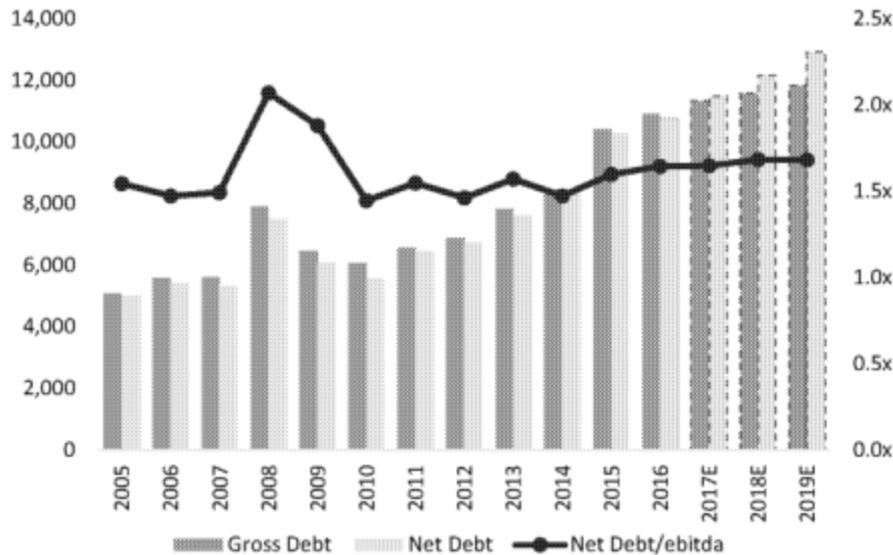




As of Q3 2017, CNI's net debt totaled C\$10.5B excluding C\$423M of off-balance sheet debt. Historically, CNI has been a relatively low leverage company with net debt/ebitda averaging 1.5x since 2010. At the end of 2016, net debt/ebitda was slightly higher than it's long-term average at 1.65x. In the figure below we depict the company's gross and net debt balances as well as its leverage ratio since 2005.

Figure 118: CNI Gross Debt and Net Debt and leverage ratios (2005-2019E)



Source: Deutsche Bank, Company filings

Over the past ten years, CNI's capex averaged 18.5% of revenue on an annualized basis and has primarily been used for network maintenance, additional rail siding, and rail equipment. In 2015 and 2016, however, capex climbed to ~22% of sales as CNI made a number of investments in order to accommodate growth and improve productivity. Investments included 90 new high-horsepower locomotives. In 2017, the company expects capex to decline C\$100M to C\$2.6B, or 20% of sales, due to reduced investments in new equipment. Over the next five years, management expects capex to remain roughly 20% of sales (vs. maintenance capex of 15%) as the company looks to gain market share and improve productivity largely through the use of new technologies. To this point, we expect CNI's free cash flow conversion to remain relatively stable at current levels.