



Transcript

Q1 2026 Earnings Call

April 29, 2026

Canadian Pacific Kansas City Corporate Participants:

Keith Creel – President & Chief Executive Officer

Nadeem Velani – EVP & Chief Financial Officer

John Brooks – EVP & Chief Marketing Officer

Mark Redd – EVP & Chief Operating Officer

Chris de Bruyn – VP, Capital Markets, Tax & Treasurer

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, everyone. My name is Bo, and I will be your conference operator today. At this time, I would like to welcome everyone to CPKC's First Quarter 2026 Conference Call. The slides accompanying today's call are available at investor.cpkcr.com. 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 Mr. Chris De Bruyn, Vice President, Capital Markets. Please go ahead, sir.

Chris De Bruyn

Thank you, Bo. Good afternoon, everyone, and thank you for joining us today.

Before we begin, I want to remind you this presentation contains forward-looking information. Actual results may differ. 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 outlined on Slide 3.

With me here today is Keith Creel, our President and Chief Executive Officer; Nadeem Velani, our Executive Vice President and Chief Financial Officer; John Brooks, our Executive Vice President and Chief Marketing Officer and Mark Redd, our Executive Vice President and Chief Operating Officer. The formal remarks will be followed by Q&A. In the interest of time, we would appreciate if you limit your questions to one.

It is now my pleasure to introduce our President and CEO, Mr. Keith Creel.

Keith Creel

Hey. Thanks, Chris, and thanks everyone for joining us on the call today. As always, I want to start by thanking our 20,000 strong family of railroaders across these three great countries that deliver the results we're honored to share with everyone today.

So, for the quarter, the team delivered revenues of \$3.7 billion, volume growth 2% on an RTM basis, operating ratio of 63% and earnings of \$1.04. Overall strong execution across the board operationally, commercially and financially. And we did this in a very dynamic environment. Certainly, the first quarter's results, we saw some impacts from volatile fuel and FX markets. That said that tide has turned and I'm very pleased with the underlying performance and our strong start to the second quarter. You know, when I step back 3 years into our journey at CPKC, what gives me continued confidence is not just the quarter itself, but the trajectory that we're on as a network and as a company.

On the operating side, the network again performed exceptionally well in the first quarter building on our strong momentum from 2025. Delivering first quarter operating results, record levels, reflecting continuous improvement we've seen since the merger. Productivity, velocity and asset utilization all continued to move higher, which tells me two things. First, the railroad is structurally better. And second, our people are executing with discipline each and every day. The gains are translating into better service, capacity, improved efficiency and that's exactly how we intend to continue to railroad.

On the labor front and the safety side as well, I'm going to spend a couple of moments talking about our people. As we recently announced reaching long-term tentative agreements with both SMART-TD and BLET on the legacy-KCS is a significant milestone for this company. These agreements improve quality of life for our railroaders, while providing the operating stability we need to continue driving performance and service reliability in this key growth corridor.

Looking at safety. Our focus remains unwavering. We made progress on the personal injury side, and while train accident frequency increased from an all-time-low last year, our fundamentals remain extremely strong.

On the commercial side, the franchise performed very well. We delivered solid volume growth across the network led by record grain and continued momentum from our unique North American footprint. The exceptional grain volumes were supported by record harvest and our ability to efficiently connect Canada, the United States and Mexico. Automotive, international intermodal, and our MMX service also contributed.

FX, mix and macro factors pressured yields in the quarter, of course. Regardless, pricing discipline remained strong and as we move through the year, the yields have improved as comparisons normalize and market conditions have become more supportive.

On shareholder returns from a finance perspective with our balance sheet in a position of strength and the business generating strong cash flow, we announced a new share buyback program to repurchase up to 45 million shares. Yesterday, we announced a 17.5% increase to our quarterly dividend. We're certainly pleased to be in a position to continue returning cash to shareholders, particularly amidst a volatile market.

So in closing, looking ahead, we feel very good about where we are. The network is running extremely well. Our unique growth drivers continue to remain firmly intact. Comparisons improve as we move through the year. And most importantly, we have a team that knows how to execute and a franchise that continues to differentiate itself. We're going to remain focused on disciplined execution, strong service and delivering long-term value for our customers and our shareholders.

Mark, over to you.

Mark Redd

Yeah. Thank you, Keith, and good afternoon. I want to start by thanking our operating employees who delivered first quarter operational results across the record first quarter across the North American network. The quarterly results demonstrate a tremendous job providing strong service, delivering efficiency, managing costs through the winter. As we reflect on the three years as a combined company, our team has done a tremendous job of safely executing on our vision, delivering resilient and industry-leading service for our customers.

Now turning to the quarter, I'm very pleased with our network performance, which reflects a clear pattern of continuous improvement since the merger. Now as I step back since the first quarter of 2024, I can see our train weight and length has increased by 9% and 7%, respectively. Our locomotive productivity has improved by 8%, while the fuel efficiency has improved by 2%. Our velocity across the system improved to 4%.

These results highlight our progress as ongoing productivity and velocity gains continue to drive improved cycle times, better asset utilization and dependable customer service for '24, '25 and as we look into '26 for the first quarter.

And while these results are encouraging, we still see opportunity ahead. We are executing several focused velocity initiatives across the key North-South network to drive further improvement in the velocity and our fluidity and capacity.

Now turning to labor, I'm very pleased to share that CPKC reached a tentative long-term agreement with SMART-TD and BLET unions. This is an 8-year agreement covering approximately 1,700 train service employees across 11 US states. Once ratified, our hourly agreements will be largely optimized across our US network, and this represents a key labor milestone and positions us for additional operating improvements.

Importantly, these agreements bring meaningful improvements in pay, but also quality of life for our railroaders while delivering the stability and flexibility we need to operate efficiently and reliably over the next decade.

Now, turning to safety. Our focus remains on sustaining strong fundamentals and disciplined execution across the network. As I look at our FRA personal injuries, we landed at a 0.91 and our train accident frequency was at 0.93. We continue to make progress in our personal injury performance. And while train accident frequency increased year-over-year, it follows an all-time record-low in Q1 of 2025. We remain committed to our Home Safe program and to continue driving continuous improvement across our network.

Now, turning to resources and capital. We remain well-aligned with our growth outlook, expect continued strong productivity improvements in 2026. From a capital perspective, we have received 36 of the 100 new Tier 4 locomotives, in addition to the 100 that we delivered in 2025. These locomotives are delivering meaningful improvement in efficiency and reliability, particularly across the Canadian network.

We're continuing to drive and deliver on our merger-related capital improvements. These upgrades continued or combined with focus and velocity initiatives, improving speed and our velocity on the critical North-South network. I'm also pleased to share that we have completed capital improvements on our portion of the SMX East-West corridor for connecting shippers to Mexico, Texas, and the US, where now speeds up to 49 miles an hour on this network.

In closing, the network is operating from a position of strength with record performance supported by sustained improvements in efficiency, velocity and service. Our investments in capacity, power and safety paired with the labor stability and we are well-balanced in resource network are reinforcing our ability to deliver reliable services as volume grows. As we look through 2026, we remain focused on disciplined execution, delivering long-term value for our customers and our shareholders.

With that, I'll pass it over to John.

John Brooks

All right. Thank you, Mark, and good afternoon, everyone. I'm pleased with our first quarter performance and the way this network and team continues to deliver and execute for our customers. Despite a very high bar, this franchise again produced a record Q1 RTM growth, now six of the past seven years with the only exception being a strike year in 2022. This quarter, we again delivered solid volume growth across the franchise, supported by strong grain shipments, continued pricing discipline and contributions from synergies and self-help initiatives. While mix and macro factors impacted cents per RTM in the quarter,

our underlying performance remains strong, and I'm encouraged by the momentum to start the second quarter.

Now, looking at our Q1 results. This quarter, freight revenue was down 3% on a 2% RTM growth. Cents per RTM was down 4%. We continued to deliver strong pricing with renewals exceeding the top-end of our long-term 3% to 4% outlook. Yields in the quarter were impacted by FX, the removal of the federal carbon tax in Canada and negative mix. Now in April, cents per RTM has inflected positive, supported by our pricing, lapping the carbon tax removal, macro tailwind from higher fuel prices and moderating mix headwinds.

Now taking a closer look at our first quarter revenue performance, I'll speak to an FX-adjusted results.

Starting with our bulk business, Q1 was a record quarter for grain across revenue, RTMs and carloads with revenue up 14% on 12% volume growth. Canadian grain volumes were up 13%, supported by record harvest that's up 20% year-over-year. Our US grain volumes rose 12%, driven by a record corn crop and higher volumes to Mexico and the Pacific Northwest. This performance highlights the strength and diversity of our franchise as customers leveraged our unique North American network to access new destination outlets, driving a 50% increase in trains from Canada and the US into Mexico. Now looking ahead, we expect grain to continue to deliver outsized growth deep into the current crop year.

In potash, revenues were down 2% on 2% volume growth, driven by continued strong demand for export shipments. With solid demand fundamentals and Canpotex fully committed through the first half of the year, we continue to expect potash to be a solid contributor to our base business in 2026.

To round out bulk, coal revenue was down 11% on a 10% reduction in volumes. This reduction was driven by a number of unexpected production-related issues at customer mines that impacted shipments through the quarter. As a result, coal alone reduced Q1 RTMs by over 1%. While we expect volumes to stabilize the second half of the year, we expect coal to continue to be a headwind in Q2 and on the full year.

Moving on to our merchandise business. Energy, Chemicals, and Plastics revenue and volume declined 5% in the quarter. This decline was driven by lower refined fuel volumes to Mexico, reduced PEMEX heavy-fuel oil shipments and the impact of a plastics plant closure late last year. Looking ahead, we are seeing our ECP volumes continue to stabilize supported by increases in crude, market share wins and self-help initiatives.

Our forest products revenue declined 14% on a 10% decline in volumes. Volumes were impacted by tariffs on Canadian lumber exports to the US, along with the broader macro softness in housing and the pulp and paper markets. Now similar to ECP, we are seeing this business also stabilize with a focus on offsetting headwinds through truck conversion, synergies and market share gains. Encouragingly, we delivered record volumes of building projects into the Texas market during the month of March, and orders have continued to improve as we move through April.

Metals, minerals, and consumer products revenues were down 1% on 3% volume growth. Growth in this space was supported by strong industrial development pipeline and synergies, including new long-haul business in sand, stone and other aggregates supporting construction activity across our network. This strength was partially offset by ongoing impact of tariffs on our cross-border steel business. Overall, we remain very encouraged by industrial development momentum on our network and expect to continue mitigating tariff headwinds through targeted sales campaigns across our network.

Moving on to the automotive sector, revenue was down 6% on 2% volume growth. Our auto franchise delivered another quarter of volume growth from new business wins, including land bridge shipments

from Mexico to Canada with a 13% increase in our average length of haul in this business unit. We delivered this performance despite challenging compares from pull-forward shipments ahead of tariffs last year. While uncertainty remains in this area around production levels and automotive sales, we expect another year of outperformance and growth in automotive driven by our wins in 2025 and new opportunities that will come online later this year.

Now, closing with our intermodal business, revenue was down 1% on 3% volume growth. I'm pleased to announce that we extended new long-term contracts with Hapag-Lloyd and Loblaw Companies, cementing the foundation of our intermodal franchise and unlocking new growth initiatives with both across Canada, the US and Mexico for years to come.

In International Intermodal, volumes were up 8% on business into the Port of Vancouver, including continued growth with our partners at Gemini. Now looking ahead, comparisons will be more challenging in the second quarter before new product offerings come online at the Port of Saint John and also at Lazaro, and they pick up in the second half of the year.

In domestic intermodal, volumes were down 1% in the quarter. Our MMX train was up 12% year-over-year in Q1, marking the ninth consecutive quarter of double-digit growth on this train. This growth was off set by a slower ramp-up of our Mexico volumes in January combined with demarketing low-margin business in domestic intermodal on our Canadian franchise.

I'm also encouraged by early traction on our SMX service in partnership with the CSX. Following infrastructure investments made across this route over the past year, I'm excited to announce that we will formally launch a faster SMX product next week. The SMX will offer customers truck-like reliability linking some of North America's largest production and consumption markets between Mexico, Texas, Georgia and Florida. Looking ahead, we are encouraged by the timing of this launch as we are seeing early signs of incremental truck-to-rail conversions driven by higher fuel prices, tighter regulatory enforcement and reduced trucking capacity.

Now to close, our results reflect strong execution, record grain volumes and continued unique contributions from synergies and self-help. With good momentum to start the second quarter, more favorable comparisons ahead and improving yields, this network is primed to deliver another solid year of growth.

Now, with that, I'll pass it over to Nadeem.

Nadeem Velani

All right. Thanks, John, and good afternoon. This quarter's results reflect strong execution and cost-control across the network. This drove solid financial performance. While the quarter was impacted by fuel and FX headwinds, I'm very pleased with the underlying performance of the business. The resilience of our network and our growth opportunities remain intact. Our core performance continues to be strong, reflecting the strength of our franchise, durability of our operating model and consistent execution by our team.

Now turning to our first quarter on Slide 12. CPKC's reported operating ratio was 66%. Our core adjusted OR was 63%, up 50 basis points from last year. Diluted earnings per share was \$0.94 and core adjusted diluted EPS was \$1.04, down 2% versus last year. The year-over-year decline included approximately \$0.04 of impact from a foreign-exchange and \$0.03 of impact from changes in fuel price. We also saw an additional \$0.01 impact from FX losses on cash and net working capital below the line.

Taking a closer look at our expenses on Slide 13. I will speak to the year-over-year variances on an FX-

adjusted basis. Comp and benefits expense was up 2% versus prior year. During the quarter, wage inflation and higher stock-based compensation were partially offset by continued productivity gains from improved train waves and workforce optimization. We expect to generate continued strong labor productivity in 2026 with headcount up modestly on mid-single digit volume growth.

Fuel expense was \$458 million, down 4% year-over-year. The decline was driven primarily by the elimination of the Canadian federal carbon tax on April 1, 2025, along with improved efficiency and benefit from a contract discount, partially offset by the impact of changes in diesel benchmark prices. Our 2% improvement in fuel efficiency drove \$8 million in year-over-year savings from improved train weights and locomotive productivity.

Materials expense was \$127 million, up 3% year-over-year. The increase was primarily driven by volume-related expense and inflation, partially offset by efficiency gains from contract optimization and lower locomotive material costs.

Equipment rents were \$95 million, flat versus last year, driven by efficiency gains offset by volume-related expenses.

Depreciation and amortization expense was up 4%, driven by a larger asset base.

Purchase services and other expense was down 3% versus prior year. The improvement was driven by productivity and insourcing initiatives, partially offset by cost inflation.

Now, moving below the line on Slide 14. Other expense was \$20 million, a \$13 million increase year-over-year, driven primarily by FX losses on cash and net working capital. Net interest expense was \$228 million or \$223 million excluding purchase accounting. The increase was driven primarily by interest on new debt, partially off set by lower credit facility and commercial paper balances as well as debt repayments. Income tax expense was \$275 million, or \$305 million adjusted for purchase accounting and significant items. We continue to expect a full-year core adjusted effective tax rate of approximately 24.75%.

Now, turning to Slide 15 and cash flow. Net cash used in investing activities was down 6%, primarily driven by 7% lower capital spend. We remain well on track to deliver full year CapEx of \$2.65 billion, a 15% reduction year-over-year.

We also maintained a balanced and opportunistic approach to shareholder returns, deploying \$680 million through share repurchases in the quarter. Along with dividends, shareholder return spend increased 69% in Q1. I'm also pleased to share that yesterday, we announced a 17.5% increase to our dividend, reinforcing our commitment to balanced shareholder returns.

In closing, with the network continuing to run well, toughest quarter from a comparison perspective behind us and a strong start to the second quarter, we are well-positioned to deliver another year of strong results. The business is executing at a high level, generating strong cash flow and providing meaningful capacity to return cash to shareholders. I fully expect as we return to double-digit EPS growth here in Q2 and the second half and we'll deliver on our full-year double-digit EPS guidance.

With that, let me turn it back to Keith.

Keith Creel

Thank you, gentlemen. Let me go back to the operator and we'll open it up for questions.

Question & Answer

<Operator>: Certainly, Mr. Creel. Thank you. (Operator Instructions)

We'll go first this afternoon to Fadi Chamoun with BMO Capital Markets.

<Q – Fadi Chamoun>: Yes, thank you. Good afternoon. I think the year was always expected to kind of start slow from a volume growth perspective versus the mid-single-digit guide for the year. Maybe if you can, John, share with us what you are hearing from customers, what does the pipeline look like in the segment that you expect to kind of lift you to that mid-single digit range as we go into the balance of the year? And if there's any framework to think about what Q2 volume potentially you're kind of looking for?

<A – John Brooks>: Yeah. All right, Fadi. So yeah, it was certainly an interesting Q1. It's just January started off slow and then we had some pent-up demand and actually February turned out to be quite strong and March sort of as we expected. As I mentioned, we definitely weren't counting on the drag related to the coal side of the business.

Now looking ahead, I'll tell you, just about everything outside of our coal business has inflected positive. I'm quite pleased despite the tariff headwinds that remain out there and some of the challenges, particularly in our ECP space that we faced in Mexico with refined fuels. And despite that, they've clawed their selves even back to sort of flat year-over-year on strong demand and growing demand in crude and also our Plastics business.

So look, I fully expect our bulk business, that being Canadian grain, US grain and potash to continue to provide really strong numbers as we move through Q2 and into the back-half of the year, Fadi. I'm definitely not counting on our coal business and that's going to have to be a headwind that we're going to have to sort of erase or make up for.

As I look at our merchandise, ECP, forest products business, as challenged as those areas have been, as I monitor our car orders week after week in those three segments, we've seen a pretty steady increase. When I said we sent record volumes into Texas of building products in March, to be honest with you, a lot of that was Canadian stuff coming cross border. And so, that's a really positive sign and a sign that we haven't seen for quite some time.

And I'll tell you, I think a lot of it's driven by there is product moving in some of these traditional lanes. It's been moving truck. And I think what we're starting to see is some of this stuff flip back over to rail, not only in a little bit of an intermodal tailwind in that front, but also a carload tailwind we're seeing in some of these areas. So I do believe that's positive. Now, we're going to watch it. I'm not spiking the football at all. But certainly, there's some upside there.

And then as I go down the list, we're going to continue to outperform in the automotive sector. Team has just done a really good job to put pucks in the net and there's some stuff that's coming on yet. There's a little bit of pent-up demand that wasn't moved in the first half of the year that we're going to see.

And then finally on the intermodal side, I couldn't be more excited about our SMX product. That thing is going to pay dividends this year. We're going to see growth in the back-half of the year on that in partnership with the CSX. I think we proved it with the MMX. You develop a product that can compete head-to-head with trucks and they will come. And the fact that we're launching this in a really, I think, improving environment is only going to help, I think our sellers to go out and try to fill that train up. And so, I hope that helps.

<Q – Fadi Chamoun>: Yeah, sure. Maybe one follow-up on this Loblaw, Hapag-Lloyd contract you target? Is this a renewal or is there a scope change in that relationship?

<A – John Brooks>: Well, maybe a little bit of both. They are contract renewals that we -- prior contracts that we had in place that we've extended for long-term with both. I think the neat thing about them and really because of the breadth of this new network, we've been able to intertwine a whole lot of new opportunities within those, both of those contracts. It's frankly staggering the amount of trucks that a company like Loblaw's utilize coming up from Mexico or the United States and how we can create and develop new solutions, not only drive-van but reefer solutions with them.

And also, as we've talked about a lot with Hapag-Lloyd, I'm excited about the opportunity how we are continuing to grow our Saint John. We're excited about what the future might hold with them if in fact that progresses and goes forward as we look to next year. And Hapag continues to win not only in the Mexico, intra-Mexico market, Fadi, but also, we continue to slowly build volumes going northbound and all that coming out of Lazaro. So, they are traditional contracts that we're extending forward, but they also have quite a bit of sort of new tentacles related to what this network brings to the table.

<Q – Fadi Chamoun>: Appreciate it. Thank you.

<Operator>: Thank you. We go next now to Chris Wetherbee with Wells Fargo.

<Q - Chris Wetherbee>: Hey, thanks. Good afternoon, guys. I maybe wanted to pick up on what sort of Nadeem ended with in terms of the guide for the rest of the year. A slower start for earnings growth. It sounds like 2Q you're expecting to reaccelerate into double-digit growth range for earnings. I guess we heard from John about some of the top-line opportunities. Could you maybe just sort of help fill out sort of the walk from where we were in 1Q to the ability to get back to that double-digit year-over-year EPS growth in 2Q and beyond?

<A – Nadeem Velani>: Hey Chris. So, a couple of things. Number one, we're -- Q1 was very much according to plan. Like when we look at John mentioned the revenue cadence. Operationally, Mark and team had the railroad running very well and I'm pleased with some of the productivity initiatives, so. But that being said, we had our toughest comp from a currency point of view. So, Canadian dollar was quite weak a year ago in January and that it created quite a headwind year-over-year. You saw it in the cents per RTM and that's probably a bit of a surprise as far as the overall cents per RTM. Combine that with fuel and the carbon tax surcharge that went away. So effectively, those headwinds dissipate and in fact, fuel turns into a bit of a tailwind, right? We saw the headwind in March with spot fuel increase our cost right away, but we don't get the fuel surcharge until delayed. And so we saw that in results here in April.

And so, as we look at Q2, I feel very confident both with record volumes that we're moving today, April is going to be a record month for us across the board and in CPKC history and combined the two companies. So, the top lines perform extremely well. The railroad continues to run well. The FX headwinds, we even had some unique things as far as below the line that impacted us just with the volatility on currency. That goes away. And so some of that noise disappears and the underlying business continues to perform and gives us strong confidence in that strong double-digits here in Q2 and a very good back-half in what we see as far as both from a volume point of view and what we can deliver with this lower cost base. So, we're pretty bullish, Chris.

<Q - Chris Wetherbee>: Sounds good. Perfect. Thank you very much for the time. Appreciate it.

<A – Nadeem Velani>: Thank you.

<Operator>: We'll go next now to Kevin Chiang at CIBC.

<Q – Kevin Chiang>: Thanks for taking my question. You talked about some of the headwinds related to the coal franchise. I think some of that might be related to maybe some of the adjustments Glencore is making to the Elk Valley Resource play that they acquired from Teck. Just wondering, do you see this as primarily a 2026 issue and they ramp-up in '27 or is this an adjustment that could take a little bit longer and bleed into next year potentially?

<A – John Brooks>: Yeah, Kevin. So, honestly, I think the feedback so far is, we're going to probably continue to struggle somewhat through Q2. I do believe there's some optimism around some things that they want to deploy the second half of the year that could bring some upside to those volumes. Now, at the end of the day, I think that the lost opportunities these first four months and the next couple of months will be hard to make up in terms of sort of full year compares. But we remain optimistic that the second half of the year and I think they remain optimistic that the second half of the year will be better. And I know they continue to work through some of the permitting and issues that have been out there for quite some time now. I don't really have any additional feedback at this time on what that looks like timing-wise with the federal government.

<Q – Kevin Chiang>: Okay. That's helpful. Thank you.

<Operator>: We'll go next now to Tom Wadewitz at UBS.

<Q – Tom Wadewitz>: Yeah, good afternoon. Keith, I wanted to ask you about, I know you get this last couple of calls, but I just saw that kind of news today on the rail coalition against the -- or the coalition against the rail merger. And you know shipper groups, Teamsters, Rail Coalition, CP, CPKC, BNSF, so what is your thought on that? It seems like something different than what we've seen in the past. I guess the -- what you think the group may do and just how we should you know maybe try to understand that as part of the process with UP-NS?

<A – Keith Creel>: Well, I think at a high-level, Tom, the group is more of a collective voice, a unified voice, but very similar voice. We've not been very bashful about this. We have very strong views against the merger and the risk that the merger entails and represents for our industry. Many others do as well. The momentum continues to build. We encourage -- continue to encourage all the stakeholders to make sure that they share their views because at the end of the day, this isn't a 3 or 4-year decision. This is a forever decision.

So to, in my mind, push forward with a merger that creates such scale unparalleled for this industry in a forever way that not only creates that entity, but most likely triggers an eventual duopoly is essentially putting the nation's rail network at risk. And I just don't believe and I believe there's probably a lot of people that felt the same way that I do that UP and NS are entitled to do that. They're not playing with house money. This is the nation's economy that depends upon a robust and fluid and efficient rail network.

We've had tremendous consolidation, I believe, and I believe others believe we're consolidated enough. And at the end of the day, the facts will bear if we're correct. You know the market concentration as much as some have been dismissive in their comments about it. It's much more than 39% GTMs in comparing yourself to a heavily GTM railroad that moves a lot of grain and moves a lot of coal and to compare that's essentially Western Mississippi railroad with Mississippi River. We're talking about 43 states. We're talking about transnational, the entire continent. So at the end of the day, that's a lot at risk and at stake. The facts will bear it out. I don't think it's as simple as the applicants are presenting.

And I believe Jim and Mark are going to present their best story. I'm looking forward to reading their

improved story. The last one obviously was grossly insufficient in my view, and I don't think I'm the only one, again this year of that view. So again, I think that consolidation and that coalition that you see is just a unified voice of a common concern. Enough is enough, we've had enough consolidation and for what? Who benefits, versus who's at risk. And in the end, those rules that the STB will govern by, and I believe this body will be very independent in assessing all these facts. At the end of the day, all the facts stack-up and a measurement is going to be made and to meet public interest and to demonstrate enhanced competition, then all the benefits are going to exceed the harms. And I just think it's impossible the set of facts that are going to be presented given the scale and the market power and the operational risk that it represents.

So again, more to more to come. Let's get the application tomorrow. We're all eagerly looking forward to receiving it and reviewing it. I'll be in Missouri when I receive it. That's the Show-Me state, so I'm looking for something to show-me to feel differently. And at this point, I don't.

<Q – Tom Wadewitz>: Right. Okay. Thank you.

<Operator>: Thank you. We'll go next now to Jonathan Chappell of Evercore ISI. Thank you.

<Q - Jonathan Chappell>: Thank you. Good afternoon. John, as far as this ramp in RTMs, are there other opportunities in Energy that have kind of presented themselves recently given what's going on in the Middle East, whether that's crude by rail, fracs and NGLs? Any line of sight on kind of real volume moves there as these hostilities kind of prolong themselves much longer than anyone anticipated?

<A – John Brooks>: Yeah. Thanks, Jonathan. You know, geopolitical events sort of -- I instantly begin to look to the sort of three Fs, food, fuel and fertilizer, they're usually benefits of when you see these types of things globally. And I do believe we're seeing shoots kind of across all those areas. I'll tell you though, I wouldn't say anything significant has really emerged specifically in those areas. We are definitely seeing an uptick in our Plastics business. We have, I would say, very spot-related type of crude opportunities that we've seen come on. Maybe some unique fertilizer opportunities here and there. Nothing I would consider honestly, super needle moving. The needle movers that are emerging are really tied to fuel price and tied to trucker regulation and reduced capacity and those things. That's really where we're starting to see the needle move.

And as I mentioned, everyone kind of instantly looks at intermodal as the big beneficiary there. And certainly, we're going to see some of that and we're deep into those discussions on the intermodal front. But as much as I'm starting to see it across our consumer base – our merchandise customers in that. And so that becomes pretty exciting because that's really good business. And the challenge will be the team how do we make it sticky? How do we not allow that truck to convert or that shipper to convert that to rail, how do we then make them stick with rail? I think there's a great opportunity for that right now. So yeah, that's what we're seeing.

<Q - Jonathan Chappell>: All right. Awesome. Thanks, John.

<A – John Brooks>: Thank you.

<Operator>: We'll go next now to Walter Spracklin with RBC Capital Markets.

<Q - Walter Spracklin>: Yeah, thanks very much. Good afternoon, everyone. So, when I'm comparing the US rails here and how they did in the quarter relative to the Canadian rails coming a little light. I'm just wondering if there's any divergence you're seeing. I don't know, if John, you're the best one to answer this, but economic divergence, is it tariff-related? Is it the truck regs that are helping US and not Canada? And just related to that divergence, I know the Feds in Canada have been talking a lot about larger

projects but speaking to our E&C -- our engineering construction companies, they're not building it in their pipeline yet. So curious if you're hearing any rumblings about any project development that would, if there is that divergence kind of contract that divergence a little bit here as we go into 2027 and close out the year?

<A – John Brooks>: No, I don't -- I don't think so, Walter. Our industrial development pipeline, and I think that's kind of what you're somewhat referring to is pretty robust, like it is -- you look at our -- again, MMC, that business unit is in -- that is largely our steel franchise, which was heavily dependent on cross-border steel that is still effectively shut off . But I don't have the numbers exactly in front of me. I think our RTMs are up 5% plus. We haven't seen that for quite some time. And I think we are benefiting from some of these industrial development opportunities, construction data centers that partners like Martin Marietta and sand movements, rock movements that that are all supportive of this that I think you also heard from our peers in the US. There's no doubt our competitor in Canada and us, we're still facing pressures relative to some of these tariffs in steel and forest products in that. But I'm also pretty encouraged about what our US franchise is producing. So, I'm going to say no. I don't think there's a big divergence there.

<A – Nadeem Velani>: Walter, it was simply in both cases, if you look at the yields, you look at the cents per RTM, I think there was an underestimation of the impact of currency on cents per RTM. We had some added headwinds from FX below the line, which again go away and then the carbon tax goes away. So, I think that's what drove a bit of a softness on the top-line was really the cents per RTM. And again, that's a temporary issue that goes away. There's nothing structural. I think structurally, if you look at some where the Canadians are performing from a volume point of view, from an RTM point of view, I think we're both kind of top of the pack. So no change whatsoever.

<A – John Brooks>: Yeah. And even to add to that Walter, like our automotive franchise, and I said it, saw a 13% jump in average length of haul. And you know, I think overall in the quarter, we were up 3% on our length of haul. The truth to be told, we just had a lot of areas, short-haul steel business to the border that is not moving. We saw kind of a slow start to our automotive franchise coming out of Canada into the US again fairly short haul, high cents per RTM. We saw a really good growth, 21% growth of our what we call our land bridge business. That's business linking Canada and Mexico.

So, it just kind of had a perfect storm of business mix and then you throw on top of it record grain movements, which is on average a little lower cents per RTM against the total book and those pressures, those mix pressures that Nadeem described, I think came through much heavier than even we expected.

<Q - Walter Spracklin>: I appreciate the time. Thank you.

<Operator>: We'll go next now to Ravi Shanker at Morgan Stanley.

<Q – Ravi Shanker>: All right. Great. Thanks, everyone. Keith would love your views on the upcoming USMCA negotiation, obviously, a big catalyst for you guys and your peer. What do you think are the potential puts and takes and kind of the boundary of outcomes there, do you think and kind of how might you react to that in both directions?

<A – Keith Creel>: Well, I mean, at the end of the day, the bottom-line is, I think we have three nations that depend upon each other to trade. I think we're in a unique position to enable that trade, Ravi. Short-term, I would say, buckle up, you know President Trump has been consistent in his expectations. His objectives through these negotiations, renewal of this agreement as it might be renewed, there'll be some bilateral negotiations between Canada and the US and will be bilateral perhaps first between Mexico in the United States and some trilateral. But again, at the end of the day, it all leads to increased trade between the nations and even a rebalanced trade balance favoring the United States still involves this network. So, we're in a good place. We had growth after the last round. We'll have growth after this round.

Now this network is in a very unique position to participate in some or all a part of that.

<Q – Ravi Shanker>: Got it. As a quick follow-up, kind of is there any variability to your guide based on the outcomes there or do you think it's kind of pretty straightforward?

<A – Nadeem Velani>: No, it's not dependent on that.

<Q – Ravi Shanker>: Very good. Thank you.

<A – Nadeem Velani>: Thanks, Ravi.

<Operator>: We'll go next now to Brian Ossenbeck at J.P. Morgan.

<Q – Brian Ossenbeck>: Afternoon. Thanks for taking the question. I wanted to clarify, Nadeem, if you talked about stock-based comp, I might have missed it but wanted to see what that headwind was during the quarter and how we should think about that for 2Q? And then for John, we're hearing a lot more about truckload conversion for obvious reasons, but I don't really recall hearing that too much in the past before the merger. So, maybe you can help unpack what's different this time? Is it more of the investments like the SMX and some of the other cross-border stuff you've been doing? Or is there actually more from like the legacy CPKC that's also able and willing -- the shippers are willing to kind of convert more over to your network as well. So, just some thoughts on what we're seeing here now versus prior history would be helpful. Thank you.

<A – Nadeem Velani>: Brian, stock-based comp was about \$15 million headwind in the quarter, so a little over \$0.01.

<A – John Brooks>: And Brian, I would say, actually, when we put our transcon intermodal product in place at CP in the day, we've actually had a lot of success as legacy CP in growing that truck conversion business across Canada. We didn't talk about it a lot, but a lot of vendor conversions with customers such as Canadian Tire or even Loblaw, who we talked about earlier. So that's actually been a pretty good story. And our growth in our reefer business even across Canada also was a pretty good truck conversion story.

Specific to CPKC and most recently, it's all about the MMX and the great product that Mark and his team have put in place and we've been able to execute and grow. I'll tell you, again, we started with zero on that train and we're probably running north and south about 70% capacity. Now, we've done a heck of job to grow that and we've just grown it frankly on the speed and efficiency of that service. And honestly, I believe if this year continues to shape up and and these fuel prices continue to stay where there are, we're going to pile on quite a bit more freight onto that thing. And there might actually be some discussions about what another train pair could look like. I'm that bullish on it.

And I think we've been very transparent about the SMX. We introduced it during our original Investor Day. I think collectively, we saw a vision to create a best-in-class product, a competitive product into the Southeast. And frankly, you just look at, I think it's close to 40% of Mexico trade is with Texas, Georgia and Florida. It's just right in the wheelhouse of this product. So it's exciting that we got a partner in CSX who is highly motivated. We got a strong sales force in Mexico, in the Southern part of our US that is pounding the pavement and selling the benefits of this product. So again, I think a lot what you're going to see under that product is all going to be truck-to-rail conversion.

<A – Mark Redd>: And John, I would just add just the competition between the railroads now with the new service and from our train trip, I mean Keith took with the leadership with CSX, we've been able to get that railroad up to 49 miles an hour. So, we've got a premium package on that end of the railroad that

will shine come here, I guess, in a week.

<A – John Brooks>: Yeah. Look, I expect to run -- we're going to run under 40 hours between Dallas and Atlanta, like this thing is going to fly.

<A – Keith Creel>: And we'll be three days from Atlanta to Monterrey.

<A – John Brooks>: And will be three days or better Mexico to Atlanta. And with our secure border, with our bridge capacity and that, it's going to be a really good product.

<Q – Brian Ossenbeck>: Okay. Thanks very much.

<Operator>: We'll go next now to Brandon Oglenski at Barclays.

<Q – Brandon Oglenski>: Hey, good afternoon and thanks for taking my question. And John or Mark, maybe just a good follow-up. I mean, I think part of the success you had with MMX and maybe you can tell me I'm wrong, but is controlling the journey from end-to-end, right? So, how are you going to ensure that operational integrity when it's not just your network it's running on, but you're also partnering with CSX on this, right? So maybe can you elaborate on that?

<A – John Brooks>: I can start, Mark. I'll just tell you this, the CSX team is all in. They've invested in that franchise just like we have to get those rail speeds up. There's not been a blink, not been a waiver. Whether it's Mike Cory and Mark working on what the ultimate product looks like or myself and MaryClaire and her team are working on how we go to market and what customers optimally fit onto that train. So you're right, it is unique. But I also think here's going to be a great example of where you put two Class 1s together, you partner, you get like-minded and you go attack some very specific markets with the best-in-class product.

<A – Mark Redd>: And frankly, we put a lot of capital on both sides. We put some sidings in, we've increased the capacity and we get fixated on Atlanta, it's beyond Atlanta for CSX. How can we continue to grow and build product beyond Atlanta on their side and help them get down to Mexico and Wylie as well. There's plenty of business to go into Wylie.

<A – Keith Creel>: Let me -- Brandon, let me put the exclamation point on that. Expectations are set from the top. This whole initiative is something that I've personally been involved in since day one in partnership with the CSX. Steve is committed to this. I'm committed to this. So top to bottom, bottom to top, these two organizations are mobilized and equipped to create a unique market solution that makes that border seamless that can be replicated in the marketplace. That's what entrepreneurial spirit looks like. That's what creating your own self-help looks like. That's what strategic partnership looks like. That's the difference. And it's undeniably unique, network and commitment.

<Q – Brandon Oglenski>: Thank you.

<Operator>: We'll go next now to Konark Gupta with Scotia Capital.

<Q – Konark Gupta>: Thanks. Going back to the yield comment early on in the call, it's inflecting up in Q2. Is it referred to as up from last year's Q2 or it's up sequentially from Q1? So just trying to unpack that there. And also any sense on fuel impact as we move into the next three quarters? I think you're going to be covering some of the costs in the fuel surcharges. So, any sense on EPS or OR impact? Thanks.

<A – Keith Creel>: So it's up relative to last year, quarter-to-date, about 5% cents per RTM.

<A – Nadeem Velani>: Can you repeat the second question?

<Q – Konark Gupta>: Yes. So on the fuel side, I think it was a \$0.03 headwind in Q1. As you cover the fuel costs with surcharges, what do you expect the EPS impact to be in Q2 and the second half?

<A – Nadeem Velani>: Yeah. So, we'll see a small impact in Q2, the fuel price will be basically a bit higher than we saw in the full quarter in Q1, of course, we'll have the full three months of elevated prices. But we should be able to offset that with our fuel surcharge. So, net-net, we'll have a small positive. If you think about the delay in the fuel surcharge that went from March into April and Q2. That make sense?

<Q – Konark Gupta>: Yeah. Thank you.

<A – Nadeem Velani>: Basically, a delay of earnings from Q1 to Q2, think about it that way.

<Q – Konark Gupta>: Yeah, just making sure like the EPS impact is not going to be as noisy in the future quarters.

<A - Nadeem Velani>: No, especially with currency. And as you asked about cents per RTM and so forth, so effectively, a lot of the -- I mean, there's obviously going to be volatility with kind of the world we live in. But I'd say that the worst is behind us and we'll start seeing in fact a positive certainly from the fuel surcharge. So, that's what gives us confidence in our Q2 being much stronger as we lap some of this noise with the carbon taxes, et cetera.

<Q – Konark Gupta>: Okay. I appreciate it. Thank you.

<Operator>: Thank you. We'll go next now to Ken Hoexter with Bank of America.

<Q – Ken Hoexter>: Hey, great. Good afternoon, Keith and team. So, Nadeem, just appreciate the double-digit EPS outlook and it's accelerating. Maybe just parsing some mix contributions. I guess the last 5 years, you've averaged about a 250-basis-point improvement in the operating ratio from first quarter to second quarter. Can you give any thoughts on that level given the impact of fuel that you just talked about with Konark and kind of the volume growth that John is targeting? And then same thing, thoughts for the full year. Can you beat last year's sub-60 target on an adjusted basis? And I don't know, maybe thoughts on cost headwinds, should you focus on, I think you brought up incentive comp before or synergy targets post the merger, maybe just wrap that all-up on the cost side.

<A - Nadeem Velani>: Yeah. Thanks, Ken. So I'd say that the same level sequentially year-over-year, the historical sequential improvement is pretty much in line, so we do see despite the fuel surcharge headwind on the OR because there's a push of revenues effectively from, as I just mentioned from March into April, you'll see a bit of a benefit. So, I feel comfortable with that historical sequential improvement of that 200 basis points, 250 basis points is doable.

And for the year, I have confidence that we can improve the OR year-over-year despite again the headwind from -- potentially from fuel surcharge. I think a lot of our cost takeout cost initiatives and productivity initiatives that we have in-place puts us in a position to still be able to improve that OR I think we were 59.9% last year. I think, we could improve on that for 2026.

<A – Keith Creel>: I think another point to not overlook is we're about to lap Day N last year and it's something we all like to forget, obviously, something we learned a lot from, but certainly a lot of unnecessary cost and pain and velocity in assets that started the 1st of May. Went through effectively the worst of it even through August. So certainly, we'll capture -- recapture that with very fluid network, cost is going to go down, revenue is going to go up. Those will all be very beneficial and supportive through the

comments that Nadeem have made.

<Q – Ken Hoexter>: Wonderful. Thanks, guys. Appreciate the time.

<A - Nadeem Velani>: Thanks, Ken.

<Operator>: Next now to Scott Group with Wolfe Research.

<Q – Scott Group>: Hey, thanks. Good afternoon. Keith, I'm wondering, do you think there's a potential path to a settlement where maybe you're, I don't know, supportive, maybe not that, but maybe less opposed to a merger? And then I just had a random like thought question on fuel, like the truckers all do weekly lags, FedEx, UPS used to do monthly lags, now they do weekly lags on their fuel surcharge, like ultimately, it doesn't really matter you eventually get made hold, but like why do you think the rails still have these monthly and for some of the rails, two-month lags on fuel? Why does that make sense still?

<A – Keith Creel>: Well, I'll be simple in my answer, Scott. I think there's zero chance of a negotiated agreement. No. We're full stop, no merger needed. I'm not interested in negotiating.

<A – John Brooks>: Scott, I think it's a great -- I think it's a great idea. I would remind you we've already got a -- we definitely have the fastest reacting fuel surcharge, I believe in the industry. I do believe there also is tariff notification laws or rules with the STB that probably somewhat govern both here in Canada and also in the US on how we could announce those changes and still meet those regulations. I'm all about brainstorming an idea how we can figure it out though.

<Q – Scott Group>: Okay. All right. Just a thought. Thank you, guys.

<Operator>: We'll go next now to Stephanie Moore with Jefferies.

<Q – Stephanie Moore>: Great. Thank you. Good afternoon. A simple one for me here. Maybe just wanted to get a sense on how we can think about maybe some of the capital return increases, particularly the buyback boost. Is there anything you're signaling here that you want to highlight?

<A - Nadeem Velani>: No, I'd say that we're generating a significant amount of free cash. I think long-term CP has always been a one did not sit on cash and we've been very successful as far as buying back stock at value-creating levels. As we sit here today, we see that continue. And so certainly, share buybacks are going to always be a part of our shareholder return philosophy. We also added to our dividend payout and increased our dividend by 17.5% and that's just reflective of being balanced. So, let me -- to our shareholders and the evolution of our shareholders, there's those that also like dividends. We are at the lowest payout ratio in the industry. So we have room to grow there, but we just see ourselves as the growth opportunity is larger. There'll be time to do the dividend at a more meaningful level, but we needed to start ratcheting that up a little bit, but we still see buybacks as a meaningful value creation opportunity.

<Q – Stephanie Moore>: Thank you.

<A - Nadeem Velani>: Thanks.

<Operator>: Thank you. We'll go next now to Ari Rosa with Citigroup.

<Q – Ariel Rosa>: Hey, good afternoon. So I actually wanted to stay on the buyback comment. Keith or Nadeem, I believe you guys made the decision to pull-forward the timing of the buyback last year because you felt the shares were undervalued. Here we're looking at the stock's up about 15% year-to-

date. It's not necessarily a comment on over time, we continue to think stock compounds nicely. Obviously, that's -- there's a compelling case for that. But has there been a shift, I guess, in the appetite for the buyback relative to the dividend? It's a fairly sizable dividend increase. Just trying to understand how you're thinking about that. And then obviously, as the share price moves higher, does it make it harder to hit that target to repurchase 5% of shares, or are you pretty committed to that level of buyback?

<A - Nadeem Velani>: So, last year, we had a 3.5% program or 4% program which we completed and we're quite aggressive of stock price in Canadian dollars. It was closer to about \$106, \$107. And we saw an opportunity value creation that was coming off the heels of strengthening our balance sheet and having good discussions with the rating agencies. And so, we had similar discussions when we completed our buyback in November of last year and that's why we came to the conclusion and came to announcing our new buyback in January. We made it a little larger and part of that is just showing the resiliency of our balance sheet and our ability to continue to service our debt and the diversity of our franchise and the growth story, et cetera.

I think we took advantage of an opportunity in the market to go to take on some additional debt prior to some of the geopolitical noise that raised rates. And so, I think we are in very advantageous timing and so we see an opportunity to continue to buy back shares, we're not going to hold off. Are we going to be strategic and buy back at value-creating prices, yes. So, there's times when we will pause and given all the volatility in the marketplace there is opportunity sometimes to be strategic. You're never going to completely -- you can't get too cute on some of those things, especially when you have a \$45 million or 45 million share authorization. But I fully expect we will complete it. We'll complete it by the end of the year. And like we see today some near-term pullback with some volatility in the market, we could take advantage of that and we will.

<Q – Ariel Rosa>: Very helpful. Thank you.

<A - Nadeem Velani>: Yeah. Thanks, Ari.

<Operator>: Thank you. And ladies and gentlemen, we have reached our allotted time for Q&A today. I would like to turn the conference back to you, Mr. Creel for any closing comments.

<A – Keith Creel>: Okay. Just a few comments. Listen, we started this second quarter with a lot of momentum. We're in a very good position to operate -- to execute operationally, commercially, and financially, that's exactly what we're focused on and intend to do in the second quarter to continue this very unique value-creating story at CPKC. We look forward to sharing those results soon. Be safe.

<Operator>: Thank you, gentlemen. Again, ladies and gentlemen, this brings us to the conclusion of CPKC's first quarter earnings call. Again, thanks so much for joining us, everyone. We wish you all a great evening. Goodbye.