Transcript

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Webcast

Corporate Participants:
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Other Participants:
Walter Spracklin – Analyst, RBC Capital Markets

QUESTION AND ANSWER SECTION

Walter Spracklin: Okay. Right on time. Precision scheduled conference coming on here. So very pleased to have with me on stage John Brooks. He's the Chief Marketing Officer of CPKC. He's got a wealth of experience. I've been dealing with John for quite a number of years now, but he's 25 years in the business, so lots of experience to chat and discuss and have a deep dive into what's going on at CPKC. Certainly, lots going on.

Great opportunity set. I mean, we can start right there, and I ask you to give kind of an overview of the macro, the demand environment. There's seen some a bit of a pickup in the freight market in March. It seems to have continued into April. We're in May now. Just love to get your sense of the lay of the land from a demand perspective.

John Brooks: Yes. Well, certainly, appreciate to be back here Walter. Always good to see you and the group here, and certainly honored to be here representing all the men and women at work at CPKC Railroad.

Our industry is never a dull moment, as you said, certainly, we just passed our third year anniversary of becoming CPKC. I tell you, it's never been a dull moment.

But the beauty of it is we've got a network and a franchise that is unique. It's differentiated from the industry, and I think the results that we've been able to produce are indicative of that franchise.

As we sit here in 2026, it's been a -- certainly a -- another interesting start to the year, but I frankly am quite pleased with where we sit. We produced 2% volume growth in Q1 and really we knew coming into this year that given all the freight movements ahead of Liberation Day last year and some of the things going on in the macro, we knew that the comps were going to be kind of tough the first four or five months. But nonetheless, we've set records in terms of volume in every month so far leading up this year. So I feel good about that.

And looking ahead, we're blessed with a really strong grain crop here in Canada. We've seen a lot of momentum from that part of our franchise. But also, our U.S. movements, our potash and fertilizer demand across Canada has been quite strong.

Now I'll tell you, as you move down to the intermodal side of the business, we're also seeing a lot of sorts of tailwind emerge in that space. Certainly, with all the new trucking regulation across North America. Fuel prices, as we all realize, is certainly indicative to business momentum in that space. You layer on top what we believe is the most innovative, best products that CPKC offers in that space, best in the industry. It's a recipe for success, so we're certainly seeing opportunities grow in that space.

Then, Walter, you got that carload business. That certainly has been impacted the last year or so around tariffs, around the macro environment. But I would tell you really March on, we've started to see some uptick in those areas. Now we're at little early to tell how that plays out. I can tell you, I think the Canadian economy, even the lumber business and the steel business, a lot of those flows that maybe historically were cross-border dependent, maybe U.S. dependent

flows, those producers are finding alternative markets. So we're seeing an uptick, maybe not back to where we need it to be, but certainly an improvement.

Look, I sit here, other than some challenges that we have in our Canadian coal franchise, our volumes would've been up ex-coal about over 5% so far this year, which in this environment I'm quite pleased with.

<Q – Walter Spracklin>: That's fantastic. It's up over 5%. I mean, that was a one-off issue with a very large customer. So excluding that to see the 5% growth is phenomenal. How's the pricing going? You've communicated some pretty good yields that are fuel driven, but you could dissect that into core price and fuel. How's that going?

<A – John Brooks>: Yes. As I mentioned on our earnings call, we had a pretty tough cents per RTM or yield quarter. And again, we kind of saw it coming, but exactly as we said, it's completely inflected. Our pricing discipline is the best in the industry, bar none. The team is driven to price for the value of our service and capacity, and that's what we do. We compensate our team for those efforts, and we're proud of that.

I continue to say that I, we always guide to 3% to 4%. I continue to believe we're going to be on the upper end of that range as we look forward. You combine with it, with an improving mix as we see some of that carload business improve through the year that improves the mix of our book. And then we don't have the kind of FX and carbon tax headwinds that we faced in Q1.

I will tell you, I think month-to-date, and Chris can correct me if I'm wrong, we're up about 10% on our cents per RTM versus what we saw in Q1. So definitely moving in the right direction.

<Q – Walter Spracklin>: That's perfect. Yes. Sticking with macro and then we'll drill down into some of the segments, and if anyone has any questions, do flag. But when you look at the CUSMA negotiations coming up this summer, how do you feel there? This could be a little bit volatile, a little bit of headline risk. But what, at the end of the day, do you think is going to be the biggest impact, or if any, from the outcome of those negotiations on CPKC?

<A – John Brooks>: Look, I'll say it like this. If you're an investor in CPKC, if you understand the thesis of what the differentiation and unique characteristics of this network brings, if you're a customer like Fastfrate in the room that's moving traffic out of Mexico all the way to Canada, I don't think the thesis of why it just makes a lot of sense for these countries to do a lot of business, the other changes. I don't care who's in Ottawa and D.C. or in Mexico City, it makes a lot of sense.

Look, I've no doubt I'm not going to bet my ranch on USMCA or CUSMA being done by July 1st. I'm sure there will be volatility, there will be headline noise in that. But I do believe the fundamentals of why this network makes a lot of sense, the fundamentals of why trade between these countries is going to be stronger than ever is fundamentally what's going to carry forward.

And I'll tell you, I could also make a case to say this last year to 18 months have given shippers and producers, receivers, a lot of opportunity to find and change markets that I truly believe become sticky over time. So you take the benefits of maybe new trade lanes, you, you take the

benefits of, of maybe some recovery and some stability in USMCA or CUSMA, and the combination of the two actually could present some upside going forward.

<Q – Walter Spracklin>: Speaking of other kind of macro high-level changes in your industry, Amazon has come out now formalizing the introduction of selling their transportation capabilities to third parties. How does, how do you believe that affects you? How do you think it affects your sector? And is it, do you consider it a positive or a negative for railroads?

<A – John Brooks>: Well, I'm going to come out and say it's a positive for CPKC. We'll let the others decide. But I'll tell you, as an innovator, as a company that has taken a franchise that's unique and different and created new products, like out of central Mexico to Chicago in four days. Now our SMX product, Dallas to Atlanta in under two days. Central Mexico to Atlanta in three, four days. These are the types of products that I think attract an Amazon.

And certainly, I'm a believer in competition, and if they can present a third-party shipping opportunity that can potentially take more trucks off the road, present a company like us opportunity to grow with someone like an Amazon, then I see no problem with it. I'm actually for it.

<Q – Walter Spracklin>: Let's talk about the revenue synergy opportunity from the KCS deal. I know you flagged $1.1 billion in a pipeline, and you were looking to capture $200 million to $250 million of that here this year. Where do you see the real big opportunities that have, or maybe even touch on some of the ones that, the success stories you've had, but really zeroing in on where is the untapped opportunity so far in that pipeline?

<A – John Brooks>: Yes. So I fully expect to be on an exit rate this year that approaches 1.5 billion, which is sort of the five-year plan that we laid out at our Investor Day. So we're ahead of schedule. We've outperformed in that synergy space, both on the revenue side and on the cost side. So I feel really good about that.

I just spent 10 days in Mexico, Walter, I think I told you that. And I wasn't on vacation. I was down probably met with over 50 customers down there, and I'm telling you, the volume opportunity and the growth opportunity is staggering.

And I bring this up in the context of synergies because as much as I'm excited about a traditional truck conversion out of Mexico into the U.S., the amount of freight that is still being trucked today out of Mexico into Canada, and I was telling you about a specific example, 50 loads a week, it is, it's staggering. If you're an investor in CPKC or considering, I think if you look at what the future looks like and you believe in trade between the three countries, it makes a lot of, makes a lot of sense.

But it is an effort to educate, work with these customers, onboard. But this is all stuff that makes sense to move on, move on rail.

<Q – Walter Spracklin>: What's the compelling offering that you're setting up here wasn't possible before, and I think that was what you and I were talking about, is the how much freight is able to do it, how irrational it is that you truck something from Mexico City to Brampton, Ontario. I guess before that, they only had a three-rail option, right?

<A – John Brooks>: Right.

<Q – Walter Spracklin>: Now they have a single line. How is that education process going? How long will it take, and could we see even further upside to your revenue as word gets around?

<A – John Brooks>: Yes, I think I told a group this morning, I honestly believe in terms of our Mexico development opportunity, we're in the first inning. There is a -- there's a ton of upside in that space. So I do believe that that tail is long.

A lot of it is just boots on the ground education. It is, it is taking that property from maybe just enjoying what it is giving us to go out and aggressively selling the capabilities of what we can offer these customers.

So it presents a huge long-term growth opportunity. Particularly Walter, as we capitalize on and grow and build familiarity with our new product with the CSX.

<Q – Walter Spracklin>: Yes.

<A – John Brooks>: That is from really Mexico and Dallas into the southeast U.S.

<Q – Walter Spracklin>: That's a new market there or that couldn't be tapped that way before, right? I mean.

<A – John Brooks>: Wasn't touched.

<Q – Walter Spracklin>: Why don't you talk a bit about what, what connecting dots allowed you to now offer that service that you couldn't offer or wasn't available before?

<A – John Brooks>: Yes. So certainly at the onset of our combination with KCS, we launched a product called our MMX Train Service that is really between central Mexico and Chicago and, arguably we launched it at the toughest freight market time we could launch it.

But I'll tell you, it's been innovative. We can run it consistently in four days or less. It's truck-like service. You eliminate the border. It's a much safer product to run versus trucks. We've had a lot of success in building it.

We're launching a very similar product that is central Mexico and Dallas into the southeast U.S. with CSX, and it all stems from a piece of property and a short line that we partnered with CSX at the very beginning to make a connection between our two companies in, in Myrtlewood.

And since creating that, both us and CSX, we've invested in our line to be able to run it 40+ miles per hour and create a product, again, that can run between Dallas and Atlanta in under two days, or from Mexico into Atlanta in three days. And the power in that is, well, number one, you got a really, I think, improving supportive intermodal market that is being supported by more regulation across Mexico, the U.S., and Canada relative to trucking.

Couple that with fuel prices, and couple that with the safety and the service commitment that we're willing to make on that product is a good recipe. So you know what? I'm excited. CSX has

been a great partner in attacking that market. Again, we're only about a few weeks old on it. But expect big things.

<Q – Walter Spracklin>: It's fantastic. Let's move now from Mexico to the other, other extreme area of your network, and that's Saint John. I know when we were able to host a tour of your facilities and your operation in Saint John, it was really at the nascent stage.

But you could tell it was something big because I remember the Uber driver was talking about it on the way to the, the site, how you're coming into the town. You're investing heavily. So we got Hapag-Lloyd now as an anchor, anchor customer ramping up their frequency of call into that port. You got Americold now starting their own facility there as well.

How are we, again, what stage are we at? Is this enough to move the dial? Is this significant enough, and where are we at in that journey?

<A – John Brooks>: Yes, I think we've developed a product in Saint John in partnership with the community, the short line railroad, the port that truly is, I'm going to say second to none. It's a greenfield in terms of opportunity for growth.

But our best-in-class service out of there, too, into Montreal and then ultimately Toronto and into the U.S. can't be replicated or beat. I think for a long time there was basically one option in Atlantic Canada, and that was Halifax. Now you got a better option, and that's the Port of Saint John.

So we're super pleased with what that growth has been. It's actually been staggering. At some point, calibrating that level of growth versus our capabilities, is something we're continuing to work at.

But frankly, in terms of the aspirations that the Gemini Alliance has for the future at, at the port, and what I see here as opportunities in 2027 as Hapag is, I think you see, very aggressive in the steamship line industry to bring on, well, either consolidation or new opportunities. I think we see another pretty big step function of growth on that international freight.

And then our partnership with Americold, we've created a food cold storage ecosystem that originally started with a new facility in Kansas City, but they're building their second facility on the Port of Saint John. And really this is targeting refrigerated or cold storage products that'll import-export Canada. And again, we only see this as a bolt-on in terms of how to make freight really sticky to our port at, at Saint John.

<Q – Walter Spracklin>: Let's, let's move now to your bulk franchise. When we look at grain, grain's having, and to your point, a huge year, U.S. and Canada. Some would say that might be a headwind in terms of comp for the following year. But 2026 is looking really good.

Even with that, we're seeing other bulk areas now start to pick up. You've been very successful in winning the Canpotex contract. Can you talk a bit about your confidence in maintaining that, but also Jansen? Jansen coming online. We were out to see Westshore Terminals earlier this year. They're getting all geared. They're ready to go with first potash moving later on this year.

How do you see that ramping up in terms of how much share of that you're going to be awarded and, and what that could do to replace some, even if we have a little bit of a weaker year in grain relative to this monster crop that we've had?

<A – John Brooks>: Well, I think, Walter, you know my feelings about our bulk franchise. It's the best in the industry. And with the KCS acquisition and the destination markets, the new growing territories, it's really reshaped our grain franchise. Historically, Canadian Pacific standalone was really all about Vancouver and Thunder Bay, and you get a rush when the crop comes off, and then it peters out, and you get the next harvest.

It's not our grain franchise anymore. It's now diversified in marketplaces. We got more grain now wanting to go, or canola, different products, specialty crops wanting to come out of Canada that traditionally, maybe would flow other routes now wanting to flow directly down into Mexico.

We've got a U.S. franchise that now is shipping more and more corn and products up into Canada. So the ecosystem of how our network has allowed grain to flow maybe differently I think is positive in the story in that it's less this up and down grain cycle. It allows it to move and flow in a more even pace, and I think we're benefiting from that. You couple with that a record crop as you mentioned, and our expectations are really high.

And I don't see this petering out as it traditionally would heading into the new crop. I think there's a lot of grain on, on stock yet on the farm. For the most part, prices are pretty favorable. We're seeing good canola movements with all the crush facilities that have been built within Canada, but also with trade deals that Canada has made. So I think we remain pretty bullish still on the grain business looking forward.

Potash Canpotex has been a longtime partner of CPKC's. We are the leader in the industry in moving potash across Canada. They're sold out certainly through the first half of the year. But just talking to their CEO the other day, they feel really good about their Q3 sales also. So we expect a continued good run with Canpotex.

And then you mentioned BHP. I don't know if anything's been formally announced on how that shakes out yet, Walter, but again, I can tell you our service, value, the, the proposition we put in front of them, I think our best route into Westshore just makes a lot of sense. I fully expect that we'll handle our appropriate share when that mine comes online.

<Q – Walter Spracklin>: Let's move to automotive now. And I just, I love the story I heard when, down in Wylie when you were talking about a group of customers that had, maybe a couple of years ago would've been very disappointed with having some stranded assets in Mexico, even to the point where they're relaying some of their frustration up to the STB.

Fast-forward a couple of years, they're presenting at your company on the success and merit of the new arrangement you had set up, and that was the closed loop one where you were really able to address the customer needs. Can you walk us through that? And how much is that success can you transport over to another sector, another customer with the same level of, of improvement? Can you talk a bit about both those opportunities?

<A – John Brooks>: Yes, so I just to lay the groundwork here, traditionally, the KCS Railroad before our acquisition, they, they would haul a lot of autos in from Mexico, but they would haul them up to the border of the United States and then hand them off to other carriers to distribute, whether it be up into Canada or across the United States. About, let's call it 96%, 97% of their traffic all moved that way.

Today, it's only about 70%, and what we've done is we've presented and created a model to the auto industry that is this closed loop. Let us create a solution to you that allows us to haul your automobiles out of Mexico up into our U.S. franchise or up into our Canadian franchise for distribution. But then we'll work with you to reload that car to bring it back, bring it back into the U.S. if it's coming from Canada or maybe all the way back down into Mexico.

And what we've done is we've taken a lot of the variability of car supply out of, out of that risk for the OEMs, giving them certainty that they're going to have the car supply to move, to move their traffic. And again, we're maybe in the fourth inning of this story. We've still got some big auto customers down there that were in long-term contracts that we see opportunity as those roll over that are going to give us a significant opportunity to overlay that model with those OEMs.

I'll also tell you, the amount of automobiles that are being short sea'd out of Mexico, that from a safety, a damage prevention, and now a cost of fuel perspective, isn't a good operating model. And the supply chain from Veracruz short sea around back into service the Atlanta market is 30+ days. We've got a product now that I talked about earlier on our SMX. We can put it on a train. We can have it there in five to seven days.

So we're super excited about that opportunity. Again, some of those have longer lead times in terms of when those contracts are available, but it's, it's a great opportunity. And to your point, how we take that opportunity and snowball it or replicate it in other areas.

I'll give you an example. We have a, a number of plants in Mexico, on us, white goods producers, appliances. And we send a lot of wood pulp also down into Mexico in boxcars, whether it would be out of Canada or the U.S.

So we send this wood pulp down there, then we have an empty boxcar, same model, and we fill it with a white good and we bring it back into the U.S. or up into Canada. It just makes a ton of sense. And with the opportunity that I talked about in, in Mexico, I think ultimately the desire of those shippers and producers down there to convert more to rail, to take trucks off the road, it's a good long-term opportunity.

<Q – Walter Spracklin>: We've talked a bit about truck-to-rail conversion. Let's talk a little bit now international intermodal with Lazaro Cardenas. How, how optimistic are you with that port? Where is it in terms of its utilization? And how much more can we grow volume out of that on international intermodal out of that port?

<A – John Brooks>: Well, the beauty of Lazaro is, number one, the staggering capacity. It's got a lot of capacity to do more volume than it does today. There's been some commitments by the terminal operators to the government of Mexico to continue to expand that capacity. So it's already got excess capacity. It's also, in the future, going to have more capacity.

And I was telling a group earlier today, as much as I continue to believe that the opportunity to move imports through Lazaro up into, let's say, the Texas market just makes a ton of sense. Takes some pressure off of L.A. Long Beach. It provides another option for the steamship line in the marketplace, and we can provide really good service.

I think the second piece of that is, that I was saying to a group, is the intra-Mexico opportunity and revenue and volume opportunity is really quite staggering. A lot of that, unlike, very different than Canada, a lot of the imports in Canada come in and instantly get put on rail and then are distributed through the country. In Mexico, a lot of those imports come in, get loaded onto trucks, and get trucked through the country.

And it doesn't need to be that way. We have strong daily service. Those hauls are good hauls. Again, it's more of an education piece in getting the product in place, that, I think, provides a lot of upside for Lazaro.

<Q – Walter Spracklin>: I've got a few more questions left. Any from the floor that anyone wants to flag for John? Going on now to your guidance, you've got some pretty optimistic, solid double-digit guide for Q2, double-digit for the full year. You still feel comfortable given you're obviously talking very optimistically about some of the volume trends you're seeing, good solid pricing, good operations. Just your update on the guidance.

<A – John Brooks>: Walter, I think the recipe looks really good. I'm excited about it. I feel really good about the guidance. I'll tell you, Mark and the operating team are running a really good railroad right now. And if you remember last year, we went through some challenges with what we called our Day N integration. If you take the strength of our operation right now and the challenges we had last year, we're going to have really good operating compares that should drive efficiency and, and dollars to the bottom line.

I can tell you we're going to be as aggressive in the marketplace with bringing on high- quality revenue and volume to this network like we have been. So I think the combination of the two sets us up really good for our back half of the year. And look, I think that's irregardless of our, the coal business that we talked about. I think that's irregardless of USMCA and whatever headline noise and chatter we're going to get.

I think fundamentally, those two issues work themselves out, and all that represents upside to what this business case could look like.

<Q – Walter Spracklin>: It's fantastic. Well, John, thank you very much for your time here today. I appreciate everything and all the great insights that you brought. Thank you very much.

<A – John Brooks>: Great.

<Q – Walter Spracklin>: Awesome.

<A – John Brooks>: Thanks, Walter.

<Q – Walter Spracklin>: Yes. Thank you