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# Transcript

## J.P. Morgan Institutional Investor Conference

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### Webcast

**Corporate Participants:**

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

**Other Participants:**

Brian Ossenbeck – Analyst, J.P. Morgan

# QUESTION AND ANSWER SECTION

**Brian Ossenbeck**

*Analyst, J.P. Morgan Securities*

Good. Hello. All right, let's go ahead and get started. I'm Brian Ossenbeck. I cover transports and logistics for JPMorgan. It's great to be back in person, to have all these folks in the room and very excited to have Canadian Pacific, Nadeem Velani, the CFO here with us to kick off the transports track of the conference.

So, you all know Nadeem. There's clearly a lot going on and it's great to actually be back with official coverage after being restricted for over a year. So, more than one thing to be excited about here. Thank you, Nadeem and Maeghan, and Ashley here for joining us as well.

So, Nadeem, maybe we can just start off with a bit of the business conditions, kind of current state of the industry, how things are going on in the network here to start the year?

**Nadeem Velani**

*Executive Vice-President and CFO, Canadian Pacific*

Sure. So, first of all, thanks for having us, Brian. It's a pleasure to be back in New York in person and appreciate the coverage that you put out on the rail industry as a whole and on CP. So, thank you.

Yeah. So, the state of the network, I'd say that 2022 hasn't been without challenges to start the year. We came out of December with a tougher conditions as far as the floods that we saw, the atmospheric river and challenges in B.C. that took out the network for us for about eight days and our Canadian competitor for about three weeks. And then, we went from that into a period of extreme cold at the end of the year. And then, obviously, the challenges from Omicron, from a labor perspective that many industries faced. So, it was a tougher year than I would – tougher start to the year than I would have liked.

But the good news is things recovered kind of late February and into March and we're in a much better operating position, as we speak. We still have some tough compares and challenges from the Canadian grain crop and the drought that we've been facing since September.

But outside of Canadian grain, the key markets are, our end markets, are all very strong. We're hitting new records on the intermodal side. We've seen frac sand and some of the energy side come back extremely strong, setting records on the US grain side. Merchandise as a whole, demand has been exceptionally strong.

So, very excited about what we have in front of us here and as we kind of end the first quarter, but I'm extremely excited about Q2. I think you're going to see some of the volumes that we weren't able to move in Q1, shifting into Q2. And then, as we think about some of the – what's going on geopolitically and the tragedy in Ukraine, it's creating an opportunity as far as volumes on the network. And when you're a bulk railroad that moves a lot of potash, moves a lot of grain, moves a lot of energy, I think that that creates a very unique opportunity for CP.

**<Q – Brian Ossenbeck>:** Okay. So, we have microphones here at the table. So, towards the end, we'll see if there's any questions. You raise your hand along the way, we can try to get you in here. Yeah, in terms of – you mentioned the labor, it's been a huge constraint for the whole industry off and on over the last couple of years, with oil prices going back up and just the demand in general and the tightness in the market, where do you feel CP's labor availability is at this point?

**<A – Nadeem Velani>:** Yeah. So, as I mentioned, given the drought on the grain side, we're not in a need to hire immediately. We have our natural attrition that we're always backfilling for, about 7% to 8% of the workforce. So, we're working through that. But we're not having the same challenges per se as maybe the industry has had or maybe the US side of the house on – relative to our peers, we're not having the same challenges. Given volumes are down, given what we see in the near term, we're not in a big hiring crunch. We're actually kind of reducing our workforce as we speak and letting attrition do its job.

But looking out to some of the positives, as I mentioned, as we get to a more normal grain crop and a return to volume growth or much higher volumes on the grain side in September and if we think about what's in front of us in Q2, we are starting to hire for that that period. So, it takes time, it takes about six months to hire and train and no real challenges, I would say, to find talent.

The one area I'd say is, there's pockets in our Western Canadian network where population bases are small and it can be a challenge to find employees. But I would say, we're in a very strong position to be able to meet what's in front of us from a labor productivity point of view

**<Q – Brian Ossenbeck>:** Okay. Yeah. I was wondering with the – everybody's got the back half every – to a certain extent, but, obviously, Canadian grain is a pretty big swing. But it sounds like you're able to kind of manage the down 30%, up 30% potentially with – given enough time and lead time to get ready for them?

**<A – Nadeem Velani>:** Yeah. It's definitely – when you have the negative operating leverage of coming back down and you see a 40% reduction in grain, it's a lot to overcome and you can't overcome it all. So, our margins are going to be impacted in Q1. That being said, we can find some innovative ways to let attrition do its job and then hire for the return to volumes in Q3.

And then, as we think going forward, pending STB approval and what that could mean a year from now as we start seeing the combined CPKC network, there is going to be a lot of synergies that we've outlined and a lot of increased volumes that we will need to prepare for. So, we're also thinking through kind of that nine-month period, end of 2022 and into early 2023, what we need as far as labor to be able to move the volumes that we expect.

**<Q – Brian Ossenbeck>:** Last one on labor, I think. The TCRC authorized a strike that could happen potentially, I guess, as early as tomorrow. Is there a way to kind of prevent or have a little bit of buffer if something were to happen in that case and, I guess, what would you sort of expect the government's response to be if there was a prolonged impact?

**<A – Nadeem Velani>:** Sure. So, just to give a bit of an update. So, we've been negotiating in good faith with the TCRC since last September. We've given in on a number of their demands, about 20 of them as far as benefits, as far as work rules. And all we've asked for is stability as far as a contract that has a two-year agreement with wage increases.

The issue is that's still outstanding as we speak on the pension side. So, we took a strike back in – 10 years ago and an arbitrator imposed pension caps and the point of the pension caps was to provide stability to our pension plan, provide – make sure it remains solvent. And so, for us to negotiate pension caps and increases in pension caps would be irresponsible, to be quite frank, and it's something that we cannot do.

So, they held the strike vote. They would have to give us 72 hours' notice in order to strike the railroad. But it's creating a lot of uncertainty at a very challenging time in terms of – from a customer point of view. Given supply chain issues, given some of the outages we've had and the

strong demand, given where commodity prices are, for us to have a strike at this time would be a tragedy to the Canadian economy and impact customers pretty significantly. So, it's not something that, obviously, we want, not something our customers want.

That being said, the uncertainty of their ability to take strike action at any time creates that situation where it creates costs for our customers. It creates uncertainty to the network. So, we do have the ability to also lock them out and bring this to a head. That's not our preferred action, but it is an action that we may find ourselves having to take. Again, we would also have to provide 72 hours' notice.

Ideally, we've offered – we're in mediation as we speak with a federally appointed mediator. Ideally, we go to arbitration and avoid any sort of work stoppage and we create certainty for our customers that there's not going to a work stoppage. That would be a great outcome, ideal outcome outside of a negotiated settlement and negotiated agreements. But we'll see what transpires over the next few days. It's unfortunate. It's something that we've had a number of strikes over the last 10 years with this union. But, again, I'm sure you can appreciate, negotiating pensions is something that we can do for a union that makes up 10% of our total pension population.

So, it wouldn't be the right thing to do for the 30,000 other pensioners that are – require the certainty and the solvency and the stability of a pension plan.

**<Q – Brian Ossenbeck>:** Okay. Certainly a lot going on there. Thank you for all the context. So, in terms of the other area where there's a lot going on, commodity prices, I guess kind of a two-part question. You mentioned there's some potential for better commodity price movements or better movements of these commodities where prices are high. I just wanted to ask, like, where you would see that coming first? And is there really rail capacity to move it? And is there actually supply – things like, Canadian grain is a little bit constrained right now. So, I guess, that's kind of the longer term. But in the short term, it feels like, depending on where prices finish, we're going to see a bit of a drag on the OR and on the fuel side of things. So, maybe you can start with the short-term impact on what to expect on that front and then move into the longer term, like where you could actually see some upside if prices stay high?

**<A – Nadeem Velani>:** Sure. So, yeah, short term, you think about fuel prices that have spiked, we're buying fuel in the spot market. That has an impact on our costs. And we do have a pass-through, of course. It's a 100% kind of pass-through on our fuel, but there's a lag effect. So, we're paying higher prices. We'll recover that lag 30 days later. So, we'll see a negative short-term impact. And then, you take on additional fuel surcharge revenue at a 100% of OR. That has an impact on the overall OR. But it doesn't impact operating income other than the timing of the lag I mentioned.

Then you think about what that means as far as the higher commodity price, what that could mean to our energy volumes. We've seen frac sand come back extremely strong. We couldn't – we can't move as much as frac sand as the demand is out there. So, that's, I think, something that – it's creating upside in the near-term and we'll see how long that that can last. Frac sand can move up and down, be pretty volatile, as we all know.

And if you think about what's going on on the Canadian side as far as crude production, I think a lot of the key players have highlighted increased production, especially given where prices are. So, the Suncors of the world, the Cenovuses of the world, there is still pipeline capacity. So, we wouldn't expect it to move by rail immediately. But, certainly, if this stays at these levels and the increased production, rail is going to play a role and we expect it to be a part of that solution.

And we're – part of the hiring and part of what we're doing on the labor side is to be able to support some of that growth. We've always said we want skin in the game, so we expect our customers to have commitments, and that's where we're – our expectation, and so we'll look for contracts to be able to provide some level of guarantee. If we're going to hire and train and bring on the cost associated with resourcing up, then we would expect some guarantees on the contract side.

And then, if we think about the higher prices, what that means from a truck versus rail perspective, certainly, trucking capacity is extremely tight. The costs associated with fuel as a percentage of their overall cost structure is pretty significant. So, I think the longer-term impact of that of, again, creating another opportunity for rail to gain share versus truck and all the ESG benefits associated with that as well, I think that that is pretty compelling.

**<Q – Brian Ossenbeck>:** Okay. And then, just on the bulk side with Canadian grain and potash, obviously, the harvest is still down quite a bit this year. But is there anything incremental, at least maybe on the potash side, to move more volumes into the export market? Or is that similarly supply constrained?

**<A – Nadeem Velani>:** Yeah, no. So, if you think about the sanctions that are in place, Belarus, outside of Canada, is the largest producer. So, they support – they supply a lot of the – a lot to Europe. So, potash demand is exceptionally strong, and I think it will be for some time, especially given the need to secure food supply chains.

And then, if you think about what's occurred in terms of the Canadian drought and what potash demand would look like as far as addressing some of the issues, the underlying issues of the grain crop in Canada and the US, I think potash demand is something that we expect to be a big growth driver for CP in 2022 and into 2023.

I'd also add that, if you think about what it means to, not just to near-term volumes, but maybe even some of the mines that have looked at expanding, the BHPs of the world and so forth, I think it could create some longer term opportunities on that front as well.

And I'd also point out that our US grain crop – our US grain franchise is a significant part of our overall volumes as well. So, US wheat supplying other parts of the world in absence of other countries' wheat could be an opportunity for this CP franchise as well. So, being a bulk railroad is probably a good thing in 2022, given all the current conditions.

**<Q – Brian Ossenbeck>:** Well, you also mentioned crude by rail and you're getting some commitments to move those volumes. Just curious if that is something that could potentially stick or is the world moving more towards the DRU, the heavy oils, the bitumen? And maybe you can provide an update on how that's ramping up with that DRU project specifically?

**<A – Nadeem Velani>:** Yeah. Our DRU facility in Hardisty, we're the sole provider of that volume, working with Kansas City Southern and going into Port Arthur. That's gone quite well. We started really ramping that up in the fall of 2021. Our expectation heading into 2022 was the opportunity to sell the next tranche of that facility. It takes times. It takes about, say, probably 10, 12 months to invest and be able to add the infrastructure, to be able to add the volume output.

But, certainly, what's transpired in the last 30 days is creating a bit of increased – kind of accelerates that opportunity. So, I would fully expect us to be able to have DRU as a – ramp that up in the next tranche. We're working with some of our key customers to sell that and working with USD and so forth. So, I am excited about what that means longer term.

And again, it's a safer, non-hazardous product that fits right into the sweet spot of what those that are pushing for crude by rail and it's something that can be an opportunity outside of Keystone. Keystone, I think, is dead. It doesn't sound like it's coming back, but we've got a great solution with our DRU product, an offering that can be turned on relatively quick.

**<Q – Brian Ossenbeck>:** And does that get more – I'm assuming, get more interesting if CPKC gets approval? But I guess what it sounds like, it's even – it's interesting now with regard to...

**<A – Nadeem Velani>:** No. I mean, this was something that we worked prior to the deal. We had a deal set with ConocoPhillips and KCS did their deal as well and with USD and Gibson. And if you think about some of the opportunities, we didn't put a big amount into our synergies. We've been burned by crude in the past, but I do think this is upside beyond the revenue synergies that we've highlighted in our application.

**<Q – Brian Ossenbeck>:** Okay. I want to get to that in a minute here, but just to kind of wrap up the volume outlook, you said there's a lot of back half recovery, which it feels like pretty similar to last year across the industry, which, for different reasons, I guess, is reasonable to see that. But, yeah, at least from our perspective, Canadian grain is such a big swing factor. It didn't feel like it really was a problem until it was in the last year with the harvest, which caught people by surprise. So, it still sounds like low-single digit RTM growth is possible. I guess, just trying to figure out how much of that really depends on the harvest and what level of confidence you have? Or when do you think you'll have a little more confidence? Or the industry will have more confidence in this coming back? Statistically, usually don't have two down years in a row, but...

**<A – Nadeem Velani>:** Yeah. Well, I'd say that, if we think about Q1, as I've described, I think volumes were worse than expected. There's no doubt. That being said, I think Q2, we see more upside, given what we described as far as potash and near-term some of the energy franchise and even things like metal – metallurgical coal that we didn't move in Q1, given some supply chain issues and weather, et cetera. So, I think Q2, we're going to see a bit of a lift versus what we expected.

And then, on the back half, I think if we get a normal grain crop, I think the snowpack is at a reasonable level, certainly, in Manitoba. Alberta, Saskatchewan, we didn't get a ton of snow, but we're starting to get some precipitation in the last 30 days. So, I'm optimistic we get back to a more normal kind of grain crop.

And if that's the case, then I'd fully expect us to be able to hit that low-single digit RTM. And given the energy environment and frac sand and potential for crude by rail and so forth, I think perhaps there's even a bit of upside beyond that. So, yeah, we're not throwing in the towel. I know our industry has had many a hope for second half in recoveries and volume recoveries. I think we're in a very unique situation when our largest commodity, Canadian grain, is down 40% and as you see the opportunity for those volumes to recover and how such incredibly easy comps, and then with the other bulks that I talked about with potash and coal and so forth, I think we're set for a very exciting second half of the year.

**<Q – Brian Ossenbeck>:** And just maybe one more on the end markets with intermodal. And just – Vancouver, obviously, there's been a lot of challenges there for the industry. Sounds like there's some built up – pent-up demand to move those sort of bulk freights that are coming in there. But just from a diversion perspective from all the stuff going on in the US West Coast ports, if you can just update on supply chains from the ocean side, and is there a possibility to get some of that traffic to – that's probably diverting to kind of stick there as I think some of those Vancouver intermodal terminals have actually been expanded in the not too distant – not-too-recent past, rather?

**<A – Nadeem Velani>:** Yeah. No, I think, there have – we haven't had – we haven't been in a perfect situation, given the weather and given some of the challenges in Vancouver and Omicron. But, yeah, there's pent-up demand. There's a lot of traffic sitting that is waiting for to be brought inland. So, I think we've got an inventory build-up.

Now, hopefully, we don't get into a labor situation because that will create a longer supply chain challenge in the Vancouver area and for a lot of the import traffic. That – put that aside for a moment, yeah, we've got built up demand there, built up revenues and inventory that's – that we expect to move. So, that's going to again create an opportunity in Q2. When I talk about the shift of volumes from Q1 into Q2, that's part of it.

Longer term, I think we've proven – both Canadian railroads have proven what the value of some of the BC ports vis-à-vis some of the Western US ports. And so, incremental gains there and incremental market share opportunities are something I think we think – something that we believe over the next several years will continue to draw volumes.

And I'd also point out that we did our test move, interline Rule 11 move from Lázaro just kind of testing that concept. And we said – we think longer term that could be a great opportunity to divert traffic from US West Coast and again create an opportunity for growth on the combined CPKC.

That test move went exceptionally well. It's one of those proof-of-concept type of moves, and I think the customer feedback has been very positive. Kind of reminds me of almost two decades ago when I worked for another railroad and we took investors up to Prince Rupert and said, this is the art of the possible. This is a – it was a greenfield site. And Hunter pushed for Prince Rupert to be built and look where they are now. The great thing with Lázaro is it's already a state-of-the-art facility, 50% capacity. We've proven what we can do from an Interline point of view of getting service into Chicago. I think that that opportunity is pretty exciting and something that we can make happen very quickly.

**<Q – Brian Ossenbeck>:** Okay. And before we get too far into the CPKC, if you can just give us a bit of an update in terms of where things are from a timeline perspective. Obviously, there's been – lawyers have been quite busy. A lot of filings posted. So, what's sort of next in terms of that process and some of the key timelines?

**<A – Nadeem Velani>:** Sure. So, the deadline for conditions was February 28th, which many of our rail peers submitted and some shipper groups submitted as well. We have till April 22 to respond. So, there's thousands and thousands of pages to siphon through. We'll work where there is solutions to be had and where there's opportunities to address some of the concerns. We will work with our peers and some of the shipper groups to address those.

I'd say that, things like some of the shipper groups listen to your panel of shipper lawyers and things like hazardous commodities and movement of TIH and so forth. I think there's solutions to be had and we'll work through that.

So, I would also point out that, on February 18, that the STB did highlight the standard for which concessions will be held. So, the board stated they're not going to impose conditions on a railroad consolidation unless it finds that the merger produces harmful effects to the public interest. I think that that's one key point.

I think the other key point, we said, was that the condition must address an effect of the transaction and the agency will not impose conditions to ameliorate long-standing problems which were not

created by the merger. And they're not going to impose conditions that are in no way related, either directly or indirectly to the involved merger. So, I think those are key points.

I'd say that, given that standard, it's going to be challenging for some of the carriers to demonstrate that this transaction, which we've said time and time again is an end-to-end, no overlap transaction would create those types of scenarios that conditions would have to be imposed.

So, if you think about what typically conditions are imposed, if it's – there's significant impacts on competition or network overlap or predatory pricing or poor service, so none of which this kind of pro-competitive, end-to-end transaction has. So, it'll take time and it'll be a long process, but we're optimistic that we'll get STB approval.

**<Q – Brian Ossenbeck>:** Okay. And you mentioned the long run, the test run under Rule 11 from Lázaro to almost Chicago. Are there other – I guess, those are probably the art of the possible, as you mentioned, but are there other routes and things you can kind of prove out and show to customers, potential shippers and even just kind of prove operationally if this goes through, what you'd have to do to make it more seamless, better product or is that the primary one that you're looking to test?

**<A – Nadeem Velani>:** No. I mean, we'll work through it like we do with all railroads and we work with on an interline basis. And so, no different that we'll work through with KCS. It'll be on a Rule 11 interline basis. I think on the merchandise side, there's opportunities as well. And on the grain side, there's opportunities. So, I'd just say more to come, Brian. But, again, we'll be careful not to exert any sort of control. It's all going to be Rule 11 interline basis.

**<Q – Brian Ossenbeck>:** Right. Okay. And part of the time on the sideline, I had a good amount of time to go through the merger document. So, we've seen some of the synergies, which we think there – they seem reasonable. Obviously, you can't recreate all the stuff the consultants have, but you've already raised the revenue synergy target once. I know you're talking to a bunch of customers. You're doing more things like this test for Lázaro. Do you still feel like there's potential upside from a revenue perspective when you just think about, I guess, the art of the possible again to come back to that term?

**<A – Nadeem Velani>:** Yeah, no. I think that the size of the pie, it can be bigger. Absolutely. It's going to come down to timing, too. So, we've got to make sure we're going to do things in a disciplined manner that we're not -- you've known us for a long time, Brian. We've always said we're going to do – bring on business that our capacity can handle. We have a plan to increase capital investment to support the synergies that we've highlighted, whether that's through extended sidings or, in some cases, equipment supply and so forth. We're not going to try to do more than we can achieve.

So, do I think the pie is bigger? Yes. Do I think it's all going to occur in the first three years of the deal? Perhaps the answer to that is no. So, it could mean year four, year five, some of these synergies that you build up to will achieve on the revenue side. So, we'll be disciplined and do what we say we're going to do from a service point of view.

**<Q – Brian Ossenbeck>:** Again, on that topic specifically, I think now this is pre-2001 rules, so there's certain things that won't apply for the review. But service, to your point, is critical. And is always – there's – historically has been issues with mergers in service. So, anything operationally that you're looking at as you work towards this integration that is of more importance. I know some of the shippers who brought up Houston as a potential pinch point. So, maybe you can just give us overview of how you're approaching integrating these, so you do have a seamless – or seamless as possible of a transaction.

**<A – Nadeem Velani>:** Sure. So, certainly, on the system side, we make sure that, from a customer point of view, you're communicating and you're providing the right data and information. So, whether it's waybill information and so forth that customers are not impacted negatively in anyway. And then, from a network point of view, I think that that's an area that we can start investing in our part of our network as we think about what's in front of us, so that we can kind of hit the ground running, make sure that we have the capacity that can handle the additional train traffic.

But, again, it's an end-to-end merger. From a service point of view, when you look at this transaction, it's very different than some of the other issues or other mergers that had service issues. The meltdowns in the 90s from some of these other transactions, it's a very different scenario. So, I hear you and I hear some of the fear that's being put out there. But you've got two of the smallest railroads that operate a joint facility today together that are going to combine and create an end-to-end transaction that can only improve service when you think about what that means of having the operating teams working together and additional investment in infrastructure. You've got the best performing railroad at CP with the operating team that's, I think, the best in the industry. That's only going to improve service. It's not going to disrupt it in any way. So, we're not going to be arrogant and think that things can't occur in a large transaction like this. We're addressing it from a systems point of view and from a people point of view and making sure that it's going to be a better service, not worse. So, I'm not concerned on that front.

**<Q – Brian Ossenbeck>:** I think we have time for a couple more here. But in terms of one area where I think you've been leading is technology, and we're going to hear more and more about that in the future where you've got the automated inspections, you've got the cold wheel technology, and you've seen some operational benefits from that. It's not just investing and talking about, you've seen some improvements. So, maybe an update on how that's going on the Canadian side and to the extent you can talk about the possibility of that being beneficial in the US on a CPKC combined network.

**<A – Nadeem Velani>:** Sure. So, anytime you can bring kind of best practices together – and we're going to learn from the KCS side as well, this isn't a one-way street. But anytime you can expand that opportunity on a greater part of the network, you're going to have better service, you're going to have a safer railroad. So, the cold wheel technology, for example, and the train vision system that we have in place, all of these are focused on improving safety. So, predictive analytics that can help you proactively find potential for failures or issues with your wheels or brakes or train and allow you to address them ahead of time, again, making it a safer railroad, but also improving your asset utilization, improving your service, you reduce your dwell. Many of these areas that we are focused on that we are getting some of these exemptions are on potash trains, on coal trains, many cases these are customer-owned assets. They get a better turn on their assets. They can take assets out of their capital plan, better returns for them. So, it's kind of a win-win situation.

So, we're on the early stages of this as we use some of these technologies. But anytime you can take out some of the manual inspections out, you're going to have a better product, safer product. And ultimately, in an area – in a timeline when it's challenged to get labor and to get some of these employees to join your railroad and to do some of these kind of menial tasks, it's an opportunity to have a better productive network, while saving your customers' capital and having a safer product. So, it's an exciting time, but it's early stages. Once we get control, we will address what we can do and what we can bring on to the KCS network. And again, what we can learn from there, what they're doing and bring to the CP network.

**<Q – Brian Ossenbeck>:** Okay. Fair enough. And then, maybe one more on that line of thought with – landholdings have always been a – I think a key part of the CP story and not selling, but actually leveraging them and continuing to develop them. So, does that potentially – so, I guess, maybe an update on, again, the core CP side of things and how that's going and what's next? And then, when you think about what KCS has and how that might be additive to the CP or is that another area of potential opportunity when you think about just leveraging that network – potential network for growth?

**<A – Nadeem Velani>:** Well, I think the case has never been stronger in terms of where we are from our supply chain challenges. And if you can get closer to the customer, our Maersk facility that we did in Vancouver at transload, that opportunity has been a significant driver of growth and provided service to our customer. Maersk is saving millions of dollars by being able to turn their assets, especially in this environment.

Can we translate that to other parts of the network on the CP side? Absolutely. There's still room to grow. Toronto, Montréal, Edmonton, Vancouver, so that story is in early days. I'd say that, as we kind of continue to uncover opportunities with – on CPKC, I think KCS has a lot of landholdings that will benefit with the same sort of opportunities. So, transloads are going to be a big part of the growth opportunity on the merchandise side. If you think about the Canadian – I mean, the merits of this deal is to bring Canadian resources into an expanded market base, bringing these customers that produce in Canada the opportunity to get to Mexico and to get into Texas. Lumber, for example, going into Texas, which is the biggest consumer of lumber in North America. Our franchise in B.C. and our opportunity to move lumber from Canada down South on an extended haul basis is pretty significant. Adding a land facility that can help transload that can help get to market. I think that that's going to be a big part of our revenue opportunity. The same thing I could talk about steel as well is a big opportunity. And if you think about what's happening in geopolitical tensions, Canadian steel could be a great opportunity to replace what's being brought into the US today. So, the land piece is going to be a big part of the long-term story.

**<Q – Brian Ossenbeck>:** Okay. Maybe just real quick to end on, ESG and emissions. I know you've got this interesting hydrogen locomotive project. So, can you just maybe give an update on that? We see more and more announcements across the industry about moving towards alternative propulsion. But kind of where are we now and what do you see is possible in the next couple of years?

**<A – Nadeem Velani>:** Yeah. So, we're piloting our hydrogen locomotive that we're building in-house in Calgary. It's been – we're going through the testing process. It's still early days, but it's moving on its own. We did a test run. We think – by the end of the year, could we have a revenue service move with the hydrogen locomotive? I think that's the goal and I think that we'll deliver on that. We're committed to continue to reduce our emissions. I think from a locomotive point of view, Scope 1, Scope 2, Scope 3 GHG emissions, our intent is to reduce by 38% by 2030. On the non-locomotive side, Scope 1, Scope 2, we're committed to reduce in excess of 27% by 2030. Again, I think it's a another significant story from a rail -- truck to rail kind of conversion and opportunity for our industry as a whole to really capture additional growth over the longer term. So, it's going to be a big part of our story.

**<Q – Brian Ossenbeck>:** Okay. Well, unfortunately, we are out of time, but thank you very much, Nadeem, for coming to kick off the conference here today. Really appreciate it. Thanks for everybody for joining.

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