# Transcript

## Morgan Stanley 14th Annual Laguna Conference

### September 17, 2026

**Webcast**

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Chris De Bruyn – Vice President Capital Markets, Tax & Treasurer, Canadian Pacific Kansas City

**Other Participants:**
Ravi Shanker – Analyst, Morgan Stanley

# QUESTION AND ANSWER SECTION

**<Q – Ravi Shanker** Keith, so much going on from the cycle to M&A, to regulations and kind of obviously, your plate remains pretty full. Wherever you want to start off, again, just give us a sense of where you're spending your time today, kind of what you're focused on and kind of where you think the top priorities are for the company?

**<A – Keith Creel>:** Okay. Thanks again for having us. It's always a pleasure to talk about our story. Kind of thinking about the year, the way it's playing out, a lot of things I could not have predicted. Obviously, there's no shortage of challenges, but the things that we could, we kind of put the pain at the beginning of the year. Guiding to mid-single-digit RTM growth, which will allow us to produce a low double-digit earnings CAGR. So in spite of all the challenges, as this thing has played out, I'm very pleased with where we are. We came out of the first half in the momentum, operating strength as well as commercial strength in the second half. RTMs are about 4% year-to-date. Quarter-to-date, we're knocking on 7%. So we continue to gain a little bit of momentum. Operationally, the railroad is running extremely, extremely well. Continued growth and strength in grain, strength in intermodal, moderating headwinds in some of our coal challenges.

That 4% I talked about, if not for coal, if it were normalized that's 6% RTM growth. So again, as those two things start to moderate for us, demand continues to be there. We're clearly in line to deliver on the guidance that we've given for the year. And more importantly, as we continue to build this network out, we're well positioned to continue to lead the industry in growth.

We talked about a lot of noise. We've integrated a railroad and I never would have predicted a freight recession over the last 3.5 years. As that begins to moderate, you get to a more normal environment, whatever normal looks like, and you get beyond some of these, I call the trade tribulations and get to more certainty when it comes to tariffs and trade between the three countries, the things that are occurring in Canada as a result of those trade tribulations that I think continues to strengthen our network as well as North American economy overall leads to a good place as we go forward.

**<Q – Ravi Shanker>:** Got it. It's great setup there. Maybe a couple of follow-ups on that. Do you and your customers know what normal looks like? And maybe do you have to move the goalpost a little bit on what normal looks like? When do you think they can finally maybe effectively get off their hands and kind of say, hey, we need to create economic activity here or we need to build inventory here versus waiting for headline settle?

**<A – Keith Creel>:** Well, I think -- I don't know what normal is anymore. I think you can control what you can't control. The customers themselves, what we've seen, certainly when you have volatility and unpredictability, it's going to minimize or at least lessen the full benefit of certainty and the investment to follow certainty. So I think once you get to USMCA, CUSMA, whatever you want to call it, whatever acronym you have, once that gets settled, I think that leads to a better outcome. But in spite of that, you continue to have significant investment in Mexico. You continue to have significant investment in the United States from all the manufacturing and the data centers are being developed, all those mechanisms that are moving. So investments occurring. Trade is flowing. It's going to be accretive once it gets settled.

But the biggest impact, especially for us, I think, has already been felt. The things that are being talked

about and the potential outcomes, I think, are favorable. And I think some of what we've lost in metals, some of what we've lost in aluminum, some of the headwinds even in automotive. I think once it gets settled, those become tailwinds. And you may not get it all back, there's going to be some rebalancing. More shift is going to happen in the United States perhaps on the manufacturing side. But I still think you have trade in trade flowing between these three nations, which we uniquely connect in a very positive way.

**<Q – Ravi Shanker>:** Got it. Maybe just to follow up on the point of USMCA. It feels like there is renewed momentum there, some more optimism that we may get a lasting resolution fairly soon. Obviously, you guys are pretty plugged in on that. Kind of do you have any intel there? Kind of what are your views on that? And second, you sort of alluded to it in your comments, but does it feel like there is some pent-up demand there that can be unleashed when that's done?

**<A – Keith Creel>:** Well, as far as resolution soon, I'm not certain. I think we're in a better place in Mexico than Canada. But I also think that Prime Minister Carney and President Trump at the end we'll do what's best for the United States and what's best for Canada. And that's a strong trading relationship between the two countries. The thing that I am very encouraged about though short term is what Canada is doing to diversify itself to a point. Now they're always going to be connected to the United States. It's the largest single end market.

But what this crisis has created in Canada, I perhaps never thought I would see in my -- maybe in my life, much less in my leadership legacy of the company. But to have a country now that is entertaining tax reform. The things that Prime Minister tabled this week that it's going to be tabled in legislation that with its majority government, certainly, the need is there and the political strength is there to get it passed is going to take Canada from being a laggard in investment to a leader, a world leader. So it's going to attract additional capital. The capital is going to end up flowing through the build-out to the build that's transported goods through the rail network. So we're going to benefit from that.

When it comes to labor reform, that's another area that people don't really understand. If you think about it, the unpredictability, the unreliability, kind of the damage that's been done to Canada's reputation as a reliable trading partner is undeniable. When it comes to the two railroads being on strike a couple of years ago, when it comes to the airlines being on strike, when it comes to the ports being on strike, I don't care what markets you get to if you can't get the product to market or get the people move from market to market, it impacts your ability to be able to succeed.

So now you've got a government that understands that labor reform is important. And the way it's working, quite frankly, labor relations and the ability to negotiate good agreements for labor, good agreements for company. Because of the way the process works today, it's broken in large part, at least with some of the most significant major unions. The railroads have, -- the men and women that actually move the product from point A to point B. It's just dysfunctional probably being generous. If these changes occur, the labor reform occurs and you get to a place when all negotiations have been exhausted and as opposed to the pain coming before the solution, which is binding arbitration, the government has an ability to bind the parties to arbitration. You kind of get to where you would have started anyway.

That's going to get us to a place where, quite frankly, that I think will allow negotiations long term, not short term, but long term. And that's an art that's kind of been lost in Canada. The art of negotiation. The labor leaders come to the table to list the demand. But if you were to say yes, you'd be bankrupt.

You'd have no business. They know that they wouldn't want to admit it, but they know it as well as I know it. So you have to say no to put on this front that you're negotiating. They're not negotiating.

You're just creating an impasse that ultimately is the net sum is everybody loses. The employees lose, the country loses, the customers lose. That's not a positive outcome.

So this labor reform with investment reform and then the other piece, the final piece is the investment itself. What the government is doing to invest to harden the infrastructure, the port investments, the rail investments to be able to get this resource-rich nation to market, again, the railroad is going to pay a part of that. So in the end, I think what's happened, this crisis has created a country that's woken up and are becoming a stronger Canada. And a stronger Canada is not only good for Canada, it's good for all three nations. And it's uniquely good for CPKC because we connect all three nations.

**<Q – Ravi Shanker>:** Got it. So it sounds like a really strong foundation there. But just to build on that and connect with some of the remarks we made earlier about potentially some manufacturing kind of moving to the U.S. Obviously, still lots of moving parts in so many different ways. But as we head towards more of a multipolar world, I think, obviously, a lot of focus on near shoring kind of in the last several years, not as much of a theme this year at the conference as it has been in the last couple of years. But do you have a sense of where that's settling out and kind of how happy are you with your network and kind of what part it will play in whatever supply chain will look like going forward?

**<A – Keith Creel>:** Well, listen, it's still in flux, but the major announcements that have been made public. If I look at my network, it doesn't hurt the network, it helps the network. There are some of the OEMs that might shift production perhaps from Mexico to the United States. They've announced building another facility, but it's production coming out of a facility that I don't serve, served by my competitor in Mexico. The one I serve actually is going to increase production. So net-net, I think it's positive. Nothing that's fundamentally going to hurt our network itself.

So again, I get back to where I started, the parts, the engines, the finished vehicles, I think these negotiations might get to countries of origins, those percentages being shifted, but it still leads to products and vehicles being manufactured and produced more so, not less so in Mexico, Canada and the U.S. And again, when you're in the network of the next all three, however it shakes out, we're going to be a player in it. And the strength of our franchise is undeniable. And the reliability we've created, the piece that's coming online now that hasn't in the past because of the network, it's not just rail shifts. It's also water to rail. It's taking it out the sea and putting it on the rail. So again, we uniquely enable and benefit from that.

**<Q – Ravi Shanker>:** Got it. I want to quickly touch on grain here because obviously, it's a huge profit engine for you guys, volume engine for you guys. It feels like it doesn't get as much airtime because obviously, nobody can predict the grain crop. But it feels like this has been a gift that's been giving for you guys for a long time. Obviously, record grain crop this year. There's some concern that it will be a tough comp next year, kind of we'll see what happens. But what are some of the levers you can pull kind of on the grain side that, again, continue to deliver the profitability there and continue to deliver yields there irrespective of what the crop does?

**<A – Keith Creel>:** You know what, that's a very insightful point because it's kind of -- the story is in Canadian Pacific, we're a grain railroad. Before we lived and died by the harvest. As we've expanded our network, we diversified the book of business, and we've created an ability to create some

resiliency. But along the way, we're also still benefiting from being that one-trick pony. So if I go back to '13, '14, the winter and the crop and the meltdown and regulated grain and the government forcing us to haul grain in Canada, that created innovation. It created an expansion, especially on our network of what was a 6,000-foot feeder network to now we run big, long trains, 8,500 feet. Most of our grain elevators is probably the lion's share are all converted now.

So the ability to turn those assets, the capacity that was created is huge. The export capacity has been built at the West Coast, the G3 and everything that happened on the North Shore and the additional expansion on the South Shore. That's all realizing its full benefit now. Now you couple into the network now where we can take Canadian product into Mexico. And if you have a drought in Canada, you've got product coming from our U.S. Midwest, the feedstock that's going into Canada. So there are levers that we can pull today because of a diverse book of business that never would have been possible without our merger.

So whether it's corn going to Mexico, whether it's soybeans, again, going to China, whether it's grain export out of Canada or grain export out of Canada, wheat into Mexico, it's a very diverse book of business that allows us to continue to pull the levers. And when we have the bumper crops, it's really, really good times. But when the bad times come and you have a drought, it's not -- the lows aren't near as low. So there's a resiliency built in the network because of the merger.

**<Q – Ravi Shanker>:** That's great to know. Exactly where my follow-up question was on your merger here. You said at the top of your comments that no one envisioned a three-year downturn when you did the merger. I think that's absolutely true. But given everything that's happened macro-wise, industry-wise, idiosyncratically, obviously, you guys put the operations together pretty quickly and delivered the cost synergies. But how -- like if you sit here and look back at the merger today, kind of what are the things that you really like and what are the things that may have gone differently than you thought?

**<A – Keith Creel>:** Yes. So number one, we're ahead of where we thought we would be in spite of the recession in spite of kind of these puts and takes and challenges. The things that haven't manifested yet that I think not that they won't, they just won't now. Crude oil, that was a big piece for us. That was part of our expanding upon the DRU and the business that we do out of Canada into Mexico from -- in the U.S. That hasn't came. But what has come is transborder trade, trade between the United States and Mexico really, really has surprised us. And this crisis has accelerated. We were doing -- I think when we put the railroad together, maybe $100 million. We're over $600 million, and we're going to $1 billion. And there's more demand, not less demand. So that's even in spite of all the trade situation.

So again, that's really kind of exceeded our expectations. We're going to exit this year about $1.5 billion of revenue synergies. But what's most important, what's most exciting is when you get a normalized economy and as you go forward and look forward, as you build this out, this railroad is an infant. We're 3.5 years old, 42 months old, of a forever story. You don't build this thing out overnight. So as regulations change and they're changing, as infrastructure is invested and it's being invested, you build out the Americold, you build out SMX, you build out continued MMX, transborder trade between Canada and the U.S., you get to a place where if we're not doing our jobs, if we're not a couple of points better than the industry is because of the network that we've built out and we're creating and we're building out, we don't deserve to be in the position.

And that's what I tell my sales team. At the end of the day, if the industry is growing at 3% and you're not doing 5%, you need to go work somewhere else. Go grow at 3%, you're not going to grow --

you're not going to be employed because we're going to grow at 5%.

**<Q – Ravi Shanker>:** Got it. Just on Mexico itself, the Canada, Mexico land bridge revenue has, like to your point, growing from $100 million to $600 million here. Can you just unpack that opportunity a little bit more? Kind of is it existing customers? Is it new customers? Like what does that pipeline look like?

**<A – Keith Creel>:** It's both. It's further deeper penetration in our existing marketplaces. So it's continued growth in intermodal, continued growth in grain, this cold storage piece. We've expanded now the cold storage Americold facility, which kind of was three or four years into the development, changing the regulations to be able to make the border transparent.

It was all based on proteins going south and vegetables coming north. Now we've just literally got the regulations changed. We're going to start taking pepperoni, popcorn, dog food, dry goods, not just cold storage goods, using that same transload facility that's located in our facility in Kansas City. Additional facilities being built in Mexico that haven't been announced yet that are deep into the development phase, something close to Toluca, Mexico City market. Going south of Monterrey. So again, all that's still in early stages of being built out and developed.

**<Q – Ravi Shanker>:** Got it. I want to switch gears a little bit to -- from talking about the transaction that did happen to the transaction that's been proposed. Obviously, the STB has kind of taken the transaction out of abeyance and kind of has moved to the next stage here. Obviously, you've been very vocal for your thoughts on this the entire time. Would love your latest views on where we are right now and kind of what do you think needs to happen here?

**<A – Keith Creel>:** I think I've actually been a bit restrained in my true thoughts.

**<Q – Ravi Shanker>:** You can – it's just us here, so you can feel free to be unrestrained. Tell us what you really think.

**<A – Keith Creel>:** I know Jim is listening. So number one, I'm going to start with some of his moves. I think he's maybe needs a little bit of love. I think what UP and CN did together, good on UP, not so good on CN when it comes to stand-alone. When it comes to the transaction overall, as this thing plays its way out, I feel even more stronger today than I did a month ago or two months ago or three months ago. I don't care how good the story is. No pun intended. It doesn't trump bad facts. And as the facts get known and understood and they're becoming known and understood and more people are coming out and speaking against, there'll be some fors, but it's the heavy -- it's the preponderance of the bad facts are represented by the against.

We're talking about a deal that the industrial logic makes sense. And there are certain benefits when it comes to single-line service. I'm a proponent of single-line service, it makes sense, but it's at what cost. And unfortunately, for the proponents, UP and NS, the regulations require those costs to be measured. Those new regulations say that if the goods don't outweigh the bads, and I'm saying in layman's terms, they should not approve the merger. And if it does get approved, it's going to come with heavy concessions to try to offset the competitive harm that it creates.

And I would say and suggest and as these facts get developed, they clearly say that the harms are undeniable. The risks are real, too big to fail, the consolidation, the market power, all that, that gets

created if this deal gets approved, and that's just step one. That's not the additional consolidation that would have to occur after. They never can solve for that in this process. So I say and I believe it leads to a no.

But if I'm wrong, the concessions are going to be so heavy that, quite frankly, if I were the proponents, I'd be concerned that I'm giving away what I think I'm getting, much like what CN has done. That deal they did with UP relative to Chicago, to me, and I was part of the team that fought for that strategic advantage of decoupling your connectivity in Chicago and creating an interstate around so that when it melts down, you don't melt down too. They just put it in play. They just gave away an asset and an asset to an asset that, quite frankly, UP's network just got stronger, CN's just got weaker. And as a result, because it's in Chicago, when Chicago melts down, we all suffer.

**<Q – Ravi Shanker>:** Right. A couple of follow-ups here. You sort of alluded to this, but obviously, they've made some concessions so far with the CN agreement and a few other announcements as well. How far do you think that goes?

**<A – Keith Creel>:** Relative to?

**<Q – Ravi Shanker>:** Relative to what you would expect in terms of concessions.

**<A – Keith Creel>:** Again, I don't think there's enough concessions to offset the harms. And I think when it comes to their merger case, I think it's dilutive to their case because what they've done is said that they haven't exhausted all opportunities to exhaust interline agreements. And that's-- guess what? Even if Jim doesn't like it or UP doesn't like it, that's what the regulations require. I think that's important. Much like some of the comments that have been made that another merger or consolidation ship and worry the STB. Well, guess what, the law says it has to. So you can't just approve one and disapprove the other. You have to take all that into account because we've got no place for an industry that three decades ago was 30 railroads. Now we're living in a world there's 6. And if this gets approved, it's a path to two.

And I just don't think the United States -- and again, I'll talk in airline terms because Jim likes to speak to airline terms. If I go to Chicago and there's only two airlines, and I'm there in the middle of the winter and I live there and I've been there a lot and I've flown through there a lot. I'm sure you have too. It's kind of scary to think that you've got two airlines, you don't have Midway Airport at all. We're all going to go through O'Hare and the nation is going to live and die by how that works. in the middle of the winter. That's a scary, scary reality that it is too big to fail.

And I think that this regulatory body understands that, there's your truth, UP's truth, my truth and the truth. And this regulatory body is going to make their decision based on the truth. And I don't think the truth ever is going to enable a yes to that merger.

**<Q – Ravi Shanker>:** Understood. Very clear. Thank you for your thoughts. Again, maybe just one point, you brought up CN, kind of one of the parts of the concession was kind of giving them access to Kansas City and maybe a direct line once it's done kind of direct line into Mexico as well. Thoughts on that and kind of how maybe that potentially influences your commercial strategy?

**<A – Keith Creel>:** Well, commercially, I'm not -- let's separate this to bifurcate them. So one is in the deal, one is not in the deal. So what CN has done and what UP has allowed CN to do is enhance

competition perhaps or options, competitive options for Canadian shippers and Mexican shippers. And I don't think the STB cares about that at all. So they've helped Canada, they've helped Mexico. It's good to see that Jim hasn't forgotten his Canadian roots.

That said, when it comes to competitive tension for us, we're not afraid of competition. We're a single-line move. They're a multiline move. I don't care how you do it, change it, slice it up. It's still a three-line move. And if we do our job, our best day versus their best day is two different value propositions. That's out of Eastern Canada. Western Canada, we're such advantaged from a route mile standpoint, it's not going to come to play at all because to get to Mexico by way of a CN origin, you got to go to Chicago versus our route is going to go right down to the west side of the Mississippi River. So as the crow flies, I'm not flying to Chicago to get to Mexico. I'm going to go direct. I'm not going to go change planes in Chicago.

So again, I don't -- from a competitive standpoint, good on the Canadian shippers that might be served by CN that don't have the option today. Good for the Mexican shipper, it's indifferent for the U.S. shipper. I would suggest that you're sending traffic over perhaps an Amtrak route that they may not be so happy about it or their trains get delayed, they may not like it. But does it change the commercial dynamics in Canada for us? No, not in the least bit.

**<Q – Ravi Shanker>:** Got it. Last question on this topic. I think you said that CPKC has never been closer to BNSF and CSX. I don't want to sound like TMZ, but exactly how close are you? And also, I think is -- are the benefits there of that closeness something that need to be achieved through a transaction? Or can it be done through an agreement? Does it need a merger or not?

**<A – Keith Creel>:** Yes, there's a lot that can be done without an agreement. I'll start there because we don't want a merger. None of the parties want a merger. It's not the best outcome. But if the merger happens, when I say we're close, as you work through these processes and these concerns and these coalitions, you bring your teams together. They communicate the way they've never communicated, your sales and marketing team, Tom Williams and his team and John and our team, they're talking more than they've ever talked. Not talking as much as we talk with CSX because we've already announced some things with CSX, but we're not done.

If you think about this and you try to unwind decades and decades of marketing relationships and what CSX might originate today and interchange to UP, which tomorrow would get unseated, so to speak, UP would probably rather do businesses themselves as they had with CSX at origins that they can compete for when that happens. And if it happens, then CSX is going to be more motivated to work with us for access perhaps into Mexico.

Today, they're not going to do that because they still have an existing commercial relationship with UP. They're not going to get ahead of themselves. They'd be cutting their nose off their face. So pro forma, if it happens, short of a merger, there's going to be immediate things that we can do. They are going to put products in the marketplace that will better compete head-to-head with a pro forma UP.

But again, that's pales in comparison. You can't let a giant like that be created and compete against it in your best way to realize your best potential as a stand-alone entity. So additional consolidation is going to happen if it gets approved. It's not if it's when. And when it happens, if they get approved, our network is unique. We're the only railroad that will ever connect all three nations, single-line service. We have a very strong value proposition to bring the table. Maybe I'm a bit biased, but I think I've got

the best team in the industry. It's a deep bench with a great network. I think that puts us in a place that if those discussions when and if they happen, we'll be able to have a voice at the table, and I think it's going to matter.

**<Q – Ravi Shanker>:** We'll see what happens in the next couple of years. Maybe we can switch gears a little bit. Obviously, we spent a lot of time talking about the long-term and strategic focus. Maybe you can talk a little bit about near-term trends. Anything in particular to look out for in the 2Q to 3Q walk in terms of noisy items? Obviously, you had the labor disruption. You have $6 diesel, kind of anything to in mind?

**<A – Keith Creel>:** Yes. I think the only two things that are kind of headwinds for us, the immediate things, fuel price, like everyone else, it escalated so quickly, so fast. It will be a bit of a headwind to the quarter, but we'll correct itself with our recovery mechanisms for the fourth quarter. The other piece is ECP. You don't see it necessarily in the numbers as much because you see carloads up. That's why I've always said carloads are not your best proxy. RTMs, you get paid by RTMs. And RTMs, we're seeing because of the war, specifically in ECP, plastics that would be otherwise going to a market in Mexico that are being short-hauled going to European markets. And except those two, everything else is kind of right in front of us as we expected.

**<Q – Ravi Shanker>:** On the labor front?

**<A – Keith Creel>:** On the labor front, I'm more encouraged than less. We had a strike with the IBEW, for the employee's sake, I hate that we had it. It doesn't make a lot of sense. They've agreed to binding arbitration, which we offered before they went out for three months. The way I see it as a human being, they lost three months of wages. And I interacted and talk to these people, our employees, our family members. So I think it's a shame that it had to happen, but it's resolved. We're going to get to an arbitrated settlement. I don't expect it's going to look any different than the pattern that's already been set by the same arbitrator that arbitrated our disagreement with the Teamsters. I wish we would have gotten there in the beginning.

But again, I'll go back to where I started. I'm super encouraged by what might come out of labor reform in Canada because I think it leads to a place where the parties can actually negotiate an agreement that's good for the employee, good for the customer, good for the company. That's a win-win. This creates a path to do that. And when it comes to the balance of our network, the U.S., we're in a good place. We're about to announce a deal with one of our major running trade unions that will go out for ratification soon, probably next week.

So other than that, we've got our integration. We've consolidated one agreement on the legacy KCS network south of Pittsburgh. It's called the Mid-South agreement. It's more of a -- it's an hourly deal, kind of short line like, it gives us flexibility, but most importantly, it gives us one consistent agreement as opposed to four agreements, which brings complexity and cost, lack of service and reliability, all those things. Death by a thousand cuts, we're beyond that. So from a labor standpoint over the entire entity of our network, we're in a good place.

**<Q – Ravi Shanker>:** Got it. Just one follow-up on fuel. Maybe for you, Chris, can you just remind us the mechanism here? I think you have the quickest pass-through of any of your peers. Just talk to us on the timing of that and kind of how the mechanism works, OR and EPS.

**<A – Chris De Bruyn>:** Yes. That's right, Ravi. So 60% of our fuel surcharge program is on a 1-month lag. The preponderance is on a 2-month lag, which is more of the industry standard. So our fuel lag will be catching up the quickest in the industry. Fuel prices will be an OI tailwind. But with the run-up in September, we'll have a little bit of a headwind from some negative lag that Keith was alluding to.

**<Q – Ravi Shanker>:** Understood. Any questions from the audience?

**<Q – Audience>:** Just wondering, as the major merger-related investment cycle starts to wind down, how we should be thinking about the potential step-up in free cash flows and shareholder returns over the next few years and just kind of the capital strategy?

**<A – Keith Creel>:** Yes. Chris, you're the orchestrator of that. I'll let you know if you get it right.

**<A – Chris De Bruyn>:** It sounds good. Yes. So thank you for the question. You've seen capital guidance this year. We took CapEx down about 15%. We'll come in around that $2.6 billion level. We do expect that $2.6 billion to $2.8 billion level to be sustainable for the next several years. We've invested a lot in the network through the merger process between the bridge at Laredo, redesigning our Chicago terminal, all the CTC and sidings that we've put in. So you're seeing that free cash flow conversion up cycle really, and we think that's sustainable for the next several years.

We don't believe in hoarding cash on the balance sheet. So first call on capital is investing in the business. And once that's satisfied, we'll look to return cash through a mix of share buybacks and dividends.

**<Q – Ravi Shanker>:** Any other questions? Keith, I know you consider CP to be a technology leader in the space, everything from autonomy to hybrid locomotives and such. Can you just -- I mean, obviously, a lot going on, a lot on your plate with strategic things and macro. But can you just talk about some of the latest tech initiatives you guys have at CP and what you're excited about?

**<A – Keith Creel>:** Well, listen, when it comes to technology, I don't believe on being on the bleeding edge of technology. I don't like to burn capital just to burn capital. But I do believe we're leaders when it comes to implementing and operationalizing technology. We have focused on technology to run the railway safer and more efficiently. And when it runs safer and more efficiently, assets turn faster, costs are less, sweat the assets. It just fits our mantra and our model. So the things that we're trying to do, we've done some very innovative things in Canada where we've eliminated regulatory inspections through the use of our portals, the use of cold wheel technology to test the braking systems on the trains. We're trying to bring that to the United States. We're working closely with the FRA. We're working to try to get a pilot to do that, which I think is going to give us a stepped improvement in productivity, efficiency and safety. We're not there yet. It's -- they're slower than I'd like them to be, but we do have a very good relationship, and we're going to continue to work on that.

The other area of technology that I'm excited about that we're kind of -- we're sticking our toe in the water. And again, think about bleeding edge. When it comes to AI, we have implemented AI in our algorithms and safety in our back shop in our customer service center. We were doing bots and some of those things, which is way above my understanding, I don't know, six, seven years ago. We've converted headcount. I understand about converting headcount. But we've created a team with inside the company, IT, I'm on it. It's an AI steering committee for the lack of a better term.

So we have started to apply AI to something as simple as all of our contracts. Think about the book of business, three nations, all the vendors, looking at the contracts that we negotiated and signed, creating AI agents that go through and make sure that we're really getting the benefit of those contracts. The vendors are charging what they should be charging. There's leakage in all that. So there's monies that we're going to bring to the table that we're implementing.

We're also doing some additional things on safety when it comes to track reliability, locomotive reliability. Those are the two key areas. So that's kind of it. We're going to work through this thing. We're going to evolve it. The Board is always asking, I'm like, I've learned enough about AI to know about tokens and how much tokens cost and what model you use matters. So we're not going at warp speed, we're going at steady speed. We're not throttle eight, which I'm a throttle eight guy. They've got to prove the test, prove the concept. Once you do, we implement fast. That's kind of the approach.

**<Q – Ravi Shanker>:** Maybe not directly related to you, but are you keeping your eye on autonomous trucking at all and kind of how -- like we will see about the time frame, but when that happens, kind of how that might potentially influence impact rails?

**<A – Keith Creel>:** Yes. I think it's not if, it's when. And eventually, it's going to happen. I don't think it's full scale yet. I think we got to be aware. I think they could become partners perhaps. First mile, last mile stuff is kind of an opportunity for us. I think the other natural barrier for full penetration for us is the border points themselves. A lot of our trade flows, U.S., Canada, Mexico, the United States, I don't think you're going to AI and automate the border. And as long as that is there, I think we'll be the least impacted. But eventually, it's going to impact us. So we have to stay aware of it.

**<Q – Ravi Shanker>:** Got it. So Keith, bring us home here. Obviously, you guys have had the best earnings CAGR of any of your peers by some distance since the merger. Talk to us about what the market is kind of not -- has not yet seen, what the market underappreciates and kind of what the opportunity is, hopefully, when the up cycle kicks in.

**<A – Keith Creel>:** Yes. I think the biggest underappreciation is we're 3.5 years into this. We're not building -- haven't built it all out. We're unique. We have a landscape to build to that nobody else does. And we've done it in spite of the economy. If you put the two together, you put a little tailwind to that, the 2% to 3% that we've missed because the economy hasn't given it to us, you lay that on top of our organic growth or synergy growth, whatever you want to call it, are coming together. We're 3.5 years old. This is built forever. You're going to see us doing, again, -- we're doing our jobs, we're going to be a couple of points ahead of the industry.

We're doing really good at our jobs. It will be better than that if the economy will help us get there. You're going to see continued discipline in the way we run the railroad, strong operating performance. You put those two together, it's going to drive better than average earnings growth and free cash flow generation. Those two together are pretty compelling value creators.

**<Q – Ravi Shanker>:** Great. Sounds exciting.

**<A – Keith Creel>:** Thank you.

**<A – Chris De Bruyn>:** Thanks so much.