Transcript

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

Other Participants:
Scott Group – Managing Director, Wolfe Research Group

PRESENTATION

Scott Group
Managing Director, Wolfe Research Group

All right. Fantastic. We're going to get going with our next session with Keith Creel, CEO of Canadian Pacific Kansas City. Thank you, Keith, for being here.

You know, a year ago, last minute, we were -- you had a -- on the precipice of a strike and last minute change, so took last year off, but really happy to have you back. I got a lot of questions, but I'll give it to you for maybe for some opening thoughts and we'll get into it.

Keith Creel
President and CEO, Canadian Pacific Kansas City

Thanks, Scott. Well it's always good to be back. I wish I would have been able to come last year, but that -- some of our labor uncertainty that we were dealing with in Canada, which, by the way has been cleared up in a very positive way kind of consumed my time.

That being said, though, coming back over two years into our merger, I think we've had another year of opportunity. No shortage of challenges to prove the worth of this network, to prove the uniqueness of this network that we've created. We've outpaced the industry in growth, both revenue, volume and earnings.

As we said, we would. We've created competition that, quite frankly, this industry has not had to embrace, I'd say for decades. And we've created a customer base that, based on our service, is rewarding us with new business and new markets, as well as market share, as well as share going from truck to rail.

And it's allowing us to create unique outcomes. So we closed out the fourth quarter last year with a lot of momentum. Had a very good quarter. We came into the first quarter, I think we had an industry best first quarter performance, and that momentum has carried into the second quarter.

April was strong. May even stronger. I think, quarter-to-date, we've got it to a mid-single digit RTM path. Year-to-date, first half of the year, we're at 5% on an RTM basis year-over-year. Quarter-to-date, we're at 7%. And I think I looked at it this morning, month-to-date, we're at 9.7%. So we're not looking at any cliffs.

We're looking at a very strong base book of business that's unique to the industry, that, again in spite of all this macro uncertainty and all this tariff tribulations and things that have introduced risk to the marketplace, we're finding ways to win.

QUESTION AND ANSWER SECTION

<Q – Scott Group>: Awesome. So I'm going to start. If you guys have questions, raise your hand. I usually start every one of these with let's start on near term volumes and what's doing better, what's doing worse. And we're going to get to that shortly. Sounds like volumes are doing well.

I want to start maybe just very high level. I had two questions I sort of just wanted to start with. First one, if I look at your stock, right, it's been sort of range bound since 2021. All the rails sort of been range bound. And there was such a long period of outperformance for rails. And so, the question that I think about and I get a lot is what has changed.

And I guess is this a -- just an unusually long and challenging cyclical environment or is there a bigger change that's happened in the industry? And I guess -- so maybe a minute looking back and then just sort of going forward, right, what's the catalyst? And you can answer it as CP, you can answer it as the rails, right? What's the catalyst to get more sustained earnings growth, stock outperformance again? And sort of do you think we're at that like inflection point now?

<A – Keith Creel>: Let me, I guess think about this for a minute. So if you think about the recent past and I'll say three to five years, unlike any other three to five-year timeframe, I think our industry overall and not just our industry, this economy has had more hundred-year storms than we've had in any time before.

You think about the pandemic, what that did to the man, what that's done to the economies, what it's done to supply chains, the aftermath of the pandemic, the challenges that the rail industry specifically -- with growing pains that it went through as it tried to implement at a wholesale level across all, just about all rail networks, a PSR operating model.

Some did well, some didn't do so well. And now you think about all the administration change and the tribulations that we've been dealing with since this uncertainty when it comes to tariffs has been introduced. I think it's a unique set of, again hundred-year storms that have occurred in a very condensed timeframe.

It's left us with a very anemic economy. I mean GDP growth, if you look at those same five years, not very exciting, 1%, 2%. So all that being said, I think now with this administration, I think we are uniquely set up for stability, as crazy as that sounds, because now we have a new administration in Mexico. We have a new administration in the United States. It's focused on growth in the United States, bringing jobs back to the United States, prosperity in the United States, rebalancing trade not just in Canada, Mexico, but with the world. Then you have a new administration as well in Canada.

So again I think from a stability standpoint, with leadership in place focused on the U.S., President Trump, how do we bring prosperity and growth to the United States? How do we rebalance trade? I think that uniquely puts us in a good place in Canada.

Canada, you suggest they're at risk because they've been so tied to the United States. I would not say that's not wrong in a lot of ways if they don't respond. But I think now you've got a government in Canada and a country in Canada where they want to create more independence than they ever have, less dependence upon the United States, which means for all their product rich environment, they've got to find new markets.

So again when you think about where those new markets and how are they accessed, that plays into our concept, that plays into our network, that puts us in a place of strength. Then if you get to Mexico, the same situation. You think about why has Mexico grown as much as it's grown?

It's got a plentiful workforce. And by land, you don't have the complexity of the steamship lines. You don't have to cross the water. Supply chains are de-risked by all the near-shoring that's occurred. So again I think we're set up as we have an industry that's evolved. We have an industry that is more focused on being truck like reliable so that we can be dependent upon to entrust your supply chain to.

I think that puts us in a place where the service offering is going to be better. And I think with leadership in all three nations trying to create growth and prosperity, I think the economy overall is on the precipice of, once we get through this settlement of all these terrible tribulations, of actually experiencing growth again. So I think that changes the next five years versus the last five years.

<Q – Scott Group>: Okay. Then one other question, just want to sort of knock out and we'll get to some of the other stuff. There's -- we had all the other rails yesterday. We had STB yesterday. For whatever reason, there is definitely a little bit more chatter around M&A in this industry.

And you talk about truck-like service and the idea of transcontinental mergers and all that. So I guess the question I'd ask is, do you think CP-KCS was the final merger? Are there arguments why transcontinental mergers make sense, why it doesn't make sense? Sort of open ended. I'll let you take it, where you want.

<A – Keith Creel>: Well I would say there's always been an argument why it could make sense. But the arguments would have to be able to ignore the regulatory risk that is undeniably there. And I would say this, I'm the only CEO in the industry that's navigated that regulatory risk.

And the standards that we had to meet to get our deal approved pale in comparison to the standards that are untested in the new merger rules. To create a network that not only protects competition but enhances competition. That protects service and enhances service. There is such a, not a hill of regulatory risk to climb, there's mountains of regulatory risk. So quite frankly, I don't think it's necessary. I don't think it's needed. I don't think it's realistic.

I think the risk it introduces to realize some of the gains that you might think it would produce, the mass is not there for me. So again I think it's nice to talk about. I don't think it's very probable. I don't think it's possible. I don't think it's going to happen. And I don't think it's necessary.

I think there's an ability with each of these networks to focus on what you can control and to connect with customers and to be more entrepreneurial, to create solutions for customers that allow business to be put on the rail and taken off the highways. It's just up to the individual teams to be able to do it, to be motivated to do it.

<Q – Scott Group>: And just one very quick follow-up. And maybe I'm being too focused on one thing with, you could, seemingly could argue that your, the CPKC merger has been pro-competitive when you think about some of the competing services like Falcon with CN and UP.

Is that not the, and there's been, unlike prior mergers, no service issues at all. Could you argue that we have sort of enhanced service and enhanced competition with this merger? Is that the template for others or is it totally different when we're talking Transcon?

<A – Keith Creel>: Well I think that would be their only hope is using us an example of what is possible. But the reality is the facts aren't the same. Our merger was end to end. There was no overlap. 100% of the customers got more opportunities. There's not one customer that gets, that received less opportunities. And I think those facts simply don't exist with any other proposed merger that might be out there.

<Q – Scott Group>: I'm having flashbacks to your speech about the eight or nine facts.

<A – Keith Creel>: The undeniable facts.

<Q – Scott Group>: The undeniable facts. Okay. So –

<A – Keith Creel>: I'm having flashbacks about some certain commentator that told me I was off the rails. But –

<Q – Scott Group>: Let's now turn a little bit back near term and then lots to discuss. So RTMs tracking up 6% or whatever quarter-to-date. I think May you said tracking up closer to 10%. How is this sort of relative to plan and what's doing better than you thought? What's doing worse? I guess grain and coal both look really strong. Potash and fertilizers maybe a little weaker. But just give us a lay of the land from a volume standpoint.

<A – Keith Creel>: Yes. So as far as our expectations, we said all year long that we thought mid-single-digit RTM growth is what was possible. I would say that in spite of all the macro challenges, we're overachieving in a lot of spaces.

The spaces specifically, the bulk business itself overall, we're up double digits in Canadian grain movements. We're up double digits in U.S. grain movements. And again some of that is what we naturally would get from the market.

Some of it is new business. Baked into that, we've got grain that's originating in Canada that's going to Mexico. We just made a move I've talked about last month, a 3,000-mile length of haul for a unit train.

That's pretty compelling. I'd love to do it every day and I think we'll do more of it. And that's coming from Saskatchewan, going down deep into Mexico that quite frankly was never possible before.

So that's part of those numbers. But when you get into coal, you've got Elk Valley coal, not Teck Coal anymore. Elk Valley, change of ownership. Whereas Teck would produce 25 million metric tons, Elk Valley's not going to be happy if they don't produce 28 million metric tons.

And so again that's supportive to our book of business. The other thing that's really exceeding expectations, even my own, is this whole Gemini alliance, international intermodal. The other railroads, the Western Roads, the other Canadian railroad, they're talking about a cliff.

We don't have a cliff. We've got a tremendous amount of demand that's coming to discharge in the Canadian ports, Centerm specifically, that is the alliance of Hapag-Lloyd and Maersk, and they're having a resounding success.

They put an alliance together based on what I would call PSR steamship service that matches up with the PSR railroad service that allows unique industry service, that allows steamships to run on time, they get to the port on time, it allows me to plan my trains on time. And so far they've been in service now for two months, they're 100% on time, two callings a week into Centerm, and they've got demand. They've got demand for their product.

That particular product, our international intermodal year-over-year is up 40%. That's a lot, and that's certainly exceeding our expectations. The other really exciting avenue of growth for us is our domestic product, and it's most specifically in Canada the last two years have been kind of a headwind.

So you've had an oversupply of trucks, less demand. The Canadian retailers are stronger now, so that's stabilized. We've got incremental growth in Canada, but the place we're really growing is that 180/181, which is domestic service from Chicago into Mexican markets that's truck-like competitive.

It's four-day service. It's a day faster than our rail competitors, and we've seen it continue to grow. It's up quarter to quarter, first quarter is up 25%, 26% versus last year. We're up 6% versus last

quarter. That train, when we started two years ago, when we introduced it, was 3,000 feet a day. Now it's 7,000, 8,000 feet a day and it continues to grow. We're now layering auto parts on top of it.

As I look forward, the other piece that hasn't come online that's coming online in July, we talked about Americold. Americold is a brand-new product in the rail space where we're taking refrigerated frozen meats and vegetables -- or meats that are coming out of the U.S. going to Mexico and vegetables coming out of Mexico into the United States and into Canada. That facility that's built in Kansas City is going to open up in July. It's literally at a point of being sold out.

We've got the facility that we built in Salinas Victoria, Mexico it's shipping to. It just got commissioned and approved by the Mexican government. It's going to be ready to start making shipments the first week of July. So that's going to gain momentum. That same company, Americold, they break ground in St. John next week on the facility that's located in the terminal that we serve in St. John.

So again these bookends are being created that's allowing modal shifts, truck-to-rail, and allowing markets to be created that are unique and contingent upon our network that's being created with this merger. It, quite frankly, is allowing us to drive, I think, outsized gains versus the industry and continue to strengthen our book of business.

Automotive, the same. Automotive took a pause. Our entire virtual loop concept that we're selling, it's regained its rhythm again. We're up 24% year-over-year in the automotive space.

So again put all these markets together. There are a few weaknesses. Lumber, I think I've seen a little bit of weakness in. A little bit on metals. But again those are small pieces of our book of business, and we're overachieving in other areas. So it's kind of immune to you. You don't see it. It's all baked in the numbers. But the reality is the puts are certainly overtaking the takes.

<Q – Scott Group>: We've heard so much about Gemini. Can you size how big it is today? How big is it going to become?

<A – Keith Creel>: You know what? I would say, what it can become, $100 million of growth, $150 million of growth.

Where it goes all depends on how successful they are. Then the other piece, we have to look at is capacity.

I'm not going to allow our railroad to get oversubscribed. They're going to grow with that service offering. We get to a point -- you're going to get to a point eventually. I don't know if it's two, three, four years. Again it depends on how successful they are.

We could get to a place where we would want to improve the profitability of the book of business, repatriate the book of business, perhaps allocate more resource and capacity to this Gemini alliance than we might to existing businesses today.

And that's part of what we had to do to prepare for that alliance. We don't talk about it a lot, but there was one particular ocean ship customer we did not renew a contract with in this year in anticipation for the success that we're having with Gemini.

So we'll continue to approach it. How big it gets, we're not going to let it get out of control. We're not going to let it adverse affect our network. We're going to grow responsibly with the customer, but there is definitely upside potential to it.

<Q – Scott Group>: Can you -- similar question like in terms of like the size of like how big the Americold could be?

<A – Keith Creel>: Not that scale, I don't believe. I'd be guessing if I threw a number out there, it's going to be tens of millions, not hundreds of millions.

<Q – Scott Group>: Then the strength right now we're seeing, you said U.S and Canadian grain both up double digits. Is that sustainable or as we start to lap crops and harvest, does that naturally just slow a little bit?

<A – Keith Creel>: Unless we have a drought, I see it as a position of strength for us. We'll continue. Because we're going to benefit uniquely from any product that we're moving from Canada to Mexico that hasn't been in our rear view mirror. It's all going to be growth going forward.

<Q – Scott Group>: Okay. And so just a couple of things as I think about the guidance you guys have laid out.

We're tracking above mid-single digit to start through May. Comps get, I think, even easier back half of the year because we're going to have some of the -- is there a reason to think we should be doing better than mid-single digit now?

<A – Keith Creel>: Well I guess we'll see what happens with the economy. I would say this. We modestly adjusted our guidance.

We thought it was the responsible thing to do. I said before all this uncertainty created, I saw a chance to be at the top end of our guidance. What I see today over the last month, things that have cleared up.

Currency is moving more favorable. U.S. dollar is getting stronger as some of this tariff uncertainty clears up. I don't think we have the likelihood of a recession the way perhaps we might have had a month ago.

So the basic fundamentals are there that we'll get to a place where I think it's more probable than less probable that we'll be able to overachieve our guidance. So I think it means more RTMs and I think it certainly meets or exceeding the top end of our EPS guidance.

<Q – Scott Group>: You're talking about the new 10% to 14% range?

<A – Keith Creel>: That's correct.

<Q – Scott Group>: Yes. Okay. Then what about the long-term guidance that you gave us back in 2023 was basically to double earnings by 2028, get to, give or take $8 earnings run rate. Is that still, do we still have line of sight to that? I know that's still a few years away.

<A – Keith Creel>: That's still the plan. Certainly, I think we did 11% last year. There's no reason -- we did 14% the first quarter. I think this year, again within that range of guidance, we're in a position to be able to meet or exceed that again next year as long as, again we don't have some kind of macroeconomic shock, that if we get some growth back in the economy, we've been doing this with headwinds. If we get a little wind behind our back, then that bodes the case for overachieving to be more compelling.

<Q – Scott Group>: Okay. Similar, just going through, again some of the longer-term guidance. You talked about US $1 billion of revenue synergies by 2026, US $1.5 billion by 2028. What have we realized to date on that relative to those targets?

<A – Keith Creel>: We exited on the revenue side last year right at the US $850 million run rate. We said we're going to add another US $300 million. We'll do that this year. I see a line of sight to that clearly. I think we'll exceed that initial revenue guidance before this year is over.

<Q – Scott Group>: A year early and we'll exceed it. Okay.

<A – Keith Creel>: So certainly, the base case is there for us to overachieve.

<Q – Scott Group>: And are we -- are we pulling forward? And so, the ultimate pie, the prize is still US $1.5 billion? Or, is now, we're finding even more than we thought and it's even the totality of this is bigger?

<A – Keith Creel>: Again as long as the economy is supportive and doesn't shock us, I see there's a case that certainly we're finding out more. You learn as you grow. We know more than we did.

There's things that are occurring. I never could have predicted this whole crisis. Think about this with the tariffs. People see risk. We see opportunity. We see a motivated team that goes out. Don't make excuses. Make solutions. You've got a government now in Canada.

You've got markets in Canada that are being connected to Mexico, part of that diversification play that, just the ECP piece, that's $100 million in new revenue that was never in our thesis. So how successful can we be with that? Those things, those opportunities, as you build this thing out, develop it, you just didn't have line of sight to.

<Q – Scott Group>: Then, I felt like one of the bigger opportunities was on the auto side with just some contracts taking stuff from Mexico up to the U.S. Where are we in the timeline of getting those contracts?

<A – Keith Creel>: The thesis on automotive, we thought it was going to be on the tail end, and it was all contingent upon contracts that are opening up that we could compete for that don't open up until next year.

So there's big contracts on the rail side. There's also some sea contracts that can open up in '26 and '27.

So that being said, those markers are still out there. We still have to compete in that space. What's happened with the crisis that occurred in the automotive space, we've made our progress, we've made our success.

We're already over $200 million of annual revenue without even getting to those contracts yet. So again not knowing what you don't know, not being able to predict a crisis, we've been able to create with the facility we built in Wylie, Texas, with this auto supply chain.

We've taken that crisis and turned it into an opportunity where the OEMs see the value of our closed-loop system, being able to get guaranteed rail car supply, guaranteed number of cars on a weekly basis to take or pay. If we don't produce, we pay. If they don't load, they pay.

It's created an ecosystem that has created the groundwork that I think gives us a chance to better succeed when those contracts open up. So we've pulled opportunities for it, but the size and the prize still remains there. So the original thesis is still out there for the taking. So I still think there's a significant amount of business to be won on the automotive side.

<Q – Scott Group>: I want to shift to pricing a little bit, and again if there's some questions, raise your hand. I think you and Nadeem have probably been the most optimistic or transparent about, hey, we had a couple of years of elevated inflation. There's a pricing catch-up.

Is that playing out? Are we firmly back in that inflation-plus pricing camp? Then sort of what's the runway to go on this inflation catch-up, inflation-plus price?

<A – Keith Creel>: Yes, so we said we had planned the 3% to 4%, and we're definitely north of that. Part of it was the inflation catch-up. I think we're kind of getting beyond that in this year, and now it's all about based on the service, and it's based on the value proposition for the customer.

And if the market -- if the other railroads are going to be taking 3%, what we're selling is not the same service. We're selling truck-like reliable. We're selling extended length of hauls.

We're selling asset turns. We're selling value propositions that, frankly, in a lot of ways, the other railroads can't sell. So that creates value for the customer.

We, in exchange, expect more price for it, and that's the thesis that's playing out. So that model is not going to change. We're not going to give this product away. It's precious. It's value-creating for the customer. We're going to continue to convert it.

<Q – Scott Group>: Do you think closer to mid-single-digit-type price is sustainable out the next couple of years?

<A – Keith Creel>: I think we're closer to 4%+ than we are to 3%-4%.

<Q – Scott Group>: Okay fair enough. We have a question.

<Q – Audience Question>: Yes, quick question. Could you clarify in this western port versus eastern port dynamics in terms of the cliff fa;;s you mentioned you don't see that at all? And a second question just quickly on the coal pricing. Does it really -- in your estimates, do you project it has to go up for your guidance to play out, or $200 is kind of okay?

<A – Keith Creel>: What was the second part?

<Q – Scott Group>: For coal prices.

<A – Keith Creel>: Coal prices.

<Q – Audience Question>: For coal prices, yes.

<A – Keith Creel>: Well our coal pricing is not tied to the commodity price at all. It's a fixed contract that's negotiated with an annual rate increase. So it's unlike the U.S. mechanism.

And when I'm talking about the cliff, it's based on our book of business. Our book of business is 1% China. We ship very little compared to, obviously the West Coast U.S. roads.

We're not as exposed to the China tariffs. So our book of business and our strength is coming into Canadian ports, going to Canadian destinations. So again there's strength there.

The Canadian consumer is still in a very good position. Some of the things the Canadian government has done has allowed that to enhance, the carbon tax they eliminated. That's putting money back in consumers' pockets.

So our big box retailers, which we're most tied to, the Canadian Tires of the world, that's a house account for us. We're 80%-90% of their book of business. Loblaws, we're their largest rail carrier. We are their rail carrier in Canada, 90% of their business.

Home Depot, Dollarama, those big Canadian retailers that are doing well with this additional spin, they're moving their shipments on us. So that's why our book of business and our profile is uniquely different than the other roads would be experiencing, even Canadian National.

<Q – Scott Group>: Great. Just a couple of margin questions. Near term, I just want to knock out of -- you talked about 200 to 250 of sequential margin improvement Q1 to Q2. Any reason that's not right?

<A – Keith Creel>: No reason at all. No. I feel very strong about that.

<Q – Scott Group>: Then how about -- I think you've also talked about a sub-60% OR this year. Is that still right? Then beyond just this year, I think peaked at a 57% OR in 2020. Obviously a lot's changed. Macro, merger, is that -- can we get back to those level of margins? Can we exceed that? How do you think about the long-term operating ratio?

<A – Keith Creel>: I think the first place to start, and I know you realize this, Scott, the operating ratio is just an outcome of running the business the right way. It's making sure that you grow responsibly. It's low cost. You're able to bring it to the bottom line. You don't oversubscribe your network. You turn your assets.

You control your cost, and you bring quality revenue. And as you layer that quality revenue on, your operating ratio naturally is going to benefit. So as we grow, and we're going to grow the right way then you should naturally see our operating ratio improve.

This year specifically, or clearly, we had a significant improvement the first quarter. We'll meet or exceed the guidance we're giving you for the second quarter. If we do that, we're going to naturally get to a sub-60%.

Because back to your original point, the strength of the book of business is still the second half. And it's from the grain. It's from the demand. It's also from the compare standpoint. So if you look at our second half, it should be materially better than the first half. So that's going to take us to a sub-60%.

<Q – Scott Group>: Okay. And maybe just talk about state of the network right now. Like, some of those service metrics that we see like in real time, a little bit of pressure. We were talking with Chris, maybe there's a little systems integration. Just what's going on with some of like near-term service metrics? How's the network overall performing?

<A – Keith Creel>: So the network overall is doing extremely well. The investments we made prior to two weeks ago, and I'll explain that in a second, everything when it comes to locomotive productivity, when it comes to car velocity, when it comes to fuel efficiency, terminal dwell, everything is moving in the right direction. Integrating extremely, extremely well with a fluid, reliable network.

Two weeks ago, or three weeks ago, I guess it was May the 4th, we've been planning for this for two years, we did a significant operating system cutover. We called it Day N. And essentially we've all that –

<Q – Scott Group>: I'm sorry, you called it?

<A – Keith Creel>: Day N. That was kind of the nomenclature inside the company to get everybody motivated to it. But we flipped the switch. As we know historically, our systems consolidations have been what have wrecked the railroads.

So we took the very pragmatic approach. We spent a ton of money, a ton of time, a ton of resources to get this thing right. We flipped the switch the 4th.

We're now using in the U.S. network, as well as the Canadian network, the legacy CP operating system. So MCS, which KCS used previously is gone. It's no longer there.

So as you do that, some of those metrics are going to look a little different. As we get them all normalized over the next two to three weeks, that should kind of clear itself up, and then you're going to get right back to what you would see externally is no deterioration. So don't be misguided by it.

The network's in good shape. Overall, I think it was a very successful cutover. There are a couple of irons -- a couple wrinkles we had to iron out across the network. There's some in and around our very heavy industrial switching complex in Lake Charles, some in Shreveport, but the team's on top of that. So in two to three weeks it'll be in a rearview mirror and everything will be normalized.

<Q – Scott Group>: Okay. We're running out of time, but you mentioned changes in administrations in all three countries. Maybe just talk about quickly where do you see the biggest risks from some of these changes, and are there opportunities for positive regulatory change in any of these areas?

<A – Keith Creel>: I see, from a regulatory standpoint, I see a lot more optimism than pessimism. I don't think I've been shy about it. The FRA, under the previous administration's leadership, set the industry back.

They wouldn't allow us to innovate. They wouldn't allow us to use technology which drove efficiencies and safety benefits. Quite frankly, it kind of had us paralyzed. This new administration is not about that. I've met with Secretary Duffy. I've met with the interim leader of the FRA.

I know the incoming leader of the FRA. They're going to embrace innovation and technology as long as it drives safer outcomes and allow us to deploy it in our industry. I think that's a good place to be in. I think that leads to better service, lower cost, better safety outcomes for our industry, which are all positives.

When it comes to Canada and Mexico, I think now because of these tariffs, even more so than before, there's some regulatory nuances in Mexico specifically that impede fluid operation of trains. I'll give you a for instance, the grain that we take out of Canada to go to the U.S., the border is seamless.

You go to Mexico with that same grain, and we have to stop and get it fumigated. It has to go through time delays and extra handlings, which to me are not conducive to fast asset turns into service reliability. So we've got a regulator in Mexico that's open to those changes and willing to make changes and working closely with us.

So again I think in all spaces, we're in a place where there's less regulatory risk. We've got people and minds that are motivated to do things with the industry that allow safety and reliability improvements, and I think that's a good place to be in.

<Q – Scott Group>: Then, just quick that -- when you talk about the FRA, like what does it actually unlock from a safety perspective and then also from a cost or productivity perspective? Is this small, little things or are these big opportunities?

<A – Keith Creel>: I don't think it's a -- we're not talking about hitting home runs. We're talking about incremental change. We're talking about track reliability.

There's autonomous vehicles waivers have been granted before actually under Trump's previous administration. The last administration not only did not allow the data to drive regulatory change, they didn't renew the waivers. So they kind of put a kibosh on everything and kind of stymied and paralyzed the industry.

This administration is going to allow that to reoccur and to continue. So, I think it leads to regulatory changes that drive safer outcomes on track infrastructure. It allows you to redeploy men and women to do other work as opposed to going out trying to find problems.

They'll be able to fix problems, and the same is true when it comes to the car department, when it comes to unnecessary car inspections. Ourselves specifically, the inability regulatory-wise to kind of benefit in Mexico and the Mexican-U.S. border the same way we do on the Canadian border.

We do an initial terminal break test in Canada. You can run a train to any destination within the arrangements of distance and time. You can go to a U.S. terminal. The border is seamless. You go to Mexico, you test the train to the same standard. You do it in Nuevo Laredo, at Sanchez, in our case, go 10 miles north to our Laredo yard, we have to do it again.

Regulations require that. Stop the train, delay the train, delay the cars, inefficiencies. This administration is going to allow waivers to be approved. As long as we meet the U.S. standard, we can make that border seamless. That's the way it always should have been. That's the way it will become with these regulatory changes.

<Q – Scott Group>: Then any update on any of the things in Mexico, passenger train, anything like that?

<A – Keith Creel>: I think we're in a really good place. Again, administration change. I think we were in a good place with President AMLO, but President Sheinbaum, I've had two meetings.

I was down there six weeks ago. They broke ground on the passenger train. They're committed to a separate line, a parallel line. They're going to build a dedicated line for passenger so we don't have to intermingle and mix with the freight, so we'll be able to still run freight trains.

The beauty that came out of this is not only have we developed trust and respect with the administration, they see the benefits of not just getting people off the highways onto the railway, they want trucks off the highway onto the railway, which is a good thing for our industry. That regulatory changes that will enhance and incent that truck-to-rail conversion actually occur.

<Q – Scott Group>: We've got to wrap. Anything we missed that you want to make sure we understand?

<A – Keith Creel>: No. I think you've covered it all.

<Q – Scott Group>: Awesome. Thank you, Keith. That was great.

<A – Keith Creel>: Okay.