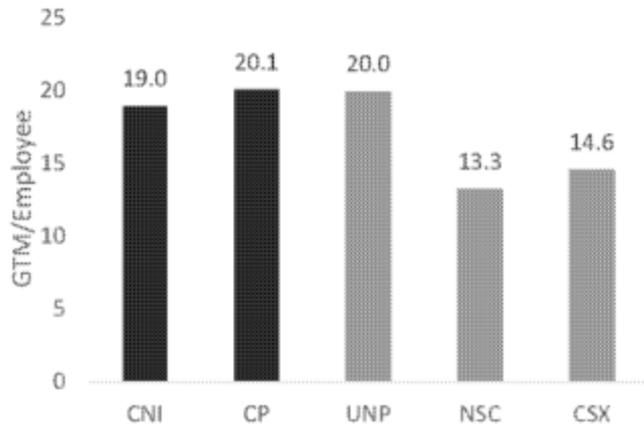


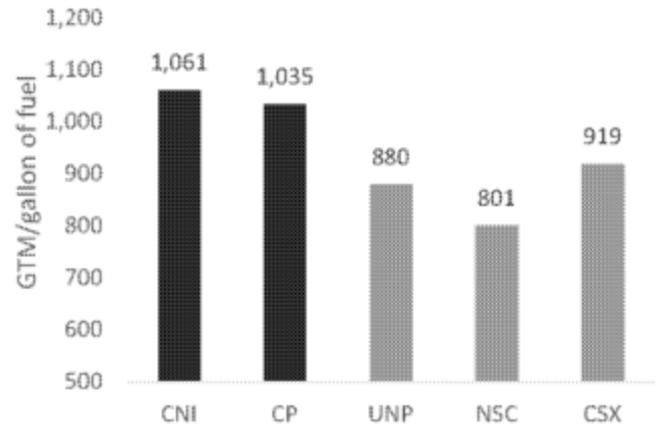


Figure 30: Employee productivity, as measured by GTMs per employee (in M)



Source: Deutsche Bank, Company filings

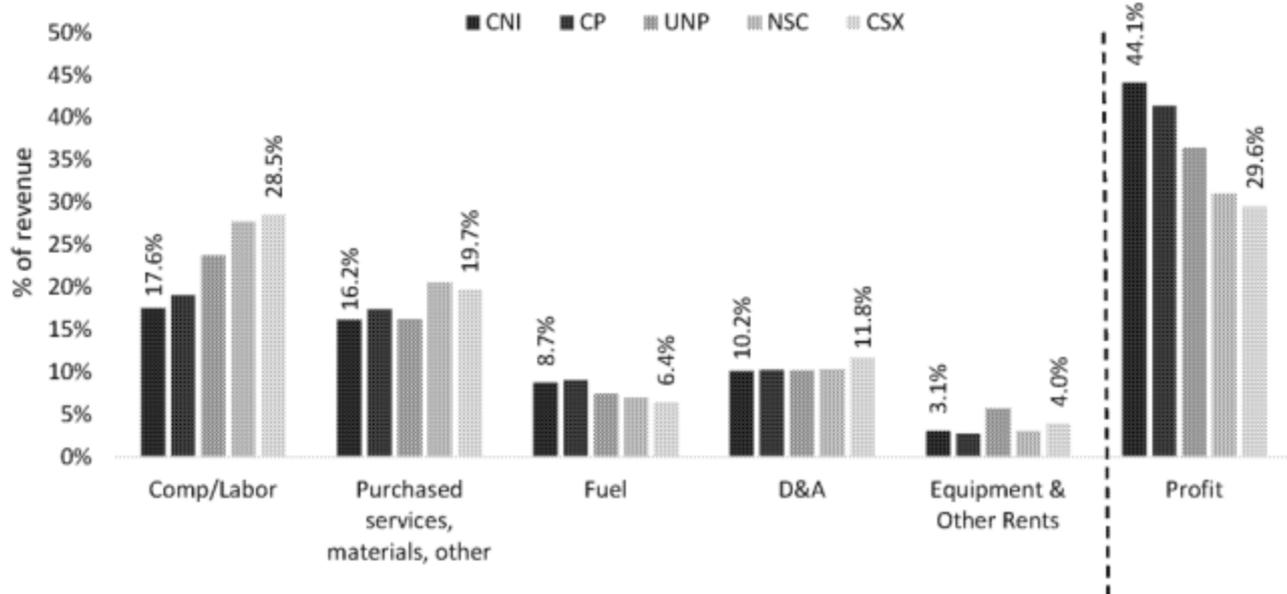
Figure 31: Fuel efficiency, as measured by GTMs per gallon of diesel consumed



Source: Deutsche Bank, Company filings

Compensation/labor related costs are the largest component of operating expenses for a railroad - accounting for over 35% of expenses on average. In our view, this highlights the importance of employee productivity as it provides the largest opportunity for margin improvement. When we compare different cost contributions across our coverage universe, this is where CP and CNI see the largest difference relative to the other rails. We believe a large driver behind this is the Precision Railroading model implemented by Hunter Harrison at both CP and CNI (we go into more details in company-specific sections). However, we note that Canadian rails benefit from pension differences which optically reduces comp/labor expenses by roughly 3-4% points. We note that this will change on January 1, 2018 as these gains will flow through other income.

Figure 32: Employee productivity is the largest source of margin differential for the industry (2016)



Source: Deutsche Bank, Company reports