Transcript

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Webcast

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Other Participants:
Tom Wadewitz – Analyst, UBS

PRESENTATION

Keith Creel
President & CEO, Canadian Pacific Kansas City

Yes. I'd say at a high level, so CPKC, we're 2.5 years young now still near infants in our value-creating journey, culmination of two very established rail networks, the two smallest that came together to come still be the smallest railroad, but the most relevant railroad because we're the only one that connects all three nations.

We brought the company together based on a vision of growth. In spite of this freight recession we've been in since we came together 2.5 years ago, we have, leading up to, and continue to lead the industry in growth.

We've done that with the strength of, not what the economy has given us, but the markets we've created, the markets we've connected with our synergies, with our self-help initiatives across a multitude of our books of business.

That said, this year, we said that we're going to get to double-digit earnings. We see a path to doing that. We're going to finish the year strong with cost control. We're controlling what we can control.

We're proud to be a PSR railroad. I've been an advocate, an ambassador of Precision Scheduled Railroad for the last two decades. As long as our railroad, that's the way it's going to work because it works. It creates value, creates great service, controls cost and drives a great safety outcome for our communities.

So all that said, we're positioned well to finish the year, strength going into next year. I can't control the macro. I don't necessarily think it's going to change a lot, but I do think we're in a position of strength given the grain crop in Canada.

We've got a record crop average 73 million metric tons. We're looking at 78 million to 80 million metric tons of grain to move. In the U.S., what was a dispute between China and the United States when it comes to soybean movements has been resolved. The Chinese are committed to buying 12 million metric tons. That product is starting to move, 25 million more next year.

So what's been a bit of a little headwind for us starting the quarter becomes a position of strength for us next year.

And then automotive, more of the same. Our single-line service, our virtual loop network that we've created growth year-over-year, we've increased and created records. We're going to continue to grow next year in the automotive space.

Intermodal as well. International intermodal with our Gemini alliance and partnership continues to

bode well for us. Saint John next year is going to be an area of growth for us with additional traffic that's going to come to Saint John through that alliance.

And the final piece I'll speak with a lot of pride about is our domestic intermodal growth. Again, in spite of the macro because of the markets we're connecting Midwest, United States, Chicago, to Mexico we're up 48% year-over-year. Continue, just had our strongest quarter in the third quarter, continued momentum into '26 in that space and then we're introducing the counterpart to the Mexican Midwest Express is the Southeast Mexican Express, which is in partnership with the CSX over the Meridian Speedway.

We announced this -- if we go back to our Investor Day that little niche acquisition of 52 miles of railroad between Meridian and Myrtlewood, Alabama; and then CSX taking back control of their railroad between Montgomery and Myrtlewood. That link is connected. We've taken control. They've been investing money. We've invested money.

I know Mike Cory was just here. He and I took a trip with Mark Redd and inspected the railroad from Meridian to Montgomery two months ago. And with the infrastructure investments in the first quarter, that's going to be Class IV track. The transit times between Atlanta and Meridian will be, as well, if not better than the competitive alternative within Norfolk Southern. You combine that with kind of the gateway across the Speedway to Mexico and/or to Dallas and it creates a compelling value proposition for you to continue to grow and take trucks off the road that are currently going to those markets into Mexico, in and out of Mexico from the Southeast, as well as into the Dallas markets.

So we're positioned well. If the macro comes back, it's going to get very exciting.

QUESTION AND ANSWER SECTION

<Q – Tom Wadewitz>: Okay. Great. You sound like you offered some kind of high-level comments, I think that apply to 4Q. Any other thoughts about how the quarter is progressing in terms of -- are volumes pretty close to what you expected? Is the cost side? It sounds like maybe that's something that can be even better. But how do you think about those costs and volume in 4Q?

<A – Keith Creel>: Yes. I think the volumes are on track. We were a little bit down in October. We were 5% up in November, and we're up a little bit and continuing to gain momentum into December. So that kind of brings us to a place we said we're going to do four mid-single-digit RTM growth, we're about 4.5% for the year now. So that will only strengthen. I don't think it's going to get any weaker.

And from cost control, while we fell a little bit back on RTMs in October, our cost control exceeded our expectations in October. The railroad is running extremely fluid. We're controlling what we can control pulling those levers that are part of a PSR railroad, running trains faster, more efficiently, more fluid, keep them on the rail. You get to a place where you're going to have margin improvement this year, in spite of the macro again.

So again, all those things bode well for closing as we've guided for 2025 and sets us up well to have a positive 2026 to continue that CAGR of double-digit earnings growth based on mid-single-digit or better volume growth.

<Q – Tom Wadewitz>: Okay. So on track for 4Q, 2026. Maybe just run through again, like how we, at a high level, think about '26?

<A – Keith Creel>: We'll give guidance in January. So I don't want to get ahead of myself, but I see a path to kind of replicate, in spite of the macro, of what we've done this year.

So, mid-single-digit RTM growth is kind of where I'm seeing things at this point. And again, we'll fine-tune that when it comes to our January guidance. And then the other thing you should assume is additional margin improvement. Point to point and a half of 2026 is certainly should be expected.

<Q – Tom Wadewitz>: I think if I go back to like the third quarter call, I think you had some questions and looking back over the last couple of years, what's the right level of EPS growth? Is it more realistic to think 10% for you? I know the macro backdrop does matter, but is 10% a better kind of multiyear number? Or is it maybe more what you talked about a couple of years ago at your analyst meeting it's more like a 15% number? Or maybe it's kind of partway between?

<A – Keith Creel>: Yes. Let's go back to what the assumptions were. And I think that kind of answers your question.

When we did our multiyear guidance and our plan through 2028, kind of the pieces were 3% to 4% organic, 3% to 4% price and 2% to 3% synergies. Obviously, the macro is a reflection of the organic. So we haven't had the 3% to 4%, it's been around 1%.

But we've overachieved on price. We're pricing north of the 3% to 4% based on the value of the service. Again, we've done that in 2025. We're going to do it again in 2026.

And on the synergy side, we said we were going to get to $1.5 billion in revenue synergies by '28. We're going to be close to that by the end of 2026.

So again, because of the uniqueness of this network because of these markets that we're creating, we're able to achieve our double-digit. You layer the macro back on if you get that additional 2% to 3%, then you're going to get back to that 15% or better CAGR when it comes to EPS.

So we're at the lower range because of the economy. We're at the low range because of the tariff impacts. But again, in spite of all that, we're still producing, we're still growing, and we're still double digits, which is a unique value story in this industry.

<Q – Tom Wadewitz>: So the synergy number you think you get to by end of '26 is what?

<A – Keith Creel>: Revenue synergies?

<Q – Tom Wadewitz>: Like one point?

<A – Keith Creel>: I'd say 1.4. Yes. We're going to - we'll be 1.1 this year, exit rate in 2025, and we see another $250 million to $300 million next year.

<Q – Tom Wadewitz>: Okay. So, it sounds like you feel pretty good about that mid-teens EPS kind of 15%-ish type of earnings growth is a reasonable level for multiyear for you for CPKC?

<A – Keith Creel>: Yes.

<Q – Tom Wadewitz>: Okay. Let's see, if I take kind of -- shift gears a fair bit here and go to the changes in the industry backdrop and then kind of, I guess, one of the M&A stuff. But one of the questions that comes up is you've got a great reputation, a great track record as the CEO. And so, sometimes people will say "Oh, well, what if Keith moved to run BN?" Or if you put other companies together and you really need someone who's a super strong CEO, Keith would be a great fit.

So how do you think about -- I mean, I feel like I've had an interaction, I've known you for a long time and perception is your -- would have a lot of loyalty and commitment, and you're a man of faith. And so, my perception is it's probably tough for you to leave CP, but how do you think about your commitment to CP on kind of a multiyear basis? And how should we think about, "Oh, yes, Keith is a great leader. He could go run something else?"

<A – Keith Creel>: I think you need to -- you hit the key points. My commitment to this company and my commitment to this team, this is unlike any in the industry, we've been together for about 10 years.

So this journey led us to combining with the KCS, it was my vision. Our vision realized as a team, my commitment to the company, it's my legacy. I'm going to finish the work that I started.
We committed these synergies. We committed to our shareholders, this return for trusting us enough to enter into this combination.

So there's some that has suggested there's a grant that I got back when I signed an extension to commit to leading the company through this acquisition and through this integration that I think vest in '26. It's not a contract. I have no contract. I can leave today if I wanted to.

I'm not here for the money. I'm not here for that grant. I'm here because I'm committed to this company. I'm committed to this team, and I'm committed to this legacy being one that's created unparalleled value.

Now, I'm not going to be the CEO forever. In fact, in 2017, I started thinking about my succession plan then, not having any idea about this transaction. I just think that's my responsibility. I don't think any one human, man, woman are bigger than the company they lead and represent. So at some point, I'm going to retire. It's not tomorrow. I intend to be on the stage if you'll have me back this time next year, representing CPKC. But when I do, our shareholders can understand and know it's because this team is ready to improve upon what we've created together.

And it will be the season for me to step out of the way and let them do their jobs. It's not

because I'm looking for greener grass in a different field. If I wanted to work somewhere else, I could have already gone to work somewhere else. I'm here because I want to be enough because I have to be.

<Q – Tom Wadewitz>: Will we see you in five years here?

<A – Keith Creel>: Talk to my wife, I can't answer that. I'm not going to commit to that without her –

<Q – Tom Wadewitz>: Okay, so you're welcome back every year. Okay. Great. That's helpful. I appreciate that honest, straightforward answer. Let's see. Ian, why don't I shift over to you, give you a chance to jump into the discussion here. How do you think about the CapEx spend, what CP has been spending the last couple of years, what that can be looking forward? And where is the money spent?

<A – Ian Gray>: Sure. No. Thanks for the invite. I'm grateful to be here to talk to the CPKC story because I think capital is going to be unique in 2026 as we start to pivot.

So we have a very disciplined, very rigorous approach to managing the capital book at CP, but we also wanted to be one that allows for flexibility. So Keith talked about synergies coming on board earlier. He's talked in the past about not overselling our network. We've spent a lot on network capacity between the Mexico bridge, we've reconfigured Bensenville Yard. We've added a significant amount of sidings in that North-South corridor. And then we get to start to harvest some of that.

So part of the PSR approach to capital is you need the network in place in order to improve speeds and cycle times so that you don't need to spend on locomotives and rolling stock.
So as Mark and team really start to grind out the operational efficiencies associated with the new network configurations that he has, we will start to pivot towards a little bit on the locomotive side.

We're purchasing 100 this year, which we're very excited to bring on. That helps from a reliability standpoint. So again, that supports the service that we're trying to offer our customers, the more efficient to run from a fuel and cost standpoint. And they've been put to work in our 100 Series on the Canadian side, which has been very beneficial.

So as we start to pivot into '26, you'll see a step down in capital despite things like the locomotive purchase, and we will find ourselves closer to align with what we guided to at our Investor Day that $2.6 billion, $2.8 billion, but we'll provide more detail when we give our guidance at the beginning of '26.

<Q – Tom Wadewitz>: So is that $2.6 billion to $2.8 billion like a rough multiyear framework?
Or would you say --

<A – Ian Gray>: Yes. That's what we're initially planning. So again, capital was a little bit higher in '25. Part of that's the impact from the Canadian dollar. Some of that's a little bit on the tariff side.

But from a long-term run rate, we're targeting that $2.6 billion to $2.8 billion range. And that's really going to be helpful from a cash flow generation standpoint. We did do a pause in shareholder returns as part of the merger. We're grateful for the patience of our investors.

We've relooked at the dividend. We'll continue to increase the payout ratio there. And then part of the '26 guidance, we'll have some more commentary on what we're going to do from a shareholder buyback.

<Q – Tom Wadewitz>: So what's your level of buyback you expect? Like how much you expect to spend on buyback this year?

<A – Ian Gray>: Yes. I don't want to get in trouble with my boss. So, I'll let Nadeem speak to that in detail in Q1.

<Q – Tom Wadewitz>: Okay. Fair enough. But I guess, overall, in terms of CapEx, it can come down a bit and some of that can probably flow to buyback and some as dividend too.

<A – Ian Gray>: Yes. That would be a reasonable way to look at it. We continuously -- Chris is here, who runs our treasury. We've targeted that 20% to 30% payout ratio for the dividend. We'll get there gradually over time. And with the additional cash, the natural outlet is on the share buyback side. But I'll let Nadeem add more detail in Q1.

<Q – Tom Wadewitz>: Okay. Great. So I think this was now 1.5 years ago, whatever a bit ago. Chris was kind enough to do a tour for an investor group that we had in Chicago with the Bensenville Yard, and it's just a -- pretty fascinating to see the different elements of both the expanding of the carload and in the intermodal facility and the auto facility, all those pieces together. And then I know you had maybe an analogous investment in Dallas. Where are you at in terms of infrastructure that you add to the system that is really stimulative for growth?

<A – Keith Creel>: Yes, go ahead. You got to pay for it. So, I'll let you (inaudible) you know the projects.

<A – Ian Gray>: Going back to my earlier comments, just on a lot on the network, a lot on capacity. So as part of the STB application, we committed to service levels and investments. So as we've added all the sidings in the north-south, that provides a lot of growth opportunities, and that's where a lot of the synergies were.

Same with the bridge, in terms of getting the additional traffic from Mexico into the United States and vice versa.

So the network and the capacity side is in really good shape right now. So we -- Keith made comments about organic not being as good as we'd like in some macro headwinds. As soon as that starts to turn, you're really going to see that operational leverage on the network side. We talked a little bit about the locomotive. So that will help from a capacity growth standpoint. We are looking at rolling stock.

But just the PSR approach to railroading is that we fully appreciate that when we buy assets, be they capacity or rolling stock or locomotives, these are multi-decade assets, right? So we don't want to shiny object syndrome or flavor of the month, in terms of deploying that capital. So when Mark and his team get together, they're very focused on weights and lengths and speed. Part of that is from an expense reduction standpoint. But part of that too is from the faster they get, the longer and heavier trains they run, the less equipment that we need.

So capacity can still be supported from that where it needs to be. But we feel really good about the network. We feel really good about the equipment we have. And we feel that there's even future benefits that can be gained as we get multiple years under our feet on what this combined network looks like and can do.

<A – Keith Creel>: Tom, I think what I would add to that is we're getting to a point now, the infrastructure, the hard infrastructure to realize the growth that we see a path to is it's in play or in place. When it comes to the automotive compound, number one, that was a nominal investment in Dallas. I'd like to say in the out years, two years from now we'll have a business case to expand it. But it's essentially a little bit of rail and some asphalt. The facility is there. It's not a big needle mover when it comes to dollars and cents.

The things where we're going to start to benefit from now are the investments of others' money. It creates the stickiness to us, in partnership with us like Americold. That facility is a $140 million facility that Americold invested in on our land that opened in August. That's one of many. There's one literally that's being planned deeper in Mexico that's going through the process that I'm hopeful we'll be able to make an announcement on sometime next year.

We're, again, in partnership with Americold. We create this ecosystem, they invest, our infrastructure is the backbone that allows them to reap the return for their investment to feed a market, literally feed a market that's been fed by truck forever.

Same thing going on at Saint John. our investment to get to Saint John has been matched by the investment of the Port of St. John, by the port in partnership with the government, DP World, who operates the terminal and now even Americold.

I was there two weeks ago. They announced the facility in Americold. It's literally the superstructure of the building itself is built. They're starting to equip the inside. That facility is going to be open on the dock where the ships discharge by second quarter of next year.

So again, as you start to add these bookends where it's partnership investment, not just railroad investment, our land is our equity, it creates the stickiness, it creates the ability to continue to drive this path to growth that we've got going forward.

<Q – Tom Wadewitz>: Where do you think the largest synergy opportunities are looking forward and some of the --related to some of the customer investments? Is it in chemicals? Is it more in a domestic intermodal or what -- maybe it's automotive, maybe it's across the board?

<A – Keith Creel>: Yes. There's a story in each one. Again, automotive continued expansion of that closed loop converting short-sea opportunities that are now going on short sea that we see an opportunity to come to the rail network, leveraging the connection of Meridian that didn't exist before with the CSX to get to markets there.

That's a piece of it. You've got international intermodal with the Gemini lines that continues to grow for us. That's going to bring more growth to Saint John next year. It's continuing to ramp up and bring growth to us down Lazaro Cardenas in Mexico.

Then, of course, uniquely, what we're doing at Centerm with Gemini has brought additional growth to us in Vancouver. So there's more there for that to continue.

The domestic piece -- the growth that we've had with Chicago to Mexico is going to be replicated, I think can surpass in '26 and '27 with CSX over this connection in Meridian, going -- taking trucks off the road, product going into Mexico. So again, levers in all those locations.

And the other one, the crisis has created this one that I never thought about, that's accelerated. This tariff tribulation has created a dynamic between Canada and Mexico, as they look to diversify their markets, not be wholly dependent on in the United States. They're never going to decouple, U.S. is always going to be Mexico's biggest and Canada's biggest, and we uniquely enable a lot of that freight that moves but to bridge our network and become a land bridge between LPGs and refined fuels that are produced in Alberta going to Mexican markets.

This year, alone, we've doubled essentially what we were doing. That this year, the run rate is going to be almost $0.5 billion of new revenue that's been created by our network connecting Canada and Mexico.

So Mexico and Canada are getting closer in a way that they never would have before, I think, without the challenge of diversifying their marketplace. And again, we're going to be in the middle of that because we've got the rail network that connects those two markets.

<Q – Tom Wadewitz>: So maybe if we can drill down a little bit that $500 million in revenue that you see from connecting Canada to Mexico, that's kind of future opportunity or?

<A – Keith Creel>: No. That's the run rate. We're going to exit this year, it's -- I'd say it's just a little bit less than $500 million. It's $460-ish million of new revenue.

<Q – Tom Wadewitz>: That's been come on like during '25?

<A – Keith Creel>: Right. That's an annualized rate. That's correct. It's LPGs, plastics, it's coming out of Alberta. It's also grain product, that's going to the flour mills in Mexico.

We've had news now, I think year-to-date, we're mid-20s and grain trains that have came from Canadian soil that are going to Mexican mouth by way of our network. Last year, same time I think we'd moved three.

So again, this whole diversification play has created an appetite and a demand for new markets that we get to connect.

It's extended the length of haul that move out of Manitoba, Brandon Manitoba, we moved a grain train that I actually introduced to the Prime Minister when we were together in Mexico six, eight weeks ago. That was a 3,200-mile length of haul. That's a lot of freight, a lot of tonnage moving, bringing a lot of RTMs. It's compelling, it's something to get excited about.

<Q – Tom Wadewitz>: Probably 50 of our business or –

<A – Keith Creel>: No. We're regulated in Canada. It's good business, it's not that good. It's good business.

<Q – Tom Wadewitz>: Yes. That's the long-haul business. Okay. If there are any questions in the room, please raise your hand or you can use the QR code and send it. I'll check the iPad too. Let's see. So I wouldn't want to run too far down on time without an important question for you, Keith. I think you know what's coming.

So how are you thinking about the -- I guess the filing that UP-NS are probably going to put the STB pretty soon here. What are some key things that you would look at to say, okay, enhanced competition, yes, they met the bar or wow, they're falling really far short. How do you think about how that theoretically could be done? Maybe how do you think about some of the challenges that are underappreciated by investors, and remember just the tremendous amount of work and I'm sure stress and intense effort you put forth in your own acquisition. So maybe just some broader thoughts on UP-NS and what's happening there?

<A – Keith Creel>: I'm going to start at a micro level with CPKC and then I'm going to go to the industry level. So at a micro level, number one, we're unique because we're north-south. We're not threatened by, I'm not afraid of competing with, I don't lose any sleep over a proposed UP-NS combination. And I say that because of our geography and because of the fact that only 5% of our revenue flows to NS today.

So in a worst-case scenario, there's 5%, you would argue that's at risk, but 70% of the 5% we originate. When you're the originating carrier, I think that gives you an ability to protect against a worst-case scenario.

So then I'm going to think about, okay, well, if this does get approved. And I don't think it's a Fait Accompli, I do not. I think people are grossly underestimating the complexity of what UP-NS are attempting to do and the regulatory path they're going to have to go through.

I know myself, our facts were a lot less complex, a lot smaller scale, and it was a monumental undertaking and a different set of rules. These rules are untested. So for me to tell you what it's going to take to say you've enhanced competition and you serve the public interest. I don't quite know yet. I know it's going to take a lot, because this can't be undone if it's ever approved.

The gravity of this, and I'm going to break this down in very simple terms. Think about a world where if it gets approved, and it triggers additional, and it very well might, industry consolidation, a world where you have two railroads, compare that to the airline industry.

What if we only have two airlines, and Jim likes to talk a lot about Chicago because Chicago matters to our industry immensely. If Chicago breaks, our industry breaks, I don't think any of us would argue that they know anything about running a railroad, history has shown that. And I think that's true about an airline.

So think about if you only have two railroads, if one of the two gets sick, what happens? Let's go to O'Hare in the middle of winter, today, and you've got American Airlines, you got Delta, you got United, and I got Southwest that's sitting in the Midway. I've got four strong healthy carriers. And as a consumer, as a traveler, I can choose.

If one gets in trouble, if O'Hare gets tied up, where do I go? I lived in Chicago, I got on the interstate, I went down 55, to Midway, and I flew on Southwest and I got to where I needed to go.

Think about a world where there's only two railroads or two airlines. If there was only a United and only a Delta, do you think they'd be operating Midway and be operating O'Hare? The likelihood is they go to O'Hare because that's the workhorse. And then if O'Hare breaks, what do you do? You've got a nation that's in gridlock.

It's the same for the railroad. This industry is so consolidated that if you get to a place where there's only two railroads and one of them gets sick, this nation is going to be on its knees from a commerce standpoint, from moving freight across our nation. History shows when there were many more of us, and I lived through this as young Operating Officer when UP and SP first came together. They melted the industry down two times, not once, twice. It was a mess.

The interconnectivity of a network, a nation's network that connects, you can't unwind that when it gets gummed up, it spreads across the entire system. Same thing happened with CSX and NS with Conrail. Not the same scale, but still, it brought the industry to its knees. If they get this wrong, it brings the nation to its knees. So I think that's huge risk.

Now, you're talking about a regulatory body that understands that. You're talking about an independent agency that dealt with our transaction in a very detailed way when it was simple. It truly was end-to-end. There was zero overlap. There were zero customers that lost options. We had the two smallest coming together.

We didn't shift the balance, the scale, not even remotely close to the same complexity. They're going to take all that into account. They're going to take end-game scenarios into account, they're going to take potential end-game scenario when it comes to consolidation, downstream impacts into account.

So for those reasons, because of all that risk, I'm not a proponent of additional consolidation. I'm not. But what's true for the industry, stand-alone, if it happens, this railroad is in a good place. We're not threatened by it. We can compete against it. I can't protect us if they go into gridlock because of an integration miscue. But when it comes to competition and growing and producing a return for our shareholders, I think we're good.

And if it gets approved, Tom, because of all those risks and because of that high standard of enhance competition and serve the public interest, how can it be approved without significant concessions?

And if concessions exist, and I believe I'm 99.96% certain that if it gets approved, it's going to have to have significant concessions to meet those two tests, then we're a net benefiter from that. We're going to have markets open to us that today might be closed to us. There's going to be, in a world where for this to happen, there's going to have to be perhaps divestitures of lines.

There's going to have to be trackage rights given. There's going to be markets opened up, it could be zone switches, it could be a host of things. We really don't know yet until we see their application.

But to suggest or think that it's not going to have concessions that would suggest or think that it's just going to be rubber-stamped by the White House who wants what's best for this nation, they want to make America great again, not make America fail again when it comes to freight transportation.

So just because you have face worthy photo op opportunity to stand with the President. That's great, and that's wonderful to scrapbook. But I don't think that gets -- that's not a stamp of approval for a deal that has so much of an impact on this nation. I just don't think it is.

<Q – Tom Wadewitz>: So your comments, you'd say that you know STB board members very well. Do you think there is a scenario where STB says flat out "No, can't do it, rejected"?

<A – Keith Creel>: I think if the facts lead them to that, this STB will do exactly that. I think this is going to be a very data-driven, fact-based analysis. We'll see how complete UP's application is.

I think just reading -- Jim says a lot, he said, "I think it's 4,000 pages." I would suggest by that alone, it's not adequate because ours was over 4,000 pages and the complexity of ours pales in comparison to the complexity of theirs, different size and scale, a different set of rules.

So I think this STB is going to be very fact-based, data-driven and in the end, if it says approve it, they can serve those two tests by way of concessions and all the things that I've talked about are a mix of those things than they will.

But if it doesn't lead with that conclusion, I think they have the courage and they understand they can't get this wrong. This is their legacy. It's too important to get wrong. I think if the facts say no, they'll say no.

<Q – Tom Wadewitz>: What would you want from a CP perspective, if you could get something from this, right, the concessions? Would it be like, "Hi. Give us some access to -- give us more efficiency in through Houston," where you run over UP? Would it be "Give us access to some chemical plants." I think that's something kind of -- investors would think of, a lot of captive chemical traffic on the UP. Is it like are those kind of high level of types of things that you think are beneficial? Or is it more like, "Hi, we'd really like a line segment?" Like what would be useful to CP?

<A – Keith Creel>: Yes. I think it's a mix of all those things, Tom. Obviously, we've started our own very robust review. We had a three-day session with the right players we put together two weeks ago, I sat in on the last day. We looked at Texas. We looked at Louisiana, and everything you talked about, those are some of the list. We've got a session going on today. I'm going to sit in on day three on Thursday and we have multiple -- several more leading up to being prepared for that application. So it could be divestiture, it could be trackage rights. It could be market access, taking -- kind of opening up markets that aren't open to us today. Yes.

But there are other things that I'm really concerned about, and it's not market access, it's anticompetitive behavior. UP, historically if you look at the history, and I do, and if you're the regulator and they know. If you ask BNSF with the filing they just made this week, UP sometimes has a hard time of seeing the regulatory requirements the same way the regulator might or seeing their commitments that they've made in previous deals the same way their partners that were made to might.

So what I'm going to ask for is a means to ensure that anticompetitive behavior is held at bay. I don't quite yet know what that is yet. But rest assured in our application, it's going to be fulsome and it's going to address that because, quite frankly, I know Jim, I know Jim well I trust Jim, but Jim is not going to be there forever. And this decision is forever.

So you could have a change in leadership, and they might see and read it a different way and impose it a different way and you get to a problem where the regulator becomes a mechanism for constant disputes because of interpretations and we'll have more regulatory action than we've ever had in this industry. More disputes than we've ever had in this industry.

So what I'm going to be asking for in a to-be-determined fashion is an ability for the regulator to have teeth and to essentially make sure that the assurances that are given, the concessions that are granted are actually kept in all cases, in all forms and not subject to interpretation.

<Q – Tom Wadewitz>: It seems important, but also could be -- I mean, I guess maybe as you try to come up with things that are formulaic as opposed to -- I don't know, too qualitative. But what if we – so you framed the exposure with NS that's helpful to contemplate what your risk might be.

What about the idea that the combined UP-NS would have greater customer reach, maybe greater market power? And Ferromex isn't going to run as well. I don't know, I would expect that you would run better than Ferromex in Mexico. But maybe with greater customer reach, they could capture some of the additional cross-border traffic, right, and U.S.-Mexico traffic. Is that a legitimate risk to consider or are there reasons that you think hey, that's just really highly unlikely to be a potential point of friction?

<A – Keith Creel>: No, listen, at the end of the day I'm an advocate for extended length of haul single-line service. If this is approved, UP and NS are going to be able to create that in some lanes. That's going to be tough to compete against. If they do their jobs, they should win the marketplace.

So I'm not saying that they won't win in some of those spaces. You talked about Ferromex competing against us. You're exactly right. It's -- you've introduced complexity because it's another railroad controlling your destiny, not yourself, which is not the case with us. But still, some of that's going to happen. But what you got to think about in the calculus of all this, it's not all just the wins.

You got to think about what is going out the back door through concessions and what you've exposed yourself to? And is that list of disynergies are going to over -- going to outweigh the synergies. UP has suggested $750 million, but they've also said they shouldn't give any. I think that's a light number of the potential outcome given concessions.

I know my list is going to be close to that. I won't -- I'm not going to suggest I'll get it all, if they approve it, but I'm going to make a hard case for the things we do ask for and I'm just one railroad. So again, I know Jim has got his view, UP has got their view. I'm sure that Mark has his.

They'll win some business, but they're going to have to compete in a way and they're going to have access, I think a few concessions, markets opened up that, again, you got to be careful that's what's going out the back is going to be greater than what's coming in the front.

<Q – Tom Wadewitz>: One of the -- I guess we're trying to think of the various many effects that could take place. I think you've got a great partner that has orange boxes. It's not an international steamship company. So I've got Schneider that's been a really great partner for you and had good growth on your MMX, and now into the Southeast, do you think there's risk? Are you concerned that they might end up getting pushed away from you because they would be mismatched, right? Hub Group's matched on UP-NS. Schneider is on UP and CSX and CP. So you think they might have to go kind of fully one way or another.

<A – Keith Creel>: Listen, I can't speak for Mark and Schneider. I can say this about Mark and Schneider. They've been great partners, trusted partners.

We've allowed them to grow in lanes where they've been able to compete against their primary competitor in their space, in a way that would never have been possible. We've done it together. And it's not -- it's a carve-out from their partnership with UP. It's not covered in their UP partnership.

So I just don't see them in those lanes and in that space cut their nose off to spite their face. I think that particular lane, North-South is going to be fine.

Now the question is what happens East-West. Maybe, I don't know. But at the end of the day if they don't want to be strategic partners, their competitor would, if they were to choose to take a different path. So again, there's an alternative if a mismatch does occur.

<Q – Tom Wadewitz>: Yes. Something goes differently, then you could –

<A – Keith Creel>: Yes, we have an ability to pivot. At the end of the day Schneider is going to do what's best for Schneider, I respect Mark immensely. I happen to think CPKC, in a world where UP and NS, if they get approved, North, South and into Mexico, there's no better ride. There's no better product. It can't be replicated. UP can't do it, Ferromex can't do it, only we can do it. So we offer a unique value compelling scenario there for Schneider that UP can't solve.

<Q – Tom Wadewitz>: Right. Okay. Keith, we are out of time. Thanks so much for all your great insights. I always appreciate having you here. Ian, thanks for joining as well.

<A – Ian Gray>: Yes. Great to see you.

<A – Keith Creel>: Thank you, Tom.