

# KANSAS CITY SOUTHERN



Second Quarter 2020  
Earnings Presentation

# Safe Harbor Statement

*This presentation contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended and the Private Securities Litigation Reform Act of 1995. In addition, management may make forward-looking statements orally or in other writing, including, but not limited to, in press releases, quarterly earnings calls, executive presentations, in the annual report to stockholders and in other filings with the Securities and Exchange Commission. Readers can usually identify these forward-looking statements by the use of such words as "may," "will," "should," "likely," "plans," "projects," "expects," "anticipates," "believes" or similar words. These statements involve a number of risks and uncertainties. Actual results could materially differ from those anticipated by such forward-looking statements as a result of a number of factors or combination of factors including, but not limited to: public health threats or outbreaks of communicable diseases, such as the ongoing COVID-19 pandemic and its impact on KCS's business, suppliers, consumers, customers, employees and supply chains; rail accidents or other incidents or accidents on KCS's rail network or at KCS's facilities or customer facilities involving the release of hazardous materials, including toxic inhalation hazards; legislative and regulatory developments and disputes, including environmental regulations; loss of the rail concession of Kansas City Southern's subsidiary, Kansas City Southern de México, S.A. de C.V.; domestic and international economic, political and social conditions; disruptions to the Company's technology infrastructure, including its computer systems; increased demand and traffic congestion; the level of trade between the United States and Asia or Mexico; fluctuations in the peso-dollar exchange rate; natural events such as severe weather, hurricanes and floods; the outcome of claims and litigation involving the Company or its subsidiaries; competition and consolidation within the transportation industry; the business environment in industries that produce and use items shipped by rail; the termination of, or failure to renew, agreements with customers, other railroads and third parties; fluctuation in prices or availability of key materials, in particular diesel fuel; access to capital; climate change and the market and regulatory responses to climate change; dependency on certain key suppliers of core rail equipment; changes in securities and capital markets; unavailability of qualified personnel; labor difficulties, including strikes and work stoppages; acts of terrorism or risk of terrorist activities, war or other acts of violence; and other factors affecting the operation of the business; and other risks identified in this presentation, in KCS's Annual Report on Form 10-K for the year ended December 31, 2019, and in other reports filed by KCS with the Securities and Exchange Commission.*

*Forward-looking statements reflect the information only as of the date on which they are made. KCS does not undertake any obligation to update any forward-looking statements to reflect future events, developments, or other information.*

## **Reconciliation to U.S. GAAP Financial Information**

*In addition to disclosing financial results in accordance with U.S. GAAP, the accompanying presentation contains non-GAAP financial measures. These non-GAAP measures should be viewed as a supplement to and not a substitute for our U.S. GAAP measures of performance and liquidity, and the financial results calculated in accordance with U.S. GAAP and reconciliations from these results should be carefully evaluated. All reconciliations to the most directly comparable financial measures calculated and presented in accordance with U.S. GAAP can be found on the KCS's website in the Investors section.*





# Pat Ottensmeyer

President & Chief Executive Officer



# Today's Presenters

Pat Ottensmeyer	President & CEO
Jeff Songer	EVP & Chief Operating Officer
Sameh Fahmy	EVP Precision Scheduled Railroading
Mike Naatz	EVP & Chief Marketing Officer
Mike Upchurch	EVP & Chief Financial Officer

## Available for Q&A

Brian Hancock	EVP & Chief Innovation Officer
José Zozaya	President & Executive Representative of KCSM
Oscar Del Cueto Cuevas	Vice President and Director General



# KCS Second Quarter Overview & Looking Ahead

## Second Quarter Overview

- Revenue decreased 23%, due to lower volumes related to COVID-19
- Second quarter operating ratio of 67.1%
  - Adjusted operating ratio\* of 65.2%, a 1.5 point deterioration vs. prior year
- Second quarter diluted earnings per share of \$1.16
  - Adjusted diluted earnings per share\* of \$1.15, a decrease of 30% vs. prior year
- Organizational changes focused on PSR strategy

## Looking Ahead

- 2020 capital expenditure guidance of \$425M or below; 2021 & 2022 capital expenditure guidance ~17% of revenue
- On track to deliver \$500M+ of free cash flow\*\* in 2020

\* Non-GAAP financial measure; all reconciliations to GAAP can be found on the KCS website in the Investors section

\*\* Non-GAAP financial measure. The definition of this measure can be found on the KCS website in the Investors section. A reconciliation is not provided because, as a forward-looking statement, it is not available without unreasonable efforts. The Company believes the information provided is useful to investors as a measure of liquidity that can be considered together with the Company's historical disclosures of this measure.





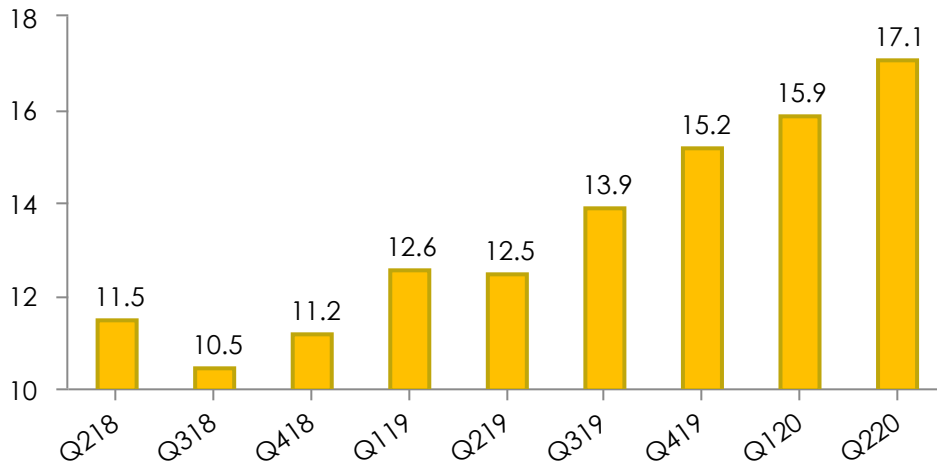
Jeff Songer

EVP & Chief Operating Officer

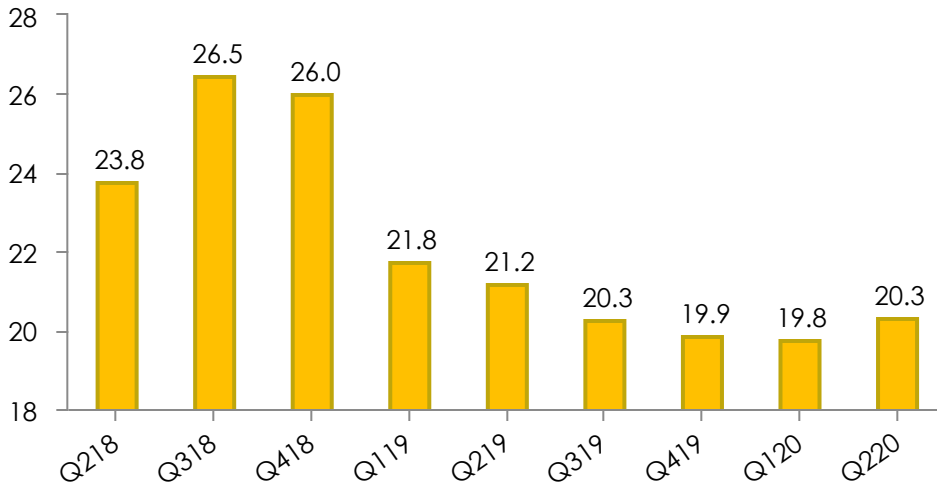


# Operating Metrics

## Velocity (mph)



## Terminal Dwell (hrs)



- Safety is our #1 priority
- Operational impact from recent increase in employees marked out of service due to COVID-19 has been manageable
- **Q2 velocity of 17.1 MPH** improved 37% YoY and 8% sequentially
- **Q2 terminal dwell of 20.3 hours** improved 4% YoY but was 3% worse sequentially as we focus on improving train lengths
- Service metrics continue to benefit from implementation of Precision Scheduled Railroading (PSR)



# Update on Key Metrics to Measure PSR Progress & Performance

Metric	Q2 2019	Q2 2020	YoY Change B/(W)	FY 2020 Goal	Current
Velocity (mph)	12.5	17.1	37%	17.0	15.3
Terminal dwell (hours)	21.2	20.3	4%	18.0	21.9
Train length (feet)	5,999	6,921	15%	6,350	7,261
Car miles per day	104.6	118.6	13%	135.0	115.3
Fuel efficiency (gallons per 1,000 GTM's)	1.31	1.21	8%	1.24	1.19



Current represents MTD July 15th for all metrics except fuel efficiency, which is June 2020



# Sameh Fahmy

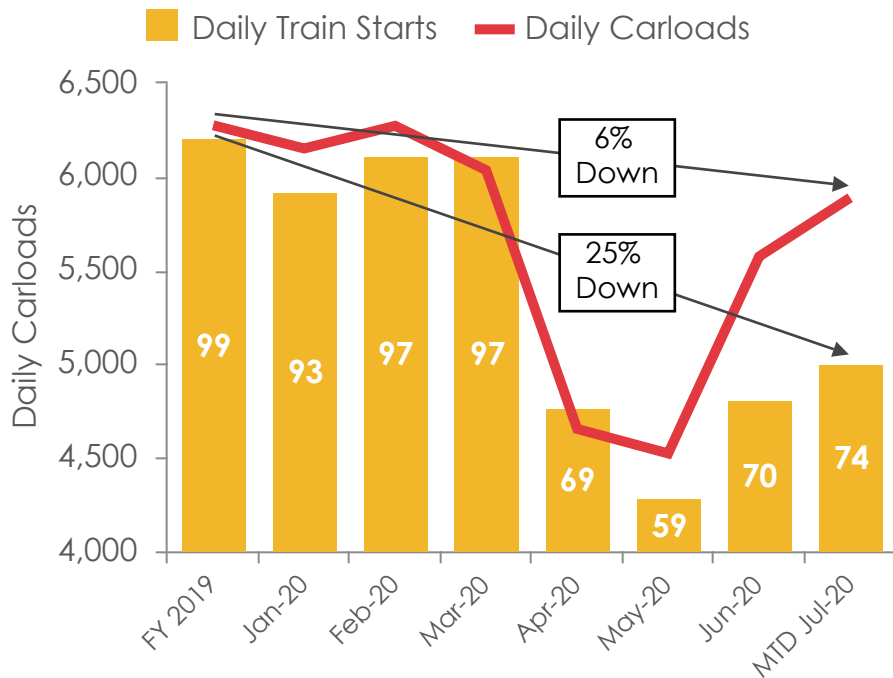
EVP Precision Scheduled Railroading



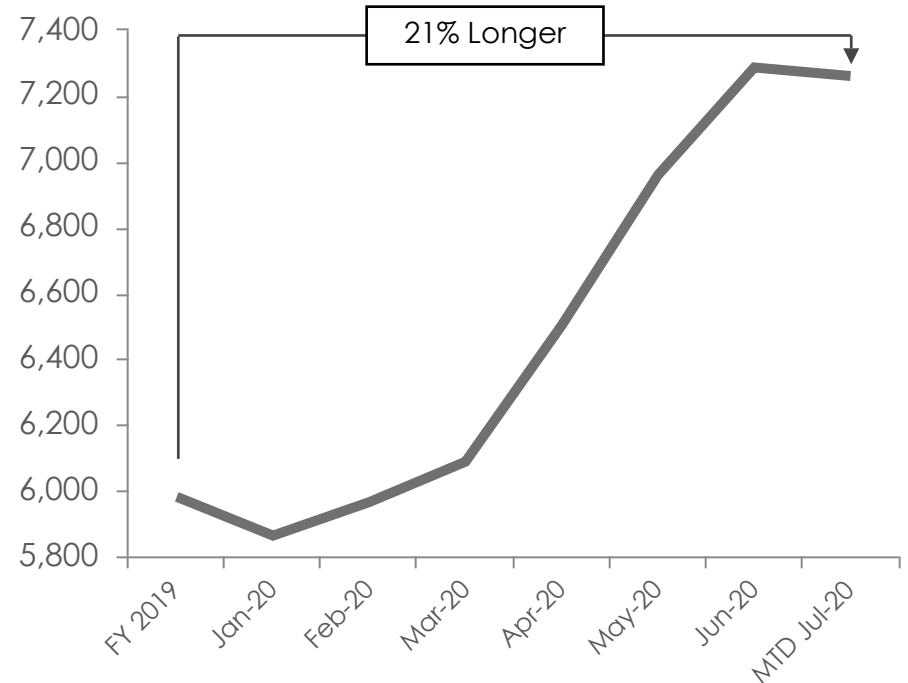
# Intensified Focus on Reducing Train Starts and Increasing Train Length

- Train service plans were quickly adjusted as volumes began to decline in late March
- Train start consolidations are resulting in longer, more efficient trains
- Customer service remains primary focus during unprecedented volume recovery

Daily Carloads vs. Train Starts

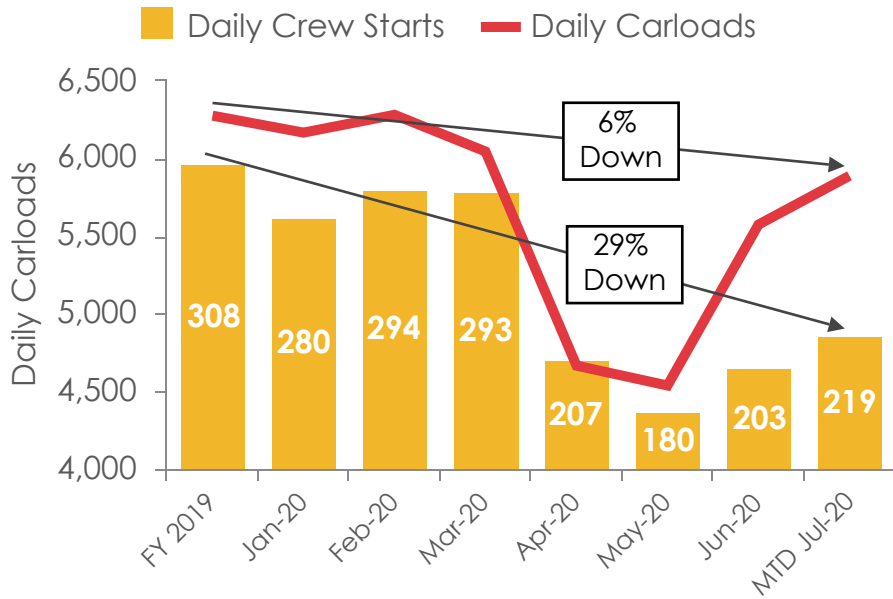


Train Length (in feet)

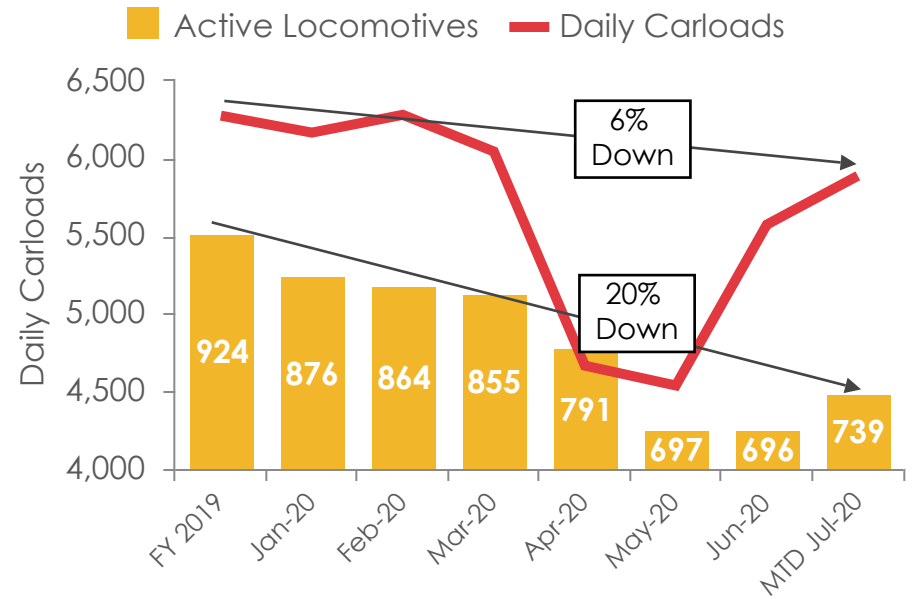


# Longer Trains are Driving Previously Untapped Efficiencies Across the Network

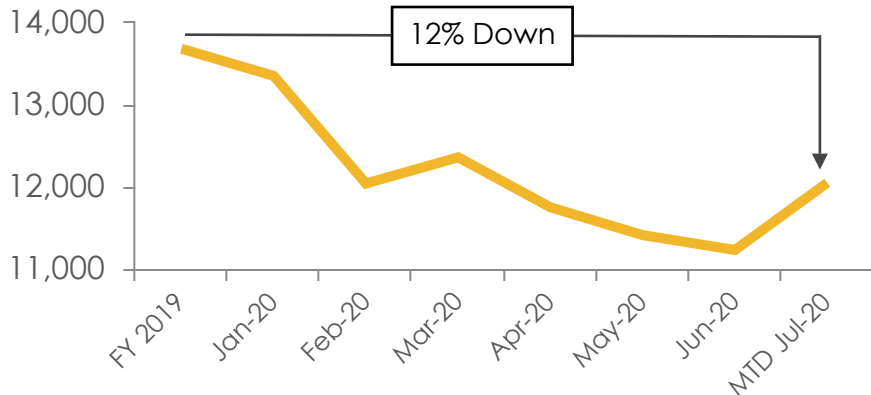
### Daily Carloads vs. Crew Starts



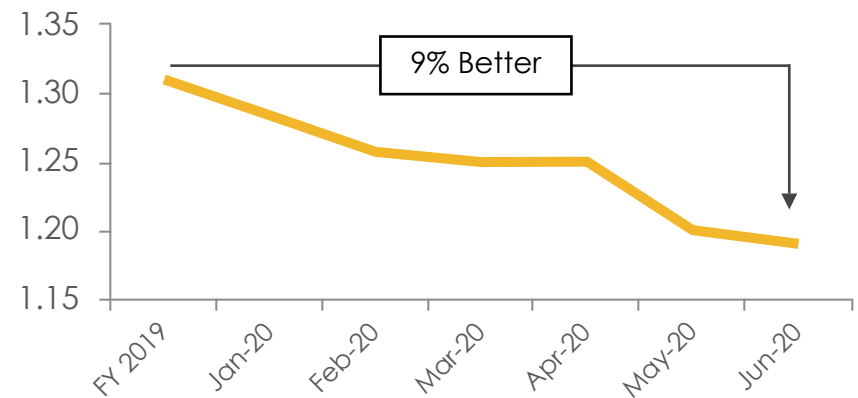
### Daily Carloads vs. Active Locomotives



### Foreign Cars Online



### Fuel Efficiency

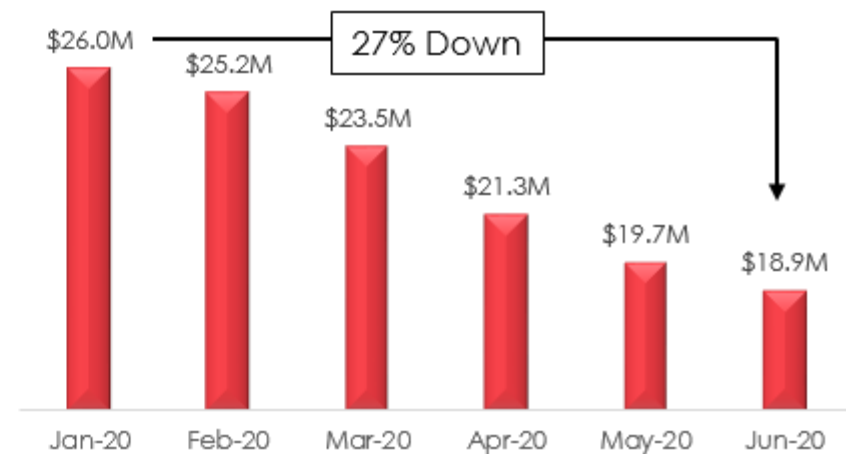


Data shown through July 15th 2020, except for fuel efficiency

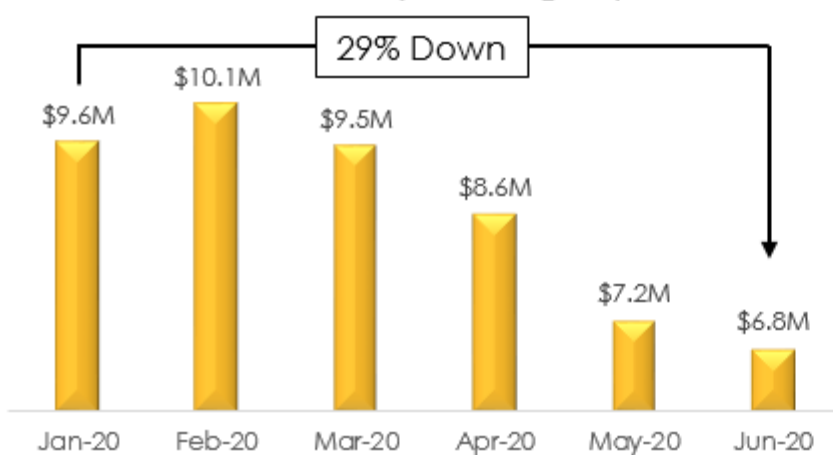
# PSR Producing Excellent Results Across All Departments

- Intense scrutiny of expenses is driving savings across all operating departments
- Voluntary separation program<sup>†</sup> completed in Q220 will drive efficiencies and savings in 2H20

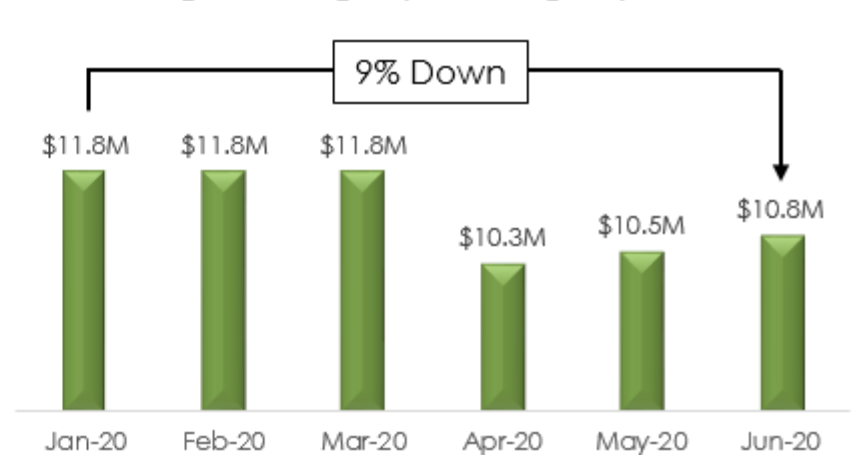
Transportation Operating Expense



Mechanical Operating Expense



Engineering Operating Expense



<sup>†</sup>Expenses associated with a voluntary separation program resulted in restructuring charges of \$9.2M in Q220



Mike Naatz  
EVP & Chief Marketing Officer

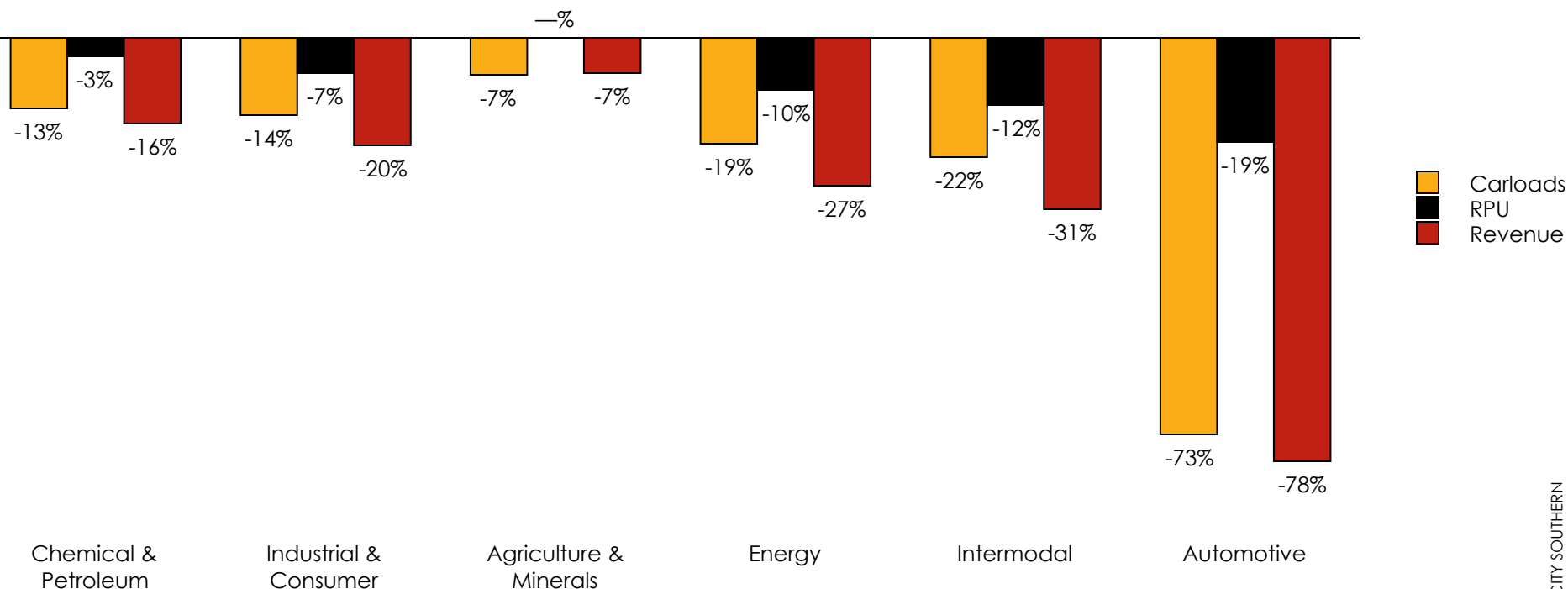


# Second Quarter Revenue Summary

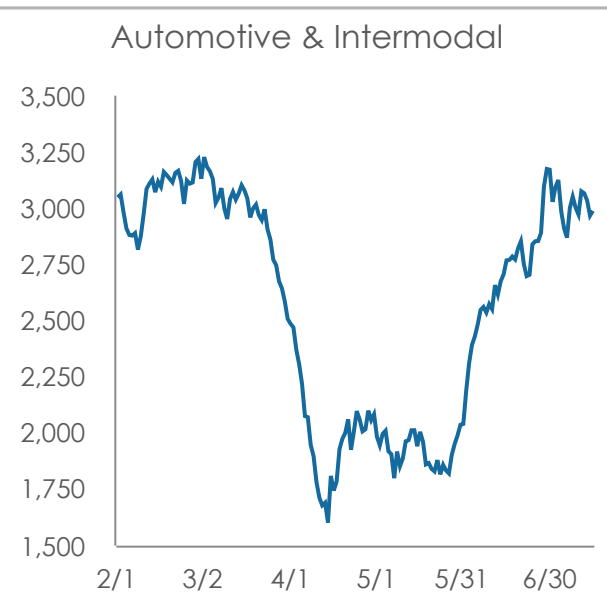
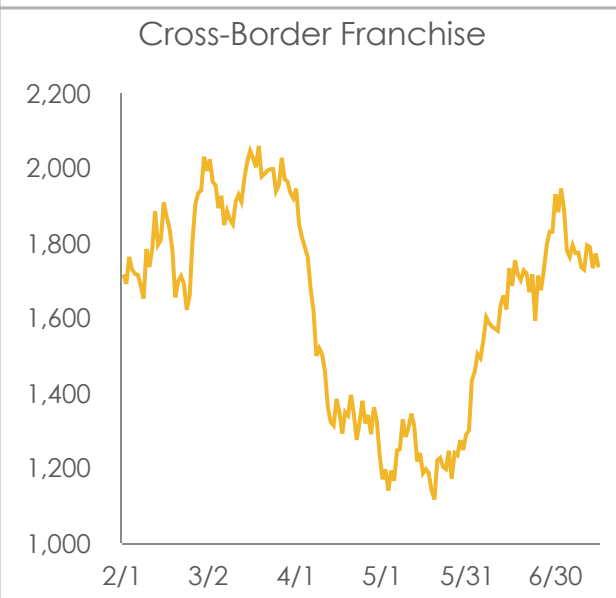
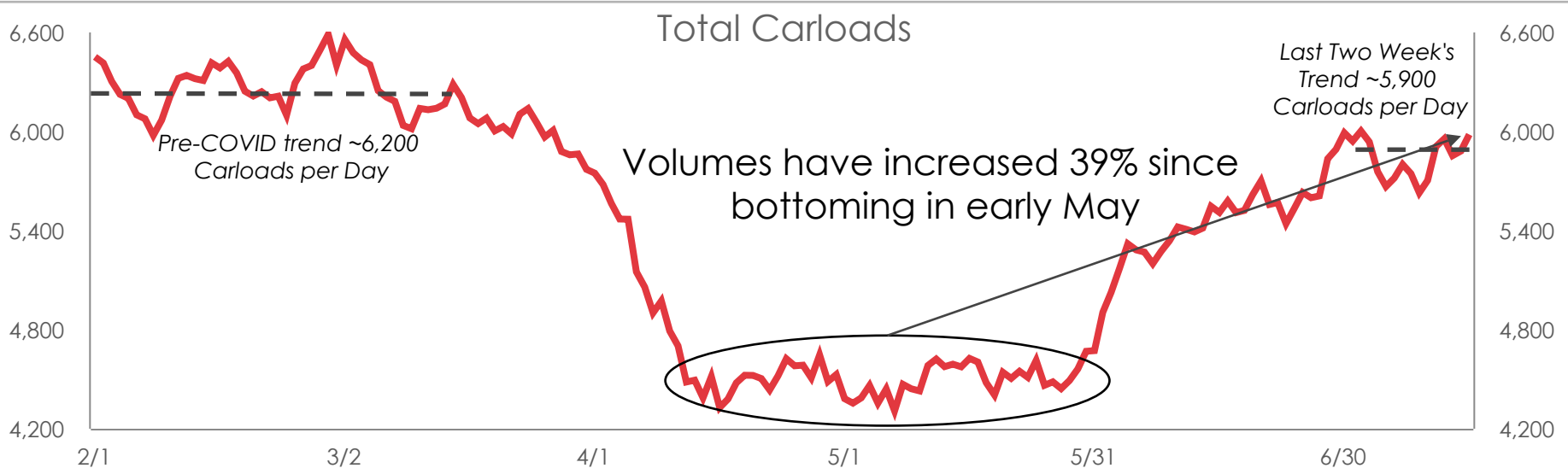
Q2 2020 vs. Q2 2019

	Q2 2020	Q2 2019	Variance
Reported Revenues (in millions)	\$547.9	\$714.0	(23)%
Carloads (in thousands)	448.0	569.9	(21)%

RPU Reconciliation	
Q2 2019 RPU	\$1,190
Foreign Exchange	(28)
Fuel Price	(23)
Mix / Pricing / Other	4
Q2 2020 RPU	\$1,143



# Daily Volumes are Recovering Across Key Strategic Growth Areas



Data shown is a 7-day rolling average through July 15th 2020



Mike Upchurch  
EVP & Chief Financial Officer



# Second Quarter Results

	Q2 2020	Q2 2019	Variance
Carloads/Units (in thousands)	448.0	569.9	(21)%
Revenues (in millions)	\$547.9	\$714.0	(23)%
Operating Ratio	67.1%	70.9%	(3.8) points
Adjusted Operating Ratio *	65.2%	63.7%	1.5 points
Reported Diluted Earnings per Share	\$1.16	\$1.28	(9)%
Adjusted Diluted Earnings per Share *	\$1.15	\$1.64	(30)%



\*Non-GAAP financial measure; all reconciliations to GAAP can be found on the KCS website in the Investors section

# On Track to Deliver 2020 PSR Savings of \$95M

(\$ in millions)

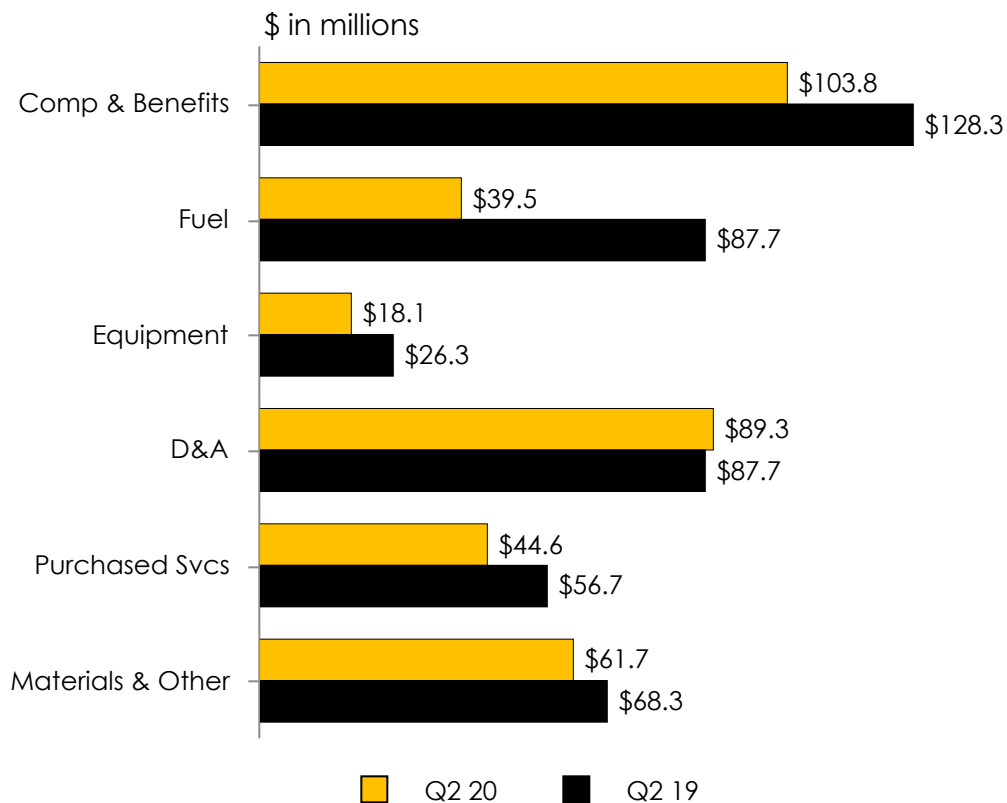
Total PSR Program Annualized OpEx Savings of \$150M

OpEx Category	Primary Drivers	FY 2019 Actual OpEx Savings	FY 2020 Incremental OpEx Savings
Compensation & Benefits	Reduced headcount & crew costs	\$8	\$39
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>	\$14 <sup>†</sup>
<b>Total</b>		<b>\$58</b>	<b>\$95</b>



<sup>†</sup> Includes benefit of one-time settlements in 2019 and 2020 of \$5.1M and \$2.2M, respectively

# Adjusted Operating Expenses\* Decreased 22%



Total Adjusted Operating Expenses	\$ in millions
Q2 2019 Expense <sup>†</sup>	\$455
Fuel Consumption	(20)
Fuel Price:	
U.S.	(12)
Mexico	(8)
Headcount / Work Hours	(19)
Foreign Exchange	(14)
Incentive Compensation	(6)
Repairs and Maintenance	(5)
Employee Expenses	(5)
Car Hire	(4)
Lease Rents	(4)
Fuel Efficiency	(4)
COVID-19	4
Other	(1)
<b>Q2 2020 Expense<sup>†</sup></b>	<b>\$357</b>

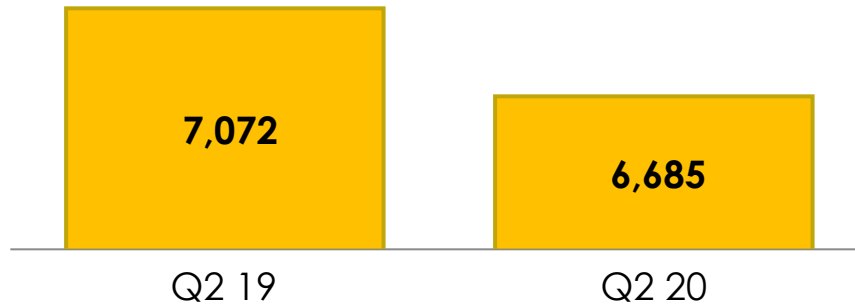


<sup>†</sup> Adjusted for restructuring charges

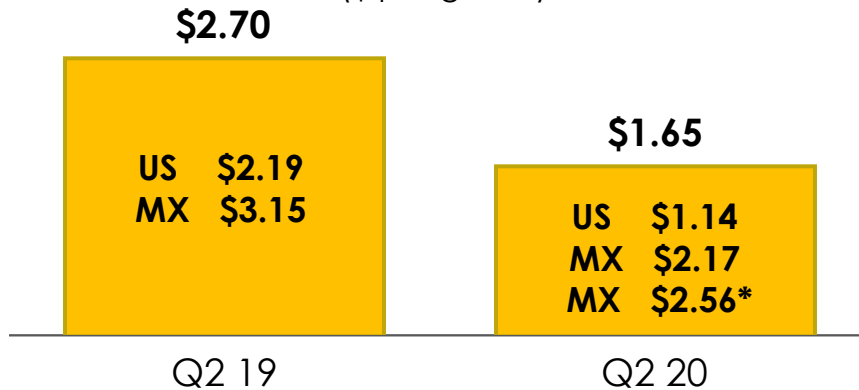
\* Non-GAAP financial measure; all reconciliations to GAAP can be found on the KCS website in the Investors section

# Compensation & Benefits Expense Decreased 19%; Fuel Expense Decreased 55%

Quarterly Average  
Employee Headcount  
Decreased 5%



Locomotive Fuel Price  
(\$ per gallon)



Compensation & Benefits	\$ in millions
Q2 2019 Expense	\$128
Headcount / Work Hours	(19)
Foreign Exchange	(6)
Incentive Compensation	(6)
Wage Inflation	4
COVID-19	2
Other	1
<b>Q2 2020 Expense</b>	<b>\$104</b>

Fuel Expense	\$ in millions
Q2 2019 Expense	\$88
Consumption	(20)
Fuel Price:	
U.S.	(12)
Mexico	(8)
Efficiency	(4)
Foreign Exchange	(4)
<b>Q2 2020 Expense</b>	<b>\$40</b>

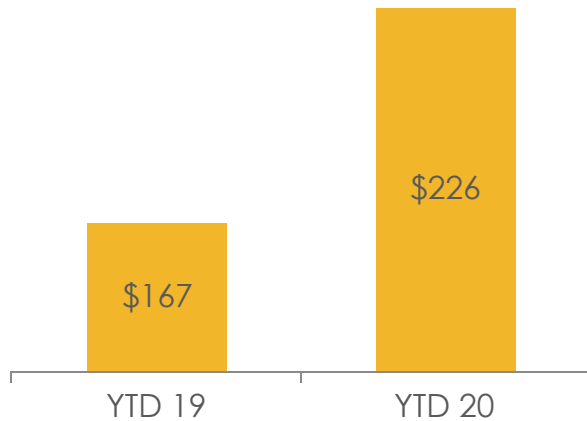


\* Assumes constant F/X.

# Capital Allocation Highlights

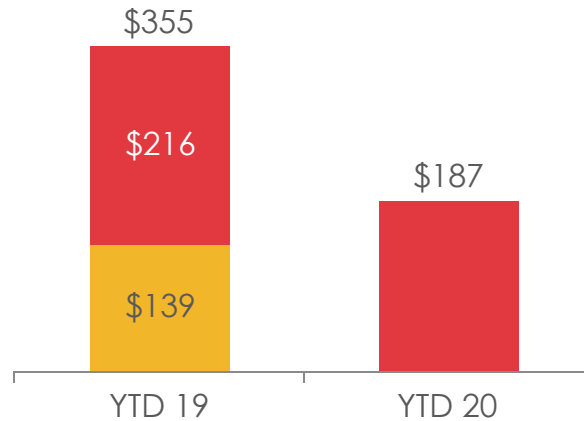
(\$ in millions)

## Free Cash Flow\*



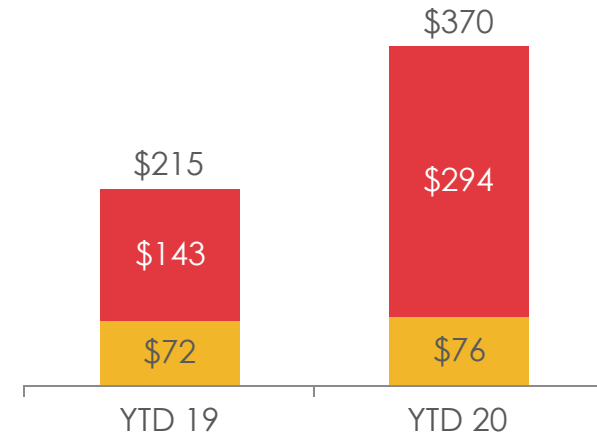
## Capital Expenditures

■ Locomotives ■ Other CapEx



## Return to Shareholders

■ Share Repurchases ■ Dividends



- YTD Free cash flow\* up 35% YoY; excluding \$78M of locomotive lease buyouts, 1H20 adjusted free cash flow\* is \$304M
- YTD CapEx down 47% YoY, primarily due to \$139M of locomotive purchases in 1H19
- YTD return to shareholders up 72%, YoY led by a 106% increase in share repurchases
  - Repurchased 699K shares at an average price of \$143.05 during Q220



\*Non-GAAP financial measure; all reconciliations to GAAP can be found on the KCS website in the Investors section

# Appendix



# Condensed Income Statement – Q2

(\$ in millions, except EPS Diluted)	Q2 2020	Q2 2019
Revenues	\$547.9	\$714.0
Operating Expenses	<u>367.5</u>	<u>506.0</u>
Adjusted Operating Expenses*	<u>357.0</u>	<u>455.0</u>
Operating Income	180.4	208.0
Equity Earnings (losses)	0.2	(0.2)
Interest Expense	(38.1)	(28.0)
Foreign Exchange Gain	7.8	8.3
Other Income, Net	<u>0.8</u>	<u>0.1</u>
Income Before Income Taxes	151.1	188.2
Income Tax Expense	<u>(40.8)</u>	<u>(59.1)</u>
Net Income	<u>\$110.3</u>	<u>\$129.1</u>
Reported EPS Diluted	\$1.16	\$1.28
Adjusted EPS Diluted*	\$1.15	\$1.64
Average Diluted Share Count (in thousands)	94,893	100,422



\*Non-GAAP financial measure; all reconciliations to GAAP can be found on the KCS website in the Investors section

# Adjusted Diluted Earnings per Share\*

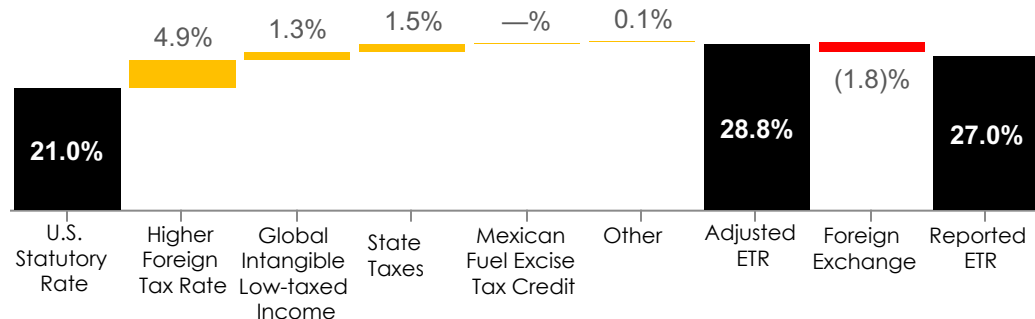
	Q2 2020	Q2 2019
Reported	\$1.16	\$1.28
Restructuring Charges	0.08	0.38
F/X Gain	(0.06)	(0.06)
F/X Component of Income Taxes	(0.03)	0.04
Adjusted	\$1.15	\$1.64



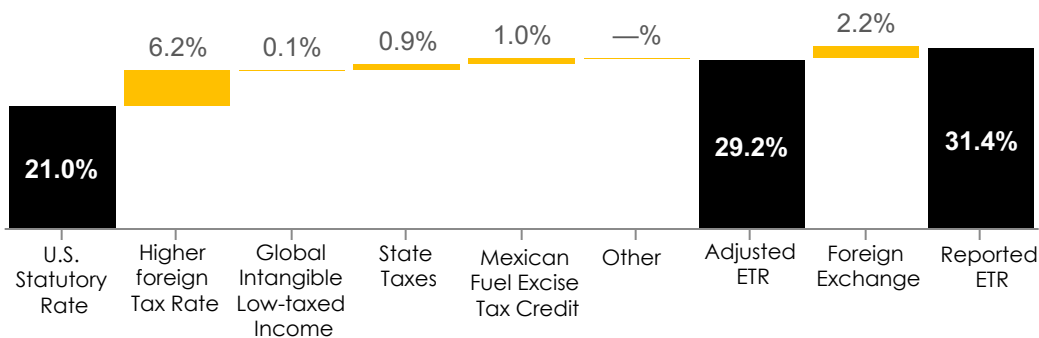
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# Effective Tax Rate Reconciliation

## Q2 2020 Effective Tax Rate



## Q2 2019 Effective Tax Rate



## Hedge and F/X Tax Impact

\$ in millions	Q2 20	Projected Y/E 2020
F/X Benefit in Income Tax Expense	\$6	\$39
F/X Gain (Loss) on MX Peso Exposure	3	(18)
Unhedged F/X Income Statement Impact	9	21
F/X Hedge Gain (Loss)	5	(19)
Net F/X Income Statement Impact	\$14	\$2

Note: Above amounts are net of tax at the 30% statutory Mexico tax rate

## Tax Outlook Through 2022

2020 Adjusted ETR with GILTI<sup>†</sup> ~29%

2020 Cash Tax Rate<sup>††</sup> ~22%

<sup>†</sup>2020 – 2022 adjusted ETR with GILTI high-tax exception ~28%

<sup>††</sup>2021 – 2022 cash tax rates impacted by fluctuations in 2020 FX



# Estimated F/X Impacts on Adjusted Operating Income\*

\$ in millions	Q2 2020	KCSM MXN-Based Revenues & Expenses	Q2 2020 F/X Impact B/(W)	F/X Adjusted Q2 2020
Revenues	\$547.9	\$81.0	\$(17.0)	\$564.9
Adjusted Operating Expenses*	357.0	69.1	13.7	370.7
Adjusted Operating Income*	\$190.9		\$(3.3)	\$194.2

\$ in millions	YTD 2020	KCSM MXN-Based Revenues & Expenses	YTD 2020 F/X Impact B/(W)	F/X Adjusted YTD 2020
Revenues	\$1,279.6	\$221.6	\$(17.4)	\$1,297.0
Adjusted Operating Expenses*	793.9	168.3	17.7	811.6
Adjusted Operating Income*	\$485.7		\$0.3	\$485.4

\*Non-GAAP financial measure; all reconciliations to GAAP can be found on the KCS website in the Investors section.

Note: Revenue and expense impacts are based on KCS' actual peso-based transactions.

The average MXN/USD exchange rates as published by Banco de México were 23.4 and 19.1 for the quarters ended June 30, 2020 and 2019, respectively, and 21.6 and 19.2 for the six months ended June 30, 2020 and 2019, respectively.



# Estimated F/X Impact – Q2

(\$ in millions)	Reported Q2 2020	Reported Q2 2019	Reported Change	Estimated F/X Adjusted Change
Chemicals & Petroleum	\$158.5	\$188.3	(16)%	(14)%
Industrial & Consumer Products	120.6	150.3	(20)%	(16)%
Agriculture & Minerals	114.4	122.4	(7)%	(5)%
Energy	39.3	53.9	(27)%	(25)%
Intermodal	63.5	92.6	(31)%	(29)%
Automotive	15.6	70.9	(78)%	(75)%
Other revenue	36.0	35.6	1%	5%
<b>Total revenues</b>	<b>\$547.9</b>	<b>\$714.0</b>	<b>(23)%</b>	<b>(21)%</b>
Compensation and benefits	\$103.8	\$128.3	(19)%	(15)%
Purchased services	44.6	56.7	(21)%	(18)%
Fuel	39.5	87.7	(55)%	(51)%
Equipment costs	18.1	26.3	(31)%	(31)%
Depreciation and amortization	89.3	87.7	2%	2%
Materials and other	61.7	68.3	(10)%	(6)%
<b>Total adjusted operating expenses<sup>†*</sup></b>	<b>\$357.0</b>	<b>\$455.0</b>	<b>(22)%</b>	<b>(19)%</b>



<sup>†</sup> Adjusted for restructuring charges

\*Non-GAAP financial measure; all reconciliations to GAAP can be found on the KCS website in the Investors section

# Second Quarter EPS Reconciliation

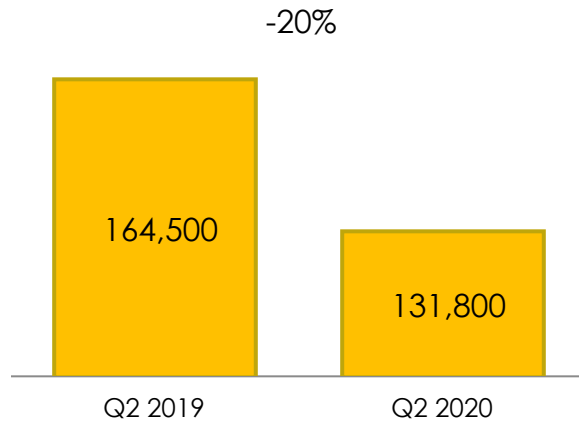
	Reported	Adjusted*
Q2 2019 Diluted Earnings Per Share	\$1.28	\$1.64
Decrease in Operating Income	(0.48)	(0.48)
Decrease in Restructuring Charges	0.30	—
Increase in Equity Earnings and Other Income	0.01	0.01
Increase in Interest Expense	(0.07)	(0.07)
Decrease (Increase) in Tax Rate	0.06	(0.01)
Decrease in Share Count	0.06	0.06
Q2 2020 Diluted Earnings Per Share	\$1.16	\$1.15



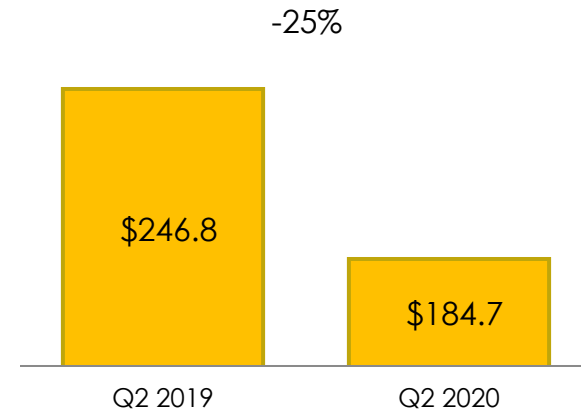
\*Non-GAAP financial measure; all reconciliations to GAAP can be found on the KCS website in the Investors section

# Total Cross-Border<sup>†</sup> Volumes and Revenues

Total Cross-Border<sup>†</sup> Volumes

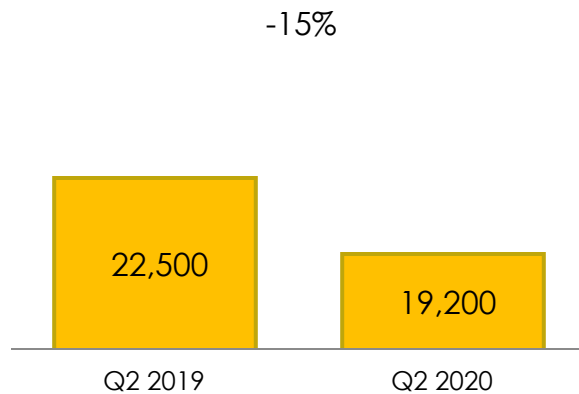


Total Cross-Border<sup>†</sup> Revenues  
(\$ in millions)

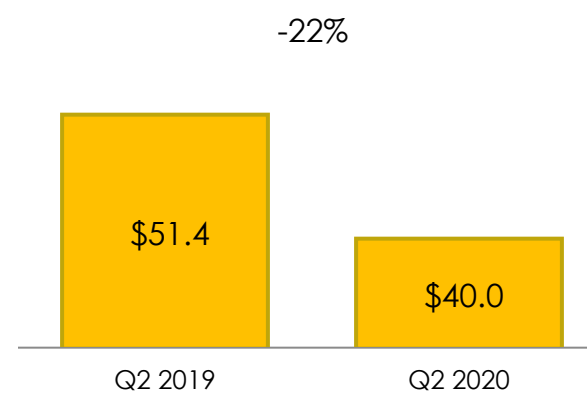


# Mexico Energy Reform Volumes and Revenues

Energy Reform Volumes<sup>††</sup>



Energy Reform Revenues<sup>††</sup>  
(\$ in millions)

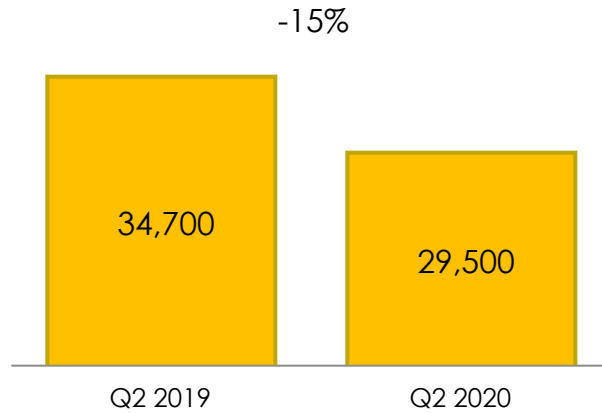


<sup>†</sup> Cross border is defined as traffic that moves on Kansas City Southern both north and south of the U.S. / Mexico border. Traffic interchanged with a competing railroad at the border is not considered cross border.

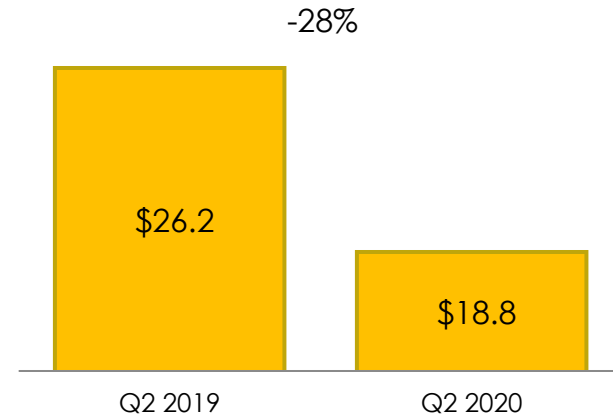
<sup>††</sup> Cross-Border Franchise and Non-Franchise movements related to Mexico Energy Reform, as reported within Petroleum minor business unit.

# Cross-Border<sup>†</sup> Intermodal and Lázaro Cárdenas Intermodal Volumes and Revenues

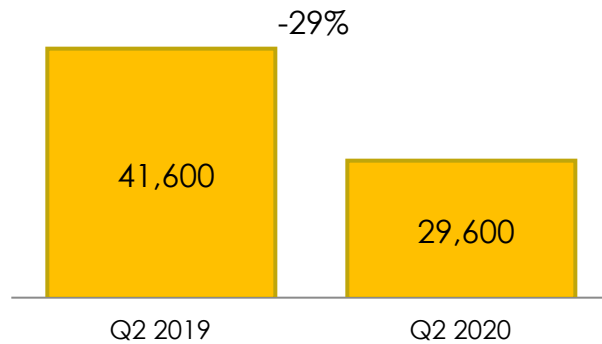
Cross-Border<sup>†</sup>  
Intermodal Volumes



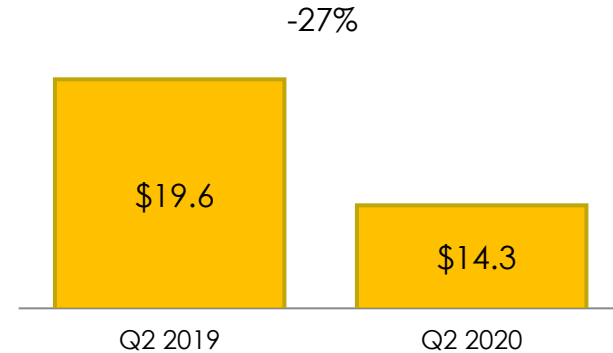
Cross-Border<sup>†</sup>  
Intermodal Revenues  
(\$ in millions)



Lázaro Cárdenas  
Intermodal Volumes



Lázaro Cárdenas  
Intermodal Revenues  
(\$ in millions)



<sup>†</sup>Cross-border is defined as traffic that moves on Kansas City Southern both north and south of the U.S. / Mexico border. Traffic interchanged with a competing railroad at the border is not considered cross border.

