



Kansas City Southern

Third Quarter 2013 Earnings Presentation

October 18, 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 Third Quarter Overview

- Revenue up 8%
- Strong operating performance – Q3 13 operating ratio improved 0.9 points over Q3 12 operating ratio
- Adjusted Diluted EPS up 16%*
- Grain shipments rebounded in late Q3 13; expect strong growth in grain shipments in Q4 13

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



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Third Quarter Results

	Q3 2013	Q3 2012	Variance
Carloads/Units (in thousands)	569.9	552.4	3%
Reported Revenues (in millions)	\$621.6	\$577.4	8%
Reported Operating Ratio	67.8%	68.7%	0.9 points
Reported Diluted Earnings per Share	\$1.07	\$0.82	30%
Adjusted Diluted Earnings per Share *	\$1.10	\$0.95	16%

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Update for Q3 2013

2013 Guidance	YTD 2013
<ul style="list-style-type: none"> • Mid-single digit volume growth • Mid-single digit pricing 	<ul style="list-style-type: none"> • YTD volume growth of 3% • Core pricing outpacing inflation
<ul style="list-style-type: none"> • Mid-single digit revenue growth** 	<ul style="list-style-type: none"> • YTD revenue growth of 5%
<ul style="list-style-type: none"> • Continued operating ratio improvement on a year-to-year basis 	<ul style="list-style-type: none"> • YTD operating ratio improved 1 point over first nine months of 2012 adjusted operating ratio*

** Depending on FX impact.

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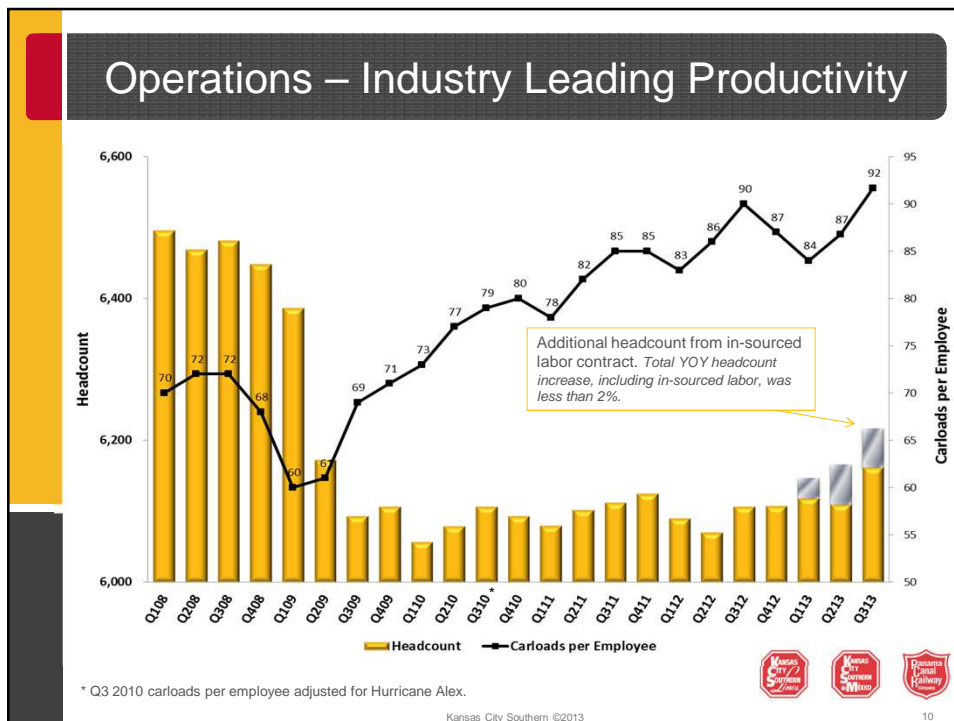
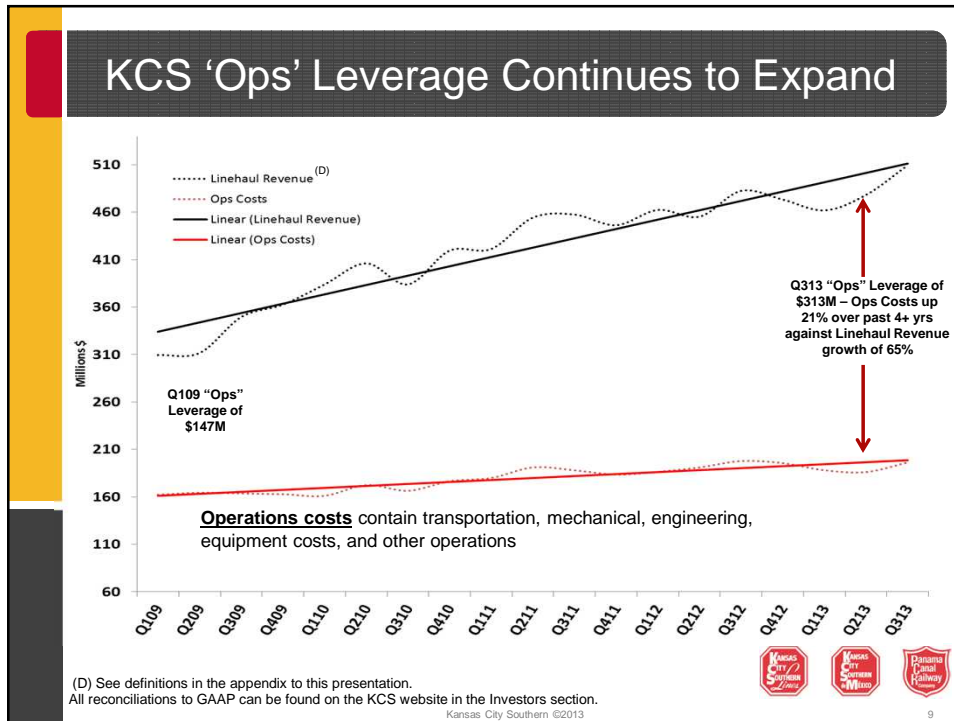
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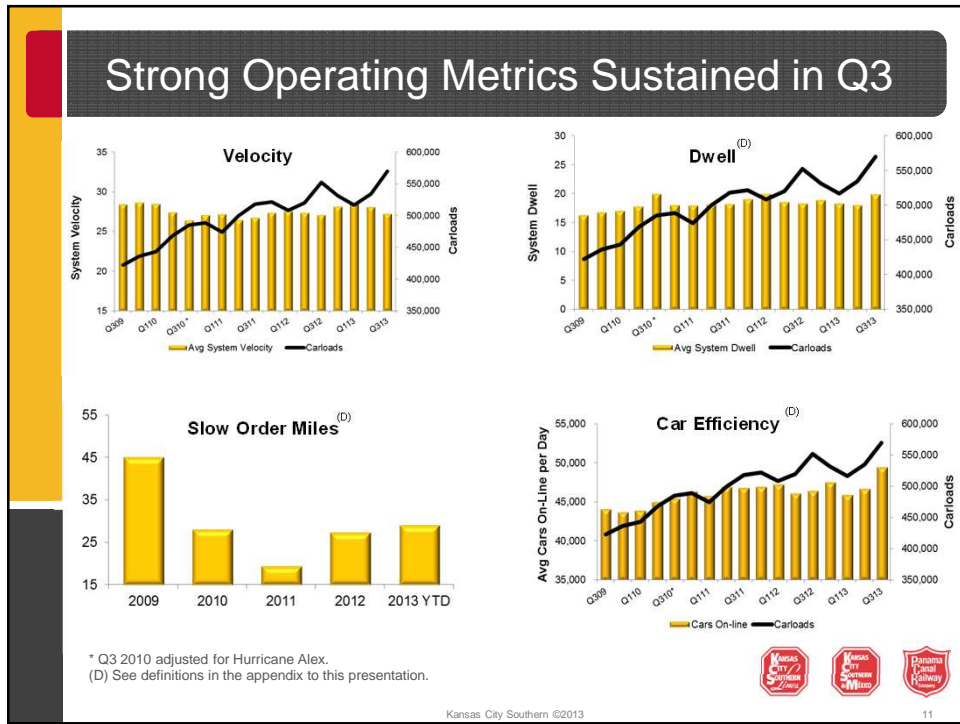
Dave Ebbrecht



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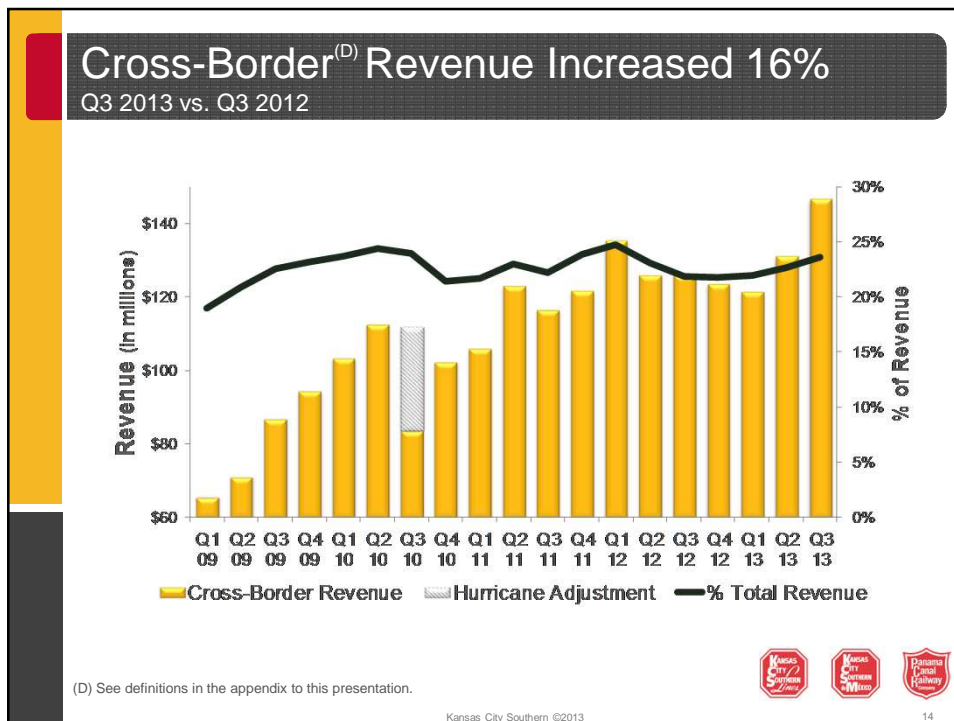
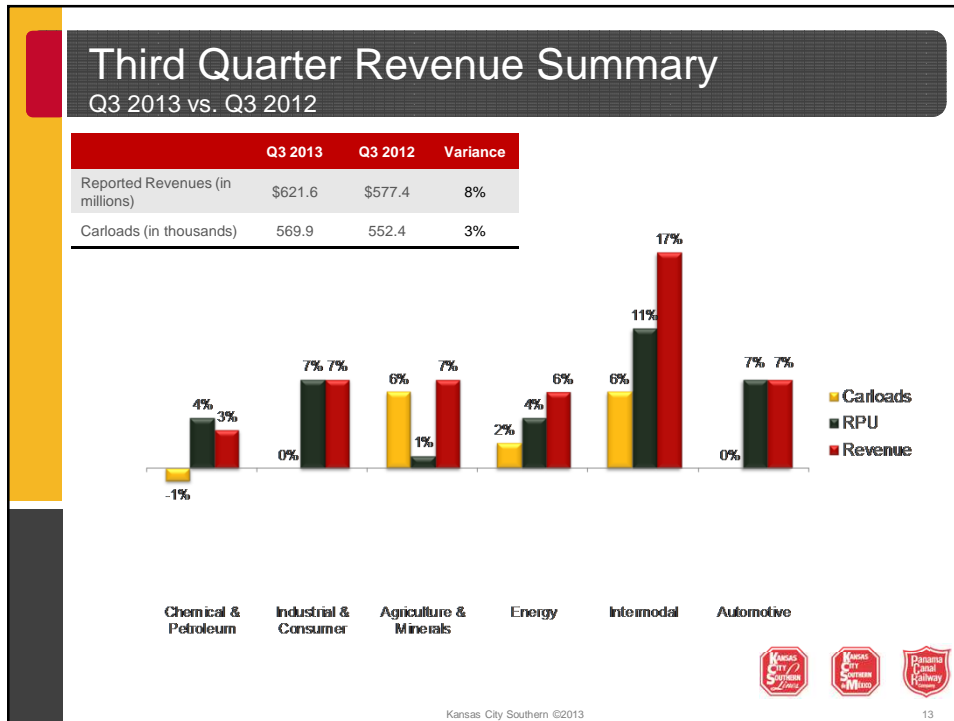
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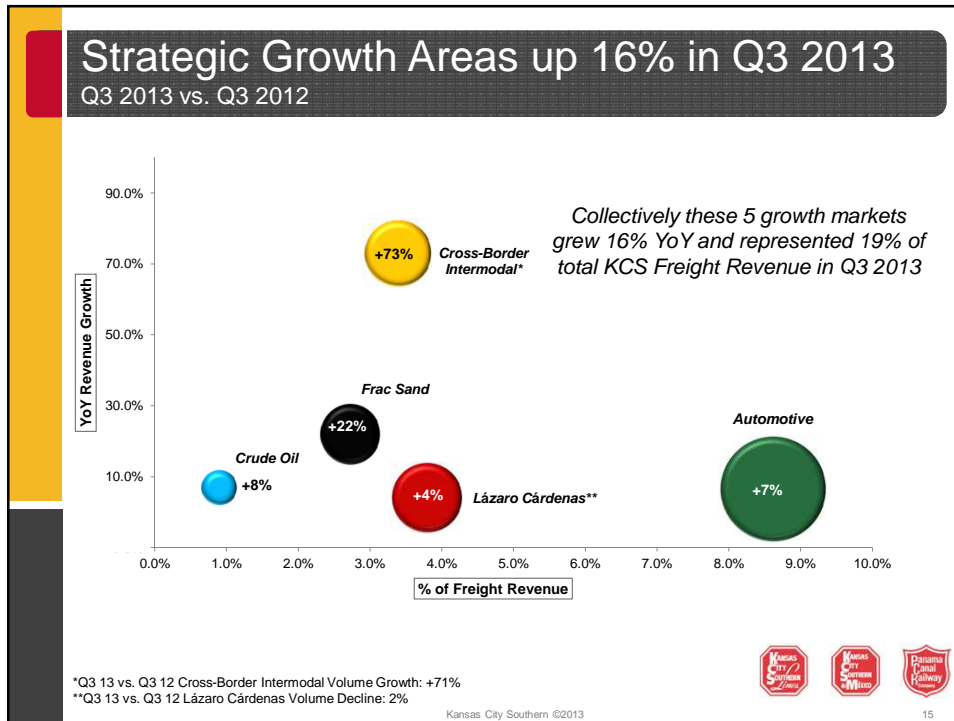




Pat Ottensmeyer

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

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Market Developments

- Strong harvest expected to drive strength in grain volumes throughout the fourth quarter and first quarter 2014
- Cross-border intermodal growth should continue at exceptional levels
- Expect variable utility coal volumes due to seasonal plant operations
- Core pricing outlook outpacing inflation
- Long term new business pipeline continues to grow



Mike Upchurch



Condensed Income Statement

(\$ in millions, except EPS Diluted)	Q3 2013	Q3 2012
Revenues	\$621.6	\$577.4
Operating Expenses	<u>421.3</u>	<u>396.7</u>
Operating Income	200.3	180.7
Equity Earnings	4.8	4.4
Interest Expense	(18.3)	(24.1)
Foreign Exchange Gain (Loss)	(1.4)	3.7
Debt Retirement Costs & Other	<u>(3.1)</u>	<u>(0.1)</u>
Pre-tax Income	182.3	164.6
Income Tax Expense	<u>(63.3)</u>	<u>(73.9)</u>
Net Income	\$119.0	\$90.7
Reported EPS Diluted	\$1.07	\$0.82
Adjusted EPS Diluted*	\$1.10	\$0.95
Average Diluted Share Count (in thousands)	110,373	110,127

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Adjusted Diluted Earnings per Share

Q3 2013 vs. Q3 2012

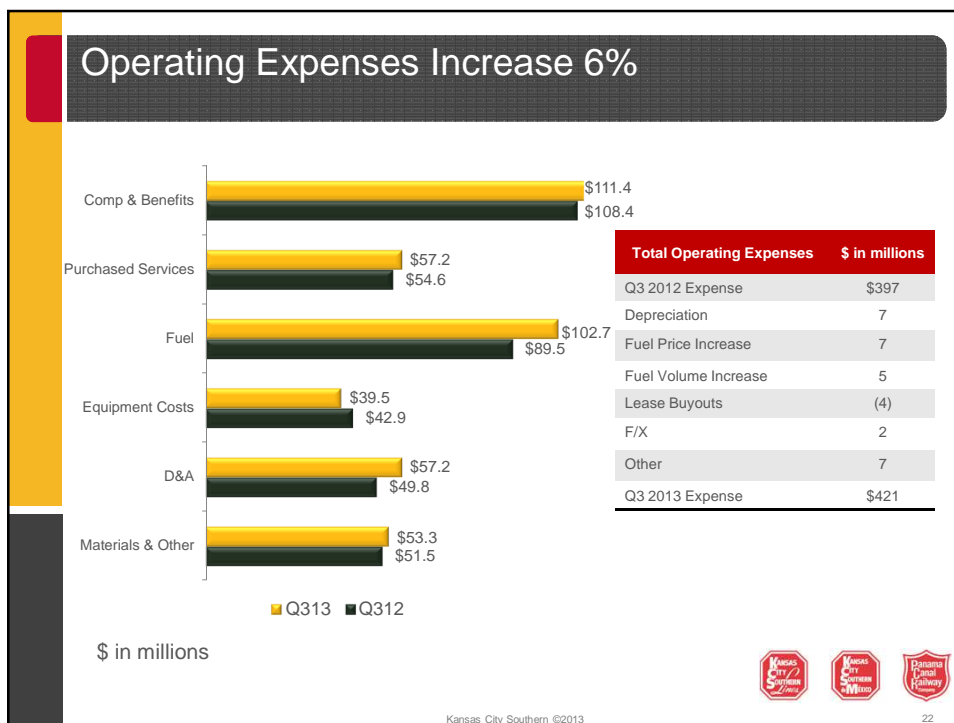
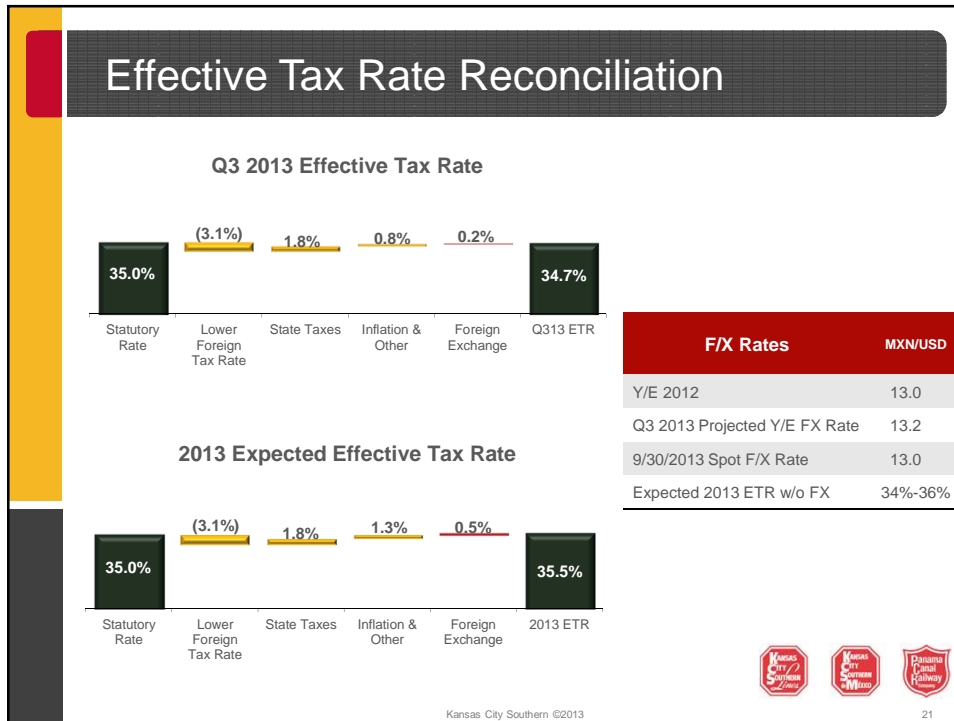
	Earnings per Share - Q3 2013	Earnings per Share - Q3 2012
Reported	\$1.07	\$0.82
Debt Retirement Costs	0.02	-
F/X (Gain) Loss	0.01	(0.02)
F/X Component of Income Taxes	-	0.15
Adjusted	\$1.10	\$0.95

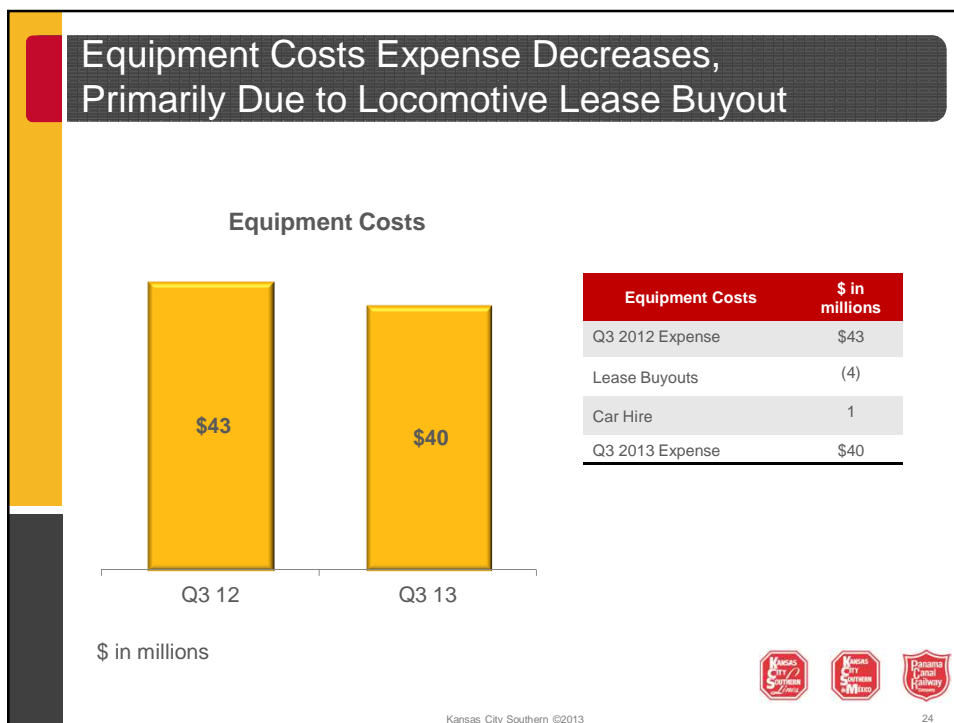
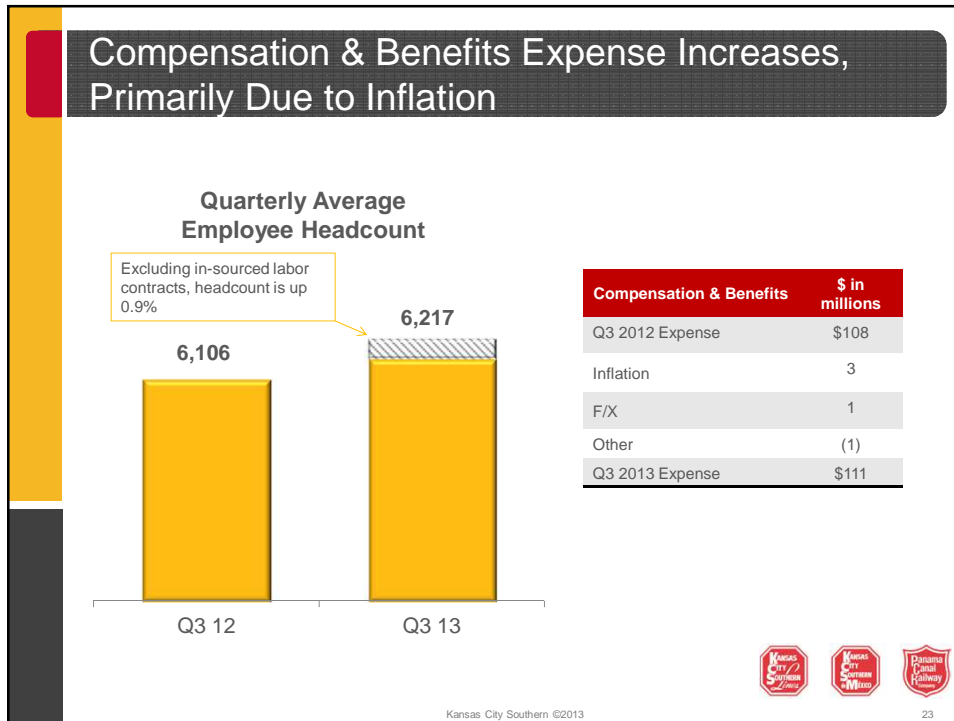
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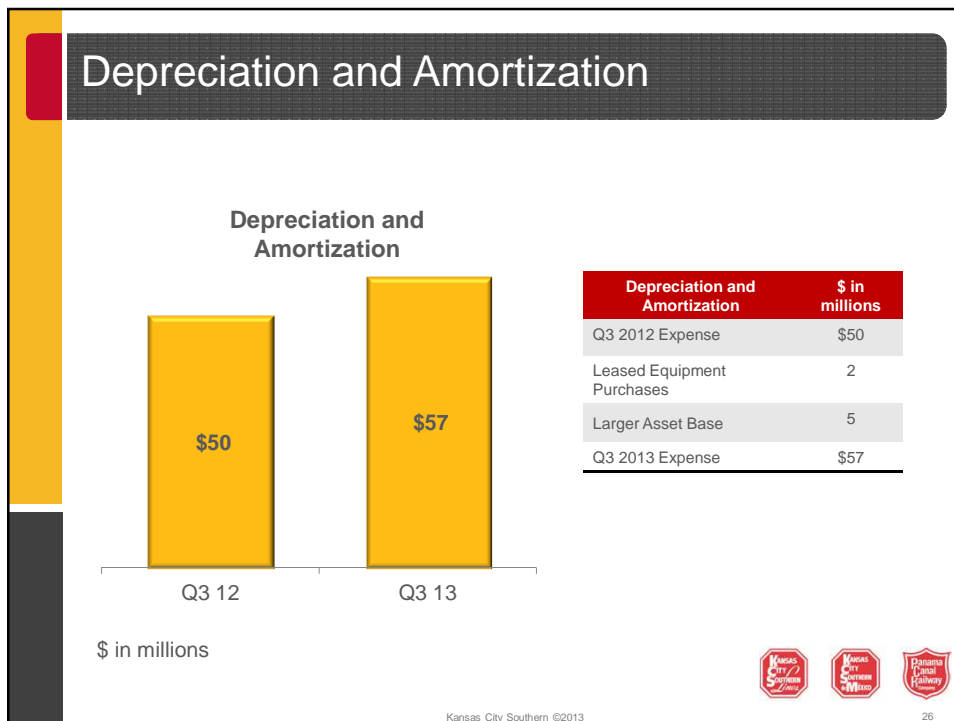
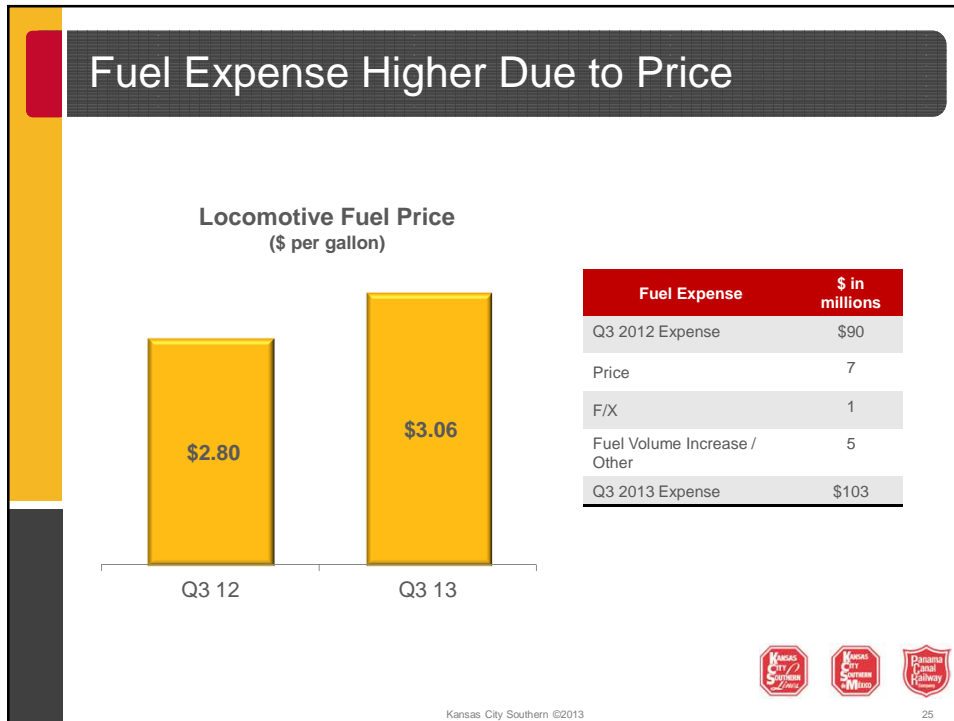


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Capital Structure Priorities

- Invest in Business**
 - Committed to superior growth profile
 - 2013 Capex guidance - 26% of revenue
 - Includes 4% of revenue for new locomotives
- Optimize Capital Structure**
 - Potential lease conversion and debt refinancing
 - Negotiating early purchase options with lessors
 - Expected to be slightly earnings accretive
 - O/R benefit partially offset with interest expense
 - Could result in one-time early lease termination charges
 - NPV positive
 - \$92M of remaining 8% and 6.125% notes could be redeemed
- Shareholder Returns**
 - Q3 cash dividend declared on August 6, 2013; paid October 2, 2013
 - Quarterly payout of \$0.215 per share or \$23.6 million
 - Annualized payout of \$0.86 per share or \$94.4 million



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Closing Comments – Dave Starling



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Appendix

Definitions:

- **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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Q3 2013 Adjusted Effective Tax Rate ~ 34%

\$ in millions	Pre-tax	Tax Effect	After-Tax	Diluted EPS
Reported	\$ 182.3	\$ 63.3	\$119.0	\$1.07
Debt Retirement Costs	2.4	0.8	1.6	0.02
F/X Loss	1.4	0.4	1.0	0.01
F/X Component of Income Taxes	--	(0.4)	0.4	--
Adjusted	\$186.1	\$64.1	\$122.0	\$1.10
Adjusted Effective Income Tax Rate		34.4%		

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Hedge Offsets F/X Tax Impact

\$ in millions	Q1 13	Q2 13	Q3 13	YTD 13	Projected Y/E 2013
F/X Impact on Income Tax - Benefit (Expense)	\$(1.5)	\$2.3	\$2.7	\$3.5	\$6.1
F/X Gain(Loss) on MX Peso Exposure	3.0	(5.6)	(0.1)	(2.7)	(2.4)
Unhedged F/X Income Statement Impact	1.5	(3.3)	2.6	0.8	3.7
F/X Hedge Gain(Loss)	6.4	(9.9)	(0.9)	(4.4)	(4.4)
Net F/X Income Statement Impact	\$7.9	\$(13.2)	\$1.7	\$(3.6)	\$(0.7)

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

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