

# KANSAS CITY SOUTHERN



Raymond James 41<sup>st</sup>  
Annual Institutional  
Investors Conference

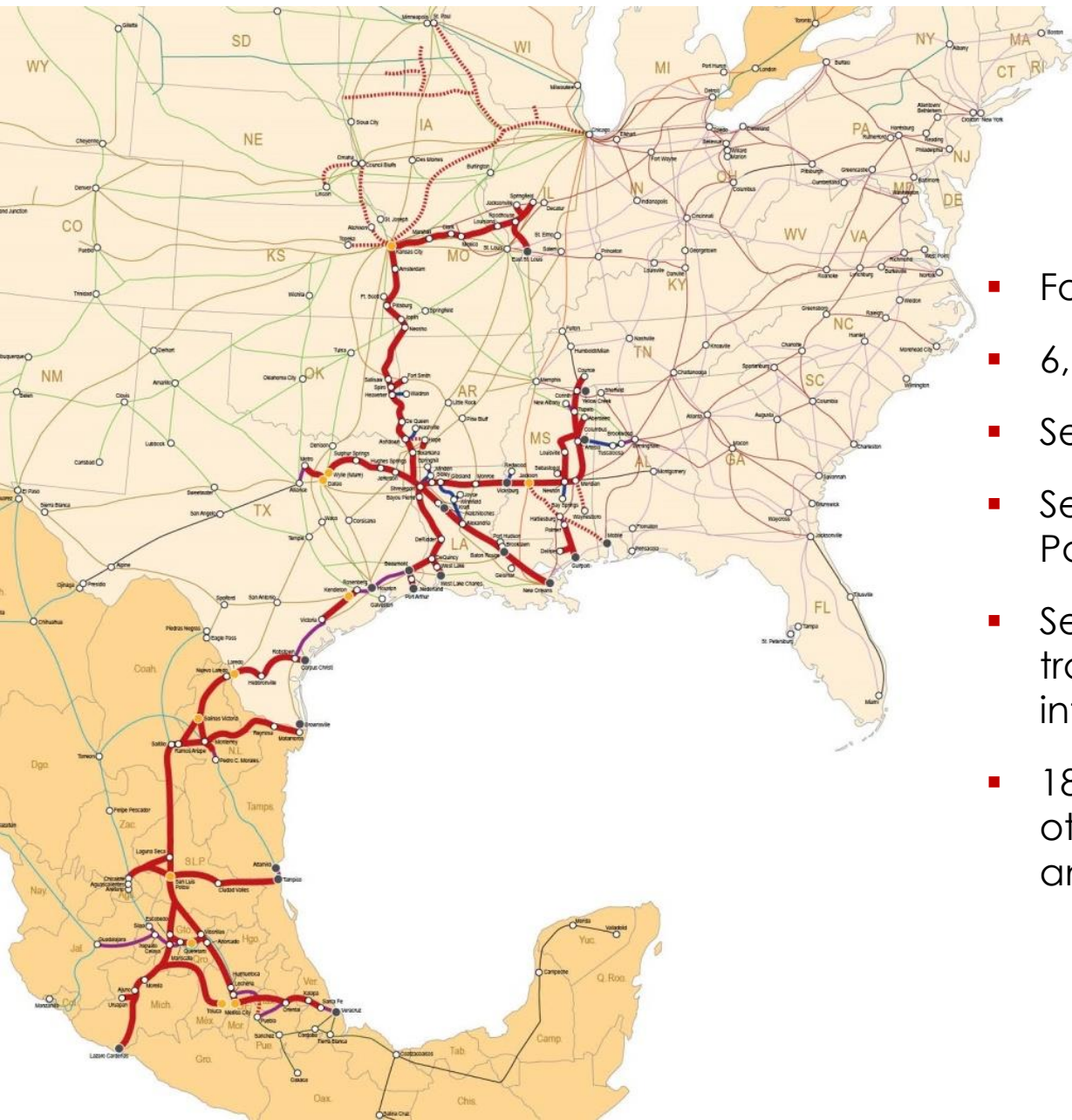
# Safe Harbor Statement

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# The KCS Network



- Founded in 1887
- 6,700 route miles
- Seamless cross-border network
- Service to 12 Gulf ports and 1 Pacific Ocean port
- Service to more than 140 transload centers and 11 intermodal ramps
- 181 interchange points with other railroads, including all U.S. and Mexico Class I railroads

# Solid Investment Thesis



Best-positioned growth story in the industry with unique U.S.-Mexico cross-border network and the most profitable rail franchise in Mexico



Well-diversified customer base and commodity mix



Excellent strategic positioning with multiple growth drivers



Track record of strong financial and operating performance, with continued improvement driven by precision scheduled railroading



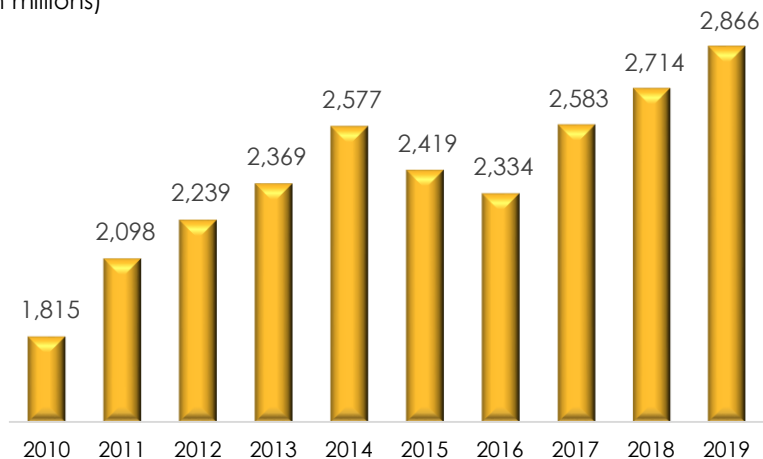
Solid balance sheet with improving cash flow and return profile



# KCS has delivered steadily improving key financial metrics

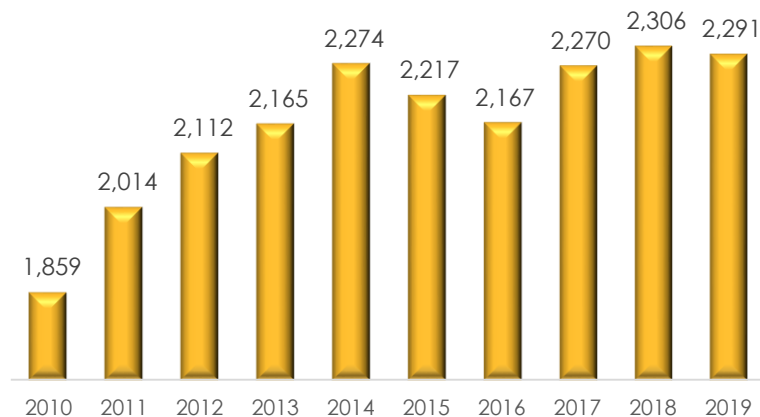
## Revenues - 5% CAGR

(in millions)

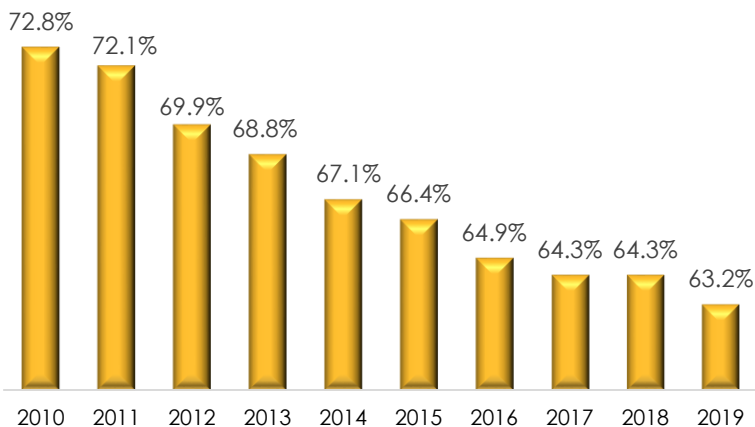


## Carloads/Units – 2% CAGR

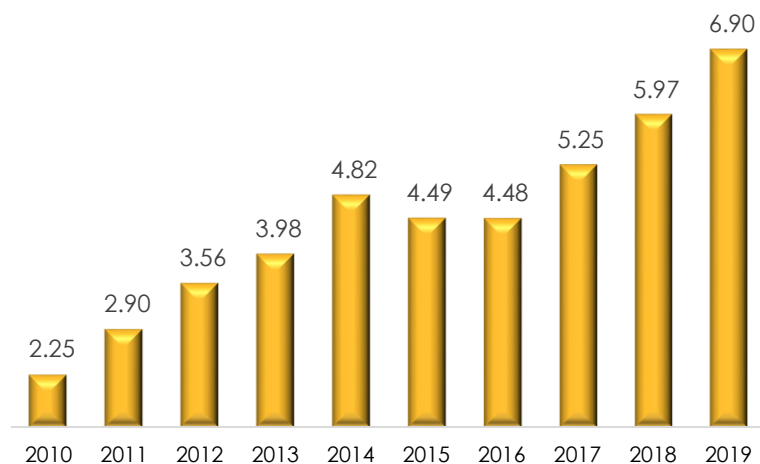
(in thousands)



## Adjusted Operating Ratio\* 9.6 Point Improvement








## Adjusted Diluted Earnings per Share\* 13% CAGR



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# Reiterating Guidance

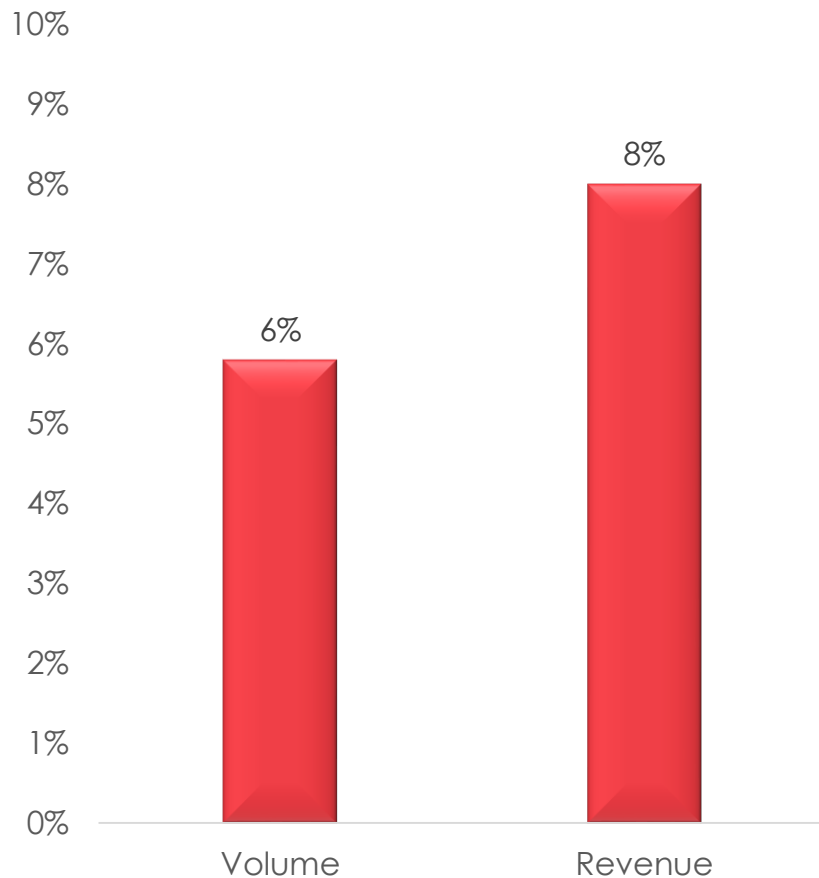
Outlook		
	<b>Volume Growth</b>	Low-Single Digit Growth in 2020
	<b>Revenue Growth</b>	Mid-Single Digit Growth in 2020
	<b>Operating Ratio<sup>†</sup></b>	Between 60% - 61% in 2020 Below 60% in 2021
	<b>Earnings per Share</b>	Mid-teens CAGR 2019 - 2021
	<b>Capital Expenditures</b>	~17% of revenue 2020 - 2022



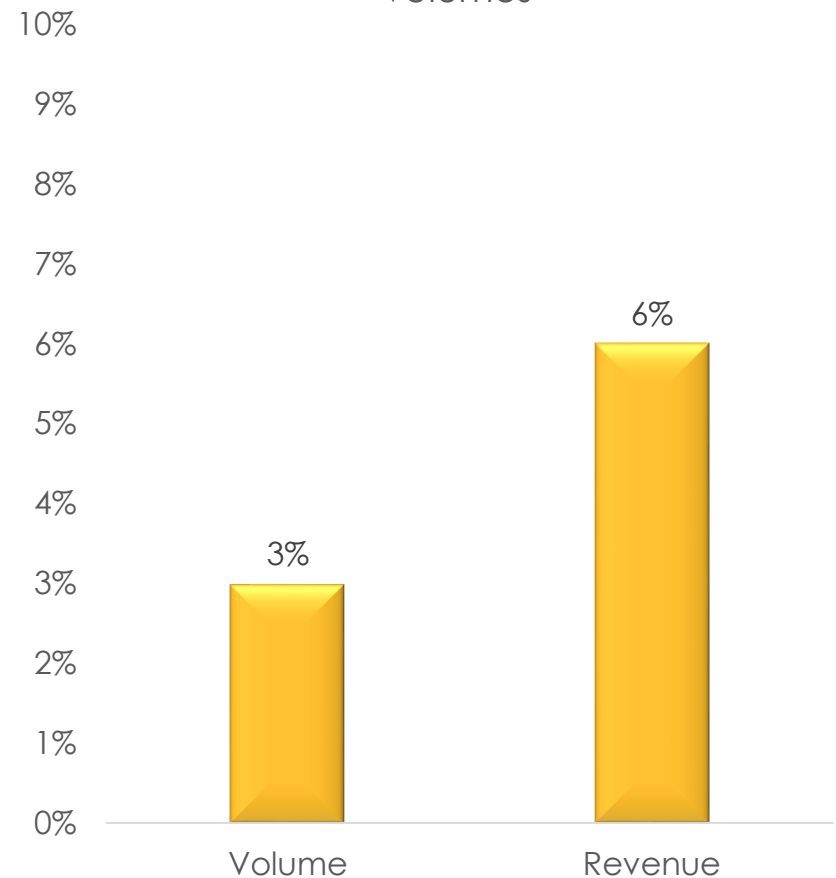
All guidance assumes constant currency and fuel price; operating ratio and EPS are shown on an adjusted basis;  
<sup>†</sup>Operating ratio guidance includes negative impact from loss of Mexican Fuel Excise Tax Credit

# Easy Comparisons Benefiting QTD Volume and Revenue Performance

QTD Volume & Revenue Performance\*



QTD Volume & Revenue Performance  
Excluding Impact of Lazaro Cardenas volumes\*



\*QTD Volume & Revenue performance as of February 28<sup>th</sup>, 2020.

# KCS Exposure to Asian Supply Chain

- Cancelled sailings from China to Lazaro Cardenas and U.S. West Coast ports
- Intermodal segments impacted:
  - Lazaro Cardenas & U.S. International/Transcontinental Intermodal: ~40% of KCS' 2019 intermodal volumes, which represent ~5% of total KCS revenues
    - ~40% of containers arriving in Lazaro are from China
  - Panama Canal Railway (PCRC): rolls into KCS equity earnings
  - Expect impact to volumes in March; impact beyond March depends on duration of factory outages & supply chain disruption
- No direct impact to cross-border or U.S. domestic intermodal: ~60% of KCS' 2019 intermodal volumes
- Watching for downstream impact to automotive supply chain created by disruption to auto electronic parts supply chain
- Recovery could create a mini-peak in the spring/summer (depending on duration of factory outages)

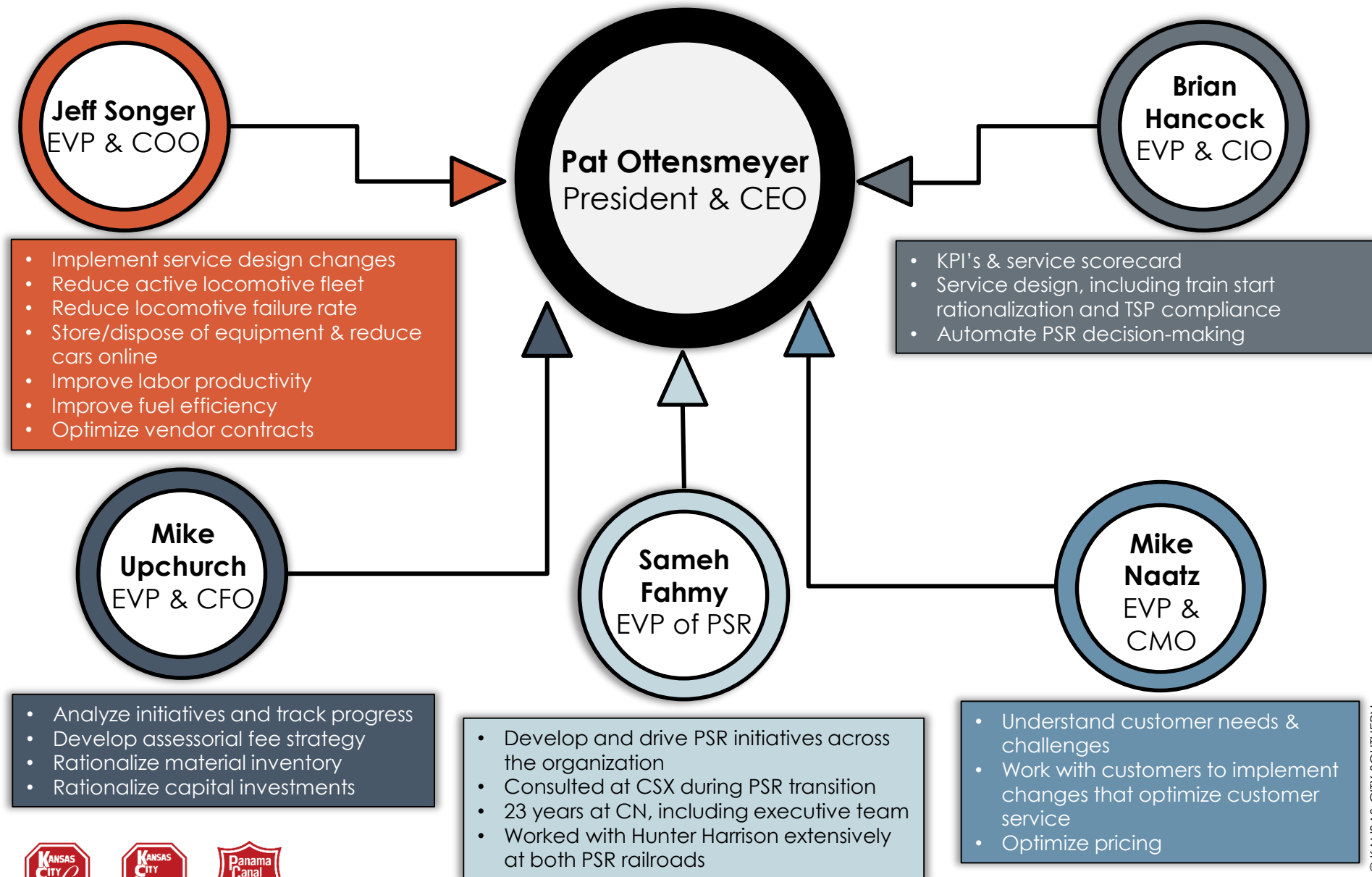




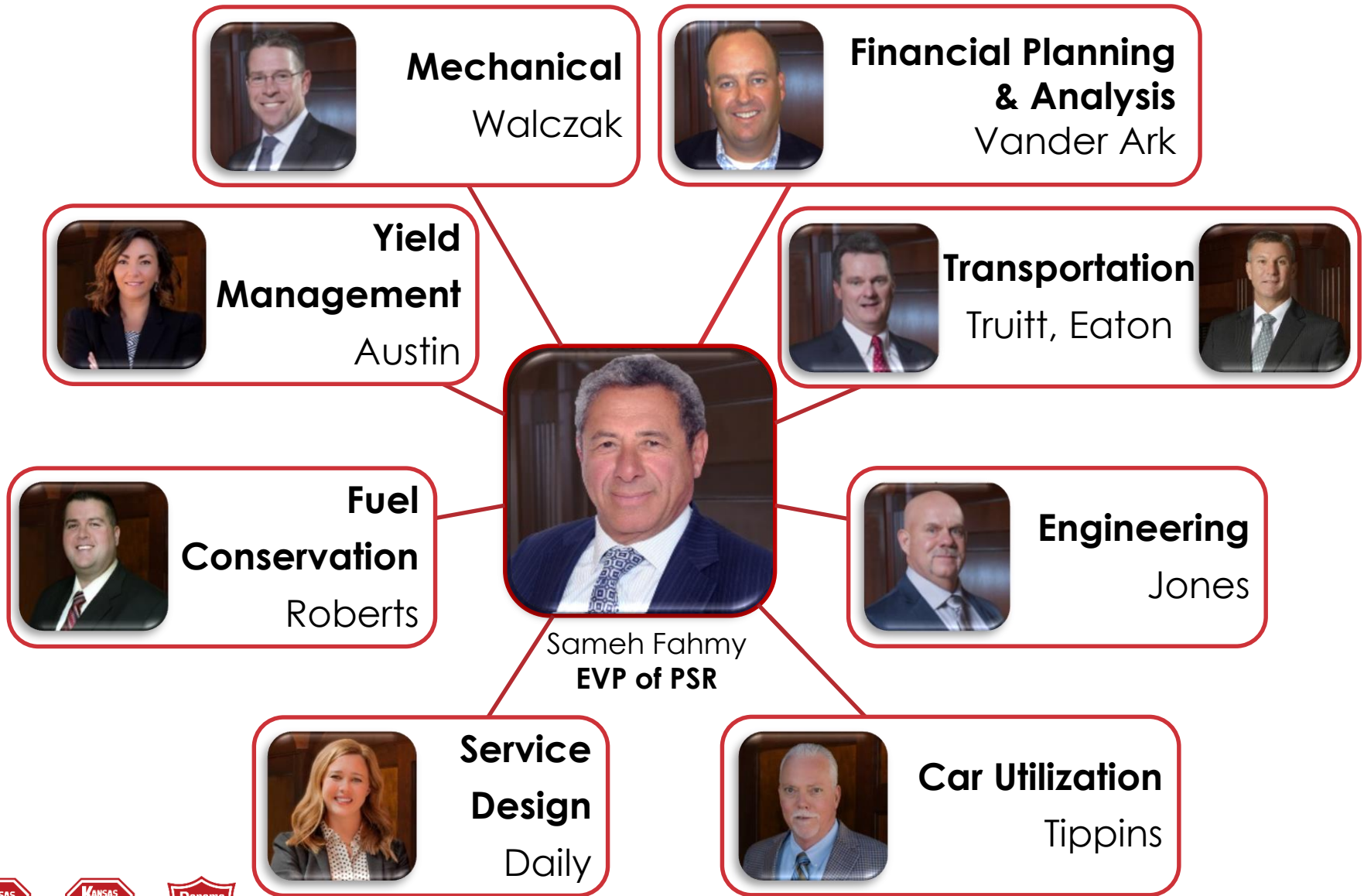
# PSR AT KCS



# PSR initiatives encompass all areas of the business



# PSR: Cross-Functional Success



# Estimated Savings from PSR Initiatives

(\$ in millions)

Total PSR Program Annualized OpEx Savings of \$125M			
OpEx Category	Primary Drivers	FY 2019 Actual OpEx Savings	FY 2020 Incremental OpEx Savings
Compensation & Benefits	Reduced headcount & crew costs	\$8	\$15
Depreciation	Disposal of certain locomotives and rail cars	\$5	\$4
Fuel	Train consolidation and efficiency/technology	\$19	\$21
Equipment	Lease returns & car cycle times	\$13	\$17
Purchased Services and Materials & Other	Restructured contracts, and reduced repair expenses	\$13 <sup>†</sup>	\$4
<b>Total</b>		<b>\$58</b>	<b>\$61</b>

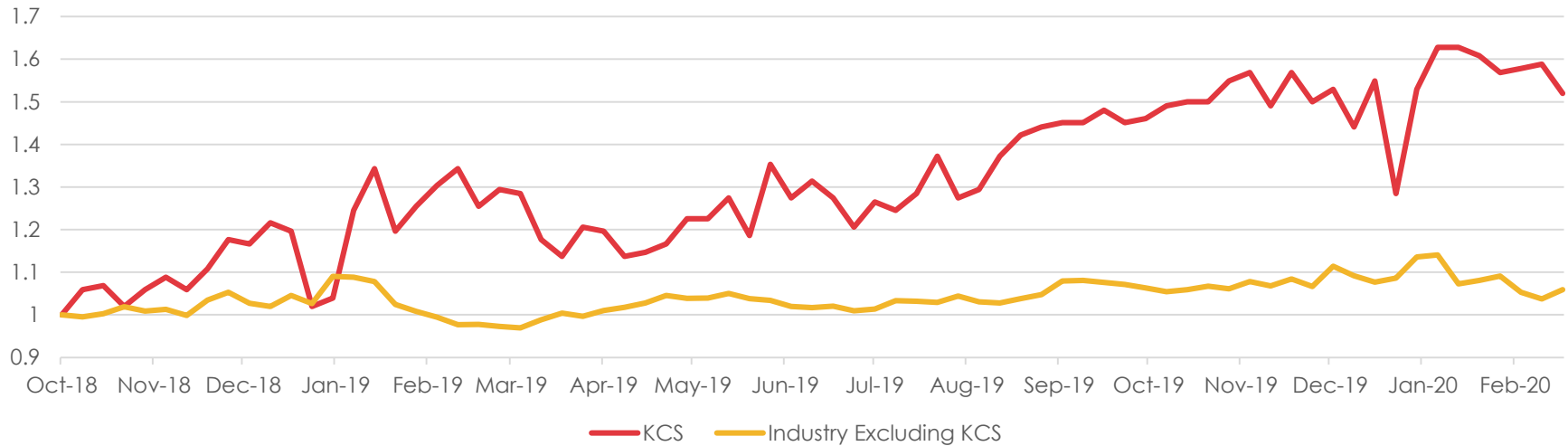


<sup>†</sup>Includes a \$5.1M benefit from a one-time settlement

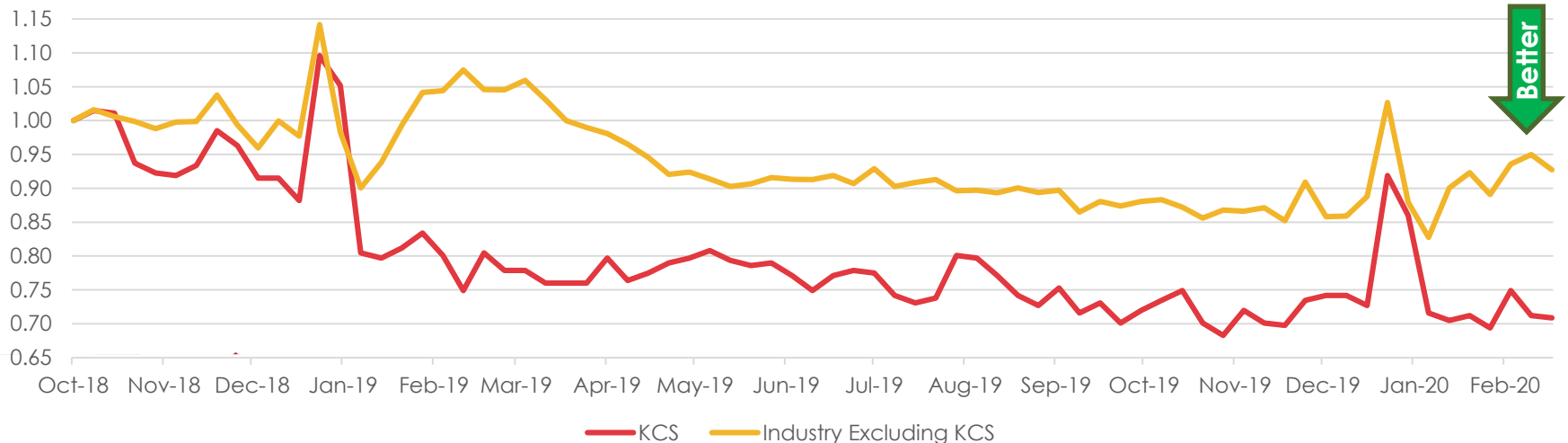


# PSR Initiatives are Delivering Superior Dwell and Velocity Performance

Indexed Velocity Performance Since Q418  
First Week of October 2018 = 1.00



Indexed Dwell Performance Since Q418  
First Week of October 2018 = 1.00



# REVENUE & YIELD MANAGEMENT

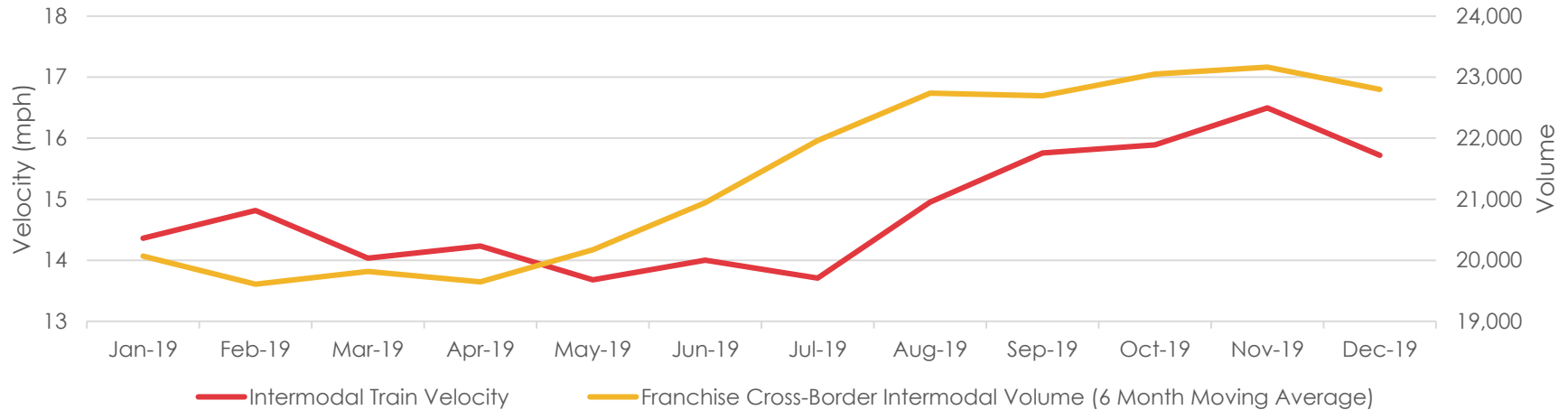
## Key Initiatives:

- Capitalize on improved service to grow our business
- Incentivizing customers to optimize train length and car cycles

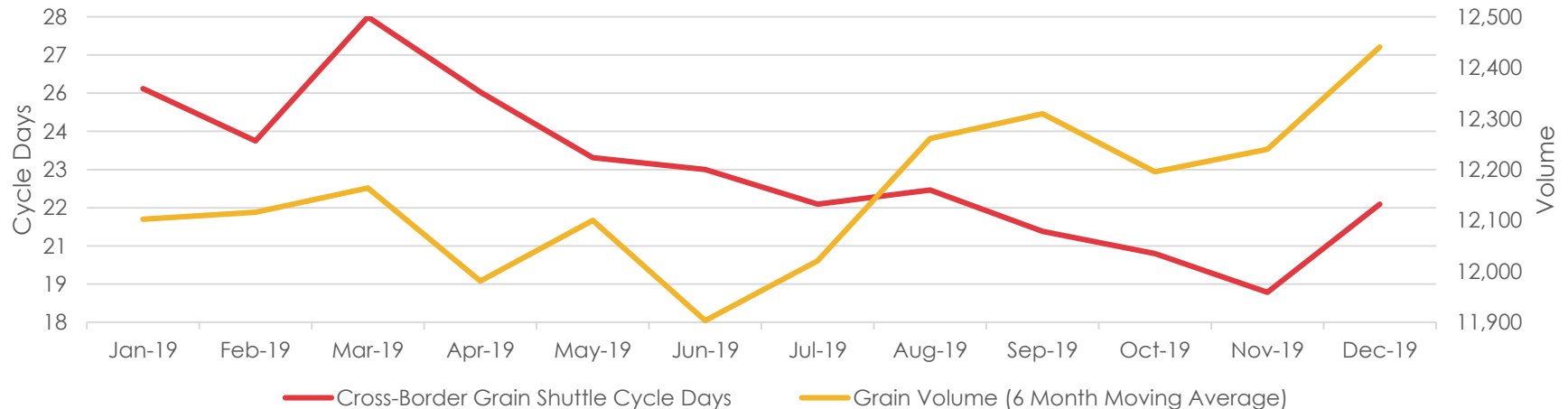


# Case Studies: Service Begets Growth

Intermodal train velocity improvement supporting franchise cross-border intermodal volume growth



Cross-border grain shuttle cycle times supporting growth in grain volumes and better equipment utilization



# COMPENSATION & BENEFITS

## Key Initiatives:

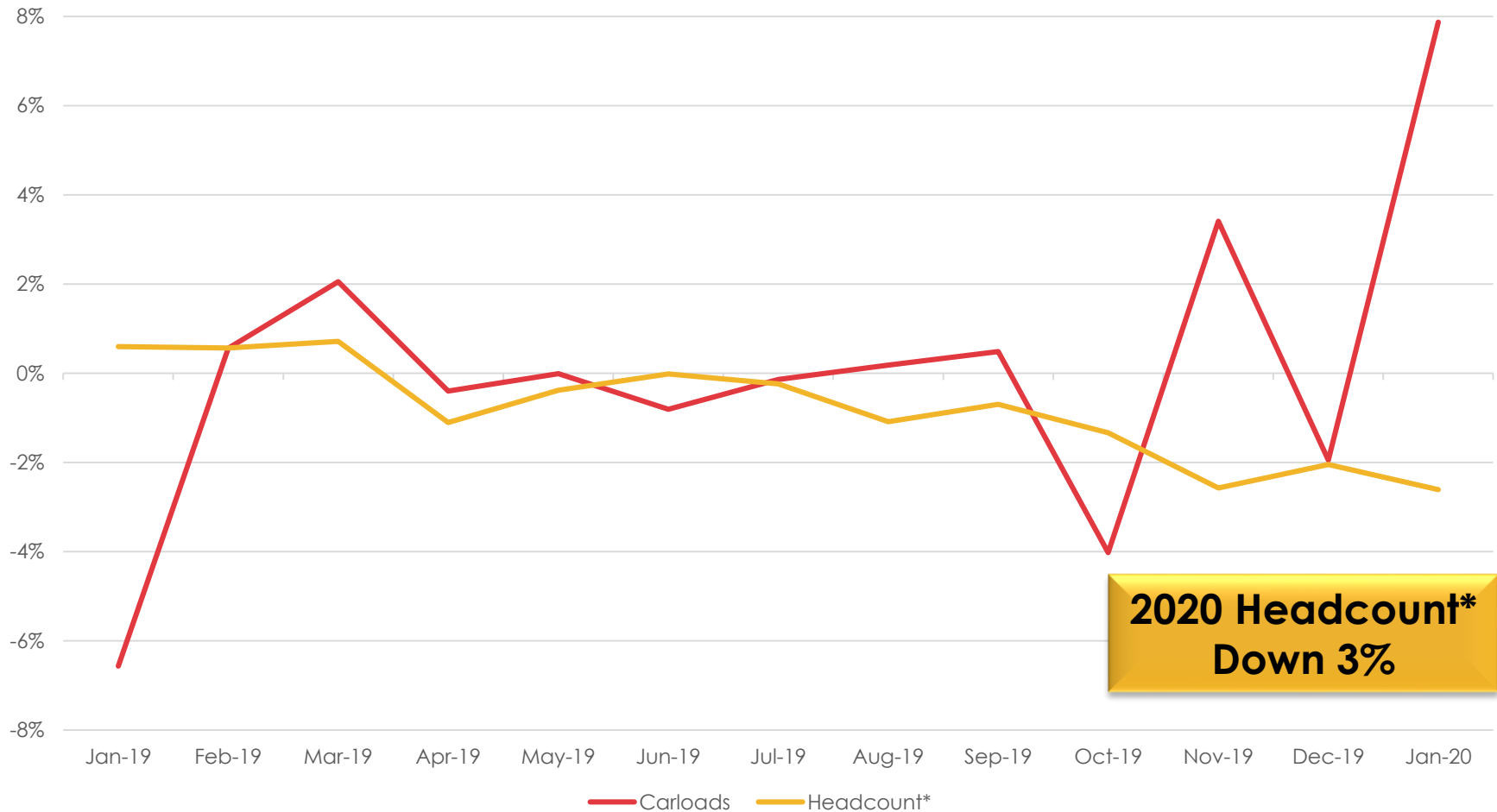
- Consolidate trains
- Reduce fleet size
- Modernize Mexican labor work rules
- Improve velocity
- Reduce overtime, recrews and deadheads





# Returning to Carload Growth Ahead of Headcount

Year over Year Change in Carloads and Headcount\*



\*Headcount excludes 91 heads from insourcing initiatives

# Multiple Opportunities for Comp & Ben Savings in the U.S. and Mexico

- Continue to modernize Mexico work rules
  - Service, operational & safety requirements should dictate crew size
- Reducing crew costs through service adjustments
- PSR driving lower recrews and overtime costs
- Early 2020 transportation results from PSR initiatives are promising:
  - January carloads up 8% with 2% fewer crew starts, driving carloads per crew start up by 10%
  - January recrews fell by 57%
  - February Mid-Month T&E headcount down by 2%
  - January 2020 overtime rate down to 11% from 15% in 2019

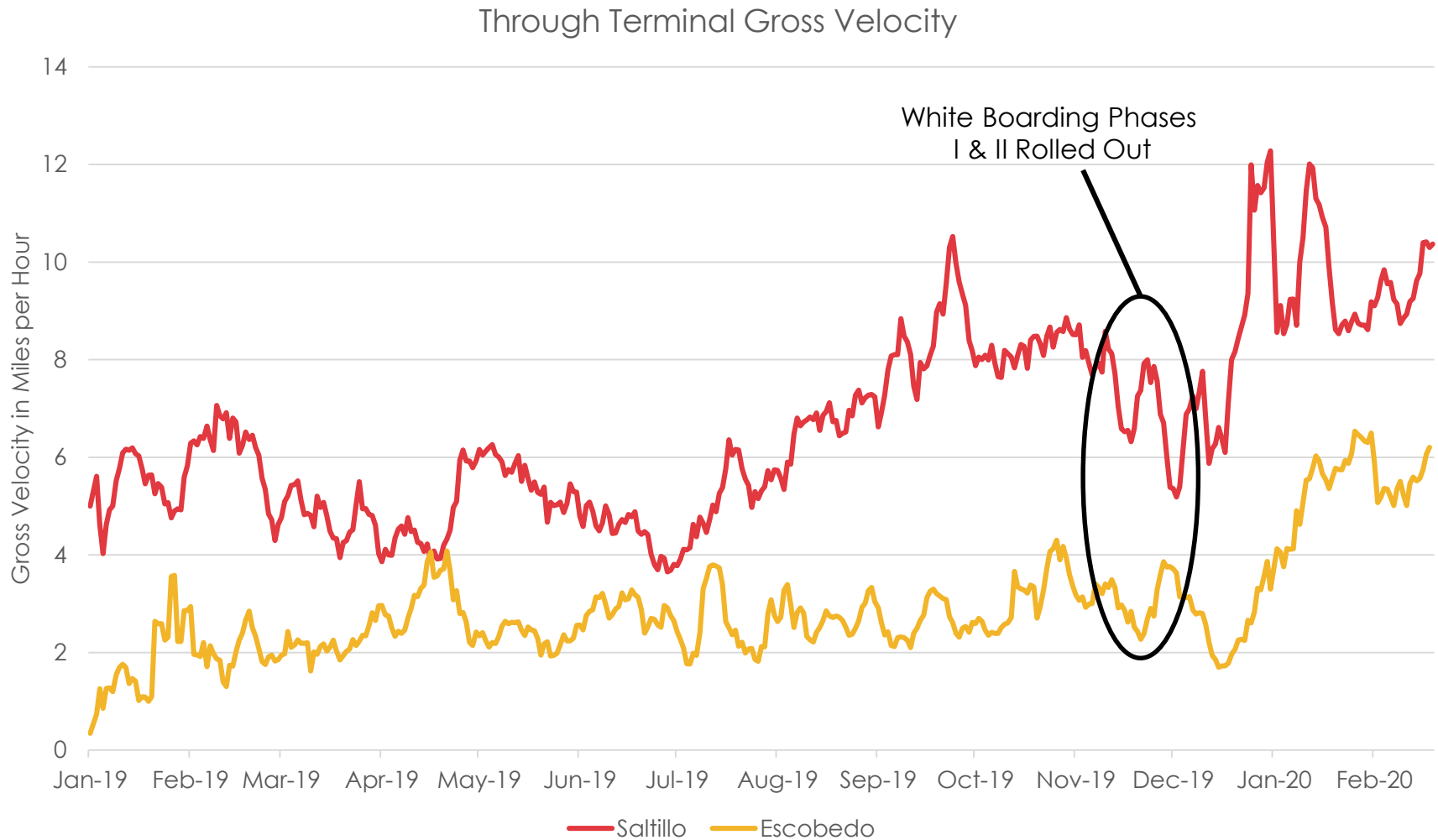


# WHITE-BOARDING & NETWORK DESIGN

- Phase I rolled out November 2019
- Phase II rolled out December 2019
- Phase III to be rolled out in March 2020
- Focus on international bridge and yard optimization in 2020



# White-Boarding is Improving Velocity Through Key Terminals in Mexico





# White-Boarding Initiatives Leading to Gains in Velocity, Elimination of a Crew Change Point at Leal



# MECHANICAL

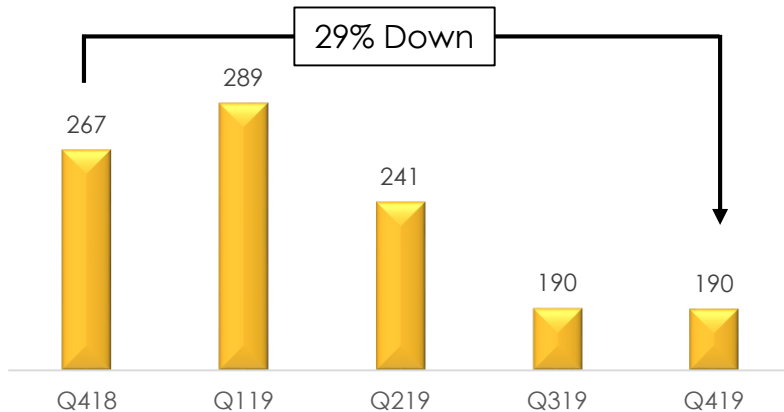
## Key Initiatives

- Reduce fleet size
- Improve locomotive reliability
- Restructure contracts
- Right-size mechanical operations

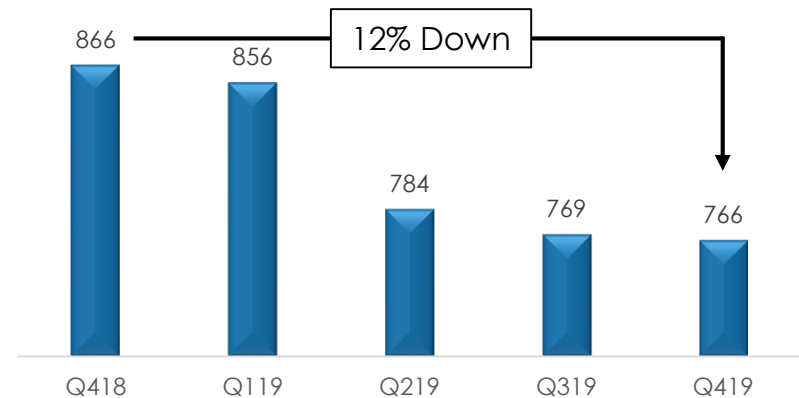


# Mechanical Initiatives are Driving Results

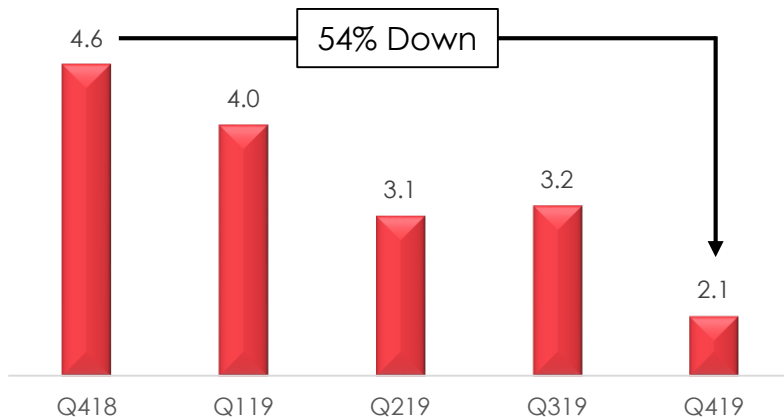
Average Daily Bad Order Count



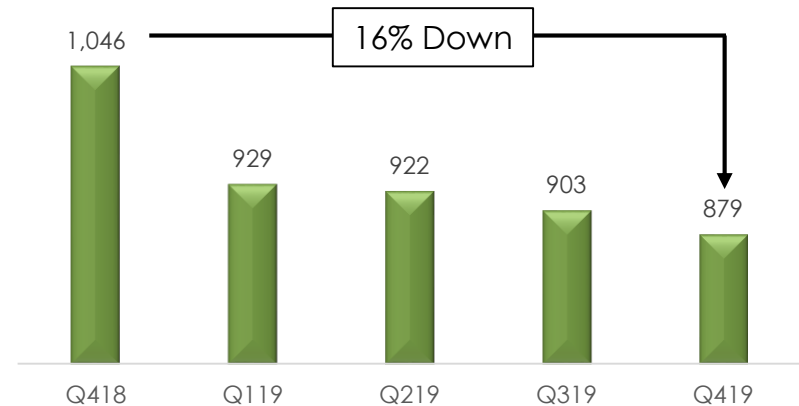
Mechanical Headcount\*



Road Locomotive Failures\*\*



Active Locomotive Fleet



\*Mechanical headcount excludes insourced heads

\*\*Locomotive failures represents average number of failures per locomotive per year

# FUEL MANAGEMENT

## Key Initiatives

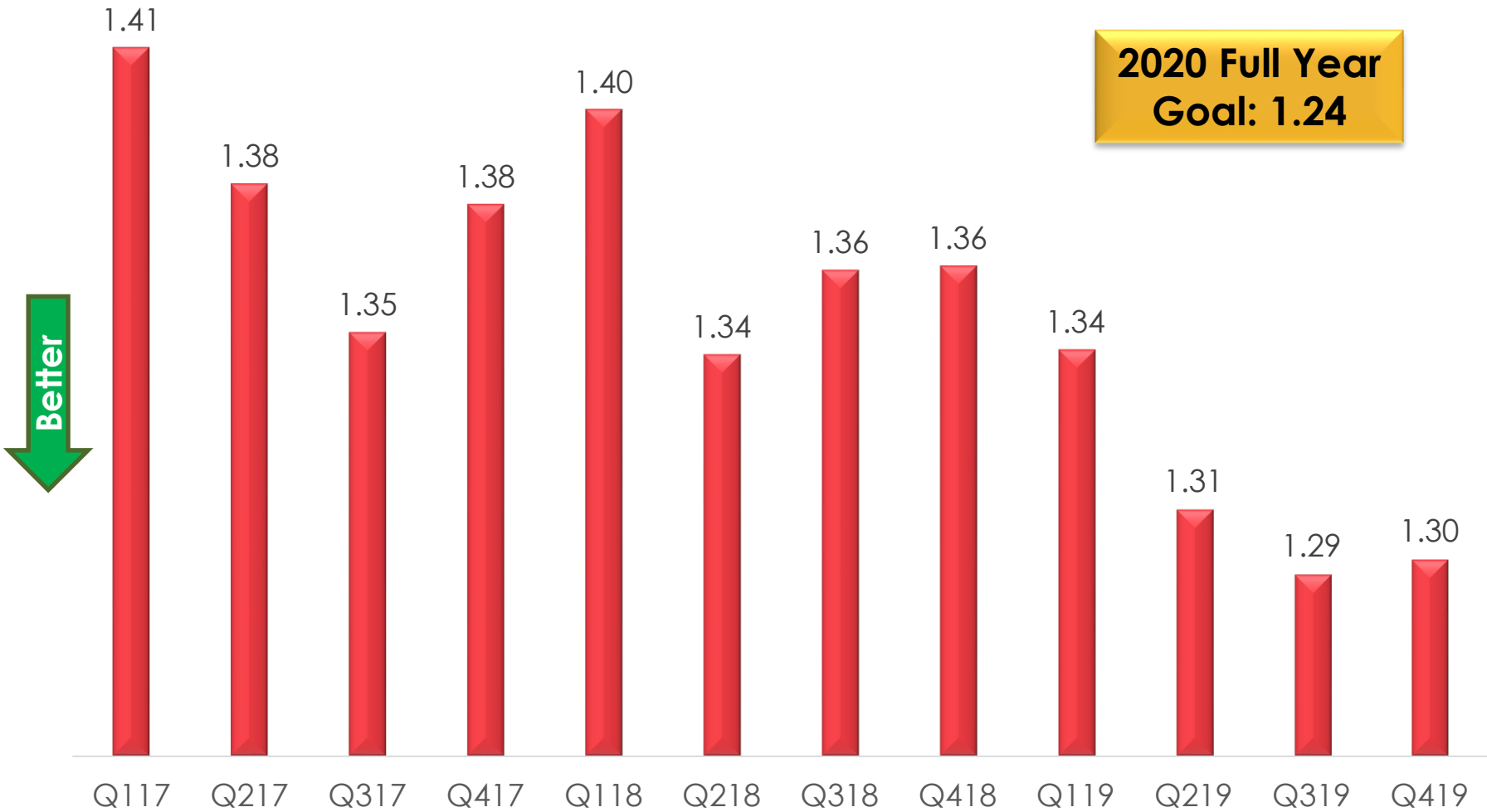
- Increase train length
- Implementation of new technologies (TO, Smart HPT, AESS, etc.)
- Improve crew compliance with new technologies
- Cross-border fueling strategies





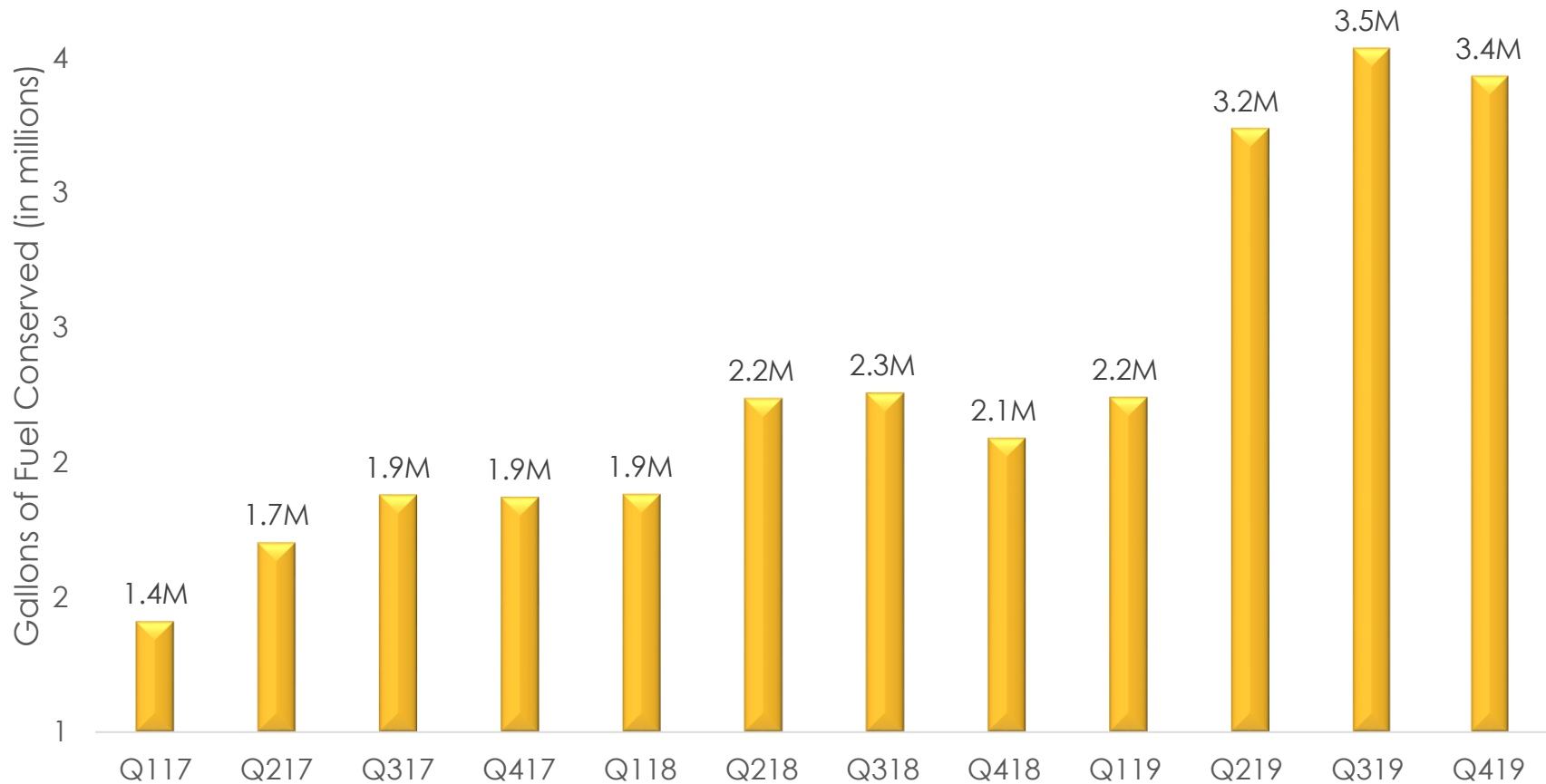
# PSR and Fuel Conservation Initiatives are Improving our Fuel Efficiency

As measured in Gallons Burned per 1,000 GTM's



# Technology Plays a Critical Role in Fuel Conservation Initiatives

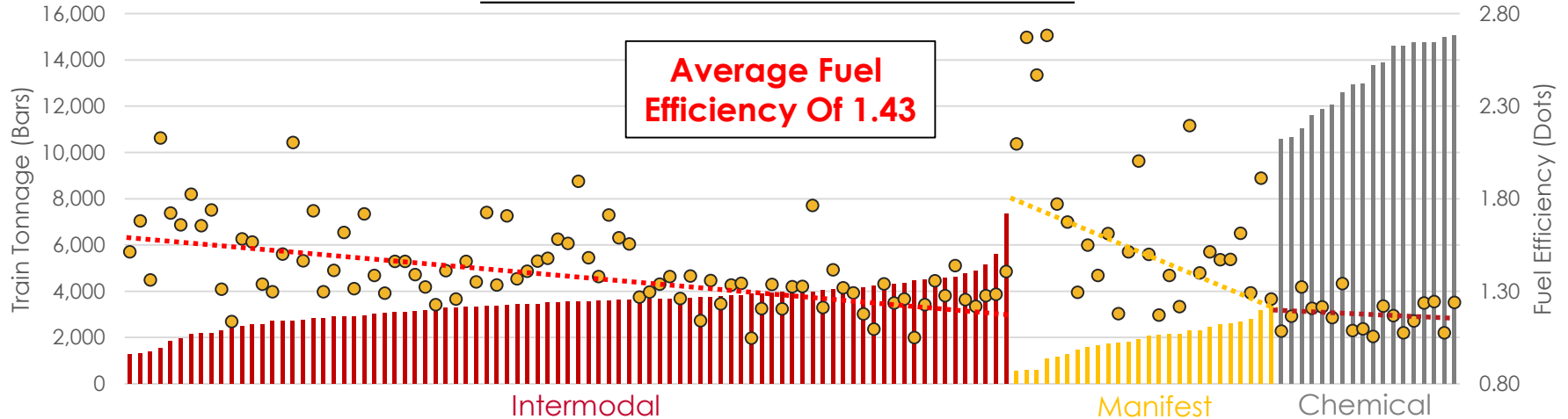
Gallons Saved from Fuel Conservation Initiatives  
***Gallons Saved per Quarter Up 143% Since Q117***



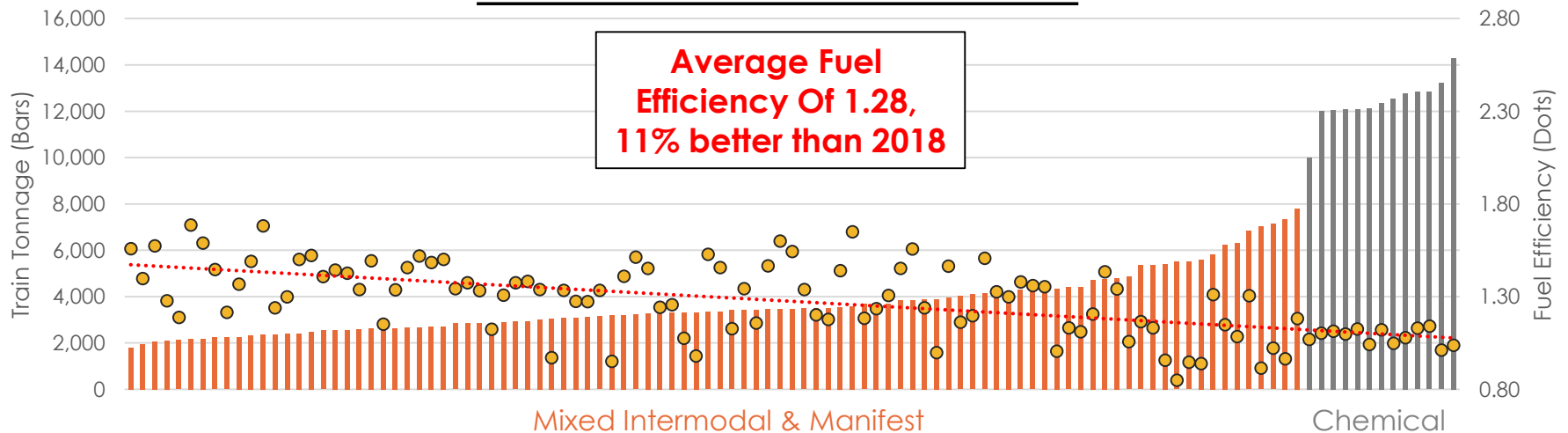
Savings calculated based on internal measurements and estimates

# Case Study: Increased Train Tonnage Driving Improved Fuel Efficiency on Lazaro Trains

Morelia to Lazaro Cardenas – Pre-PSR



Morelia to Lazaro Cardenas – Post PSR



# CAR UTILIZATION

## Key Initiatives

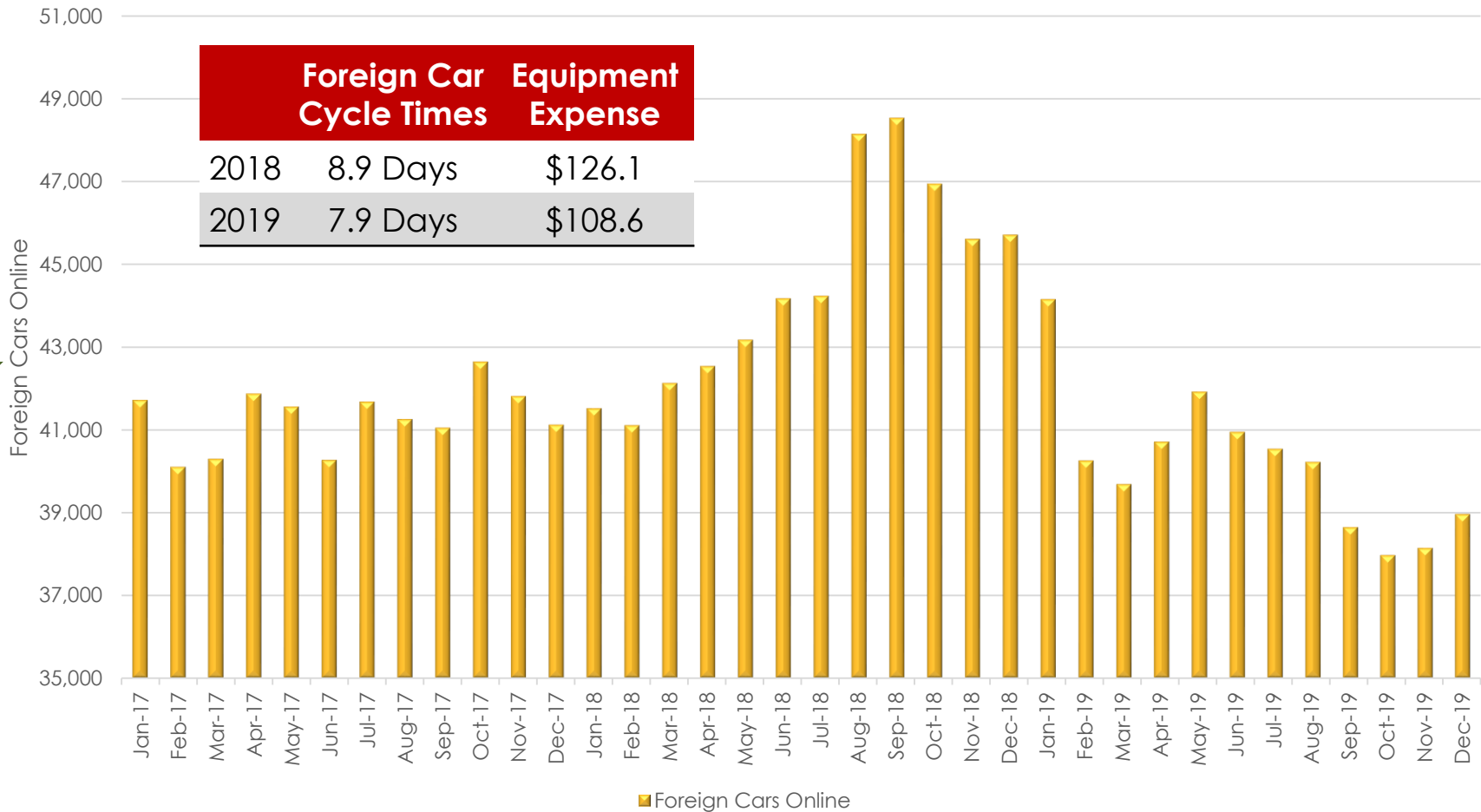
- Improve foreign car cycle times
- Incentivize customers to turn equipment faster
- Optimize fleet size



# Improved Velocity Driving Reduction to Foreign Cars Online & Lower Equipment Cost

Total Equipment Expense Down 14% in 2019

	Foreign Car Cycle Times	Equipment Expense
2018	8.9 Days	\$126.1
2019	7.9 Days	\$108.6





# Thank You!



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