# Transcript

## 26th Annual Scotiabank Transportation & Industrials Conference

### November 17, 2026

**Webcast**

**Corporate Participants:**
Nadeem Velani – Executive Vice-President & Chief Financial Officer, Canadian Pacific Kansas City
Ian Gray – Senior Vice-President Accounting, Planning & Procurement, Canadian Pacific Kansas City

**Other Participants:**
Konark Gupta – Analyst, Scotiabank

# QUESTION AND ANSWER SECTION

**<Q – Konark Gupta>:** I'm Konark Gupta, transportation and industrials analyst at Scotiabank. As Jeff mentioned, we have some of the most respected leaders with us in the industrial sector today. So I'm excited to kick us off with none other than CPKC and pleased to have EVP and CFO, Nadeem Velani and SVP, Accounting, Planning, Procurement, Ian Gray with us. Thanks for coming.

Nadeem and Ian, thanks for coming. Over to you, Nadeem, for any opening remarks before we get into Q&A.

**<A – Nadeem Velani>:** All right. Well, thanks for having us Konark. It's always great to be back in Toronto. I think it was a year ago. We were here at this conference, and unfortunately I came in and saw game six and seven, the Jays losing. That was bad enough. Then I come here this year and now the Leafs are on a six-game losing streak. The Raptors are on a four-game losing streak. I'm starting to get a bit of a complex, so maybe next year we'll do this conference in Calgary at the new Scotia Place. Feel better about things.

Anyways, great to be here. Kind of sit here in mid-November, six weeks left in in the year and very pleased with how things are, are shaping up for CPKC. As we sit here today, this month's month to date volumes are up a little over 9%.

So we're finishing the strong the quarter, we're up about 6.5% on an RTM basis and puts us year to date closer to 4%, 4.5%. Very much in line with what we expected for the year. So feel good about where things are landing and the momentum we're building. We've seen steadily through the year volumes continue to accelerate. And I think we're going to finish this year with the strongest quarter as far as volumes for CPKC. And you know, it's pretty much broad-based. Obviously, Canadian grain has been a big driver of growth, and I think that's going to continue.

Some of the headwinds that some have said that we're going to face as far as the Canadian crop isn't going to be anywhere near what some may believe, just given the strength of this crop this year, as well as, our comps are very favorable given our, our crop. The area that we serve a year ago was certainly impacted by, by more of a drought than, than certainly we have this year where our growing region is stronger than our Canadian competitors.

So I feel good about Canadian grain, US grain, we've certainly seen strength as well. Coal, which was a significant headwind, for the beginning of the year, down as much as 20%, 24%. It's actually turned positive for the month and is close to flat for the quarter. So that's turning from a negative. It's turning potentially positive. And we have a new contract with EVR starting in January that's going to lead to market share shifts and lead to continued growth on the coal side.

So feel good about overall the bulk franchise. When we look at intermodal, we were up 10% in Q3. That's continued this quarter. We're seeing double-digit growth in the fourth quarter. Not ready to call the freight recession as being over, but certainly, very favorable trends on the intermodal part of our business. And that can be a key driver of growth in 2027 as well. So overall, when I look at the business trends, things are running well.

I think when we look at where we are as CPKC, we're certainly still in the early stages. When we looked at this opportunity of creating the only North American single-line network touching Canada, US and

Mexico, we've factored in a very different trade environment and very different macro, and we've been able to lead the industry in growth. Despite this, what feels like the world's longest freight recession, certainly the longest I've seen in my career, and been able to overcome some of those challenges through self-help and market share.

And so if we see things turn on the trade front, if we see things turn on the macro front, I think the operating opportunity and the operating leverage for CPKC is going to be pretty significant. And so some of these self-help initiatives that are just building the base of our growth can translate into significant financial returns over the coming years. So with that, let me turn it over to Ian and talk about how some of that growth can transfer into financial returns.

**<A – Ian Gray>:** Sure. Thanks, Nadeem. Good morning everyone. So what we're very focused on from a budget and multi-year planning process is as normal in Q4 is really the quality of the growth that we're bringing online.

We're very excited that we spent a lot of capital throughout the merger and throughout the integration to build a lot of capacity. And we've often spoken in the past that we proactively invest before capacity comes online. And we've done that. So as we shift into '26, closing it out, '27 onwards, we're in a very good position from a capital perspective. So that as those volumes come online, they can do so at a low incremental capital cost and strong margins.

But Nadeem mentioned we're not stopping there. There's a lot of continued self-help initiatives from a productivity standpoint. We're looking at boosting our asset utilization, certain areas where we can improve density of the network. And just more broadly, it's just our culture to always challenge the way that we work.

And to support a lot of those efforts we will continue to invest, be it from productivity improvements or growth initiatives. But it has to be a really compelling case. And when you put all that together, that disciplined approach, that's going to be a very powerful tailwind to free cash flow generation and then eventually growing shareholder returns. So a lot of good stuff for next year and on a multi-year basis.

**<Q – Konark Gupta>:** That's great. That's great overview. I guess the momentum is obviously building out, right. We can see that in Q3 and Q4. Now you're finishing up strong. Nadeem.

But if you can just compare for us how things panned out the last two years and how things are shaping up over the next three years? I mean, obviously, you guys had come out at the Investor Day talking about low double-digit mid-teen growth algorithm over, over the years. What shook out in the last three years that may not exist in the next three years and will support the acceleration in the earnings algorithm.

**<A – Nadeem Velani>:** Yes. So, you know, I think if we look at where we were when we announced our multi-year plan three years ago, when we first became CPKC, certainly the macro environment hasn't come out nearly as supportive as we anticipated. And certainly, some of the trade policy that has impacted trade between Canada, the U.S. and Mexico and the U.S. has been a bit of a headwind relative to expectations.

That being said, we've been able to deliver 10% EPS growth pretty consistently over that period. And so, we found ways to overcome some of those headwinds with some of the self-help that I mentioned. We've seen the benefit certainly of strong continued strength in grain.

And so, when we kind of look forward, I think some of the changes that perhaps we've been able to overcome some of those headwinds through our Mexico-Canada land bridge. You know, when you find some of these situations where you have headwinds, you got to create opportunities. And so, the positives that come out of these changes in policy is that you can create opportunities that you may not have found otherwise.

And so that becomes embedded into your base business, and you can build off of that. So it's not a matter of making excuses; it's finding those opportunities. I think as we look forward, you know, we feel good about what we can do as far as our self-help. We've gained a couple of opportunities with EVR, as I mentioned, that's going to come online in January.

We gained some international market share with CMA that we started earlier this year. That continues to drive volumes in the second half and will be a growth driver into next year. I think the impact of some of the election results that came out could be longer term, could be positive to start seeing a trade deal maybe resurface. And I think some of the comments from North American governments have been positive to that extent.

That could lead to a better outcome as far as tariff impacts and opportunities from that front. So when we look at the earnings algorithm, you know, seeing continued growth as far as low to mid-single-digit type of volume growth, I think we're going to continue to see strong pricing based on our service. Mix may not be a headwind in 2027, so it generates some pretty strong revenue growth opportunity for CPKC.

And then the operating leverage, which we haven't seen the full benefit of in this environment yet, given some of the headwinds from fuel surcharge, et cetera, from fuel headwinds, I think those can be positive. And so, bringing it to the bottom line and getting an OR sub-60, I think, is certainly reasonable.

Get the benefit of our lower share count. We're in the midst of a 5% share repurchase. The free cash flow that Ian mentioned, I think, will continue to support shareholder returns, and you start getting closer to that mid-teens type of earnings algorithm that we anticipated.

**<Q – Konark Gupta>:** That's great. And you talk about mix actually. I mean what's changing in the mix next year that's making it less of a headwind or maybe a tailwind.

**<A – Nadeem Velani>:** Yes. So, you know, one thing certainly is automotive traffic. It's at the higher end of the cents per RTM, closer to $0.17, $0.18 per RTM versus the average, which is about a third of that. I'd say that as we've seen automotive headwinds this year with some of the production holds and so forth, those are starting to turn positive as far as our volume opportunity and some of our share opportunity into 2027.

So certainly, automotive will be a positive, as well as when you look at some of our merchandise traffic as a whole. You know, we've seen some shorter length of haul, given some of the opportunities to more to ship shorter length of haul, and on the plastics and ECP side, that certainly

led to reduced cents per RTM. So some of those major headwinds, I think, turn positive and certainly be supportive of mix overall.

**<Q – Konark Gupta>:** Okay, that's great. You mentioned the grain, obviously. I mean, grain, you don't have that big of an issue in terms of the comps. Right? Compared to your competitor, obviously.

But it's been a big contributor, nevertheless. Right? This year in terms of the RTM growth. I mean, now as grain harvest is not looking like it's going to be up strongly next year, or this year in this current crop cycle, how difficult could it be to sustain sort of the mid- single traffic growth without grain?

**<A – Nadeem Velani>:** Yes, I mean, and we'll get to our official guidance in January as far as our RTM outlook. But, you know, as I mentioned, we're finishing extremely strong. We're at that 9% plus month-to-date, 6.5% for the quarter on the back of a Q3, which was 6% as well.

So I think, grain is not just a story about the crop, and certainly we've got some crushing facilities and some other opportunities on the Canadian side, but also U.S. grain. Right? If you think about the relationship between China and the U.S. and the opportunity to move more export grain on the U.S. side, volumes are up 15%, 20%, you know, quarter- to-date on U.S. grain.

So certainly, that will be a positive driver. Talk about some of the market share opportunities that we've captured on the international side of intermodal and coal. I think overall those can be significant drivers to allow us to see revenue growth and offset, maybe a small headwind on Canadian grain. So I don't think it's going to be an issue to be able to grow our RTMs next year.

**<Q – Konark Gupta>:** Okay. And within the intermodal and automotive, right, I mean, automotive, you guys had been running the closed-loop automotive system for some time now, I think. I don't know if it's coming to maturity or not.

But, like, is there any more further room, I guess, in that automotive closed-loop franchise and in the intermodal, obviously, you had SMX, you had, you know, other kind of MMX and other initiatives underway in the land bridge. Obviously, is intermodal, where would you put, in the base model terminology, like where would you put intermodal in your innings?

**<A – Nadeem Velani>:** Yes, so intermodal, I'd say that on the U.S. front, you know, we've seen capacity finally start tightening. We've seen driver shortages on the U.S. side, and certainly that's creating an opportunity for truck-to-rail conversion. You know, as you mentioned, it's early innings on the SMX, working very closely with CSX to drive that forward, and it's a small piece, but it could be a meaningful growth driver in a portion of our U.S. franchise.

MMX has seen significant growth. I think that's been a beneficiary of some of these driver shortages and capacity, trucking capacity that's been taken out of the U.S. system. So we've seen growth there, and I think that's the profitability of that is improving. So I think that's going to be a big beneficiary of changes in immigration policy in the U.S. as a whole.

So early innings, I'd say, in terms of our intermodal growth. On the automotive side, you know, the closed loop, I'd say that that's a bit more mature in terms of the opportunity, but we still see

opportunities as far as market share gains. And, you think about where we were when we closed the CPKC deal.

Some of our competitors locked in contracts prior to that. Some of those contracts have come up for renewal, and we've been the beneficiary given our service and given our network. And mind you, a weaker automotive demand environment overall, we're finding our own self-help initiatives to grow that franchise.

**<Q – Konark Gupta>:** Yep. Okay. And just on the topic, I guess broadly, you guys are exceeding, obviously, or outpacing the industry on traffic growth and overall growth. Right? I mean, how would you characterize, I mean, how much of that delta versus peers is KCS synergies versus your self-help at either railroad?

**<A – Nadeem Velani>:** Yes. And I'd step back for a moment and say, like, 12 years ago, our revenues were a third of what our revenues are today, which at CP, you know, we're a five, $5.5 billion revenue company, which has tripled. And so we've been growing fast for a long time now. And the most recent years, certainly the KCS transaction has helped us, and certainly the synergies have been a key enabler of growth.

I'd say, you know, we've been able to get 200, 300 basis points of additional growth through the synergies the last several years. And that doesn't just end in three years. There's only so much you can do in that period of time, I mentioned, you know, customer renewals and contract renewals that are coming up, et cetera.

But it also comes to a point where you stop calling it synergy. You know, we're one network, we're one company. So important may not be a synergy, but it's a benefit of being this new expanded network. And I think there's still continued opportunities ahead.

I'd say, you know, there's probably a half a billion dollars of revenue opportunities over the next several years. And so, it's going to continue to be a driver of outsized growth for CPKC relative to the industry. We haven't even seen the opportunities in Mexico come to fruition anywhere near that we anticipated.

And again, as some of these trade policies perhaps reverse or start seeing a much better macro environment, I think we'll be a net beneficiary.

**<Q – Konark Gupta>:** Okay, so maybe for Ian, all this traffic that's coming up to you, this incremental growth, obviously Nadeem talked about, right, in terms of $500 million for opportunities and all that in Mexico, et cetera. How much capacity do you have in the system right now? I mean, do you need to invest a lot to capture this traffic, or is this coming on the existing capacity?

**<A – Ian Gray>:** Yes, I think we're in a very good shape from how it relates to a capacity standpoint, and maybe just kind of more broadly how we think about capital and how we think about capacity. So the first call on capital is always the safety of the railroad, making sure it's operating efficiently. And we do that very diligently, year over year. So there isn't that need to have catch-up capital.

From there, we shift and look at opportunities for growth and productivity improvements. And we did a lot of that through the merger and throughout integration. We're very focused on spending in the north-south corridor.

We put in additional sidings, we had CTC, and we did other investments like twin the Laredo Bridge on the Mexican-U.S. border. So we've seen that step up in capacity, and that's just how we've operated. From a philosophical standpoint, we're always trying to be proactive to invest before capacity comes in so that we're not overselling the network and causing a whole host of problems thereafter.

So once you have that in place, which we do, all that growth starts to come on at a low incremental capital cost. And that's where we were able to take capital down from the CAD$3.1 billion last year to the CAD$2.65 billion this year. And we feel comfortable that's a good range going forward.

That CAD$2.6 to $2.8 that we talked about at investor day. And again, just to my earlier comments, that's a really powerful earnings algorithm where we have this growth coming on, we have strong operating leverage, we don't have a big draw on capital to play any catch-up with the capacity standpoint. And that's where we feel really good on our free cash flow generation going forward and the growing shareholder return profile.

**<Q – Konark Gupta>:** Okay. And it's a very powerful algorithm. Right? If you look at it, obviously, if you're doing low- to mid-single traffic and converting that into low- to mid-teens EPS growth. So there's got to be some good operating leverage in the system.

Right? That should come through, obviously. I know OR is an output; usually it's not an input to things. But I mean, even if you look at your own OR over the last few years, obviously, I mean, you guys have been trying to beat the 60%, right, for some time, and then obviously fuel happened and that creates a math noise in there.

But with all what you're saying today, do you think, like, directionally, OR has a lot of runway here, or this is more of a balanced picture between the dollars and the growth?

**<A – Nadeem Velani>:** Yes, like you said, it's, you know, the operating ratio is an outcome of running the business the right way. So taking on sustainable, profitable growth, taking on the right level of business and moving it efficiently and safely. You know, we're not focused on the OR; in fact, you know, return on invested capital, ROIC, is our key measure that we look at internally.

And, you know, if you're increasing your ROIC and you're getting the right level of return there, then typically you're also improving your operating income and so forth. So that being said, our operating ratio this year will be, I don't know, a little over 60, 61 change, something like that. And fuel is probably a 200, 250 basis point headwind related to that.

We'll see what happens with fuel going forward. You know, we do on most occasions capture the fuel surcharge, which offsets the impact of fuel price. We've seen crack spreads this year, most recently kind of increase. And so we're not fully capturing or offsetting the impact of fuel price.

And so, it's been a net headwind overall. Maybe that reverses over time to more typical, typical kind of scenarios that we've seen historically. But that being said, you know, if the operating leverage of

the business, if we're taking on mid-single-digit type of volume growth, we should be able to bring that to the bottom line.

Given headcount is relatively flat. In fact, down a little. You know, we're running an extremely safe railroad as far as casualty costs. We're taking on business with strong price, and so I feel good about our ability to generate incremental margins in the 60% to 70% ex-fuel surcharge, depreciation and stock-based comp.

Stock-based comp has been a headwind this year given our stock's up a little over 30%, and when we mark-to-market each month the stock price for stock-based comp, that can be a bit of a headwind, which we're dealing with as we speak.

**<Q – Konark Gupta>:** I think you don't want that headwind to go away.

**<A – Nadeem Velani>:** Oh, that's a first-class problem.

**<Q – Konark Gupta>:** Awesome. Perfect. Switching gears to maybe one of Keith's favorite topics, the U.S. M&A. If the merger approaches the finishing line for some reason. Right? I mean, what would be your top priorities after that merger kind of gets closer to that finishing line?

I mean, what are you seeking in that, and if it closes, then what? What would be your defensive action?

**<A – Nadeem Velani>:** Yes, we'll see what transpires there. Certainly, very hot topic and a lot to talk about, and certainly the STB is going to have a lot to say. I think customers are going to have a lot to say, and I think tomorrow will have the deadline for responsive applications.

So there'll be a lot to be seen and submitted through the STB and a lot of reading to take place. You know, if this gets to the finish line and it's approved, I think we've been very clear. You know, we've got to ensure there's competition is protected and the competitive environment is protected, and we have the ability to compete in the marketplace.

And you're going to have one extremely dominant carrier who said some pretty negative things relative to customers and raising rates if they're not supportive. And so you get a behemoth like that, and it's going to be challenging. In the transportation sector, you worry about the operating impact that that could have because you have something of that magnitude, and any sort of systems issues, any sort of operating issues, and it's going to have a huge impact on other networks and potentially the economy.

So protecting the transportation network from something like that occurring will also be top of mind for rails in general and the STB.

**<Q – Konark Gupta>:** Have you seen any change in the competitive landscape since CN-UP had an agreement on Mexico recently?

**<A – Nadeem Velani>:** No, no, I don't think it's early to say. I mean, I think they announced a deal a couple years ago, an intermodal service called the Falcon. And I'm not sure if the Falcon's still around or not, but we didn't change our marketing approach there.

And at the end of the day, we're a single-line service that can compete better than anyone. And so we're focused on providing that service to our customers, and I think that it'll sell itself.

**<Q – Konark Gupta>:** And we're talking about ROIC, actually, and free cash conversion. If you look over the last few years, obviously it's been trending up, and I think your long-term target has been about 90% from net income. How comfortable are you getting to that level, and what's really the key driver in that?

I see, obviously, CapEx is pretty much contained within a range, but the conversion from just the earnings to the cash from operations, how's that translating, and what's driving that?

**<A – Ian Gray>:** Sure. No, I think a lot of that is supported by my earlier comments as it relates to how we're approaching CapEx. We're coming out of the other side of a relatively large CapEx spend over the last number of years as part of the merger and ongoing integration. So again, as we find ourselves on the other side.

You know, you take that range that we provided, that CAD$2.6 to $2.8, and you pair that with, you know, a focus on profitability that we're making sure that we're getting value for the traffic that we're bringing online. So when revenues come, that earnings conversion into free cash is pretty powerful. It's a nice tailwind to have.

We did have that 90% conversion target as part of the investor day, and we feel good that we'll be able to approach that.

**<Q – Konark Gupta>:** Okay, last question for you guys. USMCA, I think, you know, we had obviously a lot of noise in that initially, and then I think things have quieted down. But you guys are effectively a USMCA network.

Transcontinental across three countries. But whatever happens with the USMCA, what are the scenarios that you have evaluated, like in your network, what tweaks you may need to do kind of to capture some of the synergies and some of the opportunities that are ahead of you if the USMCA doesn't pan out as expected?

**<A – Nadeem Velani>:** Yes, so certainly it's been a bit of a headwind just generally in terms of trade policy now. You know, we're not expecting USMCA to be signed and renewed anytime soon. We'll see what comes in 2027.

I think that at the end of the day, the U.S., Canada, and Mexico we're better as an integrated network and integrated trade partners. I think the recent election results could maybe change the perspective and point of view and create an opportunity to get the three countries together to work on a trade deal. You know, our base scenario isn't expecting that in the first half of the year by any stretch, but we do think that the overall headwinds that we face related to tariffs are more likely than not behind us.

You know, we felt the pain out of steel and aluminum. We've seen some pressures on automotive and forest products as well. And so, some of those have been kind of bottomed out and hit the trough, and we don't have as much exposure on some of the Ontario automotive traffic, etc.

So we'll see what transpires. I think for us it's important for U.S. and Mexico trade, I think, is key, as well as the opportunities from a transborder. Some of our opportunities that Canada is going to have self-help as far as the Major Projects Office and things that Canada is doing to lessen the dependence on U.S. trade, I think, is going to be a long- term benefit for us.

At the end of the day, being a CPKC has created a more diverse, geographically diverse network and revenue base for us. And so, where there's headwinds, it also creates opportunities, just like the Mexico land bridge. Canada-Mexico has created opportunity to offset some of our Canada-U.S. traffic, and we're going to find ways to offset some of those headwinds.

**<Q – Konark Gupta>:** Okay, have you seen any key incremental benefits of the MPO and the nation-building projects come through, or is that something that you would expect to happen in '27 more?

**<A – Nadeem Velani>:** Yes, I think it's be a longer term. I mean, you think about what they've done, and Dawn Farrell, the head of that MPO office, has been fantastic in terms of driving decision-making. We seconded one of our employees. They took on as part of the MPO office to get the rail knowledge to support some of these decisions, and they've been a real pleasure to work with.

I'd say that, you know, Roberts Bank, for example, Terminal 2, that's going to be a long-term opportunity. It's going to create more export capacity and important capacity out of Vancouver for us. We've seen some opportunities of further investments for Port St. John that could make it a 1 million TEU capacity port, which I think is going to be a long- term benefit for us. So more to come.

I think it's very encouraging, some of the quick decision-making that's coming out of that. You know, Roberts Bank, we were trying for a decade to get that moving forward, and they did that very quickly to get that approved. And so, we're very encouraged.

**<Q – Konark Gupta>:** Okay. Perfect. So on that high note I guess again we truly appreciate the time and all the best for the year ahead.

**<A – Nadeem Velani>:** Great. Thanks for having us.

**<A – Ian Gray>:** Thank you.