Transcript

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Webcast

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Other Participants:

Ken Hoexter – Analyst, Bank of America

QUESTION AND ANSWER SECTION

<Q - Ken Hoexter>: Great. Good morning, everybody. Welcome to the start of day two of our 33rd Annual Industrials Transportation and Airlines Key Leaders Conference. I'm Ken Hoexter, BofA's Air Freight and Surface Transportation and Shipping analyst.

To kick us off this morning, we have Canadian Pacific Kansas City's CFO, Nadeem Velani; and COO, Mark Redd. Nadeem has been CFO for 10 years now, and we welcome him to his second time here as CFO, and I know there were many more times at your prior shop. Mark, welcome to BofA for your first go around since taking over the role in 2019.

This is CP's 19th time participating in the 25 years we've hosted the event. So we thank the company for your dedication and participation. Also from the company, we've got Ashley Thorne from Investor Relations in the audience, joining us for the seventh time here going back to her KSU days.

So with that, welcome. Good morning, and Nadeem, let me turn it over to you for your thoughts on the state of the market and maybe just also in that, if you want to include three key takeaways you want us to walk away with.

<A – Nadeem Velani>: Sure. Well, first of all, thanks for having us, Ken. It's great to be here. It's been a great start to the year so far. I think Q1 was a little noisy with some of the headwinds tied to FX and fuel. But overall, volumes are trending kind of in line with what we expected so far this year, four months in.

We just celebrated our three-year anniversary of CPKC, which is amazing to think about. It's already been three years, but we're very pleased with how the integration has gone, very pleased with what we've been able to deliver. We've led the industry in volume growth, EPS growth over that period. I think we've integrated well as a company and the culture.

And we look at kind of the near-term environment, we're pleased, as I mentioned, how we started the year. We're moving a ton of grain on both sides of the border, Canada, U.S. and into Mexico. We've got a significant crop in Canada that's going to serve us well through the bulk of the year, no pun intended. But I think that's going to give us a big base of growth that we're seeing.

When we look at kind of the intermodal side, international, our alliance with Gemini has served us well. We feel good about what we're going to be delivering, continuing to deliver on the international side.

Domestic. We've seen growth with Americold, a new facility that's come on in Kansas City, and they're set to open additional facilities on the Canadian East Coast and into Kansas City. So that's going to continue to serve our domestic volumes. I think when you look at kind of the state of the trucking market where we're seeing some capacity kind of come off and even pricing accelerate. We feel good about what that could mean for overall domestic volumes on our network.

So feeling good broadly about where things stand from a volume point of view, seen some headwinds on the coal side, which we'll continue to face. But overall, our mid-single-digit volume growth outlook for the year, we feel very confident about.

We've seen our first quarter, cents per RTM was a headwind. We saw the impact. Some of that's tied to fuel surcharge timing and FX headwinds from the Canadian dollar being quite low a year ago in the first quarter of 2025. Well, we've seen that turn into a positive.

So into -- as we sit here, 4.5 months into the year, cents per RTM is actually positive year-over-year. In fact, for the month of May, we're up 10% year-over-year on cents per RTM. So it's not only the headwinds gone, but it's turned into a bit of a tailwind.

From a free cash shareholder return point of view, we announced a 17.5% dividend increase. It was our first dividend increase since we've formed the new CPKC. We're also doing balanced shareholder returns. We're in the midst of a 5% share repurchase program. So certainly looking to be disciplined in our capital deployment and reward our shareholders. So overall, feel good about where we are 4.5 months into the year, feel good about what's in front of us in the next six months.

So let me turn it over to Mark.

<A – Mark Redd>: So just as far as operations, if I look back at the quarters, we come out of fourth quarter quite well with operations expense savings. Q1 didn't disappoint. I know that we had -- you always have weather in the winter -- it was pretty spread across the network this year. We had some ice storms down south where they will recover real quick. Snow really just been the problem for the first quarter, but ended well. I mean, a solid year-over-year.

If I look at this month, kind of the second quarter, we're starting out very strong. When it's disappointing, when I was look a year ago and I look at Day N, I think about what Day N brought us from Louisiana, Mississippi, we had some service issues down there, but recovered quite nicely.

If I look at compares year-over-year now, you'll see double-digit compares of how the railroad has improved. And I think that's really, if you see just getting through the headwinds of terminal operations, how we handle equipment through terminals, we're seeing more synergies with each other.

We're seeing the operating system as one, not multiple. So with that, we can convert into better savings, better management execution, operating execution. If I think about just kind of where we are leading in the second quarter, certainly, record performance so far this quarter.

I think about three takeaways. Nadeem kind of talked about the macro, but operation is doing well. We're converting our locomotives. We're converting the sidings that we put together for the STB plans. So we're doing well in that space. Speaking for John, his pricing is good with the service metrics that we're giving him to deliver. He can convert in pricing, he has done well in that space. Although we've had macro headwinds, I mean, we're set up for success throughout the year. We can control what we can control with fuel savings, with different initiatives that we do internally and getting more comfort on the macro.

<Q - Ken Hoexter>: Awesome. It sounds like not much going on. So I guess I'll throw it over either of you or Keith. I mean, Keith, let's get this out of the way, right. Keith's been very vocal on too much rail consolidation already despite being the last to acquire a company. Why is the Transcon merger not fait accompli, just by announcement and where we are in this process? Why -- what's his updated thoughts on the resubmitted filing? I know you guys had a press release out pretty quickly. And where do you see the sustainable issues with the potential merger?

<A – Nadeem Velani>: Well, first of all, we don't think it's necessary. We don't think that putting that much power in the hands of one combined railroad is good for the economy. It's not good for the supply chain. It puts a lot of risk and puts a lot of pricing power in the hands of one railroad.

You think about the 2001 STB new rules, it still has significant threshold to achieve. And we don't think this application necessarily achieves this or this combined network would serve the public interest or serve the interest of shippers. I think it puts the economy at risk, supply chain at risk. When you think about what it could mean to downstream effects, what it could mean to changing the landscape of the rail industry, if you were to allow this to occur, you're probably going to see further consolidation, which, again, is probably not in the best public interest long term.

When you think about what they've offered is CGP or any sort of remedies. We don't think that's necessarily something that's going to alleviate the impact of that – the power of one dominant rail and the risk that, that would have on the supply chain. So I think the STB is going to take a very thorough assessment and thorough regulatory review and certainly don't feel that it's fait accompli.

And I think the momentum shifted. I think labor has come out. I think there's customers that are going to come out and we'll see what transpires the next few weeks here with first response from the STB, but I think this is far from over.

<A – Mark Redd>: Yes. If I could just add something. We talked about 2001 and despite we're the ones that took over KCS. I think we all knew KCS would be taken over at some point. It was just a matter of when and who. And the way we fit well with KCS, Kansas City Connection, CPKC now, I thought it was -- it's the right thing to do to connect that railroad. And the rest of the rails have this high bar they've got to achieve. And frankly, I mean, with their submission, UP hasn't done that yet, in my opinion.

<A – Nadeem Velani>: Yes, for sure. KCS, it was a different -- under a different rule.

<Q - Ken Hoexter>: Well, they left it out, so it could -- (multiple speakers), right, yes. So Mark, you kind of started off your overview with the service levels, right? I mean velocity is at multi-year highs, dwell near decade lows, cars online are falling, train length up 7%. I mean, I can go on. I'm sure you'd love to talk about a bit. So it seems like a renaissance of service post the integration. Maybe just give us some thoughts on what's going on? And is this just the start? Or are we kind of seeing the benefits post-merger of what you can achieve?

<A – Mark Redd>: Well, I think the tail is you kind of look at an integration standpoint of a day in. But if you go back day one, you can see year-over-year, we've improved, every year. So I think the team that we put together and the things that we do from our PSR measures. The way we handle

cars, the way we do service design, locomotive utilization, I mean, it's putting the pieces together for a CPKC network, not just CP alone.

So as we unleash and unlock some of the capacity that we've had from the STB merger application that we put together, the $275 million we spent just to build out those capacities. I think that's what's unleashed and unlocked this railroad. This railroad flows better with each other, not just standalone against each other. And I think that's really what's shown with really the differences between this railroad that you can run through Kansas City, you can run through Shreveport with blocking back and forth. In my mind, it will continue to get better and better each year.

<Q - Ken Hoexter>: Okay. It sounds great. Nadeem, I guess, on the flip side, you just reiterated targets mid-single-digit volume growth for '26. What, about 4% -- I'm sorry, we're at 4% for the year. So I guess we're aligned with that, but you're facing tougher comps in the second quarter now. Intermodal, you mentioned 19% growth last year in the second quarter. You've got another 11% facing in the third quarter. Coal is down upper teens. Alternatively grain, you mentioned setting records. So maybe walk -- maybe just do a little bit of walk us through how we got there.

<A – Nadeem Velani>: So I mentioned the grain. I mean, we're seeing significant strength in grain. That's going to continue. Canadian grain crop is a record crop. We're going to see volumes continue to be significant double-digit growth through until at least the end of August until the beginning of the new crop year in early August. But -- so we feel good about that.

U.S. grain as well, strong crop. We're moving a lot of it. When you look at what -- where we are kind of near-term comps, we've got some very easy comps. Mark mentioned the Day N system cutover challenges we faced a year ago, where we had some service disruptions through the bulk of the second quarter, even into the third quarter to an extent. So certainly some easy compares from that perspective.

When we look at 2025, we had prior to Liberation Day a year ago, there was a pull forward of volumes that we saw in Q1. So that was -- the dynamic of that created a tougher comp in Q1 for us this year, but creates an easier comp in post April 1. And we've seen that translate so far this quarter. Volumes are up 3.5% so far.

And so when we look at the pull forward that we saw in autos, for example, that's going to start accelerating our auto volumes year-over-year. The business development, the merchandise side, that's what I look at a little bit more of the state of the economy as far as some of the overall merchandise volumes, and we're starting to see some benefits there or some improvements on that side, both on – even on the lumber side, but we're seeing it in the refined fuels into Mexico. We've seen overall the energy kind of market be stronger. Metals, minerals, despite some of the tariff noise on cross-border Canada into the U.S., we've seen that start to accelerate.

So overall, we feel good about where things are on the merchandise side, on the bulk side. And again, intermodal, we're starting to see some of the benefits of our Gemini alliance, that's continued, some market share gains on that side and then some of these Americold initiatives that are taking place that we've seen kind of on the domestic side.

And it feels, I'm not going to say the freight recession is over by any stretch, but it feels like we're on the cusp of that turning. And that feels -- when I look at, again, the trucking capacity, trucking prices

and the rates, probably as optimistic as I've been in some time when I look at that market as a whole, so I think that's going to serve us well, certainly on the volume and on the pricing side. And we're seeing it with our 180/181 train that's starting to accelerate and our new SMX product with CSX, which I think is going to bode well for the growth of that product.

<Q - Ken Hoexter>: Okay. So yes, maybe delve into that part of the -- one of the things we saw immediately post-merger was the lengthening of trips, the benefit of getting cross-border, extending that. You've now got an agreement with CSX. Maybe, Mark, do you want to talk about what's going on in terms of the network with Meridian & Bigbee, kind of how you're extending the network and talk about the opportunity to keep going on increasing the length of haul and getting more traffic on the rail.

<A – Mark Redd>: Yes. So length of haul, I mean, we can see that clearly in automotive. I mean we're handling traffic from Canada to Mexico to and from. So you can see that length of haul in the automotive business increased significantly. What's good is this M&B purchase that we had 2.5 years ago, just after KCS, it's unleashed and unlocked competition, okay?

When you talk about competition, you talk about UP and NS, you talk about CPKC and CSX, what we're doing with CSX. We've been out on a train trip. We've been on the railroad with each other. We've been planning this. We may have lost it two years ago, but today's time, we did realize just due to the fact we put $58 million into the network, rail ties, ballast, everything you need to do to improve service. Now we're running 49 miles an hour. CSX has done the same thing.

We've introduced SMX again. And again, this -- you got to understand the service is three-day service from Northern Mexico. Southern Mexico is four-day service. If I look at just competition to the MSLLC Dallas to Atlanta, we are actually faster than Norfolk Southern's MSLLC route. So there's a lot of good things that's going to come out of this purchase of M&B and the alliance that we have with CSX and how we can partner together and grow that business.

<Q - Ken Hoexter>: So your in-region competitor was talking about winning some share in intermodal and some other areas, yet in the first quarter, maybe because of the comp issue, it looked like it. Now you've caught up and maybe even caught them and now you're talking about accelerating to their flat growth, you're looking at mid-single-digit growth. So Nadeem, you had told me absolutely not, we're not losing share. Maybe convince me it's not a share issue. And I don't know maybe the go-forward targets make that easier for us, but maybe just talk to me about that a bit.

<A – Nadeem Velani>: Yes. Well, certainly, it's not a share issue. When I look at one quarter, we had some headwinds that we faced. We had plastics plant that shut down, some refined fuels into Mexico that stopped moving and some of the headwinds I mentioned on the coal side that affected our volume. And so that was CPKC-specific as opposed to market share shift.

And if you want to look at volumes, I think this quarter, six weeks in, we're up 3%, 3.5%. Last I saw on Monday, they were down for the quarter. So if you want to look at market share shifts, I think that's -- we'll let the facts speak for themselves. One railroad is growing 3% plus, one is down for the quarter and doesn't have the strongest of outlooks from last I heard.

But -- so I'm not concerned about market share shifts between us and Canadian National. I think they're going to -- they've got their own growth story. I think they've got some opportunities on their network. We're focused on our combined three nation network and our opportunities within CPKC.

I think pricing has been strong and I'm not concerned on that front. I don't see that share shift game being played. I think they've seen what can occur if you start going down that path and what impact that, that can have on their network and on their service. And so I think those lessons have been learned a long time ago at CN.

<Q - Ken Hoexter>: Yes. You target doubling EPS from '24 to '28. Given where we are today here almost midway through '26, is that still achievable? Do we need to recalibrate from this point forward? Is mid-teens still the good outlook? Or given the lower base, do you need a higher growth to meet that target?

<A – Nadeem Velani>: Yes. So I feel good about double-digit -- low double-digit EPS growth for '26. When we set those targets, obviously, it was a different environment from a macro point of view and some of the tariffs and some of those headwinds certainly weren't expected and some of the geopolitical challenges that the economy is facing.

That being said, if this feels like the longest freight recession of my almost 30-year rail career finally comes to an end, there could be an opportunity for accelerated growth into the back end of this year and into '27, '28.

We need to achieve kind of mid-teens EPS growth, which isn't unachievable. Certainly, if you get -- we're doing double-digit EPS growth on the back of a pretty weak base economic growth. We still see a path for additional synergies into the next several years. If you get a more robust macro, we're now getting the benefits of share repurchases and some of the benefits below the line. Certainly, mid-teens kind of EPS growth is certainly achievable in a better macro environment.

<Q - Ken Hoexter>: All right. CP recently came up with some hourly agreements in the U.S. I think it was BLET and SMART-TD. Is that the last conversion you were waiting to do to hourly? Is that just the U.S. now and we're still standard in Canada? Just maybe talk about the differences in your thoughts on that.

<A – Mark Redd>: Yes. One would just start labor in general. I think hourly, we have an hourly agreements out for ratification. We're probably about a week away, week to 10 days to get that vote back.

But regardless, if we get that vote or not, the fact is we've served some notices to and from the union and won some notices that at a minimum, we'll be at a Mid-South agreement, which I'm accustomed to. That's actually where I started railroading. So we do have an hourly base, daily rate base regardless going forward, which -- what it does for us is it takes away work rules in and around Shreveport, work rules across the - - what I would call the KCS Tex-Mex property to better align crew districts to get synergies from crew districts and obviously, cycle times for all the trains that run in and around that area.

If I look at Canada, I mean, I think it's the same. We'll continue to do what we've done for many years is just negotiate back and forth, take a look at what's beneficial to us, take a look at what's beneficial for the people in the field and work together and negotiate through that.

Same as Mexico. The good news about Mexico is we've landed on salary increases for this year and next year, which is kind of unheard of. We're a year out. Typically, you do it every year, but we've had some good conversations. And frankly, we've got a good relationship with the leadership of the union in Mexico.

We'll continue to work through work rules. There's many different things we've done in the past three years to remove some of the redundant type worker, meaning locomotives moving in the yards and things like that, where we can do it with existing crews and multiple stops across the network where we can pick up and set out.

So there's a lot of good things that we're doing on that labor front. And if you remember three years ago, when we talked in Kansas City at Investor Day, we knew at that point, the first thing we need to do is get in front of our union leadership to make sure they understood we hear you. We're going to work together. We're going to figure out how to make this railroad very efficient.

<Q - Ken Hoexter>: Okay. So Nadeem, you mentioned in your opening comments kind of May was up 10% on cents per RTM with fuel, right? So maybe talk about pure pricing. I know that you mentioned kind of the market is rational, it's still doing well, still above inflation. I know inflation has picked up. Do you want to talk about how it's going on the core pricing?

<A – Nadeem Velani>: Sure. Yes. So we're -- long term, our view is in that 3% to 4% range in a decent kind of environment, which we've been able to achieve. We've been closer, I'd say, in that midpoint of that, around 3.5% pricing recently.

I'd say that, that's driven by the strong service, as Mark mentioned, record performance from a service perspective. And so we've been able to price to that service. And inflation while it has come up, for us, it's been actually -- we've got long-term labor agreements in place and our inflation is in that 2% to 2.5% overall when you look at, obviously, labor and ex fuel surcharge, which has its own mechanism.

So yes, we're pricing slightly above inflation and pricing to the service and to the benefit of the shippers, right? So our customers are benefiting from this better service and so –

<A – Mark Redd>: If I could just add one thing as far as labor stability, if you realize this hourly agreement that we're working with the SMART & BLET, I mean it's a year in arrears, but it's 8 forward. So imagine that we get eight years of labor stability in an agreement where we don't have to negotiate for a very long time. So it's just really good for pricing and understanding what future looks like.

<Q - Ken Hoexter>: Yes. Maybe explain just a sense as to why is this better in terms of this shift when you go to hourly from the mileage based?

<A – Mark Redd>: So there's a couple of things it does, okay? Number one, it gives you standard off days for the employees. That's what the employee gets out of it. They get a higher rate of pay. You

lose -- you get flexibilities within terminals, flexibilities within yards to where -- I actually don't have a yard/road concept anymore.

I usually -- I'll typically have just one job can do anything anywhere, anytime, and you set your railroad up that way. I can put pools on anywhere we like. You can move people around as needed. And at the end of the day, if we were to get ourselves in trouble for whatever reason, we can put officer crews on trains as well, which is unheard of.

We do it on the DM&E, the old DM&E property. We don't do it on the Soo line. But with this agreement, we have it in and around Kansas City with the implementing agreement we did with KCS, but also moving forward, we'll have it across this railroad, including Tex-Mex.

So let's say, Houston becomes a problem like it was four years ago just prior to the CPKC merger, we can actually put officers on those trains and move them around as well. So it's very unique. It's -- it gives a lot back to the employee as far as standard time off days. We can work four and three rotations. We can do a lot of different things with flexibility, but it also gives the carrier flexibility to get work done as well.

<Q - Ken Hoexter>: Everybody understands that. So right now, somebody is in Kansas City and they can only go west. That's their territory. They can't go east. So if you have trouble east, you can't move them. And now you can take people and move them around.

<A – Mark Redd>: Yes. I would say more Shreveport. Kansas City is an hourly agreement. Shreveport is the same way. Literally in Shreveport, you've got four seniority rosters, okay? And I can only go certain ways out of Shreveport.

What it does for us with this rock plant that we have just north of Shreveport, we would have to go 75 miles, swap crews and go to destination. But now we can run one crew to destination. And you can see in our MMC, the rock out of this facility has more than doubled.

I guarantee it's doubled to this point to where we can move rock out of that facility out to these locations like Monroe, Wylie, Greenwood, just different places like at around Shreveport, very beneficial.

<Q - Ken Hoexter>: I don't want to belabor the point, but does this start to get thinking of whether it's autonomous trucking or other things that you could do to run things from that plant to your network, to your hub and then move on? Do you start thinking about different things like that, that could change how you operate?

<A – Mark Redd>: I think what we would do is look at crew districts as a whole. I think crew districts down on the Tex-Mex, we've done some work on the Mid-South, a little bit of work on the KCS. But as you get an hourly agreement, you can unlock double crew districts.

Autonomous truck and things like that, I mean, we're going to sit back and watch what's going on and understand what's going on. I wouldn't really have that conversation at this point. But certainly, how we look at crew districts and how we can move around switching yards and things like that. That would be the benefit for us.

<Q - Ken Hoexter>: It was certainly a discussion yesterday night before. I mean, I think just going from theoretical to more start commercial a few years away, but still accelerating.

Nadeem, I want to come back to you kind of you talked about kind of the costs and how revenues are accelerating. So operating ratio in the last five years, you've averaged a 250 basis point sequential improvement from 1Q to 2Q. You noted despite the negative from higher fuel surcharges, hey, no reason we can't meet or perhaps beat that.

Do you get even more confident, I guess, given what you said about pricing, given what you said about volumes here? Is that kind of an easier bogey? And is there an accelerated target on that?

<A – Nadeem Velani>: Yes. No, we had a great April. I feel good about where we are a couple of weeks into May. So halfway through the quarter, I feel just as confident as I was when we announced our results that we'd achieve sequential improvement in the OR and continue to deliver year-over-year improvement for the year.

We were sub-60% in 2025. And I think despite the headwind from fuel surcharge on just the translation or the calculation impact on the OR from a higher fuel surcharge, we still see year-over-year improvement and yes, I feel good about that.

<Q - Ken Hoexter>: Okay. And kind of structurally, you mentioned sub-60%, right? So can this be -- if we're starting to see these gains and operating leverage with the volumes, can this be a mid-50s railroad? Is that your kind of -- your thought on operating level?

<A – Nadeem Velani>: Yes. So as I mentioned, we've been in this freight recession. And I think a big component of that to what's impacted the railroads is not being able to forecast or predict the volumes or you're protecting service and you're protecting resources, assuming a certain level of volume growth year-over-year and then it doesn't materialize and you get a higher cost structure associated with that and your margins are -- don't improve.

I think what we've seen this past year is just a concerted effort to not chase those volumes and not expect a comeback in the macro. And so we've been holding tight on labor.

We've been sizing the fleet when we think about kind of the overall assets, sizing the fleet to a more a softer growth number expectation. And with that, we've seen operating leverage as volumes kind of start to materialize in this kind of mid-single-digit level, you're going to get the benefit of operating leverage.

And so what do I think? I think 100, 150 basis point type of improvement year-over-year kind of on a sustained level, if we can get a more beneficial macro and really get that operating leverage, you could start seeing some real improvement in the operating ratio.

We were 62% and change a couple of years ago. We're sub-60%. I think the goal is not to get to mid-50s. The goal is to focus on what we think is a true core metric of shareholder return in return on invested capital.

But should your margins improve from getting closer to the mid-50s level over time if we can get some consecutive years of a stronger economy and get the benefits of operating leverage, benefits

of the labor agreements, as Mark mentioned, and better service and strong pricing? Absolutely, that's something that long term is achievable.

<Q - Ken Hoexter>: But you said -- I just want to clarify for this year, you said despite fuel year-over-year improvement from the sub-60 year-over-year improvement not to 100, 150? Or is that is the –

A – Nadeem Velani>: No, I'm not saying 100, 150 basis points. I'm saying longer term with a better macro, that's achievable.

<Q - Ken Hoexter>: Just want to clarify. And then last we talked, you were targeting about $1.5 billion in synergies post-merger. Has that -- where are you on that path? And what's the target?

<A – Nadeem Velani>: Yes. We're -- by the end of the year, we'll be at that -- will be close to $1.3 billion, $1.4 billion EBITDA synergies for the year on an annualized basis. Yes, I think we still see opportunities ahead, at some point three, four years into the merger, it starts shifting as to whether there are synergies or pure growth as a combined entity.

But certainly, the benefits of the combined network growing as a combined entity, I think that we've seen -- we've been able to outperform the industry. And I think there's a path to additional synergies into '28 and '29.

<Q - Ken Hoexter>: Okay. I just want to get a couple of numbers ones in before we wrap up. So you reiterated your $2.65 billion CapEx, but you added some new locomotives. Maybe thoughts on – is that growth? Is that replacement? How are you thinking about the purchase?

<A – Mark Redd>: Yes. It's a little blend. I mean we've got some older locomotives we're taking out of the fleet for sure. We'll have some for growth as well. So it's a balance between the two. We've got two vendors, strong vendors that's in the U.S. We're going to utilize both of them. Certainly, I want to say 300 -- about 300 and change, I believe it is past couple of years that we've -- we're working toward, and we haven't gotten all on board yet.

We'll certainly start taking the Q3, Q4, we'll start taking the Progress Rail locomotives. So we've got 35 of those coming this year, 30 more next year for 65 -- total 65 package. And we bought the 170 from Wabtec. So doing well with those.

<A – Nadeem Velani>: For fuel efficiency as well.

<A – Mark Redd>: Yes

<Q - Ken Hoexter>: So employees, you mentioned that briefly, kind of 19 -- I think Mark was talking about employee base, 19,500, but you noted you would climb a bit through the year, right? Is that -- how do you plan staffing with mid-single-digit volume targets?

<A – Nadeem Velani>: Yes, I think very low single-digit increase, so maybe 1%.

<Q - Ken Hoexter>: Okay. And then you're now at, what, just over 3x debt-to-EBITDA, continues to fall from 4.5x post deal. You're comfortable at 3x leverage, trend more.

<A – Nadeem Velani>: Yes, I think 2.75x long term. I think we've seen our multiple compress, and we've seen some opportunities to accelerate our buyback and take advantage of this pullback. And so that's what we've done. So slightly elevated near term, but long term, 2.75x is, I think, a reasonable level.

<Q - Ken Hoexter>: And we're about to go into the summer; thoughts on USMCA renegotiations, impact on ops business?

<A – Nadeem Velani>: Yes. I think it's going to be a long process. I don't think it's going to be a July 1 type of renegotiation, certainly on the Canada-U.S. side. I think it will take some time. I think there's a change in administration on the Canadian side as well. And so it will take - - it will be a long negotiation, I think.

And -- but I think overall, we feel positive as far as the impact that Mexico, Canada and U.S. have on trade and the ability for those three nations to continue to work together closely. And I think we're going to benefit as a tri-nation railroad on trade across those three nations. I think I'm not too concerned about the impact of not having a renewal July 1 by any stretch.

<Q - Ken Hoexter>: All right. I guess if I were just to lastly talk about your buyback, right? If I think about your cash generation going forward, right, you're accelerating the top line, generating -- you're talking about increasing ROI, with yields improving free cash flow. You've got a 5% buyback. How do you think about deploying that capital going forward?

<A – Nadeem Velani>: Yes. So I think we're going to be balanced. We want to do both dividends and share buybacks. I think we all want to -- still want to invest in the network. We pulled back our capital because we had an additional kind of pull forward as part of the merger and the integration.

So number one, we're always going to focus on investing back in the business where there's opportunities and where there's opportunities to generate high ROIC projects, which we still have on the network and across it.

So I'd say that $2.6 billion to $2.8 billion CapEx is going to be kind of consistent over the next several years. What remains we'll kind of return to shareholders kind of being mindful of that 2.75x, 2.8x type of debt-to-EBITDA. And depending on where the stock is, it will be a combination of buybacks and dividends. So –

<Q - Ken Hoexter>: So if I were to summarize our discussion here, right, services, almost record levels and improving mid-single-digit volume growth, good solid growth across the board. You've got some easier comps coming up, which started off tougher comps, pricing up core 3% to 4% with fuel up double digits and can accelerate operating ratio.

You talked about the top end of your target despite the fuel impact -- or I'm sorry, in that range -- in line with historical sequential improvement average. And buyback 5% done within the next 12 months.

Anything else you'd want to throw in a wrap-up?

<A – Nadeem Velani>: No, it sounds like terrific.

<Q - Ken Hoexter>: All right. Perfect. Nadeem, Mark, thank you so much for joining us.

<A – Nadeem Velani>: You bet.

<Q - Ken Hoexter>: Appreciate it.