# Transcript

## 2025 Wells Fargo Industrials & Materials Securities Conference

### June 10, 2025

**Webcast**

**Corporate Participants:**
Nadeem Velani – Executive Vice-President & Chief Financial Officer, Canadian Pacific Kansas City
Mark Redd – Executive Vice-President & Chief Operating Officer, Canadian Pacific Kansas City

**Other Participants:**
Chris Wetherbee – Analyst, Wells Fargo Securities

# PRESENTATION

**Chris Wetherbee**
*Analyst, Wells Fargo Securities*

Okay. I think we're going to go ahead and get started. So we're kicking off this morning. We're really excited to kick off the 2025 Wells Industrial and Basics Conference here in Chicago. And thanks, everybody, for joining.

I'm Chris Wetherbee, the Senior Transportation Analyst here at Wells. I have my team here as well. I'm very pleased to be joined by Canadian Pacific to kick off the conference. I think this is going to be a great way to start and start talking about what's going on in the rail space. We'll have transport companies pretty much throughout the day, as well as into tomorrow, so it's going to be a great lineup.

So from Canadian Pacific, we have Nadeem Velani, who's EVP and CFO, as well as, Mark Redd, EVP and COO. Chris de Bruyn, VP Capital Markets and Treasurer, is in the audience. Gentlemen, thanks so much for joining us and kicking off the conference for us. Really appreciate it.

**Nadeem Velani**
*EVP and CFO, Canadian Pacific Kansas City*

Thanks for having us, Chris. It's a pleasure to be here.

**Mark Redd**
*EVP and COO, Canadian Pacific Kansas City*

Yes, thank you.

**<Q – Chris Wetherbee>:** So I think we're going to kick it over to you for a couple of intro remarks, then we'll just sort of dive right into Q&A. We want it to be interactive, so if you guys have questions, we can get you a mic. We'll definitely get you -- get the questions in there. We want to kind of have a good dialogue this morning.

But again, thanks so much, and I'll kick it over to you guys get started.

**<A – Nadeem Velani>:** Well, thanks, Chris. Honored to be here. It's great to have you covering us, again, with your -- with Wells now.

And certainly, when we look at where we are, it's two years since we became officially Canadian Pacific Kansas City. About two years since we have our -- laid out our Investor Day targets, our five-year plan, and I'd say, despite a very uncertain environment -- probably the most overused word in the last three months or so, but it's -- really proud of what we've been able to deliver.

If you look at what we've laid out two years ago, our five-year plan, we talked about kind of mid-teens level of EPS growth over time as we ramp up our synergies, and ramp up even the benefits of capital allocation and shareholder returns, and so forth. And pleased with, despite a freight recession that seems to be unending, that we were able to deliver in 2024 11% EPS growth.

We had talked about this combination being a growth story and we delivered industry-leading RTM growth in 2024. And if we look at where things have started in 2025, again, very pleased. We've guided to 10% to 14% EPS growth for the year. I'm very confident that we'll be able to achieve that.

And, again, we're leading the industry in RTM growth. And if you look at what we've been able to do so far this year, we're up 5% RTM basis for the year, and for the quarter we're up around 7%. So I think the momentum that we've built in 2024 is carrying through in 2025.

So if we can get some supportive of level of macro, I think we will really see how this combination can really kick start growth. And so, very pleased with how things are -- started out. And maybe I'll just pass over to Mark to speak to the operations bit.

**<A – Mark Redd>:** Yes. So yes. Nadeem covered kind of where we are and where we're headed for the year. A couple of things I would say is, we really hit a milestone beginning of -- beginning of last month May with our Day N cutover. That's really putting our operating team -- systems together, running under one umbrella at this point.

Some things went well, some things we're still working through. I would say that, from the standpoint of coming through Memorial Day, we're probably about 5,000 cars under cars online. So that's a measure we've been looking at for the last couple of weeks, just to make sure we can push volume through the system.

The good news is we've cut over the areas where we've been (technical difficulty) to -- just kind of focus on some of the opportunities we've had with the cutover is Louisiana -- South Louisiana, Eastern part of Texas, and some parts in Mississippi where we've struggled just a bit with some of the operating features that we're working into.

Certainly, the rest of the railroad is doing quite well. Canadian operations is probably some of the best I've seen since being on this job. Mexico for the past two years have really done a very good job working in that space as well.

So what I would leave you is kind of where we headed with Day N, starting to push cars offline, doing well in that space. I know some of the customer aspects has felt some of the brunt of some first-mile/last-mile customer service.

But certainly, I've been boots on the ground. I've been down in Shreveport for a better part of two to three weeks and we do have some senior VPs on hand as well in Operations that's helping through this nuance of just learning the systems, pushing through the systems, making sure we do all the tight work order type stuff that we need to complete.

The only other thing I would probably touch on this point is really just labor stability. As you see, you've read on the news that we finally got our arbitration back for the Canadian operations, 3% for the next four years.

So it creates some stability in that market of Canadian operations. So it's good news for us. We look forward to that. And we'll continue to work with the other unions, and TCRC and RTC, as well, as we look forward for the next four years with those fellows.

# QUESTION AND ANSWER SECTION

**<Q – Chris Wetherbee>:** So let's talk on -- start on the volume side. So Nadeem, you talked about RTMs up just under 7%. I was looking this morning, year-to-date, right around 5%, so some pretty strong performance there. Can you maybe walk through a little bit of what's standing out on the positive side, maybe what's been a little bit on the softer side?

**<A – Nadeem Velani>:** Yes, sure. So first off, we're still a -- very much a bulk railroad, and we're seeing the benefits of a strong Canadian grain crop and even U.S. crop. But typically, the crop will start seeing some slow down as far as seeding for the next crop year, and we start running out of, basically, inventory to move.

But it's stayed pretty strong through the -- here at the end of Q2. And so, grain has been a real driver of volumes on -- certainly, on the Canadian side and, to an extent, on the U.S. side. If you look at our coal franchise, formerly Teck, now, Elk Valley Resources, they've been with new ownership, really pushing through to their export markets, and really delivering a lot of product that we're seeing the benefit of. To a lesser extent, as well, on a -- we have a small U.S. coal franchise now with Kansas City Southern, and even seeing benefits of volume growth on the U.S. coal side.

So overall bulk is doing well. Potash has been a bit softer to start the year, but we expect that to really start ramping with Canpotex, we're a big part of the exports franchise with our – Canpotex is our key customer. And so, we'll see some strength in the second half of the year there. So overall, bulk I feel really good about.

Intermodal, I think that the benefits of our Gemini alliance. We've seen some market share gains there with Hapag-Lloyd and Maersk. That's driving a significant amount of growth. I think our international volumes are up 28% as we stand. And even domestically, we're tied to a lot of the key Canadian retailers. And we have really good growth we've seen with Loblaws and Home Depot, Canadian Tire in Canada.

So despite a pretty weak, kind of, backdrop on the macro side, intermodal is hanging in for us very well. We've got some new products coming on, in terms of our new facility coming online with Americold in the second half of the year. So I think it sets up well for that.

And then, if we look at merchandise, aluminum and steel have seen some softness because of the tariffs and recent increase in tariffs. We're not as optimistic on that part. We've also seen crude be negative, I think down about 30% plus right now. But we have -- that is an actual facility that's down right now, that's going to kick on -- kick up in the second half of the month here. So we'll start seeing that ramp up positively.

But we've talked about our -- on the ECP side, the opportunities to build that land bridge, if you will, from Mexico -- or Canada to Mexico, and we're seeing real strength on the refined fuel side, on the plastic side, and the LPG side. So strength on merchandise there that's offsetting some of the negative volumes on crude.

So overall, we feel good with the start that we've had, and then, in the second half, we've got some very easy comps. I talked about the labor outages that we had last year, the port strike. So volumes are -- I think are going to be -- continue to see some strength for CPKC.

**<Q – Chris Wetherbee>:** And Mark, how is the network handling the volume growth we're seeing, and maybe, specifically, kind of curious about Mexico? So when the merger occurred, you guys,

ultimately, took operational control of the business, I think there's been some progress moving forward in terms of what you guys inherited at the time.

So maybe talk a little bit about where the network is and how it's handling this volume growth that we're seeing.

**<A – Mark Redd>:** Yes. So I touched a little bit about the network earlier. But as far as capacity projects, the things that we're doing to right-size and getting ready for future growth.

Good news is, we continue to build capacity in Mexico to separate the locals from the mainline trains where we can do both. And I talk a lot about that, it's very important to an operating person. But it's creating value to where we can do both and serve the customer last-mile/first-mile.

The other piece is, during the past two weeks, we've been able to onboard about 10 locomotives so far -- 10 of the Tier 4 locomotives through Dallas, Wylie, and already have them headed up toward Canada, put them on the 100 series, so that will free up locomotives to bring back down southbound, fuel efficiency benefits, all of that type of stuff that we'll see.

So certainly, things that we're doing in Kansas City with some of the double-track build that we're doing to create more and more capacity through Kansas City, because it can be a bottleneck if you're not careful with the amount of business we're bringing through. And certainly, spending money before we get to that point to where we can run trains fluid through there.

So crew base is good. I mean, we've continued to work with the unions on hourly agreements. I think that'll be a big -- a big plus once we get to that point. We're not quite there yet, but we're working hard to get there. Yes, that's what I'd tell you.

**<Q – Chris Wetherbee>:** And I guess maybe, Nadeem, in terms of some of the Mexico to U.S. bound business, we usually think auto is kind of -- one of the things that we're focused on, particularly given the noise around tariffs. What's the state of that business? How is that trending these days?

**<A – Nadeem Velani>:** Yes. So from an auto perspective, we saw early on when -- post-Liberation Day, some of the auto OEMs had slowed down some of their production. But as we sit here today, everyone is back up and running. We've seen that production, kind of, come back quite strong. We've seen our auto volumes are up pretty significantly.

We're seeing some auto parts business come down south, that's been growing and starting to build upon our intermodal product which -- with our 180/181 service, Chicago to Mexico, the southern part of that.

And so we're -- our auto sector -- our auto volumes have seen record volume over the past year, and we still see that picking up. And our closed-loop product has really fit well with the key markets and with our key customers. And so, we've continued to see strength there, so we're optimistic.

**<A – Mark Redd>:** Two things I would just add to that is, really, Chicago, we've been able to put more parking in Chicago just due to the fact of the volume that we have coming to Chicago. Wylie continues to do extremely well inbounds. So offloading, taking those empties back down to Mexico to reload, as he talked about, the cycle of the cars.

And from an operating person from day one, when we started 180/181 with a couple of different cars running on that train with manifest, it is super exciting to see how much volume is on that train today. I mean, we're running -- soon, we'll be running Americold on that train out of Kansas City. We'll have -- deploying these thousand reefers that we have across this network in that space.

But super excited to see that train grow to what it is today and be able to serve Schneider and others in that franchise.

**<A – Nadeem Velani>:** Lastly, Chris, I'd just add. The key part of the combination was also to extend the length of haul, single-line service, which, effectively, turn your assets, have a better product in the marketplace and a lot of efficiency tied to that.

Previously, the old KCS network, you'd see about 90% of traffic on the auto side, kind of at the border, be given up to other carriers for final destination. That 90% has gone down to 70% today and going to get lower.

So we can have a product that can get to single-line service, which, ultimately, is going to be beneficial for -- across the board.

**<Q – Chris Wetherbee>:** And where do you think you are in that process? So I think if I go back to the Investor Day, you guys talked about maybe two to three points of sort of outgrowth coming from revenue synergies, the opportunity 180/181, just part of that sort of process. Where do you feel like you are in capturing those synergies on the revenue side?

**<A – Nadeem Velani>:** Yes. So if you go back to when we announced the combination, we had said, our plan was kind of a three-year plan, as far as, our synergy target. And it wasn't a case where we felt, okay, after three years, it just ends. It's just -- that's kind of line of sight.

We had talked about being able to handle the capacity, the capital requirements that you have. You couldn't do everything all at once. That sets you up for failure from a service point of view. So we wanted to kind of stair step into it to be able to invest in the sidings, invest in the infrastructure across the network to be able to support that growth responsibly.

And so, we're two years and a little bit into the transaction. I'd say, I think we're going to finish this year about a billion dollars of synergies. So we're probably going to be at that level of that three-year target a little early.

But it doesn't end. It's -- we see this having a longer runway. Last Investor Day, we had talked about it being, potentially, instead of a billion dollar kind of revenue synergy, closer to $1.5 billion. I'm not backing off of that.

And if you look at this environment -- when you look -- when you have some of these hurdles surrounding tariffs, et cetera, it looked us -- it forced us to look at the opportunity, and an example is this land bridge. We've talked about some opportunities for Canadian traffic into Mexico, which hasn't been a big amount of volume traditionally.

But this has created this -- has challenged Canada as a whole, but also challenged ourselves internally to say, what can we do more? And the -- on the ECP side, when we looked at LPGs, we look at refined fuels, and so forth, I think that could be a huge opportunity. $100 million type of revenue opportunity near-term that I think could be 3-4x times over time. So that, alone, could be another, if you want to call it a synergy, over time is going to be an area that can take that $1 billion up to $1.5 billion almost on its own. So I feel -- I feel like we've got many years ahead of us for that synergy opportunity.

**<Q – Chris Wetherbee>:** And then when you think about the price piece of it, so I think there's been -- performance at CPKC has been good on the yield side. I think selling a different product into the market, I think, you've been successful doing that. So can you talk a little bit about sort of the pricing dynamics for 2025 specifically? Are you seeing any acceleration, where are the opportunities?

**<A – Nadeem Velani>:** Yes. So pricing -- we -- if you think about the last few years, we've had a significant amount of inflation coming out of COVID, et cetera, that we still needed to overcome.

And so, when you look at pricing, it's kind of net of inflation. Inflation has come down significantly. Mark talked about the recent labor contracts have been closer to 3% as opposed to 4% or 5%.

And so pricing has held in steady. Again, you got to have the service. You got to have that ability to drive value to the customer. And so we've been able to see pricing still in that 4% plus range. So if you factor in, kind of, the lower inflation, the net benefit is pretty significant in this environment.

But again, you're driving value for the customer by having the single-line service, et cetera, and you've got to maintain that in order to make it sustainable for the future.

**<Q – Chris Wetherbee>:** And so let's talk a little bit about some of the nearer term stuff that you guys have given out. I think last time on the conference call, you noted OR guidance for the second quarter, kind of 200 to 250 basis points better.

Obviously, looking at where RTMs are -- you'll think that's probably pretty decent, but kind of want to get your take on how you think 2Q shaping up from an OR standpoint?

**<A – Nadeem Velani>:** Yes. No, it's -- when we looked at the first few months of the quarter, things are on track. There's always going to be some variability. Stock-based comp is one of those. You got to mark-to-market each month.

And outside of that, though, I think we're on track for that guidance for the -- for the quarter. We talked about sub-60 for the year, which I feel very comfortable with as well.

**<Q – Chris Wetherbee>:** Okay. And then, I guess, maybe zooming out a little bit, as you think bigger picture and the opportunity you had, Mark, on the operations side, you on the finance side, you still feel – I guess, how do you think about the longer run opportunity from an OR perspective?

I know you don't solve for OR. We've heard that a lot over the years from you guys, it’s an output, not an input. But is this KCS opportunity and what you see ahead of you in terms of growth still support decent improvement from where we are right now?

**<A – Nadeem Velani>:** Yes. So if we're going to do mid-single digit type of volume growth, we're investing in additional assets. Mark talked about some of the Tier 4 locomotives that are going to drive benefits from an operating leverage, from a fuel efficiency.

If we're operating and running the way we should, we should see 100 to 150 basis point type of OR improvement year-over-year, just with the benefits of operating leverage, pricing above inflation, et cetera.

So I think, long-term, we should start seeing -- first of all, you got to get sub-60, and then, beyond that, I think we'll continue to see improvement if we're delivering what we say we're going to do as far as volume growth and running it efficiently.

**<Q – Chris Wetherbee>:** And then, Mark, maybe from your perspective, I know there's been some changes at the FRA side and some potential opportunities on the regulatory side to do things differently. So maybe if you want to talk a bit about that. Because I do think that this sort of -- at least, is partially the underpinning for sort of a longer-term sub-60 -- sustainable sub-60 OR.

**<A – Mark Redd>:** Yes. So I mean, you can speak a day on that alone. I would -- I would say that -- feedback has been good. I mean, they want technology. They want to kind of walk some of the

things that we're doing in Canada and some of the other Class 1s in the U.S., with Cold Wheel Technology, how we can cycle trains, have a safer, effective -- better effective brake system. We're working through that.

We've got Broken Rail Detection that's homegrown. It's fairly cheap for the outcome that you get. We want to put it on all of our subdivisions. There's conversations with the FRA about how we deploy that in the U.S.

We've talked a lot about just changing wheels within trains. We've got waivers to be able to do that. At Laredo, Kansas City, that's something that we've struggled with in the past -- I would say KCS has struggled with. Today, we have the ability to do that.

Really, the last piece, and what I'm looking for, is cross-border, how we bring the cross-border inspections through Laredo and not have to stop again. Once -- excuse me, once I do the brake test in Sanchez, I can move across border, not have to stop. You just gain hour upon hour doing that.

And it helps with cycles. It helps with just trains across the railroad, makes them safer, certainly, utilize the assets that we have in place. So there's a lot of good traction in that space, and they're keeping an open mind and we're showing data. We're keeping them apprised of things that we can do, much like some of the other railroads are doing as well.

**<Q – Chris Wetherbee>:** We spent some time recently kind of digging into AI and technology opportunities. I think sort of the changes at the FRA were part of what spurred us to take a little bit of a deeper look at that. And I know you guys have spent some time thinking about that.

And obviously, you've had your hands full with the integration of the -- of the merger over the last couple of years. But I guess, as you think about the landscape for technology on the network, what can this be? I don't think we're heading towards one-man or unmanned crews anytime in the very near-term. But I mean, it seems like there's many opportunities around the edges.

Is this something that starts to kind of get on your radar, Nadeem, from a cost perspective? Is there capital you want to put into it, maybe OR opportunity coming out of it?

**<A – Nadeem Velani>:** Yes. Let me -- let Mark touch on some of this a little bit more in terms of the specific initiatives that we have at CPKC, and then, yes. maybe I'll (technical difficulty).

**<A – Mark Redd>:** Yes. So a couple of things. I mean, one is if we think about spotting trains and how work in the back office to spot coal trains, different things like that, we can do that through some of the AI technology that we have. We're actually working through that today, even with some of our Day N initiatives to get some of that work completed and finished.

And it's really just mining the data and understanding where we can use it just from an operating standpoint, and I think everybody is probably most likely met Kyle Mulligan -- Dr. Mulligan, just a brilliant person in that space and how we can work with Pam's group, our CIO, in that space, and just develop more and more type of examples of how we can produce that.

But a lot of it from an operating side is going to be within the space of what Kyle does, and then how do we spot customers. Give more history, more data back to customers as they meet to understand what their cars and what their cycles are doing, and how we can produce a better result with spot times as well.

**<A – Nadeem Velani>:** Yes. No -- well, first of all, I thought you did a terrific job of doing a report about what the future of the state of the industry could be as far as benefits from technology. So I'll give you a plug there.

But I think -- I think you hit the nail on the head in terms of your report, which talked about, what can we do as far as turning assets more, as far as from a safety point of view? We spent a lot of money on casualty, the direct costs associated with derailments or incidents, et cetera.

But even the indirect costs that that has, as far as taking your network down and taking -- affecting your reliability, affecting your network speed, and the implications of that can be pretty material as far as -- what that means as far as your asset base, right?

So when you can have a greater reliability of the network, greater -- or reduce the number of incidents, or reduce the downtime on the network, it can be hundreds of millions dollars' worth of capital implications directly from that.

So when we look at the opportunities from what you can do from a technology point of view, I certainly think the safety aspect of it, what you can do as far as taking away a lot of the – these jobs that are menial tasks that people don't want in this day and age, but also not as effective, right? When you can look at -- utilize technology to look under a rail car, to look -- find flat spots, to find potential incidents that can impact the network.

I think that 5-10 years from now, we're going to look back and say, why didn't we have a lot of this technology sooner that can make the network that much more -- improve velocity, but, also, take away a lot of the incidents that are the cause of reduced velocity on -- across the rail space, so.

**<Q – Chris Wetherbee>:** Yes.

**<A – Nadeem Velani>:** I mean, we won't even talk about the back office stuff, but that's going to be a big area. There's AI that you're utilized into -- even just the sales process, right? The Salesforces of the world, et cetera, that can help you generate leads for our account managers, or think about how we can sell across the lines of business differently, or so forth.

**<Q – Chris Wetherbee>:** I'm going to pause for a second. If anybody wants to ask a question, certainly, raise your hand. We'll get you a mic. We'll get you on here.

While they think about that, I did want to ask about the second half. You noted the second half and how the comps are a little bit easier, certainly on RTM side. So you're kind of running in -- roughly, in line with your full year target now through the second quarter.

Obviously, there's some puts and takes, and we'll see sort of where grain goes as the year goes on. Any thoughts on kind of maybe how we should be thinking about that? Is there the potential where we're running a little bit above mid singles for at least a period of time in the third quarter, or is there -- I guess maybe if we could break down what the second half might look like from a volume standpoint?

**<A – Nadeem Velani>:** Yes. And we are going to see, as I mentioned, the tail end of this grain crop, things will start slowing down a little bit here. But I do feel good about where things stand as a whole.

It wasn't too long ago here -- a couple of months ago, where there was much greater fear of a potential recession in the second half of the year. So I do feel a lot better about the macro aspect and how that might not be as big a -- of a downturn.

I feel better about, even from a Canadian perspective, what -- where things are as far as trade, et cetera, how we've been able to overcome kind of some of the near-term challenges we had in the April timeframe. So I feel good broadly about that.

The grain crop so far looks to be -- decent levels of moisture that we still have good line of sight that we will have an average type of crop, which I think is a good thing, given wildfires have been burning for the first couple of months here now in -- across the northern part of Canada.

So optimistic about -- that grain will be solid and the comps are very easy. We had a very challenging, I'd say, August with stop/starts on the labor side with some of the port disruptions.

And if you think about, on the intermodal front, which I think is going to be a big driver of overall volumes, I do feel good about what we've been able to deliver both on the international and domestic side.

And so, overall, I do think that there could be -- I feel good about the mid-single digits for the year. Could there be a little bit of upside? Yes.

**<Q – Chris Wetherbee>:** And in terms of intermodal, you mentioned -- well, you mentioned intermodal, when you think about Vancouver and the context of Canada, it certainly feels like Canada lost some share to the U.S. over the course of the last year, given some of the disruptions that we've seen from a labor standpoint.

How do you feel like that share kind of -- is that coming back up to Vancouver? Are you seeing that happen?

**<A – Nadeem Velani>:** Yes.

**<A – Mark Redd>:** Yes. I think we see that through just the Gemini experience. I mean, with -- those two companies coming together and what we're bringing through Centerm. I mean, Gemini is probably 90% of what comes out of Centerm today, meaning that what we can do is build a train straight out of Centerm that goes out to the destinations, either across Canada or across -- into St. Paul or Chicago, however we split that business up coming out.

But certainly, it's done well. I mean, I think it's -- I'm going to say it, again, it was 28% up. I forget now. But it was a large volume that's coming off the coast and certainly doing well. We're 100% handling that business and they're quite satisfied where we are.

For us, it's A+ today, B- tomorrow, so we want to continue to improve in that space. But certainly, doing well coming in and out of Vancouver.

**<Q – Chris Wetherbee>:** And is there anything that you guys are hearing or seeing about China coming back online after the drop of the tariffs from 145% to 30%? Is there anything that we should be thinking about?

There was a period of time where we thought that we'd have a lull, then, potentially, a surge, followed by maybe a hangover later in the year.

It seems like things are maybe a little less volatile, meaning kind of just steady -- a bit steadier. I don't know if that's your experience. What are you guys seeing?

**<A – Nadeem Velani>:** Yes. And we didn't have necessarily on our network the expectation of seeing some blank sailings. Our customers were, I mean, pretty solid through the -- through that kind of air pocket potential. So we never felt that was going to occur and we haven't seen it.

So a big part of our network also as far as import traffic isn't coming to the U.S. as well, to be fair. So we were never going to have that exposure relative to some of our peers, so.

**<A – Mark Redd>:** And I think just Hapag and Maersk themselves is -- how we're bringing more and more business through St. John and also Lazaro continues to grow. If I don't say that John will get on to me but, certainly, growth in that space from those two customers.

**<Q – Chris Wetherbee>:** And then, I certainly wanted to hit on that the topic of the day in rail space which is M&A. So you guys were the last ones to go through that process, very successfully. I think the blueprint of CPKC is something that we've heard sort of echoed out there as, well, if they did it well, and it's worked out from a -- from a service perspective, operations perspective, customer perspective, why can't it be done again?

So I guess, I'm curious if you have an opinion or some thoughts on what a potential – the potential for a transcontinental U.S. merger or some further M&A activity in the industry?

**<A – Nadeem Velani>:** It's not time yet, Chris?

**<Q – Chris Wetherbee>:** I've saved five minutes for this so you can speak as long as you want.

**<A – Nadeem Velani>:** Well, it was kind of ironic. I was looking out the window today and I saw the former Illinois Central Headquarter building at NBC Tower and that was a former lifetime ago, but that was one of our offices at the old CNIC, which was the previous Class 1 merger that took place, and of course, CPKC a few years now.

Listen, there's always going to be chatter around M&A. This is something that's always been forefront. We had made some attempts, historically, at CP, and as far as some of the Eastern rails and so forth.

It's -- to me, it always needs to come out of some level of -- there's got to be some sort of catalyst, whether that's the growth aspect of it when we -- when we talked about CPKC and why we were so -- thought this was such a great initiative, it was to support growth and bring a better product to the marketplace.

Now, when you look at kind of the current environment, what's the -- what's the catalyst? What is it going to do for customers eventually? And it's a -- it remains to be seen. We're post kind of PSR in the industry, so are you going to look for M&A to reduce costs? I'm not sure if I see that.

There's going to be a lot of give and take with customers, a lot of give and take within the industry to be able to offset some of the negatives associated with M&A. So I think there's always going to be chatter.

You look at the challenges that we face, in terms of getting approval for -- through the smallest Class 1 railroad that had a different regulatory perspective in terms of our agreements and the KCS deal, it's going to be a pretty significant hurdle to overcome.

And is it worth the benefits or are the benefits to -- going to be able to satisfy some of those hurdles that you have to overcome, it remains to be seen.

So we'll see. I'm not -- I'm not sure this is going to go anywhere. I think that some -- the railroads -- the industry is running well. If you look at the Class 1s across the -- from a operating performance, I think the industry is running well.

I think that there's plenty of growth to be had. I think we're -- this freight recession will one day end, and I think there'll be an opportunity to grow individually as Class 1s. I think the alliances and partnerships that have taken place are very positive.

We're working with each of the Class 1s in different respects that I think partnerships and alliances can help grow without the need for Class 1 consolidation. So that'd be -- that'd be my perspective.

**<A – Mark Redd>:** Yes. I would just add to it, as far as just operational side. If you think about how well we've done for these past two years, and then have -- the cutover of our mainframe over to where we are today and some of the struggles we've had in that area with our customers, imagine that on a larger scale, I mean these two of the small railroads.

So we took two years to prep for some of the things that we've done in this space, and, certainly, we deeply regret some of the issues that we've had with customers. And certainly, working close with those customers at a -- maybe a smaller scale, but at a magnitude of a bigger railroad in the end that's trying to do that East and West, it would be quite difficult. I guarantee you.

**<A – Nadeem Velani>:** Then putting something in trust and having that -- there's a lot of waiting -- of waiting to get a return with a lot of risk, and that alone, can be a significant kind of deterrence in my view.

**<Q – Chris Wetherbee>:** There's a question in the back. Fire away. I'll repeat it.

**<Q – Unidentified Participant>:** (Inaudible)

**<A – Nadeem Velani>:** Yes. You want to repeat the question?

**<Q – Chris Wetherbee>:** Yes. The question was about incremental margins of putting the two companies together. Can you get upside relative to what each one of them was individually capable of?

**<A – Nadeem Velani>:** Yes. Absolutely. So -- and you've seen it. If you think about a big part of our -- of the CPKC, we've talked about earlier about that extended length of haul and the ability to run longer trains, we've just been the last few years starting to invest in sidings and that opportunity to run longer.

We have some unique elements as far as the CPKC, Mark talked about some of that trans-border, Mexico into the U.S., and when you can run longer, when you can avoid some of the slowdowns associated with -- whether it's infrastructure related to bridge, or FRA regulations that also limit what you can do from a network speed point of view, I think we have a bigger opportunity as far as incremental margins than your typical network or typical vantage point of looking at volumes coming on in a more traditional sense.

I'm not sure about one plus one equals three, but I'd say that can we do the 65-70% type of incremental margins as far as additional volumes that come online? I think that that's a very good way to look at it.

And that's why I feel very confident and comfortable of -- around our opportunity to improve margins over time. As these volumes come on, they will come on at a high incremental margin, and I think we will see -- we should very much be -- CPKC leading the industry as far as margins.

**<Q – Chris Wetherbee>:** Great. We are at time, so thank you very much, both, for joining us. Really appreciate it.

**<A – Nadeem Velani>:** Thank you.