Transcript

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Webcast

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

Other Participants:
Ari Rosa – Director, Citi Research

PRESENTATION

Ari Rosa
Director, Citi Research

So we're thrilled to welcome Canadian Pacific. We have Keith Creel, who probably needs no introduction to most of you; and also Chris de Bruyn, who's IR for CP. Thank you, both for being here.

Keith, as many of you know, has been CEO at CP for some time, took over from the legendary Hunter Harrison, and truly has had a great run there doing what I think most people would agree is one of the more transformative acquisitions in the rail industry over the past two decades.

And so I'm excited to have you both here. Thank you for joining us.

Keith, maybe we could start out just talking about the macro environment, what we're seeing from a volume standpoint. You set a target for RTMs to be up mid-single digits in 2025. It sounded like the expectation was there, and correct me if I'm wrong, that you would see some acceleration through the year, but here we are, granted, still relatively early in the quarter, but we're seeing carloads up about 5%, RTMs about 5%. What do you think is driving the current strength? And is there potential to outperform that mid-single-digit RTM target for the year?

Keith Creel
President and CEO, Canadian Pacific Kansas City

Yes. So let me first thank you for having us here, I can tell you, it's 42 below zero in Canada. So I can't tell you enough how much I appreciate being in Miami today. My colleagues, though, that are back at home running the railroad, this is when they earn their money. They're working their tails off for our customers and for our shareholders. And so I've got to thank them for doing that and their sacrifices.

I can tell you, though, at a micro level, we're two years into this Ari, and what's playing out is what we expected it. We didn't expect some of the macro challenges, but at a micro level, the self-help, the initiatives, taking this new footprint and creating something that, quite frankly, it's a white board. We're getting to create and craft customer solutions to win customers' trust and faith and, most importantly, their business that no other network has. It's unique.

So with that last year, in '24, we -- although it's -- I would say it's not what we had expected, it was still growth. We've outgrown the industry, growth from a business standpoint, growth from an earnings.

We had a very challenging year in 2024. There was a lot of things you could not control, and I'm a guy and a team, we focus on what we can control.

So I couldn't stop the strikes, I could just control how we responded to them. I couldn't stop the weather, some of the derailments. We had a pretty horrific derailment that occurred about this time last year.

In spite of all those things, we still came in, I think exceeding people's expectations, we had a strong quarter and delivered our guidance and that momentum, with the business demand that's unique to our industry in spite of the micro, is what we've carried into '25.

So the month of January, quite frankly, was nice. It was really nice. We had a lot of demand. We had double-digit RTM growth year-over-year, really across the book of business. We're benefiting from a strong Canadian grain harvest that's much more like a five-year average type yield that came into -- following the year of the drought. So that's a really good position for us.

We had a bumper crop on the legacy CP network in the U.S. We had a bumper crop on the legacy KCS network. First time in my career were all three at the same time.

At the same time, automotive, we had a record year in '23, a record year in '24, and we're going to do it again in '25 as we build out our closed-loop automotive product that we put in the marketplace back in '23 that's unique to the industry.

It can't be replicated. So that's something the OEMs have taken up and we’re winning market share, both from other rails as well as soon-to-be short sea. We're winning the confidence of our customers and they're making modal shifts. So that's helping us quite a bit in that space; more to come there.

On the intermodal side, again, in spite of a very challenging macro environment with truckload rates, especially in the U.S. that -- oversupply capacity and low rates, we've still been able to grow that product that is unique in the industry, to be able to launch a train every night in Chicago and be deep into Mexico, 98 hours later. A truck can't compete with it. It's truly a product that's unparalleled in the industry that has grown as a result of that service level, making that border more seamless, and will continue to grow.

On that particular train (technical difficulty) – things required the right partner. We've got a very strategic partner in Americold. They announced last year the concept of like we did at CP, we take our landholdings, create stickiness, create value for the customer. Our capital is the land, their capital is the actual dollars it takes to build the facilities, you create a marriage and a partnership.

So they started on that facility in Kansas City at IFG last -- I guess it’s been less than a year ago when we did the groundbreaking. It's coming online in July. Since they've made that groundbreaking, they've also announced a new facility that's going to be built in St. John, which is uniquely served by our railroad up in Atlantic Canada.

Then we're close to announcing two other locations deeper in Mexico for additional markets to go to for that product to continue to grow. So that, again, is a product that I think is going to continue to create unique outcomes for our business.

Then if you look at the rest of it, if you look at ECP, extended length of hauls, taking out (technical difficulty), we've got product now going from the Louisiana Gulf and biodiesel fuels that are going to Canadian destinations. So length of hauls extended. Again, you can't replicate with another railroad.

It's allowing the customer -- what would have been interchanged business, to take out those handlings, and you're taking days out of transit for a car. They own the car, we don't. So again, there are savings in it for them.

So across the book of business, there's really a story in every lane, some are bigger than others, but that's what's allowing us to outpace the industry and what will allow us to continue this year to outpace the industry.

I think with a little bit of -- a little bit of luck, we won't just be meeting guidance. We get some macro help, we'll be exceeding guidance.

QUESTION AND ANSWER SECTION

<Q – Ari Rosa>: Yes. It's been great to see the success you've had in terms of growth when a lot of -- obviously a lot of transportation companies have been held back over the last year or two.

Is there a good way to think about the extent to which the loose trucking market has impacted CP? Or is it -- just because of the length of haul, it's maybe not as much of a factor? And is there a way to think about what's the uplift that you could get if the truckload market tightens a bit?

<A – Keith Creel>: Well I don't know exactly how much uplift. That's a place -- a hard place to put the pin. But I can tell you, undeniably, it's been a headwind. There's some of those products that I'm talking about, automotive parts are one in particular. That's an opportunity to bring trucks off the highway on to the railway.

We have the reliability established, but you still have had on some of the bids that we dealt with towards the end of last year, the truck rates are the place where we're just not going to go there.

As that tightens up, those truck rates adjust a little bit, then we're in the ballgame. Then once you get in the ballgame and they make these (technical difficulty) and they experience the service, it creates, again, stickiness where it's not you're going to be immune to maybe really, really suppressed truck rates, but it's going to be tough to make that switch because they're going to be accustomed to the level of service.

And quite frankly, it's like you or I. If you get great service, it's hard to accept less service. Even if it costs a little less money, as a human being you're thinking of the risk and it's pretty good what I've got. I'm going to protect it and stick with it.

<Q – Ari Rosa>: Especially when someone's job is on the line, right?

<A – Keith Creel>: They get it wrong, they don't eat. Pretty compelling consequence.

<Q – Ari Rosa>: Keith, as I think of the Investor Day and some of the things you've talked about over the years, there's obviously a lot of exciting opportunities in terms of the cross-border opportunity, length of haul opportunities that are opened up by KCS.

What are you now thinking of as the biggest areas of growth or the biggest opportunities that you're seeing? Has it changed at all over the last year or two years as you've seen the economy evolve?

<A – Keith Creel>: No. It's all about -- the pieces that moved around in advance. The automotive piece really exceeded my expectations on timing. We pulled a lot of that forward, but there is -- the timing in that space was really dependent upon contracts that have yet to open up. So in spite of those contracts not being open, we've already exceeded our expectations in that space.

So that's going to be a focus as we go forward, how much we win and those reshuffling of contracts based on this value proposition.

The other piece, quite frankly, I was focused on it last week and now. I've got the team energized around it as is this little niche acquisition we made with the Meridian & Bigbee Railroad.

So we've taken control; it's now part of our network to Myrtlewood, Alabama. We've got CSX that takes it from Myrtlewood to Montgomery. I went last week, and -- myself and John, and Mark and our -- Coby and Jonathan had a little brainstorming session with Joe and his team in Jacksonville. We're focused on becoming entrepreneurial, being (technical difficulty), going to our customers, creating new solutions to help CSX's team as well as our team penetrate a market that, quite frankly, they never had fair access into Mexico or into the Dallas markets.

So getting people tuned to where they think entrepreneurial can go into a customer and say, okay, let me look at your book of business, you're spending x amount of dollars in truck.

We're truck-like reliable. We've got a route here that can help you save money, give us an opportunity to try it out.

So that stuff is -- we're just in the early innings of that. So over the next 12, 18 months, that will start to, I think, prove beneficial for us and start to gain traction.

<Q – Ari Rosa>: Is there a good way to think about to what extent operations are delayed or held up by having to interchange with CSX?

<A – Keith Creel>: Well that will just be -- we call it a cornfield handoff.

So it's just a train load. You're not really going through the yard and switching out cars, it's just they step off the train, we step up on the train. So in that case, it's not an adverse impact.

The reality is -- some of the traffic originally – the baseload business is traffic that was going out of route to New Orleans. So we've converted all that traffic over too and now you layer growth on top of it.

So that particular traffic was dependent upon intermediary switcher in New Orleans.

So we handed off to the Belt Railroad in New Orleans, they switched it -- they charged us for it. They delivered to the CSX, the CSX switches it -- then they take it to their destination on their networks. So you've got three different railroads. In some cases, there was another railroad in between the Mexican border and New Orleans; there could be four railroads.

So those three to two conversions or four to two conversions, that's really a value-creative proposition for our customers. That's where the delay in the interchange is.

<Q – Ari Rosa>: It's been great to see the way that you've really opened up markets and obviously that opportunity -- the Mexico opportunity for CSX and then conversely, the Eastern -- the East Coast opportunity for you folks is -- it's exciting to see what might come to that.

Let's talk about what I imagine everyone wants to hear about, which is tariffs. I know you probably don't have any answers for us in terms of what's going to happen, but maybe if you could talk about how you're thinking about it, to what extent it poses a risk to the vision that you've laid out over the years. And here in the early stages, are you seeing any changes in customer behavior or how customers are preparing for it? How are you preparing for it?

<A – Keith Creel>: Well there's certainly an increased sense of awareness and interest as to what really, truly ends up being applied.

I like to read history. I like to look at history. I know that back in the day when this – when President Trump first took over, there was a lot of pressure and a lot of concern. But in the end, trade increased between Canada and U.S. Between U.S. and Mexico. There's been significantly more investment since then. You've had a pandemic that's happened. You've had derisking supply chains that's occurred. These countries have never invested more together and/or needed each other more.

And the alternative is to go overseas. Are we going to go to China? I mean the reality is, tariffs might happen. I do think that President Trump is serious about balancing trade. But in the end, I don't think we dissolve our marriage. I think it becomes stronger.

I think we're in a unique position because we connect all three countries. Maybe some of the flows that have been curtailed over the last several years and maybe from the administration in Mexico is part of what I think is going to be advanced trade renewal discussion that will happen later this year once we get the government settled in Canada, and we know who we're negotiating with, I think you get to a place where it makes sense to do it sooner rather than later.

The outcome is for our network, I think you could have more things flowing south as well as the things that are flowing north. I think we uniquely benefit both ways.

<Q – Ari Rosa>: Are you saying more things flowing south from Canada?

<A – Keith Creel>: I think that balancing -- you can have more U.S. product going into Mexico to level set that.

<Q – Ari Rosa>: Yes. Okay.

<A – Keith Creel>: There are some things -- I mean think about refined fuels. Think about that space. Some of the changes that occurred with the last administration in Mexico. Some of that could get rebalanced.

So again, I think it puts us in a position where we can win both ways.

<Q – Ari Rosa>: And to what extent -- I know you've had meetings with the Mexican administration. I know, obviously, you guys figure prominently in Canada. To what extent do you feel like you have an opportunity to provide input to this process?

<A – Keith Creel>: I think it's undeniable in Mexico. I went and met with President Sheinbaum back in December. Spent quite a bit of time with her, not just talking about building a passenger rail, which is one of her aspirations and one of her commitments. That's part of her platform.

But she has a big desire to take trucks off the road as well. She knows we're part of that solution. She knows that we're more economically or environmentally friendly than -- economically and environmentally friendly than the truck is. She knows that they have some things to do from a regulatory standpoint with trucks to make it make more sense to shift it to rail. So again, her number one focus was obviously tariffs. She had a long agenda of things she wants to do for Mexico, but her words not mine.

If we get this one right, it solves the balance of the list because U.S. is such a critical trading partner for Mexico. And what I've seen in the way she's reacted, she's very pragmatic, very focused, not emotional. I think that signals strength. I think that will be respected by this administration, not rejected.

I think I've seen a lot of action with the troops that they sent up to the border. They're addressing immigration, which is an issue, a material issue to President Trump. They're addressing the drug flow. I think I saw yesterday there was -- they seized four tons of methamphetamines. So they're taking action, they're not just sitting there. They're going to work in a way that they've not gone to work in a long time, and I think that matters.

And I think Canada -- the Prime Minister has made moves, and I think that's appreciated.

I think that in the end, though, we need to get the administration settled in Canada to really get to who's at the table. The person making the commitments, are they going to keep good on their commitments and what really matters. And I think that's coming. We're going to have an election in Canada. I would suggest it's going to happen in the next 60 days, maybe 90 days it will be a May, June timeframe.

Once we get into the summer, I think all that will be settled, and then we can get to a place where meaningful negotiations can occur and, again, I think it puts us in a good place, and we uniquely will be involved in those, especially Canada, Mexico. U.S., obviously, we're not the largest, but we've got a pretty big footprint in Canada. We've got a materially important footprint in Mexico and in the middle, we connect this. So we're going to be -- we're going to have a seat at the table at both those locations.

<Q – Ari Rosa>: Got it. So maybe we could talk about KCS and focus on KCS for a moment. How would you say the railroad is performing? How is the integration progressing?

Has there been anything that's been different from expectation in that regard? Or are there still further structural operating improvements that need to be made?

<A – Keith Creel>: Yes. The structural piece takes time. We're building out a network. We've said that from the beginning; you can't get it all done overnight.

But I can tell you, the culture and the people -- similar cultures -- to be a part of something bigger, to be part of success that we're creating, as a human being that motivates people.

So the legacy KCS on the U.S. side have responded extremely well. As a matter of fact, we're going to -- we have an annual awards event every year. Called our CEO Awards. So people go above and beyond. It's like the Oscars for the railroad based on our five tenants, we're bringing people together to celebrate them.

But this year, or in '24, Shreveport, which was a KCS terminal, won the Best Terminal of the Year for the entire network. This coming year, we're about to have it again in two weeks -- actually, it's next weekend, and it's actually a Mexican terminal -- San Luis Potosi, which is a major work center for us.

We've got two terminals off of the legacy railroads that have just -- from a culture standpoint and a process standpoint, it's all based on driving improvements in safety, driving improvements in productivity, efficiency costs, all the metrics that move the needle for our customers and for our bottom line. So those are two testaments, strong testaments to the quantum of change and the uptick of buy-in to how we run the railroad.

<Q – Ari Rosa>: I wasn't aware there was an Oscars for the railroads, but that's good to know.

<A – Keith Creel>: We all get dressed up and treat them extremely --

<Q – Ari Rosa>: I like this. All black-tie.

Let's talk about the long-term targets, obviously we've seen revenue growth targets and the EPS targets that you've laid out for double digits. How should we think about how much room there is or how much juice you can get out of some of the efficiency opportunities, the operating ratio improvement?

I think a lot of people have speculated about the prospects to get the OR into the 50s. Maybe you could talk about what is the prospect for that? What's the timeline for that? What's your confidence level that that can happen over time?

<A – Keith Creel>: Well I would say number one, I'm not enamored with that. That's an outcome of the way we run the business.

But if we grow the way we've signaled we're going to grow and the way we're growing now, the pace that we're on, at the end of the guidance period in '28, there's no reason we're not going to be in that ZIP code.

It could be a little bit better, maybe a little bit above. But certainly, that's the striking range. And if we get some help on the macro side and we overachieve, which we're on-pace to overachieve now in spite of all the macro, then it could be better than that. But we'll just have to wait and see.

<Q – Ari Rosa>: I remember -- so a couple of years -- let me ask you maybe a slightly different way. A couple of years ago, I think at the Investor Day you talked about a 75% incremental operating ratio. I'm sorry -- yes, 70% incremental operating ratio. Is that feasible? Is that -- or incremental margin, I guess. Is that a feasible target? Is that something that can be achieved? Or is that more CP-specific and –

<A – Keith Creel>: No. No, I think we get more like CP as we grow into this thing. So yes, 60%, 70% is the range. So as we grow, and -- some of the things we're doing now, you've got to spend money to make money. This train that we're running, that 180/181, the locomotives cost the same, the cars cost the same, the crew expense is the same, the train is not as big, the margins are not as exciting.

But if you don't put the product in the marketplace, you're never going to win -- the confidence to win the business off the truck, off the highway, to the railway. But as that grows and you absorb and you get back to CP-like margins.

And that's the path we're on. That train today -- when we started it, we started the month after we took control. We were going to run it seven days a week. We had to, to prove the concept. Some days, it was 1,500 feet, 2,000 feet. Today 6,000, 7,000 feet. Parts of the run are literally more than 10,000 feet.

So again, that's turning into a pretty margin accretive train for us. Now the key is improving the profitability on what rides the train and then you get to a point where you've got enough demand adding a second train. So again, we're moving in the right direction.

<Q – Ari Rosa>: Yes, definitely. The speeds are impressive, and I think the value add to customers, you can definitely see where that runway of opportunity is.

Keith, you mentioned a little bit earlier some of the friction, we might say, with labor relations and some of the challenges that you faced last year. How are you thinking about the state of labor relations now? To what extent do you anticipate it being an issue going forward? Is there a good way to think about level of wage inflation or cost inflation that we should be looking for?

<A – Keith Creel>: Yes. It's a pleasure to say that from a labor standpoint, we're in a better position than we have been the last six, seven, eight years, the last several cycles. I say that in Canada -- Canada has been the most volatile because it's just a different model in Canada. Your contract, if it's not renewed, the right to strike or the right to self-help, it's an inalienable right in Canada.

So literally 30 days after your contract as far as you can be on strike. And it's been an environment, especially the last couple of years with all the unique settlements that have happened in the U.S., the guys and the gals in Canada say, wait a second, if the railroad industry gets a PEB and it's 24%, in the U.S., why not me? You get to a point where the economies are different, the economics are different. We had a strike last year because the expectations were -- we couldn't say yes, we just would have just destroyed tons of value. In the end, it would hurt the union, not help the union.

But that strike got settled with binding arbitration. That arbitration has not happened yet. I really was disappointed because of the time it's taking. I knew, in the back of my head, we had three different contracts that expired at the end of last year. I knew at the back of my head that those leadership of those unions were going to have a tough time saying, you need to settle for less when the expectations are high. And they probably wouldn't want to wait to get the outcome from that arbitration.

But fortunately, I was wrong. We have very good relationships with our unions in Canada. One of those three -- there's three different ones: Unifor, USW and the MWED. That's our track workers, locomotive mechanics, car mechanics and clerical employees, those three unions.

One of those three said, we're not worried about that settlement. We want to negotiate for our employees, our members. I said, great, let's do it. We've negotiated collective agreements that are -- they have term, four years. So we have labor stability.

One of the three got ratified last week, the other two are in process, and I'm optimistic they'll be ratified as well. We'll know by the middle of March, and that puts us in a great place and the wage increases are 3%, which are more historical-type numbers. They're not astronomical numbers.

So they're fair numbers for the employees, fair for the customer, fair for the company. So with that pattern set now, I'm hopeful, and understanding the way arbitration works, it makes – it will have an impact on the arbitrated settlement.

So if it's similar to that, which I would expect it's not going to be radically different, we get to a place, if we get term with that arbitrated settlement, where we could have labor peace in Canada for four years. That hasn't happened in a long time.

That allows the new governments -- that allows things to stabilize, inflation to come – to normalize. That allows us to continue to win business, develop relationships with employees and hopefully, next time get to a place with all the unions, not just this one that we've had a challenge with where we can actually negotiate a settlement.

<Q – Ari Rosa>: Yes. I think a lot of people would be certainly encouraged to see that visibility or that certainty.

Maybe on the pricing side of things -- for a long time obviously, the rails have talked about being able to price above inflation. What's your level of confidence that you can offset some of those wage increases with pricing, especially given where the service is? Should we almost take that as a given, that you can get price to offset that?

<A – Keith Creel>: Well that's always been the starting point for us. If I have to pay my employees more and they earn it, and we're going to share that -- the customer is going to pay that. So the difference now that we have a new network and a new product, it's the value proposition. It's how much value can we bring to the table and, again, because of our network they own less cars, they have more reliable service.

It's that -- it's selling the product that gives us the difference. So historically, 2% to 3% in bad times, 3% to 4% in good times, that 3% to 4% in this world, with this railroad, with this value proposition, is a 4% to 5% number. Customers understand it. It's not -- they're rewarding us with their business. We're earning their trust. They see the value in in it. Our marketing team understands that's what we're doing.

We're selling value. We're not going to be commoditized. We're not a commodity. We're a unique railroad with a unique network that nobody else can replicate that brings unique value to our customers. We run it different.

I mean if you, historically, look at the last four or five years, the pandemic, through all the – I would call, implementation challenges that the U.S. rail network experienced and our customer experienced, it did happen with us. We're integrating two networks. We're doing the first major merger that's happened in two and a half decades.

In spite of all that, we're still providing a reliable -- truck-like reliable network that allows us to continue to grow with our customers. They're winning in the marketplace. We're winning the marketplace.

So as long as we run the railway that way and we will, you don't destroy your value proposition and you can take -- you should be taking more price than just being a commodity.

<Q – Ari Rosa>: So maybe there's a big part of the answer to this next question, but you've set a target for double-digit EPS growth through 2028, I believe. And for this year, I think you were talking about 12% to 18% EPS growth. How should we think about what are the conditions that cause you to come in at the high end of that versus maybe at the low end?

It sounds like if the service is there, you can get the pricing and that, in turn, drives some of this EPS. I mean what -- I guess exactly that. What causes you to be at that 18%?

<A – Keith Creel>: I think in a world where we get a little bit of help on the macro side, some of this uncertainty around trades and tariffs, if it plays out the way I think it's going to play out, we're going to be on the upper end.

If I'm wrong a little bit, we could be in the middle. That lower end, I think is a worst-case scenario. I don't see that a place we're going to go to. We thought it was a responsible thing to do for our shareholders to have the range because there are scenarios where you could argue a worst-case scenario, but we're not focused on that.

We've started the year strong. We've got a lot of demand that's unique to the industry. We had a phenomenal January. We're having a strong February. The weather is breaking in Canada on Thursday, and next week, excuses are over, we're back to good railroading. We're going to have a strong quarter, and we're setting ourselves up well with all those moving parts for -- to have a very good year.

<Q – Ari Rosa>: It seems like now we've gotten past some of these uncertainties. And, Keith, I think for a lot of us who follow the rail industry, we tend to think of you as almost an operator first. Where do you see the biggest opportunities from an operating standpoint, whether you want to talk short, medium term or longer term?

And I know we talked about KCS a little bit, but as we look across the network, where do you see the biggest opportunities?

<A – Keith Creel>: Well to me the key is on our legacy CP network, not to forget what got us there. And Mark and the team are doing a really, really strong job. The two leaders that we have out there are pure operators. They get it, they understand it. They haven't slipped at all.

In fact, they continue to build upon the success. They're getting incremental gains. The quantum changes are closing the gap on the legacy KCS, more so now the Mexican piece.

It's not because of talent or want to, it's because of infrastructure. They're disadvantaged and they're uniquely different. That particular railroad is the industrial heartland of Mexico. It's like one big, long switching lead, and the way they've ran it, and I'm oversimplifying it, but effectively, they've allowed conflicts to exist for decades between freight trains that want to go from point A to point B at a high rate of speed and local switching customers in and out. They're weaving and coexisting.

Part of the beauty of this is to simplify and unscramble the egg and spend some infrastructure dollars and create dedicated switching leads that customers -- switchers can go switch, customers get service and that main line train can keep moving from point A to point B.

So last year, there were six different locations we identified in and around Monterrey, in and around Benjamin Mendez, down at SLP, down around Queretaro, which are all heavily industrialized locations, those infrastructure projects -- I think four of them came online, two more will come on first half of this year. Then we have another three or four that we're going to work out the balance of this year into next.

So as you convert those bottlenecks and take that friction out of the network, you're going to start to see locomotive productivity continue to gain. It's already double-digit improvements. It's substantial, but the gap is big from the CP standard to where the KCS Mexico standard is.

It will never be the same, but there's quantum differences and leaps that we're making in progress. You'll see it in train speed, locomotive productivity, crew cost, recrews, switching productivity in the yards, dwell in the yards.

So it -- it hits the whole balance sheet when it comes to operational efficiencies. It's a multi-year process. It's going to take four, five, six years to really make huge change because you can't do it all overnight.

So we're seized with doing that. We're focused on doing it, and you're going to see it ripple the entire network as we do.

<Q – Ari Rosa>: So it sounds like there's still quite a lot of opportunity there.

<A – Keith Creel>: There's a lot of opportunity still there.

<Q – Ari Rosa>: Now I know we talked about the political situation in Canada. Obviously U.S. is a bit in flux. We've had changes at the STB, there are leadership changes at the FRA. How do you think about the impact of those changes? Are there any regulatory changes you'd like to see come through? And how do you think that impacts the industry as a whole?

<A – Keith Creel>: I think the industry is poised from a regulatory standpoint to make some quantum leaps.

We've been -- quite frankly, the last administration set us back a bit when it came to implementing technology that drove safety improvements or efficiency improvements. And quite often, they are coupled together because a safer, more fluid railroad is going to naturally drive efficiencies. We were set back. We couldn't implement anything. There are several initiatives on our railroad that we've already got labor buy-in at a local level, where you would argue the impact would be, specifically at Laredo is a location in point. We've got the processes ready to go, we just haven't had a receptive audience. So I'm extremely encouraged.

David Fink, who is a retired -- was the CEO of Pan Am, long-term railroader. He gets and understands labor. He's always worked well with labor. He gets and understands customers. He gets and understands the value of investing in technology that will drive safety and efficiency improvements.

You could get a regulator that has that kind of understanding with an administration that believes in the same things. Vice President Vance has signaled he’s supportive. The President has signaled he's supportive.

That's a beautiful opportunity to do things from an investment standpoint that allows significant changes, which is going to help the industry and uniquely for us. One of these, particularly at the border, is going to increase border security, and car fluidity.

Today, specifically, unlike Canada, a train in Canada that's tested to the FRA standard can operate across the border, it's seamless. You got to go through inspections for what's on the train but not mechanical inspections.

In Mexico, it doesn't work that way. In Mexico, we test the train to the FRA standard in the Mexican yard on the other side of the border, but seven miles up the railroad, we have to stop it again in our U.S. yard to do the exact same thing.

So every train that crosses that border that’s five, six hours’ worth of work. It's delaying locomotives; it's delaying cars; it's stopping a train and allowing perhaps an illegal immigrant to board the train, to ride it into -- deeper into the U.S. It's just wrong, period. But we have not had a receptive administration to help us change it.

So rest assured, as soon as the FRA administrator gets in his seat, I'm going to be there, maybe the day ahead, waiting to speak with him to explain the logic, the benefits for the industry and hopefully secure a waiver so we can start to implement that change.

<Q – Ari Rosa>: So it's interesting in my seat -- obviously I get the opportunity to talk to a lot of investors.

It feels like -- and maybe, in fairness, maybe it's not as much directed at CP, but it feels like there's been a little bit of frustration with the rail industry, and it feels like maybe the view of PSR as delivering shareholder returns, as being a driver of shareholder returns, has run its course a little bit.

As we think about -- the rails had a very good decade. And then more recently, we've seen OR's turn a little bit higher, and maybe investors have gotten a little bit more cynical about what the path forward is for the rail industry. As you think about the next five or 10 years for the industry, what do you think really is the big driver of outsized returns?

Is there a way that, if we're sitting here five or 10 years from now, we say the rails outperformed the S&P for a second decade in a row. What do you think would be the driver of that?

<A – Keith Creel>: I think it has to be driven by growth. And the rails that understand -- PSR is just -- it's a process. It's optimizing processes that allow you to create reliability, that allow you to drive unnecessary cost out, that allows you to make a business ratable and optimal. Then you take that in the marketplace because you've created a reliable product and you convert it.

You have customers that, historically, because our service has not been dependable, that outsourced and pushed to the truck, pushed to the highway. Again, back to the point you made earlier, when somebody's job is on the line, they're not really too motivated to make a modal shift if it means you're going to fail. They take those decisions seriously.

So the railroad that gets that right, develops that credibility, they're going to have an opportunity to grow and then they have to be entrepreneurial. They have to create new milestones that, again, from a competitive standpoint are not easily replaceable, they create a stickiness with the customer. They create a strategic partnership instead of just being transactional and being a commodity.

And you won't ever get it all right. We haven't gotten it all right, but we've created a roadmap at CP because we had to. We were small; we had to compete against somebody much bigger than us. To be able to grow we had to become entrepreneurial. We had to provide service that our competitor couldn't provide to leverage our network. And now we're doing it at a bigger scale.

But any railroad can do it if you're wired the right way. I see the movement. I see, not just the things being said, but I see the actions. It's -- some more than others, some are more equipped than others. But it's like anything else. When you create success, people watch, people learn, people listen; they'll start to pick it up. They'll have to if they're going to survive and compete. Their shareholders will demand it.

<Q – Ari Rosa>: Yes. It's definitely encouraging to hear, and I'm sure a lot of folks in the room will be excited to hear that. But let me see if there are any questions.

Looks like no. Let me ask maybe one or two more in the minute or two we have left.

So you've targeted buybacks this year. How should we think about the magnitude of that? How should we think about the free cash flow that CP can generate? Want to talk about 2025 or over time. We've seen buybacks historically been a pretty big contributor to total EPS return. How should we think about that for CP going forward?

<A – Keith Creel>: The free cash flow piece, I would suggest -- as we guided, we said 90% free cash flow by the end of our – when we get into '28, that's going to happen. When it gets to getting back to the market, we took a holiday. We've had to pay our debt down.

We're getting back to our target range. I would say our target range is probably adjusted a bit. We just had our credit rating upgraded a couple of weeks ago, I guess Chris? And we're probably instead of the 2.5x I would suggest we're going to be closer to the 2.75x. We think that's the right place to be.

So I would suggest in the not-too-distant future, we'll be going back to the Board of Directors and saying it's time. We're investing in records amount of capital, customer or a regulator can't say we're not investing in growth, we are. We've demonstrated that over the years.

We got our debt -- our balance sheet back in a good place, and it's time to do something with that extra cash. So you'll see a recommendation where we'll do a little bit with dividends, but the preponderance is going to go back to a share buyback program that, I would suggest, assuming the Board supports, which I can't believe they won't. Second half of this year, we'll be back in the market, if not sooner.

<Q – Ari Rosa>: Got it. So maybe just last question, Keith.

As you think about the rail industry and a lot of people regard you as a thought leader, I think, very much appropriately so. But as you think about the two or three innovations or structural changes in the rail industry coming down the pipe, what do you think those are? Maybe even if you want to talk more broadly about the transportation industry? Because obviously there's a lot of talk about autonomous trucking and the impact that could have.

We've seen -- we've had an opportunity to see some of the non-diesel or alternative fuel locomotives that you guys have. What do you think is most impactful for the rail industry?

<A – Keith Creel>: Huge innovation. We have to have the right regulations, and maybe, I believe, we do. We're moving to the right place with the right administration that could help pave the way to restart innovation when it comes to technology.

I'm not a proponent of single man crews. So that's not what I'm saying. I don't think that's in -- anywhere in our near future. I don't think the components of the trains are reliable enough.

We're running bigger trains. It means less tolerance, trains break in two. You've got to walk – the train's two miles long in the middle of the snow. That's a long way to walk back and change a knuckle, one man or one woman. It's a tall task.

So I'm not a big proponent of that. But these other technologies when it comes to investing in inspections of cars, autonomous inspections, cold wheel technology, some of the things we've innovated, quite frankly, and accomplished in Canada, bringing that bigger scale to the U.S., I think is a leading room for force.

The other, I think, is innovation around the products that you create. Again, what we're doing with Americold, that's unique to the industry; it's enabled by our network. But there are other nuances to every individual rail network.

If they'll get entrepreneurial and really think out of the box, and they really want growth, they can work with their customers once they establish a relationship with them to create solutions for them.

So the marketing teams are going to have to do that and innovate in that way and I think they're going to grow.

The other piece, I think, is unique to us, what we do with this network. It's pretty innovative to connect three countries.

So as we grow forward, and I've said this, this network, I think, is the most relevant today in a decade from now, in two decades from now because there will not be another one. You're never going to have another railroad that connects all three nations.

In spite of all the maybe volatility around trade right now, in the end, these three countries will grow closer together and we're an enabler for that prosperity.

So it's how we build it out, make sure we get the pieces right. We don't oversubscribe the network. We go slow, we go methodical, we don't spend money to spend money, but we create those strategic partnerships and niches in the marketplace. You're going to see innovation at this network, I think, unparalleled in the industry. It's going to help us pave the way to being the most relevant rail network in North America.

<Q – Ari Rosa>: Do you see autonomous trucks as a threat at all?

<A – Keith Creel>: Not in the near future. Again, I don't -- that regulatory step, the public's ability to accept that, that step is big. I know I don't want to drive on the highway with one of those big trucks beside me, it's a little scary.

I think maybe five years beyond maybe. But again, I think it all depends on what the solution is because you can make a case, we could partner with those autonomous trucks. We do a lot of dray moves.

We do -- especially our railroads unique, it's more wholesale moves in the U.S. when it comes to domestic intermodal. When it comes to what we do, it's retail. So it's door-to-door. So we haul it in the middle. If I can get an autonomous truck, instead of having to go out and source in a competitive trucking environment, I can control the cost, and I can let the door to the ramp be the autonomous truck. I like that scenario. That's not a bad outcome.

So I think we can control what you control, when you (technical difficulty) how to succeed in any of those markets. But a huge material threat? I don't see it happening right -- anytime soon.

<Q – Ari Rosa>: Got it. Well exciting opportunities underway. Thank you for joining us. This has been great. And hopefully it's been valuable to all of you folks.

<A – Keith Creel>: Thank you, Ari.