Transcript

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Webcast

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Other Participants:
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QUESTION AND ANSWER SECTION

<Q – Ariel Rosa>: So before we get into the M&A discussion which I know a lot of people are going to want to discuss, let's just talk about operations and how the quarter is progressing, where you're seeing opportunities. Quarter-to-date RTMs are roughly flat. Carloads are down a bit. You have a target out there for mid-single-digit RTM growth for 2026. With the understanding it's still early in the year, maybe you could talk about how you expect volumes to trend over the course of the year.

<A – Keith Creel>: Okay. Yes. Well number one, thanks for having us again. It's always a pleasure to come and talk about our story. We're almost three years old. We're kind of getting beyond the infancy stage. We're toddlers, but we're still learning to walk and run, and the railroad is doing extremely well overall.

We finished the fourth quarter with a lot of operating momentum. Certainly had some choppiness in revenue. But as we said at the end of the fourth quarter and when we talked about our results, the momentum continued operationally. The railroad is running very fluidly.

Operating metrics are at best-ever levels for the first quarter of the year which is typically our most challenging because of weather. That said, from a business standpoint, January from a compare standpoint, we always said and knew and expected last year was strong.

We had a mild winter last year. We had a lot of pull-forward demand from tariffs from the tariff date that was coming in April, everyone knew.

So from a compare standpoint, we knew that was going to be a pretty hard match. In spite of all that, with a record grain harvest which is carrying over to this year, we were flattish, maybe slightly down, I think 1% to 2% on the RTM basis.

But what we didn't have in January in volumes, we made up for in operational performance. So expense control which we closed last year out, is maintaining its discipline. I'm extremely proud of the operating team and the way they're efficiently and safely running the railway.

That said, from a demand standpoint, the grain has really started to move. So the numbers you'll see once they get updated, we've actually got to positive RTMs. I think this morning, I looked at it, we're just under 2% for the quarter. We expect to finish low single-digit positive for the quarter which is in line with our expectations, and we'll continue to gain momentum as we get into the second quarter. Compares from the pull-forward will dissipate. You've got the automotive pause that was taken last year that will dissipate.

So you get back to the fundamentals of the demand that we're seeing on grain. It's a record harvest, 85 million metric tons. That's 20% more than last year, and we've never ran it more efficiently. We had a record January. We're going to have a record February. So we're well positioned there.

The U.S. corn crop as well is extremely strong. You've got the soybean issue with China got resolved in the fourth quarter. We didn't really benefit from the renewed orders in the fourth quarter, but that's not true now.

We're starting to obviously move it from a compare standpoint. We'll lap that. So we're set up well with grain. We're set up well with potash. International Intermodal as well that's unique for us in our Gemini alignment. That is going extremely well for us.

In fact, I just saw our friends and partners in Hapag-Lloyd made an announcement this week where they're acquiring another asset. So if that gets approved, and we expect that it will, that's going to be supportive to our Gemini model and our future demand in Canada as well as in Mexico.

So again extremely pleased there. Automotive is another space we've continued to outpace the industry in spite of a down market. We've had a record two years, and we expect the same thing again in 2026. So a good spot there. Americold, that's something we talked about before has come online now that's starting to grow, and that's controlled reefers, and that's shipping product to and from Mexico which we have a lot of experience in Canada doing that.

We've created a supply chain that's unique to the industry that's making the border transparent that will continue to grow for us. Land bridge, that's another space. Every crisis creates an opportunity.

So the tariff tribulations with the USMCA and the uncertainty with trade rebalancing between the United States, Canada, and Mexico has created a very motivated Canada and Mexico to diversify. So you probably read Minister Le Blanc is in Mexico now. He's been there all week.

He took one of the largest trade contingents to Mexico that they've seen in decades. There's over 300 companies that are represented there. We have our team on the ground with those people selling our network, again creating a unique outcome for us.

If you put all that together, you put some price control which we've demonstrated. We're taking price above and beyond what we had expected and disciplined operations. It puts a pretty unique outcome together where we're all out.

We're able to drive based on that single-digit RTM growth, double-digit earnings, and operating margin improvement and going straight to the bottom line. It's a pretty compelling unique value-creating opportunity in our industry, in spite of the macro. That's with the macro against us, not with the macro supporting us.

<Q – Ariel Rosa>: So that's a great rundown, Keith, just so I can delineate because -- and you kind of hit on it there at the end. But how should we think about how much growth is coming from the macro versus how much of it is these idiosyncratic opportunities that you guys are driving and creating for yourselves?

<A – Keith Creel>: I would kind of say it this way. If we're single-digit RTM with the macro against us, when you normalize the macro, that gets us to that kind of CAGR that we talked about at our Investor Day it's a high single-digit RTM growth which is a stronger double-digit earnings growth.

<Q – Ariel Rosa>: Got it. That's exciting. I'm sure that's going to be uplifting to a lot of folks in the room.

<A – Keith Creel>: There's more to come and we wanted to be prepared for it. We got the capacity and the people and the locomotives and the talented team to be able to convert it.

<Q – Ariel Rosa>: One of the things that I want to understand, so we've seen a pattern of RTM growth leading carload growth. What kind of mix effect is that having? And just maybe explain what's driving that? Is it longer trains?

<A – Keith Creel>: Yes. No. That's a great analogy. So the reality of it, it's the vision being realized of this network, extended length of haul -- cars that are not being interchanged to railroads perhaps that in the past, we didn't have a choice.

We stopped at Kansas City. We either interchanged at Minneapolis, St. Paul to some, Kansas City to some. Now we're getting extended length of haul, origin to destination. So the average length of haul is going up dramatically versus what it was pre-merger for both KCS as well as the legacy CP.

So that's what you're seeing. With the extended length of haul, that's going to have kind of a detrimental impact overall if you look at just the raw cents per RTM number because you're spreading over a longer distance. But the arc per car, obviously is going up.

So in the end, it's the value of this network. You're seeing it in automotive, you're seeing it in plastics, you're seeing it in land bridge. You're seeing it in intermodal, you're seeing it in agricultural. So again that will continue.

But at the end of the day when you have the capacity to handle it and you do it in an efficient way and bring it to the bottom line, that's all positive for the investor and it's positive for our outcome. So we're doing exactly what we said we'd do.

So as long as you see the difference, understand that's a good thing. When you layer the macro back on top and you start to see more of those carloads, not only do you have more carloads benefiting, you have more carloads benefiting from extended length of haul which again is very accretive to the bottom line.

<Q – Ariel Rosa>: Yes, absolutely. You mentioned the network has been running very well recently. I think that's true actually for most of the North American rail network. Yet -- if I think -- if I look at yields, cents per RTM has been kind of flattish.

I understand there's obviously been the headwind from the Canadian fuel tax change. But talk about what the pricing opportunity looks like. Has anything been holding it back? Do you feel like you've been getting the pricing that you'd like to get? Or is there still more room to come, especially if we get a little more of a supportive macro?

<A – Keith Creel>: Yes. So historically, we've said 3% to 4% is kind of where the number is in good times which we model our price on. But when we put our network together, we said we're going to price to the value of the network.

So extend the length of haul, if you've got customers' assets and they own over 50% of the cars and you're turning those assets faster, they have to own fewer of them, you should be able to take additional price as long as you're reliable and consistent and they can size their supply chains to that. That's the value that we're extracting.

So in our price, we've been north of 4% in spite of the macro because of the value proposition. No other railroad has that value proposition. We do and we have and we continue to price to that. So again when you get back to a normal macro, you get some of this truck capacity that's shrinking.

You start to see the truck rates shore up, some of the parts of the business that in spite of the macro have grown which will grow more, the value proposition on intermodal, domestic intermodal gets even more compelling. Our ability to take additional price becomes even more compelling.

So some of those areas that I think have been diluted or become more accretive as you get back to a normalized economy which is going to benefit uniquely our network, especially with the product that we've got relative to domestic moves coming out of Chicago going to Mexico, we've got another product that we're introducing called SMX.

It's the Southeast Mexico Express. Kind of go back to our Investor Day -- I guess two and a half years ago, I think we announced the deal that day, a niche acquisition of a little piece of short line from Meridian, Mississippi to Myrtlewood, Alabama. We're going to partner with the CSX.

CSX takes it from Myrtlewood to Montgomery, and then that's kind of the highway to Atlanta to the Southeast. That is coming to fruition. That railroad now will finish the end of this quarter. It's a Class one standard railroad. We're going to have most of it at 49 miles an hour.

You've got transit times from Atlanta to Mexico. If you go to Monterrey, that's literally just over three days. If you go deeper into Mexico down by Mexico City, SLP or Interpuerto, where we're taking the 180 181 train, you're four days. Again that is truck competitive and it's reliable. You set your clock to it.

We replicate the same success, you get back to an environment where it's more supportive and truck rates go up, that border stays seamless, you're going to see additional growth in that space.

<Q – Ariel Rosa>: Is there a good way to think about the level of available capacity on CPKC's network right now? Like how much -- if we do see that more supportive macro, if we see tightening in the trucking market, how much room is there for additional volume?

<A – Keith Creel>: You should think about it in a world where we -- again if you go back to what we said in our merger application, we said that we're going to do a high single-digit RTM CAGR. Obviously the macro has not given us that. But what the macro hasn't given us at the same time

we've been investing capital. We've continued to build out the network. So for three years, we built out a network to create the capacity to be able to run the railway in a PSR way the way we do. So that's latent capacity that's built, that's in the ground.

So from capacity, we got a bridge, a second bridge going into and out of Mexico. We've got locomotives. We're literally this year in our second year of purchasing a second tranche of 100 locomotives that are coming online in 2026.

So from a capacity standpoint, we are primed for the rebound. But again, we're going to be disciplined. We're going to hire ahead of the curve, just in time the way we need to hire, make sure we're trained properly.

But when it comes to rolling stock, when it comes to locomotives, when it comes to terminal capacity, this railroad is in very, very good shape, and we're able to grow at low incremental margins with no issues and no challenges on a go-forward basis for several years to come.

<Q – Ariel Rosa>: How should we think about what the incremental margins look like on new volume that comes?

<A – Keith Creel>: I think that 60% - 70% number -- it's still in that same place.

<Q – Ariel Rosa>: One of the things that's interesting to me, there have been a lot of challenges that you guys have faced, a lot of uncertainties. The Canadian economy has had its share of challenges. You've seen a lot of labor issues in Canada.

Certainly, I know as part of the integration, you had the IT issue with the crossover. And yet CP continues to lead the industry in growth.

If we remove some of the overhangs and think about a more supportive macro, one of the things that's interesting to me is we've seen kind of multiple compression among the rails.

And yet CP has that potential or that growth potential that I think most people would recognize as superior to most peers. I asked you about this on the earnings call but let me kind of circle back to it because I'm curious to hear a little bit more -- hear you elaborate on this.

What's your level of confidence in CP leading the industry in growth over the next, say five to 10 years? What are the sources of that growth? And contextualize some of the challenges that you've had or some of the headwinds that maybe haven't been quite in your control, but how big those have been or how much of a headwind those have represented?

<A – Keith Creel>: Yes. So when it comes to growth, we built this network to grow. And again we're in the early stages of building this thing out.

So a lot of these solutions that we put in the marketplace that have allowed us to drive our growth unique to the industry, really driven by synergies. We said when we started this thing that we initially said we saw US$1 billion worth of synergies of revenue synergies, not EBITDA synergies. Now we're at US$1.5 billion. And literally, if you get to the end of this year, we exited US$1.2 billion in spite of the macro at the end of 2025. We're going to layer another US$200 million in spite of the macro on in 2026. We're in a pretty good spot. But again it's in infancy stages.

So as we build this network out, we'll continue to see that uniquely enabled. Then you layer on top of what we didn't know. You learn things as you do this thing, like this whole opportunity between Mexico and Canada. Last year, in 2024, it was 2% of our revenue. The crisis created a lot of attention and motivation around it, and it grew to 3%.

So right now order of magnitude, it's under -- just under CAD 0.5 billion of Canadian revenue that's new to the network. And again as we go forward through USMCA, it impacted us, obviously. The uncertainty has impacted us. The pause that happened with automotive has impacted us. The tariffs on steel have impacted us.

But as you normalize those things and we get through these negotiations, yes, you're going to see rebalancing, but you're also going to see an ability to be more predictive in the rate and size of your supply chains and for investment to reoccur because, quite frankly, that's chilled some of the investment. As much as President Trump's changes in motivations of bringing manufacturing back to the U.S., the need for Mexico and Canada and the U.S. to do business has never been greater.

The labor pool in Mexico, the scarcity of labor in the United States, bringing the supply chains closer together, derisking your supply chain from overseas, all those things, those fundamentals that were true then. Once you get through all this uncertainty, this network is kind of the backbone that allows those things to occur. So it's been a headwind for us.

I think it's created some uncertainty in the marketplace. I can go back to whether it was President AMLO before the administration change and kind of the risk that was introduced, we want to build passenger trains.

Well everybody got concerned. Are they going to affect CP's ability to grow, CPKC's ability to grow? Well if you can engage and you work close with the administration, we can uniquely complement each other.

We can help them achieve their goals and we can still protect our ability to grow. We're doing that. We navigated that. You get to the trade tribulations. How can this railroad grow in spite of all these uncertainties? Well we've demonstrated that we can. So again you start to do those things and you start to give investors confidence that this model works. This network is unique.

Mergers or no mergers. We're a North-South network uniquely creating three economies that depend upon each other today. And as you grow forward in trade, they're going depend upon each other even more.

So even when rebalancing occurs, this industrial logic makes sense. With this team, we're proving that when storms come, there's going to be choppy waters. We're going to navigate them. We're not a team that's going to make excuses.

It's our job to make solutions. That's what we do. We take crisises and we turn them into opportunities. We've become market makers. With our backbone in our network, we have the ability to do that.

<Q – Ariel Rosa>: Last year at this conference, we spoke about some of the opportunity to drive efficiency that could come about from deregulation. I think so far, some of the policies that we've seen have been more headwinds.

I'm curious how you think about how much of that opportunity, that efficiency opportunity has been realized from deregulation, -- how much is still on the come? What's your level of confidence that we could see some of that start to flow through in terms of the operating results?

<A – Keith Creel>: Yes. I think we've made some progress. It's taken a little bit more time than maybe any of us had wanted or anticipated, but we're starting to make the right moves. The autonomous track inspection that finally, that got passed through, we're able to start to look at how we justify and invest in expanding that technology across our networks.

There's some unique things that we've done in Canada that we pioneered relative to cold-wheel technology, train inspections, eliminating regulatory inspections, extending the length of haul that it's all about asset turns, improving safety and improving efficiency. We've got an administration now that's entertaining those changes.

We actually got a change through recently that we'll see really in this harvest benefit us where we were having to stop trains and make wheel change-outs at Laredo. Now we're able to do that at IFG or having to do it in Kansas City.

So if you look at the legacy network and all the trains that we send to Mexico, we've got one customer that sends over 50 trains a month. If you look at the whole book of business, it's almost 70 trains a month of ag product that are moving off the legacy KCS network going to Mexico.

That's a lot of trade. That's a lot of cars. That's a lot of touches. If you can speed those assets up and do work on those cars, change those wheels out in a way that's more efficient than what's realized in the past, that's a big benefit.

So again we're kind of in the early stages of it. There's other things that we'd like to do relative to inspections that are occurring in Laredo. We have to prove the concept. We got to get the empirical data to show that it's safer as well as more efficient, but we've got an FRA and we've got an administration that's willing to listen. The last one wouldn't listen at all. So to me, that's a monumental change in and of itself, and it gives us hope for the changes that will come in the future.

Once we give them the empirical data that says, not only does this make sense from a regulatory standpoint, it's the safest outcome that allows our U.S. rail network to be safer and to be more efficient and makes it more robust and strong.

<Q – Ariel Rosa>: What's the process for getting those changes in place? Is that -- you collect the data, you go to the FRA, say "Hey, this is something we'd like to test out or we've been exploring, can we get permission to do this or…

<A – Keith Creel>: Yes. That's kind of it in a nutshell. You've got to put the case together. You've got to present the case to the FRA. They've got committees that look at and look at the safety aspect above all else. They issue -- typically, you start with a pilot.

And once you prove the concept out, you can allow the pilot to grow. So it's slow change, but it's change. And again when there was no change, any change is encouraging, and this administration has allowed us to do that. It just doesn't happen overnight.

<Q – Ariel Rosa>: Wonderful. So you've reduced your CapEx target this year by 15%. We talked about the available capacity on the network. I think a lot of people like to hear that. Certainly a lot of opportunity from kind of incremental margin growth, the contribution that can make to operating income.

How do you think about the sustainable level of free cash flow that could be generated by the business? And in terms of deploying that capital, I think it's noteworthy that you've pulled forward some of the buyback activity. So maybe you could discuss those two pieces, the free cash flow, the kind of CapEx -- thoughts around CapEx and then thoughts around the buyback.

<A – Keith Creel>: Yes, Chris, I'll let you address.

<A – Chris De Bruyn>: Yes. Thank you. So as Keith laid out, we've spent a lot on capital over the last number of years, bringing the networks together, spent a lot on twinning the bridge at Laredo, adding additional sidings, adding CTC through the network.

So the network is in a great place from a capacity perspective. We're shifting our capital priorities a little bit more now towards the rolling stock. We purchased 100 new Tier four locomotives last year. We're purchasing another 100 this year.

But we've really pre-invested in the network. We're in a position to bring capital down to more of that $2.6 billion, $2.7 billion level. We think that's really sustainable for the next couple of years at least.

So that's creating a pretty compelling free cash flow conversion story. We don't believe in hoarding cash on the balance sheet. We do believe in returning it to shareholders. So we've actually upsized our buyback this year.

We've announced a plan to buy back 5% of the stock. You can typically expect us to address the dividend annually as well. So the shareholder return strategy is something that I think is exciting for investors.

<Q – Ariel Rosa>: So you have the target out there for double-digit core adjusted EPS growth through 2028. Maybe speak to your level of confidence in that. What could cause you to -- I mean I guess outperform whatever -- obviously there's a lot of room between double digits, anything between 10% and 99%.

But what kind of to come in on the stronger end of that, what would that look like to the extent we come in a little bit softer? Is that just a function of the macro not being quite as supportive? How do you think about the ability to hit that target?

<A – Keith Creel>: Yes. I think the simplest way to look at it is the macro. That's the difference. If we just get a normalized macro, you get GDP sustainable that's given you 3%, 2% to 3% a year with this network and this team and what we can sell to connecting these three nations. You get some certainty on the trade, the trade gets resolved later this year, then I think you get to a place where you're going to get strong double-digit growth.

<Q – Ariel Rosa>: Got it. Excellent.

<A – Keith Creel>: Yes. Not 99%, obviously...

<Q – Ariel Rosa>: Just shy of 99%.

<A – Keith Creel>: Yes. Definitely in line with what we guided to when we came together 2.5 years ago.

<Q – Ariel Rosa>: Wonderful. So why don't we shift focus and talk about rail M&A? I know that's...

<A – Keith Creel>: I can't believe you took so long.

<Q – Ariel Rosa>: Got to talk about the core operations at some point. Talk about the upcoming STB fight, if you want to call it that or the merger debate. How is CP positioned? How are you thinking about preparing yourself and kind of the argument that you're going to be laying out as this kind of is obviously going to play out in a very public way over the course of the year.

<A – Keith Creel>: Well probably no surprise to you. We've got a lot of experience dealing with the regulator, dealing with the specific leaders that are in the regulatory body, got a lot of muscle memory, spent a lot of time reading, deciphering and understanding what the regulations require.

So that has consumed a meaningful amount of my time I think rightfully so. I believe that I don't say fight, a debate, a very spirited debate about what the facts are, the good facts and the bad facts, the positives, the negatives. That's what these rules require.

But as far as CPKC as stand-alone concerned, at the end of the day we're the least impacted. And don't take me in my word, take me at UP's initial filing. US$100 million, if you look at it of at-risk revenue. I say that if -- and that's still an if, it's not a fait accompli. I'm not drinking the merger cool aid that this thing is going to get approved. It may or it may not.

I'm not going to be naive to say that it won't, but I'm not going to sit here and say I'm just going to assume that it will because the facts, I believe, especially in light of the last ruling when their application was ruled incomplete, it says that, you know what, this isn't a layup. We're here, we're going to understand. We're going to assess the decision based on all the facts. All the facts need to be developed, heard and understood.

So all that being said, if it gets approved, it says it will come with concessions to meet the standard of public interest to meet the standard of enhanced competition. If it comes with concessions, if you believe anything about us to be true, know that we've done our homework, and there's a whole lot more good that comes out of that than what's at risk from a revenue standpoint and from an opportunity standpoint.

And that being said, I do not believe personally, and I'm speaking from 35 years of experience. And again Jim and I can -- we see this differently. He's been railroading a long time. He's a good railroader. But I think perspective matters.

In those 35 years, my 35 years, I spent some time in Canada, obviously the last two decades, but I spent a lot of time in the U.S. right in the middle of the industry consolidation that led to those rules. I lived through the UPSP combination.

I lived through BNSF as a young Operating Officer. And history, in all honesty, was very painful. Those integrations were painful. The SPUP deal melted the industry down 2 times. That's at the size they are today.

So keep that in perspective. You go east, you look at the Conrail carve-up -- the CSX and the NS transaction again. And a lot of the decision-makers and people that were directly impacted that are in key positions today just like me, they lived through it. They're still working in this industry. The lion's share of those people know how painful those integrations were.

So if you get to a place where those rules were enacted to stop mergers, before they were written and created, you could argue to encourage. There was way too much capacity. You had railroads that weren't making cost of capital.

We had a need to get to healthy financially sustainable rail networks, and that's what the previous merger rules allowed. The barrier to achieving a yes vote was different, dramatically different.

In 2001, those rules were not only written to stop mergers, but to create an environment that the hurdle rate is huge relative to meeting that public interest test. So keeping all that into play, thinking about what's still yet to be navigated to achieve, that's why I say this is not a fait accompli.

The benefits have got to outweigh the unintended consequences. I can make the case of market power. You're talking about unlike us and some people would say Keith, you're a hypocrite, you're a product of consolidation. I say I'm not a hypocrite, I understand the facts. What we did complemented and created competition without tilting the scales of market power to the disadvantage of any particular customer.

There's not one single customer that lost an option with us. It truly was end-to-end. There wasn't any overlap that you got to explain. There wasn't any need to go out and introduce some kind of pricing mechanism that protects competition for a prescribed shelf life.

So again uniquely different transaction for us. What was true about us is not true about this combination. You're talking about something that creates, if it's approved, a Goliath that is going to have exponential market power.

And I think once you reveal all the facts and look at some of those modelings that are going to have to come out with a renewed application and as we go out and stress test what they say to be true, you're going to see somewhat argue monopolies in some key segment lanes.

That's going to concern the regulator. You get to a place where historically -- and again I'm not talking bad about Jim, just historically, UP, I don't think it's a surprise if you get in our industry, you talk to a customer, you talk to another railroader -- they've never been a railroad that's been bashful about using their size.

They have imposed their will in a lot of ways. It's almost woven into their DNA. Jim's aspirations aren't making that any less true. Their size would not make them any less likely to do that.

And this regulatory body knows that. There's been multiple cases that are very public about disputes where previous concessions from previous consolidations they participated in haven't been honored. They have to go to the STB to get them to rule. We have one ourselves.

And/or if you go back two years ago, think about all the embargoes that where I would argue, and I think the regulator wouldn't disagree with me, they weren't used, they were abused to regulate traffic on the UP railroad.

So you can't get rid of those bad facts. Jim wasn't there in those moments. But still, he takes and represents everything that UP represents. In the risk factor, that's huge.

Then the other piece is the operational piece. Jim is a good railroader, good operating guy. I'd like to think I'm a pretty competent operating guy, too. But you create something that big that potentially, if you don't integrate it right and even if you do, when mother nature rings the bell like she does, like she did in 2014, I talked about this in Chicago. The railroads were melted down.

The airline industry was melted down when it's 40 below 0 for an extended period of time and you're in the middle of Chicago and the snow falls, you have a problem.

And when you've got a user of those shared assets, in the BRC, in the harbor, that spaghetti bowl of interconnectivity where 25% of every shipment in America has to go through in Chicago and you have someone that controls almost half of that. If they fail, they will uniquely be if it's approved, the single largest user of the belt railroad. They're going to take some cars out, but they're still the giant.

If they stub their toe, I don't care how good Jim is or how good I might be if I were running that network. I'm not bigger than God and bigger than mother nature. It's going to bring this nation to its knees.

So to create something like that, I'm not saying it won't get approved, but I'm saying it's ill-advised and it will only happen when all those issues are carefully laid out. Those regulations, if you really read them, it's not just public interest, it's not just enhanced competition. It's also protect the operational viability of our U.S. rail network overall because it's an interconnected system. They were written with that service assurance portion of that to recognize and respect those risks that are inherent when you put networks together, especially a network that would be that big.

So to me, to diminish or minimize the operational complexity, it's not as simple as just you know what if we start to have problems, we'll take a pause. Once that baby is born, it's going to have to be managed and dealt with. If they get it wrong, it's not just isolated to their network. It's so big it affects the entire nation. And I guarantee that's not going to fall on deaf ears when it comes to the regulatory body.

<Q – Ariel Rosa>: You're the only rail executive in the last 25 years to oversee a large rail merger. Maybe you could talk about the operational complexity points of failure or the risks of failure that you see?

Just like help us understand that because right now exactly, it's one thing to have the idea to talk about the opportunity that it creates. When you actually have to go out and integrate it, it's going to be very difficult to undo if there are challenges. Help us understand what those challenges look like and how it might be different or more complex than what CPKC did.

<A – Keith Creel>: Yes. I think the scale is the X factor that's uniquely different than what we did. Again Chicago is a great example. The bigger it gets, the more complicated it gets. The more of the pain if you get it wrong.

Our network, we have the two smallest rail networks coming together that, again they butted hand in glove. We share the same terminal. We have for eight decades. Our switchman switched on the same lead. So literally, we had new systems that created complexity which history will show.

We didn't completely navigate that as well as we should have navigated that. But outside of that, the complexity pales in comparison to what we're talking about with what UP is proposing and NS is proposing.

But pivot to the complexity of the systems themselves. When Jim has talked about Net Control and their cutover at UP and again I applaud them, they've done a great job in cutting over their own system. But cutting over your own system, replacing your own system with your system you design versus marrying another company and trying to integrate and cut over a system, you uniquely do not know.

There's complexities that are involved that with the best of planning, it's impossible to get it all right. That's what caught us in all honesty. A lot of our systems, we don't talk about the ones. We cut over SAP, we cut over mechanical systems, we cut over locomotive systems. 85% of what we cut over when we cut over on Day N in this past year went perfectly.

The operating system though, that one piece because of the things we didn't really know about the MCS system which KCS had, the things that were going on in the background that a lot of the historical nods that created the workarounds in that system no longer work for the company.

Those complexities -- and he's a smart guy, but I would warn him. Don't underestimate the complexity of the operational system cutover. Net Control may be doing great on UP, but you're not just cutting Net Control over. You're replacing a system that's been completely unique and different that you'll learn a lot about as you prepare, but can you fully prepare for that cutover?

I would suggest no. So again don't overprepare, Jim, work hard, but it's a monumental task. It's not to be taken lightly. That is, to me, where the most exposure is represented from systems cutover. It's that operational system cutover from the NS to the UP system.

<Q – Ariel Rosa>: I would imagine there might be questions in the audience. If anyone does have one, feel free to raise their hand. But let me ask, you had mentioned concessions. I'm curious what type of concessions would CP be looking for to the extent you could give us some color on that.

<A – Keith Creel>: Well when they finally get their applications submitted, we've got our list that's pretty robust. You'll get a lot more color on this. But at a high level, think about the markets where we overlap. Think about St. Louis, Think about even Kansas City, and we're talking about access, whether it's through reciprocal switches or in some cases, perhaps direct access where we have the infrastructure via the support direct access.

You think about Houston. Houston is the area today that we don't have an ability to connect northbound into or out of with the belt Railroad in Houston.

If we can solve for that, if we can solve for more access in that whole Houston market and some of that chemical alley, I think that's an area of opportunity for us. And we'll make a case, I think a very compelling case that if the STB is going to approve this transaction, part of what we ask for will help them solve for enhancing competition in those areas.

So those would be key areas that I'd look at. The other area to look at is protecting our competitive niche and access across that Meridian Speedway. That's an area that we're going to have elbows up to protect our ability to compete and realize this new partnership with the CSX.

And I can imagine that other parties will probably look at that agreement stand-alone as it is in that world in a pro forma world if it gets approved and look at some of those exclusivity arrangements that back in 2006 were agreed to and the STB had no qualms with, now might be viewed as anticompetitive when you only have one option is eliminated relative to one of those railroads that may want to compete in the Southeast markets.

<Q – Unknown>: Two parts, if I may. Just wanted to see where you think you stand in terms of inning for your MMX 180/181 and your Americold in terms of volume to reach kind of a steady state normalized growth, which inning are we in?

<A – Keith Creel>: Yes. I would say on MMX 180/181, I'd say we might be in the fifth inning. It's still -- we haven't had a very supportive truck market.

So as the rates go up, you're going to see more demand come to the network. Americold is still new. We ramped up pretty quickly, started in August, 200 loads a week. By the middle of this year, I think we're going to be at 600. What -- again you don't know what you don't know.

So this whole product was built on cold storage. The cross-dock facility that Americold has built in our terminal at IFG is state-of-the-art. There's a ton of capacity. So you've got cold storage growth that's going to occur uniquely enabled.

Now you start to learn about what else is out in the marketplace. Well you think about dog food. You know how much dog food that's being produced in America that's being trucked to Mexico. It's a lot. There's thousands of loads of dog food. Didn't think anything about it. You've got to work with the regulator. You've got to get the right infrastructure set up with the Mexican government to be able to make that border transparent.

Well we've proven what can be done working with the regulatory body on the U.S. side as well as on the Mexico side to enable these proteins to go south. Same story, whether it's dog food, whether it's cotton, whether it's textiles, there's a lot of empty air that goes south in intermodal containers or that's going in trucks.

South into Mexico that's ripe for us to be able to convert. That facility in Kansas City will be a key piece of being able to do that. So again there's a lot of innings of growth and opportunity still to be realized, working with Americold and working on 180/181.

Same story with Schneider. Schneider is a great partner. We've just tapped the reliability spectrum when it comes to moving auto parts. We're talking about auto parts that are moving truck that will shut assembly lines down. We've created truck-like reliability. We've gone through storms. We're proving the concept of the product.

So as the parts contracts come up for renewal, to be able to go in and say this is not what we do, this is what we've done. You're partnering with a partner like Schneider that has the reliability to match up what you're saying with the bookends.

Again it's a compelling value creation opportunity for 180/181. The train now I'd say 6,000, 7,000 feet. I've got a 10,000-foot train, I want to fill up. It's going to be compelling economics when we do it. It's a compelling service offering, and we'll continue to grow into it.

<Q – Unknown>: Wonderful. The second part is, can you comment on UP's committed gateway pricing and also their watershed opportunities along the Mississippi.

<A – Keith Creel>: Yes. The watershed piece, that's been an aspirational project for a lot of railroads and some of the industrial logic, I would say makes sense. I just think that their growth targets are very aspirational. To me, to achieve them, you're assuming that a trucking industry is just going to roll over. They're not. I think we've learned that, that's a different beast to compete against.

So they're going to be competing against the truck, a very robust interstate system. Capital is going to have to be spent not just by UP, but also by the IMCs. That's still to be proven. So will they or won't they realize those aspirational numbers? I'd say that they're aspirational. I'd say it's going to be a long, long, long, long put, not as an easy put as maybe has been suggested.

What was the other question?

<Q – Unknown>: Gateway pricing.

<A – Keith Creel>: I don't think that's -- I think it's much to do about nothing in all honesty. It's -- again it's a concept that I think is trying to prove the test of public interest and benefit, enhanced competition.

But if it's true, then why is it temporary? If it's necessary in the first place, then to make enhanced competition, then why does it have a shelf life? Why does it exclude the Canadian railroads? Just because we're headquartered in Canada doesn't mean that we don't have a significant piece of our business in the United States.

We originate loads that are west of the Mississippi in our U.S. network, and they terminate east of the Mississippi. Mr. Vena knows that, UP knows that and the regulator knows that.

So to suggest that we should be included if it's really necessary, I think again just speaks to how unnecessary and how unimpactful that it truly is. So in the end, I don't think it's going to come close to meeting the standard the STB will require.

<Q – Ariel Rosa>: So Keith, we're almost at time but I want to ask one more question. You've talked about the STB shouldn't be looking at the UPNS proposal in a vacuum. You've talked about the follow-on consequences that might ensue, how it might put pressure on other railroads that it could trigger a further wave of consolidation. Do you expect that -- I guess say more on that. What are the pressures that would put on other railroads?

What do you think they might be forced to do? Do you expect further consolidation if UPNS goes through? And specifically, I'm curious like does it serve the public interest? I know creating this Goliath of UPNS is one thing if all the other railroads stay the same. But if we see further consolidation, does that change the dynamics of that? Does it serve the public interest if we just have two big North American railroads?

<A – Keith Creel>: Yes. I would say this. If the UPNS deal gets approved, I think additional consolidation is inevitable to protect the public interest in all honesty.

Scale and size matters when it comes to competition. Market power matters when it comes to competition. Any one railroad drawing all the capital and all the investment when you've got an entire U.S. rail network to maintain from a health and a capacity standpoint matters.

So again I think it will definitely create an environment where it will be necessary for additional consolidation. Now I'm not speaking out of both sides of my mouth. I do not believe we need consolidation. I do not want consolidation.

But if it happens, then I think you're going to have additional consolidation that is necessary and that is inevitable. And how it all shakes out, I'm not certain. You can make a case, a lot of industrial cases for a lot of different scenarios. I'll just say this, whatever happens, if it's approved, this railroad is in a good position. We've got, I believe, and I'm -- yes, I'm biased, I think the strongest team in the business.

And I think we have the strongest network, most relevant network in the business that uniquely and only and forever will be the only one that connects all three nations. We're north-south. I said this years ago when I put this thing together, we put this together. We can uniquely compete and partner with any railroad. What's true when there are six of us is true if there's only three of us or two of us.

We've got a pretty compelling network that can complement and enhance competition and that does not represent the scale and quantum of complexity that a UPNS combination does. So we're going to be in a good position regardless.

<Q – Ariel Rosa>: Well it's certainly going to be an interesting year ahead of us, and we'll see how it all plays out. But it sounds like you guys are doing all the right things.

<A – Keith Creel>: No dull moment.

<Q – Ariel Rosa>: Absolutely.