NEWS

www.cpr.ca (TSX:CP) (NYSE:CP)

Transcript

Citi Global Industrials Conference

February 20, 2019

Miami Beach, FL

Corporate Participants:

Keith Edward Creel – President, Chief Executive Officer & Director, Canadian Pacific

Maeghan Albiston – AVP Investor Relations, Canadian Pacific

Other Participants:

Chris Wetherbee – Analyst, Citi

QUESTION AND ANSWER SECTION

Chris Wetherbee

Analyst, Citi

Go ahead and get started. So, we're going to continue on the transportation track we have. Canadian Pacific joining us. Very pleased to have Keith Creel who is the President and Chief Executive Officer of CP as well as Maeghan Albiston who runs the Investor Relations effort for the company so thank you both for joining us today.

I think probably the best way to maybe start, Keith, is if you could give us just maybe a quick overview of how things are going. The first quarter maybe you went from being a little bit more benign to maybe a little bit more challenging with weather in particular. So, if you can kind of give us an update on how things are going? And then we can kind of jump in with more specific questions as we go on. Certainly, we would love to have the audience to participate so just raise your hand and we'll make sure we get you involved in the conversation.

Keith Edward Creel

President, CEO & Director, Canadian Pacific

Okay. Number one, thanks for having us here today, Chris. Let me start this way. Fourth quarter, we had a lot of momentum. We had a phenomenal fourth quarter on the railway, very robust demand, very favorable operating conditions. Weather was not a huge headwind for us at all. We carried that momentum from a demand standpoint as well as a weather standpoint and an operational efficiency standpoint through January. We guided to mid-single digit RTM growth. We were meeting that plus a little bit. And then we get to the end of January and weather came roaring like a lion. We had some 100 year type cold temperatures and with our railroad running when you run long trains, cold temperature is your biggest challenge, it's not necessarily snow, because it affects train length.

<Q - Chris Wetherbee>: Yeah.

<A - Keith Edward Creel>: When you affect train length, then obviously, you could affect capacity and network fluidity. So, we had a couple of hiccups here that we had to start into. And then as a leader I can tell you the heaviest thing that ever weighs on your heart as the leader is the people you're responsible for and we experienced a tragedy on our railroad a little over two weeks ago when we had three employees lose their life. Three members of our family three members of our family on a grain train going to Vancouver had a train derailment, the three lost their lives. And beyond the loss of life which in and of itself is overwhelming, it happened in a very busy part of our network. So our immediate concern obviously was for our family, was for the employees that affected their families as well as those of us that still run the railways. So that's what we were seized with. And then after that, we got about the business of opening the railroad again. And since then, we've continued to face very challenging weather conditions which has impeded our ability to recover as fast as we normally would. So what you see in the numbers its the impact of the derailment, it's the impact of the weather, and it's going to be short lived. I expect with a very robust demand space in March, and March is going to look more like if not better than January. Think if I look back at an RTM basis, we are 6% to 7% year-over-year higher in January, we're probably 8% less year-to-date for February, but again that's an anomaly we get into March and it's going to look again more like January and I think there's opportunity for that to increase as we continue and play out the year. The only headwinds we're seeing from a business standpoint is what we expected. The U.S. grain product obviously being impacted by this whole issue with tariffs and soybeans, and what does or doesn't ship to Asia. That's affected our book of business versus last year to

a double-digit volume level, not revenue side but at least from a volume standpoint and then frac sand there's been a bit of a headwind, but again if I look at frac sand last year, we were running at record levels of frac sand. But all together overall, very optimistic of what the future looks like and what we should look like when we normalize from a cost standpoint as well as fluidity standpoint and a revenue standpoint.

<Q - Chris Wetherbee>: So when you think about maybe the first quarter and then more broadly the full year is like you said mid-single-digit RTM growth is the target for the year you're, sort of trending at or above in January, below in February. It sounds like there's a bounce back coming. You're confident in that. Any reason to think anything otherwise about the full year? It feels like you're still well on target. The demand side of the house as you had noted still seems quite strong?

<A - Keith Edward Creel>: Yeah, no hesitation at all for our full year guidance. Still opportunity I see lying aside to margin improvement, I see definitely double-digit EPS opportunity as well as mid-single, if not better, digit RTM growth.

<Q - Chris Wetherbee>: Okay. Got it. That's helpful. Let's talk a little bit about one of the sort of where we're on the volume side. One of the topics we get asked a lot of questions around recently and I'm sure you do too is crude by rail, so...

<A - Keith Edward Creel>: Surprising, you took so long…

<Q - Chris Wetherbee>: Yeah, exactly, I waited all of looks like about five and a half minutes to get to that. So could you talk a little bit about sort of what you're seeing now? We've obviously heard some players going from lots of production in January to not a lot of production in February. The government's obviously intervened in the market which has maybe caused some unintended consequences. Can you talk a little bit about what sort of the demand environment looks like today and what you think it might look like as the year progresses?

<A - Keith Edward Creel>: Yeah. So the story itself is sort of the art of the possible which we didn't anticipate exactly what would happen but we realized the risk in dealing with crude probably more so than any other railroad because we were burned so bad the last time. So when we did our deals that we talked about last year, we talked about it at Investor Day that are coming online, some came online fourth quarter of last year and they'll come online through this year assuming the spreads recovere which we think they will by the way. We protected ourselves in this downsize risk, this downsize reality that's happened. So the government steps in, we didn't like it at all. I don't think that's healthy in a commercial space. Let the commercial deals work and let commerce take place and let commerce take place and the deals will drive right good business decisions, investment decisions, so they interjected some uncertainty I was pretty clear about. I just don't think it's healthy. With that said, where we came to as of late we had very disciplined negotiations with the government from a commercial standpoint and we landed at a place where that commercial deal is just as good if not better than the other deals that we negotiated. So with that said, it eliminates some of the uncertainty and what I would project now that that's transpired is we'll get to the run rates we assumed if that spread recovers. And I think it will because the government has got skin in the game now too. With that said you know is there a huge upside. We didn't sell huge upside.

<Q - Chris Wetherbee>: No.

<A - Keith Edward Creel>: Our protected capacity in this role. We're not going oversubscribe and under-deliver. We sold available capacity that we have without making big capital decisions or sinking capital and losing it or locking in investment that we've not going to realize a return on for a long time. So I

think once it normalizes, we exited 2018 run rate was about 100,000. We said 120,000 was a potential. I still think that's possible for 2019. Is it going to be much more than that? I'm not going to allow to be much more than that because we're not going to sell that level of business on the railroad and lose our ability to protect the balance of our book of business.

<Q - Chris Wetherbee>: And when you think about the context of the February RTM performance, how much do you sort of describe to the crude by rail deceleration if there has been a meaningful one within that number and does that come back you think in March or is that April I don't get into specific about sort of something that may be a little bit harder to pin down but just generally your sense about that?

<A - Keith Edward Creel>: I think it maybe you know just guestimating thinking about last year's numbers. We had ramped up in January. We took again a disciplined approach, a lot of our crude by our own growth was coming on second quarter. So did it impact us yes, but to the tune that it's hugely material I'd say no. So again, I think we'll get into March and we're going to be for the month, I think we're probably going to have year-over-year 6%, 7% RTM growth year-over-year. And I think you get to the second quarter and those contracts come online from a crude standpoint that weren't there last year and you're going to see a bump in RTMs as well.

<Q - Chris Wetherbee>: Okay. That makes sense. In terms of production curtailments, any insight that you have from customers about when you'd expect to see those start to normalize? There's been a lot of chatter in the market about that. But kind of curious if you have a view?

<A - Keith Edward Creel>: Yeah, it's guesswork at this point, but we think and we're guessing just like everybody else it normalizes in the second quarter.

<Q - Chris Wetherbee>: Second quarter?

<A - Keith Edward Creel>: Yeah. By May-June, if they're bringing it on, 25% of the time effectively they've already re-injected 25% of it. So if that plays out over three months then sort of gets you around the May timeframe.

<Q - Chris Wetherbee>: Is there anything and this is really my last question on this topic, is there anything that really would incentivize you one way or another to get, get or incentivize you to get more bullish on the opportunity to be able to dedicate more capacity to this specific line of business. You've been very clear and very cautious about how you've approached it.

Kind of curious what would it take to kind of get that view to change if there is anything?

<A - Keith Edward Creel>: I'd say nothing. And that, to me it'd take a long-term, a 10-year deal.

<Q - Chris Wetherbee>: Yeah.

<A - Keith Edward Creel>: If there's a 10 year deal that normally we wouldn't do, but if the economics drove the investment because it gets to a point now if we're going to move an incremental amount above what we've committed to, I've got to invest in line capacity. I've got to put sidings in, I've got to do things that are you know they're forever decisions and I'm not going to make those on a three year opportunity. I'm just not going to do it.

<Q - Chris Wetherbee>: Okay. Makes sense. Like I said folks in the audience have questions, certainly, let me know... Yeah, the one over here. I can repeat it.

<Q – Unverified Participant>: What about the headline about these things or the profit or [inaudible] to be improved?

<A - Keith Edward Creel>: As far as...

<Q - Unverified Participant>: How [indiscernible] actual business or [indiscernible] more favorable terms to the producer?

<A - Keith Edward Creel>: Yeah, I'm – I couldn't comment because we don't provide the railcars for the business itself. They're getting it from the leasing companies and from the market space. So other than having the cars available to ship that they committed to it would be the only way that it would affect us.

<A - Maeghan Albiston>: There was a news report yesterday that did I think miss-comment that we were providing the rail cars...

<Q - Unverified Participant>: Yes.

<A - Maeghan Albiston>: ...and that's not the case.

<A - Keith Edward Creel>: The only oil that we move n the railroad is our own fuel. Essentially that's it. We've got a very small fleet of tank cars to move that product for CP.

<Q - Unverified Participant>: All right. Do the producers are hesitant to sign a 10-year deal [indiscernible]?

<A - Keith Edward Creel>: They would never sign it. At least not, I'd say never unless they believe that they never build a pipeline they'll never sign a 10-year deal, because we're going to make it require take or pay or we're not going to do it. So they just won't commit themselves economically to that without a reason to. And ultimately when the pipelines are built, it makes more sense to be the majority of it's going to be back in a pipeline. That's just the reality of it.

<Q - Unverified Participant>: Is there any sort of you're talking to [low audio/indiscernible].

<A - Keith Edward Creel>: It's all guess work. I mean I – you can hear some – some would tell you that it's going to be 2022, 2023 whenever they get it all cleared up, it's going to take two or three years to build it. It's all speculation in all honesty. I am still confident that it will happen. I just don't know about the timing. The politics especially now in Canada in an election year, you've got provincial politics that are at play here in Alberta with an election in the spring and you've got a Federal election that's going to occur later in the year. So it's just, there's just a lot of uncertainty that gets layered into this thing to try to move, projected it, just guesswork on this one.

<Q - Unverified Participant>: [indiscernible]

<A - Keith Edward Creel>: It's probably $13 to $15 is the right spot.

<Q - Chris Wetherbee>: So, wanted to talk about Intermodal and you know get your take on how things have been trending, that's been the international side has been a strong opportunity, you've talked a lot about that. Vancouver, I think has been certainly expanding and marketing that capacity pretty aggressively. How do you think about sort of the international intermodal trends so far this year, is there any impact that you can discern about either pull forward of activity that was related to trade or tariffs in the end of 2018, how that might be impacting the beginning of 2019 or do you feel like is just sort of still very much demand driven, you're not going to necessarily see those types of fluctuations?

<A - Keith Edward Creel>: Yeah, I think for us specifically in our model, because of where we originate our traffic in Vancouver GCT, they were going through an expansion that would have retarded or diluted that opportunity to pull things forward...

<Q - Chris Wetherbee>: Yeah.

<A - Keith Edward Creel>: ...because they just couldn’t handle the capacity. Now that that’s came online, it's not the same story, the same opportunity, so there's no material impact or volumes. I think our strength, we still expect double RTM growth in that business unit both on the domestic side as well as international space on the strength of the service and it's based on the fact that we have capacity. Our terminals are not congested, they're being run extremely well, we have room to grow. It's just a very compelling value proposition in a space specifically where our competitors struggled in those areas.

<Q - Chris Wetherbee>: Yeah.

<A - Keith Edward Creel>: So when you deal with these international customers and they've gone through this realignment, these alliances they're competing against fewer competitors now which I would say their service is more important to them now. They've got to compete for their customers well, they've got to provide and keep their word on their transit times. If their service provider they choose to do business with inland, the rail network can't handle their business and they effect their credibility, they're going to cause them to lose business. Which is playing well for us given that we're not facing that same story in our railway.

<Q - Chris Wetherbee>: Yeah. Okay. That make sense. And then, you mentioned the domestic side as well, quite strong. What are your thoughts in terms of the demand dynamics there, two hours of service rules and Canada changed the story at all when you think about the particular origin destination pairs, whether they be domestic Canada or otherwise, how do you think about that, that piece of the business in 2019?

<A - Keith Edward Creel>: I think it bodes well for again our story, the domestic – I think, demand is going to be pushed to the rail because some capacity will be taken out of the truck space, compete with us how – and they would have to comply with electronic logs now. When that happens, it's supposed to happen at the end of this year and again with an election year, who's to say it, if it pushed back, I'm not certain. So that may or may not happen, but when it does, get implemented, it's going to bode well for rail transportation. And again in the domestic space our franchise is uniquely positioned in Canada. The capacity is key, the lanes, the routes. The key metropolitan areas where these products are being consumed which is what's in those domestic containers. And we've got the shortest and fastest routes and the most reliable and in that space I can win market share from the truck and I can protected my market share from our rail competitors as well.

<Q - Chris Wetherbee>: Okay, make sense. In terms of the competitive overlay – maybe across the book of business at your Investor Day you outlined a number of different areas where you felt like you had opportunities and potential progress towards that. I guess I wanted to get a sense it hasn't been that long I guess all of four plus months maybe five months since Investor Day. But how is that process, how is the competitive environment in Canada been playing out for you?

<A - Keith Edward Creel>: I think everything that we assumed when we met at our Investor Day we're meeting or exceeding those expectations, the contracts that we were negotiating we've locked up, we renewed Loblaws. We've got growth there. We renewed Canadian Tire, we won Dollarama which is just onboarding on the railway now which is a large domestic customer in Canada. We locked up Hapag-Lloyd and extended that contract and not only protected the contract but we also protected against Prince Rupert and the fact that anything that Hapag does is in partnership with us over Vancouver, they're not going to – they will not call in another ...

<Q - Chris Wetherbee>: Okay.

<A - Keith Edward Creel>: DC port other than Vancouver with CP. So we're in a good place here and the thing that's really exciting to me right now outside of the compelling story on the intermodal side, the automotive piece we talked about our compound that we're investing in. We just signed a deal with Ford to be the anchor tenant. That was going to go online at the end of first quarter, we're ahead of schedule, we're under budget. We're going live March 1st instead of March 30th. And it's created a very compelling dynamic and value proposition in that space where the other OEMs are talking as well. They're going to have a pretty good place, a pretty good business model to save money and create asset turns and synergies and savings and grow market share in Vancouver. If you're their competitor and you're competing for market share, you don't want to be knocked out of the market so to speak. So it's – there's a compelling opportunity that's been developed that will play out in some in 2019, more so in 2020, as we grow that facility.

<Q - Chris Wetherbee>: Okay. And when you think about the competitive landscape around Vancouver and service dynamics obviously there's been some discussion about the other rail having some service challenges in the area. Has that – I'm guessing that sort of helps from that perspective whether outside of intermodal – I guess auto maybe is a place where you can see some benefits to the network crude to the network anything else grain an opportunity for you as a result of that?

<A - Keith Edward Creel>: And just as a – as far as there's benefit, there's a plus and a negative to that.

<Q - Chris Wetherbee>: Yeah.

<A - Keith Edward Creel>: The positive is that it makes our value proposition compelling when it comes to service, reliable service, when it comes to capacity. The negative is those corridors, Vancouver is important to both railroads.

<Q - Chris Wetherbee>: Yeah.

<A - Keith Edward Creel>: So, Vancouver is critically important to Canada to commerce in Canada. So we need to have a fluid Vancouver, and to do that, it's all about balance. And we got to a point with over the past three years or four years where there was an unhealthy balance in that corridor, things are leveling out now and getting back more to a natural state. And it's in both our best interest to stay fluid. The North Shore will remain an area of concern for me, the North Shore we don't access, our competitor accesses, and they got the only routes to the North Shore and it's going under the city and it's going across a bridge and there's not an infinite amount of capacity there. That's the limiting factor. So as long as that's protected and managed and it grows with in lockstep with the additional capacity that's being built on the North Shore, then I think we're fine. If it doesn't then it's going to be a challenge that will bubble up over time for both railroads as well as the country.

<Q - Chris Wetherbee>: Okay. I want to talk about pricing. So in the last conference call, and I think generally speaking across the industry you've heard some very positive commentary around the pricing momentum. Obviously, truck and rail pricing have relationships. Truck was very, very strong in 2018. Rail started really accelerating towards the back half of 2018. I think on your last conference call, it felt like renewals were coming in north of 4% was the commentary that we heard. How do we think about the landscape in 2019? Is this sort of, we heard in fourth quarter and early 1Q, is that sort of as good as it can get? Is there potential more opportunity there? Just want to get a sense on the pricing story because it seems quite strong in 2019?

<A - Keith Edward Creel>: Yeah. I won't suggest that it's going to get stronger but it's not getting weaker.

<Q - Chris Wetherbee>: Okay.

<A - Keith Edward Creel>: You know the success that we realized in fourth quarter, we're seeing the same thing in the first quarter. The trucking capacity play, I think that's more, let me say, more isolated from it but it's not the same model in Canada relative...

<Q - Chris Wetherbee>: Yeah.

<A - Keith Edward Creel>: ...to the domestic intermodal and where that really plays into pricing and capacity in the U.S. market our length of haul for domestic is 1,600 – 1,700 miles versus 300, 400, 500 in U.S. It's just a different ballgame. So, the underlying fundamentals remain there. We've always taken a conservative approach. We're providing very good service, very good value for, our customers. They're able to grow and make money, we're making money and the underlying fundamental is still to me more on the bullish side as opposed to the negative side.

<Q - Chris Wetherbee>: At this point in the year, how much of your book of business have you had the opportunity to look at for 2019?

<A - Keith Edward Creel>: We've turned over just rough numbers depends on the business unit but 20% would be a good number to work with.

<Q - Chris Wetherbee>: 20%.

<A - Keith Edward Creel>: Yeah. And it's again what we've done so far is very similar to what we did last year.

<Q - Chris Wetherbee>: Okay. Okay. That makes sense. I want to talk a little bit about the operations and sort of just the perspective on operating ratio in general. Obviously, PSR is the initiative that's sweeping the industry. You guys are ahead of your U.S. peers in that respect. But this is a year where it feels like there is a good opportunity for operating ratio improvement. So could you sort of frame up where you see the best sort of opportunities for you obviously mid-single digit RTM growth provides a degree of natural operating leverage in the business? But where are the other opportunities when you look at the business where ultimately do you think you can get maybe refresh sort of those bogeys for us again in terms of OR.

<A - Keith Edward Creel>: To us the OR story is an outcome, it's not really what the focus is. So we're running the railway very efficiently, we're protecting our assets, asset turns. If you look at the business we've laid on the railway, if you look at the fourth quarter, it's a great example. We had strong RTM growth, train speed improved, it didn't decrease it increased, fluidity in our terminals increased it didn't decrease. So again, it's all about doing it well and not bringing business that – overstress the network for the lack of better term. And if you do that at lower incremental cost, you're going to drive earnings and you're also going to get margin improvement which is what our story is. So, it's not new to us, it's sustaining what we've always done, it's protecting our operating model which produces that low operating ratio. And is going to be industry best right now? If you take land sales out, it's industry best compared to the number one, and they might argue with me, but fundamentally core numbers it's industry best. And I expect it's going to be just like that, we're going to be at or near if not the best on a go forward basis. It's not going to change because it's the way we do the business.

<Q - Chris Wetherbee>: Yeah, and that was sort of my next question. When you adjust for some of those differences in a way people look at the ORs, that's the right way to think about CP in line thereabouts with industry best operating ratio perspective?

<A - Keith Edward Creel>: That's correct.

<Q - Chris Wetherbee>: Okay, okay. I want to get a sense of your view of what is happening in the U.S. what that means to Canadian Pacific and the respect that obviously from an interchange perspective, presumably a PSR, Union Pacific or CSX or Norfolk Southern improves their service. Is there a true benefit to Canadian Pacific as a result of that? What is that sort of interplay and other - any unintended consequences or issues that could crop up while they're going through that process that could be negative for you?

<A - Keith Edward Creel>: I think it's an absolute benefit to Canadian Pacific. It's a benefit because a couple of things. Number one, so the degree to which they succeed they create capacity for the industry. Anybody - any of us that touches Chicago, and we interchange cars in Chicago to get cars to that city faster is a benefit.

<Q - Chris Wetherbee>: Yeah.

<A - Keith Edward Creel>: The other piece you can think about, let's just say NS. If I've got a fleet of cars that originate on my railway and they're sized based on asset turns and the destination is on the NS destination and they turn those assets faster that means my asset turns improve faster as well. And I don't have to have hypothetically, do the numbers, I don't have the same number of assets, moving the same amount of business which means again I create additional capacity on my railroad. So I get some of those residual synergies as they succeed in implementing PSR. So UP, I want them all to do it, number one. I think it's the right way to run the business.

<Q - Chris Wetherbee>: Yeah.

<A - Keith Edward Creel>: I think to healthy way to run the business. And inevitably if they succeed we're going to benefit from it. So I'm their greatest fan. I'm cheering them on and I'll give them any insight I can give them. At the end of the day, they have to do it, but I want them to succeed.

<Q - Chris Wetherbee>: Anything that you can see, obviously CSX has been sort of doing it the longest amongst the big U.S. players and we've obviously seen what it's meant to their financial performance. But when you think about the other two that are a little bit earlier in their stages of PSR implementation, anything that you're seeing one way or another about their progress or lack thereof?

<A - Keith Edward Creel>: I think it's early to talk about progress. They're saying the right things and they're focused on the right buckets and in time I hope and I expect that they're successful in having the perseverance to make the tough decisions it takes.

<Q - Chris Wetherbee>: Yeah.

<A - Keith Edward Creel>: Because at the end of the day, to do PSR, you've got to right size assets that means not just locomotives and cars, the men and the women that work on them, the terminals that are required to support that work that's being done.

<Q - Chris Wetherbee>: Yeah.

<A - Keith Edward Creel>: There are a lot of tough decisions that have to be made that short-term can create some angst and some pain and some broken eggs for lack of better term, that long-term is what you have to do and that's what's necessary to run the business in a healthy way, so that's probably the best way I can encapsulate.

<Q - Chris Wetherbee>: Sure. That makes sense. Actually question that may or may not be fair, so you again answer it how you think. There's one railroad, a very large railroad that hasn't yet committed to PSR. So maybe the question I'd ask you is there a scenario with North American freight railroads given

sort of the complexity and the interchanges that go on where one large player can be that much of an outlier if PSR are sort of the wave of the future for the rest of the industry?

<A - Keith Edward Creel>: The simple answer is, I think, no. The thing I don't have control over is, you know that railroads accountability to one shareholder versus mine to multiple shareholders is a different measure.

<Q - Chris Wetherbee>: Yeah.

<A - Keith Edward Creel>: It's a different measure. So if the shareholder will tolerate it and accept it, then I would say maybe, but if it were apples to apples, then I'd say no and I'd say regardless of the shareholder ultimately if you're a good business individual and I think that railroad has a lot of good...

<Q - Chris Wetherbee>: Yeah.

<A - Keith Edward Creel>: …business individuals. If it makes good business sense, you'll eventually do it.

<Q - Chris Wetherbee>: Yeah.

<A - Keith Edward Creel>: You don't know what you don't know. There's been a lot of naysayers, there's been a lot of spin, you talk about some of the people that were most vocal against it, that are doing it now. Some of the things they believed at the time and I've got to just assume, that they believed it to be true that it couldn't be done. They are believers now. I think it's a matter of time again through success you create success. It's hard to ignore success. If you're going to be competitive in the marketplace and make money and compete for business against a competitor that has that cost advantage and that service advantage, you're going to have to wake up, or you're not going to be able to maintain much less grow. You won't be able to retain your existing business. So I truly think it's a matter of time.

<Q - Chris Wetherbee>: Okay.

<A - Keith Edward Creel>: I think it's inevitable it eventually has to be happen.

<Q - Chris Wetherbee>: Yeah, that certainly makes sense. I wanted to ask about talent at CP. So in October you had us at Calgary, obviously a lot of the managers that we don't get to spend a lot of time were there and we got to meet them. So there's clearly a lot of talent in the organization. There's clearly been a bid in the market for talent from organizations like yours, Canadian National, folks who have PSR experience. How do you feel about sort of the group of folks that you have at the railroad today? Has that been at all a struggle for you in terms of retention standpoint? We don't see everything, obviously there's a layer below to what is visible to the investment community. Just kind of to get your sense on where that stands right now.

<A - Keith Edward Creel>: The short answer is it's not been an issue for us. I'm not naïve, at the end of the day if you don't treat people well and pay them well and recognize they are not just in pay, but in the success that they are creating, the success they're a part of then you're not going to retain them. There are too many choices in this world for people to do things and life's too short. But at our railroad it's an operating railway. The people that are there have worked extremely hard and sacrificed and they've got a lot of blood, sweat and equity invested in what we've created and we have a lot of fun. To go from a transformation story to a growth story, which by the way, a lot of people said couldn't be done. If you look at our track record for the last two years we are outpacing the industry plus and we're gaining momentum, we're not losing momentum. To replicate that and to go somewhere also take that kind of risk for an uncertain return when what we're doing is creating a whole lot of value in and of itself as well it's – it's a tough decision to make. I'm not saying it can't happen but somebody's going to have

to pay a ransom to get somebody to do it, and it hasn't been our experience yet. Yeah I just don't anticipate that's going to be a challenge for us.

<Q - Chris Wetherbee>: Yeah. Okay. That makes sense. I wanted to talk a little bit about CapEx and capital allocation. You mentioned in the last answer that you had made the transformation gone from a transformation to a growth story. Can you frame up sort of maybe the longer-term perspective on CapEx where you think it should trend? Is there a need or sort of a call on capital that's going to be higher than what you'd see from some of your other players or competitors in the space in North America?

<A - Keith Edward Creel>: No, we've on a percentage basis and I don't get wrapped up in percentage, I think about real dollars.

<Q - Chris Wetherbee>: Yeah.

<A - Keith Edward Creel>: We've been up there, so to speak, higher, on a higher matrix. I think you've got to understand our story. You know we took assets out. We've created tons of capacity, by the way we've changed the railroad in the way we operate it and we've been using that capacity up as we started to grow. We'll get to a point where to grow, we've got to invest in growth, but we still have latent capacity number one. We're not anywhere close to that. And then number two, the other big piece that we're investing in now are these hopper cars, that's a CAD $0.5 billion investment that we're going to make over the next three years, I guess 2021 is when that that shouldn't run or tail-out. And at that point maybe I'm back in the marketplace for locomotives, with that that amount of capital within our existing envelop provides the flexibility to buy locomotives. So we're sort of at a high watermark now. The way I look at it, we're going to spend around CAD $1.6B, CAD $1.650B Canadian and again that fluctuates with exchange. Because a lot of the things we buy in U.S. dollars, not Canadian dollars.

<Q - Chris Wetherbee>: Yeah.

<A - Keith Edward Creel>: But I think you'll see that level at around CAD $1.5B. It's going to be in that range. Now if we go into an economic downturn then obviously we'll throttle back. The basic capital, I'm not going to cut because that's how you protect the safe operation of the railroad in the long-term sustainability the way we run our operating model. But that's somewhere under the billion-dollar mark. So there's a lot of play there and flexibility for us to flex up and flex down. But as far as doing anything incremental going up, I just don't see a need for it, not with the capacity that we still have unlocked that we haven't realized in the railroad that's existing for us and in what we're spending in money on now is that sort of fades away.

<Q - Chris Wetherbee>: So CAD $1.5B-ish on an absolute dollar basis is probably a reasonable number to think about even over the course of a couple of years out?

<A - Keith Edward Creel>: Yeah, over a five-year average I'd say CAD $1.5B-ish is the number.

<Q - Chris Wetherbee>: CAD $1.5B. Okay. That's helpful. And then I wanted to ask about capacity and where sort of you think you are from a capacity perspective? Obviously good operations generates capacity and when you think about some of the growth opportunities obviously mid-single digit RTM growth, but it seems like there is a path to growth beyond just 2019. So how do you feel about sort of your available capacity is there more you can do with what you have? And so I don't know if it's fair to say that there's a ceiling that you feel like you can grow into today and what that ceiling might be or if you think about it differently?

<A - Keith Edward Creel>: I think the only places that I really pay attention to in terms of capacity I think you do it in lockstep. In the way we negotiate our contracts, and our additional business, it's all about

asset turns. It's about available capacity and before we take steps with customers, we're going to have – we're going to be protected on the capacity standpoint. And the only place I feel that I really have to pay attention and to be careful with is in Vancouver for all the reasons I talked about and Chicago.

<Q - Chris Wetherbee>: Yeah.

<A - Keith Edward Creel>: Those are the two locations. Other than that, and we think about this, we shutdown Calgary hump yard, we shut Toronto hump yard, we shut Montreal hump yard, we shut Winnipeg. Of those four humps, which require a big physical footprints to have a hump. There's a lot of latent land and capacity and ability to refurbish those into productive switching yards. So line capacity we have plenty. Terminal capacity, it's just a matter of spending capital to convert it. Now in Calgary strategically, it's in a very key location for us, because it essentially, where the energy stuff comes out of Edmonton, the potash goes through there, the grain goes through there. We've got product coming up from Lethbridge to the States, there's a Calgary – has been a place to be sort of strategically, we would spend money. So when we were there for the Investor Day, we had literally just started to do that terminal. We cut it on the first week of January. The team did a phenomenal job, flipping that thing and actually doubling the switching capacity at probably half the cost of what it would have been otherwise other retrofit we did in that facility. That's number one. I'll think about next year – the next one maybe when we grow a little bit more we'll do Winnipeg, if we grow a little bit more we might do Toronto, but there's still several of those issues on the table that we haven't converted money into and we're not talking about quantums amount of money, we're talking in Calgary a CAD $20 million, it's a lot of money, but that's not huge ...

<Q - Chris Wetherbee>: Yeah.

<A - Keith Edward Creel>: ... it's not a huge hurdle to overcome to be able to fit it within our existing capital envelope and protect that guidance that I gave you.

<Q - Chris Wetherbee>: And you – when you think about some of those capacity point to point in Chicago has jumped as one of the areas where it is always challenging. Can you talk a little bit in the past about potential opportunities with some of the Eastern carriers in terms of work arounds, maybe alternate routes those kinds of things? And anything new to think about there in terms of what – you know what's available to you? And whether that could generate some incremental capacity?

<A - Keith Edward Creel>: No, I think things in Chicago overall – I think create as much as Hunter was a bit pessimistic about it, I was a little bit less more optimistic. I think it's created some capacity in Chicago that all the railroads have benefited from. It's taken some pressure off of Chicago. It's prolonged the discussion. I just don't think it's as imminent and as immediate as it would have been two years ago. And I think as you do PSR, CSX, they continue to get better, NS if they're successful and I expect that they will be. I certainly hope that they are. That's going to create additional capacity and take additional pressures off. So I don't think there's any big needle movers. I do think though that again once you get like-minded railroads that run the railways the same way. When they understand the power of asset turns and understand the value it creates, they'll be willing to have discussions in the past and before a lot of the routing and a lot of the pressures were all about length of haul and about revenue. If you get folks at the table that understand the service and the value really unlocked with running the PSR railroad, the railroad – the revenue will come, the powers in asset turns. It's going to drive discussions that three years ago we never wouldn't have been able to have. I mean, we just wouldn't have been able to do it.

<Q - Chris Wetherbee>: Yeah. That makes sense. And certainly if anybody has any questions, let me know. I want to ask a little bit about leverage and buybacks. And so obviously you've got to a point over

the last year or so where leverage got to the higher end of your guidance range and expectations. You talked a little bit about bringing those numbers down. Maybe give us a sort of lay the land for us for 2019. How do we think about leverage maybe progress coming down off of the higher numbers and sort of where buybacks fit into that capital allocation discussion?

<A - Keith Edward Creel>: Yeah, I think from the start the buybacks, a modest buyback which is what we've done is what you should expect on a go-forward basis, unless our stock price gets so depressed for economic reasons that is compelling and then maybe we leverage up, we'll cross that bridge if it ever happens. At this point, modest buyback and our debt at two and a half times. That's what we have guided to and that's what we intend to finish this year. I think we finished at 2.6 maybe at the end of 2018. A lot of that had to do with the weakness of the Canadian dollar. But what we're seeing now probably at 2.4, 2.5 is where we will finish this year.

<Q - Chris Wetherbee>: Okay. That makes sense. I did want to ask and I feel a little sheepish in asking about M&A. It was a very hot topic to talk about for a while, I generally prefer to kind of focus on the fundamentals of the business at hand and the opportunities for each one of the individual railroads, which have been frankly quite good. But you've always had a view on that and I think it's important to understand how you're thinking about it today. Is it still something that you think is sort of inevitable over the long run? Does the implementation of PSR more broadly, assuming it's successful in the U.S., change your perspective at all?

<A - Keith Edward Creel>: The thesis doesn't change eventually, Chris. If we believe that population growth is going to occur in the U.S., and it will. And if we believe that rail is going to be transporting goods that feeds and sustain population growth and it will. The highway systems won't handle it. The demands on rails has increased. You're going to run out of capacity. I think that and I never would have guessed a year and a half ago that PSR which was the thing to stay away from would be the new thing, the new topic of the day. But given that it is I believe and I do if they're successful that decision and that need, that drive to consolidate is going to be prolonged, it's not going to be short, it's going to be extended. Because eventually number one short term if you're doing a it you're creating a whole lot of value for your shareholders. You create a whole lot of value for the customer that's going to create a whole lot of success in running the business. I think you get to a point where what dictates the demand it is actually creating more capacity. So this is just pushing it down the road a little bit, I think inevitably it still happens.

<Q - Chris Wetherbee>: Yeah, okay, that makes sense. I wanted to touch on regulations. Canada is a little different than the U.S. from a regulatory perspective. You've always had a good opinion one way or another about what's going on from a regulatory perspective, but we hear a lot from the STB being interested in servicing these days as it pertains to PSR and the rollouts there. But what do you spend real time talking to the regulators about or what do you feel like they're most focused on for your business specifically?

<A - Keith Edward Creel>: I think any for either side of the border safety is always going to be something very topical, and you know we're only one catastrophic accident away from begging the regulator to do things that we don't necessarily need them to do. I think we can regulate ourselves and run safe railways and avoid that but it's always something I'm very sensitive about. There's nothing imminent in that space. I think this PSR discussion, I commend UP and I commend NS in making sure that they're bringing the customer to the table as much as they can. Now there are certain things they're going to do to protect the principles of PSR like charging demurrage.

<Q - Chris Wetherbee>: Yes.

<A - Keith Edward Creel>: You've got to get assets to turn I used to explain this to customers, when I did this at CN and CP they didn't like it because we never made them pay the bill, right. It was always negotiating leverage for the marketing guy to extend contracts.

<Q - Chris Wetherbee>: Yes.

<A - Keith Edward Creel>: ...when you owe CAD $200,000 on demurrage because you don't have to pay it, and don't worry about those operating guys, they'll get a credit here. Once you do PSR that would cost you your job...

<Q - Chris Wetherbee>: Yeah.

<A - Keith Edward Creel>: ...in the world I came from, but I would explain it like this, it's like a rental car. If I keep the car pay for 24 hours if I keep it for 27 hours or 28 hours I might as we'll keep it for 48 hours, because I'm going to pay for it.

<Q - Chris Wetherbee>: Yeah.

<A - Keith Edward Creel>: With the railroad didn't have their asset for car rental HT, doesn't have their asset to enter again. They deserve to be paid for that asset. They've got the money locked up. So as long as they do that responsibly and they do a good job of managing the change and they give good service, and don't just try to charge these penalties. I think the customers are going to come along because ultimately they're going to see after they pay the demurrage bills, sometimes it takes them to make them wake up, they'll say wait a second, why am I paying that bill?

<Q - Chris Wetherbee>: Yeah.

<A - Keith Edward Creel>: Well, I'm paying that bill because I've got a transportation manager because you never really depended upon your reliable transit times. He's got twice the fleet that he needs. So not only can I save that demurrage bill, I can also save that capital cost...

<Q - Chris Wetherbee>: Yeah.

<A - Keith Edward Creel>: ...and not only to replace capital assets next year, once you get into those discussions, the customers aren’t going to criticize you, to your point. They’ll thank you, for it.

<Q - Chris Wetherbee>: Okay. And so that kind of gets to state the obviously from a regulatory perspective is top notch but it sounds like services also sort of one of the main things that they're continued to be very focused on?

<A - Keith Edward Creel>: Absolutely.

<Q - Chris Wetherbee>: Okay. That makes sense. I don't know if there's any questions from the audience, I think from our perspective that pretty much wraps it up. All right. I think, we're good.

<Chris Wetherbee>: Thanks very much for your time. Appreciate it. Thank you.

<Keith Edward Creel>: Thank you.

<Maeghan Albiston>: Thank you Chris.