Transcript

Q2 2026 Earnings Call

July 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. My name is Leo, and I will be your conference operator today. At this time, I would like to welcome everyone to CPKC's Second Quarter 2026 Conference Call. The slides accompanying today's call are available at investor.cpkcr.com. (Operator Instructions)

I would now like to introduce Chris De Bruyn, Vice President, Capital Markets, Tax and Treasurer, to begin the conference call.

Chris De Bruyn

Thank you, Leo. 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, as 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

Thanks, Chris, and again, thanks for everyone joining us on the call today. As I always do, I start by thanking the 20,000 strong team of railroaders we have producing these excellent results. I remain extremely proud to serve with each one of you, so thank you for your efforts and your sacrifices.

And on the performance, if you look at it, reflects the strength of the CPKC franchise, the resilience of our business mix, and the continued benefits of uniquely connecting Canada, the US, and Mexico through the only single line rail network that uniquely serves all three countries. We brought these railroads together just over three years ago to create something unique, a network capable of unlocking new supply chains, expanding market access, increasing competition across North America, and we're doing exactly that. With each passing quarter, that vision is becoming a reality.

So the results for the quarter, the team delivered volume growth of 4%, revenue growth of 13%, an operating ratio of 61.6%, earnings of $1.27, which is an increase of 13%. The results are driven by a combination of disciplined execution, by Mark and the team's strong service performance, and continued growth across many of our key franchises. Operationally, the railroad continues to perform at a very high level. During the quarter, we established new records across a number of the key operating metrics with asset utilization, train velocity, terminal fluidity, all improved year-over-year, demonstrating the ability to safely and efficiently move more freight across the network while creating additional capacity for John to sell into our future growth.

On the growth initiative side, what continues to excite us the most is the opportunities ahead. The rationale for combining CP and KCS is pretty simple. Create the first and only single-line railroad that links Canada, the United States, and Mexico, and leverage the network to generate value for our customers and our shareholders. Today, we're seeing the strategy translate into these tangible results.

During the quarter, we established volume records in grain, energy, chemicals, plastics, and automotive. We also advanced several important commercial initiatives that reinforce the long-term growth story of our network and franchise. The launch and the momentum behind our enhanced Southeast Mexico Express service, continued growth on the Mexico Midwest Express service, the opening of another Americold facility, this time at the Port of Saint John in Atlantic Canada, and continued increased traffic flows between Canada and Mexico via the CPKC land bridge that uniquely is enabled by this North American franchise. Perhaps most importantly, as we look forward, our commercial pipeline remains robust. Customers across multiple sectors continue to look for ways to simplify supply chains, reduce friction at borders, increase resiliency, improve transit performance. CPKC is uniquely positioned to help them achieve those objectives.

So in closing, as we enter the second half of the year, we do so from a position of strength. Our network is performing extremely well. Our service product is strong. Our growth pipeline continues to expand. While uncertainty remains in parts of the macroeconomic environment, we're encouraged by the improving market conditions across several markets. It's a growth story, growth in cross-border traffic, growth in new supply chains, growth enabled by a network that is uniquely created in North America by CPKC. We're still in the early chapters of this story, realizing the full potential of this franchise. We've led the industry in revenue and earnings growth the last two years, and we're well-positioned to deliver another year of double-digit earnings growth in 2026.

With that said, I'm going to turn it over to Mark, who can elaborate a bit on operations. John will bring some color on the markets, Nadeem on the numbers, and we look forward to Q&A session. Mark, over to you.

Mark Redd

Thank you, Keith, and good afternoon. I want to begin by recognizing our team of railroaders across North America for another outstanding quarter of execution. The commitment, discipline, and focus enable CPKC to deliver record levels of operating performance while continuing to provide customers with safe and reliable service. During the quarter, we set second quarter records across a number of key productivity metrics, including train speed, dwell, locomotive productivity, and fuel efficiency. These results reflect the strength of our operating model, and most importantly, the dedication of our railroaders who continue to execute at a very high level every day.

As we mark one year since completing the consolidation of our US and Canadian operating systems, the benefits of that work continue to be realized across the network. Our teams are aligned around common processes, sharing performance measures, and real-time visibility across the network. This is allowing us to identify opportunities quicker, resolve issues faster, and make better decisions.

As we continue to realize the benefits of the operations as one railroad, operating performance remains a critical focus area. The visibility and coordination created through the integration of our Canadian and US operating systems allows us to manage train execution across the network with a greater precision and consistency than ever before. The result is a more fluid, efficient and consistent railroad delivered even stronger service and asset utilization across the three-nation system.

Now turning to safety, this remains our top priority. During the quarter, both personal injury frequency and train accidents increased versus a year ago, but still remain 1.0 for FRA train accidents and 0.96 for FRA personal injuries. While we are disappointed by these results, we remain fully committed to continuous improvement. Safety is a journey that requires constant diligence, learning, and engagement. We're taking action to address the underlying trends and remain focused on ensuring every employee returns home safe at every shift while continuing to improve the safety of our operations.

Turning to our locomotive fleet. We have now received all 70 Wabtec locomotives scheduled for delivery in 2026. We remain on track to begin receiving Progress Rail locomotives in the second half. Building on the 100 locomotives received from Wabtec last year, we continue to make significant improvements for investments in fleet modernization to support the long-term growth and efficiency of our CP network. These investments are already supporting improved reliability and efficiency across the network, particularly on our transcon operations in Canada, where the new units have been deployed. With additional locomotives in our service, we expect further benefit through the improved asset availability, network resilience, and operating performance.

Finally, our engineering team has been consistently delivering exceptional productivity. Their work has supported record grain loadings while maintaining strong network performance. Importantly, rail and tie replacement continues to progress ahead of schedule. Our rails and tie crews have increased year-over-year installation productivity by 18% and 59%, respectively. We fully expect to be off the main line in Western Canada well before the start of the fall harvest season, positioning us to support customer demand during one of the busiest periods of the year.

In closing, our railway continues to perform at an extremely high level. As a note, Keith, John, and I spent some time out on the railroad last week and we came away pleased with what we accomplished while also identifying the areas of further opportunity. That's what true PSR looks like. I always remember, A+ today is B- tomorrow, as we continue to drive for continuous improvement. Strong execution by our employees, the benefits of strengthening our integration, disciplined focus on service performance, strategic investments, and continued productivity improvements across the business will position us well in the second half.

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

John Brooks

All right. Thank you, Mark, and good afternoon. Our second quarter results reflect the strength of CPKC's unique franchise and the benefits of our three-nation network. This quarter is another great example of how we continue to stack up growth from synergies and new business wins, while realizing strong price for the value of the service and our capacity.

Looking at our Q2 results, we delivered Q2 record freight revenues excluding fuel and all-time record RTMs, up 13% and 4%, respectively. Cents per RTM increased 9%, reflecting higher fuel surcharge revenue, sustained pricing strength, and moderating mix headwinds. Based on our current outlook for fuel and FX, we expect continued strength in yields in the second half of the year.

Moving on to the next slide, and before discussing the lines of business, I'd like to spend a moment on the consistency of our growth. Reflecting on Q2 since 2023, we've delivered 17% RTM growth or 22% excluding coal. This performance, despite a challenging macro backdrop, is a result of laser-focused commercial execution unlocked through the strength of our service product, network efficiency, and the capacity we can offer into the marketplace.

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

Starting with bulk. Q2 was another record quarter for grain in revenue, RTMs, and carloads, with revenue increasing 24% on 19% volume growth. Canadian grain volumes increased 24%, driven by record harvest and continued growth in markets such as Mexico. US grain volumes increased 14%, also driven by strong demand into Mexico and also to the PNW markets. Looking ahead, we remain optimistic that both supply and demand will remain solid through Q3, and although it's still early to tell, the new crop across our network is off to a pretty good start.

Potash revenues were up 10% on a 2% decline in volume, reflecting the impact of port maintenance and lower mine production. Looking ahead, while we continue to expect the impacts from port maintenance, export demand fundamentals remain healthy, and we are working closely with our customers in this space to maximize our potash volumes into the second half of the year.

To round out bulk, coal revenue declined 18% on a 29% reduction in volumes, reducing our total RTM growth by approximately 3% on the quarter. This decline was driven by ongoing production-related challenges at our customer mines, which impacted shipments throughout the quarter. While run rates have stabilized and the shipment levels are improving, we expect coal to continue to be a headwind in the second half of the year.

Moving on to merchandise. Energy, chemicals and plastics revenue increased 8% on 6% volume growth. The volume growth was driven primarily by higher DRU and conventional crude shipments, partially offset by lower fuel oil shipments into Mexico. Looking ahead, we expect continued growth in ECP, driven by improved market fundamentals and new business wins.

Forest products revenue increased 2% on 2% lower volumes. Despite the decline in volumes, we are encouraged to see continued strength in synergies led by lumber shipments into our Southern US markets, highlighting our unique ability to connect supply and demand across North America. In fact, despite higher interest rates and lower housing starts, June marked a record month for lumber synergy shipments across our network.

Metals, minerals and consumer products revenue increased 16% on 7% volume growth. Growth was driven by improving steel volumes across both domestic and land bridge lanes, along with continued strength in aggregate shipments, supported by new construction activity in the southern part of our network.

Moving on to automotive, revenue increased 19% on 8% volume growth, representing another record quarter. Growth was driven by new business wins and extended length of haul as automotive continues to be a compelling example of the value of our three-nation network.

Closing with our intermodal franchise, revenue increased 11% on flat volumes. Domestic intermodal volumes increased 3% in the quarter. We are encouraged by the early success of our SMX service with CSX, with volumes increasing more than 30% from Q1. We are seeing signs of improving truck-to-rail conversion opportunities supported by higher fuel prices, tighter regulatory enforcement, and reduced trucking capacity. Both our MMX and SMX services are well-positioned to capitalize on these favorable market dynamics.

In international, volumes declined 2% as we lapped strong pull ahead on prior year comparisons. Looking ahead, we expect to return to growth in international, supported by our strong service products from the Port of Vancouver, and as we execute specific growth initiatives at Port of Saint John and also Lazaro Cardenas.

So in summary, the pipeline of unique growth opportunities is strong, and we continue to capture pricing momentum across our book of business. With improvements in the freight demand trends, continued synergy realization, and a growing pipeline of new business wins, I remain very confident in our ability to deliver mid-single-digit volume growth in 2026.

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

Nadeem Velani

Thanks, John, and good afternoon. We delivered another quarter of strong volume growth, disciplined execution, and effective cost control. These results underscore the strength of our franchise and our ability to translate our unique opportunities into earnings and cash flow growth. We continue to realize merger synergies while Mark and his team are delivering excellent operating performance and customer service. I'm very pleased with the underlying performance of the business and the momentum we are carrying into the second half of the year.

Now turning to our second quarter on Slide 15. CPKC's reported operating ratio was 64.6%. Our core adjusted operating ratio was 61.6%, up 90 basis points from last year. Diluted earnings per share was $1.15, and core adjusted diluted EPS was $1.27, up 13% versus last year.

Taking a closer look at our expenses on Slide 16, I will speak to the year-over-year variances on an FX-adjusted basis.

Core adjusted comp and benefits expense was $702 million. The year-over-year increase was driven by higher stock-based compensation, wage inflation, and volume-related costs. These were partially offset by ongoing productivity gains, improving train rates, and continued operating efficiency improvements. Looking ahead, we expect to continue generating strong labor productivity in the second half of the year with modest headcount growth supporting accelerating volume growth.

Fuel expense was up 49% year-over-year. The increase was driven primarily by a 52% increase in on-highway diesel price, along with higher volume. This was partially offset by a 4% improvement in fuel efficiency, driven by increased train weights and improved locomotive productivity.

Materials expense was up 3% year-over- year. The increase was primarily driven by inflation, including the impact of higher fuel price on our non-locomotive fleet, partially offset by efficiency gains from contract optimization and lower locomotive material costs.

Equipment rents were 6% lower versus prior year, reflecting improved asset utilization, stronger network velocity, and improved cycle times.

Depreciation and amortization expense was up 5%, driven by a larger asset base.

Core adjusted PS&O expense was $585 million. The year-over-year increase was driven by higher casualty costs and inflation, partially offset by productivity initiatives and operating efficiencies across the network.

In reviewing the quarter, I'd highlight the strength of the underlying business performance and execution. Strong volume growth, disciplined pricing, and continued productivity improvements enabled us to deliver another quarter of double-digit earnings growth while absorbing several notable cost headwinds.

Higher casualty costs and stock-based compensation represented a 4% impact to EPS and 120 basis point headwind to OR. Year-over-year changes to fuel price were 130 basis point headwind to the OR.

Despite these impacts, the underlying trajectory of the business remains strong. The combination of volume growth, operating leverage, and disciplined cost management allowed us to offset these headwinds and deliver strong earnings growth in the quarter.

Moving below the line on Slide 17. Net interest expense was $237 million or $231 million excluding purchase accounting. The increase was driven primarily by interest on new debt, partially offset by lower commercial paper balances and debt repayments. Income tax expense was $335 million or $370 million adjusted for purchase accounting and significant items. We continue to expect a full year core adjusted effective tax rate of approximately 24.75%.

Turning to Slide 18 in cash flow. Year-to-date net cash provided by operating activities was up 8%, driven by higher operating income. Our year-to-date capital expenditures were $1.4 billion, and we remain on track to deliver full-year CapEx of $2.65 billion, a 15% reduction year-over-year.

Year-to-date adjusted free cash was $1.3 billion, up 25% over prior year. During the first half of the year, our disciplined approach to capital management delivered $2.4 billion of shareholder returns through share repurchases and dividends, reflecting a balanced and opportunistic allocation of capital.

In closing, we delivered strong financial results in the second quarter, reflecting healthy volume growth, disciplined pricing, ongoing productivity improvements, and effective cost management. The business continues to generate strong earnings and cash flow while our balance sheet and capital allocation priorities remain unchanged. As we look to the second half of the year, continued execution across the network, ongoing efficiency and growth initiatives position us well to achieve our full-year guidance and deliver sustainable long-term shareholder value.

With that, I'll turn it over back to you, Keith.

Keith Creel

Okay. With that, operator, let's open it up for questions. Thank you, gentlemen.

Question & Answer

<Operator>: (Operator Instructions) Your first question comes from Chris Wetherbee with Wells Fargo. Please go ahead.

<Q – Chris Wetherbee>: Obviously a solid quarter. I guess I wanted to talk a little bit about what we've seen in developments with the transaction between UP and NS, in particular the agreement with Canadian National. Just want to get a sense of how do you feel if it does change anything from a competitive landscape for CP? Sort of how do you feel like you fit into the dynamics here and then the growth opportunities that you see from the combined network of CP and KC over the multi-year period of time in light of what we've seen so far?

<A – Keith Creel>: Well, Chris, you might get a two-part answer here. When you say the agreement, point out which specific agreement.

<Q – Chris Wetherbee>: I guess there's two. There's one that's contingent on the transaction and one that's not. I guess in terms of EJ&E and the potential access down through Texas, I guess maybe start there and maybe if you want to expand on it to include both of them, I'd be curious on your take.

<A – Keith Creel>: Okay. Well, I'm going to go high level. John, I'll let you fill in some of the markets. I try to decouple myself, but it's tough to decouple myself from 17 years of experience. A lot of which, the latter years entailed fighting for the right and the ability and the operational capacity to kind of decouple yourselves from the whims of the Chicago operating experience inside that inner loop. That EJ&E route, that interstate around Chicago, to me, is kind of the holy grail in Chicago from a network perspective when I had my old hat on. I'm very sensitive, admittedly. I understand the pain and suffering it took. I also understand more so than others, I would argue the operational benefit of having that asset. So, when I think about that deal standalone, I think Jim, good on Jim.

He understands like I understand the benefit of having that capacity and that relief valve and that through kind of interstate route around Chicago. When I put my CN hat on, if I were to, and I think back and reflect, that's not unlimited capacity you just gave away. That is your insurance clause. Maybe today you have latent capacity, 10 years from now, do you have latent capacity? To think and suggest just because somebody else pays for the capital, there's unlimited right of way to build sidings and to build infrastructure, at some point, and these are long-term assets and long-term decisions, there's got to be accountability for that decision. You wake up in the middle of a meltdown in Chicago, especially if UP and NS were to realize their ambitions in the most heavily congested, busiest location in North America.

Now you're battling with UP trains and CN trains for the same capacity. Then further think this thing out, as I have a bit, how does that impact the overall complex of Chicago now? You just put the J in play. The questions I have, and I think about this, and I haven't quite gotten to this part of the supplemental information that's provided. I spent maybe way too much time on 84 pages of corrections, and then I read Jim's letter, and then I got to a little bit of the CGP stuff. I'm wondering how that changes their merger plans and how that gets tweaked and how you integrate that in, number one. I think about the day when the place melts down and how you decouple now and you have no relief valve. It gives me concern.

What did you get for that? You got access to Mexico via Memphis Gateway. You get the ability to quote to a customer a two-line move, perhaps, with a haulage rate, as opposed to a three, but it's still a three-line move. It's still a route over Memphis operationally. It's still controlled and dispatched by the Union Pacific. You still get to the most problematic border point in Mexico with Eagle Pass, and now you've got three railroads fighting for the same capacity going to one railroad. That, compared to our network from a competitive standpoint, operationally, going to our key markets that we serve, is disadvantaged. A lot of information to unwind in all that, Ken.

I just think in the end, good for Jim to get access in Chicago. I hope that CN doesn't have buyer's remorse in the future, what they gave up versus what they got. I don't think they got a lot, in all honesty.

When it comes to the merger side, I think that it's a couple of steps for UP to solve a very problematic merger application. It preserves competition, perhaps, on those two-to-ones and three-to-twos, where operationally feasible. That helps take a couple of steps, miles and miles and miles more of problematic steps. When it comes to access for CN coming to Kansas City, we've already got four railroads running between Kansas City and St. Louis. I'd say welcome to the party. Come ready to compete, because we will. We're not afraid of competition. We never have been. As long as we do our jobs and we leverage the benefits of our single-line route. I'll stand that against CN. I'll stand that against UP.

John, any commercial comments?

<A – John Brooks>: I just would add on the, Chris, maybe the Mexico piece. As Keith said, we're not afraid to compete, but I don't view this as very different than maybe when CN had a connection and used the route over Jackson with the legacy KCS to get to Mexico. Then they pivoted to create a route over

Chicago with the UP, I think a Falcon or something, to run down to Mexico. Now they've extended their haul in another interchange to Memphis to get down to Mexico. It didn't change our approach three years ago when they put it in place. I think we've demonstrated really strong growth on our MMX, and it's all on the backs of the service. I just kind of view it as we've got a product that can't be replicated in the marketplace.

It's the reason why in 2023, there was $100 million of what I consider we call land bridge business flowing between Mexico and Canada. I see us at $600 million by the end of this year and a path to get to $1 billion. It's just a unique product that we're able to offer. I'm sure there's going to be certain customers out there that the CN UP product makes sense for on the FXE or into certain markets. That's fine. I stand by that.

Keith's comments on Kansas City ring true to me. There's four railroads that come in and out of here existing today from and to the east that we compete for business. Even I think back to when we were competing for the KCS and that was identified as such a big opportunity and lane by our competitor. Frankly, we just haven't seen it. If they bring to light a big opportunity, it'll be an opportunity for us to compete against it. And we look forward to that opportunity.

<A – Keith Creel>: There's one more clarifying point that I think is important to understand, too. When John speaks to the business that we've won, we've competed for, and that we continue to see a path to grow to from that $600 million to $1 billion over the future years, the lion's share of that traffic is coming from or going to Western Canada, not Eastern Canada. Not saying that some's not from the east, but the biggest opportunity is in the west. From a network standpoint, CN is dramatically disadvantaged to our network from those western Canadian origins, given that we go through Minneapolis, St. Paul, and down the west side of the Mississippi. For them to get into Mexico, whether it's over Chicago, whether it's over Memphis, whether it's over Jackson, they got to go to Chicago. They got to go east to come back west. That disadvantages route miles in a materially significant way.

<Q – Chris Wetherbee>: Very helpful perspective. Appreciate it, guys. Thank you.

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

<Q – Fadi Chamoun>: Okay, thank you. John, you have been able to deliver somewhere in the $300 million to $350 million of pipeline synergy revenues for the last couple of years. You sound like you're bullish on that pipeline. Going into 2027, can you frame what type of opportunity you see, kind of idiosyncratic to some of these commercial efforts you're working on? Can we assume that this will continue to play out in a similar fashion that it has done in the last couple of years going to 2027?

A quick follow-up to Nadeem, just you mentioned several notable expense item. I'm just wondering if you can kind of elaborate a little bit what these are and how should we think about the expense bridge as we go into the second half of the year?

<A – John Brooks>: Yeah. I'll start there, Fadi. Thanks for the question. I do see a really good run rate to get to that, let's call it US$1.4 billion or US$1.5 billion in synergies as we close out this year. You're right, that's about a well, actually more than a US$300 million step up in that area. I would call out that it's really coming from all the lines of business, but as I particularly look, let's say, specifically to the next 6 to 18 months, we've just seen tremendous growth in our intermodal synergies specific to that and also our grain. We really didn't scratch the surface, and I'm going to say the early days in terms of leveraging this franchise in our grain network.

I think what we've seen with the strong crop in Canada, actually a strong crop in our upper US network, as we've got deeper into the shipping season, we've seen more and more markets across our network materialize. That's been strong. I want to say we're up 60%, 70%. If you look at grain out of our northern territory down into Mexico or the southern US markets. Again, I can tell you I'm proud of where we've moved that needle this year, but I still think we're kind of in the early innings of really figuring out those flows and what those cycle times need to be to compete.

Frankly, I talked about it just previously, I just spent some time in Mexico looking at these facilities, and the capability to enhance their throughput capabilities that'll drive volume growth is still out there. As much as I'm proud of that we've taken the MMX service, Fadi, to about 70% capacity levels, I'm still challenging the team, particularly in this freight environment right now, of how we begin to push the envelope to what a second train pair could look like on the MMX. That's really without not a whole lot of reefer growth that we're still working on that we're just seeing ramp up in that space. I'm optimistic about that.

Maybe I'd also point out is as much as, and I think Keith mentioned it, as much as I'm pleased about our closed-loop automotive program, there's still some outliers out there that I expect to make headway in over the next 6 to 12 months in contracts that I think will also look to leverage the benefits we can provide with that. Those are kind of the call-out areas. Nadeem?

<A – Nadeem Velani>: Yeah. Fadi, I'd just point out a couple of things. Casualty, stock comp, and incentive comp were about a $0.05 headwind versus a year ago, maybe around close to about 150 basis points. I think about with those headwinds, if they weren't there, probably closer to a 60 OR. I'll just leave it at that.

<Q – Fadi Chamoun>: Thank you.

<A – Nadeem Velani>: Thanks, Fadi.

<Operator>: Your next question comes from Jonathan Chappell with Evercore ISI. Your line is now open.

<Q – Jonathan Chappell>: Thank you. Good afternoon. Mark, John just laid out a pretty broad-based growth plan. I know a lot of it's unique to CP, but it feels like for the first time since the merger, you've had some real strong macro tailwinds that are building as well. I know you're going to add a little headcount in the second half of the year, but below the volume growth expectations. When you think about the next couple of years and the resources, you've created a lot of productivity thus far the last couple of years, but how do you think about aligning resources with the type of growth profile that John's laying out over a two to three-year period?

<A – Mark Redd>: Well, I think it's just the value of how we do business with PSR. John's talking about what he's doing in the coming months. We're in the background understanding what kind of crews we need, what kind of locomotives we need to put in front of it, containers, boxcars, whatever it may be. We're steadily looking at the demand of equipment, people. On top of that, I'm looking at synergies of the agreement that we just signed, I say signed, that we just implemented with the south of what I would say south of Heavner, near Oklahoma, down to the border at Laredo, which is the old MidSouth agreement, which I'll probably get into too much detail, but it's an agreement that I worked up under.

It's almost like an hourly agreement. We talk about an hourly agreement, it's a daily agreement. That would take care of some of the headcount that we need. We'll get some synergies plus headcount out of that, and then we can use that headcount for the future business that John wants to do with grain. We still have opportunities with doubling up trains. We've got some opportunities that we'll continue to work through. That's just the southern part. Obviously, we have the hourly agreement just on the north end of North Dakota, Minneapolis, all those locations.

We have workday schedules we could change with those to add people quickly, or at least time of day quickly. That's what I would say. We'll stay right out in front of John, and we'll communicate constantly, to understand what's next, what's the opportunity. Good news is that just don't come on board tomorrow. I mean, we've got plenty of time to plan, and we have locomotives that's coming on board as well.

<Q – Jonathan Chappell>: Thank you.

<Operator>: Your next question comes from Brian Ossenbeck of JPMorgan. Your line is open.

<Q – Brian Ossenbeck>: Hey, afternoon. Thanks for taking the question. Maybe John, for you, can you just give a little bit of commentary on yields here? I know the headline number is a bit noisy with fuel and FX, maybe some near-term commentary to help set the stage for the third quarter. Where are underlying core renewals coming in? Do you still have potentially some repricing or length of haul opportunities that are still kind of trickling through as you get more of the legacy KCS and CP put together? Or is that pretty much done? Just want to hear a little bit more about that, especially in this stronger truckload environment. Thanks.

<A – John Brooks>: We're still seeing a pretty good length of haul, Brian, and enhancement. I think this quarter we're up year-over-year about 3%. I talked about some other land bridge opportunities and where I see some synergy growth yet to come. Those are pretty big length of haul opportunities that are needle movers. There's some of that noise, I think, good noise, still at play that sometimes can impact our mix a little bit on that longer length of haul business. Pricing, I'm super pleased. We haven't taken our foot off the gas for, I don't know, it's been a couple of years now that we've been on sort of the what I would consider right at or the higher end of our guidance.

I think at our Investor Day, we guided to 3% to 4% over that multi-year plan. I would say we've been at the top end, exceeded. Right now we're probably right in that exact range. We're not taking our foot off the gas there. I expect that to even potentially accelerate as we see what's kind of going on in the trucking space and as we all watch inflation over the coming years. When I look at it, I think about the cents per RTM like this. I mentioned where renewals came in. Mix was a little bit, let's call it a point or two of a headwind. You back into the balance was fuel and FX.

<Q – Brian Ossenbeck>: Thank you, John. Appreciate it.

<A – John Brooks>: Yeah. All good.

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

<Q – Steve Hansen>: Yeah, good afternoon, guys. Thanks for the time. Keith, I think you might have referenced it earlier indirectly, but I'm just curious how you think the deals or the concessions extracted by CN change your view of any potential concessions you might pursue. Does it put you in a stronger position, a weaker position, or is it sort of nil or not really that relevant in how you think about it?

<A – Keith Creel>: Yeah, I don't think anything that CN's done with UP is relevant to the things that we will ask for, it hasn't changed our math at all, and yeah, no impact.

<Q – Steve Hansen>: Appreciate it.

<A – Keith Creel>: Thanks for your question.

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

<Q – Brandon Oglenski>: Hey, thank you for taking the question. Keith, sorry to stick on the topic, but I guess more broadly, though, do you believe that what UP and CN has done has put this deal on any better competitive platform? I guess I heard a little bit of contention there on the expanded competitive gateway pricing. I don't know if you maybe want to elaborate on that.

<A – Keith Creel>: Yeah. Listen, I'm going to wait and let the regulator get into the weeds, but I'll stay at a high level as best as I possibly can. I think the simple answer is no. I don't think it changes the math. I think that I'm going to give credit where credit is due. I think it's a few steps forward in a positive direction versus where they were. I think it at least signals a bit of a realization that their railroad empire building plans are going to have to bring more to the table to even be considered as a prima facie case. I think that's important. I think they did address, back to what Steve said, I missed this point. They did address our concerns relative to undue control in the KCT terminal as well as the TRRA. I thank them for taking that seriously and addressing that.

Outside of that, the problems that were there before. I look at it this way. I look at it in a lens, some would say I'm biased. I would say I'm biased by experience. I have navigated, and I was shaped by the experience that we went through in our own merger application and process. The knowledge that we gained navigating the merger process of the rules, the regulations, the statutes, the old rules, the new rules, coupled with the knowledge of how, in our experience. How I read the rules and interpret the rules, which has been truly shaped and impacted by how the STB members have done the same. Going back and reading the context of why the rules were written, going back and reading the hearings, going back and listening and thinking and reflecting on Linda Morgan's words.

It's the lens that matters when you interpret these facts. Then finally, the last lens I look at is kind of the applicants, the behavior. Past, present, future, integration history, day-to-day anti-competitive behavior or not. Is this an entity that when they present their facts to the customer, present their facts to the railroads, present their facts or their counter arguments to the regulator, is it as they say, or is it as they believe? There's often a difference in that. Your truth, my truth, and the truth. I think this regulatory body's going to get to the truth. The truth says these facts are problematic. What was true before their supplemental submission is significant reduction in competitive options. Their enhancement to CGP is some movement. I'll give them that, but it's temporary, and it's not inclusive.

If it's needed at all, is it not needed forever? If it's needed to solve a formula that says you must enhance competition, just stating your long-term solution to enhance competition, defining it as single line service. If you go back and read the regulations and the hearings, that is not enough. Those aren't my words, that's Linda Morgan's words.

It's important, but it's not the only sole solution, and it will not solve enhanced competition in and of itself. Again, her words, not my words. Still creates significant monopolistic like, those are my words, market concentration. Still and now even more significant operational risk because now we've got the J in play. Still significant concerns about anti-competitive behavior, past and present. And, I don't think any of us would argue, the ball about eventual consolidation, if this merger gets approved, that boulder is rolling. It's undeniable.

If you read the application, the supplemental, read Jim's letter. If I've ever read a letter that said, not only is this one good, the second one's better, it's great for America. We need to go to and serve the public's interest in America. We need to be a two-rail network operation. That's it.

I shudder thinking about that as a human and as a consumer. I was reminded of the weight of this decision yesterday afternoon when I went home and I looked at my phone, it's topical because I give Jim credit, he uses a lot of analogies about flying through Chicago and airlines and direct flights. When I read American Airlines grounded. System-wide, regional airlines, mainline airlines, nobody can move. What about a world when only an American or United exists and one of the two is grounded? What happens?

That's mass chaos in airlines. Now, apply that same solution to railroads. You got one railroad that handles 40% of every move. Now, forget about the misleading comments about GTMs and we're the same. No, come on. A heavily weighted railroad that moves a lot of grain and coal, their GTMs are going to be naturally more than a railroad weighted more at the intermodal. News alert, a coal car and a grain car weighs a whole lot more than, say, 10 or 11 intermodal cars. That's misleading. It's 43 states. In Jim's perfect world or UP's perfect world, it's two railroads. One of the two or both of the two, because of a computer glitch, gets grounded. That is too big to fail. I can talk to each of you all day long, and perhaps some of you here, ask and answered.

I'm not going to convince you, but that's okay. I don't need to convince the STB. This STB body, I know from experience, they understand the gravity of this decision. They understand those regulations better than any of us do. They understand the intent, they understand their mandate, they have the authority to make the right decision. They have the independence to weigh the facts.

Again, I'll say this. If you're a shipper, if you're a concerned party that's going to comment, pay attention to what's going on. Don't get led down a false narrative. Do your math, do your own homework, form your own opinions, file your comments. State your facts because that's ultimately what the record is going to be decided upon. If those facts are known and understood, nothing that UP just submitted changes it. The problematic facts, they lead us to a place that is not in the best interest of the public, not in the best interest of this network. That's the way I feel. That's what I believe based on my lens.

<Q – Brandon Oglenski>: Thank you, Keith.

<A – Keith Creel>: Thank you.

<Operator>: Your next question comes from Ken Hoexter with Bank of America. Please go ahead.

<Q – Ken Hoexter>: Hey, great. Good afternoon. Hey, Keith, you actually started out almost complimentary of the deal of what Jim was doing. I would've said almost supportive, but I think your last answer suggests perhaps still not. He did toss in there mixing up CPKC in the mix with BNSF and CSX. I'd love to hear your thoughts there.

Nadeem, did you just end your answer there with the 60% OR? Was that suggesting your launching point as to what we should look for into the second half? Maybe a sub 60 in the second half. Is that what you were throwing out there?

<A – Nadeem Velani>: Yeah, that's fair. I think we're going to see sequential improvement in cents per RTM. We're going to see significant acceleration in volumes compared to the first half, overall the revenues are going to be better, and we're going to see operating leverage coming out of that. My expectation would be to have less casualty expense than we had in the first half of the year. I think some of those items can be very accretive to the earnings and the OR.

<A – Keith Creel>: Ken, to your question, bottom line up front, I'm adamantly opposed to additional rail consolidation, for all those reasons I've talked about. But if it's forced, we're not going to stand still. We can't stand still and compete to our best. I'm not going to tell you what partner. I can make a value proposition case with a host of partners. Rest assured this industry won't sit still. If UP and NS come together, it's a matter of time. There's going to be additional consolidation. There has to be to be able to compete against that Goliath that would be created. In any of those scenarios, this team, this network offers pretty compelling value.

<Q – Ken Hoexter>: Thanks, Keith. Thanks, Nadeem.

<A – Nadeem Velani>: Yeah. Thanks, Ken.

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

<Q – Walter Spracklin>: Yeah, thanks very much, operator. Good afternoon, everyone. Keith, you and BN have both argued that progress can be made, agreements can be signed without the need for mergers, and certainly this deal between CN and Union Pacific is not contingent on the merger. It happens immediately. I'm referring to the EJ&E and the Eagle Pass through Memphis deal. Does this prompt you now or maybe you've already been doing it, but couldn't you now or will you look to cement your own deals, your own agreements with either the BN or like you have with SMX through CSX? Is there opportunity to add on to that with CSX, and is there any opportunities that you see when you look at your routing where track swapping or track right swapping with the BN might make sense as well?

<A – Keith Creel>: Yeah, Walter, undeniably in either case, when you've got two willing parties, you can do a lot of things. I've looked at our network. There's a menu of options. There's things we can do with BN, there's things we can do with CSX, outside of a merger that quite frankly, we could put a pretty compelling product in the marketplace to go head-to-head. Is it going to be single line service? No. Is there going to be some advantages to that? Yes. Yeah, again, if this thing becomes a foregone conclusion, then you're going to see motivation increase to be able to do those things. I think right now people are waiting to see this industry outside of UP and NS and maybe now CN. They didn't want a merger.

If you talk to the customers, I don't care what CN agreed to with UP, what UP's agreeing to with CN, what enhancements they made to CGP, put it all in the same basket. I don't think you're going to have a run to the bank or a run to the STB saying, gosh, well, this is the best thing since sliced bread. We're going to support. Because this is a forever decision. You don't unwind this thing. Again, if it gets wound up, we've got a responsibility to respond, and we will. As a result of this, we've never been closer to BNSF. We've never been closer to CSX. We've never developed the market intelligence that we're developing now and the motivation and the route options to present some pretty compelling value propositions on the table.

Again, we won't sit still in a merger environment. We won't sit still short of a merger. Good can come out of this. The best outcome is no merger. The best outcome is perhaps in the absence of a merger, UP and CN can do some good things together to create some value for the industry and to create some value for their customers. There's a lot of traffic out there to move. In turn, you're going to see CP do things with CSX, with BN. BN with CSX. It can create a whole lot of different parties because people are thinking a whole lot different than they ever have. Those outcomes can occur, and UP just showed us they could, not that they didn't already know already or haven't done so already in the absence of a merger, which is exactly what the regulations require you to do before they will approve a merger. Side note. Emphasis added, mine.

<Q – Walter Spracklin>: Appreciate the color, Keith. Thank you.

<A – Keith Creel>: Thank you, Walter.

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

<Q – Madison Pasterchick>: Hi, this is Madison on for Ravi. Thanks for taking my question. We're just wondering how you guys are thinking about capacity in your network as the up cycle comes.

<A – Keith Creel>: Yeah, I think I'll be quick with that answer, Mark, if you want to add. If you keep in mind that our merger application required we make some pretty significant investments to prepare for growth. We have done exactly that over the last three years. What we did not anticipate when we put the railroads together was an economic recession. We're kind of built ahead for future growth. We're in a very good position relative to locomotives, relative to car capacity, relative to track capacity. The only thing we need to flex up on when the business and the growth comes, is add incremental headcount.

<A – Mark Redd>: Yeah, I would say incremental headcount from the agreement that we put together. We've unlocked Shreveport, Louisiana, to where we can go in all directions with one agreement. Again, we've got $275 million from the STB promises that we put together for them. We've got the connection toward CSX, where we spent a lot of money, 49-mile-an-hour track that unlocks a lot of capacity going east. Again, we've said down in Mexico, we'd spend $75 million on top of the bridge that we just built, that KCS built, that we finished. So capacity's not going to be an issue. Again, in different areas, John and I will stay in front of that regardless of where we go with the business. We're committed to do that.

<A – Nadeem Velani>: Yeah. We're positioned for growth at low incremental cost.

<Q – Madison Pasterchick>: Got it. Thank you, guys.

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

<Q – Scott Group>: Hey, thanks. Maybe just a bigger picture version of that question. I think back to the Analyst Day, we were supposed to get a lot of revenue growth with a lot of operating leverage and margin improvement and mid-teens, high teens type earnings growth. John, I thought your slide about the compounding volume growth was helpful, and it's been good, but it probably hasn't been as good as you thought at the Analyst Day. I think to your point of that last question, Keith, the macro environment's just been more challenging.

I guess ultimately what I'm trying to ask is, do you think we're at an inflection point where you still have some of the synergy opportunity plus now maybe a more supportive macro and now the buyback is kicking in where it's all going to start coming together and we're going to see more of a meaningful acceleration earnings growth back to what you thought it was going to be. Is that kind of where you think we are now?

<A – John Brooks>: Yeah, I'd say it's undeniable since the April of 2023 that the freight environment is about as bad as we never thought it could be as bad as it was. Despite that, and that was really the point of that slide, was to say despite that, we've been able to stack pretty impressive growth up with not a supportive environment. Now looking ahead, I do believe although all of our growth and a lot of our growth was supported by synergies in the new products we put in place, as I said, we're still in the mid innings of a lot of those opportunities. I think your point is really spot on. You continue at the pace of product development, filling in the capacity that Keith and Mark just spoke about and we start to get a little bit of a tailwind in some of these areas. I think that becomes very compelling.

<Q – Scott Group>: Nadeem, do you think the operating leverage accelerates with that?

<A – Nadeem Velani>: Yeah, absolutely. I think, Scott, as you know, the last few years, I think the industry as a whole has been expecting a much more supportive macro. I think we've learned that you can't hope for that macro to recover, and we've taken a more conservative approach, and we've talked a lot about resources and capital investment, et cetera. We were on the front end of that at the beginning of our day one, three years ago. If you look at where we are this year, I think headcount's down 500 people and volumes are up 3%, 4% and accelerating, and we're going to be able to accommodate that growth.

When I look at 2027 and next few years, we can accommodate it with the capital envelope that we talked about of 2.6 billion, 2.7 billion, and that's with a weaker Canadian dollar that has an impact on capital. Overall, we can accommodate this growth and with the capital plan that we have, it's going to generate significant amount of free cash as you've seen so far this year, and that's going to help accelerate earnings. To me, the operating leverage story is just beginning and you're going to see it in the back half of this year, and you've seen it so far in Q2 as well.

<Q – Scott Group>: Thank you, guys.

<A – Nadeem Velani>: Thanks, Scott.

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

<Q – Konark Gupta>: Thanks. Good afternoon, team. Keith, when you sit down with your customers and stakeholders, do you feel that they are quite distracted by the ongoing industry developments? I'm referring to everything from the UP NS merger to the CN UP deals as well as the potential downstream effects that everyone's talking about.

<A – Keith Creel>: I think probably the way we all feel about this thing. We've been dealing with this for a while. It requires a lot of attention. All these what-if scenarios. Whatever it is, just getting on with it and getting to a point where we can lock and focus on what we can control, and there's not all these variables, I think is going to be well-received. The customers, quite frankly, John, you can provide a bit more color here. Everyone that I've engaged with, I've, again, not had one that said, we want more consolidation. They've said, we want to protect competitive options. We want optionality. We like the ability to create competitive tension between two railroads when it comes to pricing and capacity and our capital decisions and our shipping decisions. I think that's been a common theme that's resonated with us.

<A – John Brooks>: Without a doubt, Konark. Since, really, COVID, where we've experienced sort of the increased fragileness of some of these supply chains, our customers are looking for more options. Frankly, that is why we garnered so much support in putting CP and KCS together on our journey, because we truly did enhance competition and open new markets. I just think, to your question, it is a distraction. I think there's a lot of narratives out there, and our customers are trying to figure out what is right and what is the correct source of the truth. Frankly, they've seen the benefits we've been able to create. I also think are questioning, are they really going to get enhanced competition out of what UP and NS are proposing?

<A – Keith Creel>: That's a key difference, John, what you just said. Our merger brought additional options to the table, which included a never-before-available additional single line opportunity. For instance, from Chicago to Mexico. In our case, beyond. It was all additive too. Nothing was diluted. There were no options taken off the table. That's completely different than the beast that we're dealing with now. It's a substitution for, and according to the applicants, it's better than, but if you're the shipper, it still means less options. Do you have the same options tomorrow that you have today? In full form, and if it gets approved, the answer is unequivocally no. You don't. Customers, by and large, after all the years of consolidation in this industry, that does not resonate with a customer when you tell them they have fewer options.

I don't care what therapy you give them, they have the memories and the trauma of the prior consolidations in this industry. Some of the worst trauma, I'm sorry, UP, you caused it. The thought of giving them more power and being exposed to that again requires a therapist in some cases. I say that in jest, but I'm not kidding. The transportation decision-makers that suffered through that 30 years ago, I've been here 35, I've been railroading 35, Jim's been railroading 45. A lot of those decision-makers are in senior positions, and they still lose sleep at night thinking about those integrations. Operationally or commercially, customer, you have fewer options, it doesn't resonate. With a very small population, they might be uniquely advantaged. It's a small population. So it's single-line service at what cost? We never tipped the scale at our combination. We never threatened that. We just added one to the table. We didn't take anything away.

<Operator>: Thank you. Your next question comes from Tom Wadewitz with UBS. Your line is open. Please go ahead.

<Q – Tom Wadewitz>: Yeah, good afternoon. John just had, I guess, maybe a couple for you on the market. How do you think about coal, I guess it gets less worse through the quarter? Is there a point where you say, okay, this is the new run rate for coal? That it's like, hey, the mines just can't do what they used to. Or are you optimistic that it gets to 2027, you get back to kind of where they were.

I guess with ECP, that's been pretty good, but I think refined products to Mexico may be weak. I don't know. Any kind of, I guess, thoughts on those two. Thank you.

<A – John Brooks>: Yeah. Thanks, Tom. Yeah, definitely Q2 was what we are looking at as the worst of the worst in terms of impacts to our revenue and our volumes related to the coal. I think Q3 feels like maybe Q1, progressively it gets a little better to close out the year. We're staying really close with the customer there. I can tell you they are optimistic around increasing volumes. I would say we've definitely seen an improvement in their production. Our expectation is, I think their view to the mining capability as they look to 2027, is to get back to those type of levels you would have seen last year. I know they want to even grow beyond that. I think your characterization of less worse is probably right as we move into the second half of the year.

ECP You're right. It's the one area that keeps me up at night is the refined fuels into Mexico. It's a really good piece of business and I guess supply chain solution that we've developed. It really has been pretty well non-existent here for the last six, eight months. We start to see as things sort of improve relative to the situation in the Gulf, we begin to see that open back up a little bit. As soon as things turn again, it closes right back up. I think the good news on that front is we're ready. That supply chain is solid. We've got the customs processes in place. As the market shifts and those arbs open back up, I think we'll benefit from that business again. I just can't tell you exactly when that's going to happen.

<Q – Tom Wadewitz>: Yeah. Okay, great. Thank you.

<A – John Brooks>: Thanks.

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

<Q – Benoit Poirier>: Yeah. Thank you very much, and good afternoon, everyone. Just in terms of assumption, given the movement that we've seen in the FX and fuel, I was wondering if there was any change in your assumption for the year, and maybe specifically for the grain, John. You mentioned, are you counting on a stronger grain crop in the second half to kind of offset the coal weakness, or are you still baking a three to five-year average? Thank you.

<A – John Brooks>: Yeah. I'll let maybe Nadeem comment on some of the macro assumptions. On the grain front, I think we're pretty optimistic that we're going to close out Q3 on continued strength. I think the question will be when exactly the grain harvest comes on. I'll tell you right now, I've seen maybe more bullishness relative to CPKC's specific growing territory. So, Southern Alberta, Southern Saskatchewan, areas that have even last year weren't great in terms of drought conditions, being better. We are optimistic. For the purposes of our Q4, we've modeled what would be the three to five-year average. I'll tell you last year, our volumes did not move at a record pace. We were a little bit slower out of our southern territory, and then that kind of picked up. Maybe a little bit different than what CN experienced in the fall. Even at that sort of average run rate, we see some uptick in terms of grain helping be supportive in that. Again, we also believe our US franchise has a pretty good outlook on top of that, Benoit.

<A – Nadeem Velani>: Benoit, our assumption hasn't changed much off where it was at the beginning of the year. We were closer to CAD1.38 on currency. We're closer to CAD1.40, CAD1.41 recently. Obviously, fuel is very volatile, and there's timing issues related to fuel surcharge and the lag of what comes with the expenses that we hit directly. Overall, our fuel assumption has increased for at least for the next 30 to 60 days, and we'll see what plays out the rest of the year. We're effectively covered. I would just say that it may impact our operating ratio to an extent, just in terms of the taking on those fuel surcharge revenues at 100% operating ratio and the lag impact, which hopefully will turn become positive by the end of the year.

<Q – Benoit Poirier>: Very good color. Thank you very much, gents.

<A – John Brooks>: Yeah, thanks.

<Operator>: Your next question comes from David Vernon with Bernstein. Your line is open.

<Q – David Vernon>: Hey, good afternoon, and thanks for fitting me in here. John, maybe as you think about how the business has grown over the last couple of years, can you help us frame what the cross-border Mexico revenue is on a total shipment basis and how much of that is actually going Western Canada or west of Chicago versus Eastern Canada or points in the US? Just trying to get a sense for the revenue that's on the cross-border Mexico stuff, because you guys have delivered a lot on the synergy side with the KC Mexico. Thanks.

<A – John Brooks>: I can frame it up this way, David. Specific to what I consider our land bridge business, I think I guided towards a continual run rate to get to $600 million on that business this year. You should think about, as Keith said earlier, 60%, 65% of that is between Western Canada and Mexico, the balance is Eastern Canadian business. I would tell you it's pretty equally spread between whether that's intermodal business, ECP business, automotive business, and grain business. Those are kind of the big four.

<Q – David Vernon>: Super helpful. Thank you.

<A – John Brooks>: Thanks, David.

<Operator>: Thank you. This does conclude our question-and-answer session. I'd be happy to return the call to Mr. Keith Creel.

<A – Keith Creel>: Thanks, operator. Listen, thanks again for everyone's time. It's a nice, fulsome, robust discussions this afternoon. There's a lot of noise in our industry. There's a lot of noise in the economy, but we think the noise from an economic standpoint is providing a very supportive backdrop that we control what we control. We're set up for a strong second half operationally, commercially, with a bit of strengthening freight market demand at our back. We're focused on executing and meeting or exceeding not only our 2026 guidance, but carrying a whole lot of momentum into 2027. Thank you, and we look forward to sharing our third quarter results in October.

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