

Transcript

Q3 2019 Earnings Call

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Corporate Participants:

Keith Creel – President & Chief Executive Officer
John Brooks – EVP & Chief Marketing Officer
Nadeem Velani – EVP & Chief Financial Officer
Maeghan Albiston – AVP, Investor Relations

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon. My name is Emily and I will be your conference operator today. At this time, I would like to welcome everyone to Canadian Pacific's Third Quarter 2019 Conference Call. The slides accompanying today's call are available at www.cpr.ca. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to introduce Maeghan Albiston, AVP Investor Relations and Pensions, to begin the conference.

Maeghan Albiston

Thank you, Emily. Good afternoon, everyone, and thank you for joining us today. Before we begin, I want to remind you that this presentation contains forward-looking information and that actual results may differ materially.

The risks, uncertainties, and other factors that could influence actual results are described on slide 2 in our press release and in the MD&A that's filed with Canadian and US regulators. This presentation also contains non-GAAP measures outlined on slide 3. A reconciliation of all non-GAAP measures can be found in today's press release available on our website at investor.cpr.ca.

With me here today is Keith Creel, our President and CEO; Nadeem Velani, Executive Vice President and Chief Financial Officer; and John Brooks, Executive Vice President and Chief Marketing Officer. The formal remarks will be followed by Q&A. And in the interest of time, we'd appreciate if you could limit your questions to two.

It's now my pleasure to introduce Mr. Keith Creel.

Keith Creel

Thanks, Maeghan. Good afternoon and thank you all for joining us today. Once again, I'm honored to be here with my colleagues in Calgary representing these impressive results of our 13,000 strong family of railroaders executing our proven PSR operating model, which continues to enable our success delivering from both our customers and our shareholders in good economic times as well as more challenging times.

Through our collective efforts this quarter, we delivered record third quarter revenues of CAD $2 billion while producing an all-time CP record-low operating ratio of 56.1% and 12% adjusted EPS growth.

As we're all aware this volume environment experienced pretty unique challenges in the back half of the quarter in the industry as well as at CP. In spite of those micro headwinds, today's strong results are undeniable proof points that this team's skill and ability to maintain constructive tension in our day-to-day operating managing cost, adapting resources real-time which are all foundational in our true PSR culture. It's an operating model that continues to allow us to manage the peaks and the lows of all business and economic cycles.

More specifically, I'd be remiss not to commend and tip my hat to the outstanding operating performance the team produced that demonstrates essentially there were always – is and will always be further efficiency opportunities to be mined at CP demonstrated by their performance driving year-over improvements across the board; 5% network train speed; 16% improvement of terminal dwell across the network, which is a third quarter all-time best at CP; 15% improvement in car miles per day; 7% improvement in locomotive productivity, again all times best levels for each metric at CP; at the same time producing trip plan compliance at 90% at the quarter for

our customers; and most importantly, a strong safety performance on the safety front. Train accidents down 30% year-over-year in the quarter; personal injuries down 5%. And I can tell you reducing personal injuries is an area of intense focus care and concern within CP. We're committed to every employee going home safe every day.

We've got a lot of work left to do on this journey, but at the same time, I'm proud today to publicly recognize pockets of excellence. We have at CP like the Toronto locomotive shop who's celebrating three years of injury-free work performance today. This kind of performance takes bold leadership and partnership across the collective team, be they company officers like Locomotive Superintendent Brian Comben in Toronto; Health & Safety rep, James Dawson; mechanic Christopher Purchase, all there in Toronto working with all the great men and women in their workgroup.

Locations of safety excellence like this demonstrates that the Toronto diesel shop illustrates a true safety culture in my mind which is a keyword. To some culture may be just a word or an aspiration. At CP, our culture of accountability execution and the importance of constructive tension and all we do is our true success enabler.

I'd also like to point out this quarter we announced the retirement of Robert Johnson and Tony Marquis. Their contributions over the last number of years have been instrumental in CP's transformational journey from industry laggard to industry leader which included while they were here cultivating a partnership with myself and others developing a strong bench of operating leaders for now and in the future.

This focus in the work allowed a seamless transition in the space. On September 1, Mark Redd, who many of you have had a chance to meet, was appointed our EVP of Operations. Reporting Mark are two seasoned and talented operating leaders which are seized with not just sustaining what they've inherited, but further improving the work that's been done before them. Tracy Miller, our Senior Vice President runs the Eastern Region; and Greg Squires, Vice President, runs the Western region.

At the end of the day our true ability to create a most importantly sustained success at CP or for that matter in my mind that any great company comes down to people. Which is why developing the people and cultivating a deep bench of railroader leaders across the company to all departments continues to be my personal and our team's ongoing focus and priority.

So with that, I'll keep my comments short. I'll hand it over to John to provide some color on the markets and then turn over to Nadeem to elaborate more on the numbers.

John Brooks

All right. Thank you, Keith, and good afternoon, everyone. So total revenues were up 4% this quarter to CAD $2 billion. RTMs were down 1%. FX was flat while fuel was negative 1%. And as expected, our pricing landed in the targeted 3% to 4% range while mix was positive. Despite our book of business and frankly particularly our bulk franchise facing some unanticipated headwinds in the quarter, the CP team is closely aligned as we continue to deliver industry-leading growth built on the strength of our service product and the execution of our surgical growth strategies. We view these bulk headwinds largely as episodic. Looking ahead, the fundamentals for grain and potash and coal look good.

Grain volumes were down 1% while revenues were up 6%. Wet weather delayed the Canadian grain harvest significantly in the quarter with weekly volumes averaging about 1,000 cars per week less compared to our prior years. More recently, these volumes have begun to pick up and we are confident that any volumes not moved this fall will move in 2020.

Currently in Canada, the latest stats show we're about 70% harvested versus our three-year average closer to 85%.

The crop size will look similar to last year and we continue to watch closely the impacts of quality resulting from this late harvest. In the US, although recent weather events have also taken their toll in the Upper Midwest and have slowed shipping in that territory, we've seen an increase most recently in our export soybean program as more positive news emerges around US trade settlements and talks with China.

On the potash front, volumes were down 15% and revenues decreased 10%. After all-time record volumes over the past year, the ongoing delay with international contract resolutions have weighed heavy on our export volumes.

It is our understanding that ongoing discussions between the parties remain very constructive. So while we believe we'll continue to face some near-term uncertainty into Q4, the macro demand for potash remains stable for 2020 and as we look beyond.

On the coal front, revenues were up 7% while volumes were essentially flat. Canadian coal volumes were down slightly with some supply chain challenges; however, this was offset by increased volumes of our US coal into our Midwest power plants as they rebuild their inventories.

On the merchandise front, revenues in forest products were up 3% and volumes were up 1%. We continue to drive success in this space through strong service asset utilization and utilizing our network of transloads to create optionality for our customers.

With our unique terminal capacity and land available for low-cost expansion, our transload strategy is an extremely powerful tool in extending our reach. Similar to the recent developments we've made in the space in Vancouver and Toronto, I'm excited about new development opportunities to further create a multi-commodity transload at CP terminals across Canada and the US.

In the MMC space, revenues declined 4% and volumes declined 2% largely driven by lower shipments of steel, scrap steel, and frac sand. Partially, these were offset by growth with our short line partners.

In the steel markets, we have seen reduced volumes to and from our steel mills resulting from lower market prices, high finished product inventories, and the need for less inbound scrap.

Frac sand, shipments into the Permian Basin continued to decline as a result of increased use of in-basin sand. As an offset, the team continues to work hard on the development of new destinations to help grow our share in a market such as the Bakken, Marcellus, and into Canada. I also note that we have our annual Short Line Conference coming up here next week, and I'm extremely pleased with the growth initiatives we've been delivering with these key partners.

In the energy, chemical, and plastics portfolio, revenues were up 12%. Despite sequential growth in crude by rail volumes to over 28,000 carloads in the quarter, crude by rail shipments fell short of our expectations and our contractual commitments. As a result of these shortfalls, total freight revenues did benefit by approximately 1% from liquidated damages.

I should also note we are increasingly optimistic that the Alberta government will come to a resolution on the transfer of our crude contract, and we are supportive of the new mechanisms that allow crude production to move via rail to count as an offset against the curtailment.

In anticipation of this, we've seen the spread begin to widen, and we are seeing growing interest with our shippers and expect volumes to increase sequentially into Q4. And in automotive, despite a weak North American demand environment, revenues were up 1% and volumes grew 2%. We continue to see success driven by CP's unique inland terminal capacity across our network. This is highlighted not only by our growth at our Vancouver auto compound, which is a gift that keeps on giving, and also the new opportunities in Southern Ontario and the upper Midwest.

And finally, on the intermodal side of the business, overall revenues were flat. We saw strength in the international with volumes up 9%, and in domestic, the results were mixed with strength in the retail space and record volumes of our refrigerated products being moved, being offset by softness in the wholesale market.

So let me close my remarks by saying a couple of things, in certainly these softer, more challenging demand environments, as pressures grow for growth and cost savings, there can be a tendency for some to try to really commoditize the service we provide. We're not going to fall in that trap. I want to say rest assured that the volumes we're bringing on to this railroad are at a price that reflect the value of our service. As we've said in the past, we're not going to grow this railroad for growth sake. As I look ahead, we have a strong pipeline of unique opportunities to bring incremental volumes to this railroad. The sales and marketing team is collaborating closely with our operating team to ensure that we are right-sized for any business environment and we are selling to the benefits of our available capacity and our service advantages. I'm proud of the results this team delivered, and we have a high confidence level in our strategy to deliver sustainable, profitable growth.

So with that, I'll pass it on to Nadeem.

Nadeem Velani

Thanks, John, and good afternoon. I'm proud to announce a Q3 operating ratio decrease of 220 basis points to an all-time record an industry-leading OR of 56.1%. That record OR number is the outcome of running the business the right away, tightly managing resources, and adapting to changing volume environments proactively, structuring contracts that protect CP and the costs we incurred to have resources in place, the disciplined approach we take to pricing irrespective of the demand environment, and having the best team in the industry. We continue to drive margin improvement. The railroad is running extremely well, which is a reflection of the strength of our model, the talent of our operating team, and just how embedded in our DNA Precision Scheduled Railroading is at CP.

Taking a closer look at a few items on the expense side. As usual, I'll be speaking to the results on an exchange adjusted basis. Comp and benefits expense was down 3% or CAD $11 million versus last year. The primary driver of the decrease was lower stock-based comp of CAD $13 million, resulting from a lower share price. Our workforce is down 2% sequentially as we continue to adapt to a changing volume environment. At the end of 2019, I expect our end of year workforce to be down versus Q4 2018.

Fuel expense decreased CAD $19 million or 8% primarily as a result of lower fuel prices. Although slightly worse year-over-year, this was our second best all-time quarter from a fuel efficiency perspective.

Materials expense was up 6% or CAD $3 million, primarily as a result of increased locomotive maintenance, some of which was onetime, as well as some insourcing work.

Equipment rent expense was flat year-over-year. With increased automotive and intermodal volumes, you would expect this line item to increase. However, as we actively managed our car fleet through the quarter, the associated operational efficiency savings fully offset the cost of increased volumes.

Depreciation expense was CAD $185 million, an increase of 6% as a result of a higher asset base.

Purchased services was CAD $277 million, an increase of CAD $13 million or 5%. This line item is less volume variable than others. The increase in the quarter is largely driven by higher support costs and higher property taxes.

As we head into Q4, we expect this line item to be flat to modestly down on a sequential basis as we do not anticipate any material land sales through the remainder of the year.

As a reminder, as you update your models, last year's fourth quarter number was quite noisy as we had a number of moving pieces, including a sizable land sale that was primarily offset by a onetime contingent claim.

Moving below the line, interest expense decreased CAD $2 million as a result of lower effective interest rate. Also, income tax expense increased CAD $12 million or 6%. As announced earlier in the quarter, we now expect our effective tax rates come in closer to 25.5%. Other expense, after adjusting for the US debt translation gains and losses, is a headwind of CAD $13 million, primarily driven by higher equity income in 2018. Rounding out the income statement, adjusted income increased by 9% and adjusted EPS grew 12%.

Taking a look at free cash on the next slide. As a result of our discipline, we continue to generate strong free cash flow. Year-to-date cash from operations increased 10% and free cash flow increased 11% in spite of increased capital spend. While CapEx is elevated slightly compared to the same point last year, we remain on target to reach our guidance of CAD $1.6 billion.

Our disciplined approach to capital investment and the strong returns we are generating are evidenced by an adjusted ROIC of 16.6% on a trailing 12-month basis. On the shareholder return front, just today we completed the 4% share buyback program that we launched last October. Nearly 5.7 million shares were repurchased, returning more than CAD $1.6 billion to shareholders.

Our leverage came in at 2.4 times, towards the upper end of our target range of 2 times to 2.5 times. We plan to take a brief pause on the buyback to allow for some natural de-levering before revisiting the share repurchase program in December. You can expect continued strong shareholder returns.

Precision Scheduled Railroading works throughout the cycle and this quarter's results are a testament to that. I remain confident in our full year EPS guidance of double-digit growth. This will mark the third consecutive year of double-digit earnings growth.

And looking forward, as we move through the fourth quarter and into 2020, I remain confident in our pipeline of growth opportunities, this team's ability to execute and ultimately deliver for our customers and shareholders.

With that, I'll turn the call back over to Keith.

Keith Creel

Okay. Thanks. Thanks for your color and your comments, Nadeem and John. Certainly reflecting on the quarter and looking to the future, there's plenty to be proud of here today in these results, and the future remains bright for us at CP. We're confident in our ability to deliver double-digit earnings growth for the year.

As Nadeem highlighted, 2019 will mark our third consecutive year we've achieved double-digit earnings growth. We're on track to be the only railroad with positive volume growth in 2019, these outcomes both as the result of our disciplined approach to sustainable, profitable growth. They're not catchwords, they’re words we live and railroad by day in and day out, and we see plenty of runway ahead. We're not going to chase the short term. We're building this railroad for the long term. We're going to continue work on the customers to leverage our network strengths, leverage our service and grow. As we head into 2020 and beyond I’m more confident as we continue to

see win in the market which will enable us to continue outpace the economy and our peers, and as a shareholder, as an investor.

CP, this is unique value story. At CP, you got a company with continued opportunities to outpace the industry and volumes, continued opportunities to improve our margins, reward shareholders with a consistent return, and enabled by a prudent team with a track record of doing exactly that. It's certainly a compelling value proposition and one that's not easily replicated.

And with that, I'll open it up to questions.

Question & Answer

Operator

Thank you. [Operator Instructions] Our first question comes from the line of Tom Wadewitz from UBS. Your line is open.

<Q – Thomas Wadewitz>: Yeah. Good afternoon. I have some questions for you on the market side and pricing as well. You do have some headwinds, I think, which seem to be temporary. I mean, I guess you look at potash and Canadian grain. At the same time you probably have some idiosyncratic growth drivers that come in early next year. How do you think about how we offset some of the maybe cyclical weakness versus some of those things and how you might look at volumes going into 2020? I mean, not looking for guidance but just you think it's reasonable to see growth or would you be more cautious than that looking at 2020?

<A – Keith Creel>: You know what, let me make a couple of comments, Tom, and I'll let John provide a little bit of color. Bottom line upfront to your point, we're not prepared to give guidance at this point. But what we see is an optimistic future, what we see is a clear path to growth driven at a micro level by our own self-help unique initiatives where we – things we've talked about, things we share, things we're not yet prepared to share. Across, say, all the different business units, automotive certainly is very compelling, continued opportunity in intermodal and the strength of our franchise. To your point, if I look at a year-over-year compare, even at CP, we had an atrocious first quarter last year, we had some things occur at this railway that I hope I retire never in my life have to experience again, and I hope that for our CP family, that had not only huge emotional profound impact on us but also had an impact to our business and actually the amount of freight that we are able to move in our Western corridor. That aside, unless Mother Nature pummels us and brings to our knees, from a compare standpoint, as some of those other micro issues clear up, which we believe they will on grain as well as potash, apples to apples we see an opportunity to move more freight and obviously drive more earnings and drive more revenue growth. And on the second half of the year, Tom, what's became our drivers in the first half that led us to be countercyclical to the industry has sort of became our headwinds in the second half. Again, if those micro issues disappear, and we believe they will, that represents upside as well short of things I can't control like a drought or something like that. So, long answer to your question, we're very optimistic we see positive RTM growth and obviously revenue growth and strength and ability to drive industry-leading earnings again in 2020.

<Q – Thomas Wadewitz>: Okay. Yeah, that's great. That's really helpful. Maybe the second question just would be in competitive dynamic and how you think about pricing against a more challenging cyclical backdrop. Competition can heat up a little bit and just wanted to see how we should think about price next year and headwind from increased competition. Thank you.

<A – Keith Creel>: You should expect more of the same from CP. We're very disciplined when it comes to price. We're not going to allow our sales to be commoditized. From a price standpoint, if you want to put a number on it, we've always said 2% to 4% is the range. Historically, down markets closer to 2%, up markets closer to 4%. Who knows what 2020 is going to be. There's so much volatility that has the potential to clear itself up in 2020. But I can tell you this, there's always been competition. We're not afraid of competition. We've got a very unique franchise

that has its own very unique strength that's blessed with capacity and the best operating team in the industry, and I'll take that into any competitive dynamic and provide a value proposition for my customer that price can't replicate. The market sets the rate. We've got one of the best, if not the best, cost structures in the market. If we want to play and it makes sense for our network, we can compete for business. If the market goes to a place or our competitive options go to a place that's not healthy for this railway, we've shown and we'll show again that we have the discipline, we're not going to get in to a race to the bottom. It's not a race if you're not in it. We know where our bottom is, we know what our bottom line is, and again I'll finish where I started, we're not going to allow this railway or this team or the value that we represent and present to all of our customers to be commoditized.

<A – John Brooks>: Tom, I can't add anything more to that. That was pretty good.

<Operator>: Our next question comes from the line of Fadi Chamoun from BMO Capital Markets. Your line is open.

<Q – Fadi Chamoun>: Okay. Thank you. Maybe, John, quickly, what would you consider to be kind of the right spread for crude by rail for the volume to kind of ramp up sequentially like you've indicated given the liquidated damages and what that bar is at?

<A – John Brooks>: Yeah. So it's interesting, Fadi. Like right now spreads have moved up into that CAD $16 and CAD $17 range and that's starting to hit the sweet spot. I think it is indicative of, I think, the momentum, and I think people feeling more and more comfortable that these contracts are going to get resolved and that there actually might actually be what they're calling a SPA program as an offsetting ends to curtailment to move barrels by rail. I'm looking specifically at our contracts, what we did in Q3, and what we have line of sight to with our customers here for Q4, and I expect that uptick, 2,000 or 3,000 additional loads up to that 30,000 level to be realistic. It's been a dynamic – that crude space has been a dynamic area. There is no doubt about it. We're not counting on it. But certainly I view more optimism right now than not.

<Q – Fadi Chamoun>: Okay. And maybe ask Tom's question a little differently, like in the past you've had a lot of success obviously converting traffic to your network from trucking from rail and so on. Now we have a little bit of a softer environment, maybe a little bit more capacity in the market. Is that opportunity diminished versus what you've seen in the last two, three years? It sounds like you feel good about what's ahead of you. If you can just help us understand kind of what the next year or two may look like compared to what has been occurring in the last couple of years.

<A – John Brooks>: Yeah. So maybe I'd characterize it like this. We've got – given the strength of our bulk franchise, that number one, Fadi, gives me some comfort because at the end of the day, again that grain, coal, potash, I think those fundamentals look strong, and each of those frankly give us a tailwind as I look into 2020 and beyond. Some of the other areas, I think certainly the merchandise and some of the industrial sectors, given some of the challenges, in terms of broad-based volumes, there are some question marks that remain in there, certainly frac sand, as I look forward. But I think the differentiator for us that we've been talking about is the unique inland capacity gives us a sales tool to our customers that no other railroad. Our there is able to replicate over the road capacity is one thing, but the ability that they have to land to attract the customers to make them sticky is something that you have seen us just begin the sort of leverage with some of our transloads that we have developed with our Vancouver compound. With some of those unique opportunities that we've talked about, but the potential for and what that looks like into 2020 and beyond is what sort of gives us this comfort. The automotive sector is an area that is, I think by all our accords, is going to continue to face headwinds. And as frankly I look into 2020 and in 2021, I see us significantly outpacing the industry and our peers in that space just because we have the unique ability to create models and mousetraps out there in the industry that is going to bring us share, incremental opportunity in that area. Another area that I have talked about and I mentioned here in this transload space it's the ability for us to go into these major metropolitan hubs across Canada and the US. We have the land that's developable at a very low cost to be able to attract these multi-commodity customers to

our franchise. And a lot of that is singles and doubles and car load business but that's really high-margin strong business for us to add on our 7,000-foot manifest trains and build that out at low cost.

<Q – Fadi Chamoun>: Great. Thank you.

<Operator>: Our next question comes from the line of Chris Wetherbee from Citi. Your line is open.

<Q – Christian Wetherbee>: Hey. Great. Thanks very much. Wanted to maybe pick back up on that crude by rail comment. I think there's expectation that you could see some better volumes as you move through 4Q and then certainly into 2020 with the government taking action here. It looks like you're targeting 30,000 in the fourth quarter. What do you think your capacity is or what do you think you could get to on a quarterly basis without a lot of effort as we think about 2020?

<A – John Brooks>: So, Chris, I'm little hesitant to call that given all the variability we have had. I look back. We get to this 30,000 run rate level. I look back, that was sort of our peak level during the last crude by rail renaissance. Is there another 5,000 or so? Could you get to 35,000 run rate? Yeah, I think there is the bandwidth to do there. Now look, it's not a slam dunk. We still have to get over some hurdles. But in terms of the capacity, people, the mobile resources to go to that level on a sustained rate, I think that's a pretty good number.

<A – Keith Creel>: But I think it's critical to point out that optimism on the upside is not fueling our optimism on our potential for growth in 2020 or even in the fourth quarter.

<Q – Christian Wetherbee>: Okay. So that will be incremental. That's very helpful. Nadeem, you talked a little bit about head count in 4Q. When you think out to 2020, can you give us a little bit of sense of where you are think you are? Obviously the operating ratio performance in 3Q was very, very strong. Could you give us a sense of how heads play into that when you're thinking about sort of the growth potential of 2020?

<A – Nadeem Velani>: Sure. I mean, typically when we've guided in terms of head count, we're not going for one-for-one volumes. So without giving you a sense of volume guide for 2020, I think Keith talked to the positives in our view that we'll see volume growth into the new year. With that, I'd say potentially you're looking at a head count of flat to slightly up. But again it's a little early to get into that before we get into our full year guidance for 2020. So just rest assured that we'll be able to take on growth, high operating leverage, and take on that growth, bring it to the bottom line by adding cars to existing traffic as opposed to adding a huge amount of head count on the non-T&E side.

<Q – Christian Wetherbee>: Okay. Helpful. Thank you very much. Appreciate it.

<A – Keith Creel>: Thanks, Chris.

<Operator>: Our next question comes from the line of Walter Spracklin from RBC Capital Markets. Your line is open.

<Q – Walter Spracklin>: Yeah. Thanks very much. Good afternoon, everyone. So perhaps, John, if we come back to transload, you mentioned some of your inland facilities in Coquitlam and some of the success that you've had there selling into Ford. Can you update us? And I heard in your commentary, it sounded like you're looking at other opportunities for transload. Can you kind of quantify are these Coquitlam-type size or bigger? How quickly could you see tying in customers in the same way you did that with Coquitlam in those inland facilities? Just to kind of benchmark the overall revenue opportunity as you roll those out. And again, can you update as to whether you've got the other half of Coquitlam sold as well?

<A – John Brooks>: So the other half is sold. So we're quite pleased with how Vancouver has materialized for us.

Again, it's been a very strategic property for us. Not only from an auto perspective, but what I see in terms of future for it in transloading, not only forest product for export, but other intermodal stuffing opportunities including plastics and grain. I think we literally have tipped the iceberg in terms of first phase of development of that property. I think in terms of quantum, Walter, I think that is a sort of a good – what we've been able to do there is sort of a good mechanism that you could use across the property. I can't give all sort of the pinpointed locations and what commodities today, but I can tell you this, if you just look at our footprint in places like Edmonton, if you look at our footprint in places like Montréal, we've got a lot of land available to develop that is ready to go at a low cost. And in those particular areas, I think we see a lot of customers out there that are looking for optionality, that are looking for rail alternatives, that are currently trucking today. And I think there is a number of mouse traps that in addition that we can begin to consolidate operations that we have in these regions that give us not only again customer opportunities but also operating synergies at these locations.

<A – Keith Creel>: Walter, I'd say this, we see reasonable line of sight for two to three more of these in 2020 and 2021 that we're currently working on that are not just possibilities, they're probabilities.

<Q – Walter Spracklin>: So when I look at that as an example, looking to 2020, I'm seeing a lot of kind of new business coming on in tandem with the easy comps that you're mentioning. You mentioned grain and potash which were tough in 2019 that could and likely will turn in 2020. Crude, you mentioned as well. Intermodal, you got Yang Ming and these transload facilities. Clearly you're not giving guidance, but if I add all those up, under even a flat environment, we're looking at 500 bps in terms of volume growth. Is there something with my math that all else equal those don't add up to that level, or is that generally the level that this kind of new business could potentially bring you in 2020?

<A – John Brooks>: Walter, I think 500's a stretch. I'm going to lay that out to my team and that's our goal to achieve. I think your point is right though. There is a base level. It's, I would say, more maybe 2%, that 2%, 2.5% that give me comfort in terms of initiatives that we've delivered as we look into 2020, but don't push me any further in the guidance as we look into next year quite yet.

<Q – Walter Spracklin>: Sounds good. Okay. Thank you very much. That's my question.

<A – Keith Creel>: Thank you, Walter.

<Operator>: Our next question comes from the line of Scott Group from Wolfe Research. Your line is open.

<Q – Scott Group>: Hey thanks. Good afternoon, guys.

<A – Keith Creel>: Hey, Scott.

<Q – Scott Group>: Can you give us just a bit of more granular look at how you're thinking about fourth quarter from an RTM OR standpoint? And then maybe specifically help us on comp per employee that was down in the third.

<A – Keith Creel>: I'll let Nadeem speak to comp per employee, but looking at the fourth quarter, Scott, what I expect and what we see line of sight to is the quarter is sort of the reverse of the third quarter. October obviously has started off soft. We've got a little bit of a hole to climb off, but we see line of sight to some of those fundamentals, green shoots of optimism in November and December, be it grain, be it potash, be it other initiatives that we've got ongoing that will land us, I believe, in an RTM basis flattish. Is there a potential for a little bit of upside? Yes. A little bit less? Yes. But we think that's very prudent and probable outcome. And from an OR standpoint, working against a very tough comp last year with that land sale, I would not expect OR improvement, but certainly I would not expect OR deterioration, which bottom line up for the year brings us to a place where I see the art of the possible being in around that six-zero or maybe a little better, depending on what stock-based comp does for us in the fourth quarter. Nadeem, you want to provide some color on the productivity number?

<A – Nadeem Velani>: Yeah. Scott, just on comp per employee, obviously this quarter was the first quarter that our stock price had gone down during the quarter, and so that benefited our overall EPS by about CAD $0.08. Incentive comp year-over-year was down slightly. That helped about CAD $0.02. So that overall helped the comp per employee year-over-year.

<Q – Scott Group>: And, Keith, that sort of recovery in November and December that you see, do you think that's specific to you or would you expect something broadly like that for the industry?

<A – Keith Creel>: No, I'd say that's micro to CP. Obviously we're experiencing some of the same challenges the industry is experiencing, but what's unique to us again, we see sequential growth. We're optimistic we'll get growth on the crude side versus the third quarter, close out the year. We're optimistic that some of this uncertainty in the potash market which we are uniquely benefiting from will clear up and perhaps India will get resolved and we'll see a bit more movement in November and December than we currently anticipate with a very bearish view.

<Q – Scott Group>: All right. That's helpful. Thank you, guys.

<A – Nadeem Velani>: Scott, just obviously being mindful that we do get to have winter into the network, so just mindful that as long as you don't get a very early winter in that November-December timeframe.

<Q – Scott Group>: That makes sense. All right. Thank you, guys.

<A – Nadeem Velani>: Thanks, Scott.

<A – Keith Creel>: Thanks, Scott.

<Operator>: Your next question comes from the line of Brian Ossenbeck from JPMorgan. Your line is open.

<Q – Brian Ossenbeck>: Hi. Afternoon. Thanks for taking my question. Just wanted to come back to potash because it has been a big driver for you, and some decent exposure there. Last year, John, you mentioned we got the quick settlement really I guess with the export price. Can you just talk about maybe risk of this extending a little bit longer? It looks like China has some inventories that are pretty high and they're dealing with the swine flu. So a lot of moving parts, but it does seem like maybe a possibility that it gets pushed a bit into 2020, but it sounds like what Keith just said that you don't – they have that expectation that it pops back here. So maybe if you can put a finer point on that, I'd appreciate it.

<A – Keith Creel>: Yeah. Before John provides the finer point, let me clarify mine. I share your sentiment about China. I have no aspirations or expectations for the reasons that you've pointed out, that the China piece will get resolved. Our optimism is more focused on India.

<A – John Brooks>: Yeah, so Brian, I mean, potash alone has been about a 2% RTM headwind. So you're right, it has been fairly significant for us. We're staying very close to certainly Canpotex and K+S if this develops. I think there is a little optimism out there that the India contract, if anything, will be the first to settle, and optimistically let's call that in the next 30 days. And again, this is more hoping and fingers crossed, but if 30 days, that'll provide us a price discovery. I think that overall will give the market that comfort. Now whether or not we can see some of that benefit then ramp up into December is we're not banking out to the point, but we think it could be realistic and that opportunity could be out there to more normalize those volumes. That being said, as we build out our 2020 model, I think the expectations remain pretty strong that the volumes that we've become accustomed to will normalize pretty quickly. And don't forget we do have K+S continuing to ramp up that production. So we're going to see, I think, a pretty decent jump with them too as part of this.

<A – Keith Creel>: Finally, the first quarter of this year, we could not and we were not in the position to move the demand that was there in the normal market given our unique challenges that we had with our catastrophic derailment.

<Q – Brian Ossenbeck>: Got it. All right. Thanks for all that. Maybe a quicker follow-up on crude and just the liquidated damages. John, I think you mentioned it was about 1% of freight revenue gross, I guess CAD $20 million in this quarter. Nadeem, could you give us a sense us as to what type of cost those were going to cover? Was this a material move on the numbers this quarter? And it sounds like you're expecting this to come through based on the contract structure and the speed or the lack of speed, I guess, transitioning from the government, but just wondered if you could put some more context around that and if you expect this to be kind of a one-and-done event here in 3Q as volumes hopefully ramp up in 4Q?

<A – Nadeem Velani>: Well, obviously, Brian, liquidated damages, the premise is to protect you to have the resources and the capacity to service the business which we did. So whether it's headcounts, capital investments, et cetera, that we put towards – set aside to move that traffic or its not taking on other business that would consume some of that traffic and that capacity. So in terms of expense associated with it, there are expenses. There's expenses with people. There's expenses with locomotives, with assets, and network maintenance and so forth. So I'd characterize that. I'm not going to give you an operating ratio on that, the margin of the business, but it's safe to say that are expenses associated with it based on the premises of liquidated damages.

<Q – Brian Ossenbeck>: Okay. Got it. Thanks for the time.

<A – Nadeem Velani>: Okay. Thanks, Brian.

<Operator>: Our next question comes from the line of Benoit Poirier from Desjardins. Your line is open.

<Q – Benoit Poirier>: Yes. Thank you very much and good afternoon. Could you discuss a little bit about the dynamics between the Western ports and Eastern ports on the back of the trade issues with China? I was wondering if the volume is weaker in Vancouver as opposed to Montréal. And if you could give also an update about the Contrecoeur expansion near Montréal, whether it represents an opportunity for CP in the medium term. Thank you.

<A – John Brooks>: I think certainly, Benoit, we're seeing in terms of blank sailings and some of the impacts relative to the trade, it's definitely more at least as we've seen more of a West Coast issue. Our East Coast volumes have hung in there fairly well. In terms of Contrecoeur, it's an opportunity that we're staying close to. We also have critical port relationships with Montréal that we continue to manage. So we're going to stay close to that file. If we view it presents an opportunity for our eastern strategy, rest assured we'll be all over it. Frankly, right now, we're maximizing and focusing on what's existing there with our customers and partners at Montréal.

<Q – Benoit Poirier>: Okay. And my second question for Nadeem, just in terms of CapEx, I understand that CAD $1.6 billion for this year. Obviously, there is no guidance for 2020. But if we look at the direction, would it be fair to assume kind of a stable CapEx? Or if we don't see that the volume recovery as expected, would there be – do you have some flexibility to lower the CapEx, let's say, for 2020, Nadeem?

<A – Nadeem Velani>: Benoit, so when we had our Analyst Day a little over a year ago, we highlighted kind of CapEx in that CAD $1.6 billion range for a few more years, so at least into 2020. And just a reminder, a bulk of our commitments on the CapEx side beyond what we do on the basic maintenance capital of CAD $800 million, CAD $850 million a year, we have a few specific very large investments that we've committed to. So one item is the grain hopper cars about CAD $600 million over the life of that, so about CAD $150 million a year plus we're doing some locomotive modernizations that we've committed to. So when you put it all together, there's somewhat limited flexibility. So if you were to say to me that volumes are going to be down significantly next year you, could we take CapEx down CAD $100 million, potentially. We're not of that view. We think, as Keith pointed to, we're going to have some positives next year. So I think staying around that CAD $1.6 billion level into 2020 is a good number to think about for us and what that could mean in terms of free cash flow going forward. Now, beyond that timeframe, I'll just point out that we've said that we could see some that CapEx number drift lower as we start not having to do the hopper cars as those roll off. Those are pretty significant investments year-over-year. As PTC

rolls off, you'll start seeing some of that roll off our CapEx, and we have the potential to see that CAD $1.6 billion come down in the outer years 2022 and beyond.

<Q – Benoit Poirier>: Okay. That's great color, Nadeem. Thanks very much.

<A – Nadeem Velani>: Thanks, Benoit.

<Operator>: Your next question comes from the line of Brandon Oglenski from Barclays. Your line is open.

<Q – Brandon Oglenski>: Hey. Good afternoon, everyone. Thanks for taking my question. At the risk of repeating the questions on 2020 growth, but I think it's important because I think a skeptical investor could look at you guys and say, well your primary competition in Canada went through some capital and capacity constraints the last two years. Now, it seems that they're back. They're talking about some intermodal contract wins this quarter as well. So I guess when John or Keith, when you guys talk about that 2% to 2.5% of incremental growth that you see coming, how much of that is more innovative to what you guys are doing it on the footprint of CP with your customers as opposed to just simply a jump ball or freight that comes up every year?

<A – Keith Creel>: I'll let John provide comment with the bottom line, Brandon. It's all of it.

<A – John Brooks>: Yeah. And look, I mean I think the bulks again, Brandon, provide a unique opportunity next year. We saw these headwinds and the delayed harvest that are going to present nice incremental opportunities for the base. In addition to that, and again without all the details, we've got a good chunk of initiative and wins that are bank that are going to come on again mostly mid and Yang Ming early that are going to give us a tailwind in those spaces. And then there is this third chunk of these opportunities that we continue to work that are they in the bank, but no, they're unique to us though versus just the contract renewal that we're competing on, head-to-head with our competitor. These are unique opportunities where we're targeting specific customers to generate value not only I think for next year but also long term by using these tools that we have with our real estate and our property.

<A – Keith Creel>: I think the other thing to remember is business be it come to Vancouver, be it come to Prince Rupert is not a zero- sum game for the Canadian ports. The Canadian ports in the intermodal space, international intermodal steamship lines are winning share because of both railroads' compelling service offering into the Midwest. That's not changing. That dynamic has not changed. There's a cost advantage and a service advantage that both railroads get to enjoy. Now, is the mix changing a bit? Yes. But at the end of the day, again, it's not a zero-sum game and there's space for both railroads to do well. That's the bottom line which represents growth. Now, varying degrees of growth, yes, but again it's not zero for one and all for other either.

<A – John Brooks>: We've had a tremendous to that point randomly we've had a ton of successes here in our transload development, in our Shoreham facility in Minneapolis. That Minneapolis market is unique to CP. It's not directly competitive with our Canadian competitor. It's been a big growth engine and I expect it to be – continue to be a strong growth engine for us not only in the international space, intermodal space but also in terms of exports and opportunities in and out of there. Again, that's an opportunity that we're enjoying that really have nothing to do with our competitor.

<A – Keith Creel>: And we've chosen our partners carefully. Our partners will benefit from the value of our service, from the value of our franchise, the capacity we have in our terminals, the shorter routes to the markets from Vancouver to Chicago, Vancouver to Toronto, Vancouver to Montréal. At the end of the day, they're going to get the best service in the marketplace which is going to allow them to grow with their customers in their marketplace which is a win-win for both of us. That thesis has not changed and it will not change regardless of the competitive option that's out there because our product, at the end of the day, we'll always stock wells not about what we say but what we've done and what they have experienced, that they can take at the marketplace with the quickest routes in the most efficient, reliable routes at the marketplace. It's a very compelling value proposition which we feel confident and confident will allow them to grow their own unique share on their ships which ultimately we're

going to benefit from.

<Q – Brandon Oglenski>: I appreciate the thorough answers. It sounds like the constructive tension is working. And Nadeem, on your leverage profile, it remind us again your target and by a or I guess walking with some of the buyback this quarter, doesn't that mean potentially a different focus on dividend over the buyback in the future?

<A – Nadeem Velani>: No. I wouldn't read too much into that. So, our target leverage is 2 times to 2.5 times. It does get impacted by currency given our predominantly US dollar debt and the Canadian dollar volatility that we've seen the last few years. I'd say that a lot of the cash we generate is very back-end loaded. Part of the rationale is to align our buyback with kind of the end of the year. In terms of our capital allocation, we've been very aggressive in increasing our dividend. Our payout ratio target is closer to 25%, 30% kind of level. So, we're going to be balanced going forward in terms of how we look at doing returning cash to shareholders. I think share repurchases are going to be a big part of it and I think we have a lot of room to grow our dividends as well. So a reminder, we typically do that at our AGM in that April/May timeframe. So nothing changed, don't read much into it. It's more of a timing issue and you can expect further updates on the buyback as we get to the end of the year.

<Q – Brandon Oglenski>: Alright. Thank you.

<A – Nadeem Velani>: Thanks.

<Operator>: Our next question comes from the line of Allison Landry from Credit Suisse. Your line is open.

<Q – Allison Landry>: Thanks. Good afternoon. Another one on capital allocation but maybe from a longer term strategic standpoint and specifically thinking about some of the truck-in acquisitions that your main competitor has folded into their network recently to support growth in the intermodal franchise, how do you think about that and is this something you might consider at any point in the future to increase penetration in the intermodal market?

<A – John Brooks>: I guess, Allison, what I'd say is it's not something that we're all over today. I think not that we don't consider it and look at every opportunity that might be certainly accretive to the business, but we're not in the trucking business today. We're focused on the organic and initiatives that we've talked about as being our growth engine. And I think, you know what, there's other ways to develop some of that expertise if you look at the innovation that the trucking industry in the first-mile/last-mile business and wanting to really understand that deeply, there's a lot of good partners out there that we focused on, really partnering with strategically to better understand that space, to build our expertise going forward without having to spend the capital to buy in.

<A – Keith Creel>: And more to follow…

<Q – Allison Landry>: Okay. That's helpful.

<A – Keith Creel>: Yeah. Allison, more color to follow on that.

<Q – Allison Landry>: Okay. Okay.

<A – Keith Creel>: That's certainly not a space that we're sitting still in.

<Q – Allison Landry>: Right. Okay. And then I think you mentioned just in terms of the peak season maybe sort of modest expectations in terms of how that's playing out. But any commentary on what you're seeing from an inventory level standpoint or you're seeing indications that those have started to come down or any thought you could offer that will be helpful? Thank you.

<A – John Brooks>: Allison, it's a tough read like consumer spending is, frankly, quite robust on both sides of the border. Unemployment, as we know, is low. The markets are performing generally well, so those retail spaces have been – frankly have held in pretty well for us. I'm not expecting big things in terms of a big or maybe normal peak as we have seen in the past. But certainly, our transload business in the domestic space has picked up over the last few weeks, and I think we're fairly optimistic that that's going to continue in the fall here.

<Operator>: Our next question comes from the line of Jordan Alliger from Goldman Sachs. Your line is open.

<Q – Jordan Alliger>: Yeah. Hi. I just want to make sure I clarify what you had comment on in terms of operating ratio in the fourth quarter. I just want to make sure I heard right that you expected even with the land sale last year that things should be about flat in the fourth quarter. I think that's what you're referring to but I wanted to make sure.

<A – John Brooks>: That's correct.

<Q – Jordan Alliger>: Okay. And then just a second question. I know you've touched on a lot of opportunity set etcetera. But I'm just wondering on the international intermodal front, given the global trade issues and what have you, while I know you have a unique opportunity set, I'm just wondering does the pipeline get impacted at all in terms of opportunities you may be seeing as people sort of hold off on decisions as to what to do? Thanks.

<A – John Brooks>: Well, have we seen certainly with the volume pull ahead that took place last fall create an inventory glut across the US and Canada? Yes. To the point I was just talking around Allison's question is I think we've seen that subside a little bit. We're seeing a little bit of a fall peak season. But, you know what, we're – until a lot of these trade resolutions get ultimately resolved, I think, yeah, that continues to be a cautious area. We do – in the west, we have seen some blank sailings continue as volumes have been muted with some of our steamship lines. But, you know what, that's sort of a watch and see. That's one we're keeping close. And frankly, there's other areas to attack that can create some unique opportunities in that space outside of just going after and trying to win some additional of that steamline – steamship line business.

<Operator>: Our next question comes from the line of Ravi Shanker from Morgan Stanley. Your line is open.

<Q – Ravi Shanker>: Thanks. Good evening, everyone. If I can follow up with the international intermodal question, some of the US rails are now starting to openly acknowledge that you're seeing share shifts from the US ports to the Canadian ports and you mentioned Vancouver being a shorter distance to Chicago and such. How early innings are we do you think in that share shift? Do you think a bulk of that has happened and we stabilize here, or do you think more of that volume keeps coming your way?

<A – John Brooks>: Well, yeah, I think Vancouver has benefited in that process. I think overall, the base though is down so some of that might be muted in terms of the real value of what has shifted between the US ports up to Vancouver. I can tell you I think we think it's an ongoing value proposition that we're targeting whether it be into the Minneapolis market or into the Chicago market.

<Q – Ravi Shanker>: Okay. Got it. And just a follow-up on crude by rail, it's encouraging to see you saying that we're pretty close to getting the volumes moving with the exception for crude by rail curtailments. But are you still looking at crude by rail as a two or three-year window opportunity or do you think with DRU this becomes more of a longer term opportunity for you guys?

<A – Keith Creel>: Yes and yes. We think it's two to three, our best guess based on the probability of when pipelines might be built. But we think there's a high degree of probability that a DRU will come to fruition. And again, this railroad is uniquely positioned to benefit from that be it built in Hardisty which we will uniquely serve or Edmonton which we would equally serve with destinations that offer franchise strengths with optionally to our customers.

<A – John Brooks>: Yeah. I don't – just to build on Keith's comments like I don't see any eminent pipeline coming on to play that this three-year opportunity three years ago to me still feels like a two to three-year opportunity before we realistically see new pipes.

<Operator>: Our next question comes from the line of Justin Long from Stephens. Your line is open.

<Q – Justin Long>: Thanks and good afternoon. Wanted to follow up on just kind of the cost opportunity going

forward. Nadeem, I know you gave kind of an initial head count look for next year, maybe flattish to slightly up. But as we think about the company-specific opportunity for cost improvements in the business, is there anything you would highlight into 2020? I know we've talked a lot about kind of volume and revenue opportunities that are company-specific, just wanted to get your take on the cost side of the equation.

<A – Nadeem Velani>: I mean, we'll get into it in January. A couple of things I would point out, we have a very easy comp in Q1 given a very difficult winter and catastrophic incident that we had that had a huge amount of casualty costs. So certainly, that's a tailwind to us in Q1. I'd say some of the headwinds could be pension depending on how interest rates settle at the end of the year. But certainly, pension could be a bit of a headwind. Beyond that, certainly, we've shown what we could do in terms of operating leverage when volumes are growing. And this quarter, we've shown what we can do from a cost control point of view when volumes are flat to slightly down. So it is in our DNA to improve our cost. It is something that we're very focused on. We're going to drive the earnings one way or another. You're not talking about potential. When you're talking about CP, you're seeing the real execution of cost takeout. And I know my boss has a expectation of what we do as an organization in terms of continuing to take out our cost and doing it in a constructive way and doing it while not compromising safety or service. So all that to say we do have a number of initiatives in place, some of the items we highlighted at our Investor Day a year ago as we can continue to get the benefits from the new grain cars and what that means to our overall capacity and throughput both on the loading side and on the unloading side, the density of our grain trains, what we're doing on the locomotive modernization side, and what that means to overall fuel efficiency, what that means to reliability, the overall network fluidity. So we do have other productivity initiatives that we have direct capital investment tied to some of the things that we're doing on the technology side that we've put in place whether that's RPA, robotic process automation, that's helped drive our head count down, that will continue to see opportunities on that side. So I mean, we could go on for at length with other initiatives. Suffice to say, we've taken our OR down to industry best this quarter, and we expect that to continue.

<Q – Justin Long>: Great. That's helpful. And, Nadeem, maybe to just follow up on pension, if rates stay in line with where they are today through the end of the year, any initial take on what that pension headwind could look like in 2020?

<A – Nadeem Velani>: There's two elements to it. There's our service cost, our current service cost that's above the line and then there's the recovery that we've seen below the line that we've benefited from. It's a little early to say. I don't want to give you numbers based on something that's three months away from setting in stone. So let me just say, Justin, let's stay tuned to January. It's just a bit of full there to set up an expense assumption based on something in October when there's such volatility in overall treasuries right now.

<A – Maeghan Albiston>: Justin, just building on that, to give you a sense, we've seen the discount rate bounce around by 20 basis points even in the last week, so really is a volatile environment out there. But happy to help you model that a couple of different scenarios offline after the call, if you like.

<Operator>: Our last question comes from the line of Ken Hoexter from Bank of America Merrill Lynch. Your line is open.

<Q – Ken Hoexter>: Hey great job on the double-digit growth. A quick up on the double-digit growth, but John or Nadeem, maybe just to follow on Justin's first question there, maybe your thoughts on shifting resources, what are you doing now in terms of employees and the like? I know Chris asked about employees specifically but cost overall as you look at volumes in a flat environment, are you now looking to take more cost out? Or given your growth into next year, are you adding resources?

<A – Keith Creel>: Let me take that. Nadeem, I'll let you add more color. But essentially, Ken, that's something we charted back in July. We saw the potential for a softening environment relative to what our own unique expectations are. And we started to adjust locomotives and adjust people then and adjust hiring and adjust training and we did some things unique with opportunities to do some training upfront. We carried some people a

little bit longer than we normally would have to get people engineer-qualified, to get people more time in the seat, to do some things now that will prepare us to bounce back when the demand comes back. But we've gone through those things. We've got furloughs that we're looking at on a weekly basis. It's not something we want to do but it certainly it's our responsibility to do and we pay very close attention to our metrics and our metrics are our guide relative to demand that constantly adjust resources. So, it's part and parcel that we're doing week in and week out. You won't hear any major announcement from us saying, well we've woken up and realized we've got a soft environment looking in our rearview mirror and going forward we're going to make some monumental shift in head count. It's just not the way we run the business.

<Q – Ken Hoexter>: Okay. I'm sorry.

<A – Keith Creel>: Nadeem?

<Q – Ken Hoexter>: I thought you said you're going to have Nadeem add on. Yeah. Yeah.

<A – Nadeem Velani>: Yeah. I'm not sure much more I can add other than we highlighted set the culture that – and how we operate as a team. So, this isn't something that we just sit in the room and kind of model on a spreadsheet or something. The interactions that we have that John has with his team on the marketing and sales side working closely with our operating team, working closely with the financial business partners etcetera, this is something we do on a weekly basis. And to Keith's point, we've been head of this and this is something that you should expect from us. So, as we go into Q4 and as we go into next year, we are not in a position where we're going to sit there that we have to add a huge amount of resources to meet the demand. We have these conversations ongoing. And if we need to take locomotives out of storage and put them back into the rotation, absolutely, we have that ability and we can move that fast. If we need to manage those furloughs that Keith spoke to, we can adjust that very quickly. So we're certainly not going to build the church for Easter Sunday but we're not going to compromise our service that we've worked hard to get to industry-leading levels. And so it's balancing both the service and the cost and it's something that we feel we are very good at and we can adapt very quickly on both ends whether having that resource up or resource down.

<Q – Ken Hoexter>: Appreciate that. And if I can just squeeze in my follow-up real quick, just Keith, you mentioned I think maybe four times about not chasing business and that you won't do it. Is this something where you're seeing increased competition or you're just talking in general what you would expect given the efficiency that you and your peer have and recent contract switching? Is there something that's heating up that you're raising that more frequently during the conversation or just preempting it?

<A – Keith Creel>: Yeah. Not at all. Yeah. It's just more restating and making sure that people clearly understand philosophically what we believe in and we know to be true is the right way to run this business in a long term, sustainable basis.

<Q – Ken Hoexter>: Alright. Appreciate the time. Thanks.

<A – Keith Creel>: Thanks, Ken.

<Operator>: And there are no further questions at this time. I'll turn the call back over to Mr. Creel for closing remarks.

Keith Creel

Okay. Well, thank you for joining us today. I certainly hope after this robust discussion and the questions that people walk away with the same sentiment and view that we have this team is equipped and proven to manage responsibly when we have tailwinds and certainly to manage responsibly when we have headwinds, which we're currently going through for the long run, long term, sustainable, profitable financial results that our shareholders, our customers, and obviously our employees all benefit from.

We expect to close 2019 strong in line with our guidance, which is going to set us up for a very encouraging fourth year of performance leading the industry and growth as well as earnings in RTM growth in 2020 and beyond. With that said, we look forward to discussing our fourth quarter results in January.

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