Transcript

Q1 2019 Earnings Call

April 23, 2019

Corporate Participants:

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

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon. My name is Rob, and I will be your conference operator today. At this time, I would like to welcome everyone to the Canadian Pacific's First Quarter 2019 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 would now like to introduce Maeghan Albiston, AVP, Investor Relations and Pensions to begin the conference.

Maeghan Albiston

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

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

It's now my pleasure to introduce Mr. Keith Creel.

Keith Creel

Alright thank you Maeghan. Welcome. Before we delve into our quarterly results, I think it's only appropriate to take a moment to express both mine and our team members' appreciation for the many notes of support the prayers and expressions of sympathy that many of you on this call extend to our CP family after a tragic accident in early February, that took three of our CP family members' lives. As you can imagine, as a leader, there can never be a worst call to receive than the one I received that morning to notify me of that tragic accident. It's heartbreaking for the immediate family members obviously, as well as the CP family members that remain at work. Rest assured our CP family members will forever be remembered and honored.

And beyond the loss of life, it happened in a very busy part of our network in very challenging conditions. You know, this incident led into what became one of the toughest months and quarters of my railroading experience as well as the company's. The prairies saw one of the coldest winters in the century with temperatures 20-30% colder than what we experienced last year. The record freezing temperatures and snowfall affected supply chains across North America, as well as the fluidity of our network. To put in more closer specific perspective, February's challenges for our Company GTMs dropped to the lowest level in eight years. I share all these comments, not to make excuses but rather just to share the facts that obviously had a bearing on these results that we're sharing today, the challenges have been real and yes they have been material to the quarter. That said, it tested our team's metal beyond doubt. But at the same time, this team stood up.

The resiliency of this team, the talent, the commitment, the sacrifices, the contributions exceeded my expectations, exceeded any that I've seen in my railroad career or that I've had the honor to work with. The challenges made us stronger as a team. And as their leader, it makes me even more convicted about our ability to

execute and convert the growth opportunities that we still have remaining ahead of us in a safe, efficient, and sustainable manner. So more specifically onto the results for the quarter. We grew revenues by 6% and earnings by 3%. The operating ratio increased 180 basis points to 69.3% which Nadeem will provide some color to you in his detail shortly. But operationally, as a testament to the talent of the team, in spite of these challenges train speed improved 2% while dwell remained flat versus last year.

Train weights and train lengths were both down to a small degree at about 1%. But with that said, more encouraging since the weather has broken mid-March, we've seen this Company recover quickly, network fluidity is recovered, volume trends are strong. Looking at April's performance to date, very encouraging. RTMs and GTMs have continued to strengthen to the point that we're on pace for the strongest April on record.
Similarly, we've seen car miles per day improve 27% from February levels. Terminal dwell sequentially has improved 20% even exceeding month-to-date or year-to-date performance or month-to-date performance last year. And at the same time, facing record volumes train speeds month-to-date in April have increased 8% versus last year.

So that said as well I'd be remiss not to express my appreciation, both to the operating team as well as a debt of gratitude and appreciation to our customers for their patience that it took to endure what we've gone through as a company to restore the service that they deserve and they depend upon us for. Looking forward though with the recovered network, I'm encouraged by the momentum we're building and extremely inspired with the opportunities that lay ahead of us. And one final network comment before I turn it over to John to provide some color. I do want to make mention of some of the expressions of concern or questions that were expressed in our last call about the CTA investigation that had been triggered in the Vancouver service issues in Vancouver. I'm pleased to report today on the call the CTA concluded that CP was found to have fulfilled its service obligations. As each of us know on this call certainly at the Canadian Pacific, Vancouver is critical to our network, it's critical to this country, it's critical to commerce in Canada as well as North America. It is a network that we intend to serve well and we have served well and I'm very encouraged that the CTA recognized that CP has not only met but exceeded our service obligations in the toughest of times in this key corridor as we reward the customers that elect to do business with our Company with that record - industry record breaking service. As we look forward to the remainder of the year, I'm confident in our ability to deliver record results both financially and operationally to achieve our guidance of mid-single digit RTM growth and double-digit earnings growth beyond doubt.
So with that I'll turn it over to John to provide color on the numbers and will wait for the Q&A to provide any other details that we might be asked today.

John Brooks

All right. Thank you, Keith, and good afternoon, everyone. Total revenues were up 6% this quarter to CAD $1.8 billion. RTMs were down 1% as the strong demand environment was weighed down by the network operating challenges that Keith just spoke about. FX was a tailwind of 3% while fuel was flat. And as expected, same-store price continues to be strong finishing at the upper end of our targeted 3% to 4% range. Now taking a closer look at our fourth quarter revenue performance on the next slide. I'll speak to the results on a currency adjusted basis. So look, in spite of the challenges our CP team delivered several records this quarter. On the bulk commodities with network challenges certainly hindering our Canadian grain volumes as well as continued weakness in U.S. grain, volumes declined 4%. However, strong pricing helped to act as an offset resulting in record Q1 revenue for Canadian grain. And now with the Port of Thunder Bay open and strong network momentum that Keith spoke to, I expect grain volumes to remain solid right into early summer. The first three weeks of this quarter have been very encouraging both with Canadian and U.S. grain trending up double digits.

I'd also note that we have now 650 of our new high-capacity grain hoppers in service, allowing us to drive

efficiency and improved asset utilization throughout the grain supply chain. We expect to have approximately 1,900 more in service by the end of this year. So moving on to coal and potash. As a result of collaborative efforts at both the mines and ports, we produced a record first quarter Canadian coal revenue. Additionally, potash volumes were up 4% in the quarter. And looking forward, with K+S continuing to ramp up and Canpotex sold out through the end of June, we expect potash to continue to be a positive volume driver in 2019.

So now onto the merchandise space as it was mix this quarter. The energy chemical plastics portfolio saw revenue growth of 18%. The growth was driven by record volumes of LPG, plastics, refined products and incremental volumes on our energy train from Edmonton to Vancouver as these customers continue to take advantage of the velocity this service offers on their cycle times of their private cars. Further, I'm very pleased to announce today that Canadian Pacific and Inter Pipeline have executed a long-term exclusive service agreement for the shipment of plastics from Inter Pipeline's new Heartland Petrochemical Complex that's being built adjacent to CP in the Alberta, Heartland. With the startup of the facility taking place in late 2021, this new agreement leverages CP's direct service and capacity to get to IPL's key end markets, and will utilize our right away to develop a brand new rail line with direct access into Inter Pipeline's plant. The energy chemical plastics sales and marketing team delivered a strong win solidifying CP's position in the Alberta, Heartland and future growth within Inter Pipeline. Last in this space, the crude by rail volumes slumped sequentially to 17,000 carloads as a result of production curtailmentsand the tough operating conditions. While under the current circumstances, crude by rail remains highly variable, we are optimistic that volumes will gradually ramp up as new contracts start up and our existing customers resume shipping. We are definitely seeing increased demand for Q2 and expect the volume to continue to ramp up as we move through 2019. Now, moving on forest products were up 7% as we continued to drive asset utilization on our CP center beams and boxcars, offering greater service reliability to key markets for our forest products customers. Automotive revenues were up 3% largely driven by Glovis, as we completed the start-up of our Wolverton auto compound in January. We continue to drive growth in the auto space with our strategic partners despite a weaker auto demand environment overall and expect additional tailwinds as we move into Q2 as Toyota ramps up production following itschange over from producing Corollas to RAV4s at their Cambridge plant. And Glovis continues to utilize the Wolverton compound. And last, I'll make a note that our new Vancouver auto compound opened on March 4 ahead of schedule, and we are in our early stages of ramp up with Ford as our anchor tenant. As a reminder about this facility, it has a capacity to accommodate 168,000 VIN’s annually and will be a meaningful driver for further growth in 2019, and for years to come.

So finally, moving on to the intermodal side of the business. Overall, revenues were up 2%. In domestic, the CP team did a tremendous job onboarding Dollarama in Q1, and as a result we hit record March for both revenues and volumes. We continue to have strong momentum in domestic intermodal heading into Q2. On the international side, we continue to see steady growth with RTMs up 7% and this momentum has carried into Q2 with volumes up 15% quarter-to-date. So look, despite the tough operating challenges, I will also note that CP team worked tiredly as Keith mentioned in Vancouver with our customers and terminals to drive down dwell at the Port of Vancouver during this time period. While at the same time CP rail share with our partner GCT at Deltaport has grown from 20% not too long ago, to now approximately 50% today. So while Q1 was certainly a challenging time period for the entire CP family, I remain extremely encouraged with the momentum we've built over the last few weeks.

And I remain confident in the demand and pricing environment as we look forward. The team continues to diligently execute on the playbooks that I spoke about at Investor Day, and we will continue to deliver sustainable profitable growth. The team remains highly confident that we will deliver to the mid-single digit volume growth in 2019. And with that I'll pass it to Nadeem.

Nadeem Velani

Thanks, John, and good afternoon. Keith and John both noted, this was a challenging quarter. We started the year strong with January volumes up 7%, as we carried momentum from the back half of 2018 into 2019. As they also noted, when we entered February that momentum was interrupted. As a result, revenue growth was muted and significant expenses were incurred. Most notably through higher casualty costs which fall under the purchased services line predominantly. This resulted in a Q1 operating ratio increase of 180 basis points to 69.3%. Had it not been for the challenges we faced, we would have expected mid-single digit volume growth similar to January and an OR in the mid 60's. Taking a closer look at a few items on the expense side. As usual, I'll be speaking to the results on an exchange adjusted basis which is shown in the far right column of the slide. Compensation and benefits was up 7% or CAD $26 million versus last year. The primary drivers of the increase were increased stock-based compensation of CAD $20 million and a reduction in labor productivity. This was partially offset by lower incentive compensation. Fuel expense was down 7% reflecting the benefits of lower fuel prices, partially offset by a 3% reduction in fuel efficiency, resulting from weather and network disruptions. Depreciation expense was CAD $160 million, a decrease of CAD $12 million as a result of depreciation studies and a one-time adjustment. We expect this figure to normalize to the CAD $180 million level for the remainder of the year. Purchased services was CAD $357 million, an increase of CAD $76 million or 27%. The primary driver behind the increase was casualty, which was CAD $69 million in the quarter. To put that figure into perspective, our average casualty on a full-year basis is typically around CAD $70 million. The increase year-over-year was a little bit over CAD $50 million. In addition, third party expenses pertaining to snow removal and flood protection increased approximately CAD $9 million as well there was an additional CAD $10 million contractual dispute settlement booked in the quarter, which was a headwind. For the year so far, there have been no material land sales year-to-date. However, we do believe now that there is approximately CAD $20 million in land sale opportunities later this year. Rounding out the income statement, adjusted income increased by 1% and EPS grew 3%. Lower interest expense, and our share buyback program provided earnings tailwinds.

I'm encouraged by the quick recovery in the volume and operating trends we've seen over the first few weeks of April. As Keith mentioned, we are confident in our full-year guidance and we see no reason why we can't deliver an operating ratio starting with a 5 throughout the remainder of the year similar to the trends you saw in the back half of 2018 where we delivered mid 50's level of operating ratio. Turning to the free cash slide, we continue to generate strong free cash flow. Cash from operations increased by 4% and free cash flow increased 18%. While lower CapEx was a contributor to the cash flow performance in the quarter, our capital guidance for the year remains unchanged. In March, we issued CAD $400 million of 10-year notes at a coupon of 3.15%. This was our first Canadian debt offering since 2011 and will serve to refinance our May maturity of $350 million US dollars as well as generate significant interest savings. Starting in the second half, you can expect quarterly interest expense to step down to the CAD $112 million level. As of the end of Q1, we have completed roughly half of our current share repurchase program at an average cost of approximately CAD $260 per share, CAD $35 lower than where we are trading today. We will remain opportunistic and disciplined in our deployment of capital.

Finally, we've talked about balancing our return of cash to shareholders. As we've typically done in the past, you can expect us to review our dividend policy in the second quarter and we do have stated goals of getting our payout ratio closer to 25% over time. So despite a difficult first quarter, difficult start to the year with all of the positives that John has highlighted, we are tracking with the strongest volume growth in the industry through the first three weeks of April. A lot of the costs we faced in Q1 were of a one-time nature. So we have extreme confidence in our ability to deliver - generate double-digit EPS growth and frankly lead the industry in operating ratio performance. So with that all pass it over to Keith.

Keith Creel

Thank you for your comments, John and Nadeem. Let's open it up for questions.

Question & Answer

Operator

Thank you. (Operator Instructions) Your first question comes from Fadi Chamoun from BMO. Please go ahead.

<Q – Fadi Chamoun>: Yes, good evening. The first question maybe for you, Keith. So I mean, you know, we're always going to see kind of seasonality in the first quarter, and these issues kind of that are - kind of unexpected like this. But do you see from this experience in the first quarter that you can do something different in terms of capacity and resources, especially in Vancouver and on the West Coast where you tend to have some of these challenges and also strong demand during the same time? And I'm just wondering if there is anything different that you would do now in hindsight, especially in terms of capacity and resources to kind of manage these kind of things a little bit more going forward.

<A – Keith Creel>: Now listen I'm a realist, there's always going to be something that we can do, Fadi. To your point though, let me back up and say that we are always continually making tweaks and making adjustments. But I think it's important that we keep this in perspective, what happened to us in February, especially in the first two weeks of March were extraordinary. So for us to try to create capacity, invest into a level that we'd be able to absorb these extraordinary experiences we'd go out of business for the balance of the year, so I'm not going to suggest we'll do that.

But with that said, we have already looked as late as today, about two hours ago, we were looking at some strategic investments that are very surgical, rifle shot investments in the Laggan-sub to create some additional capacities that allow us a bit to surge, to absorb a bit better some of the situations that we experienced through the winter. We're continuing to invest into the corridor going down into the states. We are investing strategically in our Calgary terminal. We're investing strategically as well into St. Paul. So all those things and looking at our existing capacity, we'll continue to make some surgical strategic investments to enhance our ability to respond. But again, keeping it in perspective to think that we could ever properly respond to extraordinary circumstances would be a remiss for me to say that.

I think another key point, benefit and many of you were exposed to Dr. Mulligan who is our engineer specialist that we have in Calgary back during our Investor Day. We have created a team as well, using strong data analytics for him to mine the data, to look at opportunities for additional surgical investments to help us improve the reliability of our fleet, the reliability of the locomotives to give us more predictive testing methods. So we can identify suspect cars, suspect wheels, suspect locomotives, as well as track conditions, all of which are designed, number one with safety in mind first, but all have a direct material productivity and capacity benefit as well.
So those would be the key things that we're looking at Fadi, but I'll finish where I started. There is always more that we can it is part of precision scheduled railroading. We execute, we analyze, we measure we tweak to improve with a continual pursuit for operational excellence. So it's never resting on our laurels or assuming that we've gotten there. And in times like this rest assured when you get stress tested and you get your mettle tested the way we did, we do not miss opportunities to convert to help us in the future should something occur. But again, I pray and hope that we never face a tragic extraordinary circumstance like we faced in February again in this company's history.

<Q – Fadi Chamoun>: Okay, thanks for the color. And maybe one more question. The IPL contract that you've mentioned, John, can we get a little bit more detail on kind of the scope of this contract, maybe the size and the --

it sounded that like there is some upfront CapEx that might have to go in in order to prepare, if you can quantify that as well?

<A – Keith Creel>: Let me take the CapEx point, I'll let John speak about the size of the prize. There's not a capital requirement from CP. Our capital, our investment is the property that we own in the Heartland that allows for the track to be built to realize this opportunity both for the customer as well as for Canadian Pacific.

<A – John Brooks>: Yeah, just maybe a little more on that. It's a property that CP has had for quite some time and that not only now gives us a - certainly a strategic into IPL which we're excited about, but also really plants us deep into the Alberta Heartland. So I think this story is just really starting on that front. You know, specifically to this contract, roughly let's call it CAD $30 million to CAD $40 million annually. And as I said, it's what I would consider very long-term. So it's something we're excited about. We expect again the construction of both the plant and our rail spur into the facility to be put us in position to start moving some of this freight end of 2021.

<A – Keith Creel>: And I think to add a little additional color to that, beyond the direct dollars that John has spoke to for the specific product coming out of the plant once it goes into operation, there are additional shipments that are being shipped by rail now in the Edmonton area external - or exported I would say, for lack of a better term, out of Edmonton that will be serving as feedstock in the plastic process coming into that facility that we will realize the benefit from as well.

<Fadi Chamoun>: Great. Thank you.

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

<Q – Brandon Oglenski>: Hey, good afternoon, everyone. Thanks for taking my question. Nadeem, sorry about this, but you went through I think a lot of impacts in the quarter that you said could potentially reverse as we look out throughout the year. And I think you also mentioned a five-handle on OR for the next three quarters. So if you could just confirm that? And then maybe help us think about why then especially like purchase services and other where you think we should be trending on some of these cost items.

<A – Nadeem Velani>: Sure. So I think the biggest headwind that we had was the increase of CAD $50 million in casualty. And so, you know as I mentioned, the last three years, our average has been about CAD $72 million for the full year. That's something that was our cost in Q1 alone. And so, typically you have a range of about CAD $15 million to CAD $20 million per quarter as opposed to what we realized. So that's the biggest headwind. There is also some costs that we had in comp and benefits tied to casualty as well, but the majority was in purchase services. We also had a one-time settlements that we had with a magnitude of about CAD $10 million. And then in the category of good problems to have, obviously stock-based comp has been a - was a big headwind in Q1, just with the recovery of the stock and the strong performance year-to-date.
Now, I'm not going to say that we won't have that going forward. We're seeing that already Q2 to-date, but that is something to be mindful of. I think the overall inefficiencies that were due to weather, I mean, when have you heard us talk about fuel inefficiency, that's something that you just don't hear from us, and it's a direct result of the weather challenges, and so the shorter train length et cetera, the idling of trains. So we see that reversing course. You know, as I mentioned, Q2 so far has started off very strong and better than we anticipated. And that's a result of some of the volumes that we didn't move in Q1 being deferred into April and we're seeing the recovery of the network and post flooding, post winter et cetera. The operating team running a very strong network and our ability to recover so quickly, we're seeing the ability to capitalize on some of the deferred bulk revenue that we're moving this quarter. So, you know, a combination of strong volumes and these one-time costs kind of departing is what gives us confidence that we'll have a sub-60 OR in Q2. And certainly the back half of the year, I think we have a high level of confidence to be, to improve year-over-year. And as you know, back half of last year we were in

that 56.5%, 57% operating ratio range, so to improve over that you're talking some pretty, pretty strong performance. So hopefully that helps, Brandon.

<Q – Brandon Oglenski>: No, it does. Appreciate that Nadeem. And then, John, I know you talked specifically about some automotive opportunities this year. But can you just remind us, some of the company specific contracts that you guys went through at your Analyst Meeting and where you hope to show through in the business this year, maybe agnostic of what the economy is doing?

< A – John Brooks>: Yeah, so you know, I think we are - the automotive is a prime example, Brandon, of an area where certainly overall, I think most of the rails and generally speaking, production across the automakers are fairly flat or maybe even down. Whereas we've seen certainly strong growth as Glovis begins to ramp up. As I mentioned, we've got our Wolverton plant that was built site-specific for them up and running.
In addition, you know, Vancouver is going to be a long-term opportunity for us. So the Ford contract is well underway. I just had a team there. I think they already have close to 1,000 vins at that location and then there is, as I spoke to at Investor Day, there is a number of other auto opportunities that come to roost here later in the year that we think we've got a great shot. And this is all about attracting these shippers basically foundationally on our service. And, you know, we - I think, I'm fairly proud to say that we've partnered with quality partners such as Toyota and Honda that - where maybe some of the other companies have struggled for growth in Canada, our partners have done quite well. And I look at Toyota's recent change from the Corolla to RAV4. So we're still hauling the Corolla's income and now from Alabama, but we're also now producing the fastest selling SUV, small SUV class in Canada, at our Cambridge plant. So, you know, I think there is a CAD $15 million to CAD $20 million of upside just in that change with that plan. So I think that tailwind continues right into Q2 and Q3 for us.

<Brandon Oglenski>: Thank you, John.

<Operator>: Your next question comes from Tom Wadewitz from UBS. Please go ahead.

<Q – Tom Wadewitz>: Yeah, good afternoon. I wanted to ask you for some more color on your - your view of the way to crude by rail may ramp and how we're, you know, thinking about that. I guess, you've got, you know, just maybe thoughts about what spread levels we needed to get to and how the contract is starting up with the province and I guess July, how that may affect things. So, I guess specifically you said 17,000 in first quarter. Do you have a kind of a ballpark for what you might see in second quarter and second-half run rate?

<A – John Brooks>: Yeah, so – you know, I looked this morning spreads were in CAD $10.5 range or so. It's - I think it still frankly has a little ways to go before we see maybe, you know, a large scale move of train sets coming back. You know, we are close with all our customers on this Tom and I think the consensus is a feeling that, you know, come, let's call it, July, August, is where the sort of the spread starts to really widen out again. I don't think it has to get super wide. I think what we're seeing is a number of customers now wanting to bring on sets in prep of that knowing that we just can't turn it all on once we get to that point. You know looking at our latest modeling and what the customers are saying for Q2, I think we could potentially get back to, let's call it, Q4 levels. So 17,000 in Q1 maybe we can pop it back up into the low 20,000s, maybe even 25,000-ish in Q2. And then as you stated you know with contracts with Suncor and Cenovus and APMC all sort of ramping up, then we'll see where that goes in Q3, Q4.

<Q – Tom Wadewitz>: Okay, great, that's helpful. I appreciate it. Within the revenue per car, there were a couple that were a bit different from what we were thinking. And I'm just wondering if they were temporary effects. So potash arc was, and I think it was down slightly and it had been running up last year. So if that's temporary, and that's going to ramp back up or just how to think about potash arc? And then I think automotive arc as well, on a year-over-year basis?

<A – John Brooks>: So thinking about potash, Tom it may, you know, - given the outages and the issues we had in the Vancouver corridor, I'm just thinking out aloud around more Portland volume, you know, which we interchange to the UP and share that revenue, it might be shining through but Maeghan can sort of verify that.And what was the other commodity?

<Tom Wadewitz>: Automotive.

<A – John Brooks>: You know what we are - I know that on a cents per RTM basis, we were - we are seeing a lot more longer-haul Glovis business, that's sort of been impacting that.

<Q – Tom Wadewitz>: Okay. So probably automotive trend continues and maybe the potash would have had some noise from weather impacting the quarter?

<John Brooks>: Fair enough, Tom.

<Tom Wadewitz>: Yeah. Okay, thanks for the time. Appreciate it.

<Operator>: Your next question comes from Chris Wetherbee from Citi. Please go ahead.

<Q – Chris Wetherbee>: Yeah. Hey, thanks for taking the call. I guess, I wanted ask to have maybe following up on the yield specifically about pricing, wanted to get a sense of what you think the pricing environment looks like today? Obviously, the yields are quite strong and you had some nice momentum coming through the end of last year and to this year. How much of the book is fixed at this point and how do you think about pricing generally?

<A – John Brooks>: So, you know, not unlike prior years, Chris, I think we've got somewhere in the range of around 40% of the book that rolls over and you can kind of think of that, you know, as 10% a quarter. It's pretty evenly spaced out. You know what, pricing has remained fairly strong. So I'm pleased with it. I don't see anything that is causing me a whole lot of angst when I look down the commodities and the contracts we have coming up that we can't maintain that pace and momentum. You know, and as we get into the back half of this year, I still believe capacity remains fairly tight and the whole driver log issue still I think has a big question mark on what the impact is or isn't in the Canadian trucking space, as you get towards the end of the year and into next year. So frankly, you know, that - I think it was underestimated in the United States. It's yet to be seen in West, how that sort of plays out in Canada, but that certainly could provide a little bit of tailwind towards the back half of the year also.

<Q – Chris Wetherbee>: Okay. Okay, that's very helpful. And then maybe a question for either Nadeem or Keith or both when you think about CapEx and some of things that we've been talking about in terms of, sounds like rifle shot various specific investments in the network that could benefit the recoverability or the durability in these really harsh conditions. Should we be thinking anything about bigger picture CapEx sort of projections, what it might - what the network might need over a longer period of time, or do you sort of very significant somewhat smaller in nature?

<A – Keith Creel>: Tom, I'll let Nadeem elaborate, but what I'm speaking to is it's not material. Certainly we have the flexibility within our existing envelop to make these rifle shot investment to provide that additional flexibility.

<A – Nadeem Velani>: Yeah. And Chris, I'd just add that, you know, we maintain a pipeline of capital opportunities and, you know, we keep some - some money available to be able to respond to the needs of the network or opportunities as they arise and so within what we've guided to that CAD $1.6 billion level of CapEx, we can accommodate what Keith has described, and be able to kind of re-prioritize et cetera. And so for us, the way we

manage the envelope, it's not something that we see spikes in CapEx that we can't - that we can't just manage throughout the year around that CAD $1.6 billion level, and again over the next several years in that range, maybe even down slightly from CAD $1.6 billion.

<Q – Chris Wetherbee>: Okay, that's great. Thanks for your time. I appreciate it.

<Keith Creel>: Thanks, Chris.

<Nadeem Velani>: Thanks, Chris.

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

<Q – Walker Spracklin>: Yeah, thanks very much. Good afternoon, everyone. Could you talk a bit about your headcount and how that evolves with weather activity, you know, having to staff up and then how that might change through the quarter-to-quarter and then where we might end the year there, Nadeem, given all the, kind of the volatility with regards to the weather activity, how that will play itself out in the headcount?

<A – Nadeem Velani>: Sure. So, you know, we - our workforce was about at the same level of 13,000 as we ended 2018 at. So it didn't ramp up. It was pretty much flat. And, you know, despite the increase of, you know, volumes of mid-single digits that were guiding to that we expect to achieve this year, you know, we see workforce staying relatively flat, maybe up 1% or so. So no material change there on the workforce, Walter. You know, obviously, there's the - within that number, some of the headcount changes as you adjust the demand in specific locations, but the overall workforce number is at that 13,000 to 13,100 level.

<Q – Walker Spracklin>: Okay. And just stepping back a little bit, and this one, I guess for Keith here, your competitors are starting to make some investments and looking into expenditures outside of rail. Just curious your thoughts on strategically looking outside of rail investments as a opportunity for growth, and if so, what areas would you focus on?

<A – Keith Creel>: Well, I would say that, number one, we'll always keep our eye - open our mind, our eyes looking forward. But with that said, we are at a different phase in our evolution at this company. We still haven't converted the capacity that we've created from our PSR transition several years ago. We're in a very unique position, Walter, internally where we have capacity across our network that represents meaningful opportunities to invest organically on our own physical footprint to grow our revenue stream.
So until we exhaust those, unless there's something very compelling that presents itself, our focus over the next three years, four years is inward, it's not outward. But again, if it makes sense, we'll consider it. We certainly have the balance sheet to be able to do it and the dry power protected, to act if something is warranted, but right now we're focused internally with the list of opportunities for us to invest, we continue to grow with our customers providing them something unique that they can't replicate in this rail space in the marketplace today, especially in Canada.

<Walker Spracklin>: All right. Got it, thank you.

<Operator>: Your next question comes from Brian Ossenbeck from JPMorgan. Please go ahead.

<Q – Brian Ossenbeck>: Hey, good afternoon. Thanks for taking my question. John, I just wanted to come back to the ELDs and potential impact, do you have a few more thoughts on that? To your understanding has the rule been finalized yet, and where do you think which parts of the network or which opportunities do you think you'd see the most impact potentially, because as I understand, you still have a pretty good amount of the trucking fees running

cross border into the U.S. So they would have probably already been ELD compliant to have some sort of impact already. So I just want to get your thoughts on how this is progressing, if it's still a late '19, '20 impact and where do you see the biggest opportunities for CP?

<A – John Brooks>: Yeah, like full compliance still seems to be, Brian, moving around a little bit. I don't know if there has been a latest sort of line drawn in the sand. I can tell you in terms of our providers sort of outside 100-kilometer level, you know, I feel good about where our dray providers and trucking providers are in terms of compliance. I think the opportunity becomes unknown as you start thinking about just the likes of Montreal and Vancouver and Toronto and what that looks like. You know, we went through a, what I would consider, four to six months period, particularly in the Chicago market, with the U.S. change that I think was far more disruptive than most people anticipated. And certainly with some of the long-haul, you know, sort of dynamics that are unique to Canada, at least across Canada trucking, I think it's somewhat yet to be seen or understood on what the capacity that could come out of the marketplace would look like. So again, it's not a sky is falling and it's going to be a huge issue, but it's something we're keeping an eye on. And to the point of pricing, certainly could provide an additional tailwind as we get towards the end of this year.

<Q – Brian Ossenbeck>: And on the businesses that will be mostly intermodal whether you think you'd be able to convert some additional transload and merchandise?

<A – John Brooks>: You know, I would say it's pretty intermodal focused, you know, a lot of that in or around between, you know, transloads in Toronto and Ontario market is pretty short haul stuff, it would be more of the long-haul opportunities, so that will be largely intermodal.

<Q – Brian Ossenbeck>: Okay. Thanks, John. Just a real quick housekeeping for Nadeem, if I could. The CAD $20 million of land sale gains expected later this year, original guidance didn't include that. I'm assuming that this is now reflected along with all the other charges from the weather.

<A – Nadeem Velani>: Right. I mean, I think that's just incrementally positive I'd say over and above, you know, all else being equal, our guidance sort of being the same at the beginning of the year, and that would add some additional land sales that would be incremental to our original guidance.

<Brian Ossenbeck>: Okay. Thanks for the time.

<Nadeem Velani>: We can absorb this difficult first quarter and still over achieve. Thanks, Brian.

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

<Q – Steve Hansen>: Yeah, hi guys. Just a single one for me on the train speed. Keith, I think you noted in your earlier remarks that the April GTMs are pacing at near record levels. That's largely consistent with some of the traffic metrics we see every week. But the metric that surprised me to some degree was that your traffic speed - your train speed is up 8% with a lot of the recovery coming in some of the bulk categories that metric struck me as fairly strong. I was just wondering if you could give us some sense for where that speed is coming from and how you're achieving it given the record volumes? Thanks.

<A – Keith Creel>: Great question. More specifically, the operating team, the way they're executing the bulk cycle times, dwell is down in terminals the trains are moving quicker through the terminals, obviously, they've got them spaced out well. We're working extremely well with the bookends for lack of a better term. When I call the bookends, both on the loading side as well as the unloading side at the ports. Matter of fact last week, on the south shore we continue to set record weekly unloading records, specifically last week it was Viterra, the week

before it was AGT. So the operating team overall, they're just doing a very, very solid job of getting better at what they do day in and day out executing our scheduled operating plan, maintaining balance, maintaining the right pipeline and making those asset turns work for us. And at the same time, it's enabled through the investments that we've been making. Every year when we do this, our strategic investments in our network capacity our productivity capacity I can call it one of two things. It's done very surgically with a focus on eliminating train delays through train meets, through executing give us an opportunity to increase our train speed, which is exactly what's transpiring. So it just shows once you do that in the absence of network disruptions, in the absence of some of the significant curve balls we experienced in February and the first part of March, what this network is actually capable of with more to come. So it's very encouraging, yes, but at the same time, it's what I expect. We've got to earn a return on our capital that we invest. We invest it with a business case, it's invested with much thought, intentional and surgical and I expect it to be paid for, that's simply the standard we have within this company.

<Steve Hansen>: Very helpful, thanks.

<Keith Creel>: Thank you. Steve.

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

<Q – Ken Hoexter>: Hey, great. Good afternoon. Just with a - maybe Nadeem or John, with volumes up 6% kind of quarter to date, do you see this sustaining upper single digits as you catch up, or is this really just kind of brief cleaning up some of the backlog? I guess, I'm just trying to get understanding if double-digit revenue growth is a reality. And then just following on that, I guess looking at grain, is there any impact from the US-China tariff overhang where you've seen increased demand for the Canadian grain exports or is the wheat market just totally different?

<A – Nadeem Velani>: Let me start off John and you can provide additional color. But no, I mean certainly there is some catch-up from Q1. So as I described, some of the winter, what we couldn't move in Q1 we're moving in early parts of April. But beyond that, there is - I think you'll see a steady pickup in terms of throughout Q2, an increase in our RTM performance week-to-week. You know, I will point out we had a challenging Q2 last year with some strikes and disruptions as well in the network. So, you know, we expect a very strong second quarter. I think, quarter-to-date revenues are up in that 15% level, so this isn't something that's a one-timer in nature. So John, maybe a bit more color.

<A – John Brooks>: Yeah, Ken, I'd say, you know, January, I think revenues we're looking at around 14% up quarter-to-date or hitting 15% up, when I look down commodity by commodity there is some ebbs and some flows, but generally, I feel pretty good about every one of these, well most of these commodity areas. And certainly, crude by rail is sort of over and above on top of that. You know, as I think about the U.S. trade with China, there really hasn't been a whole lot of change in development as it relates to our PNW export business. You know, I can tell you a good offshoot of that is, you know, we've moved 80 trains over the last two quarters of corn out of our U.S. territory into Alberta in which we're feeding the cattle market in Southern Alberta and thus exporting barley out of that territory. So it's a market that typically we plan as a fairly low level, but we've been able to sort of take this opportunity and expand whole new business opportunity and the grain space and it's slick because of -- it's a great car utilization, it's a loaded grain car out of our U.S. territory, it's unloaded in Alberta and it's - the car sits at the same elevator, gets reloaded and then gets exported in Vancouver. So it's a highly efficient move. And, you know, I don't know as a result of the U.S. that we've seen additional, you know, Canadian grain volumes, I would consider them somewhat normal. I was looking at export wheat volumes here the other day and it's been a fairly strong year and maybe that's a result as of late with some of the canola issue that's going on in Canada. But I think that's yet to be totally understood.

<A – Nadeem Velani>: And Ken, just one final note, I mean it is broad based strength in revenues, so, you know, it's outside of Canadian coal and fertilizers and metals, minerals and consumer products every other category is double-digit revenue growth quarter-to-date.

<Q – Ken Hoexter>: Yeah, very strong. So I appreciate that insight. So just a quick follow-up, Nadeem, just to understand that 50comment, and it was pretty strong for the second quarter, and obviously, we've got the difficulty of the strike as you mentioned last year. So just trying to put that into perspective, is there any purchase transportation costs that continue into the second quarter, I don't know, such as leased locomotives or anything that you had to bring on board to move some of the traffic in that first quarter?

<A – Nadeem Velani>: No, I mean, I think that's the other railroad. But we have had some costs associated with flooding but nothing of the magnitude that we saw in Q1 or nothing that I'd call out. No, I mean, obviously the strong pricing the revenue growth that I just described, continued with our - combined with our strategy of moving it sustainably and profitably and growing at low incremental cost. So, you know, outside of the kind of one-off natures that I described in terms of the lack of productivity from winter and the casualty cost, the expenses behaved, you know, very well from our perspective. So there was nothing there that we need to alter significantly. It's just running the model and the plan that Keith leads us by and similarly to what we did in the back half of last year and into the first month of January.

<Ken Hoexter>: Wonderful stuff. Appreciate the insight guys. Thank you.

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

<Scott Group>: Hey. Thanks. Good afternoon guys.

<Nadeem Velani>: Hey, Scott.

<Q – Scott Group>: So Nadeem you made a comment about having the best of OR and I'm guessing that was not a full-year '19 comment but was that a thought about sort of going forward starting in second quarter or would that more of a sort of longer term comment?

<A – Keith Creel>: You are underestimating his optimism, Scott. I mean our eye with a strong - obviously a strong second quarter showing versus last year and again with the point that Nadeem made in the second half we showed you what we could do last year, assuming everything comes to fruition, that we see as opportunities on the table, we will have stronger performance second half this year than we did last year and will still gets us to a sub 60% OR.

<Nadeem Velani>: I couldn't have said anything better myself.

<Q – Scott Group>: Okay, thanks. And then I wanted to just follow up on crude, any thoughts on the elections in Alberta? I know there was rhetoric on the campaign trail, but just how you think about sort of the sustainability of the contracts in Alberta? And then I don't know if there - if we need to think about any liquidated damages in this quarter or going forward as it relates to crude at all.

<A – John Brooks>: Yeah. So, you know, look curtailments aside supply and production level versus takeaway levels crude by rail fundamentals are strong and in my view, you know, even with Enbridge coming on, this still looks like a good, two to three year crude by rail opportunity. That being said, as it relates to the APMC contract just like we would do with any customer it was negotiated in certainly good faith and we feel good about it. And I can tell you this, Keith was on earlier today, we're looking at preparations on how we begin to ramp up for that

with the expectation that we're going to - we're going to be starting to haul it come here July. So those investments that we need to make whether it be in people or infrastructure are underway. You know, I'll just comment, I'm not going to say a whole lot about the liquidated damages, other than I know we talked about it quite a bit on the last quarter call just other than sort of each contract we have is structured a little differently on how those ultimately get paid, but the fundamental structure of those contracts are designed to backstop our investments, our cost of capital related to those contracts, and we feel good about those.

<Scott Group>: Okay, thanks for the time guys.

<John Brooks>: Yeah.

<Operator>: Your next question comes from Jason Seidl from Cowen & Company. Please go ahead.

<Q – Jason Seidl>: Thank you, operator. Thanks for squeezing me in, guys, late in the call. Just one quick question. What have you seen thus far from your interchange partners that are undergoing the PSR implementation in various forms and what do you expect going forward?

<A – Keith Creel>: I've seen -- I've seen a fluid of railroad. Chicago in spite of some of the challenges during the winter, and whether you relate that all to PSR or not, it stayed more fluid than I would have expected it to, which is encouraging. I've seen other gateways I'll speak to, the gateway we share with the Union Pacific - going to the Pacific Northwest, where we bring our ag product up through Canada and in fact down to Portland, Oregon. The throughput since they've recovered from the very challenging derailment they had in their tunnel has exceeded my expectations and allowed us to move quite a bit of product through that gateway.

So, you know, overall it's early in the game, what I'm seeing, I'm encouraged by given I know a little about this, on all railroads the metrics are moving in the right direction. At the end of the day, when all the other railroads get better, creates capacity, there is a direct material impact obviously for those individual railroads, but we all connect and/or compete or do business over one city which is a key focus area of mine and I see it getting better overall. So, so far so good, and I continue to be their biggest cheerleader and encourage each one of them individually and collectively to stay the course, because ultimately they're going to be able to create additional capacity for customers to enjoy, additional
money to invest back in infrastructure, to grow capacity, not shrink capacity. People truly don't understand what PSR means. But as this evolves and, you know, as some of the rhetoric goes away and the facts prove out, this is the right way to run a railway for long-term sustainability, both from a capacity standpoint, from a safety standpoint, from a productivity standpoint, from a customer standpoint and a shareholder standpoint, it truly is a win-win. So I'm extremely encouraged at this point in the game.

<A – Jason Seidl>: So Keith, would you think this was more of a necessity for the industry to go this route?

<A – Keith Creel>: I mean, ultimately, if I stand by - I'm going to stand by what I said a long time ago that this industry is going to run out of capacity, which is going to drive consolidation. So from a necessity standpoint, you could say, yes because it's creating capacity that prolongs that discussion, but individually, you'd have to ask the individual railroads if they felt it necessary. I just feel very beneficial to the overall industry and obviously I can see from the outside looking in, certainly appears to be very beneficial to the individual railway.

<Jason Seidl>: Okay, appreciate the time as always Keith.

<Keith Creel>: Thank you.

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

<Q – Benoit Poirier>: Yeah. Thank you very much for taking my question. John, I was wondering, given the strong pricing environment that you see whether there was an opportunity to lock up some contracts over a longer duration given the strong pricing
environment that you see these days.

<A – John Brooks>: Yeah, Benoit, I think that's fair. We've been very choosy in that space, I think, by nature, we like to maintain pricing flexibility, but we have been and tried to be very strategic over the last 12 months with those customers that not only fit our network well and sort of our key partners, but also in this pricing environment to where we could maybe lock up some greater inflationary plus type numbers we've done so.

<A – Keith Creel>: As far as the duration though, Benoit, our model has not changed. I'm one that believes in, you know, in a normal economic cycle, a three-year term is a good term, it's good for the customer, it's good for the railroad to be able to plan, it doesn't lock us out or lock us in to bad economics. What we have done being, what I would say is progressive, some of the recent deals we've done have been the base three and there's alternative - there's option years in there, both for the customer, and for the railways. So, if it makes sense, the economic cycle makes sense, the leg work is done, it certainly encourages and enables extending an existing agreement more so than what we've done in the past, but as far as just going for more longer-term deals, my thesis has not changed in that. I'm still a three-year guy.

<Q – Benoit Poirier>: Okay, that's great color, Keith. And my second question is looking at fuel prices, it's up slightly versus February, January kind of - I was wondering if you see any impact in terms of fuel lag or impact on the OR or the impact so far is not strong enough to move the needle from a OR standpoint and fuel lag.

<A – Nadeem Velani>: Yeah, I'd say it's a bit of a moot point right now. It bears watching, Benoit, to your point, but nothing I'd point to that says that's - it's creating an OR headwind.

<Q – Benoit Poirier>: Perfect, thank you very much for the time.

<Nadeem Velani>: Thanks, Benoit.

<Operator>: Your last question comes from Ravi Shanker from Morgan Stanley, please go ahead.

<Q – Ravi Shanker>: Thanks guys, best for last, I'm sure. So just to follow up on the crude by rail, just that we understand it properly, are you guys agnostic to the Alberta province kind of keeping their program or dismantling it, just given the net effect of potential liquidated damages and maybe the spreads widening out if they dismantle it or the kind of guaranteed volumes if they keep it?

<A – John Brooks>: Let me say this, we - I'd say we spent, Ravi, a fair amount of time working with the Alberta government in putting this contract together and I didn't do it to have it be ripped up. As I said - we're planning for it. We reserve the capacity to handle that business. Now look, that being said, we want to work open minded with the Alberta government. If there's concerns or issues, we're more than happy to spend the time to work through that. At the end of the day, go back to sort of what I opened up with on this subject - the fundamentals under sort of what I call normal market conditions support crude by rail. So ultimately, if it's Alberta government or some other customer, I see a path to sort of these volumes over - sort of the prolonged next two to three years.

<A – Nadeem Velani>: And Ravi, I'd just add that - keep in mind, there is a number of companies within the supply chain, number of railroads beyond the Canadian railroads that are involved in this. So it's - it takes a lot of

companies to come together and create this supply chain that can provide value to Canada - to Alberta as well. And I'd say that, we're also watching the curtailment closely. I'd say - argue that that's more impactful to, you know, what's being produced, obviously, but that's more impactful to the economy and to what that means to Alberta and to Canada as a whole. So that's an important dynamic that we're watching very closely. So, I mean if you don't believe in regulation, well, curtailing the production and picking winners and losers is something that should also be addressed.

<Q – Ravi Shanker>: Got it. That's helpful, and just Keith lastly to follow up on something you said earlier. You said that you're internally focused right now, but you are open to looking at the right opportunity if it comes along. Can you just help us understand kind of what is on that list of the right opportunities. Is it trucking companies, is it ports, is it technology companies, kind of what potential M&A or kind of non-rail opportunities would you consider?

<A – Keith Creel>: Any that would be accretive to our earnings and makes sense for a transportation company we'd consider. Nothing specific, Ravi, at all.

<Ravi Shanker>: Understood. Thank you.

<Keith Creel>: Thank you. Okay, with that being said, we can wrap up the call. Listen, I appreciate your time this afternoon. I want to close with what I started. I'm extremely proud of this team of talented railroaders we have at this company. Having been in this business for 27 years, the resiliency, the commitment, the talent that they displayed, to not only endure, but no pun intended to weather the storm that we went through this first quarter is not only encouraging, but it fuels my convictions as a shareholder and as honored to be their leader, the strength that they displayed will allow us to continue through the second quarter, seize the momentum that we've created through the quick resiliency recovering our network and execute not only a strong second quarter result but the remainder of 2019. We will meet or exceed our guidance in 2019, and we look forward to sharing the results of the second quarter with each of you in July. Thank you for your time this afternoon.

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