Transcript

2024 UBS Global Industrials and Transportation Conference

December 4, 2024

Webcast

Corporate Participants:
Keith Creel – President & Chief Executive Officer, Canadian Pacific Kansas City
Mark Redd – Executive Vice-President & Chief Operating Officer, Canadian Pacific Kansas City

Other Participants:
Tom Wadewitz – Analyst, UBS

PRESENTATION

Tom Wadewitz
Analyst, UBS

Okay. Great. We're going to go ahead and get started with our next fireside chat. So we're strong with the railroads this morning. And it's a real pleasure to have Keith Creel from CP and also Mark Redd. Mark is the COO. I think a lot of you know him, and I think everybody knows Keith. Thank you so much for joining us. We appreciate it. It's great to see you.

And yes, we're going to run through some fireside chat questions. If anybody has questions, please let me know along the way. We do have a mic in the room and also we can take -- if you scan the QR code, we can take questions on the iPad as well.

So Keith and Mark, thanks so much for joining us. Maybe just to get started, how do you look at the trends in the business and kind of what you're seeing in the markets at the present time?

Keith Creel
President and CEO, Canadian Pacific Kansas City

Well thanks for having us, Tom. Always good to come and talk about our story because I think it is extremely unique. And maybe there's some similarities to trends in the business but because of our merger, obviously we're in a very, I think, unique and exciting position in spite of the macro.

So I think the macro challenges are known by all. We've obviously experienced some of those. And in spite of that, this railroad is a railroad that's growing. It's a railroad – we're 18 months into our forever story. We're still infants as we kind of crawl and start to walk and get ready to run into growth as we go forward. But again, we've got demand driven by our synergies specifically across the board.

Strong demand and a strong growth story in the automotive side for some very unique reasons that I think are helping not only benefit our network, but benefit the industry and the automotive space, specifically finished vehicles which allows the ecosystem also for the finished vehicles -- the parts, which are part of the finished vehicles, ECP growth, merchandise growth with our extended length of hauls and eliminating interchanges and a very fluid border both at Canada and specifically Mexico over Laredo, which is only going to get more fluid with a second bridge that comes online this month.

We've also got intermodal growth, 180/181. That's a very unique product that we put online within a month of taking control of the network back in, I guess, it was May of last year that is, quite frankly, continued to grow in the domestic space. And this is going from Chicago deep into Mexico that, quite frankly, November was a record month for us, which was a record in October, a record in September. So again, the ecosystem for truck-like reliability, fastest transit times. It's not just truck competitive. It beats the truck across the border into Mexico in a market that's primed for conversion as we grow forward is pretty exciting.

And the other piece of our network, we are uniquely positioned in bulk. What has been a headwind is now a tailwind for us in Canada. We don't have a drought anymore. We've got a more normalized crop that we're moving this year. This grain season, we've got a bumper crop in the legacy U.S. network on CP, and we've got a bumper crop in the KCS legacy network in Missouri. So we've got grain moving export. We've got grain moving from Canada to Mexico. We've got grain moving for the Missouri properties into Mexico. So overall, that bulk franchise is in a very good position for us.

And then the last piece I'd say is potash. We've got record demands for potash, again, which are unique to our industry, unique to our network, which only become even greater as we grow forward, and we've got additional investment that comes online. I think it's next year in '26 with BHP which we will serve and benefit from at the Jansen mine that's coming online, the CPKC network. So overall, we're in a very good position, integrating well.

Mark and the team are doing a phenomenal job of keeping the risk it made, the risk of integration that this industry has had to weather the storm over the last several decades of consolidation. It's not present in our network. As part of our thesis, we committed to it. We're doing what we said we would do and I'm extremely pleased with where we are 18 months into our forever opportunity.

QUESTION AND ANSWER SECTION

<Q – Tom Wadewitz>: Great. Excellent. That's a great way to start. I guess if we stick with a little bit on 4Q and then we can quickly move beyond that. How do you think about the way volumes have come in?

I know you have kind of exogenous factors that happen every now and then. And so how should we think about some of those things? And on the intermodal side and kind of maybe we're tracking -- things are tracking versus what you would have expected in the volume and (inaudible)?

<A – Keith Creel>: Yes. So we said going into the fourth quarter, it was going to be our busiest quarter and it started October. I think we were up 6% RTMs, a lot of demand. Railroad was running extremely well, very fluid. And then we get into November, and we get into some of these episodic events, which, quite frankly, happen too often, especially in Canada, with the port strike that lasted for about two weeks which was frustrating and challenging.

That said, we are in the process of clawing a lot of that back, and we're regaining our momentum. It impacted volumes a bit in November. But we actually took our guidance up from low single-digit RTM to mid-single digit, and we're on a path still to achieve that toward the end of this month.

December started off strong. We've got good momentum, weather is on our side. The railroad is running very fluidly. Mark and the team are doing a phenomenal job. We'll have record volumes in the month of December. So we'll close the year on a very good basis.

We're going to meet or exceed our guidance. There's no concern about that as far as we see. And we're going to carry that momentum into 2025 with an ability to continue to grow and outpace the industry. So again, we're in a good place.

<Q – Tom Wadewitz>: Okay. So despite the port strike impact, you're still on track with what you were thinking for RTMs for the quarter, for the year that, that framework is still good?

<A – Keith Creel>: Yes. We're still -- we're north of 3% year-to-date. We're marching toward 4%, and we continue to expect that progress to occur in December.

<Q – Tom Wadewitz>: What about -- I think on the third quarter call you pointed to a significant sequential improvement in OR. Is that the way that you frame that? Is that still a reasonable way to think about it?

<A – Keith Creel>: That's a reasonable way to look at it. So we're going to have margin improvement for the year and significant, material, sequential improvement from Q3 to Q4 based on this volume.

<Q – Tom Wadewitz>: So you get to kind of the, I don't know high 50s OR, whatever that, 58 -- kind of broad… Let's see. How do we think about the -- a lot of different things to talk about on the volume side and the opportunity.

I guess you mentioned the port strike, and I think we've seen in the past, you thought about, well there could be advantage for Canadian ports because U.S. ports can have more labor pushback with -- on the West Coast, right, but it seems like with last year, July and then more recently, and then you had your own like short-lived disruption, I think in August, does that have some lasting effect that the international shipping lines allocate a little different share away from a Vancouver to another -- to a U.S. port, (inaudible), Tacoma, Long Beach, whatever.

I know you have another port in Mexico, so Lazaro. So there -- obviously you have multiple areas, you have a wide reach, maybe the widest reach. But how do you think about the impact on an ongoing basis when you incur kind of multiple labor disruptions?

<A – Keith Creel>: Well listen, I'm a realist. If that were to continue, for a long period of time, I think it does affect your credibility, and I've publicly said that. You probably read the OpEd that was in the Globe and Mail a couple of weeks ago because I was extremely frustrated with what I felt was a slow reaction to a problem in a port that, quite frankly, a country depends upon.

So I understand there's going to be disagreements. I understand collective bargaining, its best handled between the parties. But when you reach impasses, because I think of an environment, not just in Canada but also in the United States, where these agreements have been hard to get to, and expectations are high because some of these outcomes have been well outside of what norms are, even to a point they may not tell you this publicly, but I've had the private discussions. I had a very – a top-to-top meeting with a senior leader at a very large union two weeks ago. And I said, listen, I understand it's hard to get these agreements even ratified once you agree to them, and we're seeing that across the industry. Expectations are high.

I think that people need to understand and people will understand as things adjust and get back to a normal run rate, some of that volatility is going to go away. I see that changing, and I see that happening now.

But I think on the Canadian side, the benefits of the capacity that are there for our network are undeniable. The benefits of the cost savings relative to the port cost and discharge cost on Canadian soil versus U.S. soil are undeniable. The economics are there, but we've got to have the reliability.

So that's why I felt it was important to speak out. And I do think that in my conversations with the government in Canada, they see that, they see the need for that, and they're working towards that.

So I think as long as this doesn't become normalized, I think that any short-term shifts are going to migrate back to the reliable network that's more cost advantageous as long as we can maintain that reliability.

So I don't think we're at a point where we've gone too far, Tom, I think people are standing up and paying attention, our steamship partners and business are saying, listen, this has got to give, and we

hear them and we're advocating for them, and I think it's going to sort itself out, I really do because Canada needs reliability. They need reliable supply chains, they need export markets, their economy is dependent upon export markets, be it stuff going out or coming in. And I think that's going to regain its footing.

<Q – Tom Wadewitz>: So how long does it typically take to normalize? I mean typically, I guess, these things fortunately don't happen that often. But is it like three months later, you kind of get back to steady stage 6 months later, how do you think about that time lag?

<A – Keith Creel>: No. Not for us. It has -- we haven't seen that, at least because we have such a reliable network, we've got partners that trust us, and we bounce back quickly.

<Q – Tom Wadewitz>: So the customers bounce back? I'm not thinking about the railroad per se, but just the inflow and the customer (inaudible).

<A – Keith Creel>: I think they're tied together. If the customer believes that you can reestablish yourself, get your footing back quickly, which we've demonstrated we've had the resiliency and the talent and the team that Mark leads every day to do that. I think that they trust what you say and they act on what you say.

If you don't offer that, then I think it's a challenge. If you've got a congested network and your railroads the likes to make excuses and point fingers, then maybe they don't take that chance as quickly as they would. But with us, we mean what we say and we do what we say.

<A – Mark Redd>: If I can add, it's just the fact of the communication you have with the customers the history you've had with the customer to pre-blocking and things like that to get ready for a startup and once you start up, you execute.

I mean when they see that, we've done it in the past, they see it in the future. So it's just building that trust with the customers.

<A – Keith Creel>: Trust and credibility matters a lot.

<Q – Tom Wadewitz>: How do we think about -- you talked about kind of the synergy run rate number has been a framework that we use to think about how you're tracking, where are you at on kind of the run rate of synergies revenue-wise? And I don't know any kind of update or framework that we should be thinking about?

<A – Keith Creel>: Yes. I would just say we started the year kind of planning at doubling. We saw a path to doubling what we exited 2023 and we've exceeded that. It's not going to be US$700 million, it's going to be closer to US$800 million if that momentum continues. I see that path, another 50% of that probably in '25 based on what we know based on how things are playing out.

So again, we're a little ahead of schedule when it comes to synergies. We took a, what I would call, a reasonable, fair, pragmatic, some could say conservative approach. The enthusiasm for this network has not waned and the value proposition is there for the customer. And as long as we continue to run a fluid network and continue to do what we say we're going to do, I think we're in a good position to meet or exceed our synergy targets.

<Q – Tom Wadewitz>: So you were just to kind of make sure I have the numbers the right way and you run rating into 2024, you were about $350 million or a little north of that. And then your run rating exiting '24 is something that's more like $800 million?

<A – Keith Creel>: That's correct.

<Q – Tom Wadewitz>: And how do you think about that exit rate when you go out of '25?

<A – Keith Creel>: I see another opportunity for US$300 million or US$400 million next year that we'll layer on top of that.

<Q – Tom Wadewitz>: So you could be up towards the US$1.1 billion, US$1.2 billion in synergies run rate going into '26?

<A – Keith Creel>: Yes. We'll nail it down a little closer when we get to our guidance, but that's kind of the art of the possible. That's kind of where we see this trajectory going to.

<Q – Tom Wadewitz>: Great. Where are the -- I think you've seen really nice traction on automotive. I think you've had those two anchor facilities at the Bensenville and then also in the Dallas facility that have been really nice -- you had the landing spots and they're really well placed, and then you put in place the customer agreements and those have gotten utilized pretty quickly, right? So there's a lot of momentum in the auto side.

Is there more to go on auto? Is it more intermodal? What are the buckets that are still to come with the big ramp up?

<A – Keith Creel>: Yes. I think you hit on the automotive piece, the decision to build that automotive facility at Wylie in the Dallas market was key for us. And it's, quite frankly, to your point, it's almost oversubscribed now. There's more demand.

It will be part of the negotiations with other OEMs that aren't committed there now. And the beauty of it is we have land to expand to. So we can build contiguous to it, make it bigger, just need the business case and the team knows that. So those discussions are ongoing. Those will play out over the next 12 to 18 months. So we're in a good place there.

The other place, intermodal, we've got a big alliance that's coming online in February that a lot of people, I think, don't truly understand what that could become and that's the Gemini alliance with Maersk and Hapag Lloyd, not just because they're key strategic partners for us, but because of the bookends that we represent in that partnership. They have aspirations to create a premium service over the water that's going to allow them to run ships some time.

It's going to allow them to provide premium service, attract premium customers and also take operating cost out, which is all kind of our playbook and the way you run a PSR railroad. So it's PSR on water, which matches up well with our network when they're key strategic partners already in Vancouver.

If you go back to 2021, we built, and a lot of people may have forgotten, in partnership with Maersk on our land inside our intermodal terminal in Vancouver, a strategic transload facility, where it's our land, it's our building, it's their capital investment inside all the bells and whistles that allow all the transload to occur. So they have skin in the game.

Now go East Coast, what happened with the CMQ transaction that led us eventually into the bigger transaction, now we have the bookend in St. John. You've got a 300,000 TEU terminal three years ago that's now at the end of this year, first part of next year with two additional cranes DP World are bringing in. That's an 800,000 TEU terminal.

And then you go to Port of Lazaro Cardenas, there's two terminals down there. There's 2 million TEUs of capacity now which is being half subscribed. You've got one of the two terminals owned by

Maersk, and they've committed an additional $100 million of investment in capacity as part of their concession in Mexico just last year that's ongoing today.

So you've got the three bookends to create this ecosystem that's going to uniquely benefit this new alliance that's coming online in February. So I think we've laid the ecosystem for growth in the out years, '25, '26. It's not about winning steamship lines, steamship line contracts. It's about taking the two you partner with in those specific cases, and allow them to win market share on their ships, which ultimately is going to benefit the rail network.

<Q – Tom Wadewitz>: So how do you think about the timing where you might see the impact from that? Is that something that kind of builds as they execute with their version of PSR and they deliver service and they turn the assets. Is that something that like just gives you more optimism kind of '25, '26? Or is it something where there's more of a step change impact?

<A – Keith Creel>: No. I think it ramps, Tom, because they got to prove the product. So the way the sales cycle goes on the steamship side, it's annual, typically. It happens in the spring, the business gets awarded. I don't know, I guess it's probably May, April timeline and then you do it all again. So we're going to have it in place this year. They're going to have a year to benefit from and understand the value of it and then obviously it puts them in a better position for the '26 timeline to do it again and do it in a stepped, incremental, larger scale.

So no big quantum shifts. I think it's monumental shift that changes and grows over the future as you realize the value and the reliability, most importantly of the network.

<Q – Tom Wadewitz>: What are some other markets that we should consider where the synergy opportunity has further run? So we talked about auto, talked about the international intermodal, what are some of the others we should pay attention to?

<A – Keith Creel>: Let's talk a bit about – there's two. One that was envisioned in our merger, one that was not. And we'll start with the one that was, and that's our strategic partnership with Americold.

We have created this truck-like reliable, best-in-class service 180/181 in Midwest Mexico Express train that runs every day from Chicago down to Interpuerto, which is just out of SLP deep in Mexico and vice versa, Interpuerto up to Chicago.

It has created the infrastructure now with Americold's investment, which we announced right when we announced the merger, they broke ground several months ago. The facility is being built in our terminal in Kansas City, the IFG. The concrete is being poured, the superstructure is going up today, it's going to open up next year. Once that happens, you're going to have proteins, pork, beef being consumed in Mexico, that's trucked into our terminal. We put it on rail. We take it into Mexico. The border becomes seamless and fluid.

We have Mexican inspectors that are going to live and be located at the facility in Kansas City. This took two years to negotiate and come to fruition. So it's been a long process that's going to create an ecosystem that is not going to be replicated.

We have one location that's been announced. There are other locations that are in the process of being vetted and worked out where you'll see additional locations in Mexico that's going to drive growth.

And that same ecosystem that sends those refrigerated and frozen containers to Mexico is going to be bringing produce out of Mexico.

We've already started movements today at Laredo, north of the border with one of our largest strategic partners in Loblaws, where we are their flagship service provider in Canada. And for those of you that don't know Loblaws, it's the largest grocery provider in the country of Canada.

We're taking produce that they have trucked historically from Mexico to Canadian markets. Today we're putting it on rail in Laredo. And it's going to Toronto. It's going to the grocery stores that you can see if you live in Toronto.

<Q – Tom Wadewitz>: And that's refrigerated containers?

<A – Keith Creel>: That's -- but once we get this ecosystem set up, you're going to have that originating in the Monterrey areas that's put on rail where they're made empty that will make that border again very invisible to go to Mexican -- or Canadian destinations in this case.

<Q – Tom Wadewitz>: So when is the timing of that ramp? Like you said the facility in Kansas City is important, and that's kind of first half of '25?

<A – Keith Creel>: It'd come online first half of '25, you'll see it start to ramp second half of '25.

<Q – Tom Wadewitz>: And are there facilities required in Mexico, too, or is that, that footprint already in place?

<A – Keith Creel>: There's one that's already been announced. It's in our facility in Monterrey. It's Salinas Victoria. There's two other ones that are being looked at in various stages of the process, but they're well advanced. So there'll be additional locations that are announced in time.

And then the other piece, the second of that question is this MNBR transaction, which the STB finally approved, we took control four days ago. So now we have a new interchange, a new Class I, two-line move that gets you from the southeast to the Dallas markets into Mexico over Meridian as opposed to just one. So now we have the CSX connection.

Today we'll run the fourth train, we've immediately taken traffic that was being run out of route, CSX-CPKC to New Orleans. That's over that gateway, it's a shorter length of haul, get asset turn, service -- and again, it creates the ecosystem for future growth when it comes to automotive facilities that are being built on the CSX with destination markets in Texas, parts and finished vehicles.

So again, that's for the future that's going to allow us to realize growth. Frankly, we never even thought about in our synergy case from when we put it together to buy the railroad.

<Q – Tom Wadewitz>: How do you ballpark that? Is that like a train a day of auto parts and finished vehicles kind of going each way? Is it more than that? How do you -- whatever high-level frame you can -- you want to choose to use.

<A – Keith Creel>: That's the view over the next three years. That's what we'll ramp up to over the future, we'll see. I think it's obviously going to be more than that. But at this point, that's what we have line of sight to.

<Q – Tom Wadewitz>: So kind of one train a day each way is what you ramp to, and that's new business, right?

<A – Keith Creel>: That's correct.

<Q – Tom Wadewitz>: And it's primarily auto and parts?

<A – Keith Creel>: Auto and parts, yes.

<Q – Tom Wadewitz>: If I go back to the important landing spots in Bensenville and Dallas, how many OEMs do you have using those? Because you figure there are a couple of big anchor customers, but there are more than two or three auto OEMs. So in the future, you could add more customers as you have capacity?

<A – Keith Creel>: There's two primaries in each one of those now and there's several ongoing discussions about others that want to participate. And it's all tied to their contracts opening up relative to their service providers today.

<Q – Tom Wadewitz>: Do you have room to accommodate like one more? Or where are you at on?

<A – Keith Creel>: We could add an additional one into Bensenville. Bensenville will obviously landlocked, we don't have unlimited capacity there. So we have to choose our strategic partners wisely. But when it comes to Kendleton and when it comes to the new facility in Dallas, we have an ability to immediately expand. We just need the business case to do it.

<A – Mark Redd>: I would say that even IFG, Kansas City area, we can grow into that facility as well. So there's three locations.

<Q – Tom Wadewitz>: So that's another auto landing point. Great.

If I go back to the 180/181, where are you at in train length and utilization? Because I think of that as something where when you grow volume, if you're running -- you said we're going to run the train 99% on time, assuming you're achieving that and that I knew you were initially achieving that, and we run it every day. And whether it's half of the length that it could be or whatever it is, you're going to run it. But then as you add business, obviously can come on at pretty high incremental margins, right? So where are you at in terms of utilization of that? Is that something where eventually you'll run like two trains in each way? Or how do we think about that?

<A – Keith Creel>: Yes. Long term, we'll get to two. Mark is not quite as grumpy as he used to be because he doesn't have to take my phone calls. The train is actually a good-sized train now.

We're on average, 10,000 foot is kind of the measure, we're about 7,000. But that said, before we add a second train, then I look at what's on the train, and I look at yield management and I look at improving the profitability and perhaps some traffic that makes sense today won't make sense when we get to 10,000 feet.

So again, it's going to be customers that are willing to pay and realize the benefits and the value of the truck-like reliable alternative because that's -- there's some share shift when it comes to rails, but the big opportunity is taking trucks off the road. And when you take trucks off the road, that's material.

It's good for the environment. It's good for the freight -- payer of freight that's paying for the premium on the truck. So again, we're in a good place there.

It's an exciting thing to look at day in and day out, the train runs like clockwork. It has to. The company understands that. The employees that launch the train in Chicago, the employees that launch it in Mexico, there's tremendous energy and pride around what that symbolizes for this company that's unique to the industry, and we'll continue to do exactly that.

And we get to a place, I think once you start to see the MNBR grow out. Now if you think about -- there's one strategic partner that we started this journey with and that's Schneider for our first mile,

last mile. Schneider's words, not mine number one, it's truck-like reliable. They can't compete with it with their own truck. That's how reliable it is. And number two, from a market opportunity standpoint, they've never been in a position of strength to compete for traffic that's moving between the Southeast and the Dallas markets as well as the Mexican markets.

Right now with our network and our partnership, they are, and they see the opportunity in that gateway to be double what it is Chicago to Mexico.

So again, we got to convert it, we got to win it, but we've got the system to be able to do it. So that's pretty exciting from a growth standpoint.

<Q – Tom Wadewitz>: So just to make sure I understand that comment right. So Schneider thinks that the opportunity on the MNBR kind of, connectivity Southeast-Mexico, that market for them could potentially be double what it is in Chicago to Mexico?

<A – Keith Creel>: The truck opportunity, conversion opportunity. Yes.

<Q – Tom Wadewitz>: Conversion opportunity? So not necessarily like you already have something in place, but maybe the growth opportunity is larger.

<A – Keith Creel>: That's correct

<Q – Tom Wadewitz>: Let's see -- if we think about -- so we had the election results, we have a lot of kind of headlines on tariffs. I don't think that's beneficial for your stock. Near term, right, sure you kind of see that and get a lot of questions on I'm sure, Chris gets questions, I'm sure. And how do you think about that, right? I guess you could say, well look, build something in Monterrey, you can't shift a plant readily so if there's a 25% tariff, you kind of take your lumps and deal with it, it doesn't affect your behavior.

Maybe the incremental plant you don't build or you wait or something, so it could have some friction on your investment in the future, but these things are long lead time investments.

So what do you think is the right base case for if there are tariffs put in place that are meaningful, whatever that is, 10, 20, whatever the number is, does that really affect customer behavior, you think? Or is it something it's just, hey, there's friction and there'll be friction for other trading partners too?

<A – Keith Creel>: I've taken a fact matter and a history matter approach, and I did a lot of -- we spend a lot of time thinking about this and the risk that it represented even when we bought the KCS, because obviously we saw what happened in 2016 with the headline risk and what their share price went through. And that said, the only thing I would say is I wish we would have bought them then. It would have been a whole lot less money.

That said, they recovered and they recovered strong and they grew. And at the same time, USMCA was created by President Trump's administration, at his direction, and the growth between Canada and the U.S. increased and I think since then, and I've said this, and this is true, the pandemic occurred and President Trump was the President. And he understood more so than any of us with how at risk our supply chains were with all the offshoring that had occurred, things that we need to live our lives, consume and be healthy, we're at risk, that were exposed.

So since then, because of that, you've had more near-shoring and ally-shoring occur which our network, in spite of tariffs, you don't eliminate those risks.

So there may be tariffs. I think in the end, what matters to this administration is economic growth. I think you might see some shifting of jobs, manufacturing to the United States, perhaps, but I think it's not material to a point that it does anything but drive growth, which puts us in a good position.

I think that in the end, the labor force that's in Mexico is plentiful and it's talented and it's needed. So it's all about balance to me. And I think that's what's going to occur.

I think President Trump is going to negotiate its best position -- the U.S.'s is best position. But in the end, our best position is solid trade relationships with our two most key partners, which are Mexico and Canada. So again, I think it leads to good outcomes, Tom. I really -- I know there's headline risk, and I know -- I'm not going to say there's not some risk in my thesis.

But again, I think facts matter. I think history tells you what has made sense, and I think it makes even more sense today than it did then. So I think it leaves us in a good place. Even if some tariffs get implemented. I still think there's such an advantage, especially in Mexico to the U.S., that leads to a good outcome uniquely for our network as well because we serve all three. We are the infrastructure that not only enables but I think can incent additional growth and economic connectivity between the tri-party agreement.

<A – Mark Redd>: If I can just add one thing is, it's not a sit and wait either. I mean the President, the Prime Minister are both having conversations already today. So they had them last week, the President in Mexico is having those conversations with President Trump already -- or President-elect.

So again, there's conversations even today to work out details of what this looks like, in my mind. So it's beneficial for us as well.

<Q – Tom Wadewitz>: All right. So if you say, hey, look, at the end of the day, the goal is economic growth in the U.S. You kind of -- you end up with a solution that's not harmful to railroad activity, right? And maybe there are puts and takes. But at the end of the day, it's not going to net a bad thing?

<A – Keith Creel>: Absolutely. That's the bottom line.

<Q – Tom Wadewitz>: That makes sense. Mark, are you excited about having a second bridge at Laredo? Is that going to make your life easier in terms of flow of traffic? Are there other parts of the network that you say, hey, if we get a bit more capacity here, this will really be helpful to the flow of the system.

I mean it – the system is running well. But how do you think about some of the bridge in particular and maybe other areas of the network where you can get some capacity that's helpful.

<A – Mark Redd>: Yes. The first thing I'd say is Keith never wants my job easy. So he says, work for it, Mark, before we give you capital. It's a good thing Pat spent the money ahead of time.

<Q – Tom Wadewitz>: There you go.

<A – Mark Redd>: What I would say is, you double -- not just double it. I mean you have two tracks across. You get a lot of capacity in that line at Laredo to build across the bridge. There's conversations about how do you double track down to the bridge or even with the city in the future.

But yes, it helps you with fluidity. You don't have work blocks anymore or train blocks to go back and forth, right about a 4-hour delay going to and from certainly helps. The US$275 million that we're

spending from Chicago all the way down to Shreveport or beyond down to Laredo that will help with the capacity across the network, it will help the speed of the network increase, not decrease.

I would also say that the money that we're going to spend or have spent in and around the Kansas City area. We're probably just days away of creating a 5.5-mile double track just south of Kansas City in and around the gateway, the intermodal ramp. That will help tremendously in that area.

Not only there, but we're also looking at opportunities in and around the Kansas City proper right around where our yard is at. We've done some blocking around that yard as well to do more in Shreveport. So there's things that internally we can do that helps capacity. And as you know best, you were there a few months ago at Bensenville, what we've been able to enable the intermodal growth at Bensenville itself. We've increased that terminal by 30% with the puts and takes we've done with the lead alignment with the build-out of that facility.

And also, we had investors down a few months ago in Wylie as well to see that investment and the potential investment that it can be.

So certainly from the US$275 million that we spent, the dollars that KCS spent prior to CPKC for the international bridge. The dollars that we're spending down, $75 million in Mexico itself, to create work leads besides working on the main track of separating those locals from through freight trains is something we're focused on as well to keep trains moving.

So those are probably the areas of capacity we're looking at to get in play quickly.

<A – Keith Creel>: There's one other thing I want to add to Mark's comments. About that Laredo Bridge, it's one thing that the benefits are undeniable to eliminate the staging of trains.

We're going to be able to run trains, that's presented, make meets, keep trains moving. That's going to turn assets faster. That's going to improve the fluidity of the border. It's going to reduce cost, improve service, increase capacity.

The other next tranche that I'm super excited about with President Trump's administration coming along is his approach about nonsensical, unnecessary regulatory intervention. There are changes through technology and changes through process that, quite frankly, I've been disappointed we have not been able to benefit from as an industry, that increases border security and train fluidity and trade with this current administration.

I think with the change with an FRA that has a mandate to review unnecessary regulation that's impeding a better outcome from a safety standpoint and an efficiency standpoint and a trade standpoint. I think once that changes, we get a chance to implement technologies and processes that will allow us to move trains through that border faster.

There's no need to stop a train to do inspections in -- 10 miles away or 11 miles away in one yard just because of a border to stop it again as soon as it goes across the border in Laredo. That happens for every train. So I'm getting them across the bridges faster.

But today, they still will have to stop in Laredo. Tomorrow with that approach once we prove with facts that there's a safer outcome, both on border security as well as car reliability, train reliability and fluidity to be able to implement that and benefit from that.

That's another tranche of opportunity that, quite frankly, the industry will benefit from and uniquely are in -- our border crossing and our railroad benefit from that this administration change will make possible.

<Q – Tom Wadewitz>: So that -- what you're describing as an FRA issue, I guess, with the inspection?

<A – Keith Creel>: Yes. There's been a reluctance for any kind of waivers to exist effectively. Waivers that preexisted had been not renewed for a multitude of reasons, which to me, and I'm a pragmatic, I call it the way I see it. The data doesn't say do it. The politics may say do it, but the data doesn't say do it and to me to impede progress when it comes to safety and fluidity and commerce, in spite of politics that does not make a whole lot of sense to me.

I think when a government governs for the good of the people if it makes good sense for the people, then you should do it.

<Q – Tom Wadewitz>: We had Patrick Fuchs and Ian Jefferies yesterday and got two different perspectives. And I think there's good optimism on what can be done at FRA from Ian in terms of making some progress and achieving some of the things that I think you're talking about.

So I got two more questions. We've only got about two minutes left, we can run a touch over.

But on passenger rail in Mexico, how should we understand this, right? Like are you going to be kind of obligated to spend money to build infrastructure for that? Are you obligated to operate? How do we think about the kind of -- because you're very collaborative, you're very, very good at working with governments and relationships, all those things. I think it's admirable what your ability and your skill set to do that. That said, you don't have control, so -- or complete control.

So how do we think about what's the Mexico passenger rail framework and how you're -- I guess, commitment needs to be?

<A – Keith Creel>: Yes. So the concession requires that we accommodate, that we allow the access for, it doesn't require us to pay for it.

So that's number one as an investor, the place to start from that clear understanding. That said, from a control standpoint, Mexico is a sovereign country, and I realized in the very beginning, especially with some of the positions that President AMLO took that when he said something, he'll do it.

So I decided in the very beginning, when he said, "I want to create a passenger train again and it needs to be in your corridor," then I'm going to be involved in it.

So we had -- I had a series of very progressive and I think very good, fruitful meetings with the President directly. Where I listened to what he wanted to do and what his need was and they have a social need to create more capacity to move people between Mexico City and Queretaro, it's much like an American going to L.A. - Long Beach, go the L.A. interstates, there's not enough capacity. They've got the same problem.

There's an interstate between those two population centers that's oversubscribed. He saw the railroad as an opportunity to get people off the highway onto the railway. And I said listen, I agree, we have to coexist though because we have a lot of those people that are on that highway work at those businesses that are on that railway. So if you impede their ability to produce, you're kind of cutting your nose off to spite your face.

So we need to have the infrastructure to do both. We have the right of way to do both. Let us commission an independent study and we'll tell you what it's going to take. So that has been going

on for the last year and a half. And before the transition change, I went down and met with him and he said, "Listen, the President elect has the same concerns I have. It's not going to change."

And I said that's wonderful because we understand, we'll meet with President Sheinbaum. We'll meet with the Secretary of infrastructure, and we've done that. So now we're in a cadence of, and since the last meeting, where she's came out and publicly announced, we're going to build this railway. But we're not going to build it on top of the freight railway. We're going to build it parallel to on the right of way. So we're going to have two separate entities.

We're going to be able to run freight trains. They're going to be able to run passenger trains should they move forward with the investment. I think that's a great place to be. The thing we've added to that and I said this to President AMLO your opportunity is not just taking people off that highway and putting them on the railway.

Those trucks take a whole lot more space than those cars do. Those trucks, given the right incentives, we have an ability to take trucks off the highway, create even more space for the people that need to drive their cars that can't use the faster trains. We have the ecosystem to do that.

President Sheinbaum is an environmental -- committed person to the environmental world. She understands the benefits, not just for people, but also for the environment. That narrative has taken root and she sees the same benefit. So again, I think we have a place and an opportunity to come out in a much better place, both for Mexico and our network.

We're going to continue to stay close to the dialogue. I'll be down there, I hope, over the next two weeks meeting with the President. She's committed to meet with me. We're trying to work out the dates, and that's going to be one of the main topics that we talk about. So again, I think it's -- could have been a risk. I think it becomes a benefit. I think it becomes a strength of our network.

And where we're positioned, given the right of way, given the concession, we have an opportunity now if we want to participate in the concession operating the passenger train once it gets created, we're kind of in the right place to be. And President AMLO told me, we want you to operate the concession.

It will be a separate concession. And from a control standpoint, not from having control, telling people to do what we want to do, from dispatching the railroad and managing the crews and managing the service, it's our best place to be is at the table.

So my ideal world when it all comes out, I think this has a possibility to be reached is we obviously have our concession running the freight railroad, we'll create a new concession running the passenger, and we'll make sure they both do well coexisting.

<A – Mark Redd>: In the past 24 hours, 48 hours or so, there's been some news clippings out where there's going to be allocation of funds towards that passenger rail of $7.8 billion or so that the Mexican government is looking for -- I assume it's next year that they're looking at doing it. So there's dollars that they're allocating to that.

<Q – Tom Wadewitz>: So they are going to spend to do that. Okay.

We're beyond time, but real quick, pricing view and kind of RTMs versus carloads '25, you still pretty bullish on price and kind of RTMs grow above carloads?

<A – Keith Creel>: Yes. So bottom line, we're pricing to the value of what this new single-line extended length network.

Our customers are getting synergies and savings from car cycle turns, from competitive options compared to where they have been shipping before. That's not going to change. We're going to price above inflation. We're going to be -- we said 3% to 4%. We're actually seeing that this year. We see strength in that. We see maintaining that position going next year.

When it comes to RTMs, again, RTMs are what you should pay attention to, not carloads. We're hauling cars further. So RTMs should -- you won't see it on the carload side because that same carload is going further, but it's creating more RTMs.

And then the other piece that's been a headwind, which is about to lap is we had a 4% carload headwind with shift of intermodal business, short-haul intermodal business that we're lapping this month.

So again, you're still going to see a gap, but it's not going to be as large as it was.

<Q – Tom Wadewitz>: As big a gap and you won't have the intermodal headwind, like, going into January?

<A – Keith Creel>: It eliminates itself. January it's gone, end of this month, it's gone. So again, not the same disparity, but if we're doing our job, you should always see a little bit more RTM growth than carload growth, which is good for the bottom line because it means we're getting paid more per car to haul it a further distance.

<Q – Tom Wadewitz>: Excellent. Okay. Keith and Mark, thank you so much for your time. Thanks for all the great insights. Appreciate it.

<A – Keith Creel>: Thank you.