Transcript

2025 Barclays Industrial Select Conference

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Webcast

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

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Brandon Oglenski – Analyst, Barclays

PRESENTATION

Brandon Oglenski
Analyst, Barclays

Good morning, everyone. I'm Brandon Oglenski, Airline and Transport analyst. And welcome to Barclay's 42nd Annual Industrial Select Conference.

Very pleased to have Canadian Pacific up on stage. That's Keith Creel, CEO; and Chris de Bruyn, Head of Investor Relations. I know we're going to have a great chat.

But if we can queue up the audience response questions first, just like every presentation here. Do you currently own CP -- overweight, market weight, underweight or no? And Keith, everyone has been asking up here if they can get a vote. But we don't want to skew the results.

Keith Creel
President and CEO, Canadian Pacific Kansas City

Well I'd say I'm overweight.

QUESTION AND ANSWER SECTION

<Q – Brandon Oglenski>: Can you go ahead and vote, please? All right.

Then question number two. What is your general bias towards CPKC right now? Positive, negative or neutral? Sorry, I should have said Canadian Pacific Kansas City. I got that wrong at the beginning – alright, favorable crowd.

Then question number three, please. In your opinion, through cycle EPS growth for CPKC will be above peers, in line with peers or below peers? Very favorable skew.

So gentlemen, thank you again for coming down. Really appreciate you being here. Keith, I'm just going to open it up because, obviously you're a railroad that touches Canada (technical difficulty) -- you're the person of everyone here that might know the most.

<A – Keith Creel>: Well I don't know that I know. If I could figure that one out, then we could be making a lot of money.

So you want to start with tariffs? At a high level?

So obviously, certainly, tariffs are a topical discussion. It's something that has -- with President Trump's focus on rebalancing trade, has a lot of people's attention. I'm not going to suggest that it doesn't. That said, there's a whole lot of uncertainty in it.

We've had a lot of time to think about it. I don't know exactly where it's going to land, but I believe this fundamentally: that these three nations have never been more interconnected, never needed each other more, especially since the pandemic.

Nearshoring has increased the connectivity. So to have trilateral trade between our three nations, I think about the alternative. What is the alternative? We can't do it all in the United States. Will we

build more manufacturing capacity? I suggest that we will. I believe that President Trump wants to do that. I think that by balancing of trade, that's going to allow us to do that.

But are we ever going to bring it all back or do we have the labor capacity to bring it all back? I think we all understand and know, the answer is no. There is no way to bring all that manufacturing back to the United States and not drive just outrageous wage inflation. There's just not enough workers.

I think about our industry itself. I think about three or four years ago, how dire -- short we were (technical difficulty) and get people to work in a world where people's expectations are different and the world needs to work as long as they typically work and/or to even come to work is dramatically different than it was in the past.

So I think when you think about that, I think you think about the capacity of what we can do, what we can manufacture, what resources we have, I think these three nations need each other. I think that we need the potash that's grown, that's coming from the ground in Canada to raise the crops that feed our mouths in the United States and also filled an export market for our farmers in the Midwest.

If you don't have that potash, how do you get the yields from the fields? Where do you get it from? Do you go to Russia? You go to Belarus? That's other location where you can get it from. So if you get to the facts, I think the facts are President Trump wants to drive a balance in trade, and I think that's going to happen. It's going to get more equalized.

I think President Trump wants border security, and he wants drug trade to be slowing down. I also think that because of his strong positions in that space and the way he's came out aggressively, doing what he said he would do, that you've seen Canada and Mexico respond in a way they never would have responded otherwise in a way they've never responded before.

So as we get into this, I think what happens probably is USMCA, instead of being negotiated in '26, is going to be pulled forward. Why will we not? I think getting to a point of certainty for everyone is in our best interest. It's in the best interest of Canada, the U.S., as well as Mexico.

I think that the Mexican administration, and I met with President Sheinbaum, gets and understands how critically important trade partners the U.S. is to Mexico as well as Canada, and is willing to drive change and to protect that relationship and open to change. That's exactly what's happening.

I think Canada right now is going through a change in administration. I think the sooner we get that settled, the sooner we get the new government into place, whoever it's going to be with our transition from Prime Minister Trudeau to that new Prime Minister, I think that gives us a place that then the Trump administration will know who they're negotiating with. The people that make the commitments are the people that are going to essentially cash the checks and we'll get to a more stable trade environment, and we'll take a lot of this uncertainty off the table.

But in the end, long answer to getting there, we are uniquely positioned given that we connect all three nations to enable that outcome. So maybe there will be some shifting, but perhaps some things that are coming north out of Mexico might be originating in the U.S., but also some of the things that are not going to Mexico as part of that trade balance could begin flowing to Mexico again.

So if you're the railroad that can connect cradle-to-grave, origin-to-destination, Canada markets to Mexico, U.S. markets to Mexico, and vice versa, you're going to win in the end. We're in a position

that I think when it's all said and done, we're going to uniquely benefit and enable the countries to thrive together in an increased trade partnership.

<Q – Brandon Oglenski>: Well I really appreciate that thorough response on tariffs because it is a huge issue at this conference for not just transportation companies, but everyone across the industrial spectrum.

But specific to your company, Keith, you guys have had pretty tremendous outcomes after merging with Kansas City Southern and I think you completed that in 2023. Can you talk about -- and I guess this is a competitive environment. You had one of your competitors up here just a second ago saying how their operating ratio is better, but you guys do have the strongest earnings growth, I think, of the publicly traded rails. Can you talk to what is working in 2025?

<A – Keith Creel>: Yes. Let me start with that. To me, I'll be number two in operating ratio as long as I'm number one in earnings. That's what I get paid for and that's what my shareholders expect. To me, that's the number one metric.

So that's what we solve for. It's about driving earnings growth. In the way that we're doing it at CPKC with our new network in spite of the macro, it's because of the new products that we've created. It's because our network is now uniquely connected together, allows us to present products to customers that, quite frankly, have never been possible before in our industry.

So the places that we're seeing outpaced growth beyond what the macro gives you, which it hasn't given you a lot, is in the automotive space. We created and have proven the concept that's growing in acceptance and growing in impact in what we call our closed-loop automotive system.

So if you've been in the industry a long time, and I have -- I had some experience working for the other railroad in Detroit, 20-something years ago, and the way that system works is essentially one railroad originates the other railroad terminates.

So there's a lot of automobiles that are made in the Northeast part of the U.S. or in Canada that go to Chicago. They get handed off to a Western rail, whether it's BN or whether it’s UP, to go to the dealerships and the parking lots, say in Dallas, Texas. That's the way it's been forever. Well when you do that, you're only as good as either one of the partners.

So if you deliver to a railroad in Chicago and that car doesn't come back empty, so that you can take it back to the plant to load it again, if you're the originating carrier, you're the one that they get frustrated with. You're the one that's answering the phone, where are my cars, you're not spotting my cars, I've got cars coming off the assembly line, there's nowhere to park them, I'm going to shut my assembly line down.

I went through that. I went through a lot of pain and suffering, I would say, not abuse but verbal, uncomfortable discussions years ago, and I said if we could ever create an ability to originate and terminate and take the middleman out, take the complexity out, that's powerful.

So as soon as we took over the railroad, there was a shortage of railcars. So that problem that I'm talking about was exasperated. There was a critical shortage where all the OEMs, whether they're origins in Mexico, whether they’re origins in the Northeast, there's not enough railcar supply because we all share the same cars. They're being interchanged to each other.

So it gave us a chance to go and say listen, we can originate it, we can terminate it. I can create your own guaranteed railcar supply because I'm not interchanging with anyone. If I can do that, and you're willing to pay me more money, I'll go buy more cars and I'll guarantee you car supply.

So that's what we introduced into the market in '23. That's what's been driving our more than the industry standard, and winning share as a result of it because it's a different product. It can't be replicated. It was never possible before you put these two companies together.

So now we have the strongest automotive originating franchise in North America. It's unparalleled. UP doesn't have it, BN doesn't have it, CN doesn't have it, CSX doesn't have it, NS doesn't have it, we do.

That's part of the value proposition. The other piece: intermodal growth. We've lived in a world now for the last several years that there's been more supply than demand. So truckload rates are kind of bouncing on the bottom. It's tough for a railroad to make money at some of those rates.

So it's been a headwind for domestic intermodal moves. Our network, the thing in Canada that was unique to Canada, the length of haul. Length of haul for a domestic move in Canada on our network because the cities are so far apart -- the country is so large, it's 1,700 miles. That creates a natural hedge to being so truck-sensitive to the truck rates because of length of haul.

We took over the railroad. Now with Chicago, we put the service in place one month after we took control back in May of -- I think it was May 10th of '23, and I said we've got to put the product in the marketplace and prove it. We're going to do Chicago to Mexico, what we did in Canada.

So that service, we call it 180/181, that's the Midwest Mexico Express. It launches from Chicago every night, four days later, a truck can't beat it. It's either in Monterrey or it's in Southern Mexico at San Luis Potosi. 98 hours, in under 100 hours, and it makes a problematic border that's not open 24/7 for the trucks, it makes it seamless. It's unparalleled. You can't compete with it.

UP can't do it, they don't control -- they don't have that route. They're better to the border, perhaps from Chicago. But what they gain going to the border, they lose in Mexico because their length of haul is longer in Mexico. And again we control it. One railroad, one accountability.

So that service has been put in place, and we've grown that over the last year and a half. Every month is a record again and again and again.

So again, that's a different outcome. In spite of the macro, we are able to grow our network because of that unique product. That's just two of the examples. I could talk each business line.

We've got a whiteboard, we're able to go out and bespoke and create things that have never existed before. If you're in the railroad the right way and you provide truck-like reliability, which is what -- I don't apologize, we are a PSR railroad. We're a scheduled railroad. We get paid to turn assets that allow us to control costs that allow us to give a customer a truck-like experience. That's the reason you can grow and outpace on an earnings side.

And your operating ratio, as a result when you grow the top line, because you're doing it the right way, you're going to naturally fall to the bottom line, but I'm not enamored with being number one. If I am, I am. That's great. That's an outcome.

What I enamored with is staying in striking distance, so you don't disadvantage yourself from a cost standpoint to play in markets and drive earnings growth, outpaced earnings growth, and that's exactly what we're doing.

<Q – Brandon Oglenski>: Well I definitely want to keep this conversation long term in nature, but Chris, can you just talk to what we're seeing more than halfway through the first quarter now?

Because some of your competitors have called out weather, and I think it's pretty cold up in Canada right now.

<A – Chris de Bruyn>: Yes, absolutely. We certainly had a very strong start to the year in January, volumes up double digits. Last two and a half weeks, particularly in Canada, but across the network, we've been in a deep freeze. Good (technical difficulty) -- demand remains strong, and we're expecting a very strong finish to the quarter.

<Q – Brandon Oglenski>: I guess from a seasonality perspective, I mean there's always winter in the first quarter, right? So is this any unusual from the past?

<A – Chris de Bruyn>: No. It's been extreme, but it's an outdoor sport. We deal with it every year. We plan for it. The network is held in well. The service has been strong, and we're expecting a strong result here in the quarter.

<Q – Brandon Oglenski>: And on a revenue ton-mile basis, I think you're tracking up about 5%, is that right, on volume growth? That's pretty much in line with expectations for the full year. Is that right?

<A – Chris de Bruyn>: Yes. That's right. We expect to deliver mid-single-digit volume growth on the year and first quarter is tracking right in line with that.

<Q – Brandon Oglenski>: And Keith, you've stressed over the years, I think, constructive tension with the team, right? How do you deliver -- how do you sell to a customer and then deliver against those commitments, right? How important is that? And is this auto closed-loop system, just really a reflection of that constructive tension?

<A – Keith Creel>: There's got to be accountability. Number one, it starts with the plan, understanding what your capacity is of your network and not oversubscribing it. You sell the plan, you commit to the plan and specifically in this automotive loop, we have never before had take-or-pays or financial penalties in our automotive contracts, because we've never controlled the supply chain.

We've always been – again, I'm not going to agree to a financial penalty, when I'm only taking it half the way and my success is determined by the other railroad doing the other half the way they're supposed to based on that cycle plan and getting the car back to me. You just wouldn't do that.

It's like having a gun stuck to your head and you really don't control if the trigger's pulled or not. With this closed loop, it's different. You do. So you take the excuses away. So when you commit to it, there's a certain level of cars you're going to commit to give (technical difficulty) penalty. So my team knows as we create this process, and it's a combination of the automotive demand and our car cycles and our service design, this is what's possible. This is what we've committed. The local operating team knows these cars are going to General Motors, for instance, in this case, at Oshawa, this is how many we spot per day. This is how many we spot per week. That's the standard.

And if you -- there's any reason you're going to fail, it better be something -- it better be a reason you can't control, and then we recover.

So there's enough flex in the system that we're not trying to manage to perfection. We understand that. It's working both ways. It's not just what we spot, it's also what they loan. That was part of the crisis we went through. I remember the many conversations. We've got thousands of cars parked on the ground. I need more railcars.

I said, well wait a second. I get it. But we gave you a expedition (technical difficulty). We gave you 500 last week and you only loaded 400. I've got three other OEMs that needed those 100 cars if you don't want to load them. Well what do you mean we only loaded 400? We got 50,000 on the ground. Well I'm just telling you, I know the numbers. We looked at it, let's work together and figure out why you've only loaded 400.

So you get boots on the ground, you go out to the facilities when they load, you identify weaknesses in their supply chain. (Technical difficulty) – need 600. So when you get aligned and you create this tension and accountability and transparency and KPIs that you go through on a routine basis with your customer, you create a strategic partnership, you create a commitment to each other.

So there's tension created and accountability to each other, not just financial but in reality because it's transparent and it's exposed and you work together to create solutions that make both companies better.

In fact, I'm extremely proud of this. General Motors is -- and I know this from two decades, they're demanding. We committed to them, they introduced this auto supply chain. We have these commitments tied to each other.

We went through the pain and suffering and the hard work of not just how we optimize our network, how we helped them optimize their facilities where they make the cars, produce the cars. And as a result of that, in '23, what was a crisis, we cleared up pretty quickly for them. '24, literally, I got an email three weeks ago from their head of purchasing, global purchasing, and it was email that you've been awarded for your service, come join us as we celebrate our suppliers because of your exemplary service at CPKC.

I would have told you I would have died and that never would have happened because of the – my history, my experience and -- but we created something special.

So they've got literally 20,000 suppliers. You know how many suppliers get awarded and recognized? Will you come join us this event is going to happen, I think April the 7th through 10th out in Arizona. Out of that 20,000, you know how many have selected?

<Q – Brandon Oglenski>: I don't know.

<A – Keith Creel>: 100. You know how long it's been since a rail has been selected? They couldn't tell me, and I can't tell you, it's unheard of. But again, the power of that, you create that kind of success with a customer, you give them a competitive advantage and guess what happens as a result?

The people that have to compete with them, they're starting to say okay, wait a second. What's this all about? How does it work? And that allows you to continue the momentum, success breeds success and create that same ecosystem for the other players that are willing to pay for the value of it and put skin in the game and create that tension that allows both organizations to really thrive and succeed.

<Q – Brandon Oglenski>: Sure. And by the way if there's audience questions, just raise your hand high, and we'll get you a mic.

Keith, I think some criticism, maybe not specifically of your company, but of the rail industry in general, is that there's just not a lot of volume growth. In fact, if you factor in the decline in coal, it's actually underperformed macro. But it looks like the operating formula you have here is actually

capitalizing on that highway conversion because that traffic from GM is coming from somewhere, right?

<A – Keith Creel>: Yes. The reality for volume growth to come, the railroads that connect have to continue to establish themselves as a reliable and trustworthy supply chain partners.

We have to create, and I call this truck-like reliability, because that's why trucks have eaten their lunch forever. You could be the one that makes the decision to trust your job with a railroad solution and it costs you your job.

So what do you do? You go to where you have more flexibility, you don't have fixed assets, you have a truck. If one trucking company doesn't do the job, call the next one. The highway is the same, everybody uses it, the road gets to the dock. It could be Johnny Trucker or it could be Terry Trucker, it doesn't matter.

But the railroad is not like that because you have these fixed assets in the track and there's issues with access and control and who you serve and who you don't serve. So when you make that modal decision, you've got to be able to trust them.

So we as an industry have to continue to earn back our reliability to be truck-like reliable. Then you can get the synergies, the environmental benefits, the economies of scale, the cost savings, and you're not jeopardizing the success of your company or your job and your decision.

So as we do that, you're going to win more truck share to rail. The other piece is you got to be more entrepreneurial. You got to go out and not just do the same thing you've always done. You got to go out and partner strategically with customers and say, listen, let's do something new. Let's look at your book of business. What are you spending on truck?

Okay. I've got some land in Wylie. I can build -- I've got 500 acres. I can build an automotive compound. I'll cover the cost of doing it. You give me some business to make sure it earns a return and let's do something special. And guess what, it happens to be located next door to the intermodal terminal.

If it's located, it's feeding your manufacturing, it can also feed your parts. If you created that strategic relationship, there's automotive parts today, most of which, if they're shut down automotive parts, they're not moving on the rails because again, we've not had or earned the trust for them to take the risk.

But if you've earned the trust and they take the risk and we're starting to move more auto parts now that could shut an assembly line down, what happens? Well we've got your finished vehicles going to or coming from Wylie, for instance, what manufacturing do you have around here where you've got trucks coming from the Midwest, or parts and trucks coming from the Midwest or from Mexico, engines, transmissions, body stampings that could feed your production in Texas. Give us a chance to earn that business.

Those are the kind of solutions that as you develop the trust and respect -- if you're entrepreneurial and you're willing to put skin in the game and think outside of the box, you can go to a customer and you can create new mousetraps that will drive growth, and that creates a stickiness in a strategic partnership instead of just being transactional.

<Q – Brandon Oglenski>: Appreciate that Keith. And I guess sticking with intermodal real quick. You did have a contract transition to a competitor. I didn't see a lot of growth, at least from a volume perspective, but that's changing now. Is that right?

<A – Keith Creel>: It is changing. We had -- I would say -- and I don't want to say this in a negative way.

We made some strategic decisions to pick our partners wisely so that we can improve the profitability of our book of business and improve our service offering, take out complexity and also to make room for, what I think is going to be -- become a game changer in our industry and a new strategic partnership in Gemini.

So if you think about your partners, picking your partners wisely, to me, picking someone that allows you to convert your reliable service into value for them. That's how they win more shipments on their ships, which means I have more containers on my railway.

So Hapag-Lloyd and Maersk, two big steamship players. Hapag has had a long history with Canadian Pacific. They've been our premier account for a long time. We're their biggest transportation provider in the world. We have a very trusted, strategic partnership. They decided that their alignments and their steamship alliances were not allowing them to turn their assets. You're only as good as the people on your boat. If they don't -- their boats when your containers are riding their boats and they want a slow steam, your schedules get impacted.

So Rolf said that that's -- I want to create a superior service, so I can turn my assets. I can provide a better product to the customer, they're going to be willing to pay for it and guess what? That's PSR on water.

So that concept, big scale, Maersk partners with Hapag-Lloyd and Gemini, it just launched in February. Now we're going to the market together. They're partnered with the best-in-class railroad that has a network unparalleled to anyone else because we connect all three nations, East Coast, West Coast in Canada. Gulf Coast in Mexico, Houston Coast, Baton Rouge Coast; we have an unparalleled network now. That product in the marketplace is going to be a game changer and they're going to grow.

So we made a decision last year, and you saw this in our numbers, we demarketed from one particular customer to make room for this strategic opportunity. So we took a little bit of a haircut, volumes go down a little bit, it dilutes or hides the growth that we're really experiencing as a step back to step up.

So as we start to roll this out and it gains traction, not even this year, but next year. Once they start to convert that value proposition in the marketplace because these contracts are awarded every year annually, you'll see this year, because of contract wins, you're going to see growth on our side.

But to me, the exciting part is what happens next year and what happens in the following year because of this new strategic alignment.

<Q – Brandon Oglenski>: If we can queue question number four, please. In the back for ARS question number four.

In your opinion, (technical difficulty) cash, first; two, M&A; three, share repurchases, four, dividends, debt paydown or internal investment? We only have a few more minutes gentlemen, but this has been a great conversation. It looks like share repurchases.

Then question number five, please? In your opinion, what multiple of 2025 range should CPKC trade?

Go ahead and vote, please.

All right. Then lastly, what do you see as the most significant headwind facing CPKC, core growth, margin performance, capital deployment or execution? All right. Core growth.

Keith, I know we only have a couple of minutes here, but I want to touch on labor and all the disruption that we saw across the supply chain and specifically your network too, in the past two and half years, has it impacted competitiveness, maybe not necessarily on your network, but for Canada in general.

<A – Keith Creel>: I've got a pretty strong belief – labor reliability and labor predictability matters tremendously, especially in Canada because there's two railroads up there. What's happened over the last two years has hurt the reputation of Canada, and it's hurt our employees, quite frankly.

So what is occurring now, which I've never been more optimistic with us negotiating and ratifying what I would call more traditional, reasonable, sustainable collective agreements that are good for the employee, good for the customer, good for the company, it's encouraging.

So last week, we announced with the MWED, which are the men and women that maintain our tracks, a four-year. So we've got term. So there's going to be labor stability for the next four years. The terms of the agreement, 3% general wage increases for the four years. There are some minor tweaks with other comp and benefits. There's some in it for us. There's some in it for them that allow us to self-finance with synergies, more reliable service, and it sets a pattern.

For the other two contracts, we've got Unifor, which are the men and women that operate on our -- maintain our locomotives and our cars, as well as the USW. So we've got thousands of employees in Canada. Those other two contracts, the ratification is ongoing now. We've got a very encouraging report from the union leaders that's going to wrap up in the middle of March, so I anticipate they'll be ratified.

Then the last one that's hanging out from last year is the arbitrated award that still has to be arbitrated with the TCRC Running Trades employees. And I'm advocating for labor stability. The country needs a break from the labor fatigue and the constant cycle of strikes.

So I'm hoping that outcome of that term can be a three- to four-year term. Four is what I want for those reasons. And again, these others that we've got to negotiate, they become patterns that when an arbitrator has to make an arbitrated decision, if you don't negotiate something differently, they have bearing.

<Q – Brandon Oglenski>: I really appreciate the conversation.

I guess I'll just wrap it up with one quick one. Are we still on track for that long-term guide to –

<A – Keith Creel>: Absolutely.

<Q – Brandon Oglenski>: -- potentially double EPS by 2028?

<A – Keith Creel>: We led the industry. That's what matters. Number one, we were 11% last year. We said 12% to 18% this year.

I think we're going to be on the higher side of that, not the lower of that range, and we're set up with what we know going into the consecutive years, unless we have some macro shock that I can't predict, we're going to meet and exceed that goal.

<Q – Brandon Oglenski>: Keith and Chris, I really appreciate being here. That's a bullish presentation. Thank you.

<A – Keith Creel>: Thank you.

<A – Chris de Bruyn>: Thanks very much.