



# Third Quarter 2021 Financial and Operating Results

October 19, 2021

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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, including statements based on management’s assessment and assumptions and publicly available information with respect to CN. By their nature, forward-looking statements involve risks, uncertainties and assumptions. CN 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.

## **2021 Key Assumptions**

CN has made a number of economic and market assumptions in preparing its 2021 outlook. The Company assumes that North American industrial production for the year will increase in the high single-digit range and assumes U.S. housing starts of approximately 1.45 million units and U.S. motor vehicle sales of approximately 16 million units. For the 2020/2021 crop year, the grain crop in Canada was above its three-year average and the U.S. grain crop was in line with its three-year average. The Company assumes that the 2021/2022 grain crop in Canada will be below the three-year average and now assumes that 2021/2022 grain crop in the United States will be in line with the three-year average (compared to its September 17, 2021 assumption that it would be below the three-year average). CN now assumes total RTMs in 2021 will increase in the low single-digit range versus 2020 (compared to its September 17, 2021 assumption of an increase in the mid single-digit range). CN assumes continued pricing above rail inflation. CN assumes that in 2021, the value of the Canadian dollar in U.S. currency will be approximately \$0.80, and that in 2021 the average price of crude oil (West Texas Intermediate) will be approximately US\$60 per barrel. In 2021, CN plans to invest approximately \$3.0 billion in its capital program, of which \$1.6 billion is targeted toward track and railway infrastructure maintenance.

## **2022 Key Assumptions**

CN has made a number of economic and market assumptions in preparing its 2022 targets. The Company assumes that North American industrial production for 2022 will increase in the mid single-digit range in 2022 and assumes U.S. housing starts of approximately 1.57 million units and U.S. motor vehicle sales of approximately 16.9 million units. The Company assumes that the 2021/2022 grain crop in Canada will be below the three-year average and now assumes that the 2021/2022 grain crop in the United States will be in line with the three-year average (compared to its September 17, 2021 assumption that it would be below the three-year average). CN assumes total RTMs in 2022 will increase in the low single-digit range versus 2021. CN assumes continued pricing above rail inflation. CN assumes that in 2022, the value of the Canadian dollar in U.S. currency will be approximately \$0.80, and that in 2022 the average price of crude oil (West Texas Intermediate) will be approximately US\$65 per barrel.

Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and other factors which may cause actual results, performance or achievements of CN to be materially different from the outlook or any future results, performance or achievements 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 in this presentation include, but are not limited to: the duration and effects of the COVID-19 pandemic, general economic and business conditions, particularly in the context of the COVID-19 pandemic; 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 illegal blockades of rail networks, and 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 also 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 relating to CN.

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, 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 reconciliations to the most directly comparable GAAP financial measures, refer to the Company’s website, Financial Results at [www.cn.ca/financial-results](http://www.cn.ca/financial-results).

This presentation also includes certain forward looking non-GAAP measures (Adjusted diluted EPS, return on invested capital and free cash flow). It is not practicable to reconcile, without unreasonable efforts, these forward-looking measures to the most comparable GAAP measures, due to unknown variables and uncertainty related to future results. Please see note on Forward Looking Statements above for further discussion.

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

# On the call today



**JJ Ruest**

President and CEO

**Ghislain Houle**

Executive Vice-President and Chief Financial Officer

**Rob Reilly**

Executive Vice-President and Chief Operating Officer

**James Cairns**

Senior Vice-President, Rail Centric Supply Chain

**Helen Quirke**

Senior Vice-President and Chief Strategy Officer

**Keith Reardon**

Senior Vice-President, Consumer Product Supply Chain



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# JJ Ruest

President and Chief Executive Officer





# Solid Q3 results – well-positioned to end the year on a strong note



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

**\$1.52**

 **10%**

## Adjusted Operating Ratio <sup>(1)</sup>

**59.0%**

 **90 bps**

## YTD Free Cash Flow <sup>(1)</sup>

**\$2,034M**

 **3%**

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



# Ghislain Houle

Executive VP and Chief Financial Officer

# Solid top line performance and cost control in Q3



<i>In millions of Canadian dollars, except EPS data, unless otherwise indicated</i>				
	2021	2020	Change Favorable (Unfavorable)	
Revenues	\$ 3,591	\$ 3,409	5%	
Operating expenses	2,250	2,043		
Operating income	1,341	1,366	(2%)	
Interest expense	(197)	(137)		
Other components of net periodic benefit income	96	79		
Merger Termination Fee	886	-		
Other income (loss)	(27)	(1)		
Income before income taxes	2,099	1,307		
Income tax expense	(414)	(322)		
<b>Net income</b>	<b>\$ 1,685</b>	<b>\$ 985</b>	<b>71%</b>	
<b>Adjusted net income <sup>(1)</sup></b>	<b>\$ 1,079</b>	<b>\$ 985</b>	<b>10%</b>	
Diluted EPS	\$ 2.37	\$ 1.38	72%	
Adjusted diluted EPS <sup>(1)</sup>	\$ 1.52	\$ 1.38	10%	
Weighted-average number of diluted shares (in millions)	710.4	712.8		
Operating ratio	62.7%	59.9%	(2.8) pts	
Adjusted operating ratio <sup>(1)</sup>	59.0%	59.9%	0.9 pts	

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



# Q3 operating expenses reflect solid underlying performance and fluid network



<i>In millions of Canadian dollars, unless otherwise indicated</i>	2021	2020	Change Favorable (Unfavorable)	Change at constant currency <sup>(1)</sup> Favorable (Unfavorable)	
Labor and fringe benefits	\$ 728	\$ 662	(10%)	(12%)	Higher wages mostly due to the higher average headcount, general wage increases, workforce reduction provision and higher incentive compensation
Purchased services and material	502	491	(2%)	(5%)	Higher outsourced services, partly offset by lower repairs, maintenance and materials costs
Fuel	350	262	(34%)	(40%)	Higher fuel prices, partly offset by improvement in fuel efficiency
Depreciation and amortization	405	391	(4%)	(6%)	Higher depreciable asset base
Equipment rents	82	123	33%	31%	Lower car hire expense
Casualty and other	99	114	13%	9%	Mostly lower operating taxes, partly offset by advisory fees related to shareholder matters
Transaction-related costs <sup>(2)</sup>	84	-	N/A	N/A	Reclassifying previously capitalized transaction-related costs resulting from the terminated CN Merger Agreement with KCS
<b>Total operating expenses</b>	<b>\$ 2,250</b>	<b>\$ 2,043</b>	<b>(10%)</b>	<b>(15%)</b>	
Adjustments <sup>(3)</sup>	(130)	-			
<b>Total adjusted operating expenses <sup>(1)</sup></b>	<b>\$ 2,120</b>	<b>\$ 2,043</b>	<b>(4%)</b>	<b>(7%)</b>	

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

(2) See Note 3 - Acquisition to CN's unaudited Interim Consolidated Financial Statements for additional information.

(3) Q3 2021 adjustments to operating expenses are: \$84M of reclassified transaction-related costs resulting from the terminated CN Merger Agreement with KCS; \$39M for a workforce reduction provision; \$7M in advisory fees related to shareholder matters.



# Free cash flow of over \$2B YTD

*In millions of Canadian dollars, unless otherwise indicated*

	YTD 2021
Net income	\$ 3,693
Non-cash adjustments	1,532
Income tax payments	(582)
Working capital items and other	242
<b>Net cash provided by operating activities</b>	<b>4,885</b>
Property additions	(1,977)
Acquisition-related costs and advance, net of refund of advance <sup>(1)</sup>	(22)
Other investing activities, net	(14)
<b>Net cash used in investing activities</b>	<b>(2,013)</b>
<i>Adjustment:</i> Acquisition-related costs and advance, net of refund of advance <sup>(1)</sup>	<b>48</b>
<i>Adjustment:</i> Merger Termination Fee	<b>(886)</b>
<b>Free cash flow <sup>(2)</sup></b>	<b>\$ 2,034</b>
<b>Total net indebtedness at end of period <sup>(3)</sup></b>	<b>\$ 10,869</b>
<b>Adjusted debt-to-adjusted EBITDA multiple <sup>(2)</sup></b>	<b>2.02x</b>

<sup>(1)</sup> Relates to the US\$700M advance for acquisition and other transaction-related costs, as well as the refund of the advance paid to KCS of US\$700 million. See Note 3 - Acquisition to CN's unaudited Interim Consolidated Financial Statements for additional information.

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

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



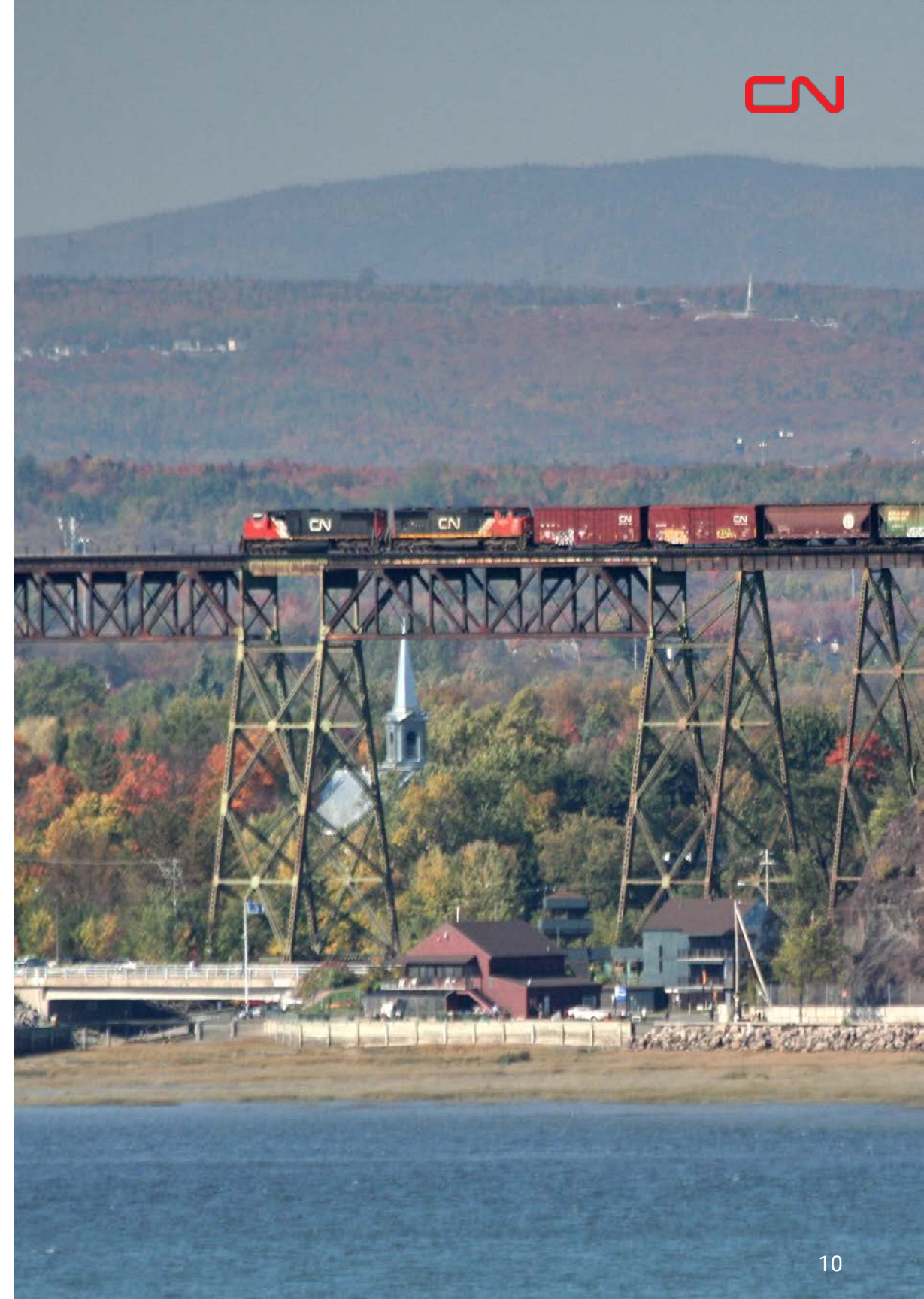


# Reaffirming 2021 financial outlook<sup>(1)</sup>

- CN expects to deliver ~10% adjusted diluted EPS growth versus 2020 adjusted diluted EPS of \$5.31<sup>(2)</sup>
- Immediate action to modify cost and labor structure
- Now assuming low single-digit volume growth in terms of RTMs and overall pricing well above rail inflation
- Targeting Free Cash Flow in the range of \$3.0 - \$3.3B<sup>(2)</sup>

<sup>(1)</sup> Please see Forward-Looking Statements at the beginning of the presentation for a summary of key assumptions and important risk factors underlying CN's 2021 financial outlook.

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





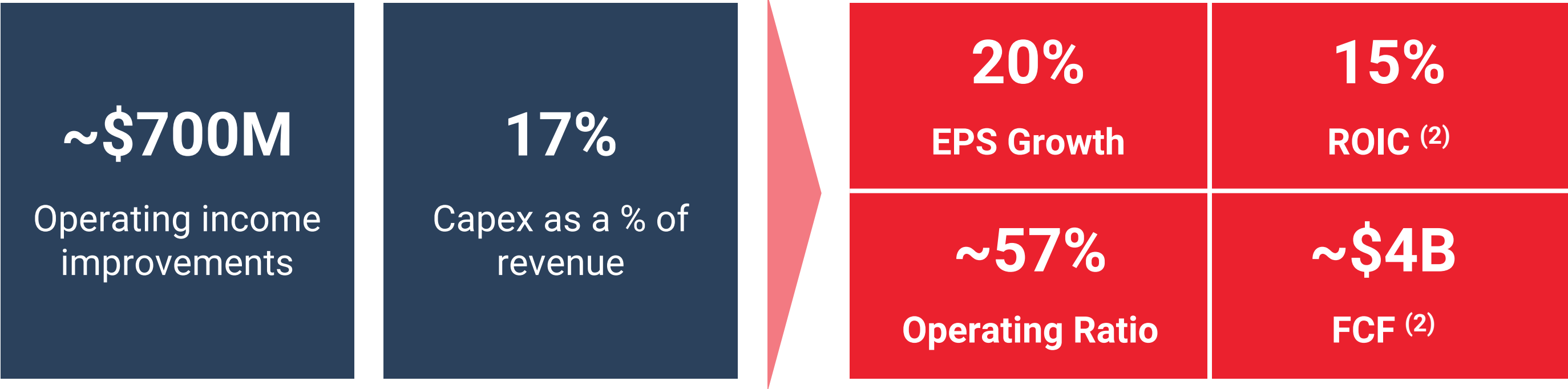
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## Update on Strategic Plan





# Confident in delivering on our Strategic Plan 2022 targets <sup>(1)</sup>



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

(2) ROIC (return on invested capital) and FCF (free cash flow) are non-GAAP measures. Please see Non-GAAP Measures at the beginning of the presentation for more information.



# Evidence of progress to achieve \$700M in 2022 operating income improvements <sup>(1)</sup>

## Labor

- **~75% of labor force reduction has already been completed**
- Remainder of reductions will be complete by end of year

## Purchased Services, Materials and Other

- **~\$100M of cost saving initiatives already secured in 2021**
- Significant reduction in external service purchases across the organization

## Total Price

- **+5.1% Same Store Price Q3 year-to-date**

~\$700M

Labor

Purchased Services, Materials and Other

Total Price

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

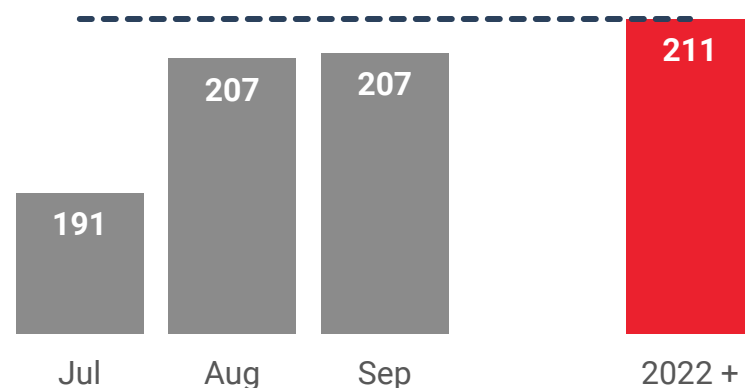
# Driving progress towards building The Premier Railway of the 21<sup>st</sup> century <sup>(1)</sup>



## Operational Excellence

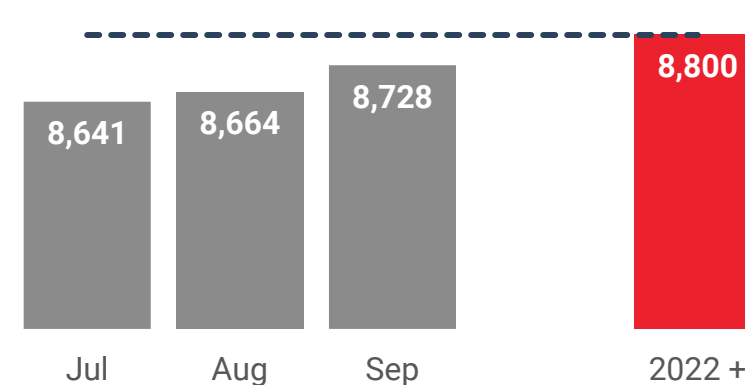
### Car Velocity

*Car miles per day*



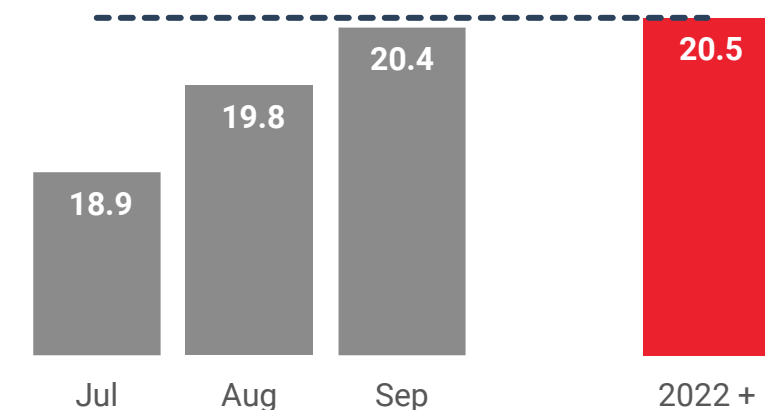
### Train Length

*In feet*



### Through Network Train Speed

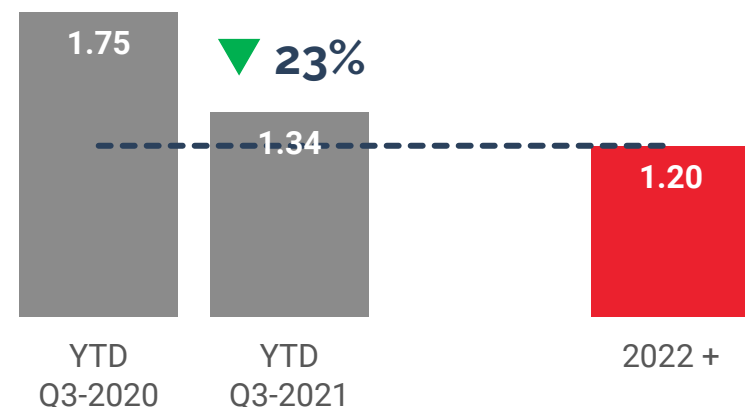
*miles per hour*



## Sustainable Operations

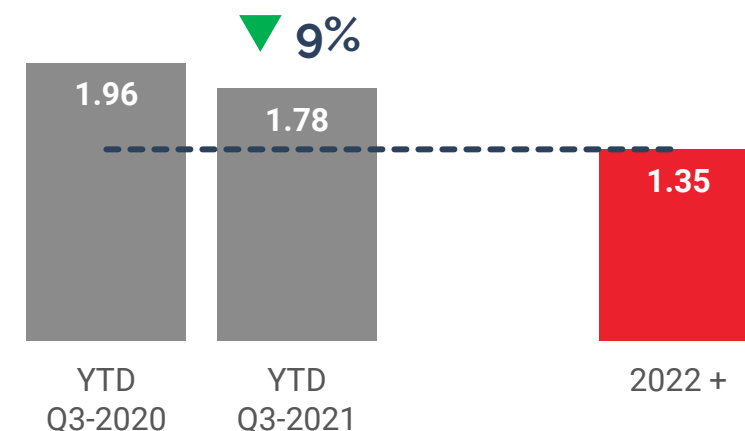
### Personal injury ratio <sup>(2)(3)</sup>

*Injury frequency rate per 200,000 person hours*



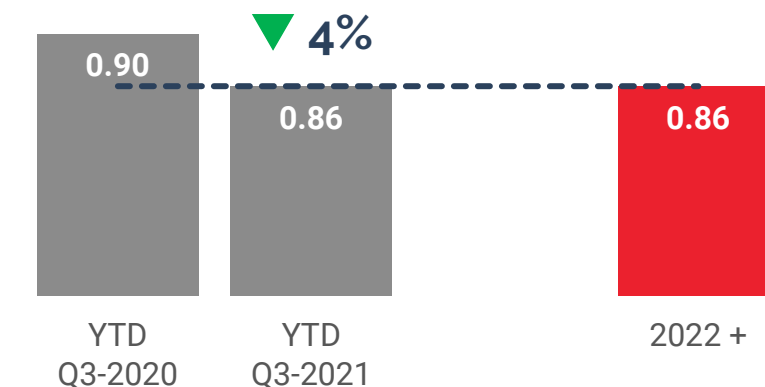
### Accident ratio <sup>(2)(3)</sup>

*Accident rate per million train miles*



### Fuel efficiency <sup>(3)</sup>

*US gallons of locomotive fuel consumed per 1,000 GTMs*



(1) Please see Forward-Looking Statements at the beginning of the presentation for a summary of important risk factors.

(2) Based on Federal Railroad Administration (FRA) reporting criteria.

(3) Operating measures and safety indicators are unaudited and based on estimated data available at such time and are subject to change as more complete information becomes available.



# Well-Positioned to grow profitably over the long term



## Market drivers

### Intermodal

Customers want congestion-free, proven gateways into North America like Prince Rupert and Halifax

### Petroleum & Chemicals

Massive expansion in green energy and natural gas derived carloads: propane, blue ammonia, renewable refined petroleum products

### Grain & Fertilizers

Massive investments in grain supply chain  
Significant increase in North American crushing capacity

### Metals & Minerals

Recovering North American economy driving manufacturing, construction and energy sector

### Forest Products

Increasing international demand for wood pellets as a green fuel alternative  
Strong North American housing and renovation market

## CN positioned to win

Industry leading CargoCool capacity and experience  
Fastest growing Intermodal network in North America with state-of-the-art terminal and information management systems

CN helped create a new exclusive export supply chain for propane; using the proven propane formula, we will be first to create an end-to-end supply chain for new green fuels

50% increase in West Coast export capacity – all exclusively served by CN  
Unique reach attracts higher share of investments

Unique mill supply chain for iron ore with West coast and Gulf coast export options

Exclusive connection with ports of Prince Rupert and Vancouver  
>70% share of origination in Canada, largest fleet of centerbeam cars plus a growing footprint of transloads to extend our reach

#### West Coast

- Prince Rupert and Vancouver container terminal expansions
- bulk terminals
- grain terminals
- exclusive green energy gateway
- Teck strategic partnership

#### Eastern Canada

- Halifax container terminal expansion
- Milton Logistics Hub
- Toronto area refined fuels hub

#### Western and Central

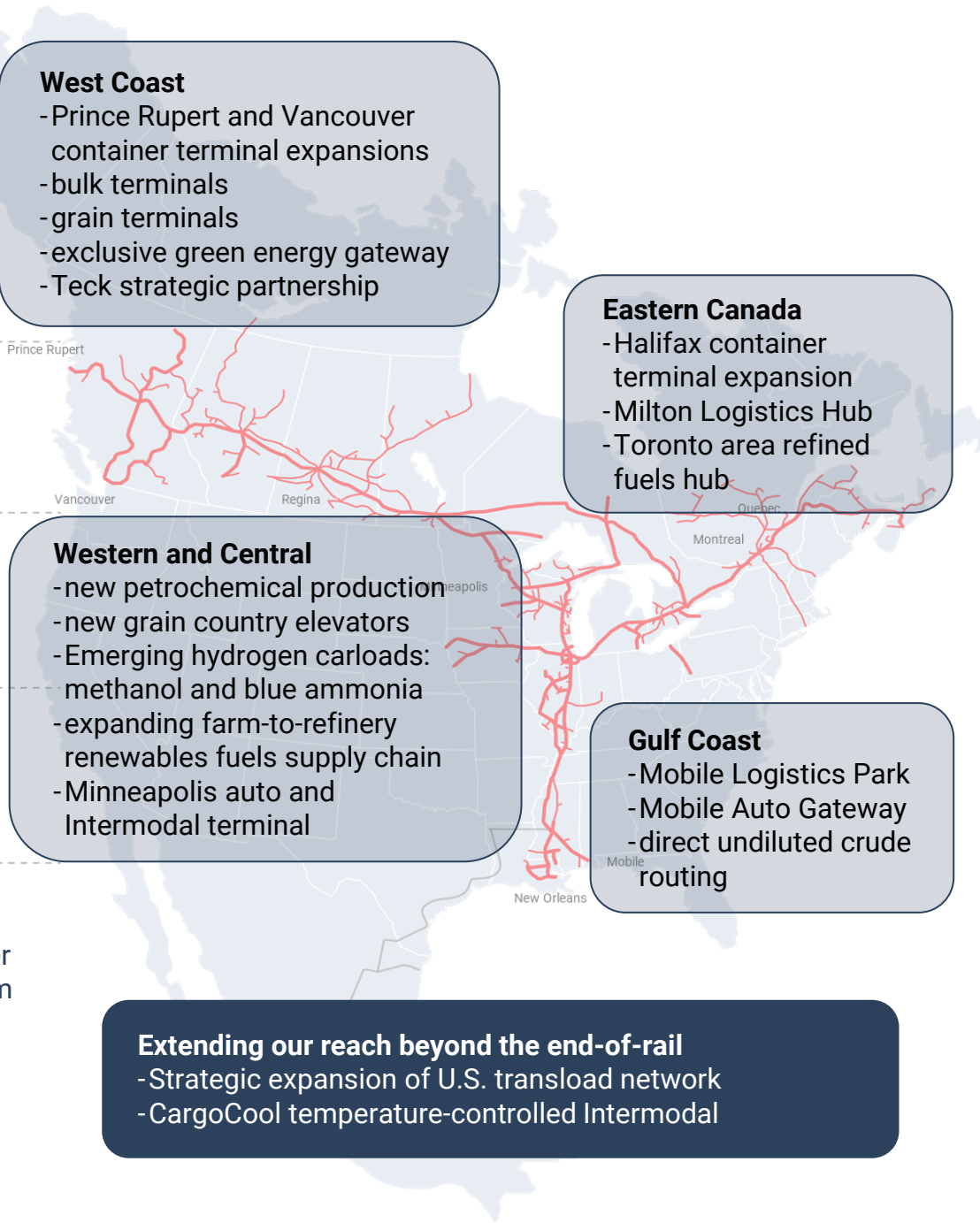
- new petrochemical production
- new grain country elevators
- Emerging hydrogen carloads: methanol and blue ammonia
- expanding farm-to-refinery renewables fuels supply chain
- Minneapolis auto and Intermodal terminal

#### Gulf Coast

- Mobile Logistics Park
- Mobile Auto Gateway
- direct undiluted crude routing

#### Extending our reach beyond the end-of-rail

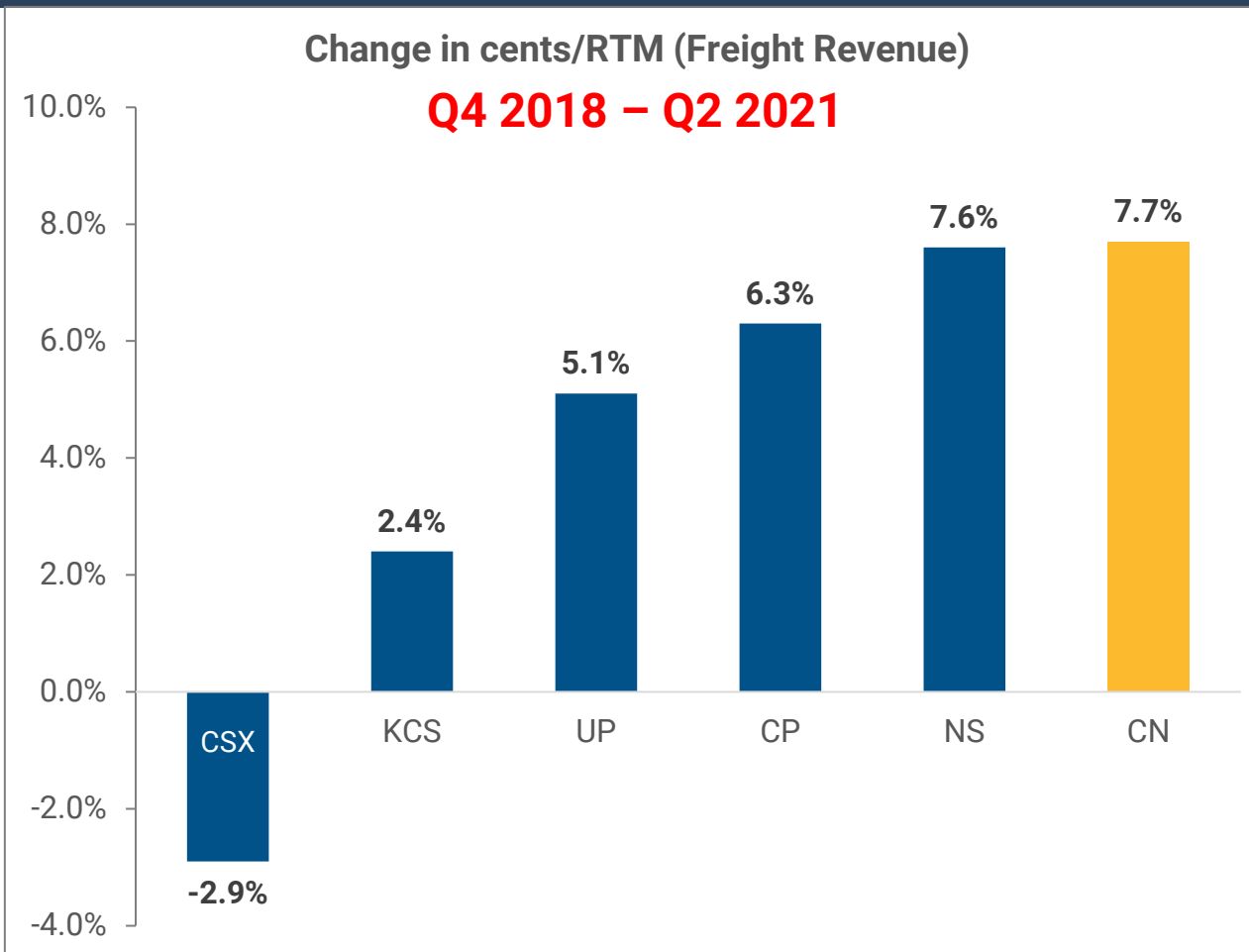
- Strategic expansion of U.S. transload network
- CargoCool temperature-controlled Intermodal



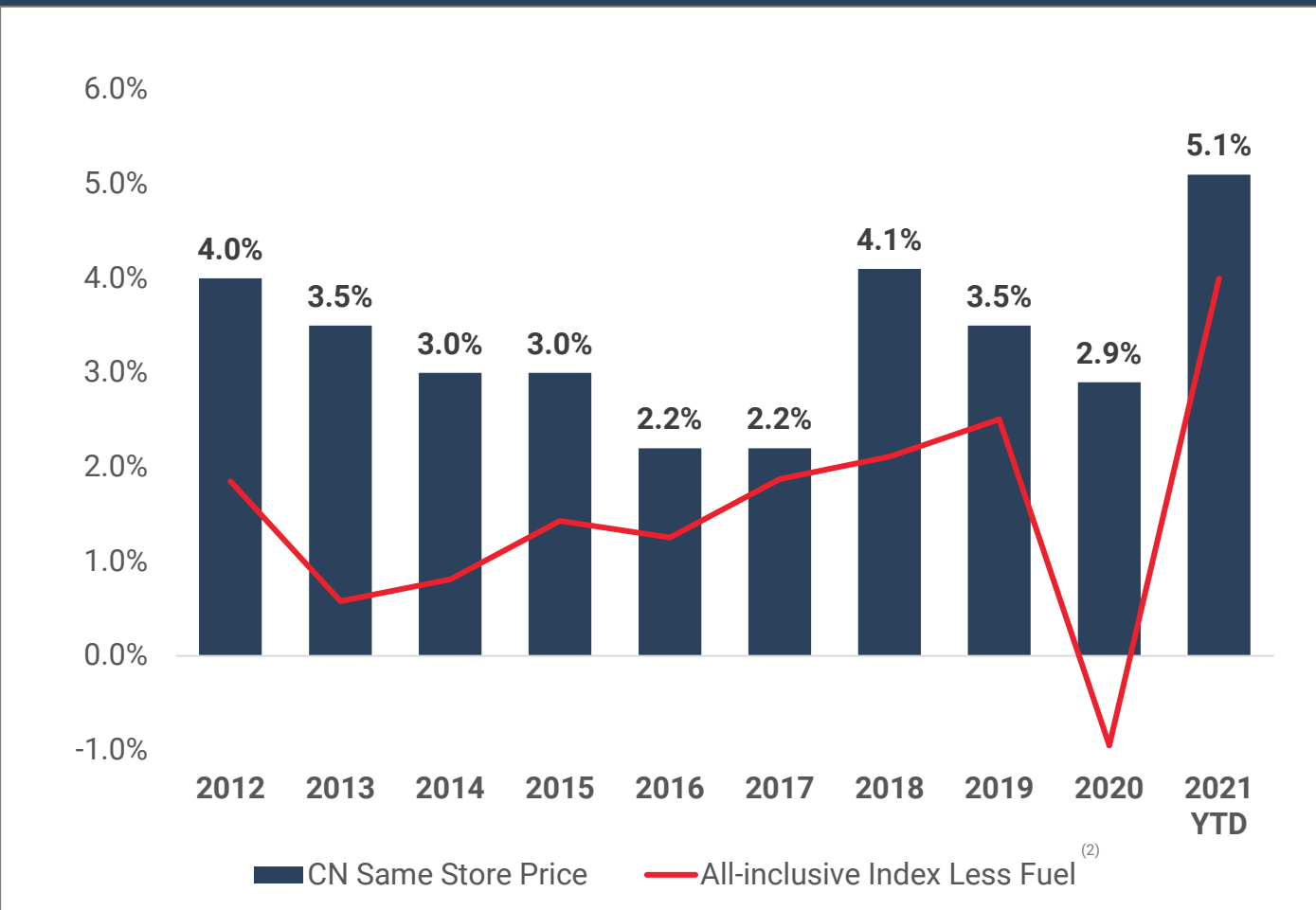
# The best measure of Price... is Price



## Growth in cents/RTM since we pivoted to our customer-centric mindset



## CN's Same Store Price has exceeded rail inflation by nearly 2% <sup>(1)</sup>



(1) Same Store Price excludes foreign exchange changes and fuel surcharges, and measures year-over-year price changes on same store traffic (origin, destination, commodity, car type, customer). ~75% of CN's revenues are same store.

(2) All-inclusive Index Less Fuel (AII LF) is an index that expresses the historical inflation of all rail cost inputs without the influence of the fuel cost component



# The future of CN: Powering sustainable growth for our customers, people and investors <sup>(1)</sup>



- Deliver industry leading profitable growth
- Drive operational excellence and operating cost improvements with smart use of technology
- Lead in sustainability: in safety, for our people, stakeholders and the environment
- Deploy capital efficiently to produce stable, long term EPS growth
- Grow the reach of the best network in North America physically and commercially

**Balanced Approach to Redefining Railroading for the 21<sup>st</sup> Century**

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