Transcript

Q3 2020 Earnings Call

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Corporate Participants:

Keith Creel – President & Chief Executive Officer
John Brooks – EVP & Chief Marketing Officer
Nadeem Velani – EVP & Chief Financial Officer
Maeghan Albiston – AVP, Investor Relations & Pensions
Chris de Bruyn – Director, Investor Relations & Treasury

MANAGEMENT DISCUSSION SECTION

Operator

Good morning. My name is Joanne and I will be your conference operator today. At this time, I would like to welcome everyone to Canadian Pacific's Third Quarter 2020 Conference Call. The slides accompanying today's call are available at www.cpr.ca. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to introduce Maeghan Albiston, AVP-Investor Relations and Pensions, to begin the conference.

Maeghan Albiston

Thank you, Joanne. Good morning, everyone, and thanks for joining us today. Before we begin, I want to remind you that today's presentation contains forward-looking information and that actual results may differ materially. The risks, uncertainties, and other factors that could influence actual results are described on slide 2, in the press release, and in the MD&A filed with Canadian and US regulators. This presentation also contains non-GAAP measures, which are outlined on slide 3.

Joining us here today is Keith Creel, our President and Chief Executive Officer; Nadeem Velani, Executive Vice President and Chief Financial Officer; and John Brooks, Executive Vice President and Chief Marketing Officer, as well as Chris De Bruyn joining from the IR team as well.

Today's formal remarks will be followed by Q&A, and in the interest of time, we'd appreciate if you could limit your questions to one. Chris and I will both be available after the call to answer any follow-up questions you might have.

And with that, it's now my pleasure to introduce Mr. Keith Creel.

Keith Creel

Hey, thanks, Maeghan. Welcome everyone joining us this morning. Appreciate the opportunity to talk about our unique CP story and these results that we've just released and shared, but let me start my comments thanking our 12,000 strong CP family, the men and women every day that work hard to deliver service for the communities we live and operate in as well as for the economy and for our customers. The dedication and pride it takes to operate especially in today's new world that we're all living in is quite demanding and it certainly warrants that recognition, so I am honored to serve with each one of these men and women day in and day out as we produce for our customers as well as our shareholders.

Moving on to the quarter, though, let me say I have a tremendous amount of pride about these results. We continued our strong operational performance. Mark and the team did a phenomenal job focusing on productivity as well as balancing service, train weights, train lengths as businesses came back to the railroad, still up 7% and 9% respectively versus last year both third quarter records for us.

Trip plan compliance which is the measure of that balance in service and productivity even in a space where we're looking at optimizing train weights, train lengths. To be able to produce trip plan compliance of 87% is impressive, so I certainly applaud their efforts. And on the safety side, even more impressive. The space that we take great pride in leading the industry and driving and creating the safest railway we can on a day in and a day out basis to produce train accidents improvement 14% year-over- year in the quarter as well as personal injuries down a material, meaningful 26%, that's something I'm proud of.

So I'm going to let John and Nadeem walk you through how our performance played out, manifested itself

commercially and financially, but I want to pause for a moment and I want to talk about CP's future. I can say that as proud as I am with the results that we've released and we'll talk about today, I'm super proud of what we've accomplished in this pandemic. We think about what 2020 has been. It's been a challenge, but it's also been a year of opportunity. The announcement we made at close of market yesterday really is a piece of that excitement to propel this company going forward with Maersk.

Let me back up to a couple of years ago at our Investor Day, we spoke about how we were going to take our land holdings. We're going to take our franchise strengths, the footprint that gives us an ability to grow in all of our key market spaces, and convert that into a service offering, into a supply chain solution that is meaningful for our customer, and how they penetrate and serve their markets so that they can grow in a meaningful way, and in turn we would benefit and grow with them, and at the same time it's a solution that creates a stickiness to the railroad that adds true value that quite frankly it's hard to walk away from, that matters to the customers.

It's not just a price game. It's not just a commodity. It's a service offering that's unique to CP and to the partnership, the strategic partnerships that we choose to enter into, and that we're honored to be a part of with our customers, and this Maersk announcement is just symbolic of that. It's a textbook example of taking those land assets, creating a solution in partnership with the customer that allows them to realize their goals and objectives, running their business, and allow CP to be part of something that is not only good for business, it's good for the environment, it's good for our employees, it's good for sustainability. You think about what it does in the City of Vancouver.

You think about the carbon footprint right now today before this facility opens up. Rough numbers, 100,000 truck moves a day that are moving on the highways, the congested roadways of Vancouver, are going to essentially shift to the railway. This model is going to allow a shift to rail transfer to this transload facility that is going to take those dray moves off the road. The carbon footprint of that alone is compelling. So to do this is something that this company is proud of. It's something that I know our marketing team. I've got to commend Jonathan Wahba and the team and John Brooks. This has been a long process, but I can tell you I can't speak highly enough of our experience with the Maersk team. Two like-minded companies doing the right thing for the customers, for the environment, and for their employees. It's a compelling-compelling needle mover for us.

So as we execute this, as we build the facility, as we shared back in September, the ground has been broken. It's being constructed now. It's going to come on the second half of next year, but with this most recent announcement, this additional business, this rail move where we're going to be able to take product from Vancouver to penetrate Canadian marketplaces with our franchise. It's something that's very, very compelling and exciting for our company. So it's a strategic, multi-year new partnership that we look forward to stepping into and growing with for the years to come with Maersk.

A couple of other things. Think about this pandemic. I said in the very beginning, we can't control the pandemic. We're going to focus on what we can control. We're going to look internally and often crisis create opportunities. A crisis can be a motherhood of innovation. So that's exactly what we did. We asked ourselves what can we do to to become a stronger CP, for our shareholder, for our customer, for our employees. How can we become safer? How can we become more reliable? How can we control cost to a better degree? And I can tell you there are several milestones that I'll quickly touch on before we get into the color and the commentary on the quarterly numbers.

The Detroit River Tunnel acquisition, the one we announced last week, again that's the fruit of efforts internally, an area of opportunity. If I go back to 2009, which predates my association with the company, but this company was in a position in 2009 in that economic crisis where cash mattered. Financially we were not on very stable ground. That's a key asset, a strategic asset that CP owned half of at that point. Predecessors made a decision to sell it. We sold it. We retained a certain percentage of it, a small percentage. I think rough number is 16% to 17%, but fast forward to 2020. What opportunities are there again where we can focus on becoming safer, more reliable, controlling cost. This is an area, an opportunity with our cash flow and our financial balance sheet and our strength, and we've always said

our first call on cash is internally where it made compelling sense to buy this asset back. It's accretive to earnings. It's accretive to our margins day one, so again symbolic of controlling what you can control.

You move to the ESG space. That's a place where you see and you'll continually see CP being leaders of thought, leaders of discussion, leaders of innovation, but most importantly leaders of action, and those are some of the things that we're proud about in this space. We've been working at ESG for some time. We made the announcement about the solar panel piece. That's another project that in this pandemic again controlling what we can control. We began. We've broken ground. We're building a solar panel farm at our headquarters in Calgary. I think we'll be one of the first, if not the only, corporation in Canada that can say when we finish this that we're powering our corporate office with a zero carbon footprint. That's something we're proud of. That's something that matters to our employees, and as we all become more socially aware of the impact we have on our environment, that's a needle mover for this company, and again it's something we're proud to lead in in discussion and most importantly in an action.

We think about technology. We think about safety. We have been safety leaders for quite some time, but I can tell you this is not a perfect sport. It's an outdoor sport itself and we never get there. It's a journey. It's not a destination. So along that journey, how can we become better at what we do? How can we become safer? How can we become more reliable? How can we control cost? Those are the things. And we approach safety three- pronged approach. It's people, it's process, it's technology. We continually focus on the people that's all about the culture, how do we get home safe every day, the process how do we do things. Are we doing it in a safe manner? Does the process make the most sense from a safety standpoint, efficiency standpoint? And finally are we leveraging technology? So we're not one to pound our chest about this technology piece, but I can tell you it's something that not only have we been working on, we've been continuing to get better at. And we made some extremely important milestone achievements during this pandemic in 2020 that will pay fruits of our labors for many, many years to come, not only in a safer railway, but also in a more efficient railway.

The train inspection portal is a great example of that. I'm extremely happy to announce that Transport Canada has recently approved the use of our train inspection portal, which is located just west of Moose Jaw in our Maple Creek subdivision to handle and create remote visual train inspections on our potash trains. And I know we're not the first ones to talk about these portals, but certainly CP is the first to receive the exemption and actually operationalize and apply this. So we've got a high-speed camera system that's going to do train inspections. It's capable of producing full body resolution images at train speeds at 70 miles an hour, and it's safer. It's a more efficient way to analyze the train, and we've already proven that we're going to detect 87% more defects than traditional manual inspections, but when you operationalize that, how does that affect the bottom line? How does that affect service and asset turns?

Well, in this case alone if you take think about the potash trains that we move, 12 to 15 trains a week we are moving normal tonnage through Moose Jaw, every one of those trains today or before this exemption before this technology was applied was required to stop in the loaded side for safety mechanical inspection. We're no longer required to do that. So think about the implications to the assets in a very busy terminal where you've got 15 trains a week not stopping, and consuming two hours of man-hours, two hours of locomotive time, two hours of track time. You start multiplying it and it hits the balance sheet, it hits your asset utilization across the man side, across the equipment side, and the locomotive side, so it's compelling. It moves the needle. It's part of how we continue to get better at doing what we do, and continuing to move the needle at CP both from a safety and efficiency standpoint.

Cold wheel technology is another space that we've pioneered in the industry. We created a technology using our wayside equipment detection to measure the heat imprint that the brakes are applying to the wheel, so as opposed to doing a brake leakage test. We've got a technology that applies that in the movement of the train, we know how each individual car is breaking. We know where we might have a potential problem. To be able to apply that technology to drive a more reliable fleet is what we've proved with the science and with the technology in our coal fleet now, we've been allowed an application and exemption to apply that to the potash fleet, so the coal and the potash fleet both have cold wheel

technology and we're not done there. We're working on the grain fleet. We're going to work on the intermodal fleet, so anywhere where we have a closed loop of equipment within our network, we still have additional opportunities to make strides in safety, to make strides in efficiency, and to make additional strides in cost.

And then the final thing I want to highlight that I'm extremely proud of our team, Dr. Kyle Mulligan and team, we gave them a challenge. We're aware we had some pretty high profile challenging derailments toward the end of last year and early this year with crude trains up in our northern territory where we serve the crude markets. As a result of that obviously on dark territory and that's where we don't have CTC to give us broken rail protection, which the preponderance of these crude routes are in the northern line. We went to the team. We had a challenge. We had to get broken rail protection.

So they went to work in a very short order of time and took technologies from other industries and combined a methodology to effectively equip the railway, the dark territory subdivision with the technology that gives us broken rail protection by sending energy, sending electricity, a low level of electricity to create a circuit that if a train or if a rail were to break, then we're going to know before the train finds it in the dark territory. That solution that we created internally, the team has created and operationalized and are executing today, order of comparison, order of magnitude, not only do you get the safety benefit with the avoided derailments which obviously has enough positive benefits to fuel the investment. Think about the additional efficiencies with asset turns with train speeds. Today, those trains without broken rail protection on those subdivisions we run at 25 miles an hour. As this technology and this innovation gets deployed, we are able to run 45 miles an hour.

You've got a safer, more efficient, more reliable network as a result of this and the cost of this innovative technology that our team came up with is the tenth of a cost to CTC. So we're doing these subdivisions, CAD 1.5 million a piece versus if you were to go and try to apply that with CTC solution, do the math, it's compelling.

So again controlling what we can control, we continue to innovate at this company. So these are just a couple of things and I don't have time to go over all of them, I just want to provide a bit of flavor to the market that not only do we day in and day out create a unique investment solution with our results and with our customer connections, but these are some of the things that we focus on that as an operating CEO, I am extremely energized about that make me extremely proud of not only what we have accomplished but most importantly about the future that lies ahead and how we're going to continue to sustain these kind of results and be innovative leaders, thought leaders, action leaders that drives a compelling value proposition for our investors, for our customers and for North American commerce.

So with that said, I want to save the balance of our time for the questions or my time for the questions. Let me turn it over to John to provide some color on the markets, and then Nadeem will wrap it up with color on how we brought it to the bottom line.

John Brooks

All right, so thank you Keith and good morning, everyone. So total revenues were down 6% this quarter to CAD 1.9 billion. RTMs were also down 6%. FX was flat while fuel was down 3%. So as expected, third quarter played out just how we talked about. It was very back end loaded, we had tough comps in July and August.

I will speak to our third quarter performance by our line of business and provide some colors on what I see for our outlook looking forward. I will speak to the results on a currency-adjusted basis.

So grain volumes were up an impressive 18% on the quarter. Revenues were up 11%. We finished the crop year very strong by moving 10% more grain than any prior year in our 139-year history. Q3 was another tonnage record, our fourth consecutive record quarter in Canadian grain, a tremendous achievement made possible by close collaboration and partnership between the CP family and our grain customers.

There is a potential for a record crop in Canada, particularly strong in the CP draw territory and we're well positioned to move the volume with over 3,300 new high capacity hopper cars in service as our high efficiency product is changing the way our customers manage their supply chains. We're very pleased with Viterra's announcement yesterday to build another 8,500 foot greenfield elevator exclusive on CP in Biggar Saskatchewan. This development is very targeted in a growing territory that will expand CP's competitive reach. So by year-end, over 30% of our origin elevators will be transformed to our 8,500-foot model.

And to add to the good news story in grain, I'm quite optimistic this year for outlook in US grain. After a few years of lower volumes related to the trade disputes, export volumes with the PNW have accelerated and we are up by double digits on the US grain side on the quarter. I see continued strength in grain on both sides of the border as we move through Q4 and into 2021.

On the potash front, volumes were up 20% and revenues increased 13%. The strong Q3 we expected came to fruition and we delivered a tonnage record for the quarter. Canpotex is sold out as we look towards December and they have done an excellent job of diversifying their end markets with Brazil actually passing China in 2020 as Canpotex number one end market.

On the domestic potash side, we're also performing quite well as nutrient replenishment in North America improves after several poor application seasons. We expect domestic usage to remain high, driven by increased demand for food supply and the need to continue to replenish the soil.

Our diversified book of business with a solid bulk base delivers steady growth and has remained very resilient through the pandemic. The outlook of our ag franchise, a key driver in our outperformance year-to-date, remains very strong.

Moving to coal, volumes were down 23% on the quarter as a result of planned port outages. However, September has improved from a volume and revenue perspective now that the Neptune facility is commissioning. We expect Q4 to continue that improvement trend.

The energy, chemicals, plastics portfolio saw revenue decline 16% while volumes declined 39%. Crude volumes led the decline through Q3 with only 5,000 carloads shipped, down over 80% year-over-year. Excluding crude, energy, chemicals and plastics volumes was only down 2% on the quarter and volumes were positive in September.

Moving to forest products, volumes were up 14%. Strong demand in lumber, continued strength in pulp and paper as well as strong execution of our playbooks enabled an all-time quarterly volume and revenue record in our forest products line of business. Continued demand from home renovations, improving housing starts coupled with our CMQ acquisition will continue to drive growth in this space.

In MMC, revenues declined 24% and volumes were down 21%. Frac sand was once again the big driver in this decline as a result of the challenges facing the oil markets and shut in production. Steel, aggregates and other construction inputs which were challenged by the pandemic gradually recovered through Q3 and were effectively flat year-over-year and up sequentially. In September excluding frac, this line of business was positive on a year-over-year basis.

Moving to automotive, volumes were up 11%, setting a Q3 record as we welcomed FCA to our Vancouver and Calgary auto compounds and on-boarded Glovis. I am extremely proud of the hard work put in by the CP team to utilize our strategic landholdings and turn them into unique customer solutions in the automotive space. In September, automotive volumes were up 40% year-over-year. The base auto demand environment remains quite strong and, coupled with our contract wins, will drive continued strength and outperformance through the end of the year and into 2021.

Now finally moving on to the intermodal side of the business, quarterly volumes were down 4%. On the domestic intermodal front, revenues were up double digits and we delivered an all-time record quarterly revenue and volume. In particular, our refrigerated RTMs are up 13% year-to-date, setting an all-time record showing the strength of the CP franchise for this essential service. Continued strong consumer

demand from the big box retailers in Canada that ride on CP will help well position us for a record finish as we look towards the end of the year.

In international, the strike at the Port of Montreal weighed on volumes, but also created a tremendous opportunity for CP in the Port of Saint John to showcase this new acquisition that we received from the CMQ by diverting four ships to the Port of Saint John. Our strong partnership with DP World, the NBSR, Hapag-Lloyd and Maersk help make this all possible and we're grateful for their ongoing support. With the new capacity being added to the Port of Saint John combined with CP's most efficient route to market, I remain very confident that we will attract the new steamship line service offerings into Saint John in 2021.

Now heading into the end of the year, demand at the ports on both coasts remain high, and looking out further, our customers indicate that the pipeline of international ships look stable into Q1 of next year. So finally, as Keith spoke to in his opening remarks, I am super proud of the work the team has done in creating our new strategic partnership with Maersk. This multi-year partnership has two key components. First, the state-of-the-art transload that we previously announced that is under full construction on CP landholdings and is co-located at our Vancouver intermodal terminal. Again, this is a unique rail-centric solution. As Keith said, that will pull thousands of trucks off the lower mainland and create a competitive advantage for our customers.

And secondly, our most recent announcement yesterday, our multi-year contract to provide service for Maersk out of the Port of Vancouver and the Port of Montreal while certainly contracts in this international space can be competitive, CP's unique value of our landholdings, our transload solution, and our most efficient direct service to key markets were all core elements to enabling these agreements in this partnership.

So let me close by saying September came on strong as we expected and talked about on our Q2 release. We carried the momentum, things are looking quite strong as we move through October and we fully expect it to continue through the end of the year and into 2021. As we've talked about, we have a broad-based set of opportunities that we're onboarding, touching many of our commodity areas. This not only includes now Maersk, the new transloads that we have opened in Montreal, our continued growth and opportunities with the CMQ, new auto compounds and grain facilities, and certainly much more to be excited about.

So with that, I'll pass it over to Nadeem

Nadeem Velani

Thanks, John, for that very impressive report and update. I am extremely proud of the results the team is delivering today. The momentum we created in first half of the year carried into the third quarter. From an operating ratio perspective, we knew we had some headwinds to overcome sequentially with fuel lag and year- over-year with stock comp. But our team of railroaders exceeded expectations and their ability to control costs and deliver operationally.

On the quarter, with volumes down 6%, a stock-based comp headwind of 220 basis points and a casualty headwind of 60 basis points, the operating ratio increased 210 basis points to 58.2%.

The underlying railroad continues to run extremely well. As we sit here three weeks into the quarter, I remain confident we'll finish to the year strong and with the best ever Q4 operating ratio. As you've seen, we updated our guidance this morning to reflect the momentum we've been building and our position of strength going into the fourth quarter. We now expect at least mid-single digit adjusted EPS growth year-over-year, a tremendous accomplishment given the global macroeconomic volatility this year.

Moving onto a few of the more notable items on the expense side, I'll be speaking to the operating results on an FX adjusted basis. Comp and benefits expense was up 7% or CAD 26 million versus last year. The primary driver of the increase was a significant share price appreciation in the quarter. This CAD 41 million headwind was partially offset by improved efficiency and a decrease in head count as we continue

to bring employees back on the property in a measured way.

Fuel expense decreased CAD 71 million as a result of a 29% decrease in the price paid year-over-year and lower volume. Our fuel efficiency, which is 14% better than the industry average, has improved 2% year-to-date which has resulted in 35,000 tons of CO_2 emissions avoided. Materials increased 6% largely driven by increased locomotive maintenance related to bringing units back into service as volumes improve.

Depreciation expense was CAD 195 million, an increase of 5% as a results of higher asset base. Purchased services was CAD 275 million relatively flat by higher casualty expense in the quarter. The team continues to effectively control spend and adapt real-time to the changing volume environment. As I've mentioned in the past, the internal collaboration and constructive tension at CP is what sets us apart. The team worked together in lockstep to drive results and improve on industry-leading results.

As we continue to develop new ways of doing things better, be it technology innovation that Keith mentioned or through improving the operation, this team of railroaders look to build on our success.

Moving below the line, other components of net periodic benefit recovery were negatively impacted CAD 13 million or 13% primarily due to a lower discount rate. Interest expense was up 4% due to a higher debt level largely offset by a lower effective interest rate and lower commercial paper outstanding. Rounding out the income statement, adjusted diluted EPS declined 11% in the quarter.

We are continuing to look for innovative ways to stretch our capital dollars and maximize our return on invested capital. In Q3, our engineering work crews took advantage of an average of 15% more block time than in 2019, which translated into a 7% savings on the average unit cost of installation.

Year-to-date, we have already installed more cross sides than we did in all of 2019 and intend to install 30% more than 2019 by the end of the year. This efficient capital work has the network in terrific shape as we head into 2021. Credit goes to Mark Redd and his team for finding the right balance between engineering block time and operating to our trip plan. We remain committed to CAD 1.6 billion in capital spend for the year and managing the capital envelope for the long-term benefit for the company.

Rest assured, we continue to maintain discipline on capital deployment as evidenced by our adjusted ROIC of 16.2%. We will continue to balance our shareholder returns. The buyback is around 60% complete and leverage remains in our targeted range. First call on capital as Keith mentioned is always a business. We still see upside in the stock however the Detroit River Tunnel acquisition was a unique opportunity to regain full control of a strategic asset on our network. We continue to invest in our core area of expertise. Should we not finish the buyback before it expires in December, you can expect us to announce a new buyback in the new year. We expect to finish the year strong. I'm excited about what lies ahead for 2021 and beyond.

So with that, I'll turn things back over to Keith to wrap things up before we going into the Q&A

Keith Creel

Okay. Well, hopefully, hopefully we got a good flavor of not only what has driven these results, but most importantly about what fuels our resolve and our conviction about the potential that lies ahead for this company. We've been on a journey at this company for quite some time. Pivoting to growth, we've led the industry the last several years even in the year of pandemic, challenges, this profile that this company continues to execute and lockstep step with our partners, with our customers, with these innovative solutions are creating these outcomes that are unique in this industry and unique for this company and certainly reflects the strength of this franchise and expect more of it. We're not done. This is a journey. It's not a destination. It's something that's woven into our DNA. We'll continue to work hard to meet and exceed our shareholders' expectations, our customers' expectations and our employees; expectations.

So that said, let me turn it over for questions.

Question & Answer

Operator

Thank you. [Operator Instructions] Your first question comes from the line of Ken Hoexter from Bank of America. Your line is now open.

<Q – Ken Hoexter>: Great. Good morning. Thanks for the update. Great outlook on the mid-single digit EPS growth in this environment. Maybe you could talk a bit about the assets, locomotives, and cars, things on the sideline, and the need to bring costs back in the future as you flip into growth, and also maybe your thoughts on the employee cost into 2021. Just given you always talk about that tension, Keith, between the cost and top-line growth.

<A – Keith Creel>: Well I can tell you this, Ken, the tension doesn't change. The tension, the constructive tension and accountability is what allows us to continue to produce. So if we look at these key metrics and I look at employee productivity, I look at locomotive productivity, I look at car productivity. Even as we bring this business back on, we can talk about the quarter where we drove improvements across the board, but I'm thinking about the fourth quarter now. So, if I look at this month alone, we've got to a point where we're inflecting positive on volume. On an RTM basis, we're at 8.6% this morning quarter-to-date, month-to-date. Train miles are down 13.5%. Weights are improving year-over-year up 7%, train lengths 8%, crew starts 14.5%.

I share those numbers just to give you the same conviction and confidence that I have day-in and day-out. This operating team understands how to manage resources, to keep a constructive tension, so that we can sweat our assets. So, as we bring people back on and we were down in the quarter about 8% on a 6% reduction in RTMs, they're not going to be one-for-one. We're going to continue to maintain our productivity measures. We're going to continue to invest and expect a return for those investments and work hard to grow the business, so that we can bring all of our employees back to work that are currently still laid-off which we still have several hundred.

But in addition, to those several hundred part of these synergies on the head count of course is, just doing more with the less as we've atritted out those employees outside of those crews, and the men and woman that move the trains day-in and day-out, in the corporate office, in all these support functions. We became more efficient. So certainly we've not replaced for one-for-one. We don't intend to replace for one-to-one. We became more innovative, more productive. And in fact if you think about the world we're living in, Ken, how many less flights are we going to take? How many fewer hours are we going to be consumed in airports or in transition to meetings? How much more productive can we be? So we shouldn't be one-for-one. So rest assured that something will continue to work out to drive additional efficiencies, better quality of life for our employees, but at the same time harvest the benefits of productivity and the cost synergies that allows you to generate.

<Q – Ken Hoexter>: Great. Thank you

<Operator >: Your next question comes from the line of Allison Landry from Credit Suisse. Go ahead.

<Q – Allison Landry >: Thanks. Just given the recent volume momentum and the various growth opportunities next year that are really specific to CP and then considering the productivity improvements that you've made this year in terms of train lengths, and weight, how feasible is a mid-50s OR in 2021? And if you could speak to what you think the earning power of the business is over the next couple of years. Thank you.

<A – Keith Creel>: Well, it's a great question. We've been accused of sandbagging a bit, but I would be doing that if I said that's not the art of the possible. Late 2021 as that, if things go our way and these things play out the way we think, they may play out and the economy doesn't have some staggering

shock events that I can't predict. That's in the art of the possible. I'll let Nadeem provide a bit more color, but certainly, this is railway on a journey, not that we're seized and focused on a mid-50s operating ratio. It's just a natural outcome of our profile and the way we execute day-in and day-out that allows us to compete the marketplace. Nadeem, you want to provide a bit of color to that?

<A – Nadeem Velani>: Yeah. I mean, that if you do the math based on the guidance we've given you, based on our outlook for Q4, you're kind of in that high mid-50s level for the year and certainly in this environment the rails are benefiting from lower fuel surcharge and the benefit that that has on operating ratio. It doesn't have much benefit from an income point of view, but it does of the OR. So we've always talked about improving on our performance and so we're already at kind of that level and if we assume we're going to improve next year and we're going to get the benefits of operating leverage and the unique growth story that John outlined, there is no reason why we can't have a mid- 50s level of operating ratio for the year outside of what we can't control, which is fuel and stock comp and so no reason why we can't do that.

<Q – Allison Landry > Thank you.

<A – Nadeem Velani>: Thanks, Allison

<Operator >: Your next question comes from Walter Spracklin from RBC Capital Markets. Please go ahead.

<Q – Walter Spracklin > Thanks very much, guys. Good morning everyone. So I want to come back to your use of land is kind of a teaser for new contracts and really this is kind of contrary to prior management team where you were looking for broad sale of your land and I'm just curious, perhaps, John can chime in is, how much revenue conversion opportunity do you think you can take using your land as a teaser to achieve more Maersk more Ford, more deals like this where you tie them in not only to win a contract, but to win it for multiple years. And correct me if I'm wrong here. This multi-year is longer than your normal year with international intermodal customer if that's correct.

<A – John Brooks>: Yeah. So, Walter, as Keith brought us back to and we talked about at our Investor Day. This has been a key cog in the whole growth engine and story of how we've laid out our strategic playbook, so commodity-by-commodity where the various locations that we can take our land assets and create these solutions. I don't know, if I can put a number on it looking forward other than I've got over a thousand additional acres out there that we're actively working on.

We've created essentially four new auto compounds on our land. We've opened two transload developments. I think, there is certainly more opportunity there. We're just getting our new facility up and going in Montréal. You look at Vancouver, you've got an additional 100 acres beyond where we're building the Maersk building, the transload facility that is ripe for development. So we're keenly working on that.

And then, you look at what we've just done in Schiller Park in the Chicago market. We've just opened a new auto compound there, but being well positioned in the city like we are, I think has a ton of opportunity as we begin to think about how these housing markets, how this home improvement market, what the forest products industry needs to do to further develop some of that area. So, I'm not sure if I can put a number on it, but if you go back and you start looking at all the opportunities that we talk about whether it be also IPL in the Alberta heartland, using our land assets. I think, we're honestly in the mid-innings of this ball game in terms of what those opportunities can drive as we look into the future.

<Q – Walter Spracklin > It's really good color. Appreciate it. Thanks, guys.

<Operator >: Your next question comes from Ravi Shanker from Morgan Stanley. Please go ahead.

<Q – Ravi Shanker > Thanks. Good morning everyone. Nadeem, can you give us a little more color on

the 3Q to 4Q OR walk, please? I think you said the best ever OR expected in 4Q kind of were some of the puts and takes there? And if I can try and sneak in a second question for Keith. Thanks for the ESG and tech focus. Why now? Is it because of the availability of the technology? Is it because of the timing? Because of COVID? Is it because of increased demand from your customers? Kind of what's driving that push towards ESG focus for railroads?

<A – Keith Creel>: Let me take the ESG first, Ravi and then I'll turn it over to Nadeem to provide the color on the walk through of the OR. Listen, the world is changing around us. We're all living in it. We're all becoming more environmentally aware. It's no secret as well although we were already on this journey, we've got a shareholder that expressed their focus and their expectations and their concern about the environment. It's our number one shareholder, our largest shareholder, Nadeem and I – two years ago or I guess, it's almost coming up on two years ago. We had the honor and the opportunity to speak at their Investor Day and we had a private meeting and we discussed ESG. We discussed how this entire space not only is it the right thing to do for the environment, it's also a differentiator for the rail industry. We have been leaders. We talk about the benefits of moving rail versus truck, so we decided and we committed then and that we're going to be innovators or we're going to be leaders in this space. So, as technology has developed, as the opportunity in space and time to think about how we become thought leaders, action leaders in this space, Maeghan and the team, Laird Pitz, Glen Wilson, external partnerships that we've created.

We focused on how do we lead in this space. We're leaders in safety. We're leaders in financial performance. We're leaders in service performance. We're leaders in customer relations. We're trying to be the best possible company we can be, realize our potential across all spaces. And this is a space for the ESG that it matters more than it ever has. It certainly has our attention. It has our focus. Our employees get energized by it. The environment is going to benefit from it, so there has never been a more appropriate time. And again, this is just a flash in the pan. This has become woven into the way we think. We'll take these applications. We'll operationalize them. If it makes sense as we go across the property, I think about the solar garden aspect. We are going to prove the concept in Calgary that does not mean that we are anywhere remotely close to being done. The amount of money it takes to invest in that because it is becoming much more affordable and reliable and the return of that in and itself from a financial standpoint is compelling. You layer on top of that, the social benefit to that as well as the environmental benefit to that. It's just a compelling value proposition that we'd be remiss not to be executing.

<A – Nadeem Velani>: Sure, Ravi, just on your second question around the OR, I think the biggest sequential change will be the fact that our revenues are going to be much stronger in Q4 than they were in Q3. We have seen the strengths coming in the first three weeks, that's going to be extremely positive to our operating leverage as well. If you think about the stats that Keith shared as far as some of our crew and train density performance and which all supports our operating leverage and will help improve our operating ratio at the end of the day. The other points I'd make are we had a very high casualty cost in Q3 and I fully expect that to change in Q4 and we'll see what happens with stock-based comp. Certainly that's been a headwind throughout the year based on our performance and certainly expect that to continue to an extent. But we'll see that's a bit of a wild card. So I think those are the major items I'd point out between 3Q and Q4, so really benefiting from operating leverage and a rebound in volumes.

<Q – Ravi Shanker > Great. Thanks, both.

<A – Nadeem Velani>: Thanks, Ravi.

<Operator >: Your next question comes from Fadi Chamoun from BMO. Please go ahead.

<Q – Fadi Chamoun > Good morning and thanks for taking my question. Maybe thinking about 2021 and kind of if you help us frame the RTM growth opportunity for you. If I look back in the last two to three years in a cyclical recovery, in an economic recovery and I think with the success you're having in the commercial side, we've kind of seen volume go up between mid-single digit and high single digit in RTM,

and it sounds going into 2021 you have pretty much all the segments kind of working on – moving in the right direction, I guess, including grain both in Canada and US, is there a scope with kind of mid-single digit to high single digit in 2021 given what you know now about the CP- specific share opportunities and what's kind of coming in the pipeline from grain and other markets?

<A – John Brooks>: Well, Fadi, look, I am not in a position to give you any guidance on 2021 RTMs quite yet. We are certainly putting all the elements into the blender as we speak to see where that lands, but I will tell you this. If you look at Q3 and Q4 this year, full year you exclude crude we're positive. I think that tells a remarkable colorful story that we have been saying we can do this without crude. We have done it on the strength of all the things that I talked about, with Walter's question in utilizing our land assets. We haven't even caught the big tailwind that relates to our CMQ acquisition and a number of the opportunities we are going to bring on related to that. Of course, Maersk will certainly bring a nice revenue opportunity for 2021 for us, but as that develops over time, as Keith spoke about, that's going to be a transformational revenue opportunity for us. So I'm bullish on 2021. Obviously we will have to watch how pandemic and economic and all the various things Keith spoke to that are looming out there, but if the trajectory continues, yeah, I am anxious to see what we can deliver in 2021.

<A – Keith Creel>: Fadi, I would say John is being a bit – he's been a bit humble here and a bit modest. If things go our way and the economy plays out the way we see it playing out with these initiatives that we talked about, with these contract wins, with our business mix, the ranges you're talking about, we are not going to commit to them today, but certainly those are within the art of the possible and the potential of this company in our business mix.

<A – John Brooks>: There you go, Fadi.

<Q – Fadi Chamoun > Thanks. Appreciate it.

<Operator >: Your next question comes from Chris Wetherbee from Citi. Please go ahead.

<Q – Chris Wetherbee > Hey, thanks, good morning. Maybe sticking on the revenue opportunities. John, can you talk a little bit about sort of going back to the Investor Day, you had a line of sight to a number of potential opportunities, you closed on several of those. As you think of the 2021, can you give us a sense of maybe what's still out there in terms of specific opportunities you can go after and then maybe thinking kind of about the international intermodal side? Obviously the Maersk addition is really interesting. Can you talk a little bit about how Saint John sort of might be able to be sold out over a period of time?

<A – John Brooks>: Yeah, specific to – I like where we sit today and sort of our mix, Chris. As it relates to the international intermodal space, onboarding Maersk will be a significant milestone and opportunity for us. Saint John is going to be interesting. I'm feeling really good about bringing a steamship line directly to CP into that terminal in 2021, but I think the art of the possible longer term is quite exciting. I think similar to the dynamics of seeing freight transfer from the West Coast of the United States up to Vancouver and also up to Rupert, the same dynamic of going after business in New Jersey and New York and working those same opportunities is very real.

Obviously, we hear so much about near shoring. Whether or not and how that plays out in the coming years, we have to be seen, but again we think Saint John is very well positioned to capture some of that opportunity. And then just also I would say share, there is a share shift opportunity out there and that just frankly our competitor has long serviced and really been the only alternative in the Maritimes for a number of years. And now with our new access into the port and over 200 miles shorter route, we think it is going to be just some natural gravitation towards CP in that area also.

But it doesn't stop at international as part of that Saint John as CMQ opportunity. We think we've got a great domestic intermodal opportunity there. We've got a beautiful piece of land that for automotive that Glovis and others are starting to use effective now, it provides great diversification in our merchandise franchise, particularly forest products that has been strong. So the CMQ is a big part of it. I already spoke

about Inter Pipeline coming on later this year. We just had Pembina open a new LPG facility. We talked about all the grain opportunities, and above and beyond that, don't forget we've got our diluent recovery unit coming online at Hardisty in mid-2021 that's going to give us more resiliency in that crude by rail market.

<A – Keith Creel>: Yeah, I think the way I think about the – hey, Chris. The way I think about the CMQ, I am extremely bullish about the opportunity that Saint John represents for our customers now as well as future as well as for our employees. The innovativeness, the entrepreneurial spirit of the people in Saint John, that port geographically is advantaged by distance from tidewater to key markets it will serve. They're in the middle of an investment, capital expansion going from effectively 200,000 TEU capacity to – in partnership with CP and with the province and with the key stakeholders, the vision is by the end of 2022, that's going to be an 800,000 TEU capacity terminal.

So think about the growth between 150,000 TEUs which is today and what 800,000 looks like which will be key success enablers getting that from tidewater into the markets internal to Canada as well as the US Midwest. It's compelling. In every other benefit, every other associated revenue stream that's created as a result of that, it's an economic lifeline to Saint John, it's an economic lifeline for growth to fuel additional growth for this franchise and a great service offering for our customers. 2021, you're going to see a steam ship flag, I'm confident, planted in Saint John and that's going to begin the journey in the March from 150,000 to 800,000. I said this in jest a year, year and a half ago, think of the Vancouver of the east, that's going to be a major gateway. It's going to be a major gateway in the future for Canada, for Canadian Pacific, for Saint John and for our customers, and it's something we're super excited to be a part of and honored and proud to be a part of.

<Q – Chris Wetherbee > Thanks for the color. Appreciate it.

<Operator >: Your next question comes from Steve Hansen from Raymond James. Please go ahead.

<Q – Steven Hansen > I'm just going to ask a similar question another way on the land strategy. Trying to get a framework here or a sense for what inning will that be in on the land strategy. I think you described the 1,000 acres you're still working on, but is it still a two- to three-year, five-year, seven-year development strategy that will see continued benefits to flow from or where are we at? Thanks.

<A – Keith Creel>: We've got land in the bank deposited as the savings account, I guess, so we could play it out, we got different playbooks, Steve, but certainly over the next two to three years, we've got some contracts, some ideas, concepts and discussions in play that, we'll see additional revenues to be converted because of those land strategies, but I can think out five to seven years from now, we're not going to consume it all. Every key market, Vancouver, there is a phase 2 thought about what we might be able to do with that additional 100 acres. As we develop those business opportunities, it's compelling, it can mean more than what this transformational opportunity we just announced means for us, creating stickiness, creating additional revenue streams. I can take that thesis in case to Chicago where I'm at today in our terminal in Bensenville and the capacity that we're going to unlock as we continue to repurpose that yard. I can think about Schiller Park we've opened this auto compound. We're not done there. I can go to Toronto. I think about the compelling footprint we have at Vaughan which is in a strategic location to double essentially the business we handle as we bring the business cases along.

I think about Milton, that facility in and of itself compelling value generator, so this to me you should expect every 18 to 24 months at least for the next five-year time period, there's going to be one of our strategic playbooks that go from concept to application, operationalize to conversion bringing additional revenue to this railway that's going to fuel growth as well as create unique supply chain solutions that create that value proposition, that makes it a value offering, not a commodity. It's not in our interest to do contract swapping. We're going to pick our partners wisely, we're going to create value for them. And in turn, they'll value the service we give them, but we think that's the way to win business, we think that's the way to not only win it, to retain it and to continue to fuel earnings as we go forward.

<Q – Steven Hansen > Appreciate the color. Thanks.

<A – Keith Creel>: Thank you Steve.

<Operator >: Your next question comes from Jon Chappell from Evercore ISI. Please go ahead.

<Q – Jon Chappell >Thank you. Thank you. Good morning, everybody. John, your revenue per RTM held in pretty well, especially to most of the headwinds that most of your peers experienced in 3Q. How much of this is pricing for service specific to CP and we know how the volumes kind of progressed through 3Q ending at a much stronger than what they started, was it similar with revenue per RTM and should we see the same type of momentum through October and 4Q?

<A – John Brooks>: Yeah, I think I see a little bit of acceleration on that cents per RTM as we move into Q4. On the pricing front, the team has stayed disciplined and I know I talk about this all the time, but part of their compensation is based on staying disciplined, but look, you coupled that, I think customers are certainly benefited from lower fuel prices and frankly as capacity continues to tighten, we're seeing it in the truck spot markets, some of the shorter haul lanes for sure, but honestly as rail capacity tightens on both sides of the border, I am quite bullish as I look ahead to our pricing capability, and again to your point, really based on the value of our capacity that we have and our service offering we provide. Keith mentioned it earlier, trip plan performance through this past quarter and through the pandemic staying in that high, I think, 87%, 88% range is compelling to our customers as they look to save money, they're depending on quicker cycles. So I see ongoing opportunity in this current environment on the pricing front.

<Q – Jon Chappell > Great. Thanks, John.

<Operator >: Your next question comes from Benoit Poirier from Desjardins Capital Markets. Please go ahead.

<Q – Benoit Poirier > Good morning, everyone. Could you talk about the opportunity to bring more volume towards the Detroit tunnel over the medium and longer term, and whether do you see further M&A opportunities following CMQ and the Detroit tunnel? Thanks.

<A – Nadeem Velani>: Well, I think, Benoit, we talked about – you heard a lot about our opportunity through the CMQ and I think that naturally is a perfect connection with the Detroit River tunnel and the thought of having steamship lines that can look to bring traffic through the Midwest and leveraging that routing advantage certainly went into our thought process. It wasn't the sole driver, but certainly we would benefit from increasing volumes and increasing opportunity to control our own destiny. So, that's what I'd point to. As far as additional M&A, there being a number of short lines and a number of opportunities that have been in the market the last 18 months, I would say. We are very focused on rail M&A that's going to be where our attention is and it needs to be connecting with our network where we can provide value either have a better service opportunity for our existing customers, enter new markets or look for even operational benefits. I'd say that we'll continue to look at it, always keep our powder dry. We have the financial wherewithal. We have a free cash if you look at our performance and what we see as the next several years our free cash generation, and where there is a network fit and a strategic fit, we will continue to pursue it.

<Q – Benoit Poirier > That's great color. Thank you very much for the time.

<A – Nadeem Velani>: Merci Benoit.

<Operator >: Your next question comes from David Vernon from Bernstein. Please go ahead.

<Q – David Vernon > Hey good morning, guys. Thanks for the time. Just real quickly as you think about the exemption you received on the inspection portal for the potash trains, was there something specific about that used case that allowed you to kind of get that early and what's your expectation for when you might be able to roll that technology out to the rest of the network?

<A – Keith Creel>: Well, the growing part is all about proving the technology out obviously for Transport

Canada. To allow us that exemption, it's something that's been in the works, it's been in the process going through, proving our case that we have an improvement in safety that it's actually not just about productivity, it's most importantly about creating a safer environment that we operate in and so that has to be proven out through the data. Through the technology, we have proven initially that we can do this, so we're going to walk through this, we're not going to try to run through this, we're going to make sure that we continue to drive safety improvements as a result of the technology which bodes us well for our case for change as we look at those additional fleets. So, right now, I look at this portal technology that we've deployed. We've got one in service now, we're on a journey. Rough numbers, the capital it's about a CAD 4 million expense to deploy these. We're going to do another one in 2021, we're going to do one more in 2022, we're going to do at least three to try to cover the network and then depending how the application of this goes and depending on the progress with the regulators we prove its case, you could see us expand. So this is a journey again much like our safety journey, it's not going to happen overnight, it's going to be incremental change over the next two to three years, but we'll continue to move the needle.

<Q – David Vernon > Thanks. And if I can just squeeze one last one in that step up in the Saint John port capacity, that's a pretty material increase relative to your total intermodal volume right now. Is there an additional need for CapEx in that corridor to sustain that kind of growth or do you think you can expect that amount of growth through the existing infrastructure?

<A – Keith Creel>: Yeah, the capital plan that we've laid out when we purchased the CMQ taken that from effectively a short line railway to a class three mainline CP standard railway is covered. Over our three-year plan, we don't have to change that at all. The capital that's required to get from that 200,000 TEU to 800,000 has already been approved through the province. DP World is working lockstep with the Port of Saint John to convert that existing footprint, that existing terminal. So the money is protected. The journey has started. The timeline it's going to be completed by the end of 2022, so 2023 and beyond, we've got a world-class terminal that's going to become a world-class gateway and we're going to do our part in the partnership to help enable that vision into a reality.

<A – Nadeem Velani>: Yeah, we pulled forward some of that capital work into 2020 to take advantage of track time, the availability with volumes down during the pandemic so and just with our approach of volumes to get the track infrastructure up to a CP standard sooner than later.

<A – Keith Creel>: Yeah, from a service standpoint and asset turn objective. By the end of this year, the objective is to be able to get from Saint John to Montreal within 24 hours, 48 to Toronto, 72 to Chicago and obviously we're going to exceed that once we get this full capital spend deployed, but that's what the objective is, to create that compelling service offering in that marketplace.

<Q – David Vernon > All right. Thanks for the time, guys.

<A – Keith Creel>: Thank you.

<Operator >: Your next question comes from Seldon Clarke from Deutsche Bank. Please go ahead.

<Q – Seldon Clarke > Hey good morning. Thanks for the question. When you think about the incremental growth opportunities from here that are essentially being enabled by the 1,000 or so acres of land that you're sitting on, when you compare this to your typical business wins and the incremental capital needed to sort of accommodate additional volume opportunities, how does this type of growth change either the returns profile or the overall capital intensity of the business?

<A – Nadeem Velani>: Well, Seldon, I would say that we factored in some of these growth aspects into our long-term capital planning process, so we'll contribute the land and the great thing about these partnerships, they truly are partnerships, so it's us committing some of our land capital, some cash capital through the building of some of the infrastructure, but in many cases it's the customer also committing their capital as well. And when we look at our returns, you've seen our ROIC continue to increase. We generate meaningful returns that are required if we're going to contribute that type of land and additional

infrastructure capital, it would be in line with what our ROIC kind of – reported ROIC is, so beyond that, it's not detrimental to our overall returns.

<Q – Seldon Clarke > Okay. I appreciate your time. Thanks.

<A – Nadeem Velani>: Thank you.

<Operator >: Your next question comes from Konark Gupta from Scotiabank. Please go ahead.

<Q – Konark Gupta > Thanks and good morning everyone. So, just on the cents per RTM, I wanted to confirm a few things, so on the ECP side, looks like the cents per RTM are very strong, I think, in the last two quarters. How much of that strength would you say is driven by a more favorable mix as crude by rail is down and also the liquidity damages that you're collecting?

<A – John Brooks>: Yeah, so it's significant. It is sort of the run rate we've seen more really through all of 2020. I would expect to continue to see as we move into Q4 and again we've structured all these crude by rail contracts with that backstopping. If we're going to commit to service in the capacity, we require some sort of liquidated damages, so naturally if the market turns in the opportunity to haul that freight presents itself, that will change it a little bit, and if it doesn't, we'll continue to collect that and you should expect to kind of continue to see that similar run rate going forward.

<Q – Konark Gupta > Okay. Thanks.

<Operator >: Your next question comes from Scott Group from Wolfe Research. Please go ahead.

<Q – Scott Group > Hey, thanks. Good morning guys. So, Nadeem, can you just clarify if the fourth quarter has got any gains assumed in there or if that's upside to the guidance? And then just as you think about the earnings and cash flow and how they're holding up so well, does that give you comfort in maybe raising the leverage targets going forward?

<A – Nadeem Velani>: Sorry, Scott, that first part of the question, can you just repeat that?

<Q – Scott Group > Yeah, just if there are any gains on sales assumed in the fourth quarter of note or if that's upside to the guidance?

<A – Nadeem Velani>: No, any gain on sales would be upside to the guidance we gave, and as far as leverage, we've had discussions with the rating agencies just committing to our approach to capital allocation, but also reminding them just how we've performed through this pandemic. So the defensive nature of our business, the defensive nature of our business mix and I would also highlight the operational excellence that our team has shown in times of crisis that we've gone through and macro challenges that we have gone through, I think that's being well received and appreciated by the rating agencies. I'm not going to say that we're going to change our leverage targets. We've been operating kind of at the high-end of our range which is at that 2.4, kind of 2.5 range, and I think we're comfortable at that level.

If we need to do something short term because of unique opportunity to spend capital, I think we have been given the freedom and the breathing room to do that and it's justified by our ability to operate in this downturn, but to say that we're going to take our leverage up to 3 or 3.5, I wouldn't go there at this point, Scott.

<Q – Scott Group > Okay. And then I know there was some talk about maybe a CAD 50 million, CAD 60 million gain. Is that not likely in the fourth, is that more likely next year now? Just want to make sure we have our models right.

<A – Nadeem Velani>: Right. So there is potential, the mechanics of the DRTP transition, we would get a gain of the write-up of our existing ownership. That 16.5% would be written up and we get a gain on that. It all depends when it closes though. So it has to pass four regulatory approvals for to be realized and whether that occurs in 2020 or 2021 remains to be seen. So we just felt it's prudent not to include it in our updated guidance and if it comes in addition to that so be it, but the fundamental nature of our business is

what's going to generate that mid-single-digit and above EPS growth.

<Q – Scott Group > Very helpful. Thanks, guys.

<A – Nadeem Velani>: Thanks, Scott.

<A – Keith Creel>: Thanks, Scott.

<Operator >: Your next question comes from Tom Wadewitz with UBS. Please go ahead.

<Q – Tom Wadewitz > Yeah, good morning. I think as you're talking about growth, it highlights the value of extending the franchise both in terms of the land bank you have so to speak and the CMQ, so could you think about maybe more aggressive in organic expansion, expanding the reach of the franchise on a multi-year basis, is that something that given all the success you've had with leveraging the current franchise, you think inorganic and kind of bigger extension of the reach is something that is in the cards in the next whatever three to five years?

<A – Keith Creel>: You know what, Tom, that's an aspirational thought and certainly could be possible to Nadeem's point. We're going to keep our balance sheet strong, we're going to keep our powder dry and we're going to look for those accretive opportunities that give us compelling value creation story. If we can extend our reach, we can provide better service, longer length of haul, more competition than we're going to be interested. So there is nothing imminent. I'm not going to suggest that there is. I don't want to misconstrue my thoughts, but what is an absolute is this company is always looking for those value creation opportunities, and if we can do that and create a more powerful franchise for our shareholders, for our customers and for our commerce in North America, then it's a discussion that we are willing to have and we're going to look at.

<Q – Tom Wadewitz > Maybe if I can ask a different wrinkle on it as well, does it make you less likely to consider major deals given all the growth you have in the pipeline you're just kind of more likely to focus on executing on your plans?

<A – Keith Creel>: No, I wouldn't suggest less likely. I would suggest this: when we look at other potential deals or if I were to evaluate another deal, is it complementary to what we're already doing because I can tell you standalone, we have a very compelling value creation opportunity in front of us, so I'm not going to allow something to distract the focus of the leadership team on on a what if - it's going to have to be compelling because we continue – we will continue to execute. We've been leaders in the industry. We've got initiatives that we've talked about that are coming into play. We've got some we haven't talked about. We got these land assets. We're not resting on our laurels, so standalone, it's a unique and compelling opportunity. But with that said, that strength serves the strength, so we have an opportunity that comes along that complements that story, then obviously we're certainly willing to couple that to this powerful train network that we already have, but again we could do that with or without. So I wouldn't say it's less likely. I have to say it has to make sense and if it hits those metrics and it hits those qualifiers for us, then obviously we'll take a look at it**.**

<Q – Tom Wadewitz > Okay, great. Thanks for the perspective.

<A – Keith Creel>: Thank you, Tom.

<Operator >: Your next question comes from Jason Seidl with Cowen. Please go ahead.

<Q – Jason Seidl > Thank you, operator. Good morning, guys. Keith, your pipeline looks really strong from here on out**,** but I want to take a closer look under the hood, there's been a lot of obviously talk about the demand that has come back, not only in the rail industry but across the supply chain. We have seen the global supply chain constrained with many, many places. How much of this snapback do you think is just a function of restocking from very low inventories and how much do you think is just pure underlying demand coming back from the consumer or other places?

<A – Keith Creel>: How do you put a pin on that, I'm not sure. I'm not going to suggest that there is not

some additional tailwinds because of restocking, but I do think I'm bullish on the overall economy. We're in the middle of a pandemic. There is a gap. We all see the same-store shelves that were empty that has to be filled, but as we go forward, I am of optimistic view, I do think a vaccine is coming for this horrific disease that we all have to battle. I think that life will normalize a bit in 2021. I think that we had a very strong economic going into that pandemic and I think we emerge with a strong economy once we get past the pandemic, past the election. I think the fundamentals are there and I think they get even more compelling as a result of some of these opportunities have created as we – we take offshore stuff and bring it back to the North American continent, and what does that do for us in job creation, what does that do for us in rail freight demand, not just for CP but for the entire industry.

So I'm bullish on the economy, I am bullish on the opportunity. Right now, there is some tailwind obviously from the restocking, but I think again our own unique opportunity before the pandemic without restocking even a discussion topic. We had a very unique first quarter that was counter to what the entire industry was doing. So as we come out of the pandemic, we're a stronger company. We have more opportunities coming online than we had going into the pandemic in 2021 that fuel that conviction.

So we're at a good place. I think outside of any kind of catastrophic shock to the economy that I can't predict, we will continue to be in a strong place and I think the rail industry overall again is in a strong place to provide the fuel to continue that economic prosperity in North America, both in Canada as well as the US and Mexico.

<Q – Jason Seidl > We'll knock on wood that that's the case. Keith, just a follow-up really quickly. You mentioned near-shoring. Without obviously getting specific, are you talking with multiple people about near-shoring certain operations from abroad?

<A – Keith Creel>: No, no**.**

<Q – Jason Seidl > Okay, thank you. I appreciate the time.

<A – Keith Creel>: Thank you.

<Operator >: Your next question comes from Brandon Oglenski with Barclays. Please go ahead.

<Q – Brandon Oglenski > Good morning and thanks for taking my question, guys. Real quick, at the end of the call here, I don't know if you guys mentioned how big the Maersk opportunity will be. And Keith, I understand it has taken congestion out of the port infrastructure, but thinking longer term controlling what you can, we saw your competitor get into some service issues as they took on a lot of traffic. Are there things that the port needs to do longer terms to remain competitive and keep taking share on the West Coast?

<A – Keith Creel>: From a capacity standpoint, just for clarification.

<Q – Brandon Oglenski > Yeah, and just the unintended consequences of shifting service patterns and where you might find the next bottleneck?

<A – Keith Creel>: Well, listen, the Port of Vancouver and obviously that's where our bread and butter comes from, the one we're most focused on in our Canadian network, there is investment being deployed across the entire spectrum now. You get investment that's transpired down at Delta Port. You got with our partners at GCT that capacity has been brought online and hasn't been fully consumed. Obviously, there's talks about additional opportunity to build whether it's an extension to the existing infrastructure there or a new terminal. Both of those concepts are in play. If I go to the south shore, the expansion that's in process with Centerm that's coming online next year, that's a substantial increase in capacity. The work that we have done redesigning the port on the south side again, the work that customers like Viterra have done, the work that Neptune is completing relative to the coal supply chain as well as their throughout capacity, G3. There is a lot of things, a lot of needles that have moved and investments that have been

made in Vancouver, that's created capacity for growth for the next 5, 10 years that allow us to create supply chain reliability which I think is unique value creator compared to some of the West Coast experience that our customers have been faced with.

So I think we are in a good place. I am not going to suggest that we don't have to continue to invest. There is an infrastructure plan that has been rolled out and the investment we'll continue, but I think we made a pretty good dent in it, and I think as we become better operators, we operationalize and optimize and improve some of the existing infrastructure that gives you a whole nother lockstep increasing capacity that benefits the Port of Vancouver and uniquely will benefit Canadian Pacific as being part of those solutions.

Okay, with that, let's wrap up the call today. Again, I'll finish where I started, thanking you for your time. Hopefully, you've got a bit more color and can appreciate the pride that we feel at this company for what we've accomplished. I'm extremely proud of the world-class railroaders we have that enabled these results that we get to share today. The conviction, the enthusiasm, the excitement, it's not wanting. We're convicted, we're compelled, we're most excited looking forward about what is yet to come for this company. 2020, we'll close strong. The momentum that we carried into the fourth quarter will execute on driving improvements in service and margins and financial performance. 2021 will be even more compelling for us. We'll continue this objective and certainly our potential to continue to be leaders in this industry in service, in cost control, in growth and in earnings in 2021.

So with that, we look forward to discussing our fourth quarter results in January. Have a safe day, stay healthy and I wish everyone a blessed Thanksgiving and Christmas Holiday.

<Operator >: Thank you. This concludes today's conference call. You may now disconnect.