



Transcript

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Webcast

Corporate Participants:

Keith Creel – President & Chief Executive Officer, Canadian Pacific Kansas City

Other Participants:

Chris Wetherbee – Analyst, Citi

PRESENTATION

Chris Wetherbee

Analyst, Citi

We started this afternoon here with more on the transportation side. We're really excited to be joined by Canadian Pacific. And from CP, we have Keith Creel, who's the President and CEO. So Keith, thanks so much for joining us in Miami again.

Keith Creel

President and CEO, Canadian Pacific Kansas City

My pleasure Chris, always. Not a hard place to get me to come to.

QUESTION AND ANSWER SECTION

<Q – Chris Wetherbee>: Yes. It's not lost on me. That's why we do it here. So I guess maybe the best way to start, we'd love to just get your perspective on what you're seeing in the markets. Obviously you guys reported not that long ago, and we can see the carloads. January was a little bit, I think rocky for everybody, weather got a little bit in the way of operations to some degree, but things have bounced back here a little bit more in February. So maybe you could just speak to sort of what you're seeing in the overall market, then we could dig in a little bit deeper.

<A – Keith Creel>: I think, lot of similarities, perhaps at a macro level, but some very unique micro differences between our railroad and the industry. And it's driven by, obviously our combination. We took over April of last year, we're about 10 months into this. We had some challenging times in the second and third quarter. Macro turned against us more so than we thought, but we started to start especially seeing kind of the fruition of our efforts when it came to synergies and self-help initiatives through the fourth quarter.

Operationally, we performed extremely well. We came out being the only railroad in the industry with growth last year, although it was tepid or marginal, it was still positive, which I think is a huge positive compared to the alternative. And that momentum that we created is carried over into this year.

So from a demand standpoint, in spite of the macro driven in large part by our synergy wins by these new markets that we created and the momentum operationally up until -- we had a very hard, I'd say a 10-day 8-, 10-day period in Canada with weather. I saw the industry experiences as well. I know the northern tier railroads in the U.S. as well. But we've recovered quite well. Demand-wise, combination of the weather as well as the macro, I think end of January, we were down 7% year-over-year.

I sit here today we've clawed a lot of that back, the railroad is running extremely well overall. I think we're around 2% negative now, and I see a path to get back to flat, if not positive for the quarter, barring some unforeseeable weather event or occurrence that I can't predict.

So overall, the network is doing extremely well. I'm extremely proud of our employees. The complexity of what we're doing while we're doing all this, trying to bring this new business on is not to be underestimated. Putting two railroads together, three cultures together, three nations. It's an

enormous amount of work, but I'd tell you across all three nations, all 20,000 of our employees, they're energized with the opportunity.

They're inspired by the success we're creating and they're very proud of what we put together and being able to go to our customers in a unique, new way like we've never before been able to, to sell this extended interline -- single-line service as opposed to the interline alternative and starting to see wins as a result of that, that not only we get to be proud of, but you see financially, you get to see in job growth, you get to see in shareholder return, many of which our employees are in an ever-increasing amount.

So over the board, I'm extremely pleased. I look forward to the balance of the year. And again, the macro itself is going to remain challenged from what we see. Maybe the second half, it gets better. But in spite of that, we still see growth.

And again, it's driven by the unique opportunity set with those synergies of 2% to 3% that quite frankly, no other rail story has.

<Q – Chris Wetherbee>: Yes. So let's start there. So doesn't sound like anything so far, and I know it's super early, has influenced, sort of, changed your view, I think low single digit is your RTM target. You said you get a couple of points, a couple, few points from synergies. Let's talk a little bit about the synergy contribution. What are the specific areas that you're looking at in '24 that add to that RTM growth?

<A – Keith Creel>: Yes. Let me -- I'll hit the wave tops. So the big buckets, the ones we're most excited about that drove some of what I was talking about in the fourth quarter, which we're carrying into this year. ECP obviously is one, which is playing to the value of this new extended network and contract wins.

Automotive, that's something that has exceeded my expectations. In fact, I was just sharing this with some of our shareholders earlier, we expected that to be a more tail-end story. It's kind of moved to front of the line. The crisis in all large part created it last year with the shortage of railcars. It's created an opportunity to sell this virtual loop in a way that I thought would take a bit more time to sell.

Some of those contract wins, and we've had negotiations with -- I'm not going to say names, but I'll say all three large OEMs that produce in Mexico and produce in Canada to be able to start to see share shift, to see extended length of hauls, to see a repriced book of business because we're going out buying railcars to support this virtual closed loop system. It's unique. It's extremely unique. You'll see it play out the balance of the year.

You'll see -- and we talked about this at Investor Day we made a decision to build a new compound in Dallas at our Wylie terminal. That's going to be open at the end of second quarter. It's already sold out. We got to get it open to be able to fill it up to realize the full synergies of some of these contract negotiations.

Then there's another tranche that while part of it has been repriced, we get the benefit on price this year of existing business, it's not extended length of haul until 2025 when it becomes open in the new kind of pre-negotiated contract to put more additional cars on us. So the automotive piece is something that continues to excite us.

Again ECP, the value proposition is compelling. The other piece that's starting to play out that's really getting interesting is intermodal -- international intermodal. There's two stories here, and they're kind of related, but not at the same time. So we've created a three-nation network.

We've created ports -- in Mexico, Tidewater, connected ports in Canada on the West Coast, ports in Canada on the East Coast, you go to the steamship lines that serve all those coasts and create a value proposition that has never been needed more again because of what's happened with the Panama Canal, what's going on with the Red Sea, what's happening, soon to happen likely, on the East Coast ports, which benefited from the labor disruption on the West Coast ports, and you're going to see share shift kind of shake its way out of that.

And you've got a network now that offers a very reliable new gateway not only in the domestic Mexico, which has grown leaps and bounds because of all these macro issues. But now it can become the most reliable gateway into the Texas markets and still be benefiting by the Panama Canal Railway which just came into play because of the Panama Canal challenges.

So again, there are so many things, dots that are being connected that when we started this journey, I couldn't have guessed that it would have played out the way it played out. But that's kind of the beauty of this. As you grow this network, you've got an ability to create unique solutions that the network uniquely provides because you're touching points that have never been touched before. You have an ability to go sell a concept that's never been possible to sell. And much like the border that's happening, the border issues and security.

Competition is being created. We've got both Western railroads that have created a counter to our 180/181. Well imitation is the greatest form of flattery. On its best day it's not going to be as good as us, but it's still a better alternative than the truck, and it's an improved product. So you can see growth in both lanes.

Now let's layer on some border dysfunctionality, some challenges that aren't going away when it comes to the experience that customers have had at Eagle Pass versus the experience that customers have had and continue to have it at our Laredo border. Which, side note, we're building another bridge and creating even more capacity.

So again there's a value proposition when it comes to reliability of service, security of service, fluidity of service. If you're a customer and the product is being produced, for instance, in Mexico, and it's got to get to a shelf in Canada for the retailer to buy. If it's not there, you're going to buy somebody else's product, that matters.

So that reliability, that security, that transit time getting to the market, getting on the shelf in time to be purchased matters, and it's worth a different price than perhaps the alternative. So again, those narratives across the board are really creating a lot of energy around this transaction that six months ago, eight months ago, a year ago, I couldn't have written this out. I just couldn't.

<Q – Chris Wetherbee>: So as you see that playing out, I guess how much ultimately gets realized in '24? Some of the things that you're talking about just now and the conversations you're having that are kind of cropping up, how much gets realized in 2024? And maybe the bigger part of that question is: if they are starting to show some benefit here, what does it take to sort of exceed the low single digit? Do you need some macro? Or is it -- you just maybe get more of these wins kind of coming in and actually dropping into '24 as opposed to maybe hitting in '25, '26?

<A – Keith Creel>: Let me say this, probably the best way to answer that is I don't have a crystal ball, but what I do have line of sight to gives me great confidence. We exited, from a synergy standpoint,

in spite of the macro, we exited last year \$350 million run rate. In spite of the macro, unless the macro just becomes recessionary based on a flat macro and no change, if we don't double that by the end of this year, we're not doing our jobs.

Now if you get some macro on top of that, then it becomes a tailwind. So, you know, how much macro. Let me know and I can model it all out for you, but I definitely see more upside opportunity than downside risk, again unless there's a recession.

<Q – Chris Wetherbee>: So how much of this business that's coming on is going to meaningfully change in terms of length of haul. I think that's an interesting dynamic that you talked about. Then you think about Mexico auto, KCS did a decent amount of Mexico auto, but I think a decent amount of that was also handed off at the border, whereas it seems like the value proposition is take it significantly farther than the border.

<A – Keith Creel>: Yes. So I kind of look at it this way. The lion's share of the business, these are public numbers, Pat used to tell me this, 75% of what they originated was being handed off the border to one of the other railroads. I look at that opportunity, I look at the 75% and say how much of that could we better serve with a single line network with a closed loop, not all of it, only a portion of it, but a material amount of it.

So then the next equation is, well, how much of that's locked up in contract. Some of it isn't now, which we're converting. Some of it when you get to '25, '26 depends on the OEM comes into play. So my best answer to that is I'm going to make sure we're in a position with the capacity, with the railcars, with the surface experience, so that when we go in and negotiate for what makes sense for us, the value proposition is there. The OEMs say you know what, I've never had an opportunity to do this before. I've never been able to create my own car supply. I've never been able to drive noise and complexity and unnecessary cost out of my network because I've never had a railroad that could do this for us before. I do today.

So for some of that, and I think it's a material amount, that's when you get to kind of the euphoria of, is it 10% more, 20% more, depends on where the business levels are, but it's a material amount of business that will allow us to, I think for the next several years, if we do our job and do it right, you'll continue to see us set records amount of automotive business that's hauled on this railroad.

Now the other piece -- the other foundational piece to this is the auto parts -- because they kind of correlate and complement each other. So that's why the importance of that 180/181 train comes into play. Truly, the competitor for that, yes, it's some railroad but it's more of truck. Because right now, those highly served sensitive parts that are keeping factories moving.

Yes, some moves on the Western alternatives. But the stuff that will shut the single line down, it's not moving on the rail. It's moving on the truck. So if you can create an ecosystem where you, through service experience, you can tell one of these OEMs that are enjoying this new service experience with finished automobiles. Okay you're paying X plus 20% to get those parts to the factory in Mexico or to get the parts to the factory in Canada or the factory in the Midwest, you can trust this railroad.

That border is seamless. We can give you a trial experience that is just as reliable and just as fast, you could say the 20%. That's when you get to a place where you start to move the needle with the intermodal product that complements the finished vehicle product.

And again this network is the only one that can do that. Nobody else can replicate that. So it opens up a whole another area of growth for us as well as opportunity to take trucks off the highway.

<Q – Chris Wetherbee>: And how has been the uptake on 180/181 so far?

<A – Keith Creel>: It's extremely encouraging. It's not full -- we're running it every day. We run it with precision execution that's running 90-plus percent on time. I'll say this. We had a customer that spoke with us that rides that train, spoke to our commercial team.

We bring them all together once a year to get aligned on marketing strategies, disciplines, network. So we had that annual meeting -- two weeks ago, 160 of our marketing and sales folks, and we have a particular customer come in and they were asked the question, which you just asked me what does that train do for you?" – and the answer from the customer is, I'm a trucking company and I can't beat it. If I can tell my customer that, and I can tell you that as the railroader, that's a pretty compelling value proposition.

So as the market comes back and we layer these solutions. I'll give you a case in point. This one is about to be very public. We've talked about it, but very concrete with shovels in the ground is this ecosystem we're creating for proteins from the Midwest in refrigerator to frozen containers going into Mexico. All that's truck now, 100%. Then you create an ecosystem to take fruits and vegetables that are frozen, are grown in Mexico that are coming back to the same markets, you get load-load economics.

That hasn't really come to fruition yet. Once those facilities are built to take the truck off the road, transload it to the rail, which is going to be done in our terminal in Kansas City, that ecosystem comes online 1 year, 1.5 years from now.

Again another tranche of that train gets filled up, and you start to create -- you've got some wholesale, you've got some retail, you've got some premium food security, real security, you start to create a train that, again because of the single-line service and a fluid border, in a seamless border, a truck can't compete with it and your rail competitor can't replicate. So it's compelling.

<Q – Chris Wetherbee>: So let's talk a little bit about the pricing opportunity. So certainly, it seems like there's a decent amount for you guys, and that is differentiated on the volume side. It seems the message on pricing at least for this year is also a little bit differentiated than we're hearing from peers.

And I think -- on the last call, you mentioned that there's some opportunity for a little bit of inflation catch-up on some contracts that were maybe under multi-year agreements as you go through this year. That kind of coincides with a period of time where maybe your cost inflation is a little less intense than what we've seen over the last couple of years. So speak a little bit to what you're seeing on the price side?

<A – Keith Creel>: Yes. So we've always said 2% to 3% in a down market. This is more of my Canadian mode., 3% to 4% in that market. We see line-of-sight north of that, obviously and it's because of what you said. You've got a mix of 30% of the book is going to get repriced.

You've got contracts that are coming open that quite frankly, the discipline and the approach and the value proposition without this extended network because a lot of that traffic was subject to interchange, and you couldn't provide the same value proposition. You just didn't have a narrative to go in and tell a customer that, hey, it's not going to be the 3% to 4%.

There's value in this. Number one, we got inflation, we got to catch up on. Number two, if you want me to buy equipment for this growth opportunity you have, I can't even earn cost of capital on that

rate. There's a different rate structure for me to commit my capital to. Those discussions are going on, not one or two, but multiple.

So that allows us a very clear look at kind of value repricing our book, creating new opportunities that allow customers through their car cycles to save money that again, uniquely, we can go in and say listen, it's not the same. It's new. You've never been able to do this. You're saving money on the truck bill, you can pay a little bit more for the freight bill, you're turning your assets. If you're an ECP customer, you don't need to own 100 tank cars, you can own 80 tank cars.

That sell is unique to this network. So that's what's allowing us to go in and say listen, it's not just the 3% to 4%, we're pricing for value. You're going to make money or save money, you're going to win market share. We're going to make money together. We're going to succeed together.

So those discussions have occurred and are occurring -- not one, but a few, several. It will continue as these contracts open up to allow us that same opportunity to have that discussion.

<Q – Chris Wetherbee>: And just to be clear, this is -- these are contracts that are not just KCS contracts that are coming up, this would be CP – legacy-CP contracts as well. Your point about the network, I mean your legacy-CP customers benefit as well from the combined business -- the combined network?

<A – Keith Creel>: Yes. So it's both, Chris. So I could give you two ECP customers case in point. One, we had a bigger footprint on the legacy-CP network, the other at the KCS had a bigger footprint on the legacy-KCS network. When you put the networks together, they're not exclusive. They're complementary.

So when you can go to one of those key players in the ECP market and say listen, you've got this facility down here in Baton Rouge, you got this facility up here in Edmonton. There's an ecosystem we can create to turn assets faster to get products to market. There's a way we can partner -- discussions I've had strategically since we've put the two railroads together. I'm not going to say which one it was, but one of those big chemical players downstream came to me from London and said, listen -- we are now their largest -- single largest North American rail supplier.

With our combination of the network, with the contract win, with the conversion of existing business. That's important. We're a strategic partner. But what more can we do in other lanes. We're doing things in hydrogen. They're doing things in hydrogen. We're doing things that are good for the environment. They're doing things that are good for the environment.

So how can we think beyond just this transportation opportunity? Think more strategically, put our best minds together and create new markets that only uniquely together, we can create a value proposition for our customers. We never could have had those discussions. KCS couldn't have them and CP couldn't have them before. Today we can.

<Q – Chris Wetherbee>: How long do you think that process plays out for? I mean there's a sense that it could be something that has the opportunity to go through over maybe multiple contract repricing cycles. But as you think about working through the collective book of business, is that a two, or a three, or maybe a four-year timeframe?

<A – Keith Creel>: No. Way beyond that. This is a story that it plays out over time. It plays out to the markets you created, it plays out through the investments. It plays out as we've seen through all the macro and micro challenges the world are going through, the geopolitical challenges the world is going through. I think about, Meridian Speedway is a great example.

When we bought the railroad, I never would have thought that I'd be able to stand there at our Investor Day and say we just literally this weekend, inked a deal to repatriate a short-line railroad to partner with the CSX, create a super highway that parallels I-20. The threat is not NS's traffic. The threat is that highway. To create an ecosystem, pending the STB's approval, which I'm optimistic based on facts, it supports a pro-competitive approval, we start to invest money in that lane.

Stepping on that stage, I didn't know what that opportunity was. I knew conceptually what it is. I know what we believe the immediate opportunity is, which is a train a day each way. But five years from now, six years from now, what happens from those automotive plants, CSX's story alone, there's six automotive plants being built. What happens when you create those supply chains and you've got this rail network to sell to then instead of it going to the truck, it comes to the rail.

What happens when these contracts get reopened up and you look at with existing customers, okay how many of your cars are you routing out-of-route over New Orleans, that it's a shorter route to go with Meridian. Well that never existed before. It does today. We invest in it. We make it reliable, truck-like reliable -- you can turn assets faster.

You can help them create car supply, and that sells to an automotive customer, that sells to a chemical customer, sells to a boxcar customer. Because the Southeast continues to develop and as Mexico continues to grow from nearshoring, those supply chains are being established. They're not all already baked in. Like if you think about the industry, this industry has gotten complacent because there hasn't been a tremendous a lot of change. The change in the growth became -- came from entrepreneurial trucks and interstate systems historically.

We've created an ecosystem now that we've got something to sell to and to build to. So as these manufacturing facilities built in Mexico that used to be producing in China, used to be producing in Vietnam, they set up their supply chains. 1.5 years ago, it would have been the truck. Tomorrow, it can be CPKC, because we've got the network, and the border and the connectivity to literally connect to the Atlanta markets with either of the two of the Eastern railroads in a very competitive way, or the whole Southeast.

We've got an ecosystem to connect the Western U.S. with either BNSF or UP. We uniquely serve Canada -- and we also could -- I'm going to hold my nose when I say this, just kidding aside, we can partner with CN too when it comes to interline moves that serve parts of their network that we don't serve. There's a win in this for everybody.

<Q – Chris Wetherbee>: Yes. Yes. I mean it certainly is a unique opportunity. I think we're now sitting here in February, a couple of months away from the 1-year anniversary of putting the networks officially together, I guess. So -- maybe you could talk a little bit about what you've seen, the progress you've made in terms of getting parts of the KCS network kind of moving maybe in a better way than they were when you took over and kind of where service and the network stands today.

I don't know if it's sort of a done deal just yet? Is it exactly where you want it? I mean let's talk about that.

<A – Keith Creel>: No. No. It's a journey. We didn't create the operational efficiencies and synergies at CP in a year. It took us multi-years to kind of tool out the network and implement the culture and optimize the system, build the sidings, do all the things you have to do as part of applying, and I'm not going to apologize for saying it, a true, defined PSR operating model. Because it's all about asset turns and capacity, and you got to manage both. It's not just about saying you are.

You've got to have the network built to be able to actually execute it. So you got to build it out.

So we made a commitment to the STB. The first three years is – and we're going to keep it. It was based on our initial application, which was \$1 billion of synergies, it wasn't our multi-year plan, it was a 3-year plan, and it's \$275 million, it's 30 sidings. It's some CTC. It's very little investment in yards. It's all about optimizing the mainline, so you can efficiently and safely run long trains, run fewer of them, but not all the headaches that some of those that haven't built their network out have created. So we're going to do that.

But in the meantime, the Mexico piece outside of that, this bridge is going to be done at the end of this year. So we're going to have two bridges going to and out of Mexico, the busiest border point in North America -- and only growing busier. So that's an opportunity for us.

Part of the crisis, I say crisis, I use that term loosely. We talked about this back on our -- I think it was our third quarter. We started to see the metrics deteriorate in Mexico, we created a task force. We parachuted in. We had all disciplines in the business.

John Orr led the team. They went down there, I don't know, two months, three months, working seven days, working through processes, identifying gaps, the place is running better than it ever has. But that's through process and culture. That's not through capital investment. There's still pinch points.

And out of that crisis, we've identified that's in our capital plan that we originally -- not in the scope of the STB. We just made space for it in our flex capital this year. There's USD 75 million being spent on six projects that are between the border at Laredo, in and around Monterrey, down to San Luis Potosi, which is where the majority of the growth is coming on the network to create additional capacity and fluidity.

So as you inject that over the next -- it's a two- to three-year plan that's kind of marching in lockstep to what we're doing on the U.S. side. That wasn't the original plan. Then you start to get to an infrastructure that allows you to create more synergies and better service and asset turns that if you do your job, you convert it -- on the revenue side and given that narrative about taking more than the 2% to 3% because the value proposition is there and then also you turn the assets and the costs go down.

So again not that you're enamored with it, but the natural outcome, what happens -- you get margin improvement. That's what -- that's the whole formula of what PSR really is. You got to run the railway efficiently. You got to invest heavily, so you can maintain the safety aspect of it and turn the assets.

At CP, we've never invested more money. We never invested more money in the history of the company. That same mantra, that same discipline is what will apply to this larger network. It's going to be intentional. It's going to be disciplined. It's going to be functional.

We're going to size the business to the capacity of the network, and you don't destroy your ability to turn assets and you don't destroy your social license because we're the safest railroad in the network. It's never perfect. It's a journey. You continue to invest in infrastructure -- safety infrastructure, rail, ties and ballast, you spend more and not less. That's the formula for success. It works.

<Q – Chris Wetherbee>: We certainly saw it working in the fourth quarter, I think it was a 58 and change operating ratio for 4Q, good step forward. I guess as you think about '24 or '25, I know you

like to talk about OR as an output, not necessarily something you solve for, but how do you think about it as you're sort of thinking about the low single-digit RTMs? What type of OR improvement do you think you can get, whether it be this year or over the next couple of years?

<A – Keith Creel>: I would just say this, if you put top line on this network and you run it better, it's a bigger network, do the math and you see margin improvement. How good it gets, depends on how well we execute. The operating team is doing a phenomenal job. Mark is leading the U.S. and Canadian operation. John has got the Mexico.

They're working extremely well together. As we continue to invest, and not just invest in infrastructure, invest in culture, invest in coaching, training, leadership development, improving the strength of the bench, the skill sets, giving them more tools. I can tell you, Mexico is -- and I'm not being critical to KCS, KCSM and KCS were run as two separate networks.

Some similar systems, a similar CEO, but as far as resources, basic things that we take for granted from a system standpoint on the Canadian and U.S. side, eye-popping, shocking that they didn't have the same tools in Mexico. I'm like, you've been doing this with spreadsheets and stub pencils. I mean Hunter was good at it, but we're not all Hunter. We need systems to help us make better decisions. They haven't had those systems.

So again it's just -- it's going to take time, but if we get really good at that -- we keep trains on the rail and we continue to improve on safety, which we have in a material way. We got the right form. We've got the right culture -- it could be a pretty impressive margin improvement. But again it all depends on the level of execution.

<Q – Chris Wetherbee>: I want to make sure folks have any questions in the audience, just raise your hand, we'll get you a mic. I'm certainly happy to take them. While you guys are thinking, I want to talk a little bit about Mexico. You and I have talked about this in the past, and you've been pretty clear about this, I think following the closure of the deal. I think you spent some time in Mexico with leadership down there.

There has been some -- there have been some headlines about passenger rail, other factors going on there. What's the landscape in terms of the regulatory environment, the government relations side of the house in Mexico?

<A – Keith Creel>: I think someone asked what's the worst-case scenario? Well I think the reality is Mexico is Mexico, it's -- they're going to run Mexico to serve Mexico's best interest as a nation, just like we will in the U.S., and just like the governments will in Canada.

I think the best outcome comes from respecting that and doing your best to understand it and your best to work with them with the rules are, which is exactly why we've been boots on the ground, and we've been investing in understanding what the Mexican leadership aspirations are. This is a political year, it's an election year, but I just said this in the last meeting.

Some of the things that President AMLO has talked about, some would suggest that it's political aspirations. I understand it probably better than most. The passenger train piece. Some of it is a real social need. There is a real social need for passenger service between Mexico City and Queretaro.

We happen to be the rail line that has a double track between both. We happen to have a concession that requires that they want you to run passenger trains, you must. So to fight that, it's not very wise. To go and say okay what do we need to do to be able to do both successfully has been our strategy, our approach, and I'm happy to say that the President understands the logic in that.

I had a very good meeting with him a couple of weeks ago, we laid out our plan after we had to make our submission from his November decree. This is the third week of January when I was down there. It wasn't just a ceremonial meeting. It was a working session. We sat there and talked railroading for an hour and a half.

And I explained to the President, we know how to do both well. We've got some great success in the U.S. with running Amtrak and running a very good freight railroad, but it takes the right infrastructure and the right plan and the right investment.

Fortunately, and that particular lane dating back to the first meeting. On behalf of the company, I made a commitment that we would go out and hire experts to study that rail line so that the government would know what it would take to be able to do both successfully. I had a chance in that last meeting to reiterate that to the President and his answer to me is we're waiting for the results. We trust you, we want you to have the concession, not anybody else. So come back.

The results will be done in May as far as what the infrastructure is and tell us what it looks like and what we need to do. That's exactly what we're going to do.

Now the administration will change. That's going to happen later in the year. The election is this summer. Right now, the leading candidate happens to be aligned with the same party. Is that insurmountable? Does that change? I'm not sure.

But I can tell you this, proactively. We've had that leading candidate spend a day with us in our Monterrey operations center, the first week of January before I met with the President. So when he told me, what he signaled to me, essentially said his words, if she is elected, she believes the same way I believe in the need for trains.

And I said Mr. President, we understand that because we met with the two weeks ago, and we shared the same fact set with her. She gets it too. We can do this together. It's a real need.

We'll solve it together, working together. It's going to require the right infrastructure investments. We know how to do it. If you do it, you can not only create -- and this is the point that resonated with them that I truly think it grabbed, I could see it in his eyes when I said it.

The true opportunity is not just getting a passenger service and getting some of those cars onto the railroad and getting them decongesting highways. It's not the cars that are congesting your highway. How many trucks are on that highway. How many trucks are polluting the air? How many trucks are consuming the highway; the truck is -- it's five or six cars in one truck.

I said, so if we can protect the rail infrastructure that allows you to do both, we will make the right strategic surgical investments, you won't only get your passenger service, you get trucks off the road onto an intermodal train. It's a win for us. It's a win for Mexico. It's a win for the environment.

Again that's a compelling fact set that if you put this all together, you tie it all together, connect all the dots, it's value-creating for everyone. It's a stakeholder benefit that is unique that solves a social problem as well as a political reality, as well as a true challenge that we have. We don't own the railroad. It's a concessioned railroad. But again I truly believe we can do both and do well at it.

And I believe this administration understands that.

<Q – Chris Wetherbee>: Is there any way to think about the timeline of something like that playing out? I mean I know this stuff takes time to go through. Like you said, May is when the study comes back, beyond that, anything to think about?

<A – Keith Creel>: It's a multiyear, multiyear. I said that to the President. I mean you could say tomorrow, you guys go home, and I'm going to bring my own team out here and run the railroad. Well you got to have the equipment. You got to have the locomotives, you got to have the contract with the employees that operate the trains.

None of that exists. To buy it, to say go today, it's a 2- to 3-year lead time to get it all to come to fruition. So it won't happen tomorrow, it just won't happen.

<Q – Chris Wetherbee>: Do you worry at all, we obviously have a U.S. election here and there's one candidate that has had various opinions about Mexico and the relationship that the U.S. has had with Mexico. Is that something that you think about at all, something that we should be thinking about at all? Concerning?

<A – Keith Creel>: I think you can expect volatility. I think it comes to the reasonable place that it came to the last time. I don't know, I'm kind of reading between the lines, but if there's a certain administration change, I remember in 2016, when KCS because of the uncertainty was really put in a bad place. But the reality is USMCA got negotiated and it got settled. What was a place of weakness became a place of strength.

And I paid a heck of a premium for that place of strength at a multiple that we bought the railroad. So USMCA is going to be renegotiated in '26. I'm a realist. I'm not going to sit here and suggest that we don't need to be at the table. We don't need to be advocating.

We do and we will. But in the end, if you understand the facts, these three nations have never needed each other more. I don't -- maybe you're trying to leverage a trade agreement to get a better position. But in the end, if you're positioned to serve either as a rail network, that's a pretty good spot to be in. It's a really good spot to be in.

And we're the only rail network that connects all three nations, forever. The only one. So whatever it is, we'll navigate it, and I think we'll come to -- we'll get through the noise and we'll be in a place of value creation regardless of what the outcome is.

<Q – Chris Wetherbee>: I want to wrap up just with a couple of questions on sort of cash flow, balance sheet, those kinds of things. Obviously you took up the leverage for the KCS deal, you're in the process of paying that down. Can you just give us an update in terms of the -- your progress along that path?

<A – Keith Creel>: I think we're making steady progress. We're being rewarded by the rating agencies as a result, they're very comfortable with what we're doing. I see a path where -- by the end of this year, I should be able to go to my Board of Directors and say listen, we're investing a lot. We're growing. We paid down our debt. We're creating a whole lot of free cash flow here. It's time to start getting some back to the shareholders. So I think we'll be in a position in 2025 to likely reintroduce a share buyback.

<Q – Chris Wetherbee>: And what would be sort of the target leverage -- are we going back to something like 2.5 range. Is that the right way to think about the long run?

<A – Keith Creel>: More 3.5%. No, 2.5%, you're right. We're at 3.5% now, going to 2.5%.

<Q – Chris Wetherbee>: Okay. That makes sense. Any questions from the audience? I guess maybe one last one on kind of the cultural piece of this. You noted CP.

And that process took some time. Maybe a little bit slightly different circumstances when you went there versus when you've connected these two railroads now. How has that process sort of been playing out? And anything from a milestone standpoint? Or how do you think about sort of how long that takes, it's probably an evolving thing that never really ends.

<A – Keith Creel>: Yes. I would say this. I'm pleasantly surprised. But at the same time, if I think about history, what's happened, and it's kind of replicating itself with a multiplier. So if I go back to driving change in my, that other railroad, that Montreal railroad, days.

It was a government-owned railroad, really hard to drive change, going into a new culture, a new country, it was a battle for 10 years. Went to CP, CP was kind of the, treated like the red-headed step child, a proud company, help create the country, but quite frankly, the culture and the competition beat them down.

And the same people that got beat down, once they were shown the right way and given a chance to change and create value, it inspired them and they're wonderful, wonderful railroaders. If you get pride and you tap into people's emotional commitment, we've taken that success and parlayed it -- and now we're not the smallest Canadian railroad.

We're the most relevant railroad in the network is in the industry because we've created the only network that connects all countries. That resonates with people.

Now step into the KCS and the KCSM. Well they were smaller than us. They were beholden to never wanting to upset their interchanging carrier because 80% of their business got interchanged to one of the railroads. So quite frankly, they got knocked around and bruised up, and I think, in all honesty, I'm not going to say which one did it most or least, but they got taken advantage of, sometimes by the customer and oftentimes by the other railroad. Now we've got a level playing field.

So to have an employee that's worked all their lives for a railroad that's always been treated like they were irrelevant and treated like they were less than, to now say "You're not less than you're equal to. You're not better than. We've got to earn our seat every day. We've got to remain humble. We're not going to get arrogant, but you don't have to be kicked around anymore.

And we can create something that they can't create. The energy, when I -- I have an opportunity, John gives this to me every year. I go to the sales and marketing meeting. Number one, I want to know what they're talking about selling because I'm not going to let my network get over-sold and number two, I get energized by this. I want them to understand from me, how and why we do things and why it matters.

To be able to sit there and I spoke for about an hour closing that conference out. We had it last year. We had the KCS team, but they were in trust. We had lawyers and you can and can't say this. We had to go through all kinds of necessary hoops, but you couldn't really speak freely.

To be able to sit there like I did two weeks ago and to say listen, this is what we're doing. This isn't about just -- no offense to the shareholders, this isn't about making Wall Street happy. Yes. That matters. This is about changing people's lives, not just in our company, but in those companies. This is about creating solutions that allow products to get to marketplaces that creates value that's generational value for people that come to work for this company that never would have had an opportunity, if not for the growth, if not for the change, if not for the progressive collective agreement that we have and that we're expanding in the U.S. that allows employees to get scheduled days off and, by the way make more money because they're exchanging old complex

work rules that drive cost up and drive service reliability down that this network can create that no other network can create.

People that have been in that grind, they get it. They understand it. So again, from a culture standpoint, when you represent something that's real, not just a bunch of spin and they start to see, wait a second. That OEM's business that we always short haul to the border, guess what, we're switching all the cars, but now we're getting part of that long haul. We get to take it to Minneapolis. We get to take it in Chicago. We get to control our own destiny. We're not getting yelled at as much because we're creating more railcar supply.

If you're the man or woman on the ground doing that, and you're seeing the world around you change and get better, and you're seeing investment and you're seeing culture change for the better, that's inspiring. That story replicates across the entire company.

And you think about talent. We have built -- there's no doubt, this isn't about me, the team we built at this company, and I'm talking about the switchmen, I'm talking about the officers that I get to serve with. They are bar-none the best in the industry. Some people would say well, Keith, aren't you worried about losing them. Number one, if you treat them right, and you pay them right and you motivate them, that's pretty compelling because that's hard to find a lot of places.

But if you couple that with an opportunity set to create value, not just money value, but human -- do you feel like you're serving something bigger than yourself in a way that can't be replicated in any other the rail network, they don't have the same story opportunity. So the grass isn't going to be greener.

There's no more fertile ground to grow grass than this network that we've created together, that we get to build out not just, to your point, for the next 36 months, this is forever. This is generational. This is decade after decade after decade. This is why I say we are becoming the most relevant rail network in North America, in this continent, because we're the only one that connects all three nations.

<Q – Chris Wetherbee>: It's a compelling story. Keith, thanks so much for the time. Appreciate it.

<A – Keith Creel>: My pleasure. Thank you.