

# CANADIAN PACIFIC KANSAS CITY SOUTHERN PITCH AND VALUATION

## INVESTMENT THESIS

CPKC stands out as the pioneer in establishing a single-line railway that links Canada, the U.S., and Mexico. This unique setup eliminates the need for transfers to other rail networks or different modes of transport, thus enabling CPKC to deliver a transportation service that is not only faster and safer but also more reliable across North America. Furthermore, CPKC has forged strategic alliances with Knight-Swift and Schneider, the 5th and 7th largest trucking companies respectively. These partnerships facilitate the essential intermodal services for transferring freight from UNP to CPKC's single-line. CP's dedication to minimizing emissions, coupled with its impressive safety record, enhances the appeal of investing in CPKC.

## COMPANY OVERVIEW

### DESCRIPTION

CPKC is the transcontinental railway service provider that emerged from the merger of CP and KCS. CPKC operates a rail network spanning Canada's east and west coasts to the U.S. and Mexico. The company's operations are focused on the transportation of bulk commodities, including grain, coal, potash, and fertilizers. CPKC also offers intermodal services.

### BUSINESS SEGMENTS

Grain is the largest revenue segment for CPKC at 23% followed by intermodal services at 22% and energy, chemicals, and plastics at 16%. The remaining 39% of revenue is split between metals, minerals, consumer products, coal, automotive, potash, forest products, fertilizers, and sulphur. Alternatively, revenue can be split into three segments: bulk (41%), merchandise (37%), and intermodal (22%). The bulk segment typically includes commodities that are transported in large, standardized quantities. These are often raw materials like grain, coal, potash, and fertilizers and sulphur. The merchandise segment refers to finished goods or goods that are not classified as bulk or intermodal. This can include a wide range of products, such as energy, chemicals and plastics, metals, minerals, consumer products, automotive, and forest products. These goods are often transported in boxcars, gondolas, or other specialized railcars. Intermodal is the transportation of freight using multiple modes of transportation (rail, truck, marine, air) without any handling of the freight inside the shipping containers when changing modes of transportation.

### INDICATORS

Demand for freight transportation overall is sensitive to inflation, interest rates, and changes in demand. Grain, potash, fertilizers, and sulphur, however, are less sensitive to these factors because of the nature of the products. They are inputs to a final product that is not cyclical in nature (food). Railways in general are highly correlated with the PMI and LEI indices. Either of those indices bottoming indicates a good time to look at railways as a potential addition to the portfolio.

## REVENUE DRIVERS AND CATALYSTS

**Strategic Combination:** The strategic combination of Canadian Pacific (CP) and Kansas City Southern (KCS) to form CPKC is a significant catalyst. This merger creates the first U.S.-Mexico-Canada rail network, connecting three key North American economies. This is expected to drive significant revenue growth as it provides a more extensive network for customers and enhances competitive positioning.

**Increased Market Access:** The merger provides increased market access for customers, producers, and shippers to alternative markets. This could lead to increased freight volumes and revenues.

**Efficiency and Service Improvements:** CPKC plans to bring service and efficiency improvements to KCS, which could lead to cost savings and increased revenues.

**Synergies:** CPKC expects to achieve annualized synergies of approximately \$950 million.

**Intermodal Services:** CPKC's partnerships with major trucking companies like Knight-Swift and Schneider could drive significant revenue. These partnerships facilitate the essential intermodal services for transferring freight from UNP to CPKC's single-line, potentially leading to increased freight volumes.

**Sustainability Initiatives:** CPKC's commitment to sustainability could also serve as a catalyst. CPKC's dedication to minimizing emissions with its new hydrogen locomotives could drive revenue growth.

## MANAGEMENT

Keith Creel is the President and CEO of Canadian Pacific Kansas City (CPKC). With a career in the rail industry starting in 1992, Creel has held several high-ranking positions at Burlington Northern Railroad, Illinois Central Railroad, and Canadian National Railway. He joined Canadian Pacific Railway in 2013 and became CEO in 2017. Known for his innovative approach to railroading, Creel has focused on improving services, attracting customers, and enhancing workforce relations. His leadership was recognized when he was named Railroader of the Year for 2021 and 2022 by Railway Age. His extensive experience and innovative approach make him a valuable asset to CPKC.

## DISCOUNTED CASHFLOW MODEL

### ASSUMPTIONS

Revenue growth was projected to be a high single digit according to CPKC management, so we used 7% CAGR as a conservative estimate. No guidance was provided by CPKC for EBIT and EBITDA margins, so analyst estimates were used for the first three years they were available (2023-2025) and held constant thereafter. In the investors' day presentation, capital expenditures were projected to be between \$2.6 billion and \$2.8 billion. We used the average value. The tax rate was assumed to be the average of CPKC's Q1 effective tax rate range. With no combined unaudited balance sheet to refer to, cost of debt was estimated using the YTM of BBB bonds. The risk-free rate is the 10-year Canadian bond yield, and the market return is the 10-year historical return of the S&P500 index.

## ANALYSIS

The result is an implied share price of \$151.28. At the time of writing, CPKC was trading at CA\$109.09 for an implied discount of 38.7%

## COMPARABLE ANALYSIS

### ASSUMPTIONS

- A mean of analyst estimates was used to calculate forecasted metrics.
- Below is the number of analysts estimates that were used for each company:

|                                  |              |
|----------------------------------|--------------|
| Canadian Pacific Kansas City Ltd | 18 estimates |
| Canadian National Railway Co     | 14 estimates |
| Union Pacific Corp               | 27 estimates |
| CSX Corp                         | 25 estimates |
| Norfolk Southern Corp            | 24 estimates |

- Certain metrics were altered using the most recent investor presentation for each company where guidance given. The average was taken between the company's and analysts estimates.
- The diluted EPS was used in calculations.
- Adjusted debt was used for the capital structure metrics. The adjustments include unfunded pensions and current portion of operating leases.
- FX rate of 1.3515 used to convert USD to CAD.

### Relative Analysis

| 2023E     | Industry Average | CPKC  | Premium |
|-----------|------------------|-------|---------|
| P/E       | 18.84            | 27.26 | 42.43%  |
| EV/EBITDA | 12.60            | 17.86 | 49.86%  |

After applying the industry average PE and EBITDA multiple to CPKC 2023E EPS and EBITDA, a share price range was determined of \$72.79-\$76.59. An average being \$74.69. This implies that CPKC is trading around a 46.05% premium. One factor being that this value is much lower than the current trading value, is that earnings and EBITDA is expected to grow with the recent KCS acquisition.

## OVERVIEW

(in millions \$CAD)

|  | Market Data |            | Financial Data |            |            |          |
|--|-------------|------------|----------------|------------|------------|----------|
|  | 7/26/2023   |            | 3/31/2023      |            |            |          |
| Company  | Share Price | Market cap | S/O            | EV         | LTM EBITDA | NI       |
| Canadian Pacific Kansas City Limited (XTSE:CP) | \$ 109.09   | \$ 101,569 | 931.06         | \$ 125,881 | \$ 6,106   | \$ 756   |
| Canadian National Railway Company (XTSE:CNR)   | \$ 156.38   | \$ 105,505 | 674.67         | \$ 122,681 | \$ 9,032   | \$ 1,220 |
| UNION PACIFIC CORPORATION (XNYS:UNP)           | \$ 284.07   | \$ 173,198 | 609.70         | \$ 219,530 | \$ 15,991  | \$ 2,203 |
| CSX Corporation (XNAS:CSX)                     | \$ 43.71    | \$ 87,706  | 2,006.33       | \$ 110,564 | \$ 9,965   | \$ 1,334 |
| NORFOLK SOUTHERN CORPORATION (XNYS:NSC)        | \$ 312.58   | \$ 71,155  | 227.64         | \$ 91,129  | \$ 8,011   | \$ 1,026 |

**USD/CAD**

\$ 1.32

(in millions \$CAD)

|  | Market Data |            | Financial Data |            |            |          |
|--|-------------|------------|----------------|------------|------------|----------|
|  | 2023-07-26  |            | 2023-03-31     |            |            |          |
| Company  | Share Price | Market cap | S/O            | EV         | LTM EBITDA | NI       |
| Canadian Pacific Kansas City Limited (XTSE:CP) | \$ 109.09   | \$ 101,569 | 931.06         | \$ 125,881 | \$ 6,106   | \$ 756   |
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**USD/CAD**

\$ 1.32

## OPERATING METRICS

| (\$CAD)        | Operating Metrics    |               |              |              |
|----------------|----------------------|---------------|--------------|--------------|
|                | Revenue Growth       | EBITDA Growth | FCF Growth   | EPS Growth   |
|                | (2022A - 2025E CAGR) |               |              |              |
| Company        |                      |               |              |              |
| CPKC           | 7.00%                | 11.48%        | 7.24%        | 10.00%       |
| CNR            | 3.87%                | 5.13%         | 3.89%        | 10.69%       |
| UNP            | 2.33%                | 3.10%         | 1.57%        | 6.05%        |
| CSX            | 0.98%                | 1.07%         | 2.22%        | 4.35%        |
| NSC            | 0.00%                | 1.82%         | 2.13%        | 3.99%        |
| <b>Average</b> | <b>1.79%</b>         | <b>2.78%</b>  | <b>2.45%</b> | <b>6.27%</b> |

CPKC has a much higher growth potential than its peers. This is a result of the most recent merger with Kansas City Southern. CNR company estimates an 10%-15% Diluted EPS CAGR from 2024-2026, whereas CPKC reports “double-digit core adjusted EPS growth” from 202-2028.

(\$CAD)

| Company        | Operating Metrics |               |               |               |               |               |                         |                 |
|----------------|-------------------|---------------|---------------|---------------|---------------|---------------|-------------------------|-----------------|
|                | ROE               |               | ROA           |               | ROIC          |               | EBITDA Margin           | Capex Intensity |
|                | 2023E             | 2024E         | 2023E         | 2024E         | 2023E         | 2024E         | (2022A - 2025E Average) |                 |
| CPKC           | 9.30%             | 10.27%        | 5.28%         | 6.21%         | 6.89%         | 10.00%        | 51.42%                  | 17.56%          |
| CNR            | 24.39%            | 27.40%        | 10.48%        | 11.17%        | 15.14%        | 15.51%        | 52.09%                  | 19.51%          |
| UNP            | 55.02%            | 58.60%        | 11.18%        | 11.68%        | 15.70%        | 16.50%        | 50.27%                  | 14.60%          |
| CSX            | 30.45%            | 32.03%        | 10.07%        | 10.47%        | 14.08%        | 14.77%        | 50.51%                  | 13.02%          |
| NSC            | 22.53%            | 24.12%        | 8.26%         | 8.55%         | 13.59%        | 13.91%        | 47.43%                  | 13.55%          |
| <b>Average</b> | <b>33.10%</b>     | <b>35.54%</b> | <b>10.00%</b> | <b>10.47%</b> | <b>14.63%</b> | <b>15.17%</b> | <b>50.08%</b>           | <b>15.17%</b>   |

CPKC return on equity, assets, and invested capital is lower than the industry average due to denominator of the metric being much larger than its competitors. For example, CNR shareholder’s equity and total assets in Q1 of 2023 is at \$20,859M and \$50,662M, whereas CPKC is at \$73,502M and \$73,495M.

The EBITDA margin is in line with the industry average of around 50.03%. The capex intensity is above industry average by. CNR reported CAPEX moving forward from 2024-2026 at around \$4B. CPKC reported in their investor’s presentation a capex of approximately \$2.6-2.8 billion per year from 2024-2028.

## VALUATION METRICS

| (\$CAD)        | Valuation Metrics |              |              |              |             |             |             |             |              |              |
|----------------|-------------------|--------------|--------------|--------------|-------------|-------------|-------------|-------------|--------------|--------------|
|                | P/E               |              | P/FCF        |              | P/BV        |             | EV/Revenue  |             | EV/EBITDA    |              |
|                | 2023E             | 2024E        | 2023E        | 2024E        | 2023E       | 2024E       | 2023E       | 2024E       | 2023E        | 2024E        |
| <b>Company</b> |                   |              |              |              |             |             |             |             |              |              |
| CPKC           | 27.26             | 22.88        | 20.75        | 16.76        | 2.44        | 2.27        | 9.23        | 8.12        | 17.86        | 15.26        |
| CNR            | 20.56             | 18.37        | 14.80        | 12.97        | 5.10        | 5.05        | 7.11        | 6.76        | 13.75        | 12.84        |
| UNP            | 19.28             | 17.71        | 13.97        | 13.03        | 10.58       | 10.50       | 6.27        | 6.41        | 13.41        | 12.62        |
| CSX            | 17.53             | 16.26        | 12.47        | 11.19        | 5.56        | 5.38        | 5.70        | 5.58        | 11.41        | 11.01        |
| NSC            | 17.99             | 16.54        | 11.77        | 11.42        | 4.07        | 3.96        | 5.47        | 5.31        | 11.83        | 11.13        |
| <b>Average</b> | <b>18.84</b>      | <b>17.22</b> | <b>13.25</b> | <b>12.15</b> | <b>4.91</b> | <b>4.80</b> | <b>6.14</b> | <b>6.02</b> | <b>12.60</b> | <b>11.90</b> |

CPKC has a price to earnings value well above the industry average. This is due to it's expected EPS to be around \$4.11 and \$4.94 in 2023/2024. Compared to CN's expected EPS of \$7.78 and \$8.63 in 2023/2024.

The price to free cash flow is also above industry average due to it's lower expected FCF's than its competitors at \$3,217 and \$3,723 for 2023/2024. CN expected FCF values are \$4,182 and \$4,412 for 2023/2024.

Price to book indicates that the stock price for CPKC is trading at a lower price relative to the value of the company's assets compared to its competitors. Although the company is still trading at a value higher than 1, indicating that the stock price is trading at a premium to the company's book value.

## CAPITAL STRUCTURE

| (\$CAD)        | Capital Structure |              |             |                   |                |                      |
|----------------|-------------------|--------------|-------------|-------------------|----------------|----------------------|
|                | D/E               | Payout Ratio | Quick ratio | Net Debt / EBITDA | Dividend Yield | Dividend Growth      |
|                | 2023 Q1           |              |             | 2023E EBITDA      | 2023E          | (2022A - 2025E CAGR) |
| <b>Company</b> |                   |              |             |                   |                |                      |
| CPKC           | 0.63              | 20.10%       | 0.50        | 3.33              | 0.70%          | 10.31%               |
| CNR            | 0.84              | 39.20%       | 0.66        | 1.92              | 2.01%          | 8.84%                |
| UNP            | 2.73              | 45.20%       | 0.58        | 2.87              | 2.50%          | 4.03%                |
| CSX            | 1.45              | 20.50%       | 1.42        | 2.37              | 1.33%          | 8.46%                |
| NSC            | 1.20              | 35.70%       | 0.66        | 2.62              | 2.28%          | 5.23%                |
| <b>Average</b> | <b>1.56</b>       | <b>0.35</b>  | <b>0.83</b> | <b>2.45</b>       | <b>0.02</b>    | <b>6.64%</b>         |

## VALUATION SUMMARY AND ASSUMPTIONS

|  |    |                   |
|--|----|-------------------|
| <b><u>Enterprise Value</u></b>                     |    |                   |
| Cumulative Present Value of FCF                    | \$ | 35,334            |
| Growth in Terminal Year                            |    | 1.9%              |
| <b>Terminal Value</b>                              | \$ | <b>175,742</b>    |
| PV of Terminal Value                               | \$ | 130,103           |
| <i>Total Value</i>                                 | \$ | <b>165,437</b>    |
| <b>Terminal Value % of Total</b>                   |    | <b>78.6%</b>      |
| <b>Implied Terminal Multiple</b>                   |    | <b>17.7x</b>      |
| <b><u>Implied Equity Value and Share Price</u></b> |    |                   |
| Enterprise Value                                   | \$ | 165,437           |
| <b>Less: Net Debt (Ex Operating Leases)</b>        | \$ | <b>24,312</b>     |
| <b>Implied Equity Value</b>                        | \$ | <b>141,125.09</b> |
| Fully Diluted Shares Outstanding (M)               |    | 932.900           |
| <b>Implied Share Price</b>                         | \$ | <b>151.28</b>     |
| Current Share Price (CAD)                          | \$ | 109.09            |
| Dividend   | \$ | 0.76              |
| <b>Return on Target</b>                            |    | <b>38.7%</b>      |



# DCF MODEL

## Discounted Cash Flow Valuation

Canadian Pacific Kansas City Limited (XTSE:CP)

|  |            |                            |            |                   |
|--|------------|----------------------------|------------|-------------------|
| Most recent fiscal year end              | 12-31-2022 | Discount rate (WACC)       | 7.94%      | (Self calculated) |
| End of first fiscal year                 | 12-31-2023 | Share price (Public Co)    | \$         | 109.09            |
| Most recent quarter end date             | 03-31-2023 | Share price date           | 2023-07-26 |                   |
| Valuation date                           | 07-26-2023 | Midyear Adj. (1=MY, 0=EOY) | 1          |                   |
| Portion of year 1 cash flows in forecast | 43.1%      |                            |            |                   |

## Unlevered Free Cash Flows

| Fiscal year ended                                | Actual       | Forecasts    |              |              |              |               |
|--|--------------|--------------|--------------|--------------|--------------|---------------|
|  | 12-31-2022   | 12-31-2023   | 12-31-2024   | 12-31-2025   | 12-31-2026   | 12-31-2027    |
| Revenue  | 13,217.0     | 14,142       | 15,132       | 16,191       | 17,325       | 18,538        |
| % growth   |              | 7.0%         | 7.0%         | 7.0%         | 7.0%         | 7.0%          |
| EBITDA   | 6,254        | 6,520        | 7,820        | 8,613        | 9,270        | 9,919         |
| % margin   | 47.3%        | 46.10%       | 51.68%       | 53.20%       | 53.51%       | 53.51%        |
| EBIT   | 4,582.0      | 5,179        | 6,271        | 7,133        | 7,632        | 8,166         |
| % margin   | 34.7%        | 36.6%        | 41.4%        | 44.1%        | 44.1%        | 44.1%         |
| Tax on EBIT                                      | 1,110        | 1,372        | 1,662        | 1,890        | 2,022        | 2,164         |
| Tax rate   | 24.2%        | 26.5%        | 26.5%        | 26.5%        | 26.5%        | 26.5%         |
| <b>NOPAT (aka EBIAT)</b>                         | <b>3,472</b> | <b>3,806</b> | <b>4,609</b> | <b>5,243</b> | <b>5,609</b> | <b>6,002</b>  |
| Depreciation & amortization                      | 1,672.0      | 1,341        | 1,549        | 1,480        | 1,638        | 1,753         |
| Changes in net working capital                   | -71          | -29          | -31          | -33          | -36          | -38           |
| Capital expenditures                             | 2,200.0      | 2,700        | 2,700        | 2,700        | 2,700        | 2,700         |
| as % of revenue                                  | (16.6%)      | (19.1%)      | (17.8%)      | (16.7%)      | (15.6%)      | (14.6%)       |
| <b>Unlevered free cash flows (UFCF)</b>          | <b>7,273</b> | <b>7,818</b> | <b>8,827</b> | <b>9,390</b> | <b>9,912</b> | <b>10,417</b> |
| Net working capital (WC Assets - WC liabilities) | 343          | 414          | 443          | 474          | 507          | 581           |
| as % of revenue                                  |              | 3.1%         | 3.1%         | 3.1%         | 3.1%         | 3.1%          |

**Present value of UFCF on Jul 26, 2023 valuation date**

|   |       | <u>Val Date</u> | <u>Yr 1 - Stub</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> | <u>Year 5</u> |
|---|-------|-----------------|--------------------|---------------|---------------|---------------|---------------|
| Date for discounting cash flows                   |       | 07-26-2023      | 07-01-2023         | 07-01-2024    | 07-01-2025    | 07-01-2026    | 07-01-2027    |
| Unlevered free cash flows (UFCF) stub adjusted    | 43.1% |                 | 3,366              | 8,827         | 9,390         | 9,912         | 10,417        |
| <b>Present value of unlevered free cash flows</b> |       |                 | <b>3,384</b>       | <b>8,219</b>  | <b>8,099</b>  | <b>7,921</b>  | <b>7,712</b>  |

**Terminal value - growth in perpetuity approach**

|  |                |
|--|----------------|
| Long term growth rate                  | 1.9%           |
| 2027 FCF x (1+g)                       | 10,615         |
| Terminal value in 2027                 | 175,742        |
| Present value of terminal value        | 130,103        |
| Present value of stage 1 cash flows    | 35,334         |
| <b>Total enterprise value (TEV)</b>    | <b>165,437</b> |
| <i>Terminal value as a % of TEV</i>    | 78.6%          |
| <i>Stage 1 cash flows as % of TEV</i>  | 21.4%          |
| <i>Implied TV exit EBITDA multiple</i> | 17.7x          |

**Net Debt**

|                                     |               |
|-------------------------------------|---------------|
| Source doc                          | Q1 2023 10-Q  |
| Source date                         | 12-31-2022    |
| <u>Gross debt and equivalents</u>   |               |
| Debt                                | 24,827        |
| Convertible debt                    | 0             |
| Preferred Stock                     | 0             |
| Noncontrolling (minority) interests | 0             |
| <u>Nonoperating assets</u>          |               |
| Cash                                | 515           |
| Equity investments                  | 0             |
| <b>Net debt</b>                     | <b>24,312</b> |

**Terminal Value - EBITDA multiple approach**

|                                       |                |
|---------------------------------------|----------------|
| Terminal year EBITDA                  | 9,919          |
| EBITDA multiple                       | 12.33x         |
| Terminal value 2027                   | 122,306        |
| Present value of terminal value       | 90,544         |
| Present value of stage 1 cash flows   | 35,334         |
| <b>Enterprise value (stage 1 + 2)</b> | <b>125,878</b> |
| Terminal value as % of TEV            | 71.9%          |
| Stage 1 cash flows as % of TEV        | 28.1%          |
| Implied terminal growth rate          | -0.5%          |

**Shares outstanding**

|  | <u>Source doc</u> | <u>Date</u> | <u>Shares</u>  |
|--|-------------------|-------------|----------------|
| Basic shares                                     |                   |             |                |
| Restricted stock / RSUs                          |                   |             |                |
| Options / warrants                               |                   |             |                |
| Convertible debt                                 |                   |             |                |
| Convertible preferred stock                      |                   |             |                |
| <b>Net diluted shares outstanding (Millions)</b> |                   |             | <b>932.900</b> |

**Equity value per share**

Long term growth rate (g):

|       |             |        |        |              |        |        |
|-------|-------------|--------|--------|--------------|--------|--------|
|       | \$ 151.28   | 0.9%   | 1.4%   | <b>1.9%</b>  | 2.4%   | 2.9%   |
|       | 9.9%        | 96.18  | 91.28  | 91.28        | 96.18  | 107.81 |
|       | 8.9%        | 84.23  | 80.34  | 80.34        | 84.23  | 93.30  |
| WACC: | <b>7.9%</b> | 84.23  | 80.34  | <b>80.34</b> | 84.23  | 93.30  |
|       | 6.9%        | 96.18  | 91.28  | 91.28        | 96.18  | 107.81 |
|       | 5.9%        | 130.29 | 121.89 | 121.89       | 130.29 | 151.28 |

**Year 1 EBITDA multiple**

Long term growth rate (g):

|       |             |       |       |              |       |       |
|-------|-------------|-------|-------|--------------|-------|-------|
|       | 25.4x       | 0.9%  | 1.4%  | <b>1.9%</b>  | 2.4%  | 2.9%  |
|       | 9.9%        | 17.5x | 16.8x | 16.8x        | 17.5x | 19.2x |
|       | 8.9%        | 15.8x | 15.2x | 15.2x        | 15.8x | 17.1x |
| WACC: | <b>7.9%</b> | 15.8x | 15.2x | <b>15.2x</b> | 15.8x | 17.1x |
|       | 6.9%        | 17.5x | 16.8x | 16.8x        | 17.5x | 19.2x |
|       | 5.9%        | 22.4x | 21.2x | 21.2x        | 22.4x | 25.4x |

**Equity value per share**

Exit EBITDA Multiple

|       |             |        |       |               |        |        |
|-------|-------------|--------|-------|---------------|--------|--------|
|       | \$ 108.87   | 11.3x  | 11.8x | <b>12.33x</b> | 12.8x  | 13.3x  |
|       | 9.9%        | 93.31  | 89.65 | 89.65         | 93.31  | 100.64 |
|       | 8.9%        | 89.71  | 86.18 | 86.18         | 89.71  | 96.78  |
| WACC: | <b>7.9%</b> | 89.71  | 86.18 | <b>86.18</b>  | 89.71  | 96.78  |
|       | 6.9%        | 93.31  | 89.65 | 89.65         | 93.31  | 100.64 |
|       | 5.9%        | 101.00 | 97.06 | 97.06         | 101.00 | 108.87 |

**Year 1 EBITDA multiple**

Exit EBITDA Multiple

|       |             |       |       |               |       |       |
|-------|-------------|-------|-------|---------------|-------|-------|
|       | 19.3x       | 11.3x | 11.8x | <b>12.33x</b> | 12.8x | 13.3x |
|       | 9.9%        | 17.1x | 16.6x | 16.6x         | 17.1x | 18.1x |
|       | 8.9%        | 16.6x | 16.1x | 16.1x         | 16.6x | 17.6x |
| WACC: | <b>7.9%</b> | 16.6x | 16.1x | <b>16.1x</b>  | 16.6x | 17.6x |
|       | 6.9%        | 17.1x | 16.6x | 16.6x         | 17.1x | 18.1x |
|       | 5.9%        | 18.2x | 17.6x | 17.6x         | 18.2x | 19.3x |

## PORTER'S FIVE FORCES

**Threat of New Entrants (Low):** The railway industry has high barriers to entry due to the significant capital requirements for infrastructure, equipment, and regulatory compliance. Additionally, obtaining the necessary permissions and rights-of-way to construct new rail lines can be a complex and time-consuming process. Therefore, the threat of new entrants is low.

**Bargaining Power of Suppliers (Medium):** Suppliers for the railway industry include manufacturers of trains, tracks, and other necessary equipment. While there are several suppliers in the market, the specialized nature of some of this equipment can give suppliers some degree of bargaining power. However, large railway companies like CPKC likely have the ability to negotiate favorable terms due to their size and purchasing power.

**Bargaining Power of Buyers (Medium):** Buyers in this context are the businesses that use CPKC's services to transport their goods. While there are other transportation options available (e.g., trucking, shipping), the unique advantages of rail (e.g., ability to transport large volumes, lower emissions) can make it an attractive option for many businesses. However, the recent merger has expanded CPKC's network, potentially increasing its bargaining power with buyers.

**Threat of Substitute Products or Services (Medium):** There are several alternatives to rail transport, including trucking, air freight, and sea freight. The choice between these options can depend on a variety of factors, including cost, speed, and the nature of the goods being transported. The merger's aim to take 64,000 long-haul truck shipments off the road each year indicates a direct competition with the trucking industry. However, the overall impact on the trucking industry is expected to be minimal due to the sheer volume of goods transported by trucks.

**Competition within the Industry (High):** The railway industry in North America is dominated by a small number of large players, leading to a high level of competitive rivalry. The merger of CP and KCS to form CPKC has created the first single-line railway connecting the U.S., Mexico, and Canada, which will give it a competitive advantage. However, other major rail companies are responding with their own strategic initiatives (Falcon Premium Intermodal Services).