

CANADIAN PACIFIC RAILWAY LTD/CN

Form 10-Q

April 20, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 001-01342

Canadian Pacific Railway Limited

(Exact name of registrant as specified in its charter)

Canada 98-0355078

(State or Other Jurisdiction (IRS Employer

of Incorporation or Organization) Identification No.)

7550 Ogden Dale Road S.E.

T2C 4X9

Calgary, Alberta, Canada

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (403) 319-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of the close of business on April 18, 2017, there were 146,694,793 of the registrant's Common Shares issued and outstanding.

CANADIAN PACIFIC RAILWAY LIMITED
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PART I

ITEM 1. FINANCIAL STATEMENTS

INTERIM CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(in millions of Canadian dollars, except share and per share data)	For the three months ended March 31	
	2017	2016
Revenues		
Freight	\$1,563	\$1,548
Non-freight	40	43
Total revenues	1,603	1,591
Operating expenses		
Compensation and benefits (Note 9)	233	329
Fuel	170	125
Materials	49	56
Equipment rents	36	45
Depreciation and amortization	166	162
Purchased services and other (Note 4)	278	221
Total operating expenses	932	938
Operating income	671	653
Less:		
Other income and charges (Note 5)	(28	)(181)
Net interest expense	120	124
Income before income tax expense	579	710
Income tax expense (Note 6)	148	170
Net income	\$431	\$540
Earnings per share (Note 7)		
Basic earnings per share	\$2.94	\$3.53
Diluted earnings per share	\$2.93	\$3.51
Weighted-average number of shares (millions) (Note 7)		
Basic	146.5	153.0
Diluted	147.1	153.8
Dividends declared per share	\$0.5000	\$0.3500
See Notes to Interim Consolidated Financial Statements.		

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	For the three months ended March 31	
(in millions of Canadian dollars)	2017	2016
Net income	\$431	\$540
Net gain in foreign currency translation adjustments, net of hedging activities	5	37
Change in derivatives designated as cash flow hedges	5	(47)
Change in pension and post-retirement defined benefit plans	38	47
Other comprehensive income before income taxes	48	37
Income tax expense on above items	(18)	(41)
Other comprehensive income (loss) (Note 3)	30	(4)
Comprehensive income	\$461	\$536

See Notes to Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED BALANCE SHEETS AS AT
(unaudited)

	March 31 2017	December 31 2016
(in millions of Canadian dollars)		
Assets		
Current assets		
Cash and cash equivalents	\$201	\$164
Accounts receivable, net	631	591
Materials and supplies	201	184
Other current assets	77	70
	1,110	1,009
Investments	183	194
Properties	16,661	16,689
Goodwill and intangible assets	200	202
Pension asset	1,165	1,070
Other assets	78	57
Total assets	\$19,397	\$19,221
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	\$1,148	\$1,322
Long-term debt maturing within one year	31	25
	1,179	1,347
Pension and other benefit liabilities	730	734
Other long-term liabilities	227	284
Long-term debt	8,583	8,659
Deferred income taxes	3,640	3,571
Total liabilities	14,359	14,595
Shareholders' equity		
Share capital	2,036	2,002
Additional paid-in capital	42	52
Accumulated other comprehensive loss (Note 3)	(1,769)	(1,799)
Retained earnings	4,729	4,371
	5,038	4,626
Total liabilities and shareholders' equity	\$19,397	\$19,221
Contingencies (Note 11)		
See Notes to Interim Consolidated Financial Statements.		

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the three months ended March 31	
(in millions of Canadian dollars)	2017	2016
Operating activities		
Net income	\$431	\$540
Reconciliation of net income to cash provided by operating activities:		
Depreciation and amortization	166	162
Deferred income taxes (Note 6)	67	93
Pension funding in excess of expense (Note 10)	(60)	(42)
Foreign exchange gain on long-term debt (Note 5)	(28)	(181)
Other operating activities, net	(85)	(66)
Change in non-cash working capital balances related to operations	(180)	(288)
Cash provided by operating activities	311	218
Investing activities		
Additions to properties	(230)	(278)
Proceeds from sale of properties and other assets (Note 4)	3	60
Other	5	—
Cash used in investing activities	(222)	(218)
Financing activities		
Dividends paid	(73)	(54)
Issuance of CP Common Shares	28	5
Repayment of long-term debt	(5)	(11)
Other	—	(2)
Cash used in financing activities	(50)	(62)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	(2)	(17)
Cash position		
Increase (decrease) in cash and cash equivalents	37	(79)
Cash and cash equivalents at beginning of period	164	650
Cash and cash equivalents at end of period	\$201	\$571
Supplemental disclosures of cash flow information:		
Income taxes paid	\$170	\$192
Interest paid	\$150	\$155
See Notes to Interim Consolidated Financial Statements.		

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

(in millions of Canadian dollars except common share amounts)	Common shares (in millions)	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at January 1, 2017	146.3	\$2,002	\$ 52	\$ (1,799	)\$ 4,371	\$ 4,626
Net income	—	—	—	—	431	431
Other comprehensive income (Note 3)	—	—	—	30	—	30
Dividends declared	—	—	—	—	(73	)(73)
Effect of stock-based compensation recovery	—	—	(3	)—	—	(3)
Shares issued under stock option plan	0.4	34	(7	)—	—	27
Balance at March 31, 2017	146.7	\$2,036	\$ 42	\$ (1,769	)\$ 4,729	\$ 5,038
Balance at January 1, 2016	153.0	\$2,058	\$ 43	\$ (1,477	)\$ 4,172	\$ 4,796
Net income	—	—	—	—	540	540
Other comprehensive loss (Note 3)	—	—	—	(4	)—	(4)
Dividends declared	—	—	—	—	(54	)(54)
Effect of stock-based compensation expense	—	—	6	—	—	6
Shares issued under stock option plan	—	7	(1	)—	—	6
Balance at March 31, 2016	153.0	\$2,065	\$ 48	\$ (1,481	)\$ 4,658	\$ 5,290

See Notes to Interim Consolidated Financial Statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017

(unaudited)

1 Basis of presentation

These unaudited interim consolidated financial statements of Canadian Pacific Railway Limited (“CP”, or “the Company”), expressed in Canadian dollars, reflect management’s estimates and assumptions that are necessary for their fair presentation in conformity with generally accepted accounting principles in the United States of America (“GAAP”). They do not include all disclosures required under GAAP for annual financial statements and should be read in conjunction with the 2016 annual consolidated financial statements and notes included in CP’s 2016 Annual Report on Form 10-K. The accounting policies used are consistent with the accounting policies used in preparing the 2016 annual consolidated financial statements, except for the newly adopted accounting policies discussed in Note 2.

CP’s operations can be affected by seasonal fluctuations such as changes in customer demand and weather-related issues. This seasonality could impact quarter-over-quarter comparisons.