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Transcript

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

Other Participants:
Brian Ossenbeck – Analyst, JP Morgan

QUESTION AND ANSWER SECTION

Brian Ossenbeck
Analyst, JP Morgan
All right. Good morning. Thank you very much all for coming back here on the day three of the Industrials Conference -- Transportation track. I'm Brian Ossenbeck. I cover the group for JPMorgan. Couldn't have planned it better if we tried, which we did try, of course, but very happy to have the last day here with Keith Creel, President and CEO of Canadian Pacific. Obviously, some news out yesterday. And I guess, in a month's time, he'll be President and CEO of CPKC.

So, there's certainly a lot to cover. I'll just turn it over to him to cover some of the highlights of the decision. Clearly, there's plenty to talk about even if we didn't have that within the broader rail industry. So, we'll certainly have a good discussion here. But with that, let me turn it over to Keith. Thanks for being here.

Keith Creel
President and CEO, Canadian Pacific Railway
Yes. Thanks, Brian. Always an honor and an opportunity to come talk about our story.

So from a timing perspective, to your point obviously I had no idea when I committed to come speak, that I'd be speaking the day after we got our decision. But I can tell you that we're elated.

This company, it's been -- not only if you're into rail history, the weight of the history of this moment is very, very material and important. But at the same time, if you've been working at either KCS and/or at CP, for the last 2 years, it's been a journey. And I'm kind of liking this to thinking about this. My wife is a very avid runner and athlete, and she's talked me into a couple of times doing a few half marathons, but I always resisted the marathon. I said, "I just can't do it. Even out of love, I can't do it." But I think I just ran an ultramarathon with the STB process, 2 years, very thoughtful, thorough process.

But I can tell you, I want to thank and commend the STB and their staff, the enormity of the work, the enormity of the challenge, wanting to ensure that history reflects that they got this right. I've never seen a more committed regulatory body. I've never worked with a more committed regulatory STB staff. Chairman Oberman and each of the members, respectively, very consummate professionals, very detailed, the most thorough process that I could have imagined has been applied to our facts. And their commitment to seek the facts, to understand the facts and to make a decision based on the facts, to me, is extremely commendable and refreshing. So, thank you for doing that.

That said, it comes with a great responsibility, and we are not going to do anything but work hard to ensure that all the commitments that we've made are not only met, that they're exceeded. And that means for all stakeholders, that means for our shareholders, that means for our employees, that means to the STB, that means to the communities we operate in and through, and that means to our customers. Across all bases, this team will be committed.

And I tell you, I think about this, this is my 31st year of railroading. And I pride myself, and I will not apologize for being an operating CEO. I've been in this business for quite some time. I've

seen it change quite a bit. I've had an opportunity to be part of quite a bit of success. I've been blessed to work with some amazing people that I've learned from and that have formed the individual and the leader that I am today.

That said, I never would have imagined 31 years ago I'd be sitting here talking about this today. But the journey itself, if I think about it, has led me to Canadian Pacific back, I guess, it's been over 10 years ago. I just celebrated my 10th anniversary. And I came to CP – and I'm going to take this a bit off course Brian and talk about the industry a bit.

I came to CP for a reason. I was recruited, as well as Hunter Harrison, to come to a company that was struggling financially. They had the worst service in the industry. They had the worst financial performance in the industry. They were not able to invest. Their pension fund was approaching insolvency. Their debt was junk status almost. This was a company that was in trouble. This was not a company that was thriving. It was barely surviving. And we came with a mandate to restore its financial health initially. That's exactly what the mandate was: to get it back to -- it could be a sustainable, profitable entity for all stakeholders.

And we came with an operating model. It's called PSR, and I'm not going to apologize for it. I would suggest that those that don't understand it, perhaps it's controversial, especially as of late with the history. I would suggest that PSR is not a name and imitation only. How you do it matters. I've been doing PSR -- I've been running a PSR railroad for 27 years. I know what it is, and I know what it's not.

And I'm not going to speak to any other railroad's experience. I'm going to speak to CP's experience. And I know that by applying PSR fundamentals, it's all about service, asset utilization, controlling your cost, investing in safety to run a safer railway, which is our moral responsibility as well as developing your people. And if you do that right, it's the right way to run a business.

And I can tell you at CP over the last decade -- and I've had a lot of time to reflect about this given the very tragic situations that have happened in our industry, especially as of late, this company has never invested more in its people, invested more in its infrastructure. We've never enjoyed the levels of safety that we enjoy today, nor have we ever enjoyed the levels of service that we enjoy today. And every bit of that was enabled by implementing – properly implementing a precision scheduled railroading operating model.

It's a process model. It's -- that's what it is. It's understanding and rightsizing assets against a given level of business. When you do that, you control your cost because you don't have waste and a cost. And I don't think any business should apologize for eliminating unnecessary waste. That allows you to save that money and invest it back into your infrastructure.

Heavily capital-intensive business, these locomotives that we have to purchase and maintain, the cars that we purchase and maintain, the infrastructure with track, it's not like your highways, the government is not building it for us. Rails ties and ballasts are extremely expensive.

So over the last 10 years, this company, when it comes to safety, if I go back 10 years ago, CP has led the industry this is the 17th year from an accident frequency standpoint. And the facts matter. I read some rhetoric, I think, some very sloppy journalism from a paper in Washington,

D.C., I'm not going to name it today, where they suggested that Canadian Pacific's safety record is the same as every other railroad. That's not even remotely true.

10 years ago, if you look at the Class 1 average, our safety statistics, our accident ratios were 29% better than the industry. We've implemented PSR. We never invested more in our infrastructure to allow us now in 2022, we finished at a frequency ratio that was less than 1 accident per million train miles. That's unheard of in this industry. And that's 70% better than the Class 1 average.

So to suggest that we're -- we've not invested, to suggest that PSR means cutting cost and stopping investment or reducing investment and compromising safety, again, the facts matter and our story does not represent that at all. I would suggest, with the amount of money that we've been able to invest in our infrastructure, process, people, technology, the way we've been able to train our employees, the culture that we've created, the service that we provided, not only has it allowed us to survive, it's allowed us to thrive. And it's what allowed us to get to the table to be able to have a seat, to be in a position, to compete for and successfully purchase the Kansas City Southern.

Had it not been for PSR, that never would have occurred. And had it not been for that today, I wouldn't be able to talk to you, even remotely begin to talk to you, about the benefits that our country, all 3 countries will derive from a positive integration of these 2 railroads. All the investment it unlocks, all the growth it unlocks, all the growth it enables for our customers, the job growth it enables for our employees, the investments in communities and our ability to produce a safer outcome. Because when you put these two railroads together, again, applying the investment in people, process, and technology, you're going to see a better, safer outcome not just for the United States of America but for all of North America.

So for that, I'm not going to apologize. I'm just going to double down on our commitment. As I said, when I started, we're committed to doing this right. We're going to implement PSR the right way. This isn't about slashing costs. It isn't about stopping investment. It's about controlling costs through managing assets. It's about investing in infrastructure, investing in people, processing technology so that we can run a safer railroad tomorrow than we do today with the objective of never having a derailment and never having an injury.

And yes, those are high and lofty goals, but that's what the objective is. And as a result of that, we'll position this company, this franchise to grow. And I believe this will be the last spike. And we're going to celebrate that on the 14th of April. We're going to have a commemorative event in Kansas City where we -- the two railroads connect. I don't think this industry is going to see more consolidation. I think that we're going to be a stabilizing force in this industry. I think that we're going to compete. We're going to cause our competitors to get better as well because they want to compete. We're going to create a synergy and a benefit again for all stakeholders that without this transaction never would have occurred and without PSR, we never would have been in a position to pursue it, much less finalize it.

So a bit off tangent, I tell you, I get a little passionate about this, and I'm tempering my passion. I'm not pivoting away from PSR. I'm leaning into PSR because those fundamentals, again, I would suggest, is the right way to run any business, not just a railroad. So with that, I'll open it up to questions.

<Q – Brian Ossenbeck>: Okay. Thank you, Keith. And still right on point considering everything that we've heard and seen in the news and talked about this week at the conference. And the point on safety, I think the Chairman in his press conference yesterday definitely emphasized that with CP and with KCS. And in my opinion, it wouldn't have got done if you didn't have that track record, at least been a little bit harder in this environment.

But service is also something the industry has had a difficult time with. Again, CP and KCS weren't called in front of the STB, and they don't have to do the additional reporting. But that's still a big concern when it comes to M&A. Most people would point out that in the past, it hasn't been too much, but service is degraded when there's M&A.

So how do you -- there's dissent in on the Board in part because of that related to this decision. So how do you think of addressing that service concern, especially in light of a complicated integration? And where does that rank in terms of your first 100 days when you get this done? And what are you willing to commit to when it comes to keeping that service product, which obviously is good for the economy, like you said, and good for shareholders and good for this merger?

<A – Keith Creel>: I think you're making a very good point. Service has never been more topical. The history that the rail industry has gone through over the last 2 years since -- especially since the pandemic has been challenged at best. Unique though, Canadian Pacific and KCS – and I'm going to speak most to Canadian Pacific. Obviously, KCS has been in trust and I have not had a say in how the company was run.

But at CP, I can tell you, service is what we provide to our customers. It's doing what you say you're going to do. And if you don't have service, you don't have a product to sell. That's what we do. It's as simple as focusing on relentless pursuit of the safe and efficient movement of freight from point A to point B. That's -- in simplest terms, that's what running a railroad is about.

Now there's a lot of processes for that outcome to be realized. But that's the focus, and that's the focus when we we're looking at this integration. I've lived through, as an operating officer, some pretty challenging integrations in those 31 years that I just shared a moment ago. I lived through the Conrail carve-up. I was in Michigan. I've lived through the SBUP. I lived through the BNSF. I was at BN when Santa Fe and BN merged.

Then I've also lived through some positive outcomes. The Illinois Central CN, I was a part of that. The Mini acquisition CN made and integrated, I was a key leader in that. Coming to CP, the integrations and acquisitions that we've made, certainly nothing to this quantum, nothing to this scale, but I can tell you, one of the benefits of having 2 years of regulatory review, we've had 2 years of planning.

And I'm not a guy that's going to be soft on planning, and soft on focus and intensity. I can tell you that 9, 10 months ago, we put together an integration team with dedicated resources in an integration steering committee, which I lead. Full-time resources, both companies that have been focused on I think there's 168 processes across the disciplines of our business that we've identified that have individual plans against with the timing for our integration process.

So what's going to happen to make sure that we get this right, and I've shared this with many of our investors and I shared this with my Board, the next several years, I'm going to spend probably 75%, 80% of my time in Kansas City and on the KCS network because I'm a boots-on-the-ground railroader. I get out. I like to see it, interact with the people, look at the processes. Again, this is a process business. As an operating guy, I understand the processes. So I've got to see them, touch them, measure them. But -- so I'll go to Kansas City. We're going to focus on the people first. I'm actually going to head to Kansas City today when I leave here. I'll be in position tomorrow morning.

Tomorrow morning, I'm going to announce our senior CPKC executive team pending the control date of April 14. A press release will come out. I'll have a town hall in Kansas City. I'm going to talk to the leaders there, to the great employees in Kansas City at the KCS. And then I'm going to get on a plane and head to Calgary, and I'm going to do the same thing at our corporate office tomorrow afternoon.

So people will be the first focus; after that, making sure that we integrate right out of the gate with the right culture and focus on people; then we're going to focus on service. Because if you get the first right, the latter will take care of itself because, again, it's about managing the right processes. It's integrating the two networks methodically. We're not going to boil the ocean day 1. We're not going to boil the ocean the first 90 days. We're not going to try to put 2 systems together and create and innovate some new IT system. A lot of thought, and process, and review, and studying the things that have gone right in the past with integrations and the things that have gone wrong has gone into this entire process.

And if we get that right, and I believe that we will with the people and with the service and the synergies themselves that we've talked about and we've committed to our shareholders, are going to take care of themselves over the next 3 years. So we're going to move methodically. We're going to move with intention. There's a very precise plan we're going to execute. I'm going to lead it from the front with my team, and we're going to get to these synergies that will naturally occur over the next 3 years.

<Q – Brian Ossenbeck>: So on the point of synergies, I think since we've had 2 years to watch and think about it, people have gotten a little more excited maybe about some of the numbers, which I know we'll hear more about at the Investor Day, probably later in the summer. And clearly there's a lot of work to do to get there. But maybe you can just put some context around that. It's still a 3-year integration. From our perspective, growth is at a premium and you're putting two networks together, and that's really the only way that I could see counting on growth. So we should assume some synergies.

But would these be ones -- if you were to raise them, theoretically, would these be more like past year 3 and 4 and 5? It seems like it would be more of a longer tail as opposed to maybe doing things faster. So just given the expectations and where that sits right now, any commentary on that would be helpful.

<A – Keith Creel>: Well, we've always said and plan our initial deal synergies, the $1 billion of EBITDA synergies expect us to accomplish over the first 3 years. But I can tell you with many, many hundreds of conversations in customer meetings and new markets that we're going to be able to create new transportation solutions that I think we're going to be able to create, this is not a 3-year story. This is a -- this will be the most relevant rail network in North America positioned to grow like no other because of our unique ability to connect 3 nations, 3 nations that the need for trilateral integration has never been greater.

With everything that's happened in the world around us since we started on this journey, the recent announcements in Mexico, all the different manufacturing, near-shoring, ally shoring, all those things you put them all together, again, this 3 years this gets us started. It's not the true future. And I can tell you the enthusiasm around it is energizing. At the same time, and I've told the team, we cannot, cannot and will not oversubscribe our network. So as much as some customers and even some officers, some marketing members would love to bring it all tomorrow, I'm not going to let this network get oversubscribed.

Again, back to PSR, it's about turning assets. And I'll liken it to Canadian Pacific. People think that if you do PSR, you just run big trains and all this money falls off the bottom, and you have all these great financial -- well, you can't have big train aspirations unless you have a network that can handle the level of business you're putting on it.

So at CP, again, part of the investment that we've made -- I looked at it last week. In -- over the last 10 years, we've invested $800 million in our infrastructure to be able to truly effectively run a PSR railroad. And what does that mean? That means about 100 either new sidings or siding extensions, that means reconfiguring yards, that means optimizing a network so that you can layer the business on top of it, run it safely, run it efficiently. Otherwise, you kill your asset cycle times and you don't need less assets, you need more. And you don't have better service, you have worse service.

So again, we're going to take that same methodical approach. We're going to -- I can tell you this, and we'll talk more about the details -- our Investor Day is going to be June the 27th and 28th, if I'm not mistaken, in Kansas City. But we've had some really, really encouraging success with some of the test shipments we've made. There is some tremendous optimism with an ability to take trucks off the road, taking frozen goods and protein goods that are produced in Mid-America, which will uniquely serve into Texas and Mexican markets and then flip it right back -- back to the asset utilization piece with loads coming north with fruits and vegetables. We've had test moves in both.

You can anticipate that the first train pair at the end of April, beginning of May, will be running between Chicago and Mexico City. It's going to be train 181. Like, if you know anything about our network, train 101, our crews think that we run gold and silk on it across Canada because it is the flagship service that goes from Toronto to Vancouver every day. Premium service, we're going to recreate that premium service from Chicago to Mexico, and we'll start that right out of the gate 2 or 3 weeks after we get control. So look for that late April, early May. And then we're going to methodically go about building out this network, a very bespoke network so that we can keep our commitments to our current customers. And at the same time, these new commitments that we make as we grow, we do what we say we're going to do. And we allow them to succeed using our service so they can win in their marketplaces with this extended length of haul in the single-line service that this unique network is going to allow.

<Q – Brian Ossenbeck>: We mentioned the truck conversions, and that's something we've all heard about for a long time. And with a bigger presence in the U.S. and cross-border Mexico when the deal is finished, I imagine it's a much bigger opportunity for you. And the Chairman of the STB mentioned this yesterday as well as an opportunity. So how -- but it's always been a challenge to get the service for the industry, to get the service consistent, to keep the share from going back and forth.

So how do you expect to approach that issue, which is a great opportunity? And then also from the investment perspective, it seems like to really get some of those conversions, like with your transload facility with Maersk, you have to put some money, some skin in the game and really find those partnerships. So maybe those are two different sides of the same question, but this does seem like a good opportunity. But history has said that it's not been realized by the industry.

<A – Keith Creel>: I think it's important, again, perspective. And this is the words that I've used at Canadian Pacific as we've been down this journey the last 10 years, creating a very reliable service. Truck-like reliable service is what you need if you're going to take trucks off the road or realize your potential taking trucks off the road. You've got to be reliable. What we've done in Canada with that Train 101, and I speak to 181, we'll replicate with -- number one, you have a different scale, you have a different range. So, in Canada, the average intermodal move, domestic move is 1,600, 1,700 miles. Think about Chicago to Mexico City. We're talking over 2,000 miles.

So to be able to take trucks off the road with a reliable service that you don't have to interchange, you hold one company accountable for with the right operating model, the right investment, the right infrastructure and then you get into the process. And this is something that we've been really, really engaged in -- deeply engaged in.

I have a call I lead every 2 weeks where I get an update from the team that we've assigned to this, trying to create the right processes -- where the regulatory bodies -- so that the vision of these new services and markets can be created. You think about what I just said a minute ago, the protein that could go from Middle America to Mexico, you've – and the fruits and the vegetables that come back, you've got the USDA that's involved; you've got SADER, which is the Mexican counterpart; you've got U.S. Border Patrol; you've got Mexican border patrol. So there were these processes and inspections that the truck has to go through today at the border that we have to work through a process to do to be able to recreate and keep that seamless move at the border. That border today -- and there's hundreds of trucks of proteins going across the border today. There's hundreds of trucks a day of produce coming north. It's not open 24/7. It's got limited hours in the weekend. It's open 16 hours a day. The processes they're having to stop, and de-stuff and inspect and then re-stuff and process, it's a 2 or 3-day consumption of time at the border. What we're on the verge of doing, creating inland terminals with the support of the Mexican regulator to allow this market to be created, to allow those products, in this case, be for poultry to be inspected inland and not stop at the border, it's transformational. We'll blow right through.

And by the way, to match that, Pat and the team, and we've talked about this, capacity matters. The bridge they're building today. Before, the capacity was 30 trains a day. That bridge gets done in another 12 to 15 months. It's 60-plus trains a day, where you can make a meet on the bridge instead of it being sort of the choke point in the network. To be able to process and move a train from Chicago into that Mexican market in, I would say, 5, 6 days, a truck can't touch that. That's what's going to allow you to penetrate the market. That's what's going to allow you to create an experience that history has never been able to create because you never had that network to be able to do it with.

So that's going to be the approach. That's going to be part of our success. And the other part you talked about with -- like Maersk, let's talk about the environment for a minute. The greenhouse gas emissions, those truck moves -- and we've created an industry-leading carbon calculator that we just rolled out probably 6 months ago that required millions of dollars of investments to create -- again, we're not investing less. We're investing more so that our customers can understand in a very clear way what the benefit is to the environment, which we're all being held accountable and should be held accountable for. It's 75% less greenhouse gas emissions on a comparable truck move.

That's a needle mover. That's an absolute needle mover. So if you're a company like Maersk that is committed to your 2030 greenhouse gas emission reductions or your 2050 net zero and if you're an investor that cares about this, this is going to be a solution that's going to help us get there. It's going to help those companies. We're going to be part of their success story much like Maersk, as part of their success story in Vancouver with what we created there.

And then the other piece that's so exciting about this -- and this is part of the strategy, it's CP. We didn't have size. We had to compete against Canadian National. We got the markets we couldn't get to. We had to become very entrepreneurial. We had to become very flexible and very specific in creating solutions that create a stickiness for our customer that other service providers can't provide, which is why we took our landholdings at Canadian Pacific and did things like Maersk and created a transload facility inside our physical plant on our land.

To your point about capital, we built the building. They spent the money to outfit it inside. So it was equal and like investment. So at the end of the day, we've co-invested, we're co-located. We both have skin in the game. And because CP is able to do that, in this case, we're able to create something that you can't get across the street. That becomes part of their success story. And if I apply that same logic to KCS -- KCS, at CP, we had 1,000, 1,500 acres that was contiguous to different terminals to work with. And we still have room to grow. That's very unique in the Canadian space. But with KCS, I commend Pat, and Dave Starling, and Mike Haverty, and those before him because the land bank of land assets we've purchased. And I did not know this to the level that I know it now going into this. We have 4,000 contiguous acres to our network. We have 500 acres in Wiley, Texas, which is Dallas. And it's on the north side of Dallas where Dallas is growing, too. There's a state-of-the-art intermodal terminal there today with room to build 4 or 5 more if we need to, room to build transloads, room to build automotive compounds, room to create these sticky solutions that, again, will bring and attract revenue and keep it on our railroad as long as we do our job, providing safe and reliable service.

You go to Kendleton, which is south of Houston, 400 acres. You come into Kansas City at IFG, that's on an old military base, south of Kansas City. Kansas City because they've never really had a robust international network or domestic network, they've been kind of an interchange bridge carrier. They've never been able to build that out. There's 200 acres that are leveled, that are literally adjacent to the tracks where we load intermodal cars. Rest assured, and we'll tell you more about this in June, we didn't start these discussions yesterday. We're at the point of signing paper. Those 200 acres is going to be used. We're going to create some solutions that take trucks off the road. It's good for the environment. It's going to drive growth. It's going to be great for the customer, and it's going to create a stickiness. It's going to keep business with CPKC again as long as we do our job and move trains safely and efficiently.

So again, there's a lot more to talk about than we have time to go through today. We're going to go through these very, very exciting opportunities at our Investor Day in June, and we look forward to sharing it all with you in more detail there.

<Q – Brian Ossenbeck>: Certainly sounds like quite a bit to cover and might actually take 2 days. So we will be there. In terms of the operating safely, clearly, that's been in the news and probably will be for some time. And it should be a safe, reliable operation. As you mentioned, 17 years in a row, the best in the business in all of North America. So there's been the AR announcement for the industry to reach to a certain level for the hot box or hot-bearing detectors. Clearly, that's something you've been focused on for a while anyway. But in the light of everything and now that we've seen the initial NTSB report, and there will be more things coming out over time, are there any -- we've seen other rails make a few announcements, some have not. But is there anything from a CP perspective that you're doing any differently based on the facts we know as they stand right now?

<A – Keith Creel>: I would say, to me, safety, it has to start with the right culture. We have what's called a culture of accountability. Some in the past have called it fear and intimidation. It's not fear and intimidation. This is a very unforgiving industry. You make a mistake, if you're out on a lead, switching a car, literally, your life cannot exist in a matter of inches. So to get it right to make sure that people understand that our rules, our safety rules and our operating rules are there to protect them as well as protect the assets and to protect the communities we operate in and through, the right culture matters, the right processes, and the right technology. And again, at CP, and we'll go through -- we'll showcase the -- showcase all these technologies at our Investor Day, we've led the industry.

Some of the things we've done, we have been -- I suggest competitive advantage that perhaps we haven't shared as much as we could have. But I can tell you one thing. When it comes to sharing -- and I've been involved in and been very candid and straightforward as the other CEOs of the railroads have, since the tragic accident of East Palestine -- terrible, terrible sad situation. The willingness for the railroads to openly discuss and share best practices when it comes to safety has never been greater.

And listen, it's not because we didn't want to before or other railroads didn't want to before, it's because you've got railroads that are run individually. They're run by different leadership teams. They have their own teams of experts, safety experts, technology folks. There's a lot of pride of ownership. The things that we've created at CP, we've got a team that's unparalleled in this industry. And I say that not only are they brilliant engineers, they're also railroaders. They're qualified conductors. They're qualified engineers. Our lead scientist can run trains. If we had a strike, he can run trains.

The hydrogen locomotive, he developed it with his team. And I've -- we've done in 2 years in light years what OEMs won't do in 10 or 15. And I challenge them and I'm like Kyle, I'm pretty aggressive and I've got high expectations, how have you done it this fast? And he said, Mr. Creel, we've done it because we're out there every day with it. We can test it. We can operate the locomotive ourselves. We don't have to go through all these different councils and processes. And they said we think it, we believe it, we test it, we tweak it, 18 hours a day, 16 hours a day, whatever it takes. That's the road they've been on because they're so energized by this. But it's not just hydrogen technology, cold wheel technology, we're pioneers in the industry. Everybody talks about hot box. Hot box is measuring the temperature of the journal, the bearing that the wheel turns on. Cold wheel technology is using that same technology but applying algorithms and measuring the heat of the wheel with wheel heat detectors, which all of our hot boxes are equipped also with dragging equipment and wheel heat detectors. So not only do they detect sticking breaks or a hand break that's left on a car, which can cause tread buildup and cause a derailment. It's a safety consideration. That technology at CP, we've applied to testing the functionality of the braking system.

So not just doing an initial terminal 100-year-old process where we make sure that the brake supply and release on every car before it leaves a terminal, but literally in the process of a train moving down the railway, you put the cold wheel detector at a location as it descends a hill, a grade. If the brakes are working effectively, each of those wheels should be a certain temperature. Well, if you have a wheel that's a meaningful variable less, then you know, wait a second. Something is not working properly with that break valve or with that braking system that the visual eye can't see. So the next time it goes by a rep track, let's set the car out and let's get it on the rep track. Let's do an electronic valve brake test, which is the most robust way to test a train brake, and what you have is a more robust train break system. So we took that technology and initially applied it to the cold trains. And we got a waiver from Transport Canada to waive safety inspections to use this technology. We've now since taken that and applied it to our potash fleet and now built the algorithms to apply it to the grain fleet. And as you roll that out, you get a safer outcome because you have a better working brake system on a train, more reliable. You have less breakdowns, you have less bad orders, you have a better product and a safer product. So again, I could talk about this issue, after issue, after issue, but the issue -- and I get back to the Palestine derailment, getting -- and I call this self-regulation, and we've talked about this openly at the AAR meeting. We can do better. The technology is there. Different railroads apply in a different way. There is a best practice to be learned, and that is the approach that we've taken.

We brought our safety teams together, the operating chiefs together with the mandate from the CEOs, share all the technology, share all the knowledge. And let's come up with an industry best practice when it comes to how we deploy hot box detectors, the algorithms that we use, acoustic wheel detectors, which is another technology that we deployed on our railroad. There's some leeway on that to invest in acoustic wheel detection or bearing detection, which tells you if a bearing is going to fail more proactively than waiting until it gets hot when it is failing.

So again, these are all areas of focus on safety that you'll see this industry get aligned on. And at the end of the day, the way you react to a crisis to me defines the true responsibility and what history will show. And I tell you this industry is going to react in a positive way to take an industry that has become safer year-over-year-over-year over the last decades. And to -- Chairman Oberman it yesterday. You're talking about a care and concern for safety, you talk about hazmat shipments. In all the accidents that occur with hazmat shipments, 94% happen on truck, 1% happen on rail. Where would you rather it be? So you've got a rail network in North America that's safe, getting safer every day that's committed to that journey. It's not a destination. It's a journey to continually invest in process, people, technology, to make a safer industry -- a safe industry even safer.

<Q – Brian Ossenbeck>: So probably the time just for one more question, but I think it's a key one. Going back to service and just the PSR has been coming up in all these congressional hearings and how much headcount has been reduced. But you run a PSR railroad, safest one out there. You treat head count differently, like you're adding through COVID. You did some – keeping the people close to when the volume came back. You had the goodwill, and you had the assets, which is the most important one already to go. So I mean it seems like you're already putting those agreements in place with KCS. Maybe you can just talk about how important that is because we've seen more paid sick time being announced after the latest national bargaining round, which you weren't part of because you have a different structure. So is that something that the rest of the industry can replicate? Or is it -- just takes too much time to get there? Because it does seem like the industry is trying different things, but I'm not sure it's really addressing the key challenge that being in this industry and being a T&E employee is essentially what you're facing every day.

<A – Keith Creel>: That's a great point. I can tell you this, there's no harder working group of men and women than railroaders. In any industry that I've ever been exposed to, this is a business that never sleeps. It's 24/7. It's working weekends. It's working holidays. It's when we're all -- some of us are enjoying a normal life, if there's a normal life anymore. These men and women are working their tails off to move our customers' freight safely and efficiently.

The collective agreements themselves have not innovated a lot, decades and decades and decades, over 100 years old. There's the national agreements, which we just went through as an industry. The PEB -- and the PEB awards -- don't offer the best quality of life. You don't have schedules. You don't have set days off. You had to work a set number of miles. You had to work a set number of starts. There's road service, yard service. It's complex. And at the end of the day, it might pay well, but the quality of life is not the best. In today's world, today's generation, they want a better quality of life. And I can tell you at CP -- and this took a while to get there and we started this journey in another railroad I used to work for -- we have a very innovative collective agreement that's not the national agreement. We have an hourly agreement. And in simple terms, it allows an employee scheduled time off because we have a menu of 5 and 2, 4 and 3, 3 and 3. We can apply a menu of different schedules so that the employee knows when they have to work, but we also know when we can plan for them to work so that we can protect our schedules that are part of PSR with asset utilization, running the train on time, the same time every day, et cetera, et cetera.

And we pay a lot of money. The average wage is higher than the national agreement. It was a whole lot higher. It's still a lot higher. So we've had success with it on the CP network and going into the integration of the consolidated properties, which is essentially where the two railroads connect in Kansas City. And it's the crews working into Kansas City off the CP. It's the crews working into Kansas City off of KCS.

A lot of interest in our agreement. So we -- and I'm happy to say, as of last week or maybe 10 days ago, just ratified for the consolidated territories, that hourly agreement for the engineers. We have already ratified the hourly agreement for the conductors, subject to STB approval. We achieved that yesterday, subject to control. We have to issue a 30-day notice, and we integrate into an hourly environment so that our employees will get paid a lot more money. They'll know when they're going to work. We'll know when they're going to work. We can schedule. We don't have the complexity and the additional cost and inefficiencies of two classes of service, yard employees and road employees.

We have operating employees. We have conductors and engineers. So if they have time in their basic day, they get -- they work a scheduled set number of hours and make a set amount every hour. Instead of getting over the road and getting off in 6 hours, if they get over the road and we get to the terminal and they're getting paid for a 10-hour day and getting paid a lot of money for those 10 hours, we get to convert the other 4 doing work that we otherwise would have to have maybe a yard job on duty to do.

So again, there's so many efficiencies we don't have time to go through it, but it's all part of our formula on how we run a safe and efficient railway. And it is a game changer. And I would expect because of the quality of life and the pay -- when you pay people more and they get a better quality of life, I think you can create -- if you treat them well, you can be the employer of choice. And again, part of the vision and part of what I see the opportunity of this network is not only being the most relevant railway in North America but being the railway of choice to work for in North America.

We've got to have the employees to be able to move these trains. You can't move the assets without them. So we're set up well. I think that you'll see us after we integrate in the consolidated territories with the success. Success breeds success. There's already interest across the KCS network to explore this, and we're going to get into those discussions as we integrate over the next year.

And I would suggest Phase 2 is -- when it's fully built out, hopefully, for the employees' sake and for the customers' sake and for the shareholders' sake, we're going to have the entire U.S. network on this hourly innovative deal. And it does set a very positive standard for the other railroads to consider. It's up to them. It's not easily done. It requires change. It requires management. But again, the art of the possibility is pretty powerful if we get it right.

<Q – Brian Ossenbeck>: Okay. Keith. Well, I think we've run out of time, but there's a lot more to look forward to in June. Congrats again to you and the team for the -- for getting this done. I know there's a lot more work ahead. Thank you for being here.

<A – Keith Creel>: Thank our shareholders for their trust and their patience as well. Now the work begins. We're going to make you happy.

<Q – Brian Ossenbeck>: Thanks, Keith.

<A – Keith Creel>: Thank you.