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Transcript

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Webcast

Corporate Participants:
Keith Creel – President & Chief Executive Officer, Canadian Pacific

Other Participants:
Chris Wetherbee – Analyst, Citigroup Global Markets

QUESTION AND ANSWER SECTION

Chris Wetherbee
Analyst, Citigroup Global Markets
All right. Well, thank you very much. We'll go ahead and get started again with another part of the transportation leg of day one of the industrials conference. We are very pleased to be joined by Canadian Pacific Railway. We have the President and CEO, Keith Creel, joining us here on stage. So, Keith, thanks so much for joining us.

Keith Creel
President and CEO, Canadian Pacific Railway
Always a pleasure, Chris.

<Q – Chris Wetherbee>: Great. So, I feel like it probably makes sense to start with current events. Obviously, the NS derailment in Ohio is getting a lot of attention and press. I don't necessarily want to ask you to opine on the situation there specifically, but maybe ask, maybe a bit broader question about your thoughts on what this might mean from a regulatory perspective in the U.S. if you think that there's going to be the potential for some blowback here as a result and sort of what, if any, interaction you've had with regulators, not necessarily as it pertains to this event, but sort of broadly speaking, in the last couple of months that either make you feel better or worse about the situation in the U.S.?

<A – Keith Creel>: Well, I think you started in the first place. I can't speculate without being there. I don't think it'd be fair to speculate on what might have happened. I'm not going to minimize the impact or minimize what it could lead to. But I think it draws you back to the fact of point, you need to understand the cause. And I think as an industry, once we do, we need to analyze the cause. And I think that if we can identify solutions to make it safer, if it truly was a safety concern, then I think it's our responsibility as an industry to address it. And if we address it in a practical way that can be operationalized and adopted across the industry, we can self-regulate. There's no need for regulation.

And I – at the end of the day, this is a small industry. It's a very critical industry to commerce in North America. We need to make sure we don't have unintended consequences. I know these other CEOs. I'm going to suggest there's not one that does not want to run a safe and efficient railway.

So, again, I don't want to get ahead of myself. I don't understand what the cause is. Alan and his team, I'm sure their hands are full with the NTSB, trying to figure this all out. But as soon as we do, I think it's our responsibility as an industry – and I'll advocate for this – to make sure that we address whatever it is, if it can be addressed and made better.

We've just got to be careful, because right now, in the absence of knowledge, of fact, stories, conspiracy theories, fact fiction, what is, what isn't, we just don't know. We don't know if it's a track issue. We don't know if it's a car issue, a mechanical issue. We just don't know. So until we do, it's hard to really speculate. But when we do, I think it's our responsibility to take the practical action that we can to regulate ourselves, to create a safer network, the way the industry has for decades. We have not been adverse or shy of spending money and investing in technology, in process and in people to make it a safer environment. And if you look at the numbers, we've historically shown that it's become safer and safer and safer. But in light of an accident like this, how can you say that it's safe enough.

And again, zero accidents is the objective, but getting there is a journey. And it's something that you should never assume that you've reached because you won't ever reach it. It's perfection. It's a pursuit. It's a journey. I say that all the time in our railroads. Safety is something that we always work to get better. Technology limits you sometimes. People limit you sometimes, process limits you sometimes. And there's no perfect world that we work under. But at the end of the day, it's our job to try to make it better, and we will as an industry.

<Q – Chris Wetherbee>: Do you think anything that we've heard even just over the weekend around train length or ECP braking, that rule kind of was ineffective, then came out of the fact. Do you think any of those specifically are more or less problematic for you as you're running your railroad.

<A – Keith Creel>: Let me speak to the facts because I like to speak to the truth. So, some would suggest that, and I expected as soon as I heard about the derailment that some of the naysayers about PSR might come out and say, well, it's train length or it's ECP brakes or it's track inspections, whatever. There's a host of different accusations that might be applied to a PSR railroad.

But I'm going to say this. That's – PSR done the right way is the right way to run a business. And if you look at Canadian Pacific, and I looked at this over the weekend, I went back and looked at the capital dollars that were spent on CP's network in the decade before we implemented PSR and in the decade since, because literally just two weeks ago, I celebrated my 10-year anniversary at Canadian Pacific, and we started maybe six months before that. So if you compare those two decades, we've invested 50% more money in the infrastructure and in capital than we did before. And quite frankly, only because of PSR could we do that. Because PSR truly is not about cutting capital. It's about rightsizing assets and controlling cost and then taking that money that you save and reinvesting to harden your infrastructure, to create capacity to grow. And that's exactly what we've done at Canadian Pacific.

We just celebrated our 17th year leading the industry in train accident ratios. It's an industry standard. Well, if you go again back to that same period and you look in 2012 when we first implemented PSR, CP was the best then by 29%. If you look at 2022, we're the best compared to the industry average by 69%. So, this is a railroad that runs long trains. This is a railroad that runs a PSR, a true PSR. This is a railroad that's invested in infrastructure, that's led the industry through people, process, and technology, and it's only made possible because of PSR.

So, it's getting a bad rap and it's our job at CP to speak to our truth. And our truth says that if it's done the right way, it can lead to a better outcome, a safer outcome, a more efficient outcome where all stakeholders benefit.

<Q – Chris Wetherbee>: Okay. And is it too early to think that you've – anyone from the regulatory bodies in the U.S. are reaching out to people in the industry? I guess maybe the question here is really, do you think the U.S. regulatory backdrop is willing or would be interested in working sort of hand in hand with the industry because that's really what's necessary, I would imagine?

<A – Keith Creel>: I think they're seized with understanding what happened right now. And as soon as that dust settles, as soon as they understand what the cause is, I think they're going to be as aggressive and as eager as we are to make it better, to make it safer.

To think about what those people are living through, to think about what the railroad is – you're talking about human beings that run the railroad too that care about the communities they serve. Perhaps the community may not feel that way today, but I know these people, they're human beings. Their employees live in these communities. So, this is not a case of people don't care. It's just right now we need to be seized with what happened, find out what happened. And once we find out

what happened, we're going to take appropriate measures to make it better, whatever it is. We just need to understand what the true root cause is, and not speculate.

<Q – Chris Wetherbee>: Make sense. Okay, let's transition a little bit to how things are running on the railroad right now for you. I think you're off to a pretty strong start from an RTM perspective. I know this winter versus last year's winter, certainly different operating environments here. But can you talk a little bit about maybe what you're seeing on the railroad today from some of the commodity end markets that you're serving and where that strength is coming from. Obviously, grain is off to a good start and has been strong for a while. But what else is working well for you right now?

<A – Keith Creel>: I think, overall, our network is in really good shape. Mother Nature has been nice to us compared to last year, which is – we're thankful for that. But that said, if you look at our book of business, it's unique. We've got a grain crop that's the fifth largest ever against the backdrop of last year. It was probably the worst drought I've ever experienced in three decades of railroading. We've got strong fundamentals for potash, which is a large part of our business. 40% of our book is bulk and it's grain, it's potash, it's coal. We've got metallurgical coal that is in – still in strong demand with a very weak compare from last year. So, 40% of our book is doing extremely well. We see those fundamentals continuing through the balance of the year.

The other parts for us that are unique, that are maybe a little bit more sensitive to the macro environment – intermodal, quite frankly, because of our self-help initiatives, the contracts that we won last year that we brought on to the railroad mid-year, we still have, from a full year benefit, the first half. We haven't lapped that yet. We'll have that on the back half as a continued strength to offset any negative headwinds from the economy that are domestic. Especially on the Canadian side, portfolio remains strong. And I look at it, it's a little bit different animal besides length of haul.

Our book of business in Canada, because of our reliable service and our shortest length of haul to the key markets, we are the primary carrier for Canadian Tire, we are the primary carrier for Loblaw's, we are the primary carrier for Nestlé. You look at those – and Dollarama. As they restock their shelves, they've sort of normalized some of the oversupply that perhaps the U.S. has not caught up to and we're getting back to a normal restocking run rate. And because we're the carrier that hauls most of that traffic, we're going to benefit from that. So some softness on the wholesale side, but when it comes to the domestic that I call the retail business, which we handle best, I think, again, that gives us a bit of a tailwind compared to others might see a headwind.

And then, the other piece is Saint John. We bought that railroad two – I guess it's been three years ago. We've invested capital to get it to a CP standard. We've created a service offering going to Saint John. It's been matched by investment. I think, in April, we're going to have the cranes coming with DP World. We're going to be at 300,000 TEU capacity. We added the second train from Hapag-Lloyd this past year. So, as we grow forward and as that capacity gets increased, it's going to 800,000 TEUs by the end of 2023 into 2024. So, we have the backdrop and the landscape to continue to grow in that space, which is unique to our network as well. And then, you get to the second half and you get to CPKC – so, again, we're waiting on the regulator. We're in – the final EIS was filed February 3rd. There's a 30-day period where the STB reviews that final statement. They're methodical. They're going to do a thorough, careful review. 30 days after it was filed, we could get a decision. And I would expect and hope that we'll get a decision in the first part of March. And if it is as we anticipate and we think it might be favorable, we certainly believe the facts indicate that it should be. This team is ready to go to work. So, they'll dictate on that decision when the control date is. Historically it's been 30 days. So, again, the STB can do what the STB decides is best, but I would suggest that

they believe in the facts of what we represent, increased competition, infrastructure investment, all the things that we said make our merger make sense. For the nations, it's never been needed more. And our team is going to be ready to go to work.

So assuming that, second half of the year you should start being able to – start layering in some new synergies. And I can tell you there are some customers with some excitement that are ready to put some freight on this railroad. And it's not just rail freight. There's a lot of truck freight that we've targeted in creating new markets that we'll be able to speak to at our Investor Day. Now, we haven't advertised the date yet, but it's going to be in the summer.

<Q – Chris Wetherbee>: Okay.

<A – Keith Creel>: I'm looking more toward the end of June where we'll be able to give a whole lot of color to what we see the potential of this network for the next three years, beyond that. But I tell you, there's a lot of excitement, enthusiasm, and this team's prepared to start going to work as soon as we get to that control date.

<Q – Chris Wetherbee>: So as we think about that control date, so 30 days from the EIS, and then does the STB mandate the period between an approval and the control date? Would that just naturally be 30 days? Could it be accelerated or would it be longer potentially?

<A – Keith Creel>: There's no statutory designation that says it has to be 30. Historically, it has been.

<Q – Chris Wetherbee>: Okay.

<A – Keith Creel>: The statutory said 30 days in the EIS.

<Q – Chris Wetherbee>: Okay.

<A – Keith Creel>: So they could – the STB, because they have plenary authority, they could say it's 15, they could say it's 30, they could say it's 23 and I'm not certain. But again, I get back to the point of – if they approve it, it's only because they believe it's in the public's best interest and it's only because they believe it's going to increase competition and it's going to be good for the U.S. rail network. So why delay it? Why begrudge any one of the benefits from it? And I would suggest this industry needs more capacity investment. I would suggest that customers want better service. And if you're an option to that, not a default, but you have a new option to create competition, to create service, to create capacity, if you're the STB why would you hold back on that?

<Q – Chris Wetherbee>: Do you have an opinion on the DOJ letter that we got a few weeks back, timing was not in accordance to the comment period, of course. And so – and they aren't technically a party to it in the respect that they make a decision around this. So any thoughts around that?

<A – Keith Creel>: You know what, I read that letter saying that some of the testimony that came out during the hearings that we had in DC, some comments were made about – or that might have suggested that the DOJ did not have any opposition to our transaction. Shame on us for ever leaving that perception. Because the reality is I've always known that they care about competition. And that's why I've always felt about the benefits of this transaction so much because it creates competition. So to me the way I read the letter is CPKC, CP/KCS, we care about competition. And to me, as long as we respect competition and create competition, I'm not threatened by that letter. We apologize, we filed with STB. Said listen, we never meant to suggest we left it open for interpretation. We clearly understand you're seized with the competition just as we are. And that's exactly what we intend to create.

<Q – Chris Wetherbee>: Got it. Before I dig a little deeper into the KCS side, I did want to ask a little bit about your thoughts on sort of the economic backdrop that you see here. So, I think you mentioned that some of the retail side of the world that you serve feels like maybe they were going to get back into a more normalized inventory scenario. Here you have Saint John's, you have a few of those other things. But when you think about sort of the broader North American economy, is a mild recession or some sort of normalization sort of in your playbook for this year?

<A – Keith Creel>: Well, we're seeing and reading the same thing everyone else is hearing. I think people are probably betting on a mild recession. My personal view is perhaps. But in spite of that, if that were to occur, whatever occurs, whether it's major or minor, I think, again, our network is uniquely positioned for all those reasons, especially with our book of business and being not as exposed on the bulk side to a recession. Because the underlying fundamentals, people have got to eat, people have got to still produce items, they've got to grow wheat, they've got to do the things that these bulk products allow the world to do. So, that's my guess. Maybe, perhaps.

But again, I think Canadian outcome is a little bit different than the U.S. outcome. I think they're probably a little bit better positioned, maybe not as much wage inflation as we've had in the U.S. They don't have the huge imbalance that occurred in the U.S. I think it's going to take a little bit more time for sort of that, stocking to sort of work itself out. Maybe to me, it's going to be second half, first part of next year before things normalize. I think in Canada, it normalizes first half. I think second half or later in the U.S.

<Q – Chris Wetherbee>: Okay. We've talked a lot about sort of how railroads are managing resources. And you're in a unique scenario because you also have to plan for the actuality of the merger. But when you're thinking about your approach to resources through an economic cycle, has anything changed? We talk a lot about furloughing and whether that makes sense or not. Do you have an opinion on how you want to run the business going forward through the economic cycle? Because there's going to be periods where volume is down. There's just – there's no two ways about it.

<A – Keith Creel>: I think the reality of today's world – and we adjusted a bit. So, my previous life with the other railroad I worked at, I had an opportunity to go through a couple of economic cycles. I came to CP, we had a pandemic. None of us have ever gone through a pandemic. But because of the pandemic, as a human being, what I felt the company needed to do for employees, not just doing what we had to do, but doing what we could do, we had a different financial outcome again because of some of the success we've created at CP and we chose to invest in employees. We chose to go a little long on employees. We told – chose to replace benefits for employees that we didn't have to replace. And because of that, coming out of it, when all this business started to come back, we had created commitment. We created, I think, an emotional connection with our employees where they didn't feel like just employees. They felt like they're part of our family. And by doing that, it cost a little bit more money. But in the end, doing the right thing, ultimately, that's good business too because we were able to retain employees.

And the other piece, I think, that sets us aside is we have an hourly agreement, especially in the U.S., which has been very problematic and challenging with some of the downsizing that occurred during the pandemic. People come back; they've got alternatives to work other places. There's not enough labor in the U.S. You don't have schedules in the railroad. All of the things that were fraught with the challenges of the U.S. collective agreement, negotiation, the PEB award, were not true about CP because we have an hourly deal. And we have employees that are paid more money and they have scheduled days off.

So when it comes to attract and retaining employees, if you can make more money and you have a better quality of life, naturally, people are going to migrate to that. So that's something that we benefited perhaps the other railroads – I say other railroads, the other big four didn't benefit from because they don't have the same mousetrap on their network.

<Q – Chris Wetherbee>: Yeah. Okay. Understood. Definitely want this to be interactive. So if folks have questions in the audience, just raise your hand and we'll get a mic to you. So, let's jump back to the deal here and think about if there's any way you can kind of lay out a timeline. So we talked about sort of when the control could occur potentially, maybe within 60 days of the EIS. What are the things that you think need to happen post that as you're thinking about the integration of those businesses? Are there any major milestones that we should be looking for post that?

<A – Keith Creel>: To me, the most important thing that happens post control is culture. So, getting the culture right. We're bringing two companies together that are like minded cultures. I think both railroads, have been the smallest, there's a tremendous amount of history and pride in both networks. Recognizing and respecting our identities but creating a CPKC culture is exactly what I'm going to be seized with doing.

So, from day one, we're going to celebrate whatever the control date is. That's a day for – we're going to pause and – it's historic. It's iconic. It deserves celebration because it would be, I think in railroad history, a critical date. But that's the first 12 hours, then we go to work. So I'll be in Kansas City. I will announce the CPKC senior leadership team shortly after we get our decision from the STB. So, you can rest assured there is a series of actions that will be taken place connecting with our employees, having town halls, letting people understand how we work and why, and it's going to be – they'll be – it'll be occurring on CP because we can't forget where we came from, but front and center be happening in Kansas City and on the KCS network because, in true honesty, given that we're a larger company, the significant amount of change is going to be most felt on the KCS, but that's why we're moving the U.S. headquarters there. That's why I'm going to have an office there. We're going to be there front and center. Those employees are critically important to us. There's a lot of talent on the KCS. We're going to create a combined corporate culture, so that we can succeed. And then when we do, it's going to be focused on service, it's going to be focused on safety. You do those two with this network and this single line network that we're creating, the synergies are going to be a natural outcome of that. So, it's culture, let's create the service with the safety influence into it and then we will start to produce the synergies.

<Q – Chris Wetherbee>: So let's talk about that. So, I think you've talked over the course of the voting trust period about some tests that you've been able to do and maybe some co-production type of arrangements that you've had. What have you been able to sort of achieve during the voting trust period, understanding that you have to keep sort of operational controls off from a KCS perspective, but how does that potentially influence the ability to quickly sort of start to generate some of these new contract wins and that customer excitement that you were talking about before?

<A – Keith Creel>: The upside of the long period, it's been a long journey. We've had a lot of time to think about this. We've had a lot of time to meet with customers and talk about prospective products and what the markets need. So we understand the top 100 customers, what they'd like to see happen.

So, we've been about creating negotiations, mousetraps, regulatory processes. There's several things that we'll expand upon in our Investor Day, and you'll see some things announced after – pending our STB approval. So there's some things being negotiated that we'll be able to start to show. We'll see probably pretty quickly after we get control, pending the right STB decision, or

pending they approve our transaction, a train start probably in the April timeframe. So, that will start the process.

And then, the second part, the systems piece, given that we've had the time, to me, historically, if you look at some of the challenges of integration, be it our industry, be it other industries, it's computer systems. Underestimating the complexity they represent. So, we've taken an approach where we're going to integrate first and innovate later. So, essentially, KCS, they'll still be using the KCS systems, the customers will go maybe through a CPKC interface. But ease of doing business, it's going to be what they're accustomed to. Same thing on the CP side. And then, over time, over the next two years, we've got a sort of a technology roadmap that we'll implement, and we'll integrate the two systems together. But it's only when we're ready. We're not going to destabilize anything initially.

So the one thing that we will have though, from day one, is one operating plan. So, we've already done all the testing. We've already created the system to be able to connect our two operating systems, so that we have one integrated plan, so that we can create visibility to the blocks perhaps that need to be made in Shreveport or the blocks that need to be made in St Paul to create a bigger network instead of it just stopping at Kansas City. So, immediately, you're going to start to see better asset turns, you're going to see a more fluid network, you're going to see less handlings based on the businesses we have at day one in line with our operating plan. And then, as we grow the network and we then bring business on to the network, you've got 85% of KCS business that's interchanged, KCS U.S., 85% total. What percentage of that 85% will our network be able to handle in a better transit time, single line, serve cradle to grave that the customer chooses they want to put on our railroad. And once you start that – I call that sort of decomplicate the network and you start to bring that density back to your network, you can create additional blocking synergies and density to be able to create that service product and also to start taking costs down.

<Q – Chris Wetherbee>: So do you think Mexico poses any unique or interesting challenges to operating, understanding that you haven't operated in Mexico previously, but you've had, as you even pointed out, some time to look at the network and think about things? What's sort of the challenge of Mexico? It's a challenge and an opportunity because I'm sure there's opportunities there too.

<A – Keith Creel>: I think the challenge is we've got to respect Mexico's identity. That's a country just like Canada is, just like U.S. is. So, we're not going to go in and Americanize Mexico or Canadianize America, whichever way you want to look at it. So, we've got to respect their identity. But at the same time, I've got to learn. I don't know what I don't know. But what I do know is their collective agreements are uniquely different than the U.S. or Canada. There's one union in Mexico. That's not the same in the U.S., not the same in Canada. And some of the things that are in their agreement could be modernized, but that takes negotiations, it takes time, it takes sitting down with the labor leaders and explaining to them what's in it for Mexico, what's in it for them. And those processes are already started. And I certainly expect that those discussions will continue. So if we can modernize their agreement and the Mexican employee can win, the railroad can win, that's how you get change.

So we'll take our time. We're not going to force anything. It's going to it's going to be an approach where they're going to want to have to do it. We can't force them to do it. It would be a negotiated outcome. And as we do that, I think you can create not just something that's in it for the employee, but a lot that's in it for the customer because you get more reliability and more efficient and fluid processes. You eliminate the complexity with different classes of service, perhaps, distance you can

run trains, length of trains, all those things. How many locomotives you have on a train, how many men or women you have on a train, all those things that you can sort of work out over time that makes what it is today a better product, not only for the customer, but for the railroad too and for the employees. There's got to be a balance between all stakeholders. So that's going to take a little bit of time. The infrastructure itself in Mexico, that was is in really good shape.

And then the other thing that I'm super excited about, we knew about nearshoring when we started this transaction. What we knew then is even more powerful now. Ally-shoring, near shoring, the announcements that continue to be made when it comes to the industrial investments that are being made in Mexico and they're all – so far, the ones I've read about, the ones I know about are all – we have an opportunity to serve those markets. It's close to Monterrey. It's close to Mexico City. That infrastructure runs down that east coast, which is what I call sort of the industrial heartland of Mexico. That's our network.

So if we can serve that network and bring manufacturing and connect the borders and make them seamless, which out network is going to be able to do, it's good for Mexico, it's good for the U.S., it's good for Canada. So it's going to be my job to make sure that the Mexican regulatory agencies, the Mexican government understands what this network can create for them. And I do believe that that government cares. I know the President AMLO cares about growing jobs in Mexico. If I can help him understand and I will, we'll do our best to do that, how we can help enable that success, I think that's positive for this network.

<Q – Chris Wetherbee>: So when you think about the opportunity set, as you noted, you set some original synergy targets, at this point now, a while ago. The world has continued to evolve and maybe there's more opportunities, maybe there's less. I guess, as you think about it, I think people are fairly optimistic that there's more as we go forward here. I'm guessing you share that view, not necessarily asking you to front run your Investor Day here, but as you think about sort of day one post approval what the synergy opportunity feels like to you, better than where we were before?

<A – Keith Creel>: Yeah, it's definitely better. I can't put a number on it yet. I can tell you that my convictions are stronger than they were, but at the same time, I'm not going over subscribe this network. I can't destroy my service proposition, can't allow our zeal and our zest for growth to destroy the operating model.

And the operating model is, the network can produce what it can produce, you've got to understand the capacity and you sell to the capacity. That's what creates the service. That's what allows you to control the cost. That's what gives you the money, the ORs, how you measure it, but it gives you the cash flow to put back into the network to grow. So we're going to be very smart about how we grow the network. We're going to be at the table. We're going to have, I believe, the most relevant rail network in North America. I think that's what we're creating.

And I think the backdrop, the canvas is a beautiful landscape for us that's only getting better. But again, we've got to pick our partners smartly and we've got to play to the strengths of our network and we've got to play to the natural markets that we'll serve. And I think this network will create new markets that we don't know about today, just like there's some we're discussing today I didn't know about three years ago. I think that's what this network is going to create.

<Q – Chris Wetherbee>: Yeah. And you've talked about achieving your goals over a three-year window. Any sort of shape of that, whether it be sort of equal parts one, two or three or do you guys just think it's still too early to kind of put a finer point on that?

<A – Keith Creel>: No, I think it's still back to the discipline of building out the network in lockstep with the business. It's going to take that period to build the network out and I can't get ahead of myself. So, we have a terminal, we've got 30 sidings to extend or build to realize the vision of the merger application, that's going to take three years to do. That's covered in that CAD $275 million of investment. We've got outside of the merger application, our terminal in Bensenville we're building. We've got a terminal to optimize in Kansas City. We've got – potentially through the synergies, maybe we want to do something outside of that in Dallas in the Wylie area, maybe a lumber transload, maybe an automotive transload. We'll bring a lot more color to this when we get together in June, but again, we're going to be very careful and step through this thing and make sure that we don't overcommit and under-deliver and disappoint customers because if you do, that's the best recipe of not really building this thing out, not realizing its full potential. So we're going to be very disciplined and methodical about how we do that.

<Q – Chris Wetherbee>: Okay. Understood. And I guess I wanted to talk a little bit about operating ratio. There's been a lot of discussion about it in the industry and whether it's as important for other players as maybe it once was and this trade-off between growth and operating ratio. You've done a pretty good job over the years of being able to emphasize both pieces of that and I know you've talked about OR being an output, right? You manage the business and a better OR is ultimately the output. But when you start to put some of the synergies on paper, the OR output ends up being quite good from an industry leading perspective. So, how do you think about that? And where does operating ratio versus growth, that relationship, stand in your mind?

<A – Keith Creel>: I think the key word you just said, Chris, is balance. To me, if you run the business the right way, you've got to have service, you size your assets based on your plan, which your operating plan – your service plan is what you sell. You control your cost doing it, you right-size those assets, whether it's men, women, locomotives, track capacity, car capacity, it's complicated. It's simple, but it's complicated at the same time.

If you go and do that and you get a fair price for your service because your capacity matters and reliable service matters, if there's anything that customers have learned especially the last two years, is capacity matters and service matters. And if you're the railroad that can provide a reliable service and you can do it at a low cost, you can charge a fair price for the service you provide, customers are willing to pay it, if you're the reliable service provider and your costs are being controlled, the output is going to be a low margin. It's going to be a strong margin. You're going to create cash flow to reinvest in the infrastructure, to reinvest in the business. Or at the end of the day, if you reinvest in the business to return money to shareholders or to pay it out in dividends, that's kind of the model. But you've got to keep the balance. You can't be seized with any of that.

To me, the true measure of success is earnings growth. At the end of the day. But I can't – again, I've got to make sure that I'm taking care of the customer, the shareholder, the employees, the communities we serve, all stakeholders. That's my fiduciary responsibility. And if I do that right, in the U.S. alone, I know my fiduciary responsibility is to optimize my shareholders' return, that's going to happen, too. That's the healthy way to run a PSR railroad. That's exactly what we're going to do. And if that produces, because of this growth, the lowest OR, then that's a wonderful thing. I can continue to invest in this infrastructure, but we're going to do the right thing for the business to be able to keep that balance. This isn't cut your way to profitability. It's rightsizing assets. It's make money, so you can invest more money, so you can make more money. It's a pretty simple business process. It just takes discipline to be able to do that.

<Q – Chris Wetherbee>: When you think about the capital deployment currently and then over the course of the next couple of years, I guess two questions here. First one is, how do you see the path of deleveraging? Where are you on that continuum? I think you're pretty much on schedule where you thought you'd be, but can you give us a sense of sort of where you think you need to go before you can maybe take your foot off the gas a little bit in terms of debt paydown? Capital can be deployed other places.

And then I wanted to follow up on CapEx and your thoughts around really what the right number is. You mentioned – it was a great segue. You mentioned in an earlier conversation about how much more money has been spent in the 10 years post you arriving at CP as opposed to before. What's the right number of sustainable CapEx for an operation like you're going to be running here?

<A – Keith Creel>: Well, it just depends, Chris. But right now, what we're seeing over the next three years, we're probably – we'll go to around a – 2.2 is kind of the number we're thinking about.

<Q – Chris Wetherbee>: The leverage?

<A – Keith Creel>: But at the end of the day – no, 2.5x is the leverage. I was talking total spend on capital.

<Q – Chris Wetherbee>: Good.

<A – Keith Creel>: We're going to get back to 2.5x. That's what we've told the rating agencies that we have a focus on paying down our debt, which we've started to do, and we think we can get there by the end of next year.

<Q – Chris Wetherbee>: Yeah.

<A – Keith Creel>: At the end of 2024. So that's kind of the glide path we're on. And once we get there, then we can start discussing and what do we do with this cash that we're producing. Number one, first call of cash is always going to be physical plant and creating capacity and more customer solutions. And I hope that I can come back and tell you I can give you a better return doing that. But if not, then we'll look at reinstituting some modest share buyback and we're going to increase dividends. We're going to – again, balance is the key across all three. But, again, we're going to – first call of cash is building out our network to optimize it. And I think we're going to have more opportunities to do that. Again, I don't have a crystal ball based on what we know today. That CAD $275 million is our number. That CAD $275 million doesn't represent some of the productivity capacity, the capital that we're going to be avoiding because we're going to have more effective assets, utilize locomotives, cars, all that stuff that's going to come out of these operating synergies. So with that said, that's kind of what the path looks like and I don't see it changing. And if it does, we'll tell you. And we'll know a little bit more again in June.

<Q – Chris Wetherbee>: Yeah.

<A – Keith Creel>: Get this thing together, but that's the way we see it today.

<Q – Chris Wetherbee>: You had mentioned before about not overselling the network post-merger. Is there a way to conceptualize how much capacity you think you'll have relative to the volume flows today? And then, obviously, we can all think about what the synergy opportunities might look like to sort of – in terms of filling out that capacity. Any way to think about that?

<A – Keith Creel>: Not yet with – I can't give you a number. I can tell you CP, we don't have any capacity constraints at CP.

<Q – Chris Wetherbee>: Yeah.

<A – Keith Creel>: And KCS, I can say this. Outside of the network they don't control which is the route to Houston, through all these service challenges that the industry has experienced I've seen the KCS hold their own. They've done well. So again, as long as they're right-sized with people, with locomotives, with cars and track capacity, which on their network that they control they are, a bit over, and I've ridden the entire route from Kansas City to Laredo, I've ridden from Shreveport to Dallas, they're not bumping up against capacity constraints. And I think if we treat our employees well, we create the growth that we're going to create by locking this single line extended network, I think we're going to be the employer of choice, I think we're going to be the most relevant network, I think we'll have the most progressive collective agreements, and I think we're going to create more capacity even than we have today because of our more efficient way of operating the network.

<Q – Chris Wetherbee>: So I've gotten to 2 minutes left and I haven't asked you about pricing, so I've got to get back there. Obviously, lots to talk about in terms of the merger, but how do you think about the pricing environment in railroads this year? We've heard some positive comments from your Canadian competitor about getting contract rates in the sort of 5%, 6% plus type of range. I don't know if you have a view on where pricing is kind of shaking out for this year.

<A – Keith Creel>: I can tell you it's – historically, it's still strong. It's not maybe as good as it was last year, but it's still inflation plus. And if inflation is 6.5% – we kind of know where inflation is. So I would suggest that we're not going to be a commodity. We're going to sell our service. We're going to sell our capacity. It's valuable. And as long as you provide reliable, safe capacity and service for your customers, so they can grow, we don't have to apologize for charging that. We have to, to be able to stay in business, to continue to invest in the infrastructure and provide the supply chain capacity that they depend upon to succeed in their marketplace.

<Q – Chris Wetherbee>: Got it. I think with that, we are pretty much wrapped up. So, thank you very much, Keith, for joining us. Really appreciate your time today.

<A – Keith Creel>: Thank you Chris.

<Q – Chris Wetherbee>: Absolutely.