



# Q1 2018 EARNINGS REVIEW

APRIL 18, 2018



# FORWARD LOOKING STATEMENTS

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The following investor presentation contains certain forward-looking information within the meaning of applicable securities laws relating, but not limited, to Canadian Pacific's operations, priorities and plans, anticipated financial performance, including our 2018 full-year guidance, business prospects, planned capital expenditures, financing strategies, programs and strategies. This forward-looking information also includes, but is not limited to, statements concerning expectations, beliefs, plans, goals, objectives, assumptions and statements about possible future events, conditions, and results of operations or performance.

Forward-looking information may contain statements with words such as "anticipate", "believe", "expect", "plan", "financial expectations", "key assumptions", "outlook", "guidance", or similar words suggesting future outcomes.

Undue reliance should not be placed on forward-looking information as actual results may differ materially from the forward-looking information. Forward-looking information is not a guarantee of future performance.

By its nature, CP's forward-looking information involves numerous assumptions, inherent risks and uncertainties that could cause actual results to differ materially from the forward-looking information, including but not limited to the following factors: changes in business strategies; general North American and global economic, credit and business conditions; risks in agricultural production such as weather conditions and insect populations; the availability and price of energy commodities; the effects of competition and pricing pressures; industry capacity; shifts in

market demand; inflation; changes in laws and regulations, including regulation of rates; changes in taxes and tax rates; potential increases in maintenance and operating costs; uncertainties of investigations, proceedings or other types of claims and litigation; labour disputes; risks and liabilities arising from derailments; transportation of dangerous goods; timing of completion of capital and maintenance projects; currency and interest rate fluctuations; effects of changes in market conditions and discount rates on the financial position of pension plans and including long-term floating rate notes; and investments, various events that could disrupt operations, including severe weather, droughts, floods, avalanches and earthquakes as well as security threats and governmental response to them, and technological changes.

The foregoing list of factors is not exhaustive. These and other factors are detailed from time to time in reports filed by CP with securities regulators in Canada and the United States. Reference should be made to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in CP's annual and quarterly reports filed on Form 10-K and 10-Q, respectively.

Forward-looking information is based on current expectations, estimates and projections and it is possible that predictions, forecasts, projections, and other forms of forward-looking information will not be achieved by CP. Except as required by law, CP undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

# NOTE ON NON-GAAP MEASURES

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Except where noted, all figures are in millions of Canadian dollars.

Financial information is prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), unless otherwise noted.

CP presents non-GAAP earnings information in this presentation to provide a basis for evaluating underlying earnings trends that can be compared with the prior period's results.

It should be noted that CP's non-GAAP earnings as described in this presentation, have no standardized meanings and are not defined by U.S. GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies.

For further information regarding non-GAAP measures see the Non-GAAP Measures supplement to the press release on our website at [investor.cpr.ca](http://investor.cpr.ca).

# NOTE ON RESTATED FINANCIALS

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Prior year comparative period figures in this presentation have been restated for the retrospective adoption of Accounting Standards Update ("ASU") 2017-07, discussed further in Note 2 Accounting changes in CP's Interim Consolidated Financial Statements in the Q1 2018 Earnings Release on [investor.cpr.ca](http://investor.cpr.ca).



**KEITH CREEL**

**PRESIDENT & CHIEF EXECUTIVE OFFICER**

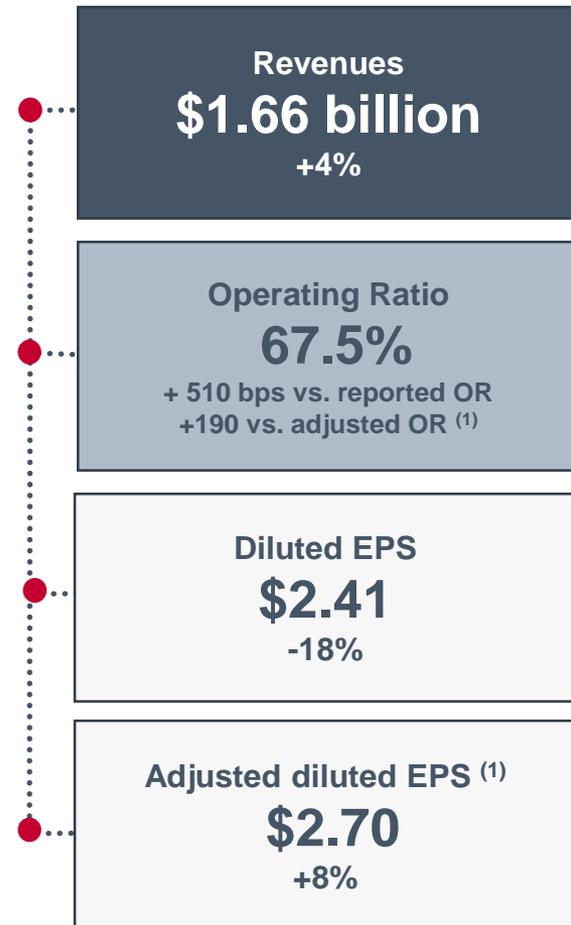


# HIGHLIGHTS

- Challenging winter conditions, but operating model was resilient and team executed well
- Railroad recovering with strong momentum exiting Q1
- Maintaining disciplined approach to sustainable, profitable growth

**Q1 2018**

VS. Q1 2017



(1) For a full description and reconciliation of Non-GAAP Measures, see CP's Q1 2018 Earnings Release on [investor.cpr.ca](http://investor.cpr.ca)



**JOHN BROOKS**

**CHIEF MARKETING OFFICER**



# REVENUE PERFORMANCE

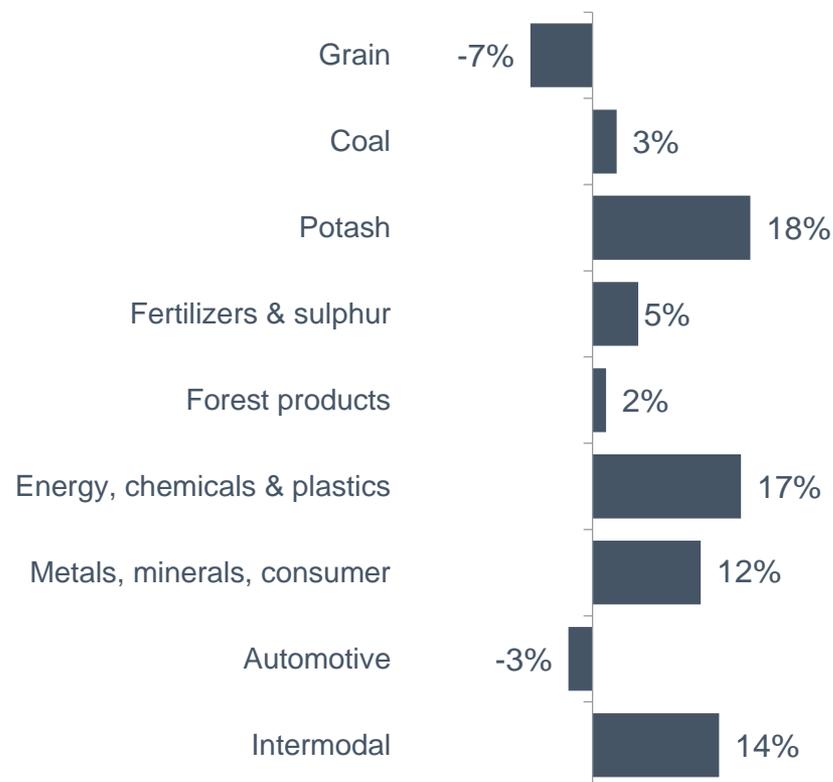
## TOTAL REVENUE

# +4%

VS Q1 2017

- RTMs: +6%
- Freight revenue per RTM: -2%
  - FX: -2%
  - Fuel: +2%
  - Price/mix: -2%

## FX-adjusted revenue variance<sup>(1)</sup>



(1) For a reconciliation of FX-adjusted variances, see CP's Q1 2018 Earnings Release on investor.cpr.ca



**NADEEM VELANI**

CHIEF FINANCIAL OFFICER



# FINANCIAL PERFORMANCE

(In millions, except percentages and per share data)

	First Quarter		Change %	FX adjusted Change % <sup>(3)</sup>
	2018	2017		
<b>Total revenues</b>	\$ 1,662	\$ 1,603	4 %	6 %
Compensation and benefits	374	300	25 %	27 %
Fuel	215	170	26 %	31 %
Materials	55	49	12 %	15 %
Equipment rents	33	36	(8%)	(6%)
Depreciation and amortization	170	166	2 %	4 %
Purchased services and other	275	278	(1%)	1 %
<b>Total operating expenses</b>	<b>1,122</b>	<b>999</b>	<b>12 %</b>	<b>15 %</b>
<b>Adjusted total operating expenses<sup>(1)</sup></b>	<b>1,122</b>	<b>1,050</b>	<b>7 %</b>	<b>9 %</b>
<b>Operating income</b>	<b>540</b>	<b>604</b>	<b>(11%)</b>	<b>(8%)</b>
<b>Adjusted operating income<sup>(2)</sup></b>	<b>540</b>	<b>553</b>	<b>(2%)</b>	<b>1 %</b>
Other income and charges	51	(28)	(282%)	
Other components of net periodic benefit recovery	(96)	(67)	43 %	
Net interest expense	115	120	(4%)	
Income tax expense	122	148	(18%)	
<b>Net income</b>	<b>348</b>	<b>431</b>	<b>(19%)</b>	
<b>Adjusted income<sup>(2)</sup></b>	<b>390</b>	<b>368</b>	<b>6 %</b>	
<b>Diluted earnings per share</b>	<b>2.41</b>	<b>2.93</b>	<b>(18%)</b>	
<b>Adjusted diluted earnings per share<sup>(2)</sup></b>	<b>2.70</b>	<b>2.50</b>	<b>8 %</b>	
<b>Operating ratio</b>	<b>67.5%</b>	<b>62.4%</b>	<b>510 bps</b>	
<b>Adjusted operating ratio<sup>(2)</sup></b>	<b>67.5%</b>	<b>65.6%</b>	<b>190 bps</b>	

(1) Adjusted to exclude \$51 million of management transition recoveries in Q1 2017

(2) For a full description and reconciliation of Non-GAAP Measures, see CP's Q1 2018 Earnings Release on investor.cpr.ca

(3) For a reconciliation of FX-adjusted variances, see CP's Q1 2018 Earnings Release on investor.cpr.ca



# FREE CASH

<i>(in millions)</i>	<u>For the three months ended March 31</u>	
	2018	2017
<b>Cash provided by operating activities</b>	<b>\$397</b>	<b>\$311</b>
Capital expenditures	(241)	(230)
Other property and asset sales	4	3
Other	(1)	5
Cash used in investing activities	(238)	(222)
Effect of FX on USD-denominated cash & cash equivalents	5	(2)
<b>Free cash <sup>(1)</sup></b>	<b>\$164</b>	<b>\$87</b>

- Debt refinancing to reduce interest expense by \$20 million per year
- Target 2-2.5x Net Debt to EBITDA

(1) For a full description and reconciliation of Non-GAAP Measures, see CP's Q1 2018 Earnings Release on investor.cpr.ca

# 2018 OUTLOOK

MID SINGLE-DIGIT  
REVENUE GROWTH

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LOW DOUBLE-DIGIT  
EPS GROWTH\*

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CAPITAL EXPENDITURES  
\$1.35B - \$1.5B

\* Versus 2017 adjusted diluted EPS of \$11.39. For a full description of 2018 Outlook and Non-GAAP measures, see CP's 2017 Form 10-K on [investor.cpr.ca](http://investor.cpr.ca)

**KEITH CREEL**

**PRESIDENT & CHIEF EXECUTIVE OFFICER**



# APPENDIX



# PENSION ACCOUNTING RESTATEMENT

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- Beginning January 1, 2018, CP adopted the new accounting standard for the presentation of net periodic pension costs and post-retirement benefit costs.
- The new accounting standard resulted in a 430 bps increase to CP's Q1 2017 operating ratio. There were no changes to net income, earnings per share or free cash.

	Q1	Q2	2017 Q3	Q4	Year
Operating ratio as restated (%) <sup>(1)</sup>	62.4%	62.8%	61.0%	60.2%	61.6%
Adjusted operating ratio as restated (%) <sup>(1)</sup>	65.6%	62.8%	61.0%	60.2%	62.4%

- For further details, including restated historical results, refer to CP's [Form 8-K](#) dated February 16, 2018 on investor.cpr.ca

(1) 2017 comparative period has been restated for the retrospective adoption of ASU 2017-07

# KEY MODELING SENSITIVITIES

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## Key sensitivities

Foreign exchange rate\*

For every \$0.01 decline in the Canadian dollar:

- Revenues increase by approximately \$27 million
- Expenses increase by approximately \$14 million
- Interest expense increases by approximately \$3 million

\*Sensitivities are quoted on a full year basis; Q1'18 average CAD/USD was 1.26. Large shifts in exchange rates, fuel costs or revenue mix may cause the sensitivities listed above to change.

Stock-based compensation

For every \$1 appreciation in share price, compensation & benefits expense increases by approximately \$0.3 million to \$0.5 million.

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