



# First Quarter 2019 Financial Results

April 29, 2019

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TSX: CNR NYSE: CNI



# Forward-looking statements



Certain statements included in this presentation constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995 and under Canadian securities laws. By their nature, forward-looking statements involve risks, uncertainties and assumptions. The Company cautions that its assumptions may not materialize and that current economic conditions render such assumptions, although reasonable at the time they were made, subject to greater uncertainty. Forward-looking statements may be identified by the use of terminology such as “believes,” “expects,” “anticipates,” “assumes,” “outlook,” “plans,” “targets,” or other similar words.

## **2019 key assumptions**

CN has made a number of economic and market assumptions in preparing its 2019 outlook. The Company assumes that North American industrial production for the year will increase by approximately two per cent, and now assumes U.S. housing starts of approximately 1.25 million units (compared to its January 29, 2019 assumption of approximately 1.28 million units) and U.S. motor vehicle sales of approximately 17 million units. For the 2018/2019 crop year, the grain crops in both Canada and the United States were in line with their respective three-year averages. The Company assumes that the 2019/2020 grain crops in both Canada and the United States will be in line with their respective three-year averages. CN assumes total RTMs in 2019 will increase in the high single digits versus 2018. CN assumes continued pricing above rail inflation. CN assumes that in 2019, the value of the Canadian dollar in U.S. currency will be approximately \$0.75, and now assumes that in 2019 the average price of crude oil (West Texas Intermediate) will be in the range of US\$60 to US\$65 per barrel (compared to its January 29, 2019 assumption in the range of US\$50 to US\$55 per barrel). In 2019, CN plans to invest approximately \$3.9 billion in its capital program, of which \$1.6 billion is targeted toward track and railway infrastructure maintenance.

Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and other factors which may cause the actual results or performance of the Company to be materially different from the outlook or any future results or performance implied by such statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements. Important risk factors that could affect the forward-looking statements include, but are not limited to, the effects of general economic and business conditions; industry competition; inflation, currency and interest rate fluctuations; changes in fuel prices; legislative and/or regulatory developments; compliance with environmental laws and regulations; actions by regulators; increases in maintenance and operating costs; security threats; reliance on technology and related cybersecurity risk; trade restrictions or other changes to international trade arrangements; transportation of hazardous materials; various events which could disrupt operations, including natural events such as severe weather, droughts, fires, floods and earthquakes; climate change; labor negotiations and disruptions; environmental claims; uncertainties of investigations, proceedings or other types of claims and litigation; risks and liabilities arising from derailments; timing and completion of capital programs; and other risks detailed from time to time in reports filed by CN with securities regulators in Canada and the United States. Reference should be made to Management’s Discussion and Analysis in CN’s annual and interim reports, Annual Information Form and Form 40-F, filed with Canadian and U.S. securities regulators and available on CN’s website, for a description of major risk factors.

Forward-looking statements reflect information as of the date on which they are made. CN assumes no obligation to update or revise forward-looking statements to reflect future events, changes in circumstances, or changes in beliefs, unless required by applicable securities laws. In the event CN does update any forward-looking statement, no inference should be made that CN will make additional updates with respect to that statement, related matters, or any other forward-looking statement.

## Non-GAAP measures

CN reports its financial results in accordance with United States generally accepted accounting principles (GAAP). CN also uses non-GAAP measures in this presentation that do not have any standardized meaning prescribed by GAAP, including adjusted performance measures, constant currency, free cash flow, and adjusted debt-to-adjusted EBITDA multiple. These non-GAAP measures may not be comparable to similar measures presented by other companies. For further details of these non-GAAP measures, including a reconciliation to the most directly comparable GAAP financial measures, refer to the Company’s website, First Quarter Results at [www.cn.ca/financial-results](http://www.cn.ca/financial-results).

CN’s full-year adjusted EPS outlook excludes the expected impact of certain income and expense items. However, management cannot individually quantify on a forward-looking basis the impact of these items on its EPS because these items, which could be significant, are difficult to predict and may be highly variable. As a result, CN does not provide a corresponding GAAP measure for, or reconciliation to, its adjusted EPS outlook.

All amounts in this presentation are expressed in Canadian dollars, unless otherwise noted.



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# JJ Ruest

President and Chief Executive Officer





# Q1 highlights



## Reported diluted EPS

**\$1.08**

**▲ 8%**

## Operating ratio

**69.5%**

**▲ 170 bps**

## Revenues

**\$3.5B**

**▲ 11%**

## Adjusted diluted EPS <sup>(1)</sup>

**\$1.17**

**▲ 17%**

## Adjusted operating ratio <sup>(1)</sup>

**67.2%**

**▼ 60 bps**

## RTMs

**59.1B**

**▲ 3%**

(1) Please see website, First Quarter Results, [www.cn.ca/financial-results](http://www.cn.ca/financial-results), for an explanation of these non-GAAP measures.

# Market outlook remains solid



## Rail Centric Supply Chain Growth

- Short-term softness in crude by rail related to mandated production curtailment and crude spread below US\$15
  - Mid-term outlook remains positive as new pipeline capacity continues to be pushed back
- New resource export business starting in May
  - Vista coal mine in Alberta shipping thermal coal to Asia
  - New Alberta propane export via Prince Rupert to Asia
- U.S. thermal coal exports neutral on high stockpiles in Europe
- Securing frac sand volumes (Northeast U.S. and Western Canada) through strong partnerships
- Lumber orders remain solid
- Continue to move record amounts of Canadian grain

## Consumer Product Supply Chain Growth

- International intermodal traffic remains steady
  - Zim Integrated Shipping Services now calling Port of Prince Rupert
  - Strong international reefer volumes
  - New auto parts import business into North America starting mid-Q2
- Strengthening our position in the domestic consumer economy
  - Cross-pollination has begun between CN & TransX
  - 500 new interline Equipment Management Pool (EMP) containers fully in service mid-Q2
  - Growth in CargoCool – working closely with wholesale partners
- North American motor vehicle sales remain soft
  - Original Equipment Manufacturer (OEM) production backlog should support solid Q2
  - Renewed contract with Ford on vehicles and parts

 **Continue to expect high single-digit RTM growth in 2019, with pricing above rail inflation**

*Rail Centric Supply Chain Growth is comprised of the following: Petroleum and Chemicals, Metals and Minerals, Forest Products, Coal, and Grain and Fertilizers.*

*Consumer Product Supply Chain Growth is comprised of the following: Intermodal and Automotive.*

*Please see Forward-Looking Statements at the beginning of the presentation.*



# Mike Cory

Executive VP and Chief Operating  
Officer

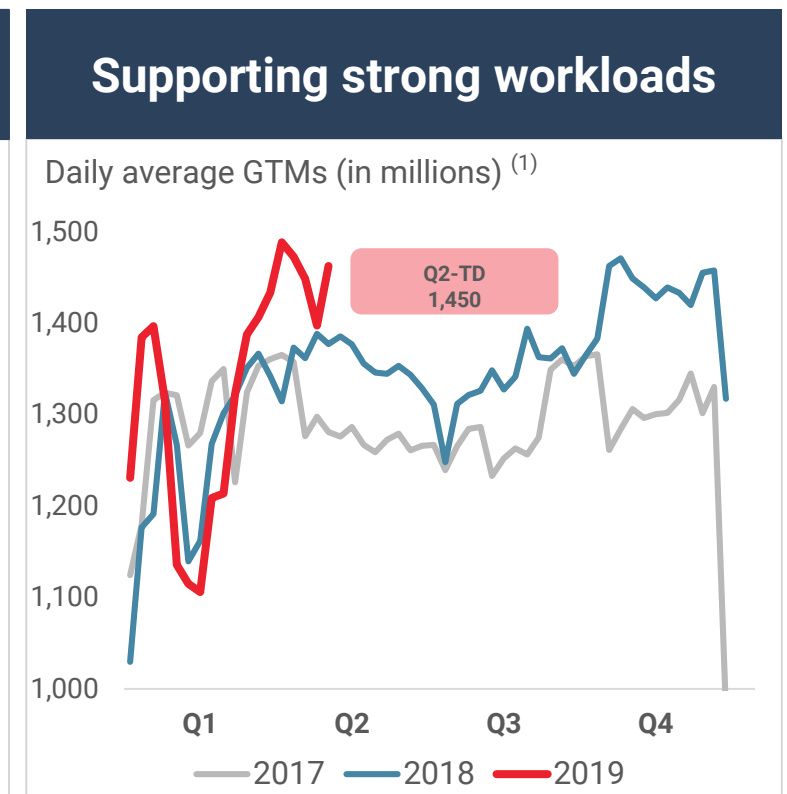
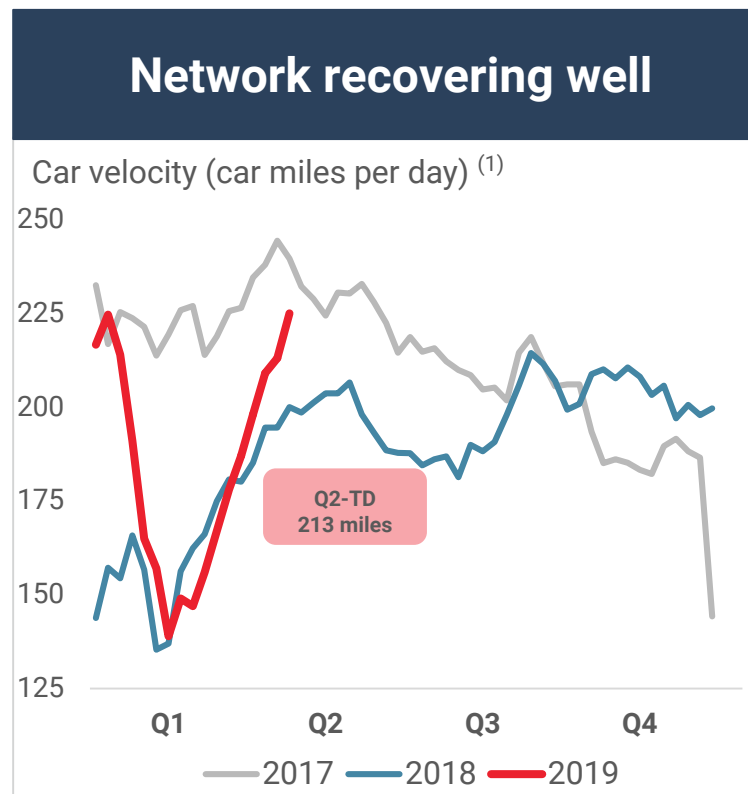
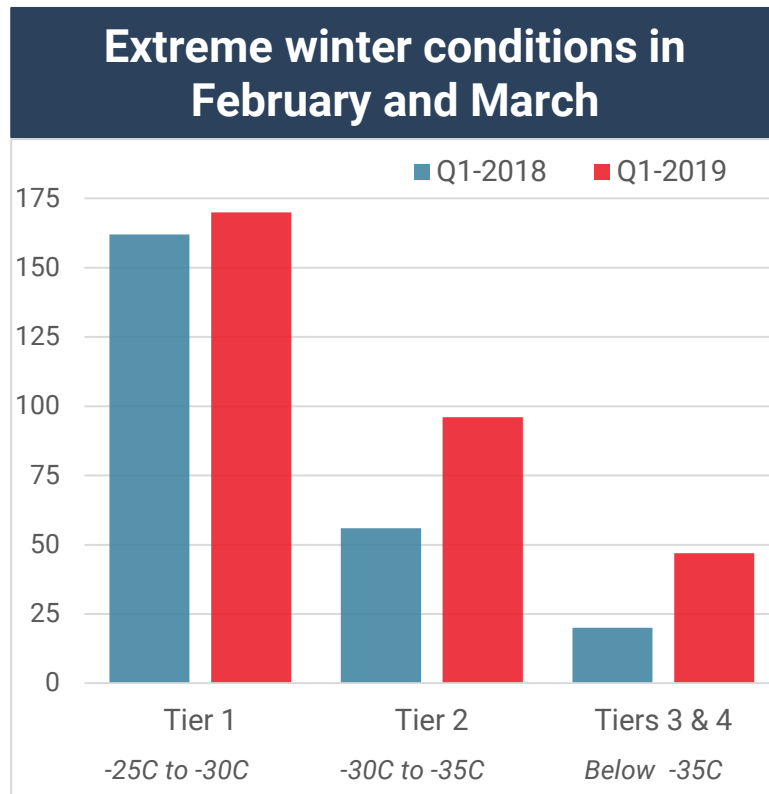




# Recovering network and workload



- Solid operating performance in January under Tier 1 train restrictions (-25°C / -13°F) – air car innovation proven
- Experienced double the number of Tiers 3 and 4 train restrictions on the network (below -35°C / -31°F) vs. last year
  - Reduced train length operations – 16 nights below -40°C / -40°F where CN stopped operations in specific locations
- Network now fluid and generating record daily GTMs in April



(1) 2019 AAR data from Week 1 to Week 17.



# Ghislain Houle

Executive VP and Chief Financial  
Officer





# Solid Q1 earnings driven by record revenues



<i>In millions of Canadian dollars, except EPS data, unless otherwise indicated</i>				Change
	2019	2018		Favorable (Unfavorable)
Revenues	\$ 3,544	\$ 3,194		11%
Operating expenses	2,464	2,164		
Operating income	1,080	1,030		5%
Interest expense	(131)	(122)		
Other components of net periodic benefit income	80	77		
Other income	2	6		
Income before income taxes	1,031	991		
Income tax expense	(245)	(250)		
<b>Net income</b>	<b>\$ 786</b>	<b>\$ 741</b>		<b>6%</b>
<b>Adjusted net income <sup>(1)</sup></b>	<b>\$ 848</b>	<b>\$ 741</b>		<b>14%</b>
Diluted EPS	\$ 1.08	\$ 1.00		8%
Adjusted diluted EPS <sup>(1)</sup>	\$ 1.17	\$ 1.00		17%
Weighted-average diluted number of shares (in millions)	727.7	744.2		
Operating ratio	69.5%	67.8%		(1.7 pts)
Adjusted operating ratio <sup>(1)</sup>	67.2%	67.8%		0.6 pts

(1) Please see website, First Quarter Results, [www.cn.ca/financial-results](http://www.cn.ca/financial-results), for an explanation of these non-GAAP measures.



# Q1 operating expenses impacted by extreme winter conditions



<i>In millions of Canadian dollars, unless otherwise indicated</i>	2019	2018	Change Favorable (Unfavorable)	Change at constant currency <sup>(1)</sup> Favorable (Unfavorable)
Labor and fringe benefits	\$ 798	\$ 714	(12%)	(10%)
Purchased services and material	558	481	(16%)	(14%)
Fuel	398	393	(1%)	4%
Depreciation and amortization <sup>(2)</sup>	440	323	(36%)	(33%)
Equipment rents	114	113	(1%)	3%
Casualty and other	156	140	(11%)	(8%)
<b>Total operating expenses</b>	<b>\$ 2,464</b>	<b>\$ 2,164</b>	<b>(14%)</b>	<b>(11%)</b>

 **Total operating expenses up 10% excluding the charge related to the replacement of our Positive Train Control (PTC) back-office system <sup>(2)</sup>**

(1) Please see website, First Quarter Results, [www.cn.ca/financial-results](http://www.cn.ca/financial-results), for an explanation of this non-GAAP measure.

(2) In Q1 2019, the Company recognized an expense of \$84M related to costs previously capitalized for a PTC back office system, following the deployment of a replacement system.



# Free cash flow affected by the upfront delivery of new locomotives



<i>In millions of Canadian dollars, unless otherwise indicated</i>	<b>2019</b>
Net income	\$ 786
Non-cash adjustments	540
Payments for income taxes	(242)
Working capital items and other	(87)
<b>Net cash provided by operating activities</b>	<b>997</b>
Property additions	(703)
Acquisition, net of cash acquired <sup>(1)</sup>	(167)
Other, net	(8)
<b>Net cash used in investing activities</b>	<b>(878)</b>
<b>Net cash provided before financing activities</b>	<b>119</b>
<b>Adjustment: Acquisition, net of cash acquired <sup>(1)</sup></b>	<b>167</b>
<b>Free cash flow <sup>(2)</sup></b>	<b>\$ 286</b>
<b>Total net indebtedness at end of period <sup>(3)</sup></b>	<b>\$12,614</b>
<b>Adjusted debt-to-adjusted EBITDA multiple <sup>(2)</sup></b>	<b>2.01x</b>

(1) Relates to the acquisition of the TransX Group of Companies ("TransX"). See Note 3 – Business combination to CN's 2019 unaudited Interim Consolidated Financial Statements for additional details on this acquisition.

(2) Please see website, First Quarter Results, [www.cn.ca/financial-results](http://www.cn.ca/financial-results), for an explanation of these non-GAAP measures.

(3) Long-term debt, including current portion, net of cash and cash equivalents, and restricted cash and cash equivalents.



# Reaffirming 2019 financial outlook

- Expect to deliver adjusted diluted EPS growth in the low double-digits range versus 2018 adjusted diluted EPS of \$5.50 based on <sup>(1)</sup> <sup>(2)</sup>:
  - Volume growth expected to be in the high single-digit range in terms of RTMs
  - Overall pricing above rail inflation
  - Canadian to U.S. dollar exchange rate of approximately 75 cents
- Capital envelope at approximately \$3.9B for 2019 to support a solid pipeline of growth opportunities <sup>(2)</sup>
- Balanced shareholder distribution
  - Dividend increase of 18% compared to 2018 – Targeting an adjusted dividend payout ratio of 35% <sup>(3)</sup>
  - 12-month normal course issuer bid from February 1, 2019 to January 31, 2020
    - Program to repurchase up to 22 million common shares

(1) Please see website, First Quarter Results, [www.cn.ca/financial-results](http://www.cn.ca/financial-results), for an explanation of this non-GAAP measure.

(2) Please see Forward-Looking Statements at the beginning of the presentation for a summary of key assumptions and important risk factors and underlying CN's 2019 financial outlook.

(3) Adjusted dividend payout ratio is defined as dividends as a percentage of adjusted net income <sup>(1)</sup>. Please see Forward-Looking Statements at the beginning of the presentation.





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# JJ Ruest

President and Chief Executive Officer





# Positioned to deliver solid results going forward



- Network fluidity and service metrics at scheduled railroading levels
- Solid growth opportunities – organic business development and starting to integrate TransX, following its acquisition
- Capex plan for long-term growth and service resiliency
- Deploying a solid bench of talent for the future
- Technology to drive CN into the next evolution of scheduled railroading and supply chain productivity
- Maintaining a disciplined approach to shareholder distributions







# Appendix

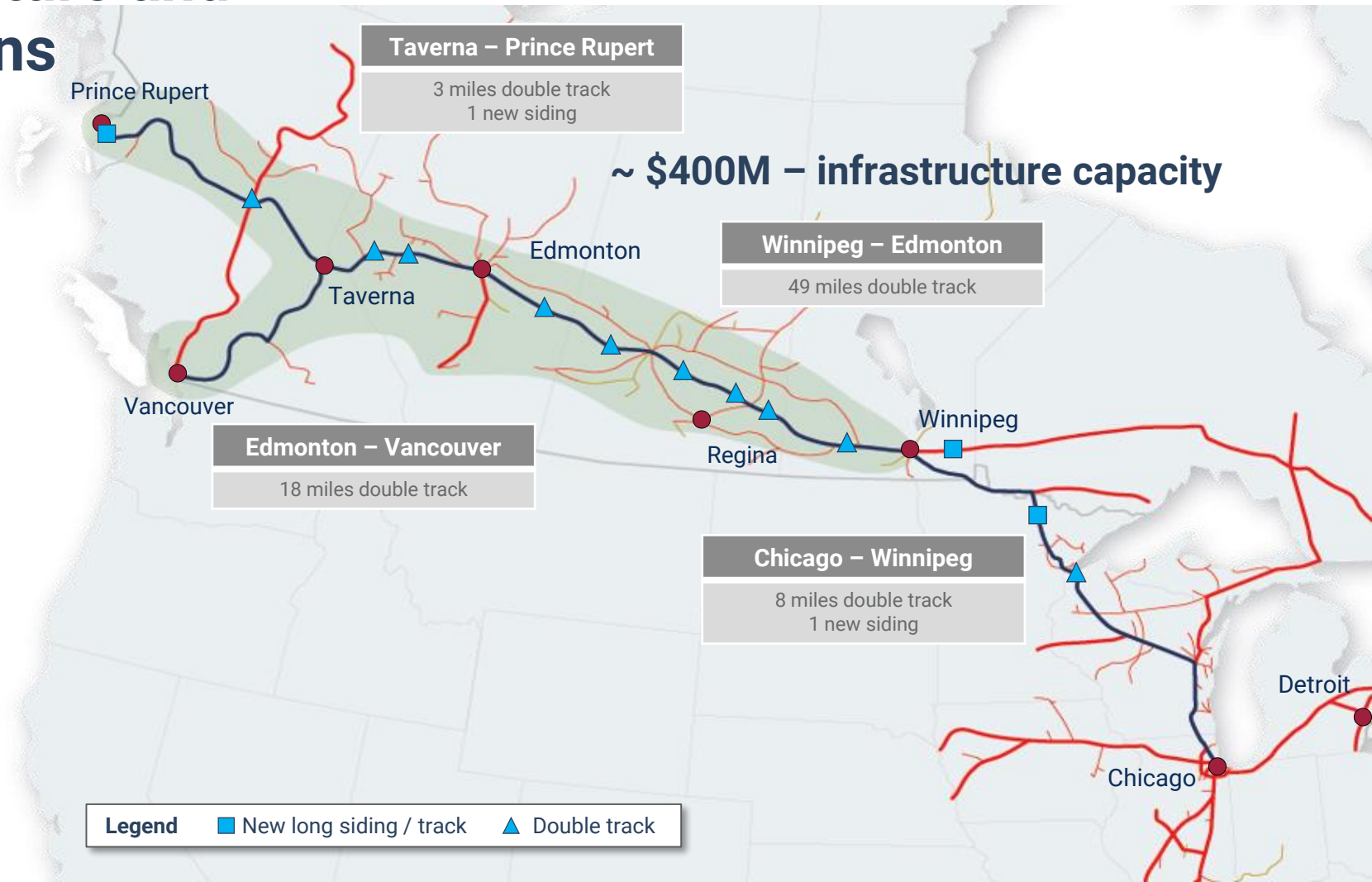


# 2019 network infrastructure and HHP locomotive additions



## New locomotive delivery:

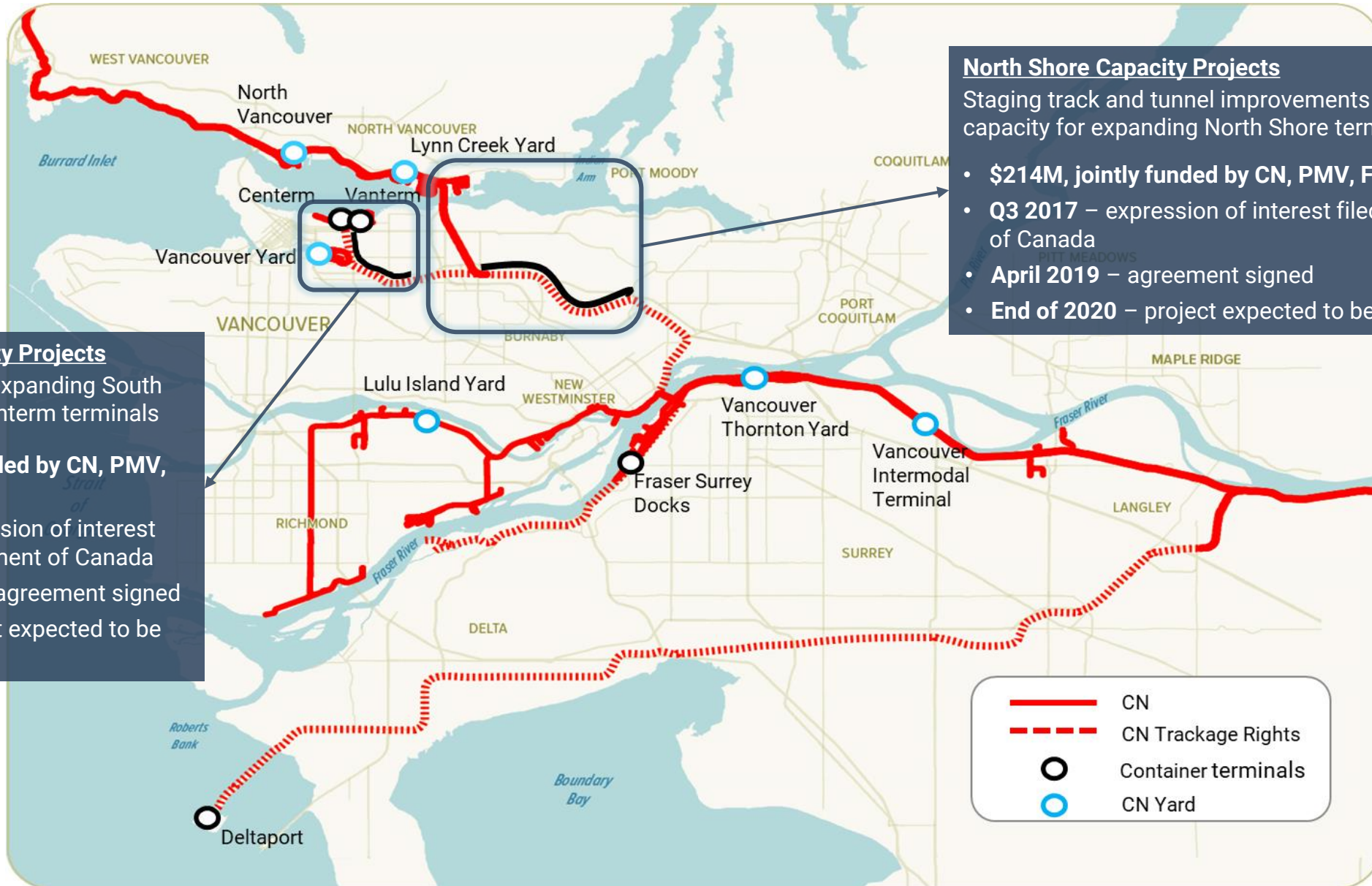
Q1	63 (delivered)
Q2	52
Q3	20
Q4	5
<b>Total</b>	<b>140 (~\$500M)</b>



Supporting our solid pipeline of growth opportunities in diverse markets



# Investing in local Vancouver rail capacity

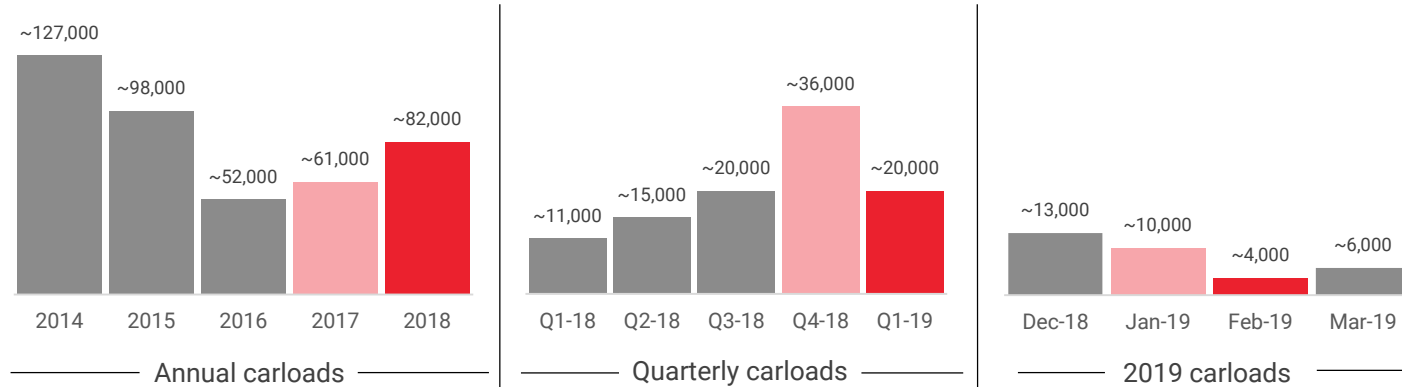




# Crude oil by rail

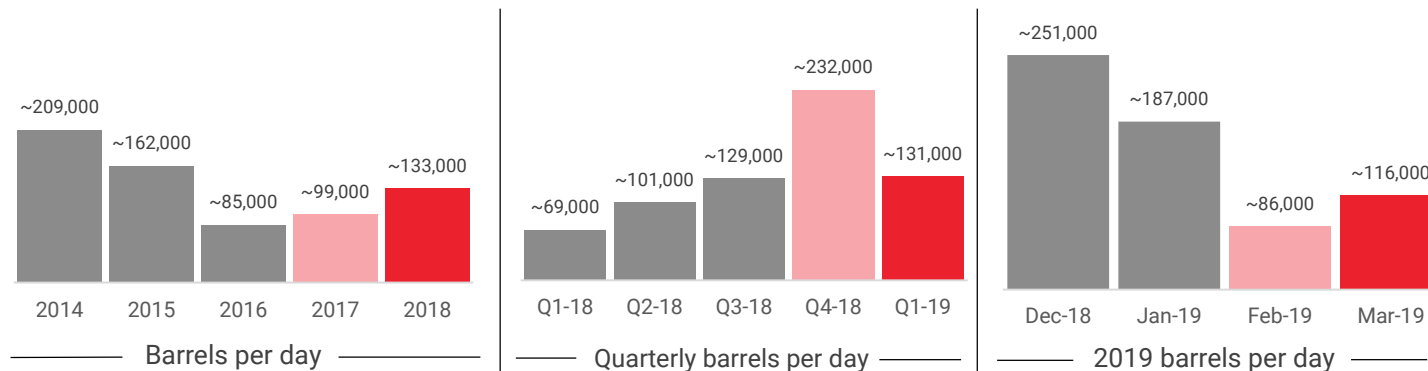


## Crude oil shipments: carloads



- Significant ramp-up in crude volumes in H2 2018, with December as peak
- Volumes in Q1 2019 declined from mandated production curtailments
- Spread between Western Canada Select (WCS) and Maya / West Texas Intermediate (WTI) currently in the range of US\$10 / US\$12 (~US\$15 is preferable for crude by rail)

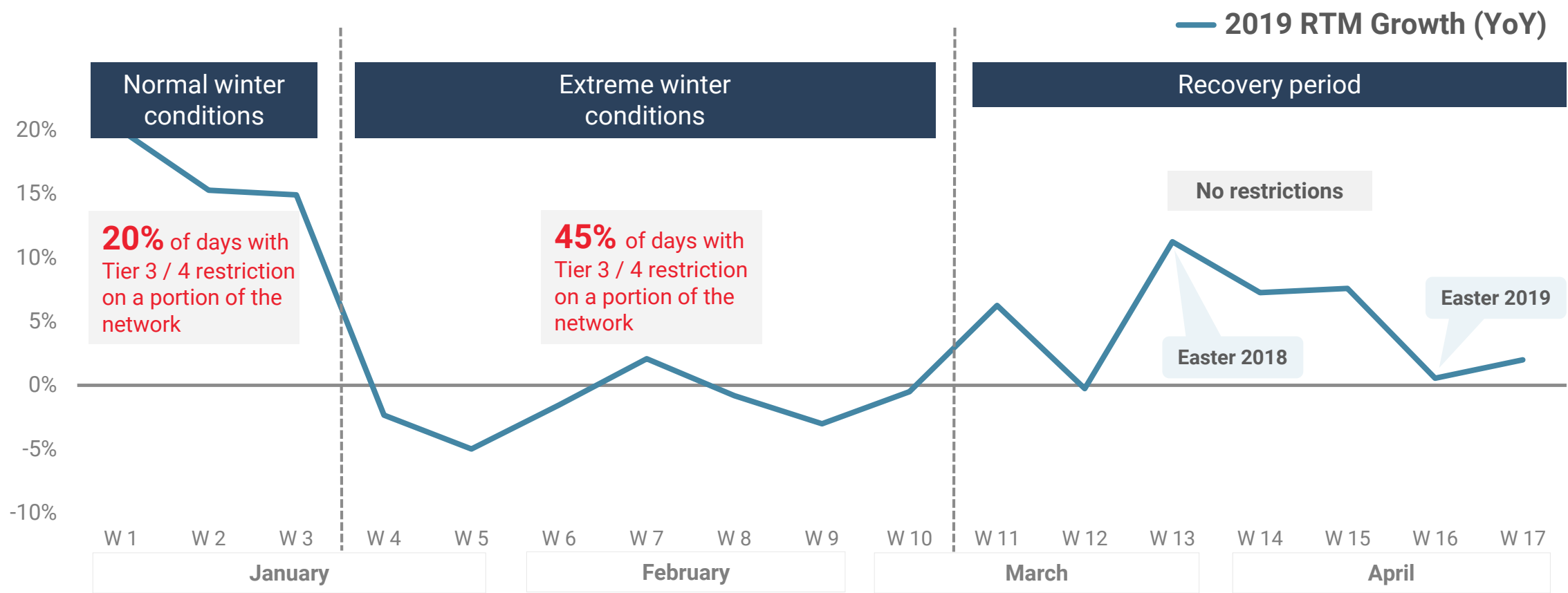
## Crude oil shipments: barrels per day



**Growth expected when WCS spread widens to US\$15**



# Challenging winter conditions impacted volumes in Q1

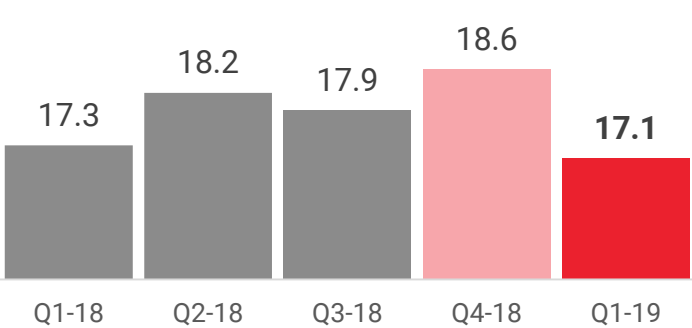
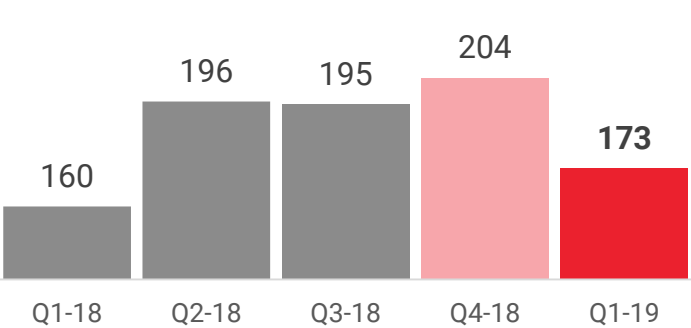
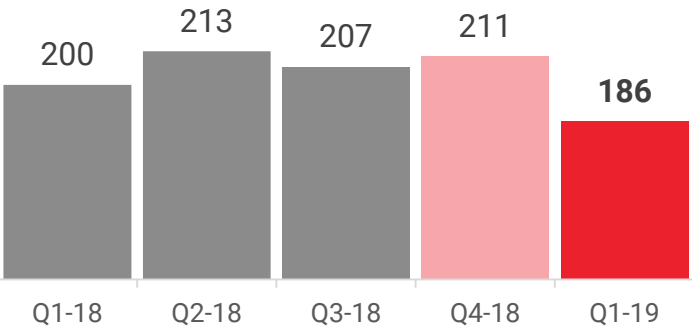
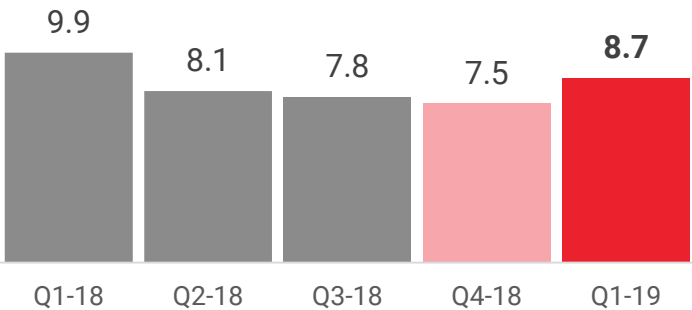
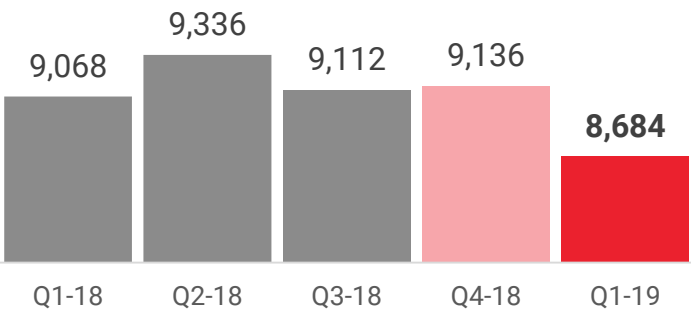
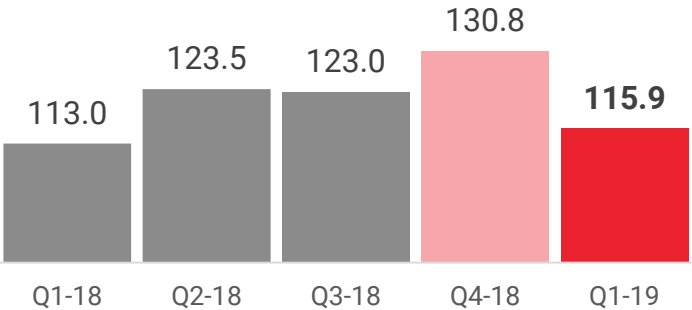


**➤ Reduced train length under Tier 3 & 4 restrictions and stopped operations in specific locations**

Legend:  
Tier 3 restriction – Temperature range of -35° to -39° C or -31° to -38° F  
Tier 4 restriction – Colder than -40° C or -40° F



# Q1 operating metrics





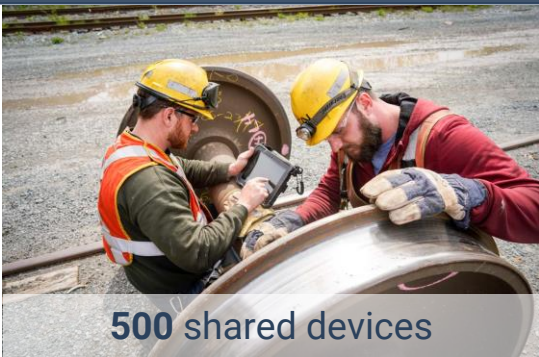
# 2019 technology deployment in progress



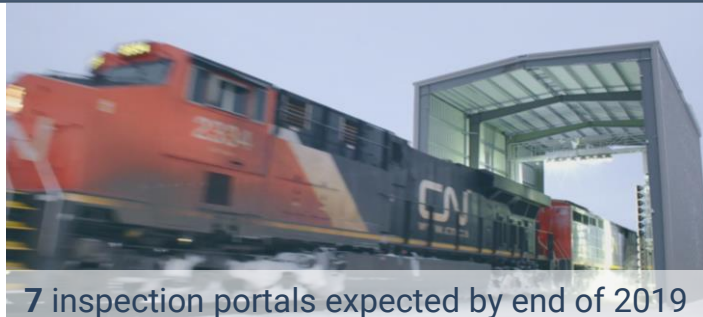
## Mobile Device for Train Crews



## Mobile Device for Carmen



## Train Inspection



## Track Inspection



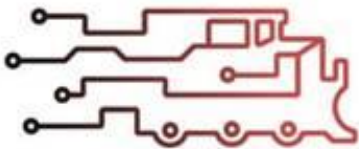
## Air Repeater Cars



## Robotic Process Automation



## Digitized Network Capacity Planning





# Talent Wins | Talent for the Future | 2019 Nominations



## Scheduled Railroaders

**James Thompson**  
VP Western Region



- Deep operational capability
- Focused driver of results

**Doug MacDonald**  
VP Eastern Region



- Bringing commercial depth to operations
- Focused on getting things done

**Doug Ryhorchuk**  
VP Network Operations



- Deep operational knowledge of network
- 36 years with CN

## Top Line Hunters

**James Cairns**  
Senior VP  
Rail Centric Supply Chain



- 31 years with CN
- Over 20 years in carload markets
- Operational experience

**Buck Rogers**  
VP Petroleum and Chemicals



- Solid operator
- Experience in petroleum and chemical markets

**Allen Foster**  
VP Bulk



- Solid operator
- Commercial experience in grain, coal and fertilizer markets

## Technology/ Inorganic Growth Enablers

**Mohit Bhat**  
Assistant VP Enterprise Architect



- Mphasis
- Digital expert

**Mike Jones**  
President (TransX)



- TransX
- Solid experience in intermodal

**Michael Farkouh**  
VP Railroad and Network Technology Deployment



- Deep operational knowledge
- Next generation of industry-leading scheduled railroading technology