Transcript

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Webcast

Corporate Participants:
Keith Creel – President & Chief Executive Officer, Canadian Pacific Kansas City
Chris de Bruyn – Vice-President Capital Markets & Treasurer, Canadian Pacific Kansas City

Other Participants:
Ravi Shanker – Analyst, Morgan Stanley

PRESENTATION

Ravi Shanker
Analyst, Morgan Stanley

Very happy to kick off today with CPKC. I have CEO, Keith Creel, and Chris de Bruyn from IR with us today.

CP is arguably the best idiosyncratic story in our coverage, and I think I've been saying that for the last three Lagunas in a row, which kind of tells you how enduring and structural the transaction was and the thesis is.

(Technical difficulty) disclosures. Please read the disclosures.

And again, I'll turn it over to you guys for Q&A towards the end of the session. So with that Keith, thanks so much for joining us.

QUESTION AND ANSWER SECTION

<Q – Ravi Shanker>: Maybe we can start with the topic du jour, which is the labor situation kind of in Canada. Obviously a lot of headlines back and forth, fast-moving developments in the month of August. So for those who may not have been keeping track or were on vacation last month, can you just kind of bring us up to speed on where we are, what are the next steps and where we go from here?

Keith Creel
President and CEO, Canadian Pacific Kansas City

Thanks for the opportunity to be here today. (Technical difficulty) the next three years. Let me say this, the labor situation in Canada has stabilized. This was an unfortunate work stoppage, the kind of pressure had been building up for quite some time, we've been negotiating with TCRC as had Canadian National, what was unique this time is it was both railroads that were aligned at the same time, the first time in three decades (inaudible) ever occurred.

So essentially with the strike, the country was shut down, all rail transit for four days. The Minister of Labour got involved, initiated a directive to the Canadian Industrial Relations Board to mandate the parties back to binding arbitration and we all got back to work. That said, at this time, we're in the process of working with the federal mediation office.

They have to appoint an arbitrator. Once an arbitrator is assigned, binding arbitration, which is what we had voluntarily agreed to prior to the work stoppage, will occur, as it has in the last several work stoppages or work differences over the last rounds of negotiations with this one specific union.

So we think that leads us to a place towards the end of this year, first part of next year, we'll get a binding contract. We're advocating for a term of three years. That's up to the arbitrator.

Obviously it could be shorter, it could be longer, but that's certainly kind of the ZIP code that we're aiming for. And I think that gives the country and gives the party's time to create some labor stability, which our customers need, the country needs, and get beyond maybe some of our differences and hopefully get to a better place so we can actually negotiate an agreement.

<Q – Ravi Shanker>: Got it. I think you had said that your guidance includes about two weeks of a potential labor disruption. Maybe there is going to be some impact on the third quarter kind of from the stoppage itself and how do we think about dimensioning that?

<A – Keith Creel>: Obviously we said we were prepared to take about a 2-week strike in the absence of something being longer, it was not going to affect our guidance.

I would say, given it was four days, I feel even more strongly about it. Not the same impact that we had anticipated, certainly still an impact. Quarter-to-date, we're up about 6%. If it were not for the strike, I would say, add one or two points to that. So it shaved a little bit on the revenue side. On the cost side, though, there's some wind-down costs, start-up costs, that kind of net-neutral, I don't think it's material.

So at the end of the day, our guidance is not in jeopardy. In fact, I think probably feel a lot more strongly than I did before, very convicted about the opportunity. We're going to have a strong quarter. We're going to close with a strong year and sets us up well for a strong 2025 as well.

<Q – Ravi Shanker>: That's great. And maybe last question on this topic. Any way to dimension the potential outcomes of the arbitration kind of in terms of an inflation number or something?

<A – Keith Creel>: Typically, the way the arbitrations work in Canada, you're going to be bound by other awards and other trends and patterns that have been set, because effectively, you've got to be fair to the other employees and the other unions when the arbitrator weighs all these things into account.

So we've accrued and expected something around a 4% number. That's what we've accrued for. It could be a little less, it could be a little more, but I think probably in that ZIP code is likely where it's going to be. So again, that's what we plan for. That's what we anticipate, and I don't think it's going to change much from that.

<Q – Ravi Shanker>: Understood. So obviously given the disruption itself, there has been some impact on volumes. How do we think about the catch-up of the diverted volumes kind of when do we see that kind of has some of it move to the U.S.? Is there pent-up demand there?

<A – Keith Creel>: Yes, I would say we were very methodical and intentional. To kind of back up, we expected the strike to occur in May. It got delayed a bit. Our network, we prepared for that. We're in very good shape, we went into the strike in very good shape, and we bounced back very quickly. The operating team has done a phenomenal job, bouncing back with our customers. So our car miles per car day, all of our metrics, they're normalizing now.

So we're two weeks out of the strike and the network essentially has caught up. There's some revenue we won't get back, some went on the highway, some was trucked obviously, and some when it comes to some of our commodities, be it coal, be it potash, the cycle times has not normalized yet. They're in the process of doing that. So some of that will be pushed forward.

But as far as pent-up demand, we've got strong demand. Our customers are happy, we bounced back very quickly, and we're getting back into a very good rhythm running a very fluid network.

<Q – Ravi Shanker>: Got it. So a great segue to the next topic, which is just the underlying level of demand. Obviously kind of as Mark van der Pluym put in his opening remarks, it's been, kind of two years of just kind of steady feels like nothing has been happening, but -- it's not terrible, but it's not great either. Are you seeing any signs of life out there in terms of kind of either intermodal volumes or any end markets?

<A – Keith Creel>: Well I guess ours is a unique story, Ravi.

So as you've said, at a macro level, we're experiencing some of the same things everyone else is. There's uncertainty at a macro level, but at a micro level, because of what we're doing, putting these two railroads together, creating these unique revenue streams, winning market share, creating new products; we're just in a different place.

So we've got -- if I look at the demand standpoint now and I look forward, and this is true for 2025 in spite of what the macro might do, we've got strong demand and leading the industry in automotive. We had a record year in '23 in automotive. We're going to have a record year in '24 and with contracts that we've already got locked in, wins that we've already made that come online in '25, we can't talk about yet. We're going to bring the high water mark up again.

So this network from a modeling standpoint is truly, truly becoming -- it offers a premium service, a premium product, and we're being rewarded for it in the marketplace.

If you get to intermodal, specifically domestic intermodal, we talked a lot about 180 and 181. And just for those of you that don't know it's an industry-leading, truck competitive -- it actually is faster than the truck and more reliable than the truck -- service that we put into play, originating a train out of Chicago every day going to Central Mexico, going to the Monterrey markets going down to the Mexico City markets, and it's four days transit time. So a truck can't beat it.

That particular service just since the end of the year has grown 60%. August was a record month. And this is in spite of a challenging macro and an oversupply of truck capacity. And the issue is speed of service, reliability and creating an environment where from a safety perspective and from a transit perspective that Mexican border, the U.S.-Mexican border, is transparent. It can't be replicated.

We're the only network that can do it. It’s best-in-class and it's being rewarded, and it's continuing to grow. So it's automotive parts. We've got automotive parts for Honda. We've got automotive parts for Ford that are riding that train today. Those are plant shutdowns, stuff that typically rides trucks, hasn't ridden rail because of the reliability and the risk of the railroad is not getting the product to the market to shut the lines down. It's riding that train.

So it's -- it's creating an ecosystem of reliability that you’re stacking auto parts, you're stacking refrigerated goods. Next year, that specific train, you've got Americold. We've talked about Americold. It's a very strategic contract we signed with one of the world's leading cold storage providers. They're physically building their plant, their location, their warehouse, their cold storage warehouse, in our facility in Kansas City. That started a couple of months ago, I was at the groundbreaking ceremony, still is being erected, concretes being poured, that's coming online next year.

Once that comes online, that's another tranche of business. And then the other very exciting opportunity, which we did not even envision when we started this is now connecting the Southeast U.S. as we get to, and I hope, soon, get a decision from the STB relative to our MNBR transaction to create that gateway with CSX and CPKC to Mexico and the Dallas markets. That's a whole another

opportunity that equals and parallels a lot of the moves that are being made out of Chicago going into the Dallas markets or the Texas markets to ride that train.

So that train continues to grow and it will because it's a premium product and it's needed. It's necessary.

The other place that we're doing extremely well in is ECP and merchandise. So again, thinking about eliminating interchanges, three to two moves, two to one moves, extended length of haul, taking products out of Alberta, energies, chemicals, plastics, take them into Mexico, taking renewable diesel, fuels in the Gulf back into Canada. There are so many moves that are based on the value of the transit time, car cycle times and service reliability that we're converting.

I think I looked at it yesterday from a synergy standpoint, just in ECP alone, we're going to finish this year, and this is with contract wins, singles and doubles, five car shipments, bigger shipments, you're talking about $200 million of synergy revenue just in that space alone. And that's going to continue to grow. There's line of sight to probably another $50 million, $75 million just in that group for 2025.

So again, these are early stages, early innings, we're 18, 17 months old, and we're building a forever network, and we're creating an ecosystem that's never been possible before in this industry.

So we're becoming the most relevant rail network that enables growth. And that's the reason you see us at 6% RTM growth. It's all about extended length of hauls.

Let's not get seized with our units because own units were down, but we're down because of short-haul intermodal business there we're not hauling anymore. That's a 175,000 unit headwind. We lap that in Q4.

So there's a lot of demand for our product. We're going to continue to be entrepreneurial. We're going to continue to grow the network. We're not going to allow our appetite for growth to exceed our capacity to handle it because that's the recipe of running the railway we do in a very profitable and reliable way, and we're going to carry that momentum into 2025.

<Q – Ravi Shanker>: Got it. Great color there. Lots to unpack. But before we go into the micro opportunities, just on the macro side itself, obviously kind of given that uncertainty that's out there. Do you feel like it's continued kind of uncertainty? Or do you see any signs of green shoots going into '25?

<A – Keith Creel>: I guess it depends on the line of sight. I think in all honesty, this election, as a lot of people see, what's the Fed going to do? So I don't see a lot of clarity on the macro until probably we get beyond the election.

But I do still see stability. Again, I look at our products, I'm a bit biased. We've got a lot of demand out there. So again, I'm focused on our story, our opportunities. I think we're in a very unique place. I think macro is going to be stable. I don't know if we're going to have a runaway with GDP.

But in spite of that, we're still going to produce industry-leading results based on the growth opportunity that nobody else has.

<Q – Ravi Shanker>: Right. And just kind of going into some of those micro opportunities. Obviously on the intermodal side, 60% growth in this macro is really impressive. How much runway do you have there? And how much capacity is there? Kind of how much capital do you need to put in that network kind of as the volumes do come back and you do continue to take share?

<A – Keith Creel>: I think about capacity, I think of that one particular train, the train -- I think about a 10,000-foot train pair, and that train is running on average 6,700 feet. So there's quite a bit of room still left to grow on the train. So we're in a good place there from a capacity standpoint. The money that we've committed to invest as part of our transaction. We're well ahead on track of that. And in fact, from a capacity standpoint, the Laredo bridge is coming online fourth quarter, it soon will be there.

There's an additional $75 million of investments that we targeted in Mexico that was not part of our submission, which came as a result of some of the service challenges we had last year with the response team we sent down. We identified six, seven different, what I call bottlenecks that we've poured capital into to eliminate.

It's all essentially driven by the need for speed. To turn assets faster, more locomotive productivity, places that have forever in Mexico been capacity constrained because perhaps, like Salinas Victoria is a great place, very busy intermodal terminal, a lot of growth coming, trains literally stopped while trains worked ahead and sat there and watched, switch in, switch out, it's painful when you got an asset sitting there and you've got two or three trains waiting on a train to work ahead.

Well, spend some money, buy some land, build some investment capital, build bypass tracks, faster leads, faster turnouts and it's all about speed. And you start turning those assets, you don't need as many locomotives. When you do, you've got them in your back pocket for additional growth, you've got more track capacity, crew capacity.

So again, we're in early stages of optimizing the Mexican network. But again, those six or seven projects will come online by the end of this year, and we'll start to reap the benefits from the next year.

<Q – Ravi Shanker>: Got it. And just kind of on new customer openings, the Americold facility, kind of automotive plants; is this something where you have like a clear line of sight over the next 18 months, you're like, hey, January, you're going to get this, February going to get this and kind of -- and you get a regular updates or just -- trying to get a sense of how much visibility you have kind of as your customers kind of put those projects (inaudible)?

<A – Keith Creel>: So any -- Ravi, the way we do this, any major needle-moving project that requires capital, we're very methodical, because it has to fit the network, again, don't oversubscribe. So that automotive piece, kind of the linchpin that has accelerated the integration of the automotive closed-loop system is building that compound in Wylie.

We finished it, turned it over in less than a year, it opened in June. We're actually going to host investors, I think, there, next Monday night, is that correct? Showcase it. It's a beautiful facility, 30 acres.

But the beauty of it is there's it's literally almost sold out. We have additional OEMs that are interested in the concept as those contracts that they're locked up in come open in '25 and '26. There's another tranche of opportunities to feed into that Dallas market. And we've got 500 acres adjacent to it to expand into.

So it's -- it truly is an opportunity that's unique in my career where you literally can sit there and say, these are the pieces of the puzzle. You start putting it all together, you methodically map it out, you don't get ahead of yourself. You make sure you match it up with your capital investments, your ability to deploy that money, your ability to execute the projects and you start connecting the dots.

Again, automotive, there's one of the particular automotive contracts we've already negotiated for next year with an OEM. The rates change for this year but the market share wins come on next year. We already have that planned in the model.

So again, that kind of methodical approach is truly what PSR is all about. It's about building a model, it's about being able to turn assets. It's a very methodical, disciplined approach, but it allows you to provide a great service. You don't oversubscribe your network, you control your cost. And in the end, you're able to drive significant operating income, low-margin business, and you plow the money back into creating capacity and rewarding the shareholders, and it's all -- that's how we create value.

That's kind of the method to the madness and the secret sauce of the discipline and it works extremely well.

<Q – Ravi Shanker>: Understood. I mean yes, obviously you guys have a machine that works. And so once it's working, it looks great. Kind of just on that machine, kind of the $5 billion USD pipeline of business that you gave us kind of at the Investor Day, I know I'm just being a greedy sell-side analyst here. But kind of just given your wins and the way you rattled off kind of all the new volumes coming on, is there an opportunity to kind of revisit that and potentially upsize it, kind of in the out years or kind of drive the conversion higher? Or kind of how are you looking at how that number is evolving?

<A – Keith Creel>: I think we've got a pretty compelling plan we put out there through '28.

It's going to essentially, if you look at a revenue basis, we said that time period, it's about $1.5 billion USD of synergies. $200 million USD, $300 million USD of that is operating synergies that naturally fall out, the balance is driven by revenue growth. Do we have a chance to overachieve? The answer is yes, we do.

I think we have a responsibility to be conservative and be realistic, which we've done. But quite frankly, automotive is a great example. We thought that was coming in '26 and '27 based on our ability to compete for contracts that we know are coming up in '26 and '27. I think we pegged that at $250 million USD of revenue synergies. We're going to hit that number this year. And those contracts haven't came in open yet.

So I'm not going to tell you we can't. I'm going to tell you that we're going to be disciplined about it, and we got to make sure the network will handle it.

But we certainly are building something that has, balance of probability, more likely to overachieve than just meet expectations. We certainly intend to overachieve.

But as far as moving the pen, we'll stick to what we've committed to for now and maybe a year from now, a year and a half, I'll give you a different answer when I got a little bit more clarity and I know what the macro is doing. But we feel very confident about that guidance. And I do feel confident that we're in a position to overachieve.

<Q – Ravi Shanker>: Understood. Maybe last question on volumes. Obviously the labor disruption in Canada has been a bit of a setback in the short term. But there's a potential for East Coast U.S. port labor disruption later this year as well. Is that potentially an opportunity? Are you maybe seeing some benefits on the East Coast of your network and with some share gains as a result?

<A – Keith Creel>: Yes. I think the opportunity from that for us is more about customers' willingness to consider diversification of their supply chain. So historically, customers were burned on the West

Coast. They shifted some to the East Coast. Now they might get burned on the East Coast, we shift some back to the West Coast. Well there's a value play.

And since all this shifting has occurred, we've talked about Lazaro Cardenas. We talked about -- it's a port that – it's one of the most advanced ports in Mexico. It's got 2 million of TEU capacity now. It's running at 50% capacity. It has sustained and enjoyed the greatest growth in Mexican ports, primarily domestic, but that's where we introduced this international project.

So what's happened is we've had much more interest from the Cosco's of the world, the Home Depot's of the world, Toyota's of the world, big players that move products that had to get to shelves or to automotive facilities that have test moves on the water now to Lazaro to feed Texas markets, which may have been fed East Coast or may have been fed West Coast, so that whole concept is starting to get legs and starting to gain traction.

So I think in all honesty, the East Coast has made those customers more willing to say, "You know what, let's try it out." And once they try out, it works extremely well. It's extremely reliable. The reliability of the transit times, the distance from the port, the transit time of the port from ship to railcar to our terminal in Kendleton, Texas or our terminal in Wylie, it's unparalleled.

It shaves time off ships and it gives the customer a reliable transit. So once they experience it, it's going to be hard. When you know it works, you eliminate the risk from the trial moves, it's going to grow. It's going to be much like what happened in -- I said this a long time ago, like Prince Rupert.

Prince Rupert, you had to had to crawl before you walk, you had to walk before you ran, but I would say it's compelling. Back then, I was involved in all that. There were a lot of naysayers and people that didn't believe. There's space for both ports to do well. L.A. Long Beach is going to do well. East Coast is going to do well. This is going to serve the market, that need the premium products, that need to get to shelves that they need to get to market, and we're going to be able to carve out our little niche that's going to be extremely valuable for the shipper and valuable for the railroad.

<Q – Ravi Shanker>: Understood. Maybe switching gears and talking about pricing. I think you said that pricing has been catching up as some previous, some broader cost inflation. Obviously it's a very inflationary market kind of for everybody out there, but you also have the best product, right? So to what extent are you able to, A) monetize that product that you have to cover inflation, but also the rest of the market is not standing still, right?

I mean obviously other rails are going to be more competitive on price because the product is not as good. Trucking is very competitive out there. So what's the net of all this?

<A – Keith Creel>: I think it's -- the thesis is that's why we're leading the industry in price because there is -- it's not just raising price.

It's the value of the service, it's repricing the book of business that, quite frankly, before with KCS, because they are a railroad that went to interchanges, with the extended length of haul, there's value in that. So that's allowing us, again, to lead the industry in the pricing story.

I think quarter-to-date, same-store book, we're over 5%. If you back out multiyear contracts, that's closer to 6%. So again, that's pretty compelling. It certainly beating cost of inflation. And the reality is it's a value-sell.

I can think about one particular opportunity I've talked about. Repricing the book of business for the value of the product, carloads are up 6%, 7%. Revenue in that particular space is up double digits and it's all because of repricing for the value of the product.

We're going to earn cost of capital. We're going to allow you to save money. When we do that, we give you guaranteed car supply, you win, we win, we share in the winnings. That's the value proposition.

And if you've got a product to sell -- that's what's unique about this network, we have something new to sell. Something that because of our track record of reliability, our customers trust us.

Our new customers are learning to trust us and quite frankly, supply chain reliability more than ever, there's value in that. There's value in being able to know when you lay your head at night if you're responsible to run an assembly line that your supply chain partner is going to get the product there that's required to run the assembly line. You don't have to pay 20% more to a truck. You have a railroad that's truck-like reliable, you're willing to pay a premium for that, more so than what just standard inflation adjustments every year, that 2% or 3% that -- it matters, it covers your cost inflation, but it doesn't get you really excited relative to this opportunity. This opportunity gets you excited.

<Q – Ravi Shanker>: Got it. Just kind of to wrap all that up in a bow, right? I think you clearly have a lot of opportunity for volume growth out there. You've also spoken a lot about balancing that with what the network can handle and making sure that there are no disruptions there. How do we think about -- and this is an issue where kind of it's a challenging problem to face, right? If you have too much growth kind of how do you handle it.

What's your philosophy to that? And kind of as investors, how do we think about your approach to growth versus profitability versus OR versus an ROIC, kind of what's the north star here?

<A – Keith Creel>: To me, there's a principle: low-cost sustainable growth. That is something that's been drilled in my head for 25 years. You can't let your appetite for growth oversubscribe your capacity.

So again, it's in that recipe of knowing what capacity your network has, you sell to that capacity. You have to have a very disciplined measured approach to understanding how many cars, locomotives, people, what you need to be able to turn and provide that service.

And if you do that, there's value in that, and you're able to grow your customer, because your customer trusts you. Then you're able to do strategic things with your customers, like what we're talking about in automotive. To have a customer backstop the investment to move as quickly as we moved building that facility in Wylie.

We did the same thing in Vancouver. When we started monetizing our land assets to create stickiness for the customer, creates a unique supply chain solution. There's reliability and value in it for the customer, there's value in it for us. It's a strategic partnership.

So again, we're very well positioned, and that's been the playbook. That's been the strategy at CP. It's going to be the strategy of this network. Quite frankly, it is the right way to run any business. We have a responsibility to grow. We have to make money to invest back in these hardened assets to be able to continue to create capacity to grow.

But when you pick your partners wisely, you have strategic partners and they win, we win. That's kind of the way it works, it's not any more complicated than that, but at the same time, it requires discipline.

<Q – Ravi Shanker>: Yes. Absolutely. Maybe one more for me before I open up to the audience.

Obviously nearshoring is a very big part of your pipeline and probably one of the kind of hottest secular trends in industrials and cyclicals over the next decade. How would you characterize and how that's shaping up?

Obviously we had an election in Mexico a few months ago with quite a meaningful victory for one party that has a broad control there. What have your conversations been like kind of on nearshoring with their customers? Has anything changed in other direction?

<A – Keith Creel>: You know what there's still -- we're in such a unique position in Mexico. Mexico has grown. And listen, they've had an election and there's all kinds of headline discussions about what may or may not happen in their reform. Listen, they're a sovereign country. They're going to do what's best for Mexico.

I think that KCS did a phenomenal job of recognizing that and working with the government. And we've kind of personally picked up the same approach. To me, I understand what the government needs, I understand what's important to the government. And what this government needs, and I think even more so with the election change, with President-elect Sheinbaum, she is focused on continued growth. She's focused on manufacturing jobs, improving middle income, bringing people out of poverty.

She's also focused on the environment. She understands, she's an environmental scientist.

The discussions we've had with her, we met with her as the President-elect before she won the election, we spent a day with her in our operations center in Monterrey back in January. And one of the compelling messages and she said it publicly and she said it privately, we need to take trucks off the road. We need to create capacity. We need to do what's right for the environment. We're kind of landlocked. President AMLO's told me the same thing.

That's the reason this whole passenger initiative came up. They're out of space on their highways for people to move between city to city, much like some of our interstate systems itself times 10, because there's a lot of people in Mexico and a lot of trucks in Mexico.

So when she's speaking and thinking about truck regulation, she's thinking about the policy changes that have to be made that incent and organize an industry to ship.

So she knows in the conversations I've had with her team and with the existing people that are leading the agencies now is, listen, we can be part of the solution. We protect freight capacity. We can do faster trains. We have experience doing both.

We built the right infrastructure. Not only do you create a faster train to get cars off the road, you create a railway with the capacity to take trucks off the road. That's a win-win. And that resonates. So those kind of initiatives when you hear her speak, she's speaking to those things.

So again, I'm not going to comment on the politics. I'm just going to say that I think working with her and her administration, if they recognize those key facts of the social needs they have in Mexico, which align with our rail capacity, I think that's a great place to be in.

And especially, when we connect those key markets, Mexico City, all the way up to Monterrey and everything in between. I think we're in a great place to partner with the government and lead to a good outcome for Mexico and a great outcome for our rail network.

<Q – Ravi Shanker>: Where are we on the passenger service? I think the last comments you put out, you almost had us excited about it. So --

<A – Keith Creel>: I went back to Mexico and met with the Secretary of Interior, probably six weeks ago, we presented the study. There's some additional information that was requested, which we continue to work with them. And quite frankly, the last place we've left it at, which again, we're going to go through a leadership transition.

I would expect soon after she takes control, I'll be going back to meet and pick the file back up with her, but I think it's leading to a place of looking at building a separate rail line adjacent to, on our right away, with our freight tracks. So right now we have double tracks coming out of Mexico City going up to Queretaro, which is the key focus right now.

There's enough right of way there in most all locations to add a third track, which would essentially be dedicated to passenger. So a lot of work between here and now. It's going to cost us a lot of money to do it, but it's a true social need. It's a true social problem that I think this government is seized with solving.

So I think it may take a little time. It's going to take several years to get there. But I think there's a path where it might actually become reality. And I think we're going to be in a good place when we do it.

<Q – Ravi Shanker>: Understood. Any questions from the audience?

<Q – Unidentified Participant>: Thanks. You talked a little bit about the intermodal opportunity earlier, clearly with the cross-border. But just curious if you could parse out a little bit. How much of what we've seen today in terms of the growth is kind of low-hanging fruit versus what might be a little bit harder fought for? Is there still a bunch of low-hanging fruit, you just need the capacity for it, which you mentioned earlier. Just wondering if you could parse that out a little bit more for us.

<A – Keith Creel>: Yes. I wouldn't say it's low-hanging fruit because you've got a very challenged, over-capacity subscribed truck market.

So it's -- in spite of that, we've won this business because of the reliability and the speed, but there's many more chapters in it. There's a lot of -- I mentioned auto parts. Typically, what's happened because of the industry's lack of reliability, there's parts -- a lot of parts that move on rail, but the stuff that shuts the factory lines down, it's moving on truck.

So this is over-the-road conversion. The Honda opportunity, I talked about the Ford opportunity. That's what we're moving over from truck. Some of that rail -- those rail moves are locked up in contracts. Those come open in '25 and '26.

So the concept is, it's pretty simple. You prove the product. You get with some of these same suppliers, if they can trust you with their over-the-road conversion, they're going to trust you with their rail conversion.

So again, there's many more chapters to play, the people that are enjoying the business today, they're going to compete. But all they can compete with truly is with price, not with service. And at the end of the day, when it comes to, again, the pains and sufferings that unreliable border points have created, especially in the last year with all the uncertainty over Eagle Pass.

You think about, those trains predominantly shifted to Eagle Pass, the APL's and the Loop's that carry that other tranche of auto parts, they're going over one of the most problematic border points that the industry has experienced in a long time. So their service experience, you can imagine, has not been very pleasant.

At the same time, our service experience over Laredo has only improved. We've got additional capacity. We've got a second bridge coming on. We've got the best security value proposition in the business. That border was never closed, has not been closed. The same challenges that you have at Eagle Pass don't exist at Laredo.

We just run it differently. It's a different product. Now we're going to charge for it, but the outcome and the product that you receive as a result of that is uniquely different. And I think for those kind of niche markets, and these are meaningful revenue opportunities for this company, it plays right into our wheelhouse.

<Q – Ravi Shanker>: Great. Any other questions? One in the back

<Q – Unidentified Participant>: Could you please talk about your balance sheet and potential for new issuance supply and where you are on that?

<A – Keith Creel>: Balance sheet?

Chris de Bruyn
VP Capital Markets and Treasurer, Canadian Pacific Kansas City

Leverage. Yes, sure.

So we committed to paying back debt coming out of the acquisition, getting back towards 2.5x leverage. We anticipate being back there early next year, at which point we'll evaluate share buybacks and dividends and be back in kind of regular cadence of debt issuance activity.

<A – Keith Creel>: Yes. Listen, let me say this, I'm going to clarify this. Investing in the company and growth is our first call on cash, but we're investing records amount of capital. $2.75 billion, KCS and CP both leading up to our transaction, we were probably the most capital-intensive rail networks together to anticipate and get ready for bringing these two companies together.

So we got to continue to invest, we will. But in spite of that, we're getting to a place from a free cash flow conversion, from revenue, from the way we run the railroad, what we're producing, we're going to be able to get to a place where we can do both.

So next year, I fully anticipate being in a place to go to our Board of Directors in the first part of 2025 and reintroduce, given that our debt is down, given that we're still investing tremendous amounts of money for growth, we'll reintroduce the share repurchase program.

So that will become part of the value creation of this story that hasn't -- quite frankly, we haven't enjoyed that for the last several years. And in spite of that, we're still going to produce double-digit earnings growth.

So again, if you're new to this industry, if you're interested in this industry, there's no story that parallels ours, period. End of paragraph. It just doesn't exist. It's very unique.

<Q – Ravi Shanker>: It's a great place to wrap it there. Keith, thanks so much for joining us. And yes. Maybe fourth year in a row next year as well.

<A – Keith Creel>: All right. It will be.