

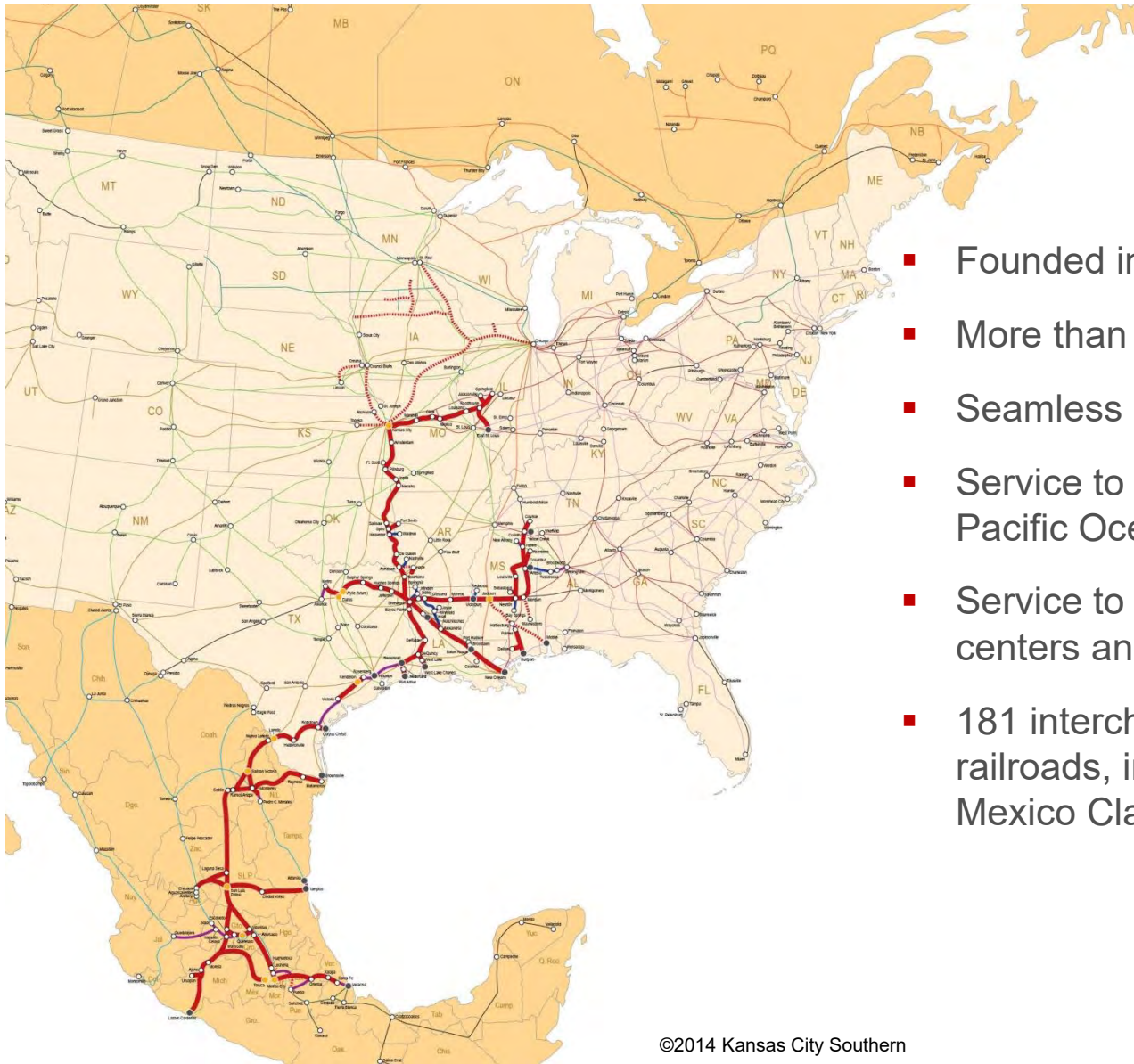


# Connecting Mexico, Near Shoring and Corridor Connections

Pat Ottensmeyer  
CMO & EVP Sales & Marketing



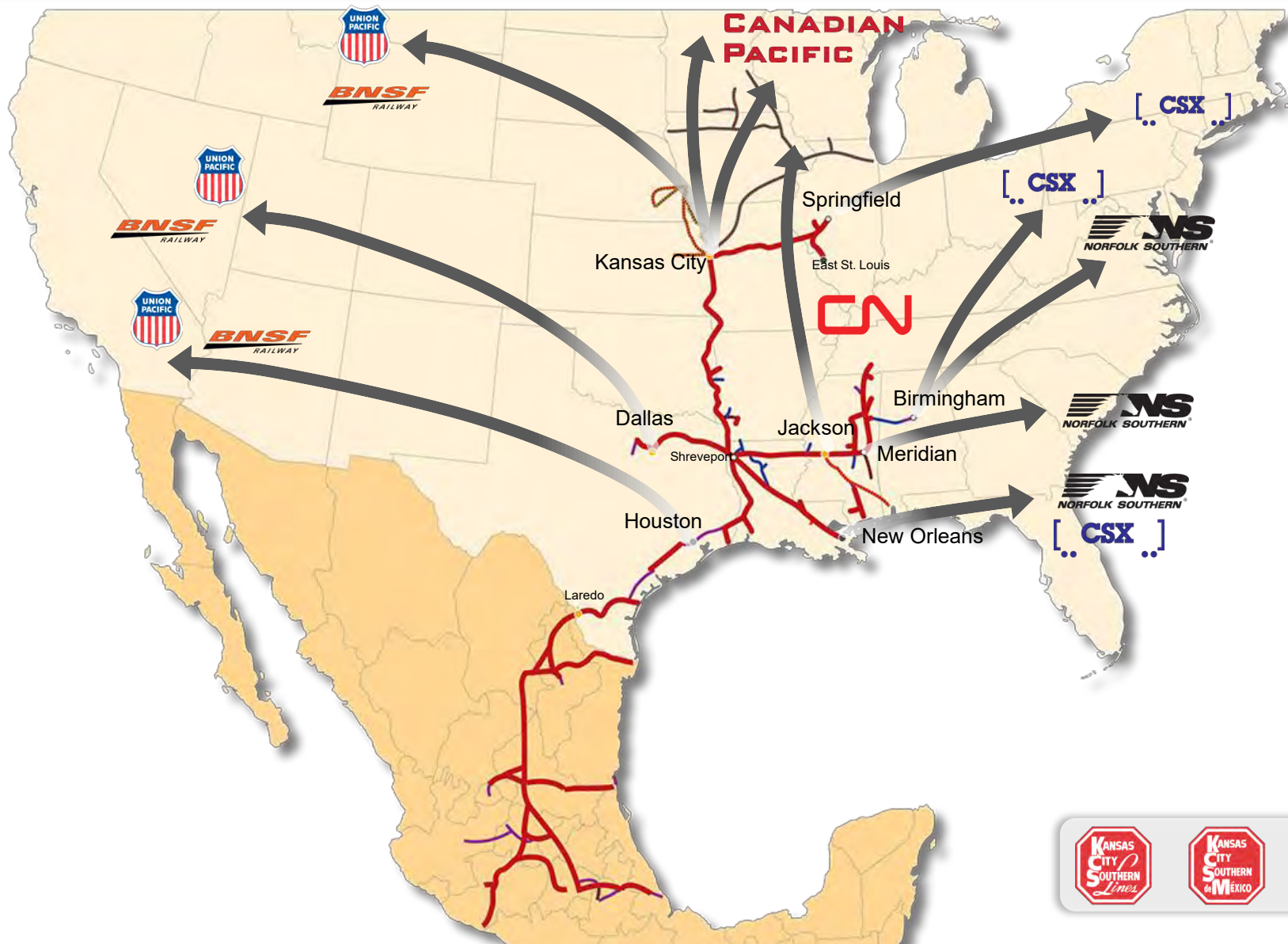
# KCS Rail Network



- Founded in 1887
- More than 6,400 track miles
- Seamless cross border network
- Service to 12 Gulf ports and 1 Pacific Ocean port
- Service to more than 140 transload centers and 11 intermodal ramps
- 181 interchange points with other railroads, including all U.S. and Mexico Class I railroads



# KCS's Network is the center of the North American rail system



# The Mainstream Media Headlines

“The bodies of 13 people, three of them children, were found in a clandestine grave outside the western Mexican city of Apatzingan, sources in the Michoacan state Attorney General's Office said Thursday. The dead have been identified as the members of two families.” [Business Standard](#), March 2014

**Business Standard**

“Mexican police have found a mass grave containing at least 20 bodies in the small municipality of Tinguindin, in troubled western Michoacan state. In nearby Zacan, the severed heads of four men were discovered by residents early on Thursday.” [BBC](#), February 2014



“Mexican drug cartel hitman tells how he committed 800 murders before he stopped keeping track. In shocking testimony during the murder trial of an alleged Mexican drug cartel enforcer, the star witness in the case - himself a cartel hitman - told jurors that he stopped keeping track of the number of people he had killed when the number approached 800.” [Daily Mail](#), February 2014

**Daily Mail**



# Recent Business Headlines

Moody's upgrades Mexico to coveted A grade sovereign rating  
Moody's said it expects the economic reforms approved in Mexico last year "will strengthen the country's potential growth prospects and fiscal fundamentals." [Reuters](#), Feb 2014



Thinking Growth Markets? Think Mexico, Again.

Mexico has become a foreign investment magnet. The current reform process suggests that Mexico will be a go-to zone for the foreseeable future. Its vibrant auto sector and up-coming oil patch reforms suggest a multitude of medium-term Canadian investment opportunities. [Huffingtonpost](#), January 2014.



Mexico set for \$7bn foreign cash boost

Mexico is set for a wave of foreign cash as PepsiCo, Nestlé and Cisco announced investments totalling more than \$7.35bn in Latin America's second-largest economy. [FT](#), January 2014.



# Recent Business Headlines

“The first Honda Fit rolled off the assembly line Friday at a new \$800-million factory near Celaya, Mexico, a symbol of the growing might of the country's auto industry. Honda's U.S. factories spit out hundreds of thousands of Accords and Civics each year. [Los Angles Times](#), March 2014

Los Angeles Times

“Wal-Mart Stores Inc. (WMT)’s Mexican and Central American unit plans to spend 15 billion pesos (\$1.1 billion) to open stores and improve its e-commerce technology, aiming to spur growth in the region as U.S. sales slow. The company expects to spend 8.4 billion pesos opening stores, adding 3.7 million square feet of space.” [Bloomberg News](#), March 2014



“Mexico's state-owned oil firm Pemex, is planning to invest \$27.7 billion in 2014, the most in its history and the vast majority of which will go toward crude oil exploration and production. "This year, Pemex will invest the historic figure of almost \$28 billion, 85 percent in exploration and production of crude oil and gas," said company chief Emilio Lozoya.”

[Fox News Latino](#), March 2014



# The New York Times

## How Mexico Got Back in the Game

By Thomas L Friedman

*“Chrysler, for example, is using Mexico as a base to supply some of its Fiat 500s to the Chinese market.”*  
*What struck me most here in Monterrey, though, is the number of tech start-ups that are emerging from Mexico’s young population — 50 percent of the country is under 29 — thanks to cheap, open source innovation tools and cloud computing.”*

<http://www.nytimes.com/2013/02/24/opinion/sunday/friedman-how-mexico-got-back-in-the-game.html>

## Mexico: The New China

By Chris Anderson

*“That’s because the TJ template isn’t so much about outsourcing as it is quicksourcing. And that’s also the way to create thousands of good jobs in the United States.*  
*As any entrepreneur can tell you, the shorter and more nimble a supply chain is, the better.”*

[http://www.nytimes.com/2013/01/27/opinion/sunday/the-tijuana-connection-a-template-for-growth.html?hp&\\_r=0](http://www.nytimes.com/2013/01/27/opinion/sunday/the-tijuana-connection-a-template-for-growth.html?hp&_r=0)

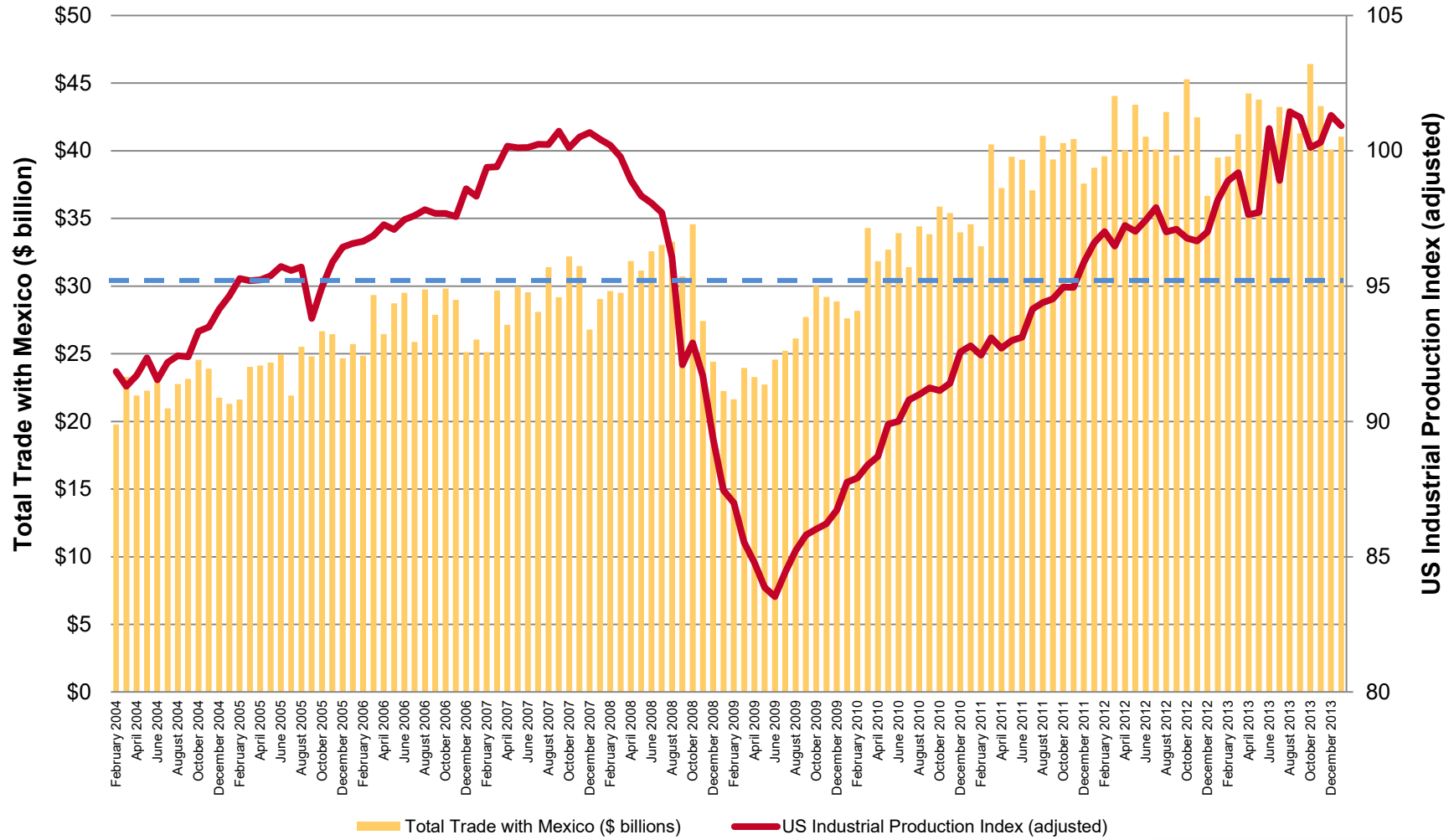








# U.S. – Mexico cross-border trade exceeds pre-recession levels



Source: Board of Governors of the Federal Reserve System and US Census Bureau

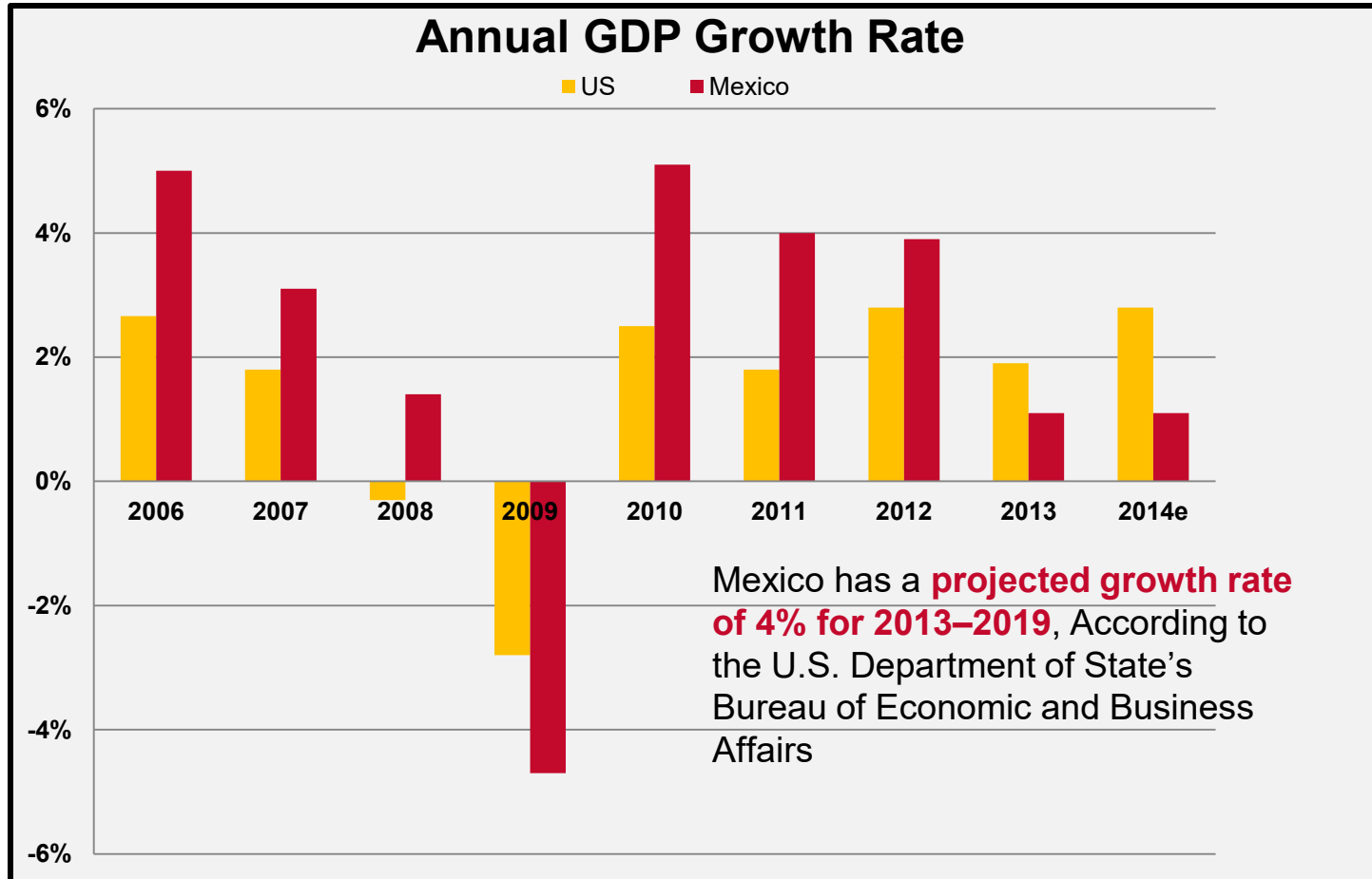
©2014 Kansas City Southern



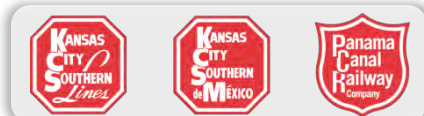
# Why are decision makers looking at Mexico?



# Economic Growth

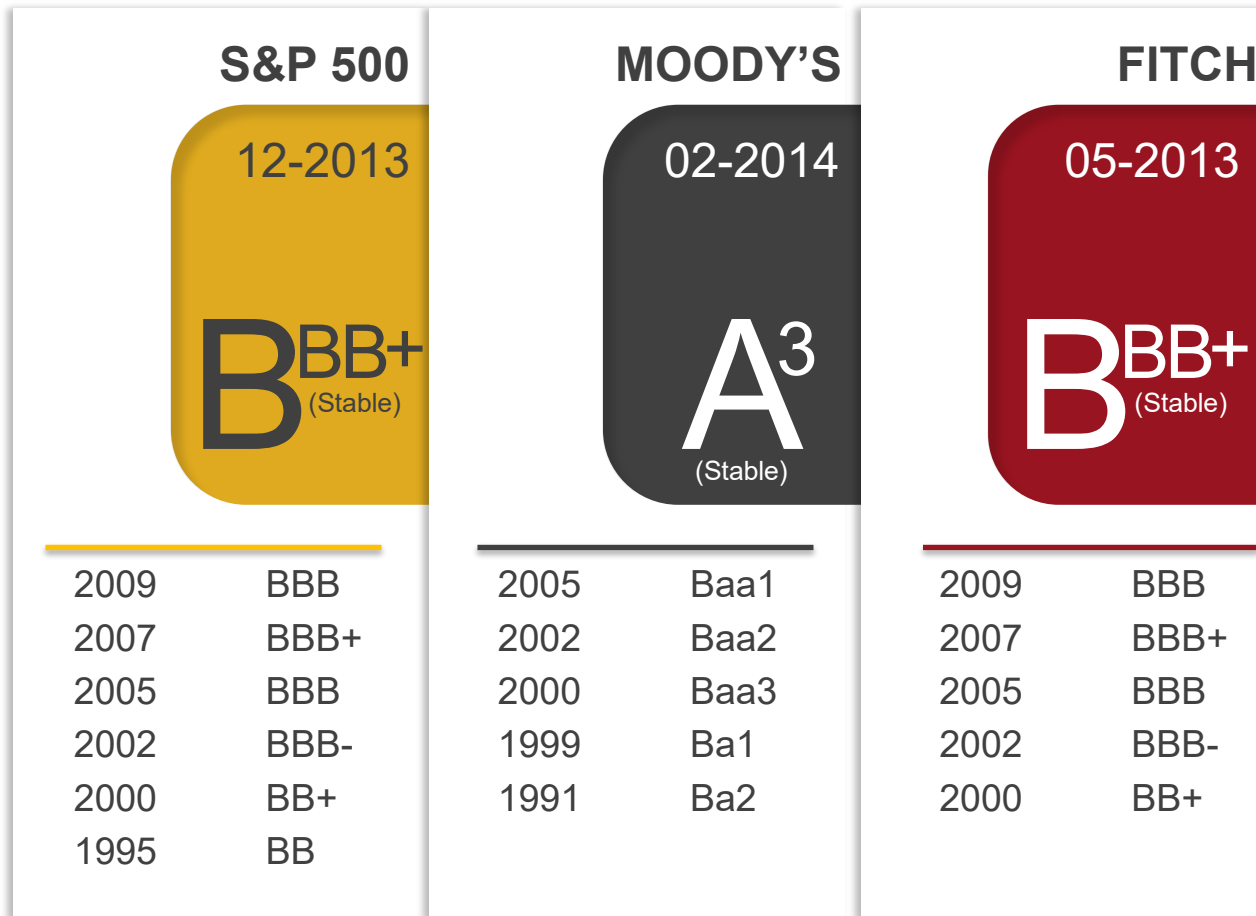


Source: Bureau of Economic Analysis, Instituto Nacional De Estadística y Geografía (INEGI), IMF



# Mexico's Stable Credit Rating

## Mexico Historical Long-Term Sovereign Debt Credit Rating



Source: Bloomberg, S&P, Moody's, and Fitch Ratings  
 \*Outlook between parentheses





# Trade Growth

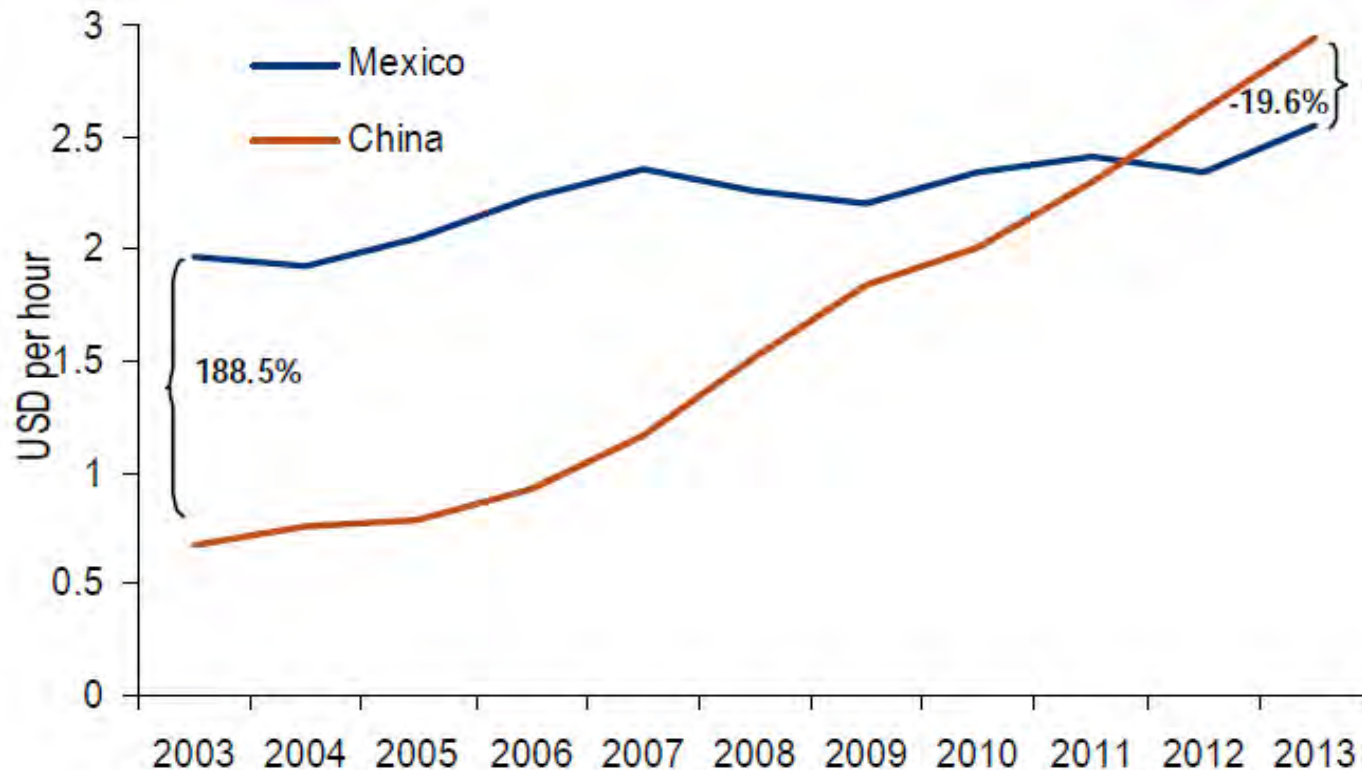
**The U.S. is Mexico's largest trading partner  
U.S. imports from Mexico have risen 23.5% since 2010**



SOURCE: DOC, Bloomberg Businessweek, World Bank, Mexico Today, J.P. Morgan, U.S. Bureau of Labor Statistics, SICE, Goldman Sachs, Boston Consulting Group, Reuters

# Labor Force

- Mexico has a labor force advantage over China
  - By 2015, wages in Mexico are forecasted to be 30% lower than in China
  - Mexican labor is highly skilled; Mexico manufacturing is moving from low-skill, high volume products to high-skill, sophisticated products



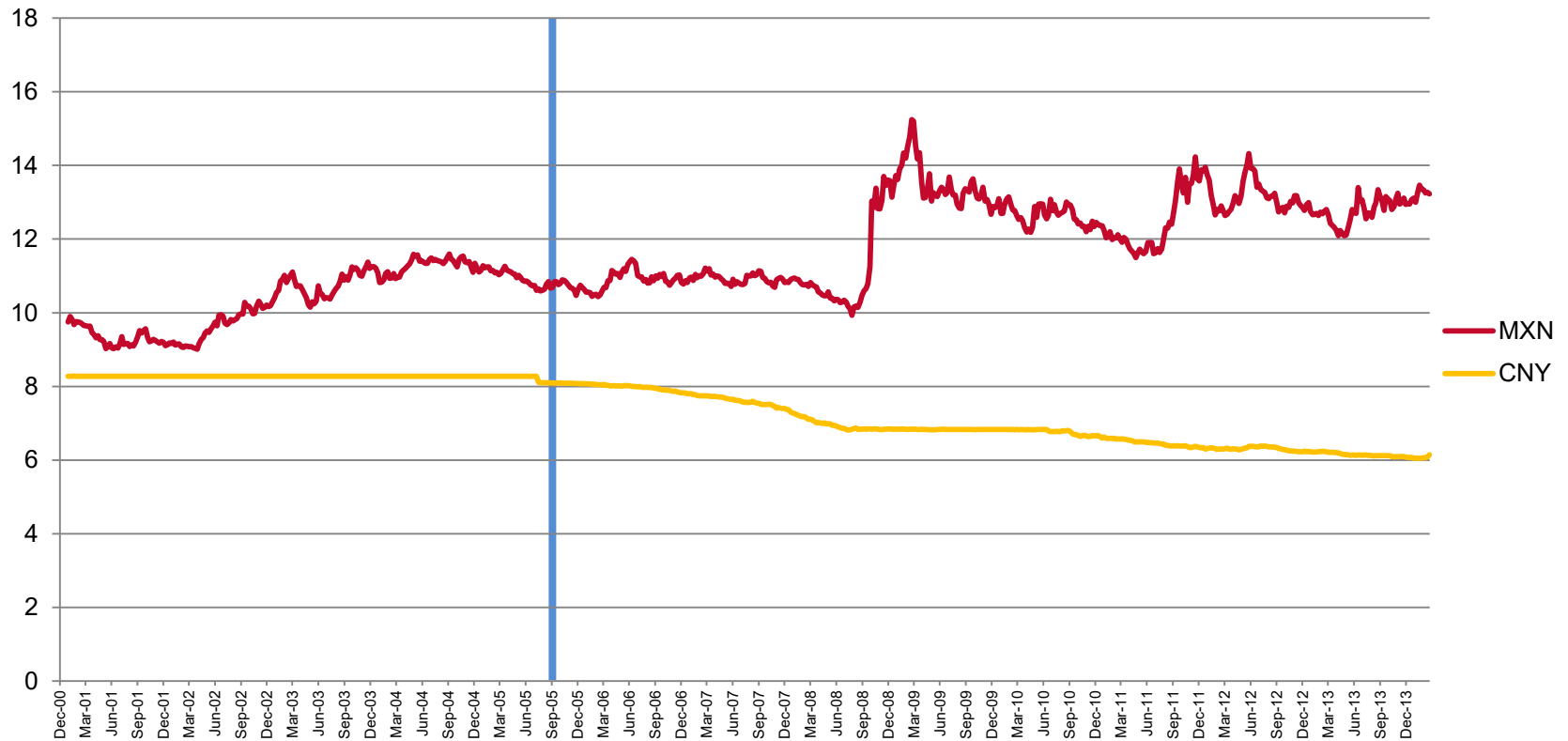
Source: BofA Merrill Lynch Global Research, Banxico, INEGI, International Labor Organization, China NBS  
Own estimates for China since 2009 and for Mexico in 2013



# Currency Advantage

In U.S. dollar terms, since 2005 Chinese products have become about 60% more expensive than those sourced in Mexico

## Peso & Yuan Exchange Rate



Source: YCharts



# Transportation Cost Advantages

## Marine & Ground Transportation

Shanghai to Chicago

25  
days



\$1.55

Cost per cubic feet

## Truck Transportation

Monterrey Mexico to Chicago

4-5  
days



\$0.83

Cost per cubic feet

## Rail Transportation

Monterrey Mexico to Chicago

6-7  
days



\$0.60

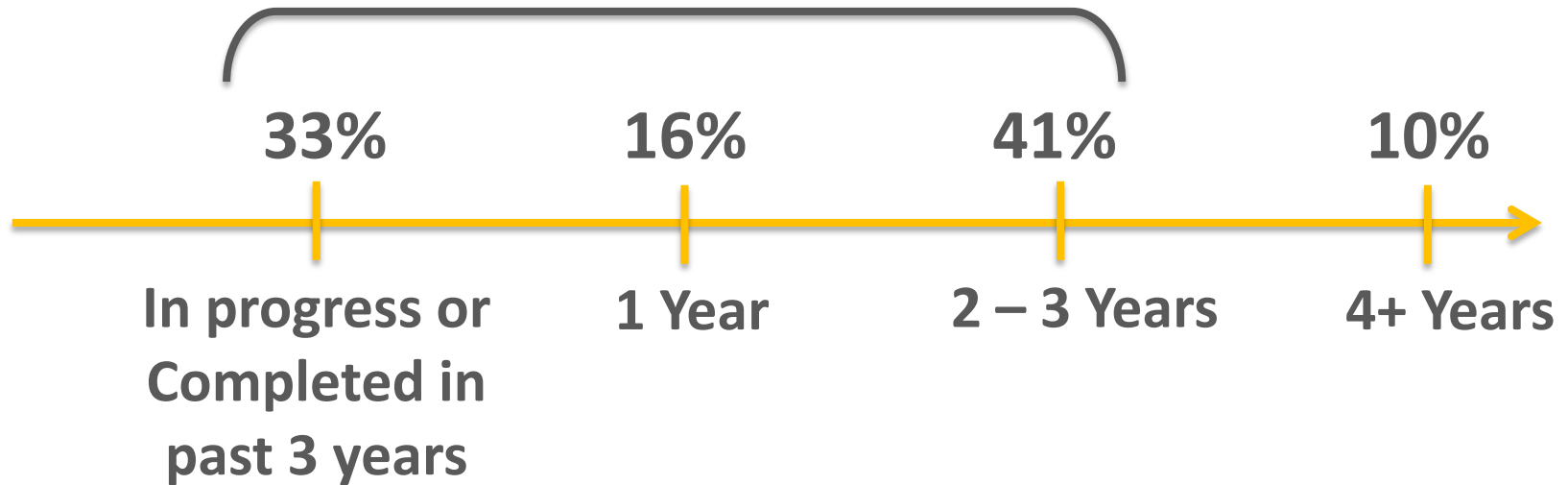
Cost per cubic feet





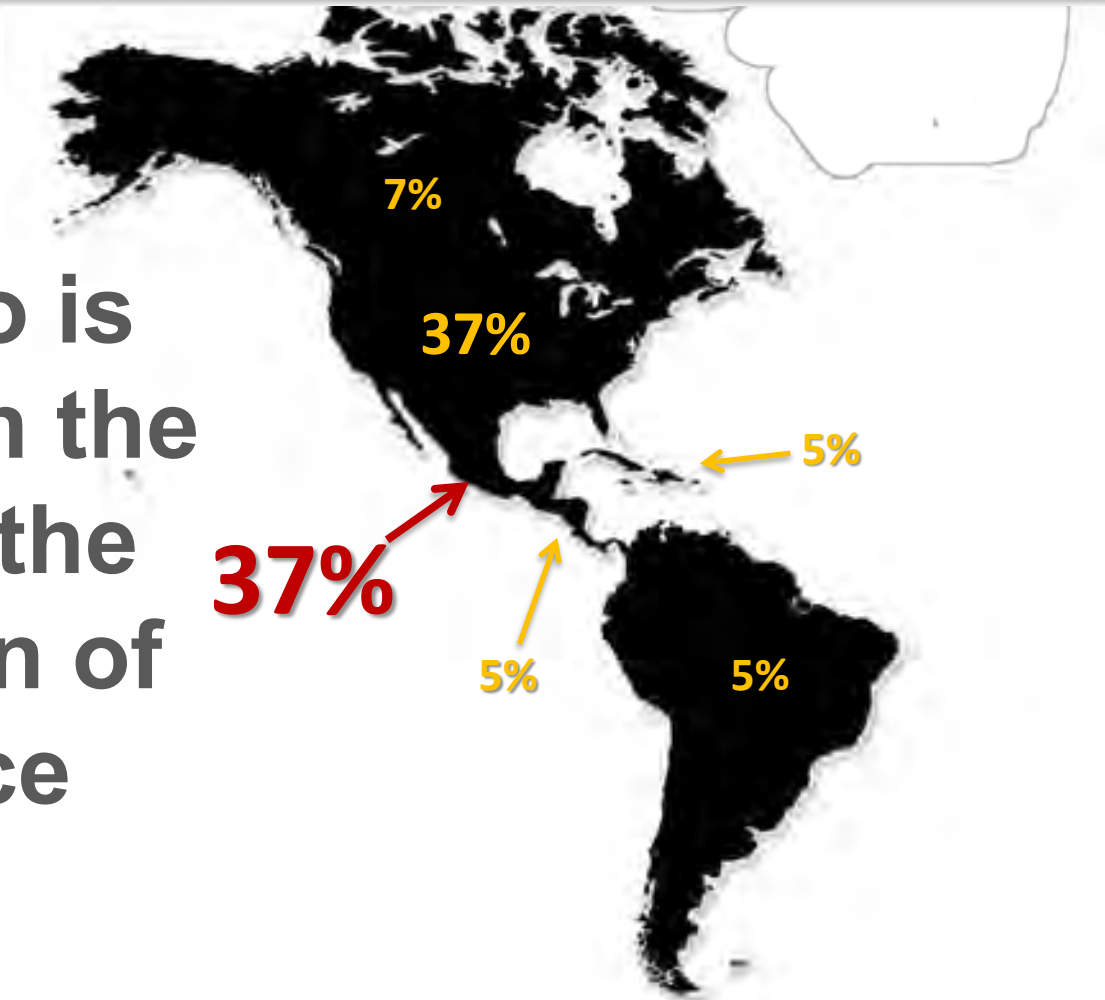
# When are they planning to nearshore?

**90%**  
will have nearshored by 2016



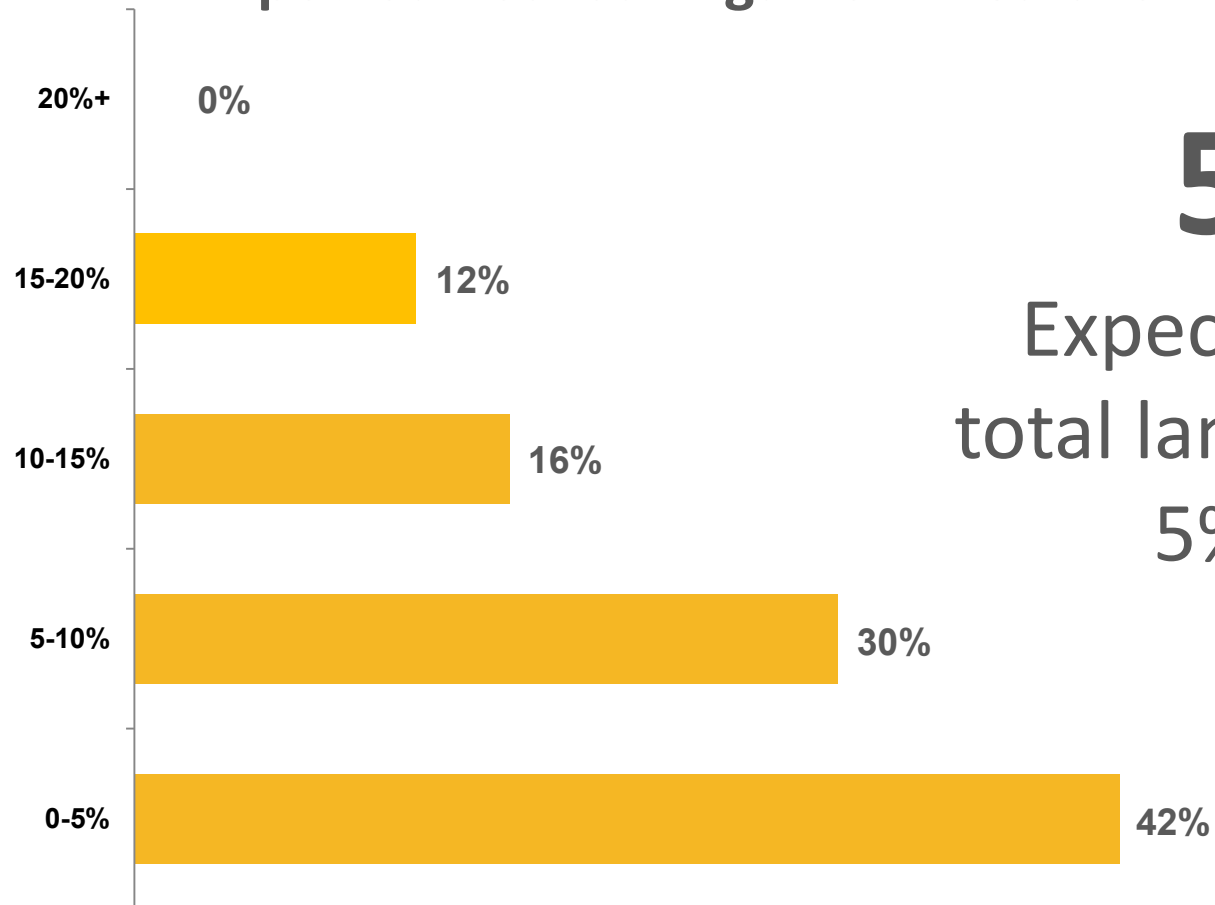
# Where are they planning to nearshore?

**Mexico is tied with the US as the location of choice**



# Cost reduction is key for nearshoring

## Expected Cost Savings from Nearshoring



**58%**

Expect to reduce  
total landed costs by  
5% - 20%

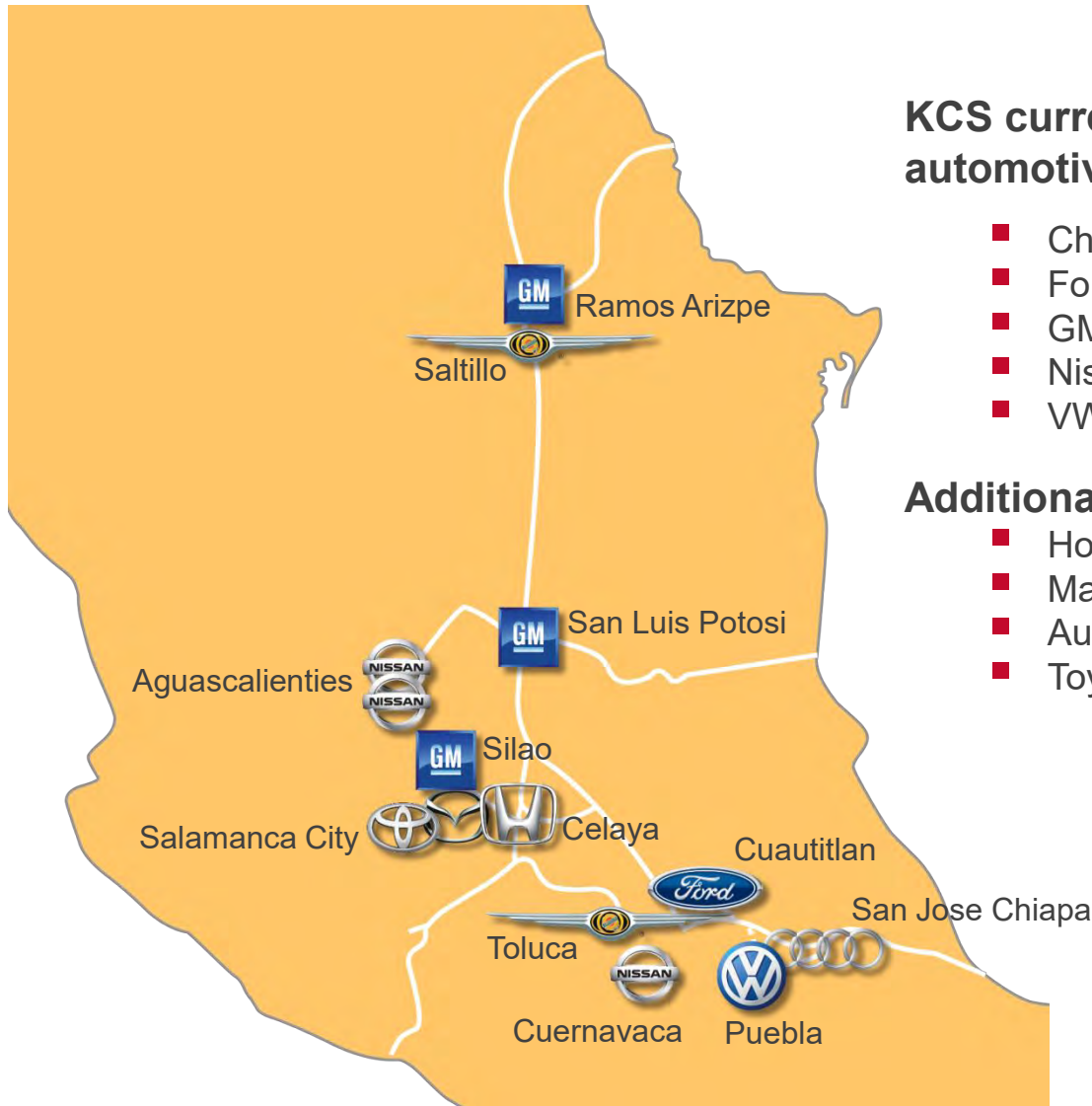


# Top Industries for Nearshoring Opportunities





# KCS is well-positioned to benefit from growth in Mexico automotive plants



## KCS currently has access to nine automotive plants in Mexico:

- Chrysler Fiat (Toluca), (Encantada)
- Ford (Cuautitlán)
- GM (San Luis Potosí), (Rojas), (Silao)
- Nissan (Aguascalientes), (Cuernavaca)
- VW (Puebla)

## Additional plant openings in 2014-16:

- Honda (Celaya)
- Mazda (Salamanca)
- Audi (San Jose Chiapa)
- Toyota JV (Salamanca)



# New Auto Plant Openings



**HONDA**  
Celaya, Mexico  
Opened February 2014  
Est. Production: 322K



**MAZDA**  
Salamanca, Mexico  
Opened February 2014  
Est. Production: 229K



**NISSAN**  
Aguascalientes, Mexico  
Opened December 2013  
Est. Production: 174K



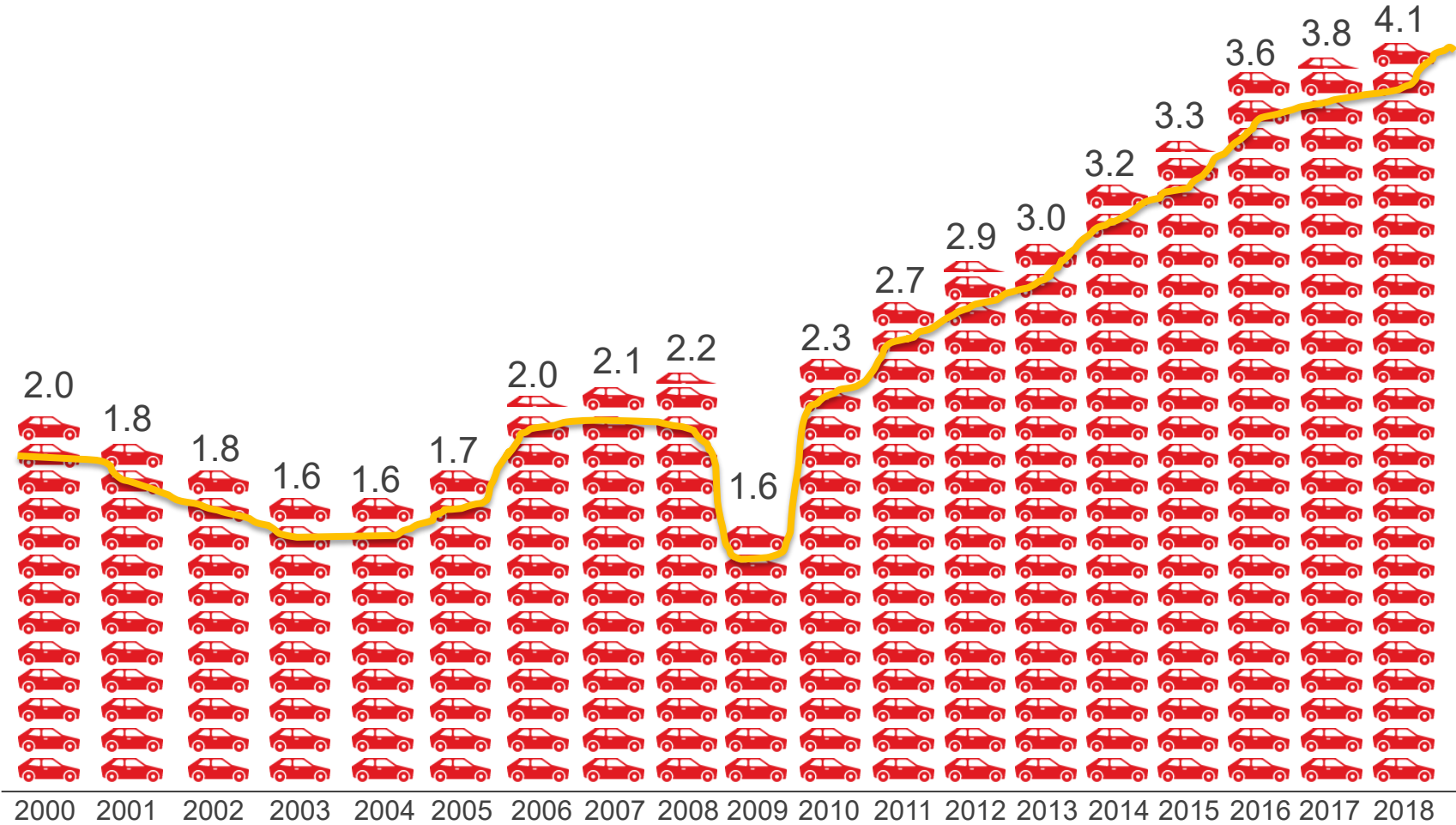
**AUDI**  
San Jose Chiapa,  
Puebla, Mexico  
Opens January 2016  
Est. Production: 173K

Source: Autocast–Honda, Mazda & Nissan (Est. 2016 production), Audi (Est. 2017 production), Google Earth



# Mexico's Auto Production Growth

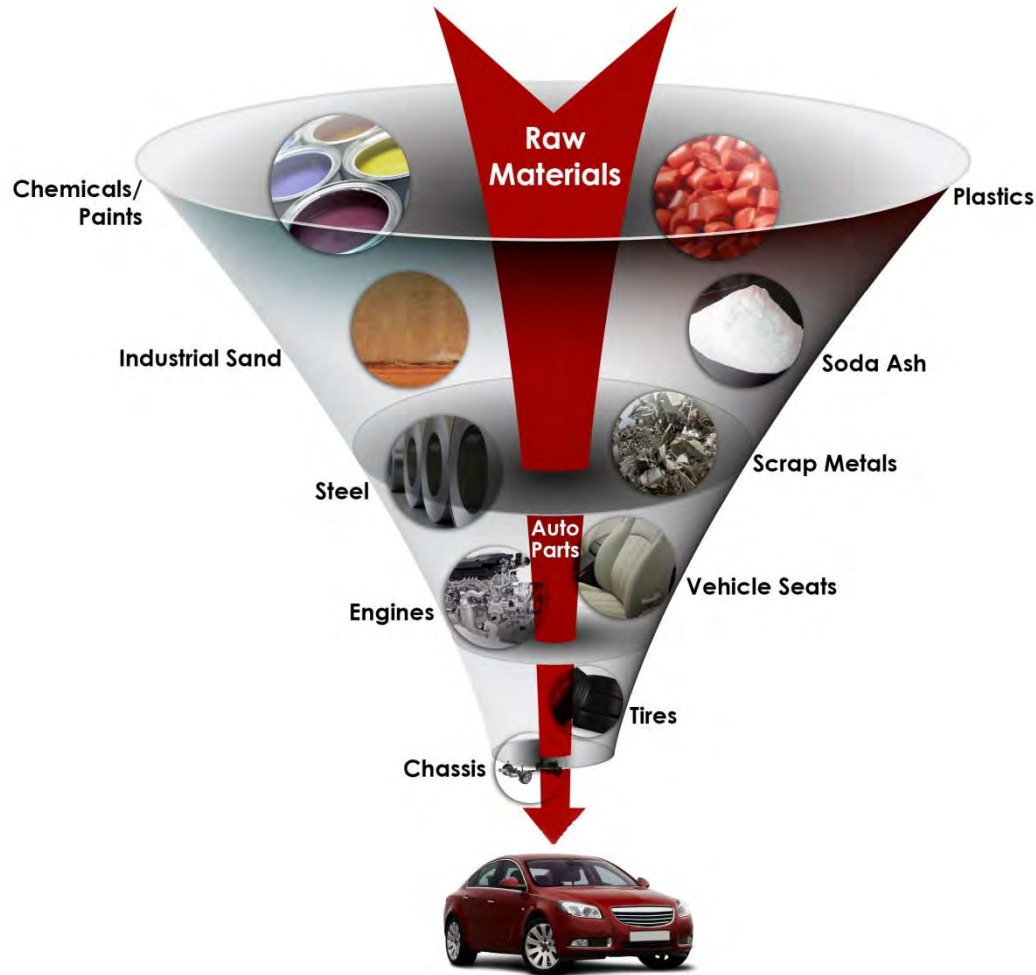
(units in millions)



Source: Autocast, February 2014



# Automotive Production Has a Large Freight “Funnel”



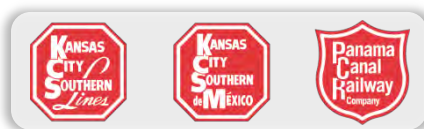
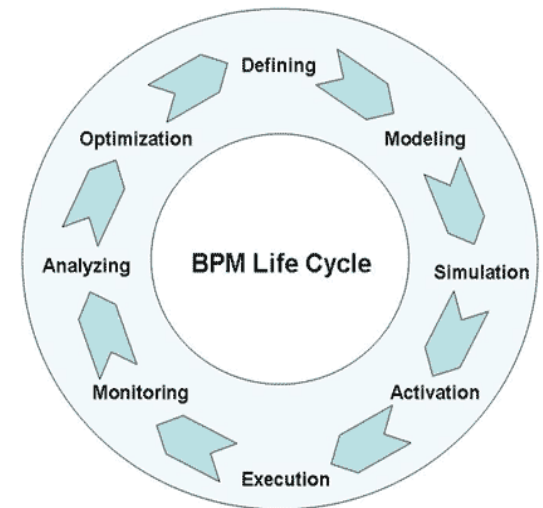


# Removing Cross Border Obstacles

KCS Goal is to streamline the Customs clearance process, reducing costs and decreasing processing time

This will be accomplished through:

- Terminal Enhancements
- Engaging and educating shippers & service providers
- Collaborating with Mexican Customs



# KCS is a leader in Cargo Security in Mexico

**1,068**  
Agents



**593**  
Guard Points



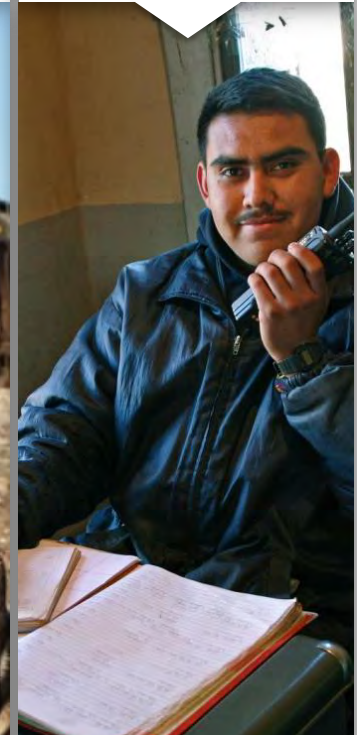
**117**  
Patrol Vehicles



**5**  
K-9 Units



**24x7**  
Security Desk

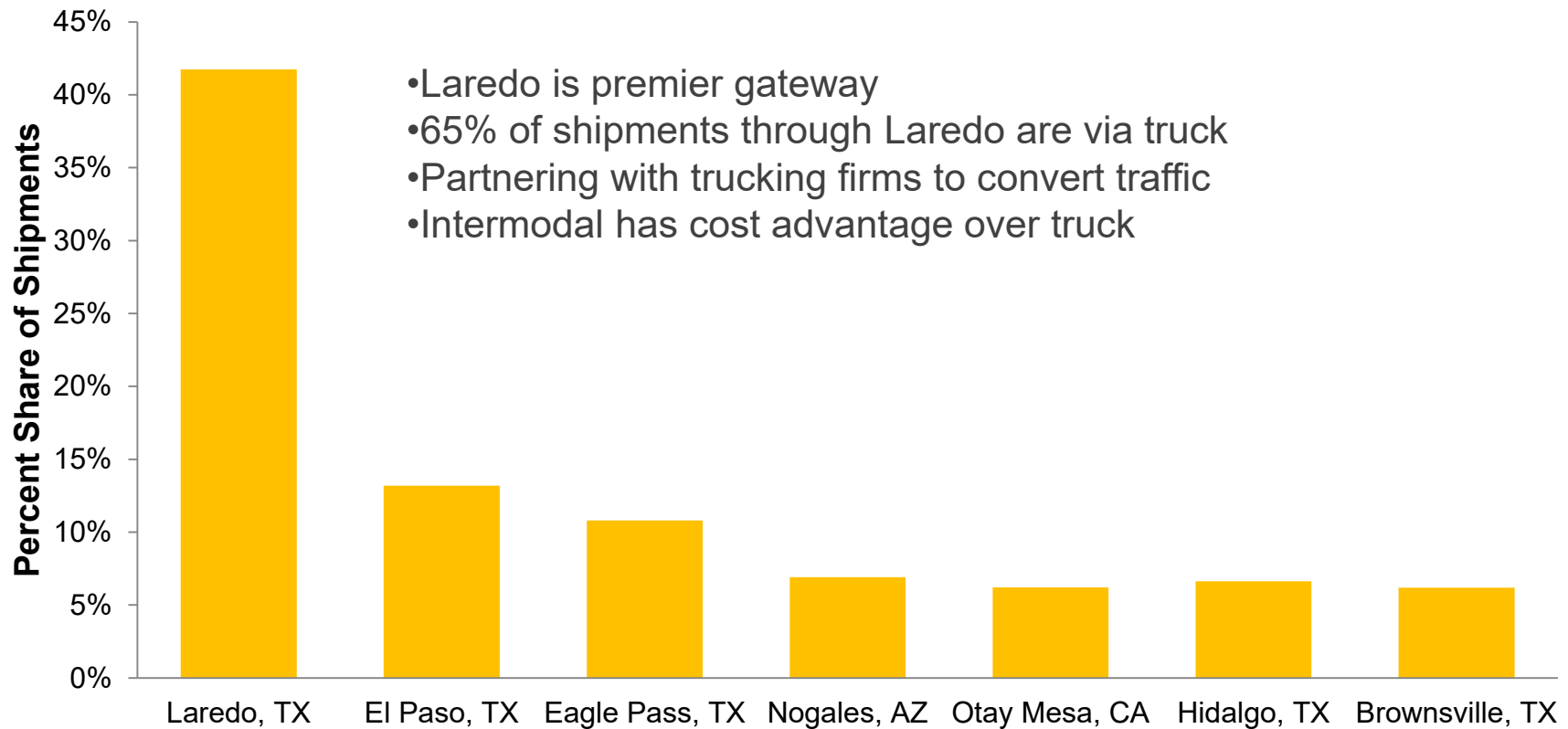


**99.98% of shipments move without a claim**



# Laredo, TX is the Leading Border Crossing

## 2012 U.S. Surface Trade by Border Crossing Imports and Exports Volume



Source: KCS Market Research derived from BTS Data



# The KCS Cross-Border Solution

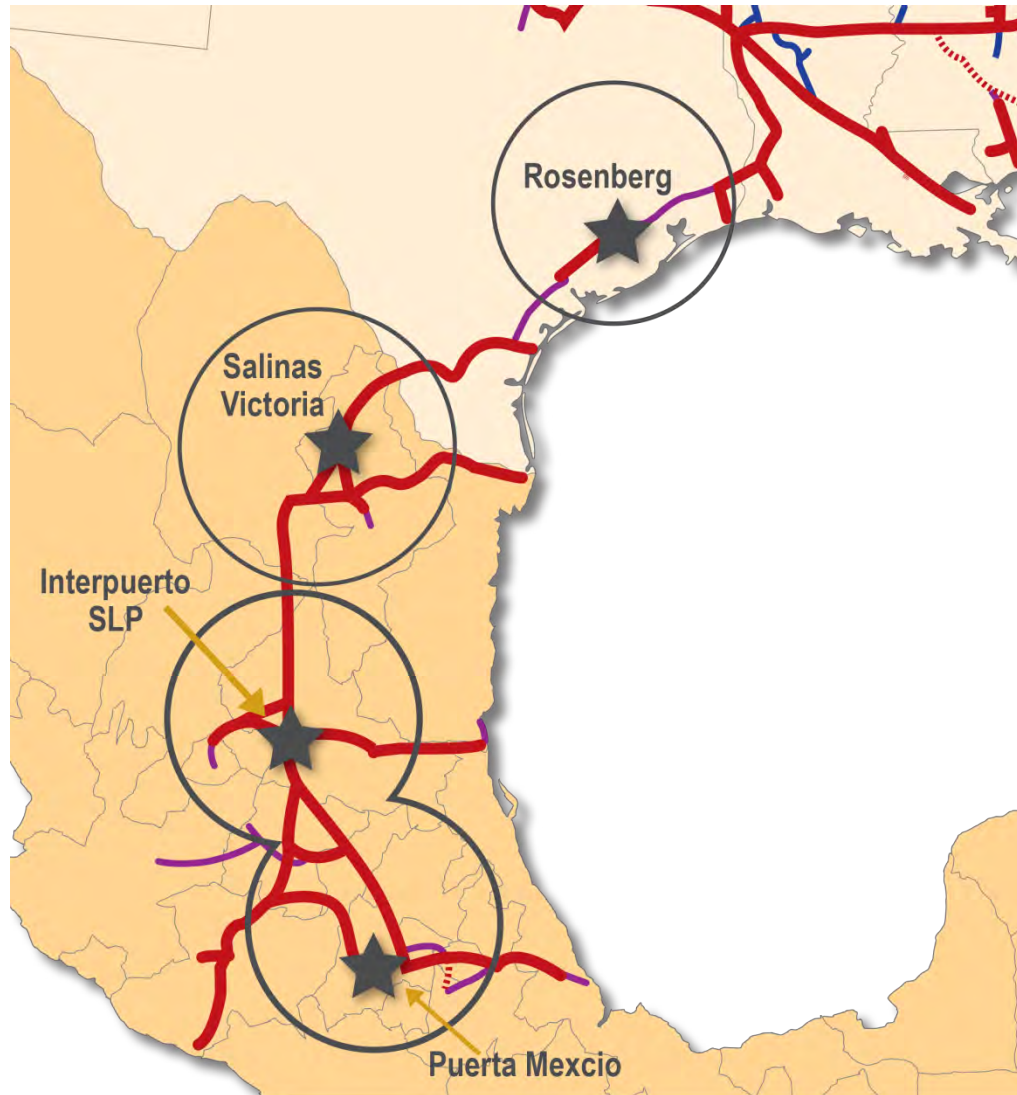
Since 2008, KCS has invested over to \$300 million on the Houston to Lazaro Cardenas cross border corridor alone.

- 100 mile new mainline addition at **Victoria - Rosenberg**
- Significant expansion and upgrade at the **Salinas Victoria (Monterrey), and Puerta Mexico terminals**
- Investment and expansion of the intermodal facility at Interpuerto in **San Luis Potosi**
- Track and parking expansion at the **Toluca Auto Terminal**
- Upgrades and expansion at the **Port of Lazaro Cardenas**
- Continued investment in **lift equipment and technology at all locations**





# Cross Border Intermodal Coverage



*Kansas City  
Southern covers  
60 percent of  
Mexico's  
population  
and  
63 percent of  
Mexico's GDP.*

Source: INEGI Censo de Población y Vivienda 2010

©2014 Kansas City Southern



# San Luis Potosi Intermodal Ramp



# Port of Lazaro Cardenas





# Port of Lazaro Cardenas

- Fastest growing port in US and Mexico
- Second concession awarded to APM
- International cross border is growing to Houston
- International equipment opportunity is untapped
- Growing automotive role



# Growth Plans

**New Container Terminal**

**Expanded Container Terminal**

**New Auto Terminal**

**Bulk Facility**



**PORT FACILITIES**



# Lázaro Cárdenas Development Plans



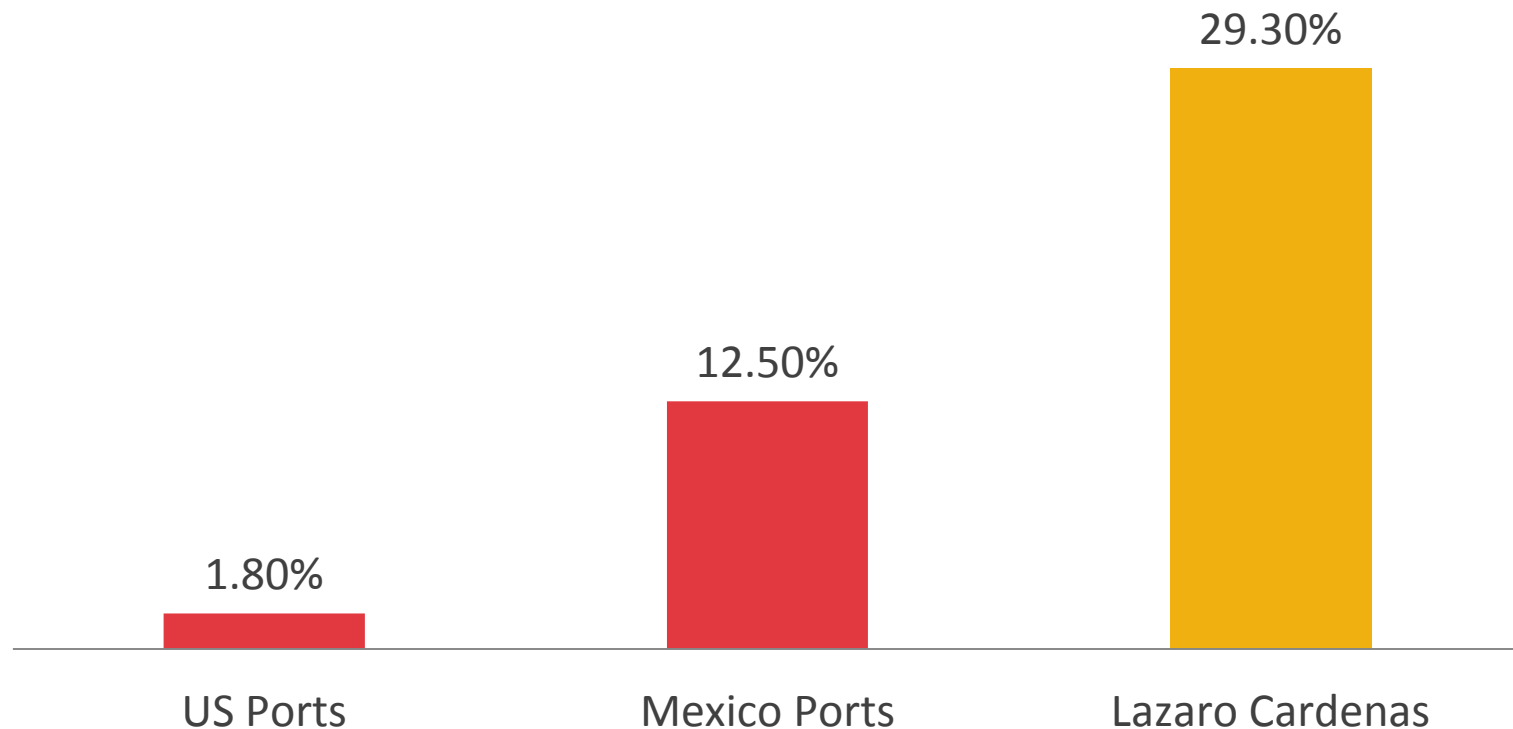
- APM Terminals signed second container concession contract in August 2012 and will invest \$900m in the project. Projected completion Q1 2015.
- In October 2012, SSA Marine won a concession to develop, operate and maintain a Specialized Auto Terminal capable of handling up to 750,000 autos annually
- Hutchinson Port Holdings installed three new vessel cranes in 2013 and plans to install two additional cranes in 2014

Source: APM Terminals Press Release dated November 12, 2012; sct.gov.mx



# Lazaro Cardenas is the Fastest Growing Container Port in the US & Mexico

## 2012 Year over Year Growth

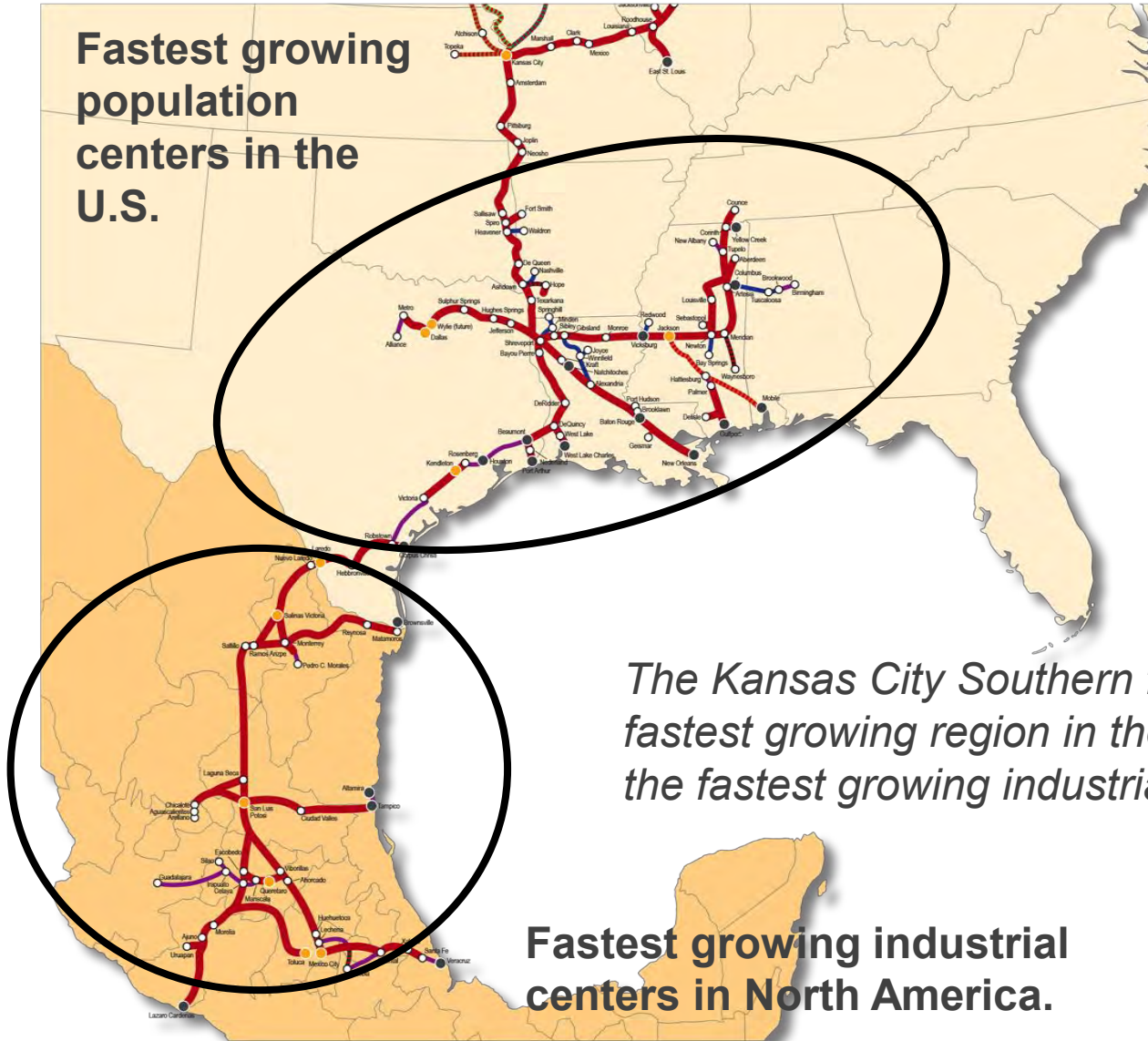


Source: JOC



# Kansas City Southern Rail System

**Fastest growing population centers in the U.S.**



*The Kansas City Southern franchise connects the fastest growing region in the United States with the fastest growing industrial market in Mexico.*

**Fastest growing industrial centers in North America.**

# KCS's Network is the center of the North American rail system

