Transcript

Q3 2018 Earnings Call

October 23, 2018

Corporate Participants:

Keith Creel – President & Chief Executive Officer
John Brooks – SVP & Chief Marketing Officer
Nadeem Velani – EVP & Chief Financial Officer
Maeghan Albiston – AVP, Investor Relations

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon. My name is Sheryl, and I will be your conference operator today. At this time, I would like to welcome everyone to the Canadian Pacific's Third Quarter 2018 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 will be a question-and-answer session. [Operator Instructions]

I'd now like to introduce Maeghan Albiston, AVP, Investor Relations and Pensions, to begin the conference.

Maeghan Albiston

Thank you, Sheryl. Good afternoon, everyone, and thank you for joining us today. Before we begin, I want to remind you that this presentation may contain forward-looking information, and that actual results may differ materially. The risks, uncertainties, and other factors that could influence our actual results are described on slide 2 in our press release and in the MD&A that's 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, Executive Vice President and Chief Financial Officer; and John Brooks, Senior Vice-President and Chief Marketing Officer. The formal remarks today will be followed by Q&A, and in the interest of time, I'd appreciate if you could limit your questions to two. It's now my pleasure to introduce Keith Creel.

Keith Creel

Thank you, Maeghan. Good afternoon. Welcome to the call this afternoon. Certainly, I want to say this, we're going to keep our comments brief to allow for maximum time for the Q&A. But with that said, looking at the results, I'm sure that you would join me in saying that my view that these are very impressive results, very pleased with the results for the quarter.

Setting records across the board for the company, revenues up 19% to CAD $1.9 billion. The operating ratio, obviously, 58.3%, that's an all-time record for CP, certainly something we're very proud of. Operating income improved 27% to CAD $790 million, and adjusted EPS up 42% year-over-year to CAD $4.12.

Operationally, from a leverage standpoint, productivity standpoint, we continued to see train weights improve to hit record levels. Fuel efficiency improved by another 3% to hit a record of 0.916 gallons per 1,000 GTMs, which not only is a CP record, but as well, it's an industry best.

These results overall are reflection of the collective efforts of this entire CP family. I'm especially proud of John Brooks and the marketing and sales team, out selling this very compelling value story for CP, Mike Foran and his team creating the constructive tension as we develop the market strategies and make sure that we're asset correctly, and finally, Robert Johnson and the operating team, world-class efforts delivering the service that we sell to our customers.

With this confidence, as you've seen yesterday as well, the press release, we've applied to the TSX for a new buyback program. We advanced that discussion. Originally, we had planned to have it in December, but given the

recent market volatility that we've all experienced, we saw a very compelling opportunity to create additional value for our shareholders real-time, so we advanced that discussion. The board approved it. We've applied for 4% buyback. This amount itself is manageable from a credit metric perspective, and certainly at the same time, illustrates our strong conviction in our CP story going forward.

So with that said, let me hand it over to John and Nadeem to provide some color on the markets and the financials, and then, to my original point, we'll spend the rest of our time on some fruitful Q&A.

John Brooks

All right. Thank you, Keith, and good afternoon, everyone. As Keith said, total revenues were up 19% this quarter to a record CAD $1.9 billion, with revenue growth across every one of our business units. RTMs were up 13%. Fuel and FX were tailwinds of 4% and 2%, respectively. And as expected, and as I guided to earlier this year, same-store price continued to solidly land in the middle of our target, 3% to 4% range, and renewal pricing continued to trend north of 4%.

So now taking a closer look at our revenue performance on a currency-adjusted basis. Grain was up 7% this quarter, led by strong performance out of Canada, with September being our all-time record month for shipments to Vancouver. And we expect Q4 to also remain very strong, as harvest is now fully underway as we've got by some of the weather challenges in Alberta.

Strong export volumes from both Canpotex and K+S marked another record-setting quarter for potash, with revenues finishing up by 24%. And I'll note that was the third straight quarter of record potash volume. The energy, chemical, plastic portfolio saw revenue growth of 58%. And while crude was a large contributor to this growth with over 23,000 carloads moved in the quarter, I would also highlight that excluding crude, ECP was up 23%, and this was also a record. And this was led by LPGs, fuel oil, gasoline, asphalt, and frankly, a reflection of Coby Bullard and his team selling service and adding carloads to our energy train service.

As expected, forest products were also up, 12%, as we continued to leverage the strength of our Vancouver, Toronto, and Montreal transload capabilities. In fact, our lumber and panel business had the best quarter in the last 10 years. Automotive revenues were up an impressive 20%, in spite of a weak environment, a trend we expect to continue for the remainder of the year. Further, construction is well underway on our new Vancouver auto compound, offering our Automotive customers a new option in the Vancouver market and another great growth opportunity for CP.

Finally talking about the Intermodal side of the business, revenues were up 18%, with both international and domestic intermodal experiencing double-digit growth again. Of note, RTMs were significantly more than carloads this quarter, a reflection of the discontinuance of our short-haul, low-margin Expressway service and the continued success we have on our long-haul transcontinental service.

So, overall, look good. Demand environment continues to be positive, frankly, stable and healthy in many of our commodity areas. And I'm proud and I think you heard it during our Investor Day, the team is executing strategically and very disciplined in the marketplace. We're picking our right partners. We're enhancing our total transportation product, and we're priding in pricing value for the service we provide in this marketplace.

So, of course, as we said that day, there's a lot of work yet to be done. Heavy lifting to do, but the team is laser-focused on the opportunities ahead of us. With that, I'll pass it to Nadeem.

Nadeem Velani

Thanks, John. Tremendous results by you and the team.

As Keith and John noted, this was a record quarter across the board. Revenues were up 19%, or 17% on an FX-adjusted basis, driven by significant volume growth of 13% on an RTM basis. Continue to demonstrate our ability to grow at low incremental costs. This has resulted in a third quarter operating ratio of 58.3%, an improvement of 270 basis points year-over-year and, as Keith mentioned, lowest ever for the company.

This was in spite of rising fuel prices and stock and incentive-based compensation accruals, which negatively impacted the operating ratio by about 250 basis points. As our numbers illustrate, the railway is performing well, and we have strong momentum as we continue to drive productivity and grow at high incremental margins. We are confident that we will continue to see margin improvement in the fourth quarter.

Taking a closer look at the few items on the expense side, I'll be speaking of the results on an exchange-adjusted basis, which is shown on the far right column of the slide. Comp and benefits expense was up 11% or CAD $37 million versus last year. The increase was driven by higher volumes as well as CAD $23 million in higher stock and incentive comp, and higher pension expense and labor inflation. The increases were partially offset by efficiency improvements from enhanced labor productivity. Fuel expense was up 46%, primarily as a result of higher fuel prices and increased volumes. This was partially offset by improvement in fuel consumption of 3%, driven by improved train utilization from higher volumes. As Keith mentioned, this was best ever fuel efficiency.

Materials expense was CAD $47 million, an increase of CAD $2 million or 4%, driven by higher locomotive maintenance and higher rail repair costs, partially offset by increased efficiency and productivity in car repairs. Purchased services and other was CAD $263 million, and flat on an FX-adjusted basis. Higher intermodal pickup and delivery costs and higher casualty costs were offset by reduced expense on locomotive repairs.

There have been no material land sales year-to-date. We still expect a land sale in the magnitude of about CAD $30 million in the fourth quarter. However, there is some risk that it slides into 2019. This has no impact on our updated guidance. And in fact, if anything, it improves the quality of earnings.

And one item below the line to note, interest expense was CAD $3 million lower or CAD $8 million lower excluding FX. The reduction is primarily driven by savings from our debt refinancing in Q2. So, adjusted net income improved 40% and 37% on an FX-adjusted basis while adjusted EPS grew 42%. Outstanding results.

Taking a look at the free cash on the next slide. We continue to generate strong free cash flow. Year-to-date cash from operations increased by 23%, and free cash flow increased 29% in spite of increased capital spend. As previously guided, we expect CapEx to continue at these levels, and are targeting CAD $1.6 billion at year-end. We remain well on track to deliver more than CAD $1 billion in free cash this year. And this strong cash generation combined with taking a pause in our buyback the last six months, we have lowered our leverage within our targeted 2 to 2.5 times debt to EBITDA. As Keith already noted, we have filed a 4% NCIB program as one means to redeploy this cash.

With the support of our board, we accelerated this program and increased the scale as we see significant value in the share price. So, with our balance sheet discipline, it has created an opportunity for us to take advantage of this pullback, and we plan to be aggressive once we get TSX approval. We believe this is a very prudent approach to capital allocation. While there were some challenges in the first half of the year, our operating model remained resilient. This quarter's record results only served to reinforce our ability to grow faster than others in the industry, and we remain confident in our team to drive further sustainable profitable growth in Q4 and into 2019.

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

Keith Creel

Okay, with that said, I think, again, overall, hard work, precision scheduled railroading, I think, certainly producing at the end of the day a very, very compelling value in the marketplace for our customers and, at the same time, producing a very compelling financial outcome for our shareholders in the marketplace.

So, with that said, let's open it up for questions.

Question & Answer

Operator

Thank you. [Operator Instructions] Your first question comes from the line of Tom Wadewitz of UBS. Please go ahead.

<Q - Thomas Wadewitz>: Good afternoon. I think we already knew there were going be strong result, but congratulations nonetheless; obviously, very good quarter.

<A - Keith Creel>: Thank you, Tom.

<Q - Thomas Wadewitz>: Wanted to ask, I guess it's a kind of granular question, but on the energy side, how – maybe John or Keith, how do you think the ramp from the 23,000 looks like the next couple quarters on crude? And then, how much you think about the offset in terms of frac sand, maybe what frac sand carloads were in the quarter and kind of where they might go the next few quarters?

<A - John Brooks>: Yeah. So, Tom, as I mentioned, I guess now a couple weeks ago, we'll move into that sort of 100,000 annual run rate on the crude as we get into Q1, get through winter, to that ramp-up. I think there's, again, opportunity to get beyond that, but it probably looks like more once you get into Q2, Q3 of 2019. I'm just going by memory here a little bit, but I think we landed in the neighborhood of around 18,000 or so cars in frac sand in Q3. And that was a little drop from, I think, an all-time high we hit in Q2, if I recall. You know what? There's a lot of dynamics at play in that space right now. We probably see a little further deceleration as we go into Q4.
The positive is, I think, our sales and marketing team has been frankly out in front of this for quite a while. As we've talked about, we've developed the three new terminals in the Bakken. All repurposed crude facilities now delivering sand, taking unit trains. And I think the thing you got to remember about that opportunity is not only is that replacing that sand, Tom, but it's also – it's a great margin opportunity for CP. It's a single line-haul; it's controlled trains that allows us to run longer trains. So what we lose on the top line is actually a pretty good bottom line net story for us in that market. And as I said, also, we've got a few other things up our sleeves in some of those other markets where we can look at developing further unit train landing spots.

<A - Keith Creel>: Yes. I would add those sand moves, Tom, it's important to remember those fit right in our wheelhouse when we originate and terminate the move from an asset turn standpoint, from a locomotive productivity standpoint. So, from a margin standpoint, contribution per car or operating income, I don't know which way you want to look at it. You can look at it all ways. It's much more profitable business for us at the end of the day. We control our own destiny, and we're going to do better as a result of it. So I don't need car for car to replace benefit to the bottom line when carloads go down. And what you historically have seen is our numbers on the sand side.

<Q - Thomas Wadewitz>: Okay. That's helpful. And then maybe just one follow-up on – based on the same topic. Are you still – are you doing crude-by-rail out of the Bakken? And is that something that if there was demand, there would be cars available that you could actually do some out of the Bakken if there was kind of the right market conditions?

<A - Keith Creel>: We're not currently doing any crude out of the Bakken. Would we entertain crude out of the Bakken? The answer would be yes, but to your point, it's got to be on the right car type.

<Q - Thomas Wadewitz>: So, are those car types available or not?

<A - John Brooks>: There's – part of this – part of some of the lag of our ramp-up in Canada, frankly, has been timing delays around the retrofit in some of these newer-model cars coming online. We probably face a little bit of that also if we were to come out of the Bakken. But I think the cars are out there, Tom, if the right deal presents itself.

<A - Keith Creel>: And none of our expectations or guidance is based on shipping a carload of crude out of the Bakken. So I think that's another critical point. If it makes sense, we'll consider it. If it doesn't, we're not going to. And it's not a good decision for CP, then we're obviously not going be doing it.

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

<A - Nadeem Velani>: Thanks, Tom.

Operator

The next question comes from Fadi Chamoun of BMO Capital Markets. Please go ahead. Your line is open.

<Q - Fadi Chamoun>: Okay, thank you. Just to follow up on this crude discussion. Is the 100,000 run rate you talked about all is kind of volume-contracted over two to three years I think the timeframe you've been talking about? Or are there more standard tariff volume moving under this...?

<A - John Brooks>: All the volume's under contract. It involves MVCs and it involves term, Fadi, all of it.

<Q - Fadi Chamoun>: Okay. And back to the supply chain I guess. Are there terminal or storage bottlenecks that you're seeing in Canada in terms of this crude ramp-up or is it really more a question of having the right cars and ultimately evacuating crude as it comes up?

<A - John Brooks>: Yeah. No, at least in our railroad, we haven't experienced that sort of backup, Fadi. It would definitely be more the equipment that was the pacing item on some of these opportunities we have.

<Q - Fadi Chamoun>: Okay. My second question is kind of, how do we think about the network positioning into 2019? I guess you've been hurrying up the hiring, the locomotive overhaul to handle this growing volume. Like, can you help us kind of understand a little bit if we see 5% RTM growth next year, what kind of head count, what kind of flavor and – you would need to ramp-up into in order to handle that volume?

<A - Keith Creel>: 5%. Again, it depends on the business line where it comes. I mean, obviously, the unit trains, and we don't have anymore – a lot of synergies left with the unit trains when it comes to those type. But manifest and intermodal obviously it's not going be one for one. So I would not suggest that it would be anywhere close to 5%. 1% or 2% is a guesstimate, based on a 5% or 6% RTM growth run rate. And as far as locomotives, we've got locomotives available that we can pull into 2019, and we're certainly more than prepared to do that if the economics are there and it make good sense to retrofit to cover off any of that demand.

<A - Nadeem Velani>: And, Fadi, I would just add that as we pointed out to the last several calls, we've been ramping up the hiring and training to get to the position we're at. And to hit our stride as the volumes ramp up. So I don't think you'll expect from us to see a huge ramp-up in assets or resources to be able to meet our 2019 demand. And some of it's been – we're controlling the – what's coming onto the railroad. So what we described a couple weeks ago, having the team in lock-step and how we plan and how we take on new business, is an important function, an important kind of process we go through to make sure we're taking on what we can handle. So we are taking on in a very prudent fashion.

<A - Keith Creel>: Yes, I think you've got to look to some of the numbers that we've shared today. I mean, we look at a 13%, 14% RTM growth in the third quarter that we've just reported. And from a train-mile standpoint, we're up less than double-digit and that's only as a result of running fewer longer trains, heavier, longer trains, which is all part of the PSR model.

<Q - Fadi Chamoun>: Great. Thank you.

<A - Keith Creel>: Thank you, Fadi.

Operator

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

<Q - Christian Wetherbee>: Hey, thanks. Good afternoon, guys. Understanding that it's only been two weeks since we all spent some time together going through the opportunities, I think at the time there were a few contracts that maybe you were – maybe one or two that maybe you're awfully close to. I guess, maybe stepping back and thinking bigger picture, as you think about the progress towards winning, particularly some of the competitive business, you obviously put a lot of information out a couple of weeks ago, just kind of curious sort of where things stand today in terms of getting closer and closing in on those deals. You feel better, the same that you did a couple weeks ago about your ability to close particularly on those competitive contracts?

<A - Keith Creel>: Chris, I would say this, I feel just as good, if not better. It's a matter of dotting i's and crossing t's and making sure we're doing the deals in a way that's good for the customer and good for CP.

<Q - Christian Wetherbee>: Okay. That's helpful. And if I think about 2019, and honing in a little bit on the operating ratio, I know that's more of an output than necessarily a target that you might model towards or operate towards. When you think about the puts and takes and the RTM growth opportunities, some of these longer term contracts and some of the competitive business, what are the hurdles that are going to potentially keep you from dipping that OR back under 60 for a full year basis. I just want to get a sense how you're thinking about the landscape in hitting – getting back to that sub-60 OR again in 2019?

<A - Nadeem Velani>: I'd say the only material hurdle, Chris, would be fuel. And just taking on – if fuel prices go up and OHD goes up, you take on fuel surcharge revenue at 100% OR. That's one hurdle. Stock-based comp certainly was a hurdle up until the last few weeks, and we'll see what occurs there. But we talked about some of the risks. We don't see, from an OR point of view, many kind of headwinds that we'll face. I think we've faced a lot this year in the first half of the year, as I kind of mentioned, with a very difficult winter. Now, if we have an extremely difficult winter, will it hurt us and create headwinds? Potentially. But we're coming off of a very easy comp from a winter point of view. And I would say that the other issue that we had in earlier part of this year that hurt our OR was labor disruptions. And we certainly don't anticipate that to be a case for us going forward. So we feel very good about taking on these volumes at a very high incremental margin, and we should see that OR continue to improve. And like I said, like we said, there's no reason why we can't be industry-best.

<Q - Christian Wetherbee>: Okay. Got it. Thanks for the time. I appreciate it guys.

<A - Nadeem Velani>: Thanks, Chris.

Operator

Your next question comes from Walter Spracklin of RBC. Please go ahead.

<Q - Walter Spracklin>: Thanks very much. Good afternoon, everyone. Just on the grain side, John, you mentioned that you had some wet weather, and I know, we were there, we certainly experienced some of the snow. And that early, early onset of winter, I think, is starting to come into some of the forecast with regards to potentially negative in Alberta and maybe in parts of Saskatchewan. Has that, based on what your talk, your discussions with customers, are you seeing any notable change in what you'd communicated to us previously in terms of the potential size of the crop? And if you could balance that with the – what's carried forward as well in terms of overall crop size for this year, that'd be helpful.

<A - John Brooks>: Yes. It's good, Walter. Yeah, we wanted to show you guys what winter railroading was all about

that day, but honestly the weather since then has somewhat stabilized, and they've been able to get after that crop in Northern Alberta pretty good here. And if you look out the next week or so, they're going to get after it. So I think a lot of that canola in some areas where those crops are pretty resilient, as long as they're not beaten down to the ground. So I think, certainly, my discussions with customers have been that they're still pretty bullish, that this is a CAD $70 million plus or minus metric ton crop, which puts it further right there where we pegged it. And as you look at the carryout, it jumped around a little bit, but I still think it's above average, and still 10 million metric ton plus-type number. And I think that bodes well here for a strong fourth quarter and, frankly, a strong first half of next year.

<Q - Walter Spracklin>: Okay.

<A - Nadeem Velani>: Walter, my kids were wearing shorts to school yesterday. It was in the 20s and in the 70s for American friends. So it's been beautiful since you guys left at the Analyst day.

<Q - Walter Spracklin>: I'll take your word for it. Okay. On the buyback, Nadeem, actually, I know your target leverage is 2 times to 2.5 times and that hasn't changed. I know obviously there's been others in the sect that are getting a little bit more aggressive. Your free cash flow profile is looking good. It suggests that in past, recession showed a little bit of resilience in the railroad sector in general to weather the downturns. I'm wondering if you start to see avenue here for being a little bit more aggressive on the buyback and getting the leverage level toward the upper end or even above your indicated range of 2 times to 2.5 times. How comfortable you'd be with that?

<A - Nadeem Velani>: Yeah. So, as I mentioned, we're comfortable being at the high end of the range. I spent time at the rating agencies the last several days, and we're going to stay true to our commitment of being within that range. So we're 2.4 times right now. Would we be at around the 2.5 times level? That's fair. And so we did ramp it up. We've talked about doing closer to a 3% program. So this 4% program kind of reflects us being a little bit more aggressive to your point. Our visibility on free cash, our visibility into 2019 is very high and very positive. So we'll be able to execute this program, stay with it, utilize our free cash, stay within our means. We have a refinancing opportunity in the spring of next year. We'll add a little bit of leverage onto that refinancing as well. We'll still stay within our range below 2.5 times. And I think we'll be able to execute on this 4% buyback. So I think that's a good outcome and a good story, so.

<Q - Walter Spracklin>: Okay. Thank you very much.

<A - Nadeem Velani>: Thanks, Walter.

Operator

Your next question comes from Ken Hoexter of Merrill Lynch. Please go ahead.

<Q - Ken Hoexter>: Hey, great. Good afternoon. And Nadeem, can you just clarify I think some of the comments on the fourth quarter margins when you said they're going be better, is that year-over-year sequentially? And then with that, you noted land sales, I guess, are looking a little bit lighter than you thought at the Analyst Day. I think you said CAD $30 million instead of CAD $50 million. Is there anything changed there? I'm just trying to read what your comment on the operating ratio would be.

<A - Nadeem Velani>: Sure. Yeah, so I'm going to say that if you look at our operating ratio ex-land sales, it will be difficult to improve sequentially given the challenges of winter weather and just some of seasonality associated with how we railroad in Canada. So I would say that you shouldn't expect an operating ratio without land sales to improve sequentially. That being said, we expect it to improve year-over-year. So if I exclude land sales, it will improve year-over-year. Why land sales have changed? It's just there's some lumpiness associated with it. So there is maybe three land sales deals that kind of are pending. Two of them were pushed from 2018 into 2019. And then one of them, which is – we have a high level of confidence that it's going close, it's just it could be middle of December or it could be early January. So it's that tight of timing. So it's just really a timing issue, nothing else.

<Q - Ken Hoexter>: And then, I guess, my follow-up. Just given the gyrations of the market, is there – John, maybe a question for you in terms of your thoughts. I know it's really rapid since your Analyst Day, but is any increasing concern on the state of the economy from discussions with the customers the last few weeks in terms of their thought on the state of demand? I guess, more industrial. You've already kind of gone over grain and your view on crude, so more maybe on the industrial side.

<A - John Brooks>: No. We're pretty bullish across the board there. If any – if I had to call something out, you've seen a little bit of pricing volatility in the lumber market in the United States here the last couple of weeks. But I also look at our demand year-over-year and that's base and it's stronger than it was a year ago at this time. So, overall, we're pretty optimistic going into Q4.

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

<A - Keith Creel>: Thanks, Ken.

<A - John Brooks>: Thanks, Ken.

Operator

Your next question comes from Steven Hansen of Raymond James. Please go ahead.

<Q - Steve Hansen>: Yeah. Hey, guys. Solid quarter. Just curious on the crude side here, whether you're contemplating or entertaining any manifest at this point? It sounds like the three large unit train facilities are starting to fill up, to some degree, the loading terminals, and at the same time it sounds like a lot of the smaller terminals in the north are still pretty idle. Just curious if you're seeing any options to move manifest business as sort of an additional bolt-on opportunity without new train starts or if that's not really in the cards at this moment.

<A - John Brooks>: No, we are. We've got a number of manifest opportunities in play at some of our transload locations. So, I do think manifest does play a role in this. We haven't been in it, Steven, at this point very heavy, but there are, as I said, three or four opportunities that the team is working on.

<Q - Steve Hansen>: Okay, great. And just as a follow-up to that. I understand the Hardisty terminal is undergoing expansion. I think you discussed that at the Investor Day. But, just as a broader statement, have you heard about any more capital that's starting to entertain investment into more loading capacity thus far?

<A - John Brooks>: Outside of that one, nothing jumps out at me. I think – I mean, obviously, spreads are pretty wide right now. There's quite a bit of noise and a lot of discussions underway out there, but nothing that I would call imminent or we're aware of specifically. Hopefully...

<Q - Steve Hansen>: All right, very good.

<A - Nadeem Velani>: Hopefully, our finance minister will incent some further investments in Alberta.

<Q - Steve Hansen>: Yeah, I caught some of your comments earlier, so I appreciate the color. Thanks.

Operator

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

<Q - Allison M. Landry>: Thanks. Good afternoon. Just maybe going back to the weather theme, have you made changes to the network in the last year or so that you think will make it more resilient if it does turn out that

there's a pretty difficult winter? Whether that's end of this year or early next year?

<A - Keith Creel>: We continue to invest in, strategically and surgically, to increase capacity, Allison. So, obviously, standalone same weather, same conditions, we're going to do better than we would have last year. Last year, in addition to the challenging weather, we had a very catastrophic derailment that really compounded our problems where we had a tunnel going to the West Coast that was literally shut down for several days. That's not normal. That's definitely an exceptional circumstance, which sucked a lot of capacity out of this railroad. So, in the absence of that, which I certainly plan and expect and hope and pray we don't experience again, there's a bit of resiliency in the railway versus last year given the same circumstances.

<Q - Allison M. Landry>: Okay, that's helpful. And then, Keith, just following up on a comment you made earlier regarding the train miles being up a lot less than RTM growth. Could you also maybe share with us the year-over-year change in train starts in the third quarter versus maybe the previous three or four quarters? I think that's another good metric for PSR, so just curious to get a sense of the trends there.

<A - Keith Creel>: Yeah, the train starts are actually down. I don't have the exact number. I'll get Maeghan to get back in touch with you and give you that number. I don't want to misquote it.

<A - Maeghan Albiston>: Yeah, I'll follow up with you, Allison.

<Q - Allison M. Landry>: Okay. Thank you.

Operator

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

<Q - Brandon R. Oglenski>: Hey, good afternoon, everyone, and thanks for taking my question. Look, I know we talked a lot about this, I guess, two weeks ago, but equity markets kind of rolled over here. Are you guys incrementally concerned that we had closer to 25% tariff threshold on U.S.-China trade that we could see a material slowdown in volumes coming out of Asia? And I guess if that's not a concern, but it develops to be that way, what would you do to mitigate that business?

<A - John Brooks>: Yeah. So, I'll make a few comments, Brandon, on that. So, look, we talked about that day that our Asian business is in the 30% of our revenue-type number, but...

<A - Keith Creel>: John, let me jump in here.

<A - John Brooks>: Okay.

<A - Keith Creel>: Let's talk about geography. I want to set the stage here, John. Then I'll let you clarify this. I think there's a tremendous amount of confusion in the marketplace on Asia, specific to CP. So let's start with what is Asia to CP? Asia's China, Asia's Indonesia, Asia's Japan, Asia's Korea, Asia's India, et cetera. It's not just China. In a world of trade relations, I think another critical point when you think about CP, a predominantly a Canadian-based railroad, Canada is not at odds with China. It's not a Canada-China trade war. The majority of our revenue at CP originates, terminates in Canada, not in the U.S. And then, thirdly, if we want to get more specific, and I think it's important that we do, when we speak to China, China specific to CP and that's for the entire network, both U.S. and Canada, is 12% of our revenue. And if I want to get even more specific, China direct to U.S.A., it's less than 5% of our revenue. So, for anyone to suggest that this railway is heavily weighted to China, the most heavily weighted railway in the industry to China, it's just ill-advised and not fact-based. So, go ahead, John.

<A - John Brooks>: I think, Brandon, what I would comment on is we probably have started to see – and this looks a little different than just a couple of weeks ago, we probably have started to see a little bit of pull forward on

some of the volumes in our international business. Now, is that robust demand prolonged peak or is that truly pull forward ahead of the 25% tariff? It's a little hard to tell. It's starting to maybe feel more like the latter. But as Keith said, if we really look at our business, 3% to 4% maybe is kind of directly impacted. And if I were to call it out specifically, you're right, it's some of those Vancouver import into United States and it's our U.S. grain business. It's our soybeans out of the Midwest, exporting to China. But outside of that, we're pretty resilient in that space. Again, as a total percentage, it's not giant numbers.

<Q - Brandon R. Oglenski>: Well, I appreciate the clarification. And Keith, we weren't purporting that you guys had the most exposure there, just asking. But I guess, when you guys called out a mid-single-digit RTM growth through 2020, should we be thinking that those opportunities – because I think you called out numerous contracts, especially on the intermodal side, that are going to come up for bid in that time period. Is that more heavily weighted towards the back half of 2019 or 2020? So, should we be thinking it's more lumpy and it comes later, or is this going to be pretty rateable opportunities throughout the next two or three years?

<A - John Brooks>: No, I think it is a little bit weighted towards the second half into 2020, Brandon, as I think about it.

<A - Nadeem Velani>: And those are – but Brandon – and we weren't implying that – certainly didn't read that assumption in your reports. So, be clear on that. And, quite frankly, we're not dependent on these China revenues, call it, or international revenues to achieve our mid-single digit RTM growth.

<A - Keith Creel>: We're just a bit [indiscernible] (39:48) from getting tossed around a bit with this China connection being overemphasized in the marketplace. And when I say overemphasized, I think it's important that it's understood. Maybe that's the best way to say it. So it's been misrepresented because it's been misunderstood, and that's the reason we wanted to be so compelling with a fact-based discussion as opposed to rhetoric or speculation.

<A - Nadeem Velani>: But not misrepresented by you.

<A - Keith Creel>: Not at all.

<Q - Brandon R. Oglenski>: Thanks, guys.

<A - Nadeem Velani>: Thanks, Brandon.

Operator

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

<Q - Brian P. Ossenbeck>: Hey, good afternoon. Thanks for taking my question. So, John, just wanted to come back to domestic Canada. How much freight do you think would be affected by ELDs coming online in the country perhaps later this year, whenever they get around to it? And have you started to see any shippers really starting to look ahead and secure additional capacity ahead of that? Could this be as impactful for certain lanes in the domestic as it was in the U.S?

<A - John Brooks>: Well, it's hard to peg a number on what sort of the opportunity is, Brian. But that being said, I do think it's real, and there's going to be much like we faced in the U.S. and in the learnings we've gained this year, there's – the tightness is coming as a result of that mandate. And I think certainly, the momentum will sort of build as we go through 2019 and approach closer to 2020. I don't see this over the next two quarters. Do we see sort of any trends or upside relative to that? No, probably not. But as we get into the back half of 2019, as it becomes more and more real, yeah, I think there are road to rail opportunities that are going to present themselves much like it did in the U.S.

<Q - Brian P. Ossenbeck>: And that sounds like it could be upside to the...

<A - John Brooks>: Yeah.

<Q - Brian P. Ossenbeck>: ...three-year target for RTMs you laid out.

<A - John Brooks>: Yeah, I think there's some upside there, yeah. Again, we've had a lot of success in our domestic space, and we continue to expect those growth rates we talked about couple weeks ago to continue in that space. And then we layer on the momentum, assuming we gain some when we get to this mandate in 2020, and that certainly could be a tailwind.

<Q - Brian P. Ossenbeck>: Okay. Thanks, John. Just one quick follow-up with what we said earlier on the visibility into 2019 demand, you're obviously controlling what's coming on to network. It's a strong freight environment, but has there been a move towards more contracts and committed capacity? I know we see that in certain areas like crude-by-rail and the dedicated grain trains, but has there really been any behavioral changes in shippers? Are they willing to maybe stretch out a little bit more to get capacity where they think it's needed?

<A - John Brooks>: Yeah. I'd say so. It's part of a couple things. One is we've talked a lot about our focus on de-risking some of our exposure with our customers, and where – if it's the right relationship and right partnership and it fits our network and we're providing the value for our service, we've been willing to do some longer-term commitments. And I think we're going to keep that open-mind approach as we look for new partners in these additional revenue opportunities that we spoke to you about. So, it's got be fair though. The days of 1% rate increases in that annually are – have passed. It's got to be a lot of value for our service we provide, the capacity that we outlined for you. So, it's not every opportunity fits that mold, but certainly the right customers, the right opportunity, we're very open to those term deals.

<A - Nadeem Velani>: And Brian, just where we've put in capital investment as well, that has a quid pro quo in terms of volumes and commitment levels as well to ensure we get the right return.

<Q - Brian P. Ossenbeck>: Right. Okay. Thanks for your time. Appreciate it.

<A - Nadeem Velani>: Thanks, Brian.

Operator

Your next question is from David Vernon of Bernstein. Please go ahead.

<Q - J. David Scott Vernon>: Hey, good afternoon, guys. Keith, I'd love to hear your perspective on the regulatory environment right now in Canada. Obviously last year, there was a lot of concern, a lot of pushback from the grain trade and the government in terms of the access to rail networks. How's the tone of those discussions? Is that now just behind us, we don't have to worry about it? Or is that still something that is kind of on the radar?

<A - Keith Creel>: Well, I think it's something that we've always got to pay attention to and be respectful and mindful of. But as far as being problematic, being a threat or a high degree of uncertainty, I think that is behind us. As long as we continue to move grain to the marketplace and we're doing our job and I think team's doing a pretty good job as well from what I'm hearing to move the ag product to export for the country, overall, service levels, pretty solid, especially at CP. I think we're going to be in pretty good space.

And again, there are some things in that regulation that I didn't like, but there are some things that I did. There's some things that I loved. I loved the fact that we're going to be able to equip our locomotives with cameras to create a safer workplace for our employees, as well as the communities we operate in and through, and I love the fact we've got the economics now to invest in what will become a world-class, best-in-class in Canada grain fleet to enjoy that 8500-foot train program that they're rolling out across the industry, trying to maintain and continue to be

pacesetters and leaders in the grain ag space.

<Q - J. David Scott Vernon>: Okay. And then so no risk that you're going to become victims of your own success in any way in terms of, like, the profit metrics kind of increasing, blowback rates like that?

<A - Keith Creel>: Nothing imminent that I'm aware of, no.

<A - Nadeem Velani>: No, and if anything...

<Q - J. David Scott Vernon>: All right.

<A - Nadeem Velani>: ...certainly, Canadian competitiveness has been challenged by tax changes south of the border. And so, arguably with an election coming up, there could be some positives on tap for us if the Canadian government reacts to kind of the challenge that's presented by some of the changes in the U.S.

<Q - J. David Scott Vernon>: Okay. And then John, maybe as a quick follow-up, you guys did, I think, a great job articulating how you're going to leverage some of the stranded asset inside of the network that's maybe been under marketed in the past, whether it's getting auto companies to help invest in yards, or grain companies to invest in new elevators. How sticky are the commitments on some of those deals if we do end up seeing a little bit of a weaker economy going forward?

<A - John Brooks>: Fair. As we talked about with Vancouver Automotive compound and some of the other opportunities, if we're going to invest, we want the right partners that are sort of hand in hand with us. So, those commitments require that volume to come to the table. And if it doesn't, there's consequences, just like there's consequences if we don't perform and we don't provide the service and we don't get the facilities and terminals up and running like we described, and there's balance accountability.

<A - Keith Creel>: Yeah. They're all win-win strategic partnerships. That's the way we look at them.

<Q - J. David Scott Vernon>: All right. Thanks a lot for the time, guys.

<A - Keith Creel>: All right.

<A - Nadeem Velani>: Thanks, David.

Operator

Your next question is from Turan Quettawala from Scotiabank. Please go ahead.

<Q - Turan Quettawala>: I guess, Keith, you've done a pretty good job here on the fuel efficiency side. Just wondering if you can talk a little bit about maybe how much more room there is, assuming there is more room here next year considering that your discussions about sort of incremental volume getting onto the same train starts and so on and so forth, but if you could give us some color there, that would be helpful.

<A - Keith Creel>: Yeah. I would always say that there's going to be room for incremental improvements. Again, quantum leaps, when you're at industry-best, is going to be a challenge. But the more successful John and team are going at those manifest trains that have room on them, that have those locomotives pulling without additional locomotives, the more success we are in running longer grain trains and longer potash trains, the more incremental those improvements might be. So I definitely see runway next year with the business opportunities that are out there. And again, that continues to a degree once we start to onboard these grain cars and start running 8500-foot grain trains with like locomotives. There's definitely additional fuel synergies in that for us still to mine.

<Q - Turan Quettawala>: So I guess maybe, I mean, you don't want to give a number, but maybe sort of low single-digit will be reasonable?

<A - Keith Creel>: Yeah. Yeah. I mean, 1%, 2% of...

<A - Nadeem Velani>: Yeah. It's doing 3% this year, Turan. I mean, could we do 2% next year? That's fair assumption at this point.

<Q - Turan Quettawala>: That's helpful, thank you. And Nadeem, quickly just on the fuel. I think you talked about 250 basis point impact due to fuel here in the quarter. I don't know if you have the number handy for the year-to-date. And also how much of the 250 basis points was lag versus just sort of the overall higher price of fuel?

<A - Nadeem Velani>: I'm going to let Maeghan follow up with you with specifics, but year-to-date, it's probably been about 150 basis points kind of impact. And the lag was not impactful this quarter. It's more than the price.

<Q - Turan Quettawala>: Thank you very much. More than the price. Okay. Thank you very much.

<A - Nadeem Velani>: All right. Thanks, Turan.

Operator

Your next question is from Scott Group of Wolfe Research. Please go ahead.

<Q - Scott H. Group>: Thanks. Afternoon, guys, and thank you, Keith, for the clarification on China, and Maeghan helped us, too, on that, so we've got our math updated. Wanted to ask about RTM growth in the fourth quarter and how you guys are thinking about that. Is that sort of in line with the mid-single-digit? And then maybe specifically as you think about potash hitting records, I know we've got K+S ramping up, but potash historically can be volatile. How do you feel about the sustainability of the strength in potash right now?

<A - Keith Creel>: On the RTM standpoint, I'll answer that one, Scott. Yeah, mid-single-digits is a good number to model.

<A - John Brooks>: Yeah. You know what, potash momentum looks to continue. We stayed pretty close obviously with those guys, and Canpotex is sold out well in across fourth quarter. The Mosaic and lot of the domestic program, I think, seems stable to upside. And we still haven't gotten sort of to the place we want to be with K+S. So I think there's, again, significant opportunity yet to go with that group. So, through fourth quarter, we think the potash looks strong. And frankly, I think it looks strong in 2019.

<Q - Scott H. Group>: Okay. Helpful. John, on the pricing side, so you've been talking the last couple quarters about renewals north of 4%, the pricing number's coming in sort of 3% to 4%. Does that suggest that at some point, pricing will accelerate sort of above 4%, and is there any way to think, like, how much of pricing is locked in at this point for 2019?

<A - John Brooks>: Well, let me pose that a couple different ways. As I look at our same-store, about half of that is made up of what I would consider our bulk business. So, a lot of the – and that's longer-term commitments. That's maybe more that 1.5% to 3% type escalation, so that kind of creates, if anything, maybe a little drag on the same-store. What I really sort of gauge my health on is that if I then sort of zero in on those areas that I expect the strength, and that's the domestic intermodal. The merchandise, the carloads, the energy, chemical, plastics business, and that's the area where, frankly, we're seeing the pull upward where that business has been renewing, again, north of 4%, and actually in some cases, 5%.

So that's sort of the balancing act between the bulks and those other spaces. As I look forward, I expect in those

key areas, again, the domestics, the carload business that we continue to run north of 4%, and that probably means same-store stays in that 3% to 4% range for the foreseeable future.

<Q - Scott H. Group>: Okay. That's really helpful. And then maybe, Nadeem, can you just real quick just clarify one quick thing? When you talked about the OR seasonality from third to fourth quarter, I think you said there was a pretty material headwind from stock comp in 3Q, obviously, 4Q not starting the same way. Does that – your OR commentary on 4Q, take those headwinds, tailwinds into account?

<A - Nadeem Velani>: Yeah. I mean, certainly, if the stock stays at these levels, they'll be a further benefit to the OR. I'd be more bullish on the OR. I'm not factoring in the current market space. I would say that we're optimistic that the value will be restored, and there'll be some short-term headwinds. And then as we buy the stock, I think that our expectation is we're getting ahead of something that's going to naturally occur as I see the value that we can offer. So I think this is short-term noise. Bottom line, irrespective of what the stock does, my comments hold.

<Q - Scott H. Group>: All right. Thanks for the time, guys. Appreciate it.

<A - Nadeem Velani>: Great. Thanks, Scott.

<A - Keith Creel>: Thanks, Scott.

Operator

Your next question is from Matt Reustle of Goldman Sachs. Please go ahead.

<Q - Matthew Reustle>: Thanks for taking the question. Good to hear that the harvest is getting back on schedule. But in the event that the crop came below your projections, what type of flexibility do you have to replace those carloads with other business opportunities and still meet the RTM targets? It sounds like there's quite a bit of business that you're passing on now to be prudent. And just curious if there's a shadow book business that you might tap into if other areas didn't meet your projections.

<A - John Brooks>: Yeah. You know what? There's a lot of – there's good growth up in that north territory in terms of the grain crop. The flipside is – or the challenge sometimes is that's also where a lot of the crude-by-rail's coming from, a lot of the potash opportunities coming from, a lot of the manifest energy business and chemical business that we're talking about is coming from. So, look, if you had to make trades, or something happened in the grain business, I think it would certainly give us the opportunity to then redeploy assets and consider, do we want more crude business? Can we handle more carload business from that territory? Can we up our expectations with the Canpotex or a potash customer from that region? So, I don't know if I've got this little bucket of other opportunities in my hand, but I think this certainly would present itself if we were faced with that.

<A - Keith Creel>: Yeah. I think there's definitely some flex in those areas, those origin areas or origin areas of strength. That said, when it comes to grain, we move a lot of grain. And obviously, if there were short-term headwinds for grain, whatever we might consider would have to match up against short term, because long term that grain's going to be there, and we're not going to give away capacity, precious capacity, our long-term grain customers have value day in and day out, year in and year out.

<Q - Matthew Reustle>: Right. Understood. Very helpful. And one quick one on fuel, it does look like you were able to improve the sourcing price better than some of your peers and the headline numbers. Is there anything unique there in terms of procurement?

<A - Nadeem Velani>: We have instituted a deal in the past – I don't know, 18 months or so, that has given us better opportunities and better rates. Some of the Canadian rack rates have also been lower, and that's helped us vis-à-vis our U.S. peers, I suspect. So I'd point to those two items.

<Q - Matthew Reustle>: Okay. Great. Thank you.

<A - Nadeem Velani>: Thanks, Matt.

Operator

Your next question is from Konark Gupta of Macquarie. Please go ahead.

<Q - Konark Gupta>: Thanks for taking my question. Just had a clarification on pricing, can you help us understand the pricing? Same-store pricing of 3% to 4% in Q3, you said, I think, it's around the mid-range there. What would've that been without grain, because I think grain has sort of delivered at this point right?

<A - John Brooks>: Well, actually, grain was a little tricky in Q3. As I think we talked about during Q2, I thought it would – it kind of proved itself out, presented itself as a little bit of a headwind. The VRCPI was pegged at 2.8% in the regulated grain, which certainly would be a little bit of a drag. You sort of couple with that the U.S. pricing environment hasn't been very good in grain at all, just sort of with the challenges on the exports. So, I don't know the number and the lift it would have given it offhand, but I think it was a drag on that same-store a little bit.

<Q - Konark Gupta>: Yeah, thanks. And Nadeem, the last one for you on the pension slide. So I think I remember you guys talking about pension could potentially be a tailwind in 2019 given where the rates are? Have you guys done any work on the pension side yet in terms of how it looks like in 2019?

<A - Nadeem Velani>: No, I wouldn't say that we can true up rates on an ongoing, but we won't know until January, early January. So, still feel like it's going to be a positive to our current level, and just given the way the interest rates and discount rates have moved, I feel extremely confident that that's the case.

<Q - Konark Gupta>: Okay. Thank you.

<A - Nadeem Velani>: Thanks.

Operator

Your next question is from Justin Long of Stephens. Please go ahead.

<Q - Justin Long>: Thanks and good afternoon. So, maybe to start with a follow-up on the pricing discussion, I was wondering if you could provide an update on the number of contracts that are currently tied to an inflation index if you looked at your total book of business today. I think you're trying to shift away from some of those contracts, so if that's the case, could you provide any color on where you see that percentage of contracts tied to inflation going longer term?

<A - John Brooks>: Yeah. So, I sort of frame it up in my head in terms of the book like this, we typically annually roll over about 40%, let's call it 40%, 50% of our book. And then you have multiyear agreements that maybe make up a chunk of the balance. And those – again, those might be tied to just flat escalators or some of them might be index-based. I don't know offhand what percent is index-based, but I think that to get to the root of your question, I think, yeah, it's got be fair. If we're going to enter into these longer-term agreements, not that an index might be wrong, but maybe it has to have floors and ceilings. Maybe there has to be some measures against it to make sure that ultimately, that year-over-year price opportunity for us is fair. So, again, in principle, maybe we'll be moving away from the index, yeah, potentially. But if it's the right measure and the right approach, it's not that we're adamantly against it, we're willing to look at that as long as it got the right parameter with it.

<Q - Justin Long>: Okay. Thanks. And secondly, I wanted to ask about locomotives. Could you update us on the number of locomotives that you have in storage today? And based on what you're expecting for RTMs in the fourth quarter and next year, how do you see that number trending in the coming quarters?

<A - Keith Creel>: Rough number's about 200 locomotives in storage now. Does that mean that we would remanufacture, repurpose all of them? No. But as far as that number, if I look forward to the end of next year, that number's probably going to be half of that.

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

<A - Nadeem Velani>: Thanks, Justin.

<A - Maeghan Albiston>: Thanks.

Operator

Your last question comes from the line of Bascome Majors of Susquehanna. Please go ahead.

<Q - Bascome Majors>: Yeah, thanks for the time here. Your competitor into next year should have considerable amount more capacity. And I expect that they're actively working to fill that up at this point. John, what are you hearing from your frontline salespeople about their competitive approach to the marketplace as they get through the capacity investments they've been making for the last several quarters? And how does CP approach that? How does CP respond?

<A - John Brooks>: Well, you know what? As we talked about a couple weeks ago, not every piece of business is going to be right for us. So first and foremost, I would say, we're targeting the opportunities that fit us best. And frankly, in some cases, that may be business that our competitor's handling today. Frankly, it might not be in other spaces. Second, I think there's a lot of growth opportunities for both carriers out there. This demand environment, as I said earlier, it's pretty strong against most commodities. And frankly, some of the areas just fit the competition better, and assuming they're going to be targeting those, and we're going to be selective on what we target. Bottom line, I think our salespeople are going after the opportunities that we think fit our property, and we'll continue to sort of price and drive the value out of the service we provide. And you know what, we would hope that, again, our growth opportunities and whatever growth opportunities our competition goes after, there's plenty of that opportunity for both parties.

<A - Keith Creel>: Yeah, I think the other critically important fundamental of precision scheduled railroading, you sell to the strength of your network. It's all about asset turns, precision scheduled railroad, it's about turning locomotives, turning cars, turning people. With or without capacity, if my competitor has capacity in a particular lane, if they've got a shorter route, they have their best day, and I'm running longer miles and I have my best day, then they're going to do a better job of turning those assets. That's why I continually stress to this team, we sell to the strengths of this franchise. In those areas where our franchise is superior, i.e., faster, faster asset turns, if we do our job and we don't put more business on the railway than the railway can handle, we turn those assets, then we should be winning the business. Competitive cost basis, superior service offering, reliability, turn asset, that's what wins business and what retains business, and that's what creates stickiness and that's why we protect sustained profitable growth at all cost. That's the key to this. If you lose that, you lose precision scheduled railroading. And again, our best day, their best day, let's assume we both have capacity, they will, we will, if our network is superior, we should win the business; if their network is superior, they should win the business. And we sell to those strengths.

<Q - Bascome Majors>: Thanks, John. Thanks, Keith.

<A - Keith Creel>: Thank you.

<A - John Brooks>: Yeah.

Operator

You have an additional question from Seldon Clarke of Deutsche Bank. Please go ahead.

<Q - Seldon Clarke>: Hey, thanks for the question. I just wanted to ask a higher-level question about Canadian crude-by-rail. If you just took a step back and like think about the next couple years, how would you frame up the Blue Sky scenario for crude? Are there still contracts out there of similar size to this Cenovus deal? Or are there a bunch of kind of smaller contracts to win? Any color on that would be super helpful.

<A - Keith Creel>: I'll let John speak to the specifics of that, but I'll say Blue Sky at a high level. We realize and understand, we've always said this, the pipelines will come. It's not a matter of if; it's when. I can't predict exactly when, but I can tell you this, if this railway were to go out and consider and pursue that same level of anywhere close to that same level of crude business from those areas, we would have to make very extensive and expensive long-term investments, and the only way we're going to do that is if the economics and the business is there to sustain them. And I don't see that kind of runway. I don't see that kind of tail Blue Sky for crude.

<A - John Brooks>: All right. I don't have anything to add.

<Q - Seldon Clarke>: Okay.

Operator

There are no further questions at this time. I would now like to turn the call over to Keith Creel for closing remarks.

Keith Creel

Okay, well, thank you for your time this afternoon. I hope that the Q&A, the color provided some clarity. Certainly gave me an opportunity to provide some clarity that's out there. I'm not going to apologize for being oversensitive. I just think it's important that we all clearly understand the strengths of this franchise. Certainly, we're subject to the macro economy just like anyone else is, but from a micro level, we're working hard every day to make sure that we diversify ourselves more and more as we go forward in the future. We'll always be a bulk railroad. We're developing through service and through low cost and reliable capacity our ability to grow and expand our merchandise footprint and franchise to diversify ourselves as we go forward growing this business. With that said, we look forward to executing for the shareholders in the fourth quarter. We appreciate your confidence, and we look forward to sharing very encouraging results in January. Thank you.

Operator

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