Genesee and Bluegrass sort of just thinking outside of the box in that sort of thing. I think that was a pretty quick agreement that came together.

**<A - Keith Edward Creel>**: It's about a six-week deal. That was a meeting and how can we grow together, how can we become better partners? They had a facility that was there underutilized. It was built in – I believe NS helped build it, and they walked away from it and there was a demand in head haul, head haul both ways. It extends our reach. It's good for Genesee & Wyoming, it's good for us. Short line partners overall. We're just now starting – we started early with those guys but we just had a short line conference maybe six weeks ago with 32 of our potential short line partners. Our business is up over 30% with short lines...

**<Q - Allison M. Landry>**: Wow.

**<A - Keith Edward Creel>**: ...this year. And we're just now in the early innings of developing those opportunities. With the railroad that we have limited reach, we only go where we go. That's the way to win in the marketplace. Partner with your short lines who can originate and extend your reach, it's good for them, it's good for us and the customer wins, too.

**<Q - Allison M. Landry>**: Right. How many – not that you can come up with specific ones or at least share those with us, but how big of an opportunity is this longer term? I mean, is it game changing if you can keep doing these sort of unique arrangements?

**<A - Nadeem Velani>**: When we looked at the short line piece, for example, we kind of put things together. We talked about throw everything on a wall, CAD $200 million to CAD $300 million worth of revenue, now you're not going to realize the full amount. We could add another percent or so to your kind of annual revenues, absolutely. And it's...

**<Q - Allison M. Landry>**: Just for short lines.

**<A - Nadeem Velani>**: Right. And so if you tie in some of these kind of unique advantages in terms of all of our land that we have, the excess land, that okay, if we're not going to monetize it, can you turn it into a growth engine and kind of a unique opportunity from that perspective? It's what gives us the confidence that we're not going to grow in that GDP level. The macro is going to give us what the macro gives us, but we have that unique kind of growth opportunity that's unlike our peers.

**<Q - Allison M. Landry>**: Right. If some things materialize, could you do high single-digit RTMs next year?

**<A - Keith Edward Creel>**: Yes.

**<A - Nadeem Velani>**: Yes

**<Q - Allison M. Landry>**: Like Nadeem? What? Any questions?

**<Q - Unidentified Participant>**: [Inaudible]

**<A - Keith Edward Creel>**: I think it changes the timing. So short term, I think it makes it less likely. Long term, I think it makes it more tenable. Eventually demand is going to drive the need for consolidation. PSR is not the silver bullet to fix the capacity crunch that the rail industry faces long term. Ten years from now, if the traffic doubles in Chicago, we can all be on PSR and it's going to help, but it's not going to solve doubling of traffic. To create that kind of capacity, unless you build new railroads, which I don't think you're ever going to get to happen, eventually consolidation will occur. And in my assessment and what I know to be true, the biggest naysayer or pushback on consolidation often is the customer, and it's because they've had bad experience with consolidation. If you go to customers, and I've lived through, there was a very painful one in the West and there was a very painful one in the East in the U.S., I operated through both of them, and I'm still railroading. So a lot of those customers and decision-makers still have those same scars. So until they're made to be believers and as you see other railroads have success, like CSX, I would argue that there are probably several customers, maybe a lot of customers that a year ago would have been anti-PSR which today they're now realizing the benefits of those improved asset turn times and those improved transit times. And if you think you're a customer that owns equipment and you get to see your costs come down because you're choosing to do business with a railroad that is a better manager of your assets, then you know what, some of that reluctance to even consider consolidation is going to diminish. So to me, if you go forward when the demand drives the discussion, I think some of the naysaying will be less because people will be accustomed and understand what the power of it is. And it's you know what, two good railroads that do well at it, can they really do better consolidated? And I think you're going to have some believers say you know what, they can. So again, it does prolong it but I think it makes it more probable when that time comes.

**<Q - Unidentified Participant>**: [Inaudible]

**<A - Keith Edward Creel>**: Chicago is the Achilles' heel, it's the primary driver. And as long as the rail industry and the preponderance of everything connects 25% of every move in North America goes through Chicago. If that doubles, and population growth commands that, the numbers say that, then it's going to be always something that's going to be an opportunity to solve or a problem to resolve.

**<Q - Allison M. Landry>**: If there is M&A at whatever point, even if customers are more amenable to it, would it still require some concessions like reciprocal switching or whatever it is to get it done?

**<A - Keith Edward Creel>**: It has to be unless the law has changed pro-service and pro-competition. And if that means that's what it requires, those are tough discussions. But in my personal assessment, yes, there will have to be some concessions, I'm sure. But it's a big step threshold – I would make a case that it would – it's possible. It's a big hurdle, yes, but it's doable. To me, it's only doable through PSR. You don't do it any other way.

**<Q - Allison M. Landry>**: Right. Anything on the regulatory front that's coming down the pipe that concerns you, Canada or the U.S.?

**<A - Keith Edward Creel>**: No, actually I'll let Nadeem speak on the finance side, which is actually encouraging. And I would say this on the operating side, the C-49, there are some things in that legislation I did not like, there are some things that I really liked, and there's something that I'm super-pleased about now. So our ability in Canada to put cameras on locomotives, which we're still working out, I think that's a game-changer when it comes to improving safety, both for our employees as well as the communities we operate in and through. When it comes to investment, that bifurcated index that we've talked about for so long is in play now. We made a decision to spend a CAD $0.5 billion buying more efficient, more reliable, higher-capacity grain cars. We're starting to bring those online. And as we drive the discussion around innovation in the grain model in Canada driving an 8,500-foot train, we signal to the marketplace that we're doing away or we're eliminating a 56-car incentive next year. So in 2019 crop year, that 56-car incentive goes away, and the economics are there and decisions are being made now with our grain partners to create a more efficient supply chain. So it's going to be, to me, more reliable for the country. You're going to have more takeaway capacity and specific to us, which is very unique because our demographic of our grain hopper is going to change, it's going to be a less cost, more fluid operation. So to me, from a regulatory standpoint, we're just on the beginning innings of benefiting from that. And when you're a railroad, 25% of your revenue is grain, grain matters. And if we can do it more efficiently, it's better service for the customer, better opportunity for this company as well as for our grain partners. I think that's a good story for us. And on the finance side...

**<A - Nadeem Velani>**: Yeah. I was just going to add that we have an election year both provincially and federally in Canada and Alberta next year. I think the tax reform in the U.S. and the question surrounding Canada's competitiveness, and I know the Finance Minister last week tabled some proposals for accelerated depreciation and so forth to positive response within Canada to some of the changes that were put in place in the U.S. this past year or so. I think if anything, there's upside from a tax point of view. I wouldn't say it's needle moving, but certainly it's going to be more supportive than hurtful in many ways. And we'll see what happens in Alberta. I mean, certainly a lot happening there. There's challenges in the oil and gas industry, looking for ways to diversify the Alberta economy. There's investment in other industries and so forth which could be supportive for CP in particular, so certainly more positive.

**<Q - Allison M. Landry>**: Any risk around – I can't remember, maybe a month or two ago, one of the officials in Canada in trying to support oil and gas industry, talked about the rails, sort of helping out in that vein. And so is there any concern around sort of the focus on that and maybe trying to dictate to the rails like you need to move this because it's good for Alberta or whatever? Is there anything that you saw or heard that is a concern?

**<A - Nadeem Velani>**: Well, I think there was a push certainly by the Premier for either prioritizing traffic or government investing in resources. We'll see how that plays out. I know the federal government has pushed back on that and has been very vocal that let's see how the market plays out. I think we'll see what the government of Alberta does and says. I think that cooler heads will prevail in terms of how you regulate industries, and I don't think that they're hugely supportive of regulation in any way. I think what they're talking about right now is being a customer, investing in railcars and so

forth to try to support the oil and gas industry. So if that's the case, certainly we're open to those discussions.

**<Q - Allison M. Landry>**: Right.

**<A - Nadeem Velani>**: But I wouldn't say that we're concerned with any sort of regulation or any sort of dictating by the government.

**<Q - Allison M. Landry>**: Okay. Got it.

**<Allison M. Landry>**: I think we're out of time. Thank you so much.

**<Keith Edward Creel>**: Thank you.

**<Nadeem Velani>**: Thank you.