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Transcript

CP First Quarter Earnings Call
April 19, 2017

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MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon. My name is Mike, and I will be your conference operator today. At this time, I would like to welcome everyone to Canadian Pacific's First Quarter 2017 Conference Call. The slides accompanying today's call are available at www.cpr.ca. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there'll be a question-and-answer session. [Operator Instructions]

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

Maeghan Albiston

AVP Investor Relations, Canadian Pacific

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

Before we begin, I want to remind you that this presentation contains forward-looking information and actual results may differ materially. The risks, uncertainties and other factors that could influence actual results are described on slide 2, in the press release, and in the MD&A filed with Canadian and U.S. regulators. This presentation also contains non-GAAP measures, which are outlined on slide 3.

With me here today is Keith Creel, our President and Chief Executive Officer; Nadeem Velani, our Chief Financial Officer; and John Brooks, our Chief Marketing Officer. The formal remarks will be followed by Q&A. And in the interest of time, we'd ask that you limit your questions to two.

It is now my pleasure to introduce Mr. Keith Creel.

Keith Edward Creel

President and Chief Executive Officer, Canadian Pacific

Okay. Good afternoon, thank you, Maeghan. Appreciate those comments. Let me start by saying this, the results that we've shared this afternoon that everyone is taking look at now and assessing reflect a very solid quarter performance for this team as we kicked off 2017. I'm extremely proud of the team. The outstanding efforts, extraordinary efforts that we had to deploy in this first quarter, we actually had a winter this year, a much more challenging operating environment versus last year, which provided some headwinds relative to surface, relative to cost, as well as, I would say revenue as well. So, in spite of that, this team has produced a very solid quarter performance. I'm very encouraged as we transition into the second quarter, March, the weather start to clear out, we had some positive RTM growth about 3.5% as we close the quarter out, which carried over the momentum, quarter to date, we're up about 6% for the second quarter from an RTM standpoint.

Of course, we're also into the leadership transition, that's something I'm happy to say but not surprised and we're not distracted, and we're prepared for this, we've been prepared for this transition for the last four years as we built a very solid bench, which we were able to implement as soon as the transition took over. So part of that transition is Meaghan and [ph] Mitch (02:46) and John is with us today doing his first call, he's the newly appointed Chief Marketing Officer. When I became the CEO, I couldn't spend the same amount of time with the marketing group as I had the previous couple of years. So by creating John's position, I've got someone 100% focused on the markets and driving our top-line opportunities.

John is someone who's got 23 years of commercial experience in this industry. Deep experience started with UP, DM&E to CP, and then, of course, when we came with CP, that's when I identified John and have been working with him. For the last couple of years as he led half of the business units along with Tommy Browning. When we created his position, that also allowed us to grab and seek and recruit some additional talent. So we've got two very talented individuals, one is Tommy Browning, as well as Jonathan Wahba, who's joined the team with the transition as well that are reporting, too, to John, focusing on generating sustainable profitable top-line growth.

In addition to that, we've made one other small tweak to the staff when we created the VP, Market Strategy and Asset Management, Mr. Mike Foran. Mike has been for the previous six months prior to this transition out on the railroad MBA program, developing his knowledge of the network combined with his knowledge of assets and knowledge of the op center he has hit the ground runningas well. So very, very pleased with the strength of the bench there.

With that said, too, let me – I'm going to do a little different today, instead of me going through all the numbers, I'm going to let Nadeem and John speak to the numbers, and let me spend my last few minutes before I turn it over to John and Nadeem to tell you what I've been focused on for the past 90 days.

This company, we've driven a tremendous amount of change over the last four years, fixing the engine, is the way I would put it. So, we've restored our credibility in the marketplace. We've restored financial health. We've fixed the engine. We've got great service. We got low cost, which are two very compelling market competitors when you put them together to go out, compete for business, and we've retained more credibility with customers. So taking that out to the market, taking it to the street, is exactly what we've been focused on doing.

But at the same time, over the last four years, we've had some feathers that have been ruffled. So, part of my focus has been to reconnect with employees and also to reconnect with our labor relations, with our labor unions to ensure that the things that we made that we didn't get right in the past, that we can get right as we go forward, trying to tap into that CP pride and trying to engage and enable more and more employees do what they can do instead of just what they must do.

So I've done a series of town halls across the property, 7 cities, major work centers, West Coast, East Coast, and both in the U.S., just completed those last week to last two in the U.S. properties. And I can tell you that this team, and I'd say team, I'm not talking about just the officers, I'm talking about the craft employees that make up this railroad day in and day out are engaged and ready to move forward into the future.

The pride is there, they're looking forward to the growth. So, with John and his focus with our ability to grow the top line as we said we're going to do, that's exactly what we will do. I feel very optimistic about what I see in the marketplace going forward. We just got to get out, we've got to remain humble, do our jobs, engage our employees, engage with our customers, focus on our strategies on the marketing side, and you're going to see some top-line growth come from this company.

So with that said, to provide some color, I'm going to turn it over to John, and then eventually Nadeem, and then we'll take any questions, when we get finished and we may not have covered on our comments.

John Brooks

Chief Marketing Officer, Canadian Pacific

All right. Thank you, Keith, and good afternoon to everyone. As Keith said, it is my first call, so it's my pleasure to be joining you all today. As mentioned in our press release that you've all seen, revenues came in at CAD 1.6 billion, up 1% on the quarter, and in line with our expectations, and considering the challenging comps and the weather conditions Keith spoke about, overall, we feel pretty good about our revenue results. RTMs, as Keith mentioned, were essentially flat, but if you take crude out of that, they are up about 3% on the quarter.

Foreign exchange, of course, with a little bit of a headwind with a weaker Canadian dollar in 2016, but higher diesel fuel prices provided a little bit of a tailwind for us, helping to offset some of that FX. Our fuel surcharge revenues were CAD 53 million this year, compared to CAD 26 million last year. On the pricing side, we continue to achieve inflation-plus that puts us roughly in the 2.5% to 3% range, and that was partially offset by some headwinds we had with strong potash and also some weaker volumes in our fertilizer and our autos franchise.

I'll take a few minutes now to kind of walk you through the revenue drivers in each of our commodity areas. So, let's start with grain. Revenue was up 9%, carloads up 7%. In spite of the challenges we had in our Western Corridor, and particularly, challenges we had with some of our connecting railroad partners, I'm really pleased with how our grain franchise came in in Q1.

In fact, this Q1 2017 was the best Q1 we've had in the last five years, including the big bumper crop Canada had in 2013-2014. So our dedicated train is working, the velocity is building and has built through the quarter, and actually I'm pleased to report that last week, we had our single largest empty grain spotting week at CP. So although, I think our U.S. grain franchise is starting to slow a little bit, with the opening of Thunder Bay and the recovery of the U.S. roads, we expect a strong Q2.

On the coal side, revenues were up a modest 3%. The Canadian coal supply chain had a – definitely a tougher year. That being said, March velocity has really picked up with our coal sets. We continue to see that in April, and it's setting us up well for Q2 in coal.

On potash, we had a very impressive 23% tailwind, driven by our strong exports. We believe this trend will remain as we get into Q2, and particularly, given we have some easier comps in that Canpotex was still working on contracts with China and India last year. As we head into the back half of the year, I'll remind you that we've got the K+S mine coming online also.

In the fertilizers area, it reflected a outage in a slower than expected recovery, bringing our numbers down about 25%. This, combined with the market dynamics where we saw greater fertilizer inventories in the country, caused this shortfall. Now we're gaining some momentum and expect Q2 run rate to improve.

In the energy, chemicals & plastics area, our revenues were down about 11%, this resulted in an OR that was as a result of crude being down close to 40% year-over-year. Now that said, our crude volumes did outperform, as we helped our customer fulfill a number of contract obligations that they had in the marketplace. So while we're off to a good start, Q1 in crude, I think the future still remains little uncertain there, but rest assured, if the demand materializes, we will work with our customers to mobilize and provide service.

In the metals, minerals, and consumer products area, we performed very well, driven not only by our lumber, steel, but primarily our frac sand. We moved approximately 17,000 cars of frac sand this quarter, and these are levels we haven't seen since 2014. The industry on CP appears bullish, and we've got a number of industrial development and capital investment projects underway. We remain optimistic that the frac sand run rate will continue into Q2 and Q3.

On the Intermodal front, I'm extremely proud. Revenues are up 5%, led particularly by our domestic franchise. I couldn't be more pleased with the team that we've assembled on the Intermodal side, as they are committed to drive the results we need in this area. On the domestic side, our spring inventory levels were strong, as customers built their inventories. We also capitalized on share gains, on strong service in Canada, and our cross-border business. On the international side, excluding some contract headwinds, volumes were up based on the strength of our partnerships and growing with our existing customer base. Now looking forward to Q2, I think we're set up well. Crude and weather comps are behind us, the bulk environment continues to look favorable, and we're here to tell you – we've got strong growth strategies in place for our carload customers.

We've guided a slight volume revenue growth or slight volume growth for the year. The first quarter came in within those expectations, and I'm very confident we will continue to deliver to that plan.

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

Nadeem Velani

Chief Financial Officer, Canadian Pacific

Thanks, John, and good afternoon. I'm pleased to walk you through our first quarter financial results. I'll be speaking to the results on an exchange-adjusted basis, which is shown on the far right column of the table/slide. It was our expectation at the onset of 2017 that we would be facing difficult comps in Q1 given an exceptionally mild winter last year, a weaker Canadian dollar that benefited operating income in 2016, as well as benefits from land sales last year, which led to a record Q1 operating ratio for the company at the time.

Given these headwinds, echoing Keith, I'm proud of what the team has delivered to start the year. Revenues turned positive this quarter, and although it's still early in the year, we're encouraged by the recent inflection in volumes and the operating leverage it will provide going forward.

From an expense point of view, total operating expenses were up 1% on an exchange-adjusted basis. However, this includes CAD 51 million in cost recovery in comp and benefits from the retirement of Hunter Harrison as the CEO, which we announced in January. Excluding this recovery as a one-time item, our FX adjusted total expenses were up 7%. Getting into the expense details, comp and benefits, excluding the benefit I just referenced, improved by 14%, this was largely due to a smaller workforce and increased pension income.

Labor inflation acted as a partial offset. Our workforce is now approximately 11,800. With seasonal engineering crews and growing demand, workforce will increase sequentially, but full-year average workforce is still expected to remain flat compared to last year.

Fuel expense was the large driver of increased total expense. Fuel was up 39% year-over-year, as a result of higher fuel prices. Also to note, a year ago, we benefited from a fuel surcharge lag. We cycled against that impact this year, which combined with the higher fuel prices, caused about 2 points of deterioration in the OR and an EPS impact of about CAD 0.07. Going forward, assuming less volatility in OHD prices, this headwind should be less impactful.

Depreciation expense was CAD 166 million, which is higher by 4% as a result of a higher asset base. We can expect this run rate to continue for the next few quarters, and then expect a slight increase in Q4, as capital projects are completed and added to the asset base.

Purchased services increased by CAD 57 to CAD 278 million, but if you exclude last year's land sales and FX impact, it is essentially flat. We continue to benefit from lower crude hauling costs and other efficiency savings; however, these were offset by higher snow removal costs, property taxes, and general inflation.

For modeling purposes, we still expect CAD 50 to CAD 60 million of land sales, but these will largely be in the second half of the year. Looking below the line, other charges are flat, excluding significant items, and interest expense is slightly favorable as a result of foreign exchange. Our tax rate came in at 26.5%, which is in line with our guidance for the year. In terms of EPS for the quarter, our adjusted diluted earnings per share came in at CAD 2.50, which is flat from 2016.

I've recently met with each of the rating agencies to reaffirm our commitment to strong – our strong investment grade ratings. We are committed to protecting our balance sheet and maintaining financial flexibility.

As I mentioned on our last call in Q4, we will bring a proposal on share repurchases and dividends to the board in the next month. We do think a healthy balance between share repurchases and dividends funded by the significant free cash we generate is an appropriate way for us to return capital to shareholders.

In summary, with a solid first quarter in the books, a return to positive volumes and much easier comps ahead, we remain confident in our ability to deliver.

And with that, Keith, I'll hand it back over to you.

Keith Edward Creel

President and Chief Executive Officer, Canadian Pacific

Okay. Thanks, Nadeem. John, appreciate that color. Real quick before we open it up to questions. Just hot off the press I'm very proud to share this as well relative to the comments I made earlier on positive labor relations.

I've just been notified that we have ratified with our USW, the brothers and sisters that represent the clerical work on the Canadian side of the border a five-year deal, actually ratified it early, their deal was good currently through the end of this year. I think it's very progressive and innovative as well, maybe a first in the industry relative to the last two years.

There's an ability for these employees be recognized for their contributions, and as we see RTM growth, revenue growth, and they can benefit from their share of that as well by getting an increase in their wages relative to the tail end. So there's something in for them as well, which is exactly the way we want to get people aligned across the board, be it officers, be it our craft employees, as we work together in the CP family to create this kind of results that our shareholders and our customers deserve and expect. So with that said, we'll turn it over and open it up to questions.

QUESTION AND ANSWER SECTION

Operator - Thank you. [Operator Instructions] Your first question comes from Ken Hoexter from Merrill Lynch. Please go ahead. And the next question comes from Scott Group from Wolfe Research. Please go ahead.

<Q - Scott H. Group>: Thanks. Afternoon, guys.

<A - Keith Edward Creel>: Hey, Scott.

<A - John Brooks>: Hey, Scott.

<Q - Scott H. Group>: So, wondering if maybe Keith or Nadeem, you can share with us kind of how you're thinking about RTM growth in the second quarter, and how we should be thinking about incremental margins as the revenue turns positive here.

<A - Keith Edward Creel>: As far as the RTM growth goes, Scott, I mean, what we're seeing now, it's pretty much what we expect to see as we go forward. So mid-single-digit RTM growth. I don't see any definitive indicators to tell any more than that at this point. So that's what we're going to stick with as far as the RTM growth. And on the margins...

<A - Nadeem Velani>: Yeah. I mean, Scott, we've talked a lot about how we want to convert the growth to the bottom line and the power of operating leverage. It'd be nice to see that again. I mean, we haven't seen revenue growth since Q3 of 2015. So we're very excited how we can convert this.

And you know, I would just say that's our expectation for the year is to improve our margins and lower the operating ratio. So, you can expect that to be the case. I mean, our train length, our train weights are significantly improved even three weeks into the Q2, and so, my reference to operating leverage, you can expect the incremental margins are going to be very strong.

<Q - Scott H. Group>: Okay. And then, Keith, I wanted to ask you, obviously, the big change from a quarter ago is that Hunter is now at CSX, and I'm not going to ask an M&A question, but you guys obviously think a lot alike. I'm wondering, do you see opportunities to work with CSX, be it on co-production agreements or maybe something in Chicago with the belt? Do you see opportunities to work together that could be a meaningful cost or margin opportunity for CP?

<A - Keith Edward Creel>: Well, I'd say that, Scott, we, philosophically – you know the way I think, I'm not going to disagree with you. But at the same time, this company would be prepared to work with any railroad, be it CSX, be it NS, be it UP, be it BN, if we can create operational synergies.

So with that said, if there's a willing mind and the willingness to do that, then obviously, we're going to look at that. And we certainly understand in Chicago, the dependence upon that city, the dependence upon the belt, the suspect nature of how I can operate at times. So to me, if I can create an environment where I lessen my dependence upon some of those complexities that drive additional cost into our deteriorate service, then I'd be silly not to do that, so that would be my best way to answer that.

<Q - Scott H. Group>: Okay. Is there a natural rail to work within the Chicago area?

<A - Keith Edward Creel>: Our single largest interchange carrier at Chicago is the CSX, we've said that before, it's a matter of public record, so, and all that traffic goes to the belt currently today. So from an operational standpoint, I would have to think that there's got to be some synergies, some opportunities that would give access, terms, improvement as well as customer experience improvement, be it CP originated or CSX terminated or vice versa.

<**Q - Scott H. Group>:** Okay. All right. Thank you, guys.

<A - Keith Edward Creel>: Thank you.

<A - Nadeem Velani>: Thanks, Scott.

Operator - The next question comes from Fadi Chamoun from BMO Capital Markets. Please go ahead.

<Q - Fadi Chamoun>: Thank you. Keith, I want to circle back to some of the remarks that you made at the start of this call. On sort of priorities, and I'm not sure if you agree with the view that going forward, your growth, your earning growth is a little bit more dependent on volume and commercial success. And if you can talk a little bit about sort of the priorities under your leadership versus prior leadership, and how you're trying to sort of steer some of that strategy to emphasize these opportunities for CP going forward.

<A - Keith Edward Creel>: Yeah. So, Fadi, essentially, what it is is a continuum of the story. I mean, we came here the first four years. As I say "we", we know who the "we" is - This team that's here as well as Hunter and I, with the mandate to fix the engine, to fix the railroad, we've done that. So, as we go forward, my focus is, to your point, is top-line growth, and that's exactly what my mandate is from our team.

That's the reason we established the position with John to make sure that we've got the right leadership, we've got the right focus, creating the same kind of performance culture in that marketing team that we have on the operating side, while not forgetting what got us there. We can't lose our ability to provide service and do it at a low cost and turn assets, that's never going to change, that's the fundamental recipe of success in sustaining and running this railway, that's precision railroading. So that's not going to change.

What will change is, as we go forward though is given that we've got credibility in the marketplace, we can have completely differently conversations today that we could have two years ago, or that we could have three years ago. We talked about this then, we said, listen it's going to take some time to get to a point that with all the change we've driven, customers will listen to us and customers will trust us with their supply chains. And that's exactly what this is all about, and that's exactly the strengths with this franchise.

When we're shorter in key markets, I should own those lanes. If I've got little cost and great service and you're a customer that owns assets and you're turning those assets, and I can lower your ownership cost and give you dependable truck-like reliable service, then we should be able to win in the marketplace, and that's exactly what's this recipe is about and that's exactly the product that this operating team has created in giving John and his team to be able to convert the marketplace. And that's what we're seeing and focused on doing.

There's quite a bit of business, and I've said this before, that's out there that naturally fits our network, be it on the rail, be it on the road, and we're going to go after and we're going to get it. We're going to hustle and we're going to get out there, we're going to sell the service, we're going to show customers how we can help them win in the marketplace, we win as a result as well, it's a win-win for both parties and you're going to see top-line growth in this company.

<A - Nadeem Velani>: And I would just add, Fadi, that we still have runway for margin improvement, and that's not dependent on volumes if you look at our guidance for the year, when we're talking high single-digit EPS growth with slightly positive volumes. So, we still have the ability to increase EPS without the need for volumes per se this year.

<**Q - Fadi Chamoun>**: Okay, thanks. But my second question, just from a maintenance point of view, can you remind us what is the pension income benefit you're expecting this year and how much of that occurred in the first quarter?

<A - Nadeem Velani>: Yeah. It's about CAD 100 million benefit, and it's equal in each quarter, so about CAD 25 million of benefit each quarter.

<Q - Fadi Chamoun>: Great. Thanks, guys.

<**A - Nadeem Velani>**: Thanks, Fadi.

Operator - Your next question comes from Chris Wetherbee from Citigroup. Please go ahead.

<Q - Chris Wetherbee>: Hey. Great. Thanks. Good afternoon, guys. I wanted to pick up on sort of the volume point estimate, a couple of comments, I just want to get a sense, Keith it sounded like you're maybe a little bit more optimistic about a potential inflection in volume, and then, Nadeem, I think you talked about being able to grow without volume growth or get a warm improvement in EPS growth, but do you feel based on what you're seeing from customers and sort of the pickup you saw late in the first quarter and then to 2Q that things are maybe getting a bit better than you thought they might be when we talked three months ago?

<A - Keith Edward Creel>: Yeah. I would say that the fundamentals, I wouldn't disagree with that at all, Chris. I would say that, number one, from a comp standpoint, we've got crude behind us, we've got winter weather behind us, we've – obviously, last year, second quarter was anemic for this company.

So we've got an opportunity now with strong demand in potash, strong demand in coal, strong demand in grain, we've got favorable weather conditions or cycles, dedicated trains are moving, speed is picking up. So, all those underlying fundamentals are what gives us the confidence that we have. But with that said, we're seeing about 6% year-over-year RTM growth now, and I see and expect the same. There's nothing that I see that would expect it to lessen any between now and end of the quarter.

<Q - Chris Wetherbee>: Yeah. Okay, that's helpful. I appreciate it. And then, just switching gears really quick to the pricing side, and I apologize I'd missed it if you gave a core pricing number in the quarter. If you did, we'll love to know what it was and then just sort of generally thinking about the pricing dynamic, particularly in Canada, if you see any dynamic changes there kind of how you guys are thinking about that over the course for the rest of the year?

<**A - John Brooks>**: Hey, Chris. It's John. So, our same-store was in that 2.5% to 3% range. To be honest, I was hoping Q1 might look a little better in terms of that change in that dynamic. There's still a lot of challenges out there in terms of the trucking sector and what we're seeing across the franchise. That being said, we are optimistic that that dynamic is going to continue to turn. So, I'd say we haven't quite felt that yet, but hopefully maybe a Q3, Q4 story we can tell.

<Q - Chris Wetherbee>: Okay. That's great. That's very helpful. Thanks for the time. Appreciate it.

<A - John Brooks>: Okay.

<A - Keith Edward Creel>: Thanks, Chris.

Operator - The next question is from Walter Spracklin from RBC. Please go ahead.

<Q - Walter Spracklin>: Thanks very much. Good afternoon, everyone. I guess, my first question would be for John as well. I think you've got a lot of growth opportunity coming on in Vancouver, right now we got Deltaport going to be opening up in the summer and there's 20% more capacity there.

My question therefore is that, with Intermodal coming on line there, are you less concerned about getting share gain versus your rail competitor, or are you going to focus on share gain on truck? I know you've got a nice add there on the – with Jonathan with – from a trucking background. Where do you – or is there share gain to be made back from rail? How do you look at all the buckets of growth in Intermodal, and which do you prioritize as you're looking out the next year in that segment?

<A - John Brooks>: Yeah. So, you brought up the Vancouver, Vancouver port and the opportunity there. Certainly, Walter, we're excited about that. We think there's a lot of upside in 2017, and certainly beyond there. I think there's a great opportunity for us to leverage our fastest, most direct routing to Chicago, hitting our eastern partners and also leveraging certainly our business into the Twin States, into the Twin Cities.

I'd say from that end, our international business is probably “Job One” to continue to secure that, that route and that opportunity. As I think about the buckets, you know, certainly over the road is probably takes the top billing. I think we have done a heck of a job in growing that business in our cross border. I think we've got work to do in domestic Canada that we can still convert a lot of that traffic. And as we talked about on the pricing front, its that sort of worm turns here, the second half of the year, I think, that opportunity begins to build for us.

<Q - Walter Spracklin>: Okay, that's great. Moving to second question here over to Keith. Found it interesting, you mentioned ruffled feathers. I think when I look back to the period after Hunter left CN, there might have been a case that there were some ruffled feathers there. And you were certainly part of the team that unruffled those feathers with CN to certainly too good to grow your success.

Is there anything that you learned from there that you might apply to CP here? And I'm talking about customer, those customer service agreements that we're putting in place. Is there anything specific you have in mind that you want to sort of go forward with particularly with regards to customer reengagement that you might have learned from your time over at CN in that period?

<A - Keith Edward Creel>: Well, for the customer engagement, Walter, I've been doing since I arrived here. So there's just more the same there. I mean, those kind of ruffled feathers, you know, well honestly, because of our previous life and maybe they led the way, a lot of the similar customers, they expect to pay their demurrage bills. They expect to go through some fair assessment of demurrage charges and pay the bill. I mean, some of that was significant change that CN drove that now the same customer today, as long as we are giving them a clear and an accurate bill, you don't have those same kind of responses that we might have had in the past.

My focus is more specific to our craft employees. I mean, at CP, we've driven a tremendous amount of change trying to restore the health of the company. What we're doing before is not sustainable. And I don't blame the employees for that, the employees certainly just didn't understand that, we had to drive the change that we drove. And then the Union that's been affected by the most with the TCRC, we've had two strikes with the TCRC, and listen, we haven't got that all right.

But at the same time, part of our focus is to focus on those things we haven't got right to establish relationships of trust and respect, and it works both ways. It's not just for us to the TCRC, it's also the TCRC with us. So that's been my focus from the very beginning.

I met with the president of that specific union, I've been able to properly interacting with those specific employees as well as the other employees, and it's refreshing to see the response and the willingness to change and the positive momentum that we're starting to create. So, as we do that and we go forward, we get to an environment where we can actually negotiate a favorable collective agreement for the employees as well as for the company and for our customers and allow us to not miss a beat and continue to provide the service that John needs to be able to drive that revenue top line story.

<A - John Brooks>: I just might add to that, Walter, that from a customer experience perspective, we're not going to be everything to everybody, we certainly are going to pick our partners and want to help them succeed in the marketplace. And from a customer experience standpoint, I think that means more product development, improvement and working with our IT systems in providing more transparency into our service for our customers. And then it's also about building a high performance customer service group. So, I think there's a number of elements you're going to see on that front in terms of the customer experience, things that we can fold into this overall product.

<Q - Walter Spracklin>: Okay. Makes a lot of sense. Thanks very much, guys.

<A - Keith Edward Creel>: Thank you.

Operator - Your next question comes from Ravi Shanker from Morgan Stanley. Please go ahead.

<Q - Ravi Shanker>: Thanks. Good afternoon, everyone. So, a question specifically on crude. I mean, we are hearing reports on kind of ramping of crude production out of the Canadian oil sands, especially in the second half of the year, wondering what you're hearing there and what your current crude outlook might be, and if you're prepared to handle more crude by rail volumes if it comes to that?

<A - Keith Edward Creel>: I'll let John provide some color, but I'll say, I'm going to say I'm a commitment guy and I don't have any commitment. So, I'm a bit pessimistic about crude. I'd love to be surprised, but at this point, we've been burned so much at this company with crude and to a point, it's less than 2% of our revenue. It's important business to us, I'm not going to suggest it's not, but at the same time, it's nothing that I'm willing to bet the farm on it, or let it get ahead of us the way we did in the past but with that said, John, go ahead, and...

<A - John Brooks>: Yeah. I guess, I'd only add that I think we're excited about the prospects of the new production coming on towards the end of the year. If that in fact provides the opportunity to sort out [ph] script (34:47), we can move in the pipe and we can move it on rail. We're going to be there to mobilize the assets, the service to try to deliver that. But as Keith said, in no means are we banking on that today.

<Q - Ravi Shanker>: Got it. Understood. And if I can just follow up on the ruffled feathers comment, how do you ensure that kind of smoothing those feathers doesn't send your OR back up again? And I think you said some of the actions you may have taken may have been unsustainable, I mean, does reversing that kind of necessarily hurt your profitability?

<A - Keith Edward Creel>: Yeah. When you speak about ruffled feathers, it doesn't mean you compromise your principles. The way we run this railroad, precision railroading, it means going out and explaining to people, so they understand what's in it for them and understand why we do we have to do. It's very encouraging when you go out and you speak to somebody's employees that have gone through this ruffled feather comment, I don't like this thing to get too carried away with us. But if you sit there and explain, listen, we didn't have a choice, we weren't very, well, respective when it came to service, our competitor was beating us day in and day out. So, do you want to work productively, safely and efficiently and provide good service to our customers, so you get the benefit and the honor of moving that freight, or if not, the alternative is not very attractive for either one of us.

So when you have those kind of conversations with people, they get, they understand it. It doesn't mean you change the way you do business, it just means we better communicate eye to eye, boot to boot, out on the ground with our employees, and they understand why it's important that we did what we did, and why it's important how we do what we do day in and day out to be able to provide that service at low costs so that we can compete in the marketplace and protect their jobs. And I think, as we grow, add more jobs back to the company, but it's going to be long step with revenue, it's not going to be given away any kind of efficiency that we've worked blood, sweat and tears to put ourselves in the position to be able to benefit from.

<Q - Ravi Shanker>: Great. Very helpful. Thank you.

Operator - The next question comes from Tom Wadewitz from UBS. Please go ahead.

<Q - Thomas Wadewitz>: Good afternoon. Wanted to ask you a bit first on cost drivers. I know that perhaps there's a lot of different factors, not one or two big ones, but if you could identify what are some of the key cost drivers, or alternatively, what might drive the operating leverage as volume comes back?

<A - Keith Edward Creel>: For the driver, I'll let Nadeem provide a little bit color, Tom, but the main driver is absorbing the additional business without simply adding additional train starts, so we've made investments in our physical plant, it's time for those investments to be payed for, we've got DP power 100% of our fleet and we can run longer trains which we're doing, we can run heavier trains which we're doing, which are more fuel-efficient trains, which drive those synergies and the leverages to the bottom line. So, with that said...

<A - Nadeem Velani>: Yeah. I mean...

<A - Keith Edward Creel>: That's pretty much units, it's basic block and tackle, wherein we're doing what we do and what works well for us.

<A - Nadeem Velani>: Yeah. There's always the initiatives that you continue to incorporate to help offset some of the inflation on the expense side. We have a fuel sourcing initiative that's going to add some savings that we'll see benefits up in the coming quarters, some of the locomotive modernization program we put in place that are going to help us reduce some of our costs associated with how we run the network. There's a lot – but a lot of it is just blocking and tackling the opportunity to grow at low incremental cost, and like I said, the operating – the power of operating leverage as well.

<Q - Thomas Wadewitz>: I mean, when I think of that, I'd be – would have thought that unlike your coal and potash trains, you already would have been running, optimized train lengths. I know you identified a couple quarters ago how you could run longer grain trains. But is that the right way to think about it or can you run longer coal and potash trains as well?

<A - Keith Edward Creel>: Tom, the coal is there, I would say no on coal, I think we've got that at an optimal spot. The potash, there're still more opportunity left, we run 172 car trains to the West Coast, to Neptune there on the North Shore and Vancouver, but also a portion of that business goes down to Portland, Oregon. So, it's – that's one of our initiatives we are working close with the UP as well as the customer to expand that train length as well.

Some of the things we've got on the South Shore, contrary to some of the fake news that I read last week, the service in the South Shore has never been better. We've got efficiencies we've created. We went in to make some investment down there. So we're effectively moving our assets faster for our customers with less operating costs.

So all those things, when you put it all together, there's no home runs anymore, it's singles and doubles, but you start putting those singles and doubles together and they start adding up to scores and that's how we continue to – continue the story as we go forward.

<A - Nadeem Velani>: And recall, Tom, a lot of the initiatives that we put in place last year were more in the back half of the year, right? So we'll see the benefits of that currently, and that will flow to the bottom line as well.

<Q - Thomas Wadewitz>: Okay. And if I can add, I don't know, if it's the second one or whatever, however you want to parse it, but a second topic, if you will, just any quick thoughts on the competitive environment, obviously, volume growth is a function of what the truck market provides, how well you execute, but also how the other railroad behave. So, is that – is anything changing there or is it still pretty competitive with broader rail market?

<A - John Brooks>: Tom, it's John. I would say, yes, the competitive environment right now, right. As I talked about a little bit earlier, I'm hoping for a little breathing room to get after it, maybe later in the year in terms of that over the road business. But that being said, we've also been pretty successful on that front.

And you know it can be focused on the competitor, certainly we need to understand what they're doing and how they go about it, and we'll do that, but first and foremost, we're focused on what we need to do to grow with our customers, that's the priority. So that competition is all going to be there, but this is more about how we can get after with our existing customers, grow their share, help them win, and then eventually convert more over the road.

<A - Keith Edward Creel>: Yeah. Tom, we've always said this and you can expect this to be maintained at this company. We're not going to commoditize our sales, we're going to make smart business decisions, we're going to sell service and selling service is not selling price, selling services going into a customer and educating that customer how we can help them spend less money, maybe not in rate, but also in their total transportation spend to make them more competitive in the marketplace, so they can grow their top line and we can grow with them. It's blocking and tackling, it's taking this franchise that – and a lot of these lanes that we have service reliability, we're actually shorter to market. So, I've talked about this before, I talked about this to a specific customer I'm not going to name last month about this.

I said, listen, if you own 4,000 cars in this particular lane, and I can give you an asset, turn this 25% faster, you need to own 25% fewer cars, do the math on those cars, and it's over CAD 100 million of capital cost that you can avoid, as long as you can rely on this company to get your product to the marketplace.

So we can have those discussions now, which is exactly what we're doing. Our team is learning how to have those discussions, Tom, to be able to convert this, and that's what gives me confidence as we go forward to grow this top line taking share that rightfully should be on this railroad as well as be it rail, be it off the road, be it off the highway.

<Q - Thomas Wadewitz>: Okay, great. Thank you for the time. Appreciate it.

<A - John Brooks>: Thank you, Tom.

<A - Nadeem Velani>: Thanks, Tom.

Operator - Your next question comes from Brandon Oglenski from Barclays. Please go ahead.

<Q - Brandon Oglenski>: Hey, good afternoon, everyone, and thanks for taking my question. So, I guess, I want to belabor that point that Tom got into here, Keith, if you don't mind, because for investor, it's a relative world and we do see your competitor with a higher valuation, and I think the perception that their operating model might be just a little bit better, and if you look at their OR, they're leading you a little bit. So, what are some of the incremental steps that you can take to get back that rightful share that you talk about and retain growth that maybe matches or even exceeds the other stocks that potentially investors could also look at?

<A - Keith Edward Creel>: Well, again, if I think about the operating ratio, we're pretty much on par with our competitor. I'm not going to get focused on what CN is doing. I'm focused on what we're doing and what we need to do better. I understand, I've got a very unique understanding of this industry in Canada, both sides of the border, that I think serves this company well and allows us to understand what we're good at, and that – those lanes that we're good at. We should be able to convert that business be it, again, like I said, from a rail competitor or a truck competitor.

As long as we maintain and not get too consumed with it, but maintain a low cost structure and provide good service, we're going to win in the marketplace. There's no doubt about that as far as I'm concerned. It's worked in the past, it will work as we go forward, I mean, that's what we're bringing to the table with this franchise, and that's exactly what we're focused on converting.

<Q - Brandon Oglenski>: Okay. I appreciate that. And John, welcome to the sell side questions here. But I'm going to ask one more of you, too. How integrated is the operating culture and the sales and marketing team at CP, and how much of an integrated approach do you take when you're looking at these opportunities that you guys have laid out on the call today?

<A - John Brooks>: Yeah. So, very integrated, I can tell you. I'll give you an example. As part of our focus in growing that margin that Nadeem and Keith spoke about, we recently put an initiative in place, we're working very closely with Keith's superintendents and operating managers out there as to go train by train, and I call it a surgical growth approach.

We go train by train and look at the opportunities on those trains where we can add lane to add car at a low incremental cost. And it's a matter of taking that apart with the operating team, understanding that opportunity and what lane it's in and what customers then we can go after and provide that attractive opportunity.

<Q - Brandon Oglenski>: All right. Thank you.

Operator - Your next question comes from Allison Landry from Credit Suisse. Please go ahead.

<**Q - Allison M. Landry>**: Good afternoon. Thanks for taking my question. Maybe thinking about the notion of top-line growth from sort of a longer-term perspective, clearly, you have the CAD 200 million to CAD 300 million opportunity that you can ship away at and merchandize and over the road conversions to Intermodal. How much of that CAD 200 million to CAD 300 million do you think you need to get, and how much Intermodal growth maybe on a three to four-year view in order to consistently drive either high single-digit or low double-digit EBIT and earnings growth?

<**A - Keith Edward Creel>:** I can tell you on the merchandise in the autos perspective, as I look back at my first 100 days or so in the role, I've spent a lot of time focusing in that area of our business. Certainly, there's lift in opportunities in the bulk and we'll capture those opportunities. I think we've got – we're often running in the Intermodal space, and certainly we're going to pick our partners and deliver on the international side of the opportunities that we want for Canadian Pacific in the future.

But that opportunity on the merchandise and autos to repatriate that business and bring it back in, I don't know what the number is and how quickly it comes back to our property, but I can tell you in terms of spending the time in those areas and looking at those opportunities, it's very real for 2017 to make a material move, and certainly, 2018 in those areas. And certainly, there's a lot of heavy lifting to be done on the network to take that business back, put it on the railroad, but it's out there.

<Q - Allison M. Landry>: Okay. And I guess, have there ever been any changes in the conversations with some of the customers that give you increased confidence that some of this will materialize this year and more of it next year?

<A - Keith Edward Creel>: I would say, yes, unequivocally, yes.

<Q - Allison M. Landry>: Okay.

<A - Keith Edward Creel>: The lease conversation is out there, John can speak to this. But there are certain businesses out there that's in place now as we speak that likely will be awarded later this year that, again, back to my point, my thesis, it serves to the strength of our franchise. Again, we turn assets, if you own assets and I've got a shorter route and I can reliably turn them so that you have fewer assets moving the same amount of business or the same number of assets, even more business, that's a pretty compelling value proposition that makes it quite easier to have a conversation that could come to a good outcome with the customer. So, long answer to your question, but the answer is yes.

<Q - Allison M. Landry>: Okay. Great. Thank you for the time.

Operator - Your next question comes from Turan Quettawala from Scotia Bank. Please go ahead.

<Q - Turan Quettawala>: Yes. Good afternoon, and thank you for taking my question. Just have one here, I guess, also on the top-line growth. Just wondering when you think about your guidance of slightly positive RTM growth here for the full year, is it possible to parse out sort of how much of that you expect will come from share gains or sort of this new top-line growth that you're talking about, as opposed to what will come from maybe the economy and the easier laps and such?

<A - Nadeem Velani>: That's a tough one, Turan. I mean, there's a lot of uncertainty in terms of some of the merchandise space and what's happening in the economy. I would say that we have a lot more comfort around the bulk environment there. We know we talked a little bit about John referenced K+S coming on line, we've got a strong start with this potash in Q1, it's going to be a very strong bulk quarter in Q2, that we can certainly check the box. But to parse it out in the manner you described, I mean, I don't think we have the comfort to be able to give that kind of color and visibility, I'm sorry.

<Q - Turan Quettawala>: No, that's fair. But I guess, what I'm trying to drive at, Nadeem is, is it mainly you think will come from what you'll get from the economy and the bulk side, or is that really expect – are you expecting a lot of share gain in that positive?

<A - Nadeem Velani>: I would say not a great amount of share gains is based into our slightly positive RTMs. I can definitively say that.

<Q - Turan Quettawala>: Thank you. That's helpful. Thank you very much.

<**A - Nadeem Velani>**: Thanks, Turan.

Operator - Your next question comes from David Vernon from Bernstein. Please go ahead.

<Q - J. David Scott Vernon>: Hey, good afternoon, guys, and thanks for taking the time. Keith, I wanted to address the sort of the cultural transformation on the marketing side with you just a little bit differently. If you think about kind of how you may have seen other railroads kind of approach the market, the tools, and the methodologies, the marketing practices that were in place. How long do you think it will be before the team you've recently put together kind of get to that same level of execution from a sales and marketing perspective?

<A - Keith Edward Creel>: I think it's a shorter runway, I mean, this is work that we started two years ago. So, we didn't just start two months ago. I think, with John, John is a very entrepreneurial, results-oriented guy, he gets accountability, that's the reason he's put in the position and he's working that day in and day out and sort of taking that baton that I handed him, he's worked with me for the past two years. He certainly understands what I expect from an accountability standpoint and applying that to the team.

We had a sales training session, we call it, this is back in January, I guess, or February, first week of February, show of hands in the room we've got about 100 rough number, 100 people that work under John's leadership, and about two-thirds of that were new, less than two years of service, one-third of that's about a year of service.

So the people that are here now by and large are people that subscribe to performance, the people that want to be incented, they want to be compensated, they want to make commissions, they step into those challenges, they don't step away from again by and large, so I think the culture is there, the people, the players.

I've said this before when we brought on Jonathan, we want “A” players. We want people that come to work, they want to get paid for the results, but at the same time, they know, they understand if they don't produce results, someone else will. That's our obligation to our customers, that's our obligation to our shareholders, and I take that very seriously. And John subscribes with the same kind of thought process.

So, again, I think the team here, I think you're going to start to see the results. Some of the things that we've done already, the strategies John and his team will put together. What we did last year driving Intermodal growth being the only carrier in North America that did it, as a result of proof-positive of that. So you can expect more of that as we go into 2017.

<Q - J. David Scott Vernon>: And maybe if you think about helping us who are little bit maybe outside the business or investors who were trying to understand this, I mean, I said look at it, and are there any sort of signposts or goalposts or biomarkers that you can point to? I mean, on the operation side, you got the OR and that's pretty straightforward, but I think on the sale side, I mean, is it just the weekly carload progress or is there something that we can think about as far as kind of additional insight that you might be able to help us to tell us whether this transformation is actually happening or not?

<**A - Keith Edward Creel>**: I'll let John speak to this.

<**A - John Brooks>**: Yeah. And I don't know if there's an easy answer, obviously it's the carload growth and the revenue that ultimately will define our success. I will say, and I'm not going to provide the playbook here. But there's a number of things that are sort of being developed in the tool chest that will be able to sort of, you know, I think certainly outline more as they materialize and I think that fits in maybe the area of network development.

And I think, certainly one of the things in the merchandise and autos space that I've uncovered here in this first 100 days is our network is set up from an operating standpoint as Keith spoke about to succeed. But there's some key areas of focus in terms of enhancing that region, enhancing that franchise, that I think become milestones as we move through the year.

<A - Keith Edward Creel>: I think something I would point to is take a look at RTM growth. When you see RTM growth, it's CP growing faster than the economy. That's pretty proof-positive with what we're talking about. At the same time, maintaining our pricing discipline, we're going to control, sustain profitable growth or the keywords, we're not going to get away from that. We're not going to do it if it's not profitable, we're not going to change the business.

<Q - J. David Scott Vernon>: All right. I appreciate your time, and wish you the best on that effort. Thanks.

Operator - Your next question comes from Brian Ossenbeck from JPMorgan. Please go ahead.

<Q - Brian P. Ossenbeck>: Hey, good afternoon. Thanks for taking my call. I just have a follow-up on the domestic Intermodal strategy last year that did drive the growth. If you could just give us a little bit more context of what really triggered that kind of outsized growth relative to the rest of the industry was it finally getting down to the utilizing that trip planning seems to be another focal point, I think it is the majority of your mix of Intermodal. So, if you could give us some color on that would be helpful.

<A - John Brooks>: Yeah, I think it was a number of things here and it started with people, right. So, I took over the Intermodal franchise, I don't know, year-and-a-half ago or so, and a lot of it was an assessment on the people and getting again sort of that right performance culture and mindset in place.

We spent a lot of time just getting the team out in front of our customer base, selling the service that the operating team that put in place. So again, I think there was a lot of opportunity out there in lanes, that our competition, whether it be CN or trucks had taken away from CP over the years and it was really getting the product back out in front of those customers.

So, it's leveraging the service, getting back out in front of the customers. And then I think in – there's some areas in terms of our cross-border business that maybe CP in the past just hadn't put a lot of focus to. So, we kind of tuned up that focus and got in front of those customers on that. And in that case, really got after the service in some of those lanes, and it produced results.

<Q - Brian P. Ossenbeck>: Okay. Thank you.

<A - Keith Edward Creel>: And that was the key driver – cross-border domestic Intermodal growth was the key driver for us last year that really started to get some lanes and gain traction with John and his team, and it's something we're still working on. We're not done, but at the same time, it was definitely one of the keys to our success. And the innovation in new product offerings as well, the business with the triangulation of the reefers and frozen pizzas and just being innovative in the marketplace and putting solutions out there for our customers that previously were not there is what's driving us growth.

<Q - Brian P. Ossenbeck>: Yeah. Okay. And with the trip plan being implemented, I know that was in the fall of last year, was that contributing to any of this or is it still a bit too early?

<A - Keith Edward Creel>: Yeah. No, it's too early. Trip plan is – we came through the winter, we're focusing trip plan performance is coming out, but the benefits of that, both from sales for John and his team to grow up, go out and sell service, but more specifically, for the operating team to turn assets, those are all opportunities, that's all part of some of the operational synergies we'll be driving this year, lowering costs, lowering dwell time, making sure the right cars and the right train asset turns will improve, those are all things that we'll be focused on the second and third quarter from an operating standpoint and from a margin standpoint on controlling our cost.

<A - John Brooks>: Yeah. I would add. I'm not sure we've scratched the surface on how well we can leverage trip plan and really how we present and sell that to our customer base. And then with that, particularly on the Intermodal side, how do you take that to the next level and really provide our customers daily transparency, so their box is their trip plan and their expectations. We think it's going to be a strong selling tool.

<Q - Brian P. Ossenbeck>: Okay. Great. Thanks for all the detail and your time. Appreciate it.

<A - John Brooks>: All right.

Operator - Your next question comes from Benoit Poirier from Desjardins Capital Markets.

<Q - Benoit Poirier>: Hi. Good afternoon, gentlemen. First question maybe for John. You recently strengthened the bench on the marketing front. So, I was wondering if you could provide an update on where you are right now in terms of new position that you added, and also what you're tracking in terms of key metrics to measure the success of this initiative.

<A - John Brooks>: Yeah. So, I think, certainly, in the bulk and Intermodal side, we're often running, Benoit, on terms of the people. As I said, I am extremely pleased with the new team we've got in our Intermodal side. They're deep into the market. We're measuring the success actively of our sales team not only in terms of generating revenue, the number of sales calls they're seeing, what customer's seeing, how often they're out on the road spending time with their customers. I'm very pleased with the direction of that team. In the merchandise and auto front, we've got some gaps we're still filling in that area, but we're aggressively sort of implementing all the discipline that I think we've had success in the Intermodal side into that area of our business, too.

<Q - Benoit Poirier>: Okay. Perfect. And second question, could you provide an update on K+S related to the timing, whether it's second half or the end of Q2? And also, quantify the impact we might see – we should see on the volume front in the second half.

<A - John Brooks>: I think we're looking at, at June, July timing in terms of starting to see some of that business moves. And we're anticipating about 500,000 tonnes yet this year.

<Q - Benoit Poirier>: Okay. Perfect. Thanks, John.

<A - John Brooks>: Yes.

Operator - Your next question comes from Konark Gupta from Macquarie. Please go ahead.

<Q - Konark Gupta>: Good afternoon, and thanks for taking my question, guys. Just the first one, can you please provide update on creating network fluidity? I guess the bad weather and some derailments have negatively impacted your car supply to your customers. And if you probably have lost any volumes to your competitor, are you seeing those volumes coming back to you on your network?

<A – John Brooks>: Yeah. I think, we just put into the marketplace the largest number of cars last week in our grain franchise than we ever have. The velocity on our dedicated trains, particularly when you add in Thunder Bay, is that at very high levels. I feel very confident in the level of service and the speed of our service as it stands today.

<Q - Konark Gupta>: Okay. Thanks for that. And Nadeem, one for you, just wanted to touch upon the CapEx side of equation. Your gross CapEx has run about north of 20% for much of 2011 to 2015, but came down to 19% this year and last year. I was just wondering, are you running into the risk of underinvesting relative to your competitors when you look at CapEx as percentage of revenue, or you're pretty happy with what you've got for the next two, three years?

<A - Nadeem Velani>: No, we don't invest based on what our competitor does, we invest on what's required to run safely and efficiently and grow the business. And quite frankly, those are decisions we make independently irrespective of what our peers do, and we've raised our CapEx 6% this year, and it varies year to year, depending on what the growth projects are and where the needs are.

One thing we don't second guess is how much we spend in basic maintenance CapEx, which is CAD 750 million to CAD 800 million, and you can just put that in pen every year. So, quite frankly, right now, CAD 1.25 billion is what we expect to spend, and again, it's a little bit – I think we're the only rail that's increasing CapEx this year, and we're confident and that's what we need to run our business.

<Q - Konark Gupta>: So do you anticipate – sorry.

<A - Keith Edward Creel>: I was just going to add a little color to that to remind everyone that this railway also was the only railway that get to take the capital holiday. We've got locomotives that are stored, we don't need to buy locomotives, we're not obligated to buy locomotives. I think there's only one other railroad in this industry, that can say that.

So we're in very good stead and position, we're still in year two, we talked about this last year of taking out switches out of the main line, taking switches out of sidings, taking switches out of yard tracks, that represents decline of about 1,000 switches that, again, when we take those switches out from the ones that are serviceable, which mainly are because they're not necessary and haven't been used. We just inventory those and it forgoes our ability, our obligation not to buy those additional switches as we go into 2017 and 2018 in line with our basic capital expense.

So, those are a couple of positives that this company certainly is benefiting from and well over the next couple of years, unlike some other roads in this industry.

<Q - Konark Gupta>: Okay. I appreciate the color. Thank you.

Operator - Your next question comes from Justin Long from Stephens. Please go ahead.

<**Q - Justin Long>**: Thanks and good afternoon. So, I wanted to maybe follow up on some of the earlier questions about the potential to improve some of the interchange points going forward. Is there a way to frame up the potential benefit or runway you have from just operating a more fluid network around Chicago? I just wanted to see if there was any way to put that opportunity into perspective?

<A - Keith Edward Creel>: I would say it's too early, I mean, you could hypothetically think about the art of the possible, but I think it takes more definitive discussions, and then the true time when the true benefit would come, it's actually during the tough times, when you have severe weather, when you have line outages, when you have congestion in the city, that's when you see the true benefit, both from an asset term standpoint, as well as service reliability or cost. So, it's effectively a little bit too soon to talk about that, it's way too soon to put a number on that, but I would just – suffice to say, if there is opportunity there.

<Q - Justin Long>: Okay. Fair enough. And then as a quick follow-up, maybe this one is for you Nadeem, but 2Q is a tricky quarter to model, especially with the easy comps, and you talked about expectations for mid-single-digit RTM growth. But is there any color you could provide on the OR expectation for the quarter? Just curious, what's getting embedded within the full-year guidance that you've given?

<A - Nadeem Velani>: Sure. So, I'd say that, keep in mind of course that, what impacted us this quarter with fuel, and the impact of – on fuel surcharge was bit of a headwind. But as you look at the Q2, typically, you don't have the weather challenges, although I think there was snow in Calgary Sunday. I would say that you're going to have the operating leverage that we talked about, the strong bulk performance that we have in front of us. So, all the runway to allow us to reduce the OR meaningfully, especially compared to last year, and certainly meaningfully sequentially. So, all of that without really giving you a number, Justin, sorry, but yeah, we expect a very low operating ratio relative to where we've been.

<Q - Justin Long>: Okay, great. I'll leave it at that. Thanks for the time.

Operator - Your next question comes from Matt Troy from Wells Fargo. Please go ahead.

<Q - Matthew Troy>: Yeah, thanks. Wanted to ask a question on grain, specifically, the divergence in your numbers versus your competitive player up in Canada, if you could talk about the challenges in the Western Corridor with connecting partners. So, I'm just wondering, could you just provide investors with a little bit more detail as to exactly what happens in 1Q to drive that divergence? And perhaps what you learned from that and how we can get comfortable that that gap will narrow in terms of the relative RTM growth through the year, what's your road map there? Thanks.

<A – John Brooks>: Well, yes. So first thing, Matt, I needed to just remind everyone that in 2016 Q1, we had our largest world record grain movement to Vancouver that we've had at CP, so we got a big comp out there...

<Q - Matthew Troy>: Okay.

<A – John Brooks>: ... from again at record levels. I think what we are seeing now is our grain product flows, and it's sort of the dedicated train is an offering to both our U.S. and our Canadian grain customers. So really, we try to operate it as one grain franchise. And I think what we saw through Q1 as some of those supply chains, whether it be in the Vancouver or the U.S. PNW you saw our customers moving their trains back and forth between and across the border to fill market opportunity if Vancouver was full or slow or there was an outage, those trains move in to the U.S.

If you see it in the P&W the same issue, they may move back up into the Canada. So that's sort of moves our numbers between our property, but I think the bottom line as you look forward is the velocity and demand is strong in Canada. A lot of those trains that we're operating in the U.S. have now since been moved into Canada by those customers, and with Thunder Bay open up, we get a big lift in terms of that velocity. So we're optimistic with that.

<Q - Matthew Troy>: Okay. Got it. And the follow-up would be, you did press release with the United Steelworkers agreement today, I think you said that something like 600 employees, perhaps just an update from Keith or someone else on the team, just give us a refresher if you could on union negotiations. I know some of it is collectively with the other roads, but from a CP specific perspective, what's the road map over the next two to four years in terms of what major agreements are coming up for negotiation, what are outstanding, and Keith, what are you focused on there?
Thank you.

<A - Keith Edward Creel>: I'd say this, on the Canadian side, to your point, we ratified, there's still work because that's all the clerical employees, and it is about 600 of our employees were currently in early negotiation discussions with our Maintenance of Way which is also TCRC, but the Maintenance of Way employees represents 2,300, 2,400 of our employees. That contract expires at the end of this year.

The big one that we still have to negotiate is actually TCRC running trade. It's about 2,500, 2,600 of our Canadian employees, the current agreement we have expires also at the end of this year, but certainly, we're starting to have some discussions that's part of what we're trying to do to connect and establish relationships to trust and respect, so we can have productive discussions. But with that said, the competitor road is ahead of us in their bargaining schedule, so they're actually – I believe they've got a date of this summer, they're certainly the same people, the same leaders are consumed with that contract first.

So our work, the heavy railroad so to speak will be done in the second half, not the first half, when it comes to the TCRC. So other than that, we're in good stead, we've got an agreement that goes through 2018 with uniform just previously the Canadian Auto Workers, CAW, we've got TCRC, our dispatchers are good through 2020.

And the last piece, which we've had not a lot of fanfare about, but we were – we talked about this last year. We ratified an agreement an hourly deal, progressive deal with our engineers on the U.S. property; however, we did not have an hourly agreement with our tailend - our UTU conductors switchman, brakeman, we've since gone through an arbitration process, and literally, I guess about two weeks ago, the arbitration word came back and effectively we will have an hourly deal for all running trades employees of U.S. property. We're going to the implementation of that now. We're going to make sure we do it at a very orderly fashion working with our employees. But with that said, that was the last sort of agreement that we're seeing it out on the U.S. side as well.

So over the – across the board, we're in pretty good shape. I feel pretty good about it, again, the TCRC running trades employees talk about this a lot, I don't want to continue to harp on it, but we're certainly working hard and working with the TCRC to focus on negotiating an agreement and not having to go through a strike like we have the last two times, and I'm confident, cautiously confident that that outcome is possible.

<Q - Matthew Troy>: I appreciate the detail. I'll keep it to those two. Certainly, I don't want to ruffle any feathers. Thanks, guys.

<A - Keith Edward Creel>: Thanks.

Operator - Our last question at this time comes from Ken Hoexter from Merrill Lynch. Please go ahead.

<Q - Ken Hoexter>: Hey, great. Thanks for coming back to me. I mean, I don't know happened earlier. But John, maybe can you talk about the capacity, you talked about the record grain volumes, Keith, you just talked about the kind of the locomotives you've got, but are there any capacity issues in terms of track train lengths, anything that requires new startups as you hit some of these record volumes in terms of trains?

<A - Keith Edward Creel>: Ken, we just need velocity, and the challenges we've had in the first quarter, it's not – it's an outdoor sport - avalanches on our railroad they're much large when the snow melted fast, and then of course, part of our product on the grain side is in partnership with one of the roads south of the border, and they had some of the similar weather and similar operating challenges.

So whenever those supply change are affected, then obviously, it's going to affect the velocity of those assets that are out there running. So, without those headwinds, we should expect to see what we're seeing now. We've got cycle terms that are moving fast as dedicated trains are spinning, we should get three trips, round trips a month for every dedicated train, whereas in the wintertime, you might only get two. So those things are behind us now, and as we go forward, we've got extreme confidence. We've got the locomotives, we've got the people, and we've got the cars to be able to move records amount of grain as long as mother nature cooperates with us.

<Q - Ken Hoexter>: Great. And then, that was a great rundown on the employee kind of contracts before. But is this – you've taken out about a third of your employees over the last few years. Is this a comfortable level for you in terms of staffing? Do you still find when you talk about, Nadeem was saying still room on the operating ratio. Is that via more cost cutting on the employee reduction side, or is it just refining operations? How do you – where do you see continued improvement coming from?

<A - Keith Edward Creel>: This thing is always going to be constant, continual improvement. We're going to get better at doing what we do. I mean, Vancouver is a good point there, Ken, we went through a little crisis back in December, went down, take a look at the operation where we spent a lot of money and the customers weren't very happy, and quite frankly, what we were doing was not sustainable.

So I went in and we made some investments, we made some operational changes. We pushed some business back to another road, which effectively we are being our agent and it was eating up our capacity, our customer's capacity to be able to provide good service and turn our assets. It just didn't make good business sense for us. So we triggered to change. We said, you know what, guys, I can't do this anymore, I can't be your agent and give you reliable service for your customers and give my customers reliable service, and I know which one that I've got to keep happy first as a priority.

So, with that said, costs come out, we become better at what we do. We've got a much lower cost and a much better service, and that's one of the key corridors for us where specifically back to this grain, it's going – those dedicated trains are going straight to that service area, and if we can turn those assets faster, getting back up for the priorities quicker to move more of that grains that's out there, waiting on us to move, and that's a win-win for us.

We're seeing on the South Shore specifically, Ken, record set, I don't say, on a weekly basis, but it's not uncommon with our grain customers those two facilities that we're servicing with the investments we've made, and with the innovation work with those customers in the team we have in place. A very, very much improved lower cost operation, which helps drive part and parcel to those additional operating synergies.

So, it's that kind of story you sprinkle it all over the railroad as we get better doing what we do day in and day out, and that's what allows us to drive continual improvement and provide superior service that John's team converts in the marketplace.

<Q - Ken Hoexter>: Thanks for the time. Appreciate the insight.

<A - Keith Edward Creel>: Thank you, Ken.

Operator - And we'll now turn the call back over to Keith Creel.

Keith Edward Creel

President and Chief Executive Officer, Canadian Pacific

Okay. Let me wrap this up and I'll close saying that I'm extremely excited and energized. I'm honoured to be CEO of this iconic company. We've built a leading team of talent and committed railroaders and get tremendous runway ahead of us and we're committed to delivering to our customers, our shareholders, and the communities that we serve in the months and the years ahead.

We did what we said and we're going to do in the first quarter of this year, and you can expect more the same as we go forward to the balance of 2017, and we are certainly on track to achieve the guidance that we set out to start at the beginning of the year to again meet the expectations of our shareholders as well as our customers and our employees.

So with that said, I thank you, and I look forward to discussing second quarter results as soon as we get through the quarter. Thank you.

Operator - This concludes today's conference call. You may now disconnect.