



**Kansas City Southern**  
First Quarter 2013 Earnings Presentation

April 19, 2013



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## Opening Comments - Dave Starling



## Today's Presenters

Dave Starling

President & CEO

Dave Ebbrecht

EVP & COO

Pat Ottensmeyer

EVP Sales & Marketing

Mike Upchurch

EVP & CFO



## KCS First Quarter Overview

- Investment grade status provides recapitalization opportunity
- Revenue from Strategic Growth Areas up 36%
- Grain revenues down 38% due to 2012 Midwest drought
- Strong operating performance despite challenges with Grain shipments – 70 bp Operating Ratio improvement over Q1 12



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## First Quarter Results

	Q1 2013	Q1 2012	Variance
Carloads/Units (in thousands)	516.4	508.1	2%
Reported Revenues (in millions)	\$552.8	\$547.5	1%
Reported Operating Ratio	70.5%	71.2%	0.7 points
Reported Diluted Earnings per Share	\$0.94	\$0.68	38%
Adjusted Diluted Earnings per Share *	\$0.89	\$0.80	11%

\* All reconciliations to GAAP can be found on the KCS website in the Investors section.



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## Update for Q1 2013

Original 2013 Guidance	Update to Full Year Guidance	Q1 2013 Update
<ul style="list-style-type: none"> <li>• Mid-single digit volume growth</li> </ul>	<ul style="list-style-type: none"> <li>• No change</li> </ul>	<ul style="list-style-type: none"> <li>• Q1 13 volume growth of 2%</li> </ul>
<ul style="list-style-type: none"> <li>• Mid-single digit pricing</li> </ul>	<ul style="list-style-type: none"> <li>• No change</li> </ul>	<ul style="list-style-type: none"> <li>• Q1 13 core pricing in mid-single digit range</li> </ul>
<ul style="list-style-type: none"> <li>• High-single digit revenue growth*</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Mid-single digit revenue growth*</b></li> </ul>	<ul style="list-style-type: none"> <li>• Q1 13 revenue growth of 1%</li> </ul>
<ul style="list-style-type: none"> <li>• Continued operating ratio improvement on a year-to-year basis</li> </ul>	<ul style="list-style-type: none"> <li>• No change</li> </ul>	<ul style="list-style-type: none"> <li>• Q1 13 operating ratio improved 0.7 points compared to Q1 12</li> </ul>

\* Depending on F/X impact.



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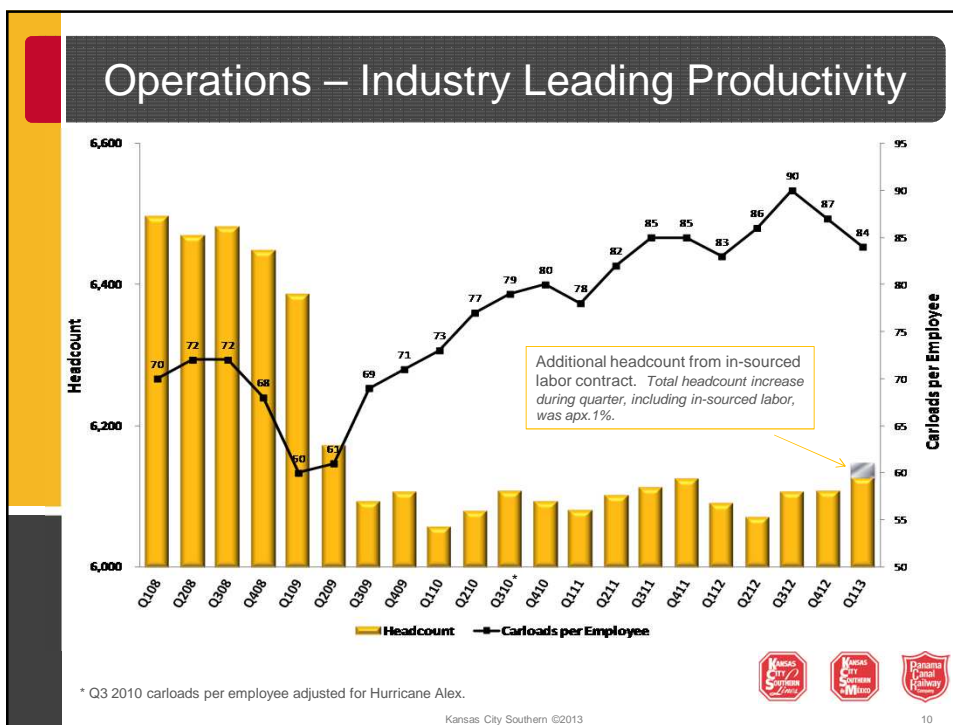
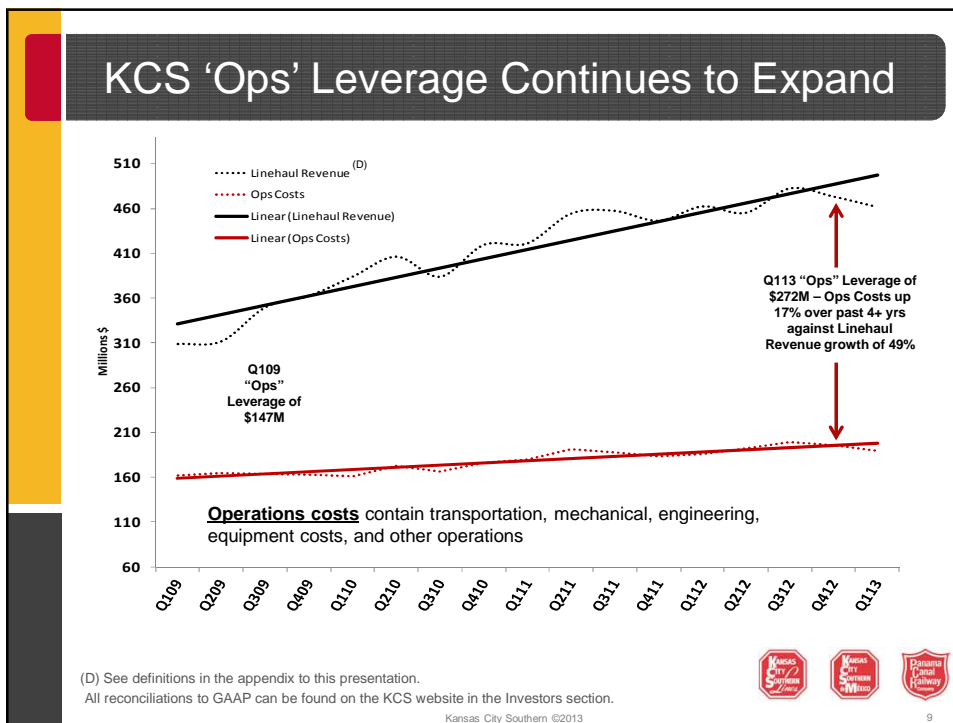
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Dave Ebbrecht

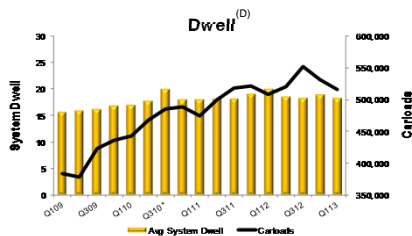
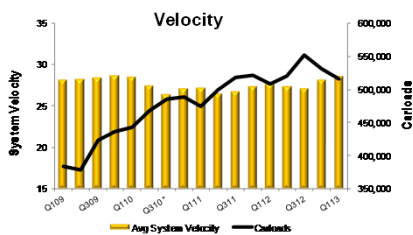


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## Strong Operating Metrics Sustained in Q1

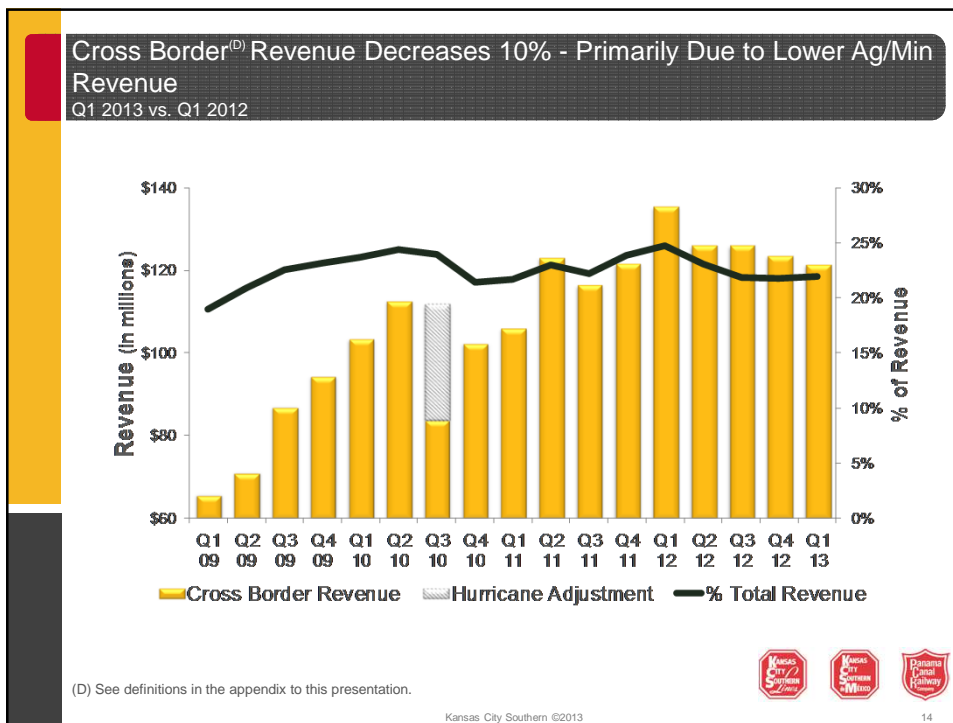
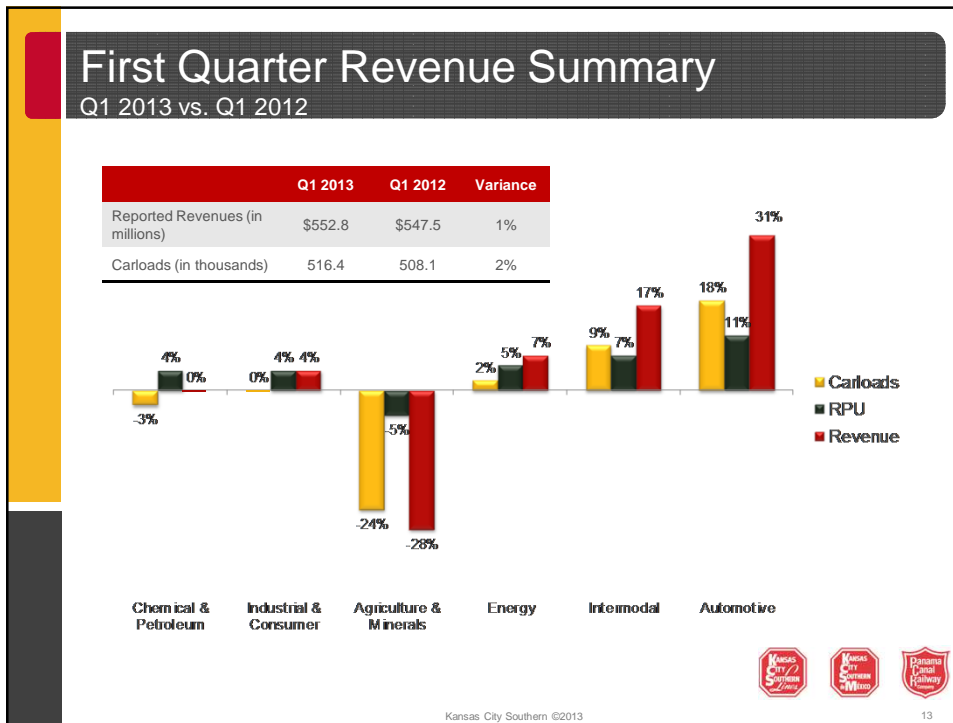


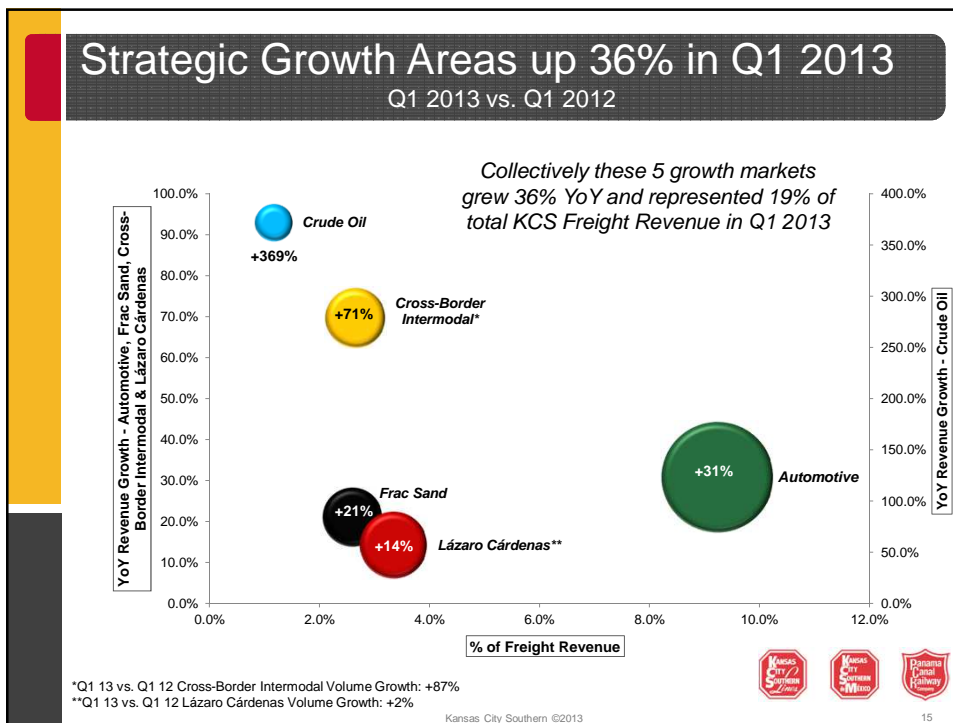
\*Q3 2010 adjusted for Hurricane Alex.  
 (D) See definitions in the appendix to this presentation.



Pat Ottensmeyer







## Market Outlook Update – Linehaul Revenue

Assumes constant F/X

	Previous Outlook	Updated FY 2013 Outlook
Chemical & Petroleum	+	+
Industrial & Consumer	+	+
Agriculture & Minerals	+	--
Energy	+	+
Intermodal	++ ++	++ ++
Automotive	++ ++	++ ++

+ Single digit revenue growth expected during period.  
 ++ Double digit revenue growth expected during period.  
 -- Double digit revenue decline expected during period.

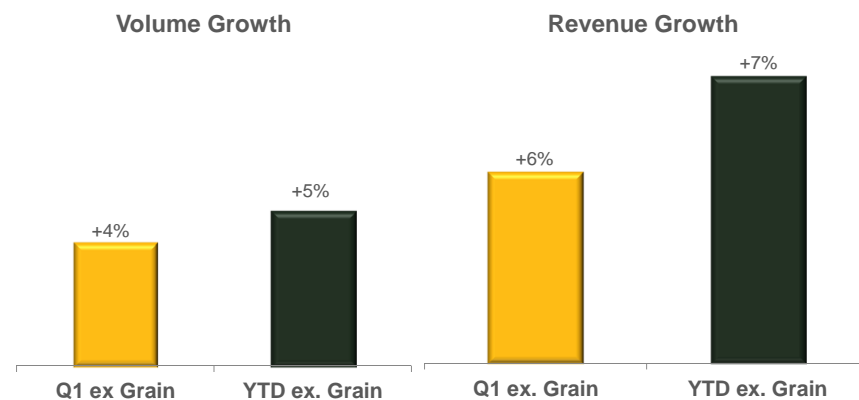
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## KCS Volume & Revenue Growth has Accelerated in Q2

Q1 2013 vs. YTD 2013\*



\*YTD 2013 Volume & Revenue Growth as of 4/17/13.



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## New Auto Plant Openings



**HONDA**  
Celaya, Mexico  
Opens February 2014  
Est. Production: 280K

**MAZDA**  
Salamanca, Mexico  
Opens Q1 2014  
Est. Production: 185K

**NISSAN**  
Aguascalientes, Mexico  
Opens December 2013  
Est. Production: 149K

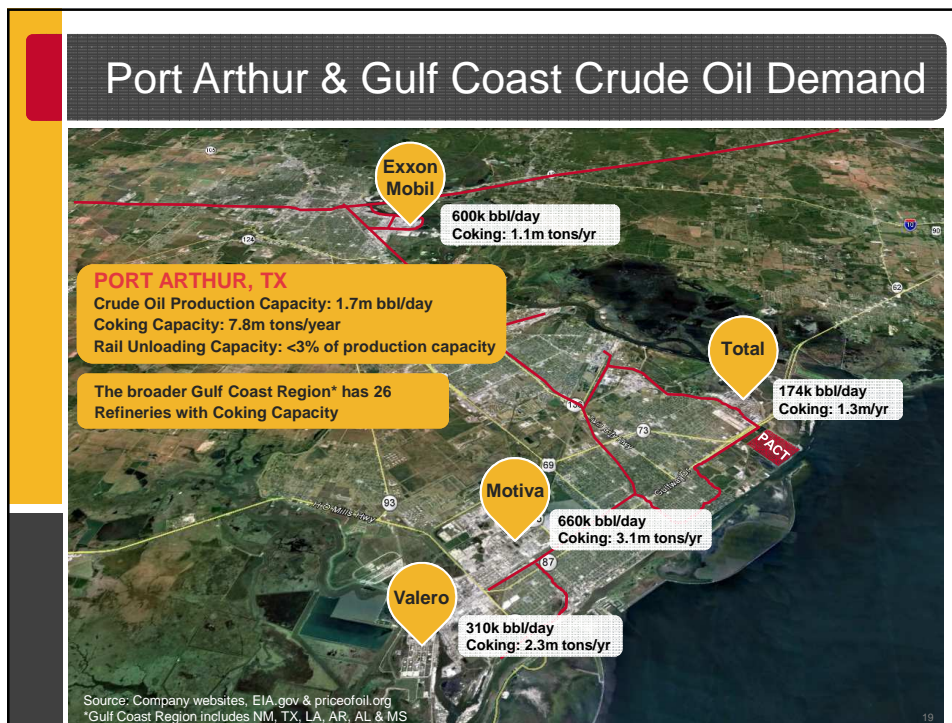
**AUDI**  
San Jose Chiapa,  
Puebla, Mexico  
Groundbreaking: 5/4/13  
Opens: 2016  
Est. Production: 150K

Source: Company press releases, Autocast (Est. 2015 auto production), Google Earth



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## Market Developments

- Weakness in grain will continue into Q3 13
- Utility coal comps should continue to be favorable for the rest of 2013
- Economic outlook for 2013 continues to be positive in both U.S. and Mexico
- Core pricing outlook continues to be in the mid-single digit range
- 2013 still a 'bridge year' to new auto plants and energy opportunities anticipated for 2014
  - New grain elevators will open in Summer/Fall 2013
- Strategic growth areas continue significant contribution to growth
- Long term new business pipeline continues to grow



# Mike Upchurch



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## Adjusted Earnings per Share

Q1 2013 vs. Q1 2012

	Earnings per Share - Q1 2013	Earnings per Share - Q1 2012
Reported	\$0.94	\$0.68
Debt Retirement Costs <i>tax effected</i>	--	0.07
F/X Gain <i>tax effected</i>	(0.08)	(0.02)
F/X Component of Income Taxes	0.03	0.07
<b>Adjusted</b>	<b>\$0.89</b>	<b>\$0.80</b>

All reconciliations to GAAP can be found on the KCS website in the Investors section.

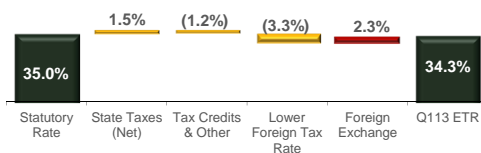


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## Strengthening Peso Increases 2013 Tax Expense

### Q1 2013 Effective Tax Rate Reconciliation



F/X Rates	MXN/USD
Y/E 2012	13.0
Q1 13 Projected Y/E F/X Rate	12.6
March 31, 2013 Spot F/X Rate	12.4
Expected 2013 ETR with F/X	36.0%
Expected 2013 ETR without F/X	33.7%



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## F/X Hedge Gain Offsets Higher Tax Expense

\$ in millions	Q1 13	Projected Y/E 2013
F/X Impact on Income Tax Expense*	\$(1)	\$(8)
F/X Gain on MX Peso Exposure	3	2
Unhedged F/X Income Statement Impact	2	(6)
F/X Hedge Gain	6	6
<b>Net F/X Income Statement Impact</b>	<b>\$8</b>	<b>\$ --</b>

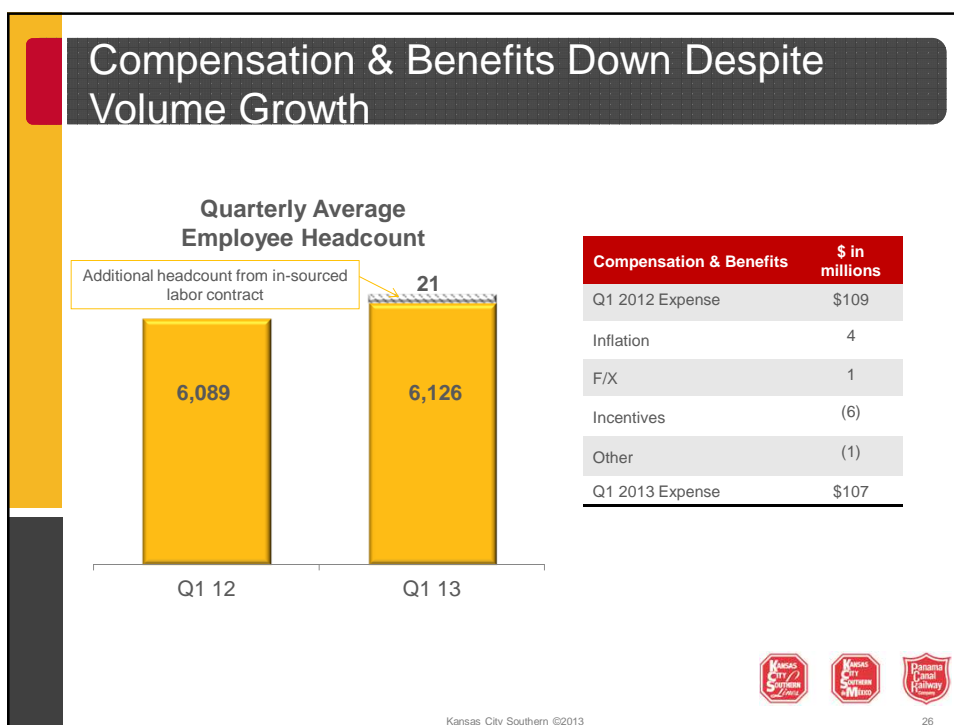
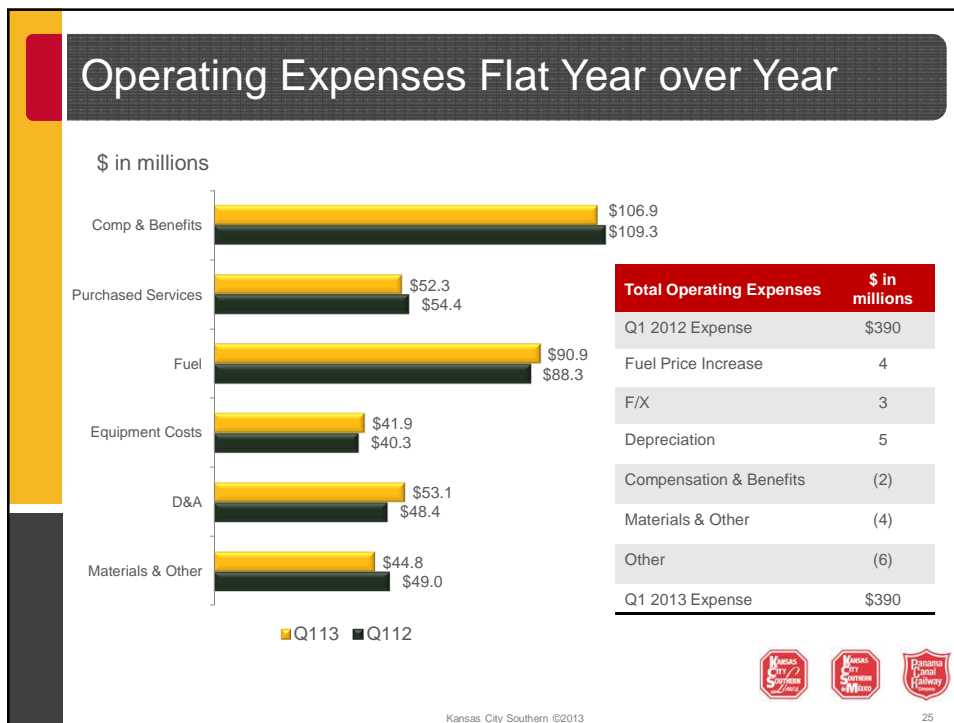
Note: The above is net of tax at the 30% statutory Mexico tax rate.

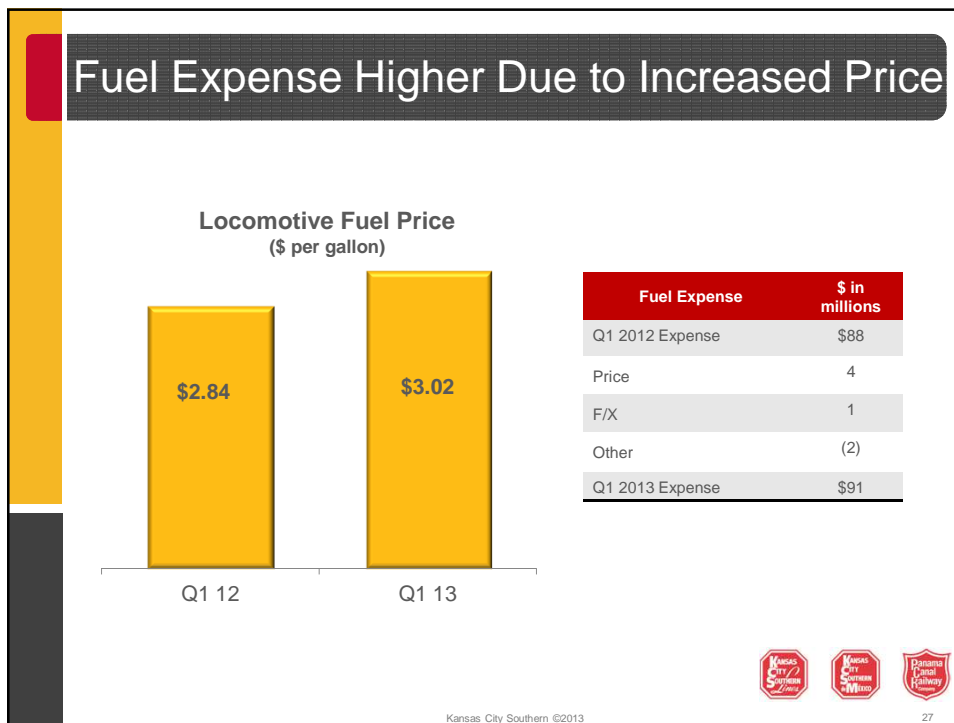
\*Excludes F/X impacts related to certain book/tax differences, intercompany debt, and 12.5% Senior Notes



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## Generated Positive Free Cash Flow\* in Q1

**Invest in Business**

- Committed to superior growth profile
- Total capex to revenue 24% (up from 21%)
- Additional 3% for purchase of new equipment

**Optimize Capital Structure**

- Received corporate investment grade rating from S&P in March
- Received KCSM investment grade rating from Moody's in April
- Retired KCSM 12.5% notes in April
- Tender offer & refinancing opportunity

**Shareholder Returns**

- Q1 cash dividend declared on January 28, 2013; paid April 3, 2013
- Quarterly payout of \$0.215 per share or \$23.6 million
- Annualized payout of \$0.86 per share or \$94.4 million

\* All reconciliations to GAAP can be found on the KCS website in the Investors section. 28

## Recapitalization Summary

- Outstanding tender offers for KCSM bonds for total consideration of up to \$650m (including principal and premium)
  - Expect to incur debt after April 23<sup>rd</sup>, and prior to expiration of the tender offer to satisfy the financing condition.
  - Goal of extending average maturities of KCSM debt to match industry average.
- On April 1, 2013, we redeemed KCSM's 12.5% Senior Notes due 2016
- We are currently:
  - Considering refinancing KCSR's term loan.
  - Evaluating financing the purchase of certain leased equipment.
- Assuming completion of the above, we expect 2013 interest expense to be \$84-88m (reduced from \$175m annualized peak in 2009)
  - This reduction would be accretive to EPS by \$0.10 - \$0.15



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## Estimated Financial Statement Impact of Recapitalization

	GAAP Debt \$ in billions	S&P Debt* \$ in billions	GAAP Interest Expense \$ in millions
Year Ended 12/31/2012	\$1.6	\$2.2	\$100
KCSM 12.5% Notes Redeemed	—	—	—
Refinancing KCSR 8% Notes With Lower-Cost Term Loan in 2012	N/A	N/A	—
Refinancing KCSM Notes	—	—	—
Refinancing KCSR Term Loan <sup>(1)</sup>	—	—	+
Financing KCSM's and KCSR's Purchase of Leased Equipment <sup>(1)</sup>	+	—	+
Financing Tender Premiums/Fees	+	+	+
Year Ended 12/31/2013 (Assuming Completion of the Above)	\$1.8	\$2.2	\$84 - \$88

Creates O/R benefit

<sup>(1)</sup> Currently being considered  
 - Decrease to Debt (columns 2 & 3) & Interest Expense (column 4)  
 + Increase to Debt (columns 2 & 3) & Interest Expense (column 4)  
 = No Change to Debt (columns 2 & 3)  
 \* All reconciliations to GAAP can be found on the KCS website in the Investors section.



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## Closing Comments – Dave Starling



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## Appendix

- **Linehaul revenue** is revenue provided by transportation services, excluding fuel surcharge and other revenue
- **System dwell** is defined as the average time a car resides at the specified terminal location.
- **Slow order miles** are defined as speed restrictions on a rail line, which are set below the track's normal speed limit and tend to disrupt timetables and time-sensitive shipments.
- **Car efficiency** is defined as a measure of productivity that compares total units of shipped goods (carloads) to total cars online.
- **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.



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