The Mullen Group Limited

Third Quarter 2023 Earnings Conference Call Transcript

Date: Thursday, October 19th, 2023

Time: 8:00 AM MT

Speakers:

Murray Mullen
Senior Executive Officer, President

Carson Urlacher
Senior Accounting Officer

Richard Maloney
Senior Operating Officer

Operator:
Welcome to the Mullen Group Limited Third Quarter Earnings Conference Call and Webcast.

As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, then zero.

I would now like to turn the conference over to Murray K. Mullen, Chair, Senior Executive Officer and President. Please go ahead.

Murray Mullen:
Thank you and welcome, all, to Mullen Group's quarterly conference call. We'll be providing shareholders once again and our interested investors with an overview of the third quarter financial results, and in addition, we will discuss the main drivers impacting our operating performance, expectations for the year, and of course we'll close with a Q&A session.

Now before I commence today's review, I'll remind everyone that our presentation contains forward-looking statements that are based upon our current expectations and are subject to a number of risks and uncertainties, and as such actual results may differ materially. Further information identifying the risks, uncertainties and assumptions can be found in the disclosure documents which are filed on SEDAR and at www.mullen-group.com.

With me this morning, I have our senior team, but you might recall that last quarter I called in from our new terminal in Kamloops, British Columbia, that our apps group—we just commissioned it, and I called in from our new terminal. This morning, I'm calling in from the great State of Texas, and earlier this week I was in Austin, Texas. I was attending the annual American Trucking Association conference. Now, that management conference, I can tell you, was very well attended. It showcased the newest technologies, including a preview of the engines of the future - electric, hydrogen, CNG, and hybrids - and I must say the mood in terms of the prospects for the industry was quite positive. There was a general tone that the current freight recession has found a bottom, and this all good news for an industry that's so essential to the economy. I can also validate that the industry will be significantly more environmentally friendly in the future, based upon the technologies that were on display.

This morning, I'm calling in from Dallas, Texas. I'm attending the annual meeting of our station owners and partners that are based throughout North America - that includes Canada, Mexico and the United States - and this annual event is hosted by Haulistic, a U.S. 3PL business. They bring a network of station partners together to strategize about the future, the benchmark and plan, and Haulistic utilizes a proprietary IT platform known as SilverExpress. That's how we're able to track these station partners and station owners, and then we have a professional sales group. What the SilverExpress allows us to do is access capacity as well as identify real-time pricing visibility from a network of over 6,000 carriers. We like this business because it's asset-lite. It's totally scalable and it provides Mullen Group with insight into new opportunities within the U.S. market and global supply chain.

It will come to no surprise to anyone on the line today that technology is the most important differentiator for any business in today's interconnected digital world. For this reason, we believe SilverExpress provides Haulistic with one of those competitive advantages.

Back in Okotoks, we're joined on the line today by the senior team. I've got Richard Maloney, Senior Operating Officer; Joanna Scott, Senior Corporate Officer; and we've got Carson Urlacher, who is the Senior Accounting Officer, who by the way is the primary architect and author of the interim report. Carson will be providing analysis and discussion on our Q3 financial performance.

Before I turn the call over to Carson, I'll provide some opening comments.

What happened in terms of Q3 financial and operating performance? As I was preparing for today, one has to think that one of these days, investors will warm up to the fact that we have a damn good company. We continue to generate great results, just look at the Q3 performance, and I'm confident that our results will show favorably when benchmarked against our peers. Furthermore, if I could be so bold as to suggest that if one was to look into other companies that derive business from the supply chain, let's say like Shopify, I will argue that our business is actually involved in the most important part of the supply chain, and that's the delivery to the end user. Now, just to be clear, I know that trucking certainly isn't as appealing to investors as, say, the Shopify world, but let's not forget if you've got it, a truck driver brought it.

In simple terms, everyone relies on the trucking industry. It is an essential service to the economy, and here at the Mullen Group, we have one of the largest, most diversified and most profitable trucking logistics businesses in Canada. Our business is also unique in that not only do we have scale and size, we also have one of those rare business attributes that most in our industry do not have, and that is we are one of the premier liquidity providers to industry entrepreneurs, those people that go out and build great small to medium sized businesses. Eventually they all need a liquidity event, so acquisitions will remain an important element of our long term growth strategy.

We know what to look for and we don't just look for growth, just to grow. We need synergies to derive value for our shareholders, and lastly, I would say this, I'm open to debate anyone who thinks we will not continue to grow, execute at a high level, or be leaders in the communities we serve.

In terms of the quarter, I'll just leave you with these few comments. Really, not much has changed as compared to Q2, at least from a macro perspective. What do I mean by that? The economy continued on a slow growth trajectory. The remnants of the freight recession lingered on with consumers prioritizing their spend on doing things rather than buying everything, which is precisely what they did last year, accompanied by shippers doing what they needed to do, which was drawn down bloated inventories. Yes, the demand for freight and logistics services was not as robust as it was in 2022; however, this in itself did not deal a serious setback to Mullen, and the reason being our specialized industrial service segment grew nicely year-over-year.

We all also know that inflation and high interest rates bite the average consumer the most, and that's the most troubling part of what we have going on in the economy today because the less these individuals have to spend on discretionary items, the greater the impact on the demand for freight services will ultimately be.

Lastly, consolidated revenues last quarter, they were negatively impacted by lower fuel prices - that's good for the economy but that reduces our consolidated revenues, and that's because crude oil prices moderated year-over-year, so in fact fuel surcharge revenues, Carson will break this down for you, but they were down $20.3 million in the third quarter vis-à-vis last year, and that represents the majority of the revenue declines year-over-year in our business units that we owned for a full year.

In spite of all these challenges and changes to the market, our business performed very well and I'll say once again, the reasons are the same as last quarter - we have a diversified business model, we service a wide range of verticals, we backstop at 40 independently managed business units, and these teams, they all strive for best-in-class performance every day, every quarter, every year. It is therefore our job at the corporate office, the senior executive team, in fact all of our 60-plus dedicated professionals at corporate to help and support our business units to be the best they can be. I would say this - well done, team, I couldn't be happier. Great quarter, thank you very much.

Now, the second reason we had a good quarter, once again, is acquisitions, which is another key responsibility of the senior executive team. While we didn't finalize any new acquisitions this past quarter, our previously announced acquisitions and transactions contributed to our strong performance last quarter.

Speaking of last quarter, I now want to turn the call over to Carson for a more detailed analysis. Carson, you're up, my man.

Carson Urlacher:
All right, well, thank you, Murray, and welcome, everyone. Today I'll provide you with some of the highlights of our third quarter, the details of which are fully explained in our Q3 interim report.

Consolidated revenues in the third quarter were $504 million, our sixth straight quarter of generating approximately $500 million of revenue. Revenue declined by a modest 2.8% compared to the prior year period, which was really due to three factors. First, as Murray mentioned, fuel surcharge revenue declined by $20.3 million as diesel fuel prices decreased by 10.5% on a year-over-year basis. Second, revenue declined by $19 million due to lower freight volumes, particularly in eastern Canada, and from a more normalized pricing environment compared to the elevated levels that we experienced in the prior year. Third, we disposed of our hydrovac business in 2022, which contributed to a $2.7 million reduction in revenue. Somewhat offsetting these declines was $27.6 million of incremental revenue that we generated from acquisitions.

We generated OIBDA of just under $90 million at $88.6 million, which was a decrease of $9.5 million compared to the prior year, largely due to a decline in the LTL and L&W segments. Offsetting these declines was the strong performance of our S&I segment. Operating margins declined by 1.3% to 17.6%.

Now let's take a closer look at how we performed by segment.

Starting with our largest segment, revenues in the LTL segment were $194 million, down 3.7% due to lower fuel surcharge revenue, lower freight volumes in eastern Canada, and a more normalized pricing environment. OIBDA was down $6.6 million to $34.5 million. Operating margin declined by 2.6% to 17.8%, primarily due to the lower margins experienced by B&R, our most recent acquisition. The financial results of B&R contributed to a 1.1% decline in operating margins within this segment.

Our second largest segment is our L&W segment. Revenues in the L&W segment were $137.1 million, down 12.3% due to the freight recession and the continuation of the inventory re-balancing cycle. Other factors contributing to the decrease in revenue consisted of lower fuel surcharge revenue and a reduction in revenue from the sale of our hydrovac business. OIBDA was a respectable $26.8 million or 19.5% of segment revenue, and operating margins declined due to higher S&A cost as a percentage of revenue.

Moving to our S&I segment, revenues were up $16.6 million to $125.4 million on $16.3 million of incremental revenue from acquisitions. We did experience some revenue declines associated with fuel surcharge along with the sale of our hydrovac business, and from lower demand for pipeline hauling and stringing services; however, these declines were more than offset by greater activity levels for our drilling-related and production services business units. OIBDA in absolute dollar terms increased by $5.1 million to $29.7 million, with acquisitions adding $3.6 million of incremental OIBDA.

Operating margins were strong at 23.7% on lower direct operating expenses as rate increases and greater activity levels resulted in more efficient operations. In our non-asset based U.S. 3PL segment, revenues declined to $48.8 million due to lower freight volumes in the United States for full truckload shipments. OIBDA declined by a modest $400,000, and margins were down by 0.4% due to higher direct operating expenses as a percentage of segment revenue. Operating margins on a net revenue basis was 25.5% compared to 28.8% in 2022.

When we look at net income, net income increased by $1.1 million to $39.1 million, or $0.44 per common share. This increase was mainly attributable to a positive variance in net foreign exchange and lower income tax expense, which was somewhat offset by lower OIBDA and from a reduction in earnings from equity investments. The number of common shares outstanding decreased by 4.5% to 88.7 million common shares in the quarter as we continue to repurchase and cancel shares under our NCIB program.

On the balance sheet side, we continue to maintain a very well structured balance sheet with a book value of over $2.1 billion of total assets. Our debt to operating cash flow covenant under our private debt agreement is less than 2, at 1.98 to 1. We have a total of $250 million of bank credit facilities available to us, of which we had $114.2 million drawn at the end of the quarter.

In October 2024, we have $217 million of private debt notes coming due. Our ability to consistently generate predictable free cash over many economic cycles and our large unencumbered real estate portfolio has provided us with receiving many different refinancing alternatives. We are currently evaluating a number of these alternatives and we expect to finalize and announce to the market by the end of this year how we intend to structure our balance sheet going into 2024.

With that, Murray, I will pass the conference back to you.

Murray Mullen:
Thanks, Cars, and well done once again.

Let’s now turn to what we think might happen in the future - that’s always important to all the listeners. We’ll add in a little bit of a vision of what we think will happen in the last quarter of ’23 and then how we’re looking at the markets we service.

I'll start with some expectations for Q4, and I would say based upon everything we see and know today, the consumer-driven part of the economy can and most likely will remain at levels consistent over the last three quarters, and the reason we say that is primarily because the job market looks pretty steady. Let me summarize that - I'd say it's solid but it's not spectacular, and we don't see growth, but it should remain pretty solid going into Q4.

In addition, as I mentioned earlier, there are signs that this inventory re-balancing cycle that shippers and manufacturers had to adjust their inventories by, it now seems to have found a bottom. All the indications suggest that that's the case, and this suggests the freight market is now in balance, at least from a demand perspective. From that point of view, we can start now talking about a recovery in freight demand vis-à-vis a freight recession.

Our view is pricing, it's probably going to remain challenged for a while, and that's because at the moment there is excess capacity that was built up during '21 - '22, when times were so good everybody had a little added capacity. Now it's not significant, but it's just enough to impact pricing at the margin, so in other words, we believe that our LTL or L&W units' 3PL segments can deliver another strong quarter that's consistent with the first three, but I don't see any growth right at the moment.

Now let's talk about our S&I services segment. The news is generally more positive, primarily because commodity prices are pretty attractive. In fact, we're bullish on this segment except for one part, and that's the large diameter pipeline business. The big projects that our pre-made pipeline group has been working on for the last three years, they're nearing completion, so that's the bad news. The good news for our group is that the pipeline's now being built, capital is going to be deployed by oil and natural gas companies into drilling, or as I like to say, now we drill to fill, otherwise why build? On balance, we should have another strong quarter in the S&I segment.

If we want to take a longer term view for this segment, there is some positive developments that all of us are hearing recently - increased talk of LNG expansion plans, and of course the Supreme Court of Canada ruling on Bill C69, the federal government's Impact Assessment Act was deemed to be unconstitutional by the Supreme Court. This is welcome news not just for the oil and gas business, it's welcome news for any major capital project planned for Canada, and it will make sure that there is a more balanced approach to how these big projects are viewed, so that's—any good capital project, I can tell you is very good for us in our segment.

Lastly, let me comment on acquisitions. Never seen so many opportunities cross our desk. Our challenge is to pick through these ones that meet our main criteria, and I'll reiterate what those are - that's the right fit, it's the right price point, and there must be synergies to be had. When we find them, we'll acquire these companies. Furthermore, there's no doubt in my mind that I think this trucking industry is ripe for a major consolidation trend. Many carriers have over-extended their balance sheets, added way too much capacity during '21 - '22, and they're now paying the price, especially with interest rates where they're at today, so that's causing stress amongst those that got over-extended.

Let me just make a comment about that. How did we handle '21 - '22? We actually didn't really add any capital to our business. We sold off assets, we stayed disciplined, and we didn't do a bunch of acquisitions and overpay, so we think that discipline will pay huge dividends for our shareholders in the future, but for some, a day of reckoning is close.

There's going to be other carriers that are going to be looking for liquidity events, and we'll acquire brand-name companies in Canada, especially in the LTL segment. In the U.S. market, I see exactly the same thing - they've got the same dynamics as going on in Canada, and we will look at U.S.-based opportunities but as of today our preference is going to be in this 3PL non-asset based business logistics market. That's where we think we provide the middle layer for the shippers and also for the carriers, and there's a lot of carriers out there, so providing that middle layer, which is what SilverExpress does, is—we think that's an opportunity for our group and we'll be capitalizing on that as best we can. By the way, that's why I'm down in Dallas right now, meeting with all our partners down here and station owners.

Lastly, the energy and mining sectors of the economy, they look interesting to us. We'll continue to add to our service coverage if we can find good fits, especially where we see the valuations in this segment today, which are quite reasonable.

That concludes our presentation. I'm going to turn back over to the conference coordinator and we'll go straight to the Q&A session. Thank you very much, folks, and look forward to answering some of your questions.

Operator:
Thank you. We will now begin the question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

The first question comes from Konark Gupta with Scotiabank. Please go ahead.

Konark Gupta:
Thanks, Operator, and good morning, everyone. Good morning, Murray.

Murray Mullen:
Good morning.

Konark Gupta:
Good morning. Just wanted to follow up on your commentary on inventory re-balancing. We have been hearing similar commentaries from other companies about the destocking cycle as almost done, and I think the retailers are a little bit afraid of restocking in this cycle given the consumer demand is not really certain here. Just wanted to understand, from your conversations with your customers and shippers, what are they thinking or planning in terms of the restocking cycle, and is there pent-up in restocking that could happen big time next year because they did not restock this year?

Murray Mullen:
Konark, that appears to be some of the general consensus from some of the people that we speak to. My personal opinion is, I think some of that is wishful thinking. To hold inventories today, it's very, very expensive. The cost of money is through the roof vis-à-vis the last cycle. Everybody is a little bit—the consumer's just about in balance right now, but there's stress points there, so I suspect that the freight recession is over, so I don't think it's going to get any worse, but I think it's basically in balance right now.

On our floors and in our facilities, we've got capacity now to take more business in, and we're seeing—we're hearing about that all over the place. Within that overlay, I think it's going to stay pretty price competitive, so you better have a damn good business model or you're going to be trapped. I think that's our general thesis, and our job at corporate is to take advantage of situations where we think that we like the markets, but maybe the management made a couple missteps, and that's where we're going to look at opportunity.

We think the market's in balance. You might get a little bit of uptick here or there, but on—I don't see a lot of growth, Konark. It's not going to get much worse, I don't think. Everything is back in balance, so now you've got to be pinpoint accurate in your business models.

Konark Gupta:
Okay, makes sense, and that is a good segue into what I wanted to hear about, how you plan for the next year. Knowing what you know today, given where the environment is and the rate increases are now starting to impact the consumer, and the Canadian consumer obviously moving on a lot of variable rate mortgages and all those kind of things, might see a little bit more pinch next year. How do you approach the business planning from a demand perspective next year? You said you have capacity, but are you assuming a stable environment next year or a big change in either direction, especially for your freight businesses?

Murray Mullen:
I don't see a lot of change for next year, to be honest with you. What I see is disruption, and then it's just a matter of who can take advantage of the disruption.

Let me just point out, if you look at our third quarter, if you look at our year-to-date, you take a look at our direct operating expenses, we've just come through a major freight recession off the massive highs of last year and '21, and our DOE stayed very, very flat. Our folks do a great job of managing those costs and finding productivity gains, and we're asking them to up their game on that. Where we lost some margin is in S&A, and that's because our revenues came down a little bit, gross revenues were down, fuel surcharges were down, blah-blah, and so we lost, I think, Carson, maybe a point, point and a half as S&A's higher, and we're going to have to focus on that part of our cost structure next year unless we can—our businesses can gain market share at the expense of people who have got over-extended. I think that's going to be our overall game plan for next year, and we're challenging all of our business units - remember, they're independently managed, that they know the game plan. Take advantage of your competitors who made some missteps, gain some market share, and corporate office is not going to be quite so tough on S&A.

Konark Gupta:
That's great. I'll turn the call over, and appreciate the colour. Thanks.

Murray Mullen:
Thank you.

Operator:
The next question comes from Kevin Chiang with CIBC. Please go ahead.

Kevin Chiang:
Thanks for taking my question, and solid results here, so congrats on that to the Mullen team.

I noted in your MD&A, you talked about a little bit of, I'll call it transient headwinds, as you integrate the B&R acquisition, and you spoke of some of the margin impact that had in some of your segments, specifically LTL. It seems like you're on the way rectify some of that stuff, and it seems like you're pretty confident you'll get LTL margins back to historical levels as that integration progresses here. Maybe you can give us a sense of the timeline of that - is that a 2024 comment, or do you actually see some of that benefit in Q4 here as you exit this year?

Maybe just to level-set, what are—what do you consider historical LTL margins? Should we look at last year as the benchmark, just because you re-segmented and then the pandemic hit, so there's been a little volatility there?

Murray Mullen:
Yes, so when we acquired B&R Eckels, it was a brand-name company in Alberta, and they really were involved in two main verticals - one was the energy business, they were servicing the oil and gas business and the energy business in northern Alberta, and another part was servicing all the communities in the LTL. When we do our due diligence and we acquire, we knew that they were not performing as the way they should in the LTL side. In the other part of the business, they were superstars.

But when we acquire companies, and from families, we have to be somewhat respectful of—and not try and scare the people off too much. We gave it time, we tried to figure it out, make sure we're doing the right things, and then we just now announced for October 1, we've entered Phase 3 of our integration plan, which is we're going to be shutting that LTL business down and integrating it in with our—with two of our other companies, which is Grimshaw Trucking and Highway 9. We've already got the technology there, we've got the systems and the process and the terminals, so we were just too much duplicated. Once we layer that into those other business units, we'll get their margins, maybe margin improvement if we're so fortunate on that, but we're probably going to have about 50 people that we consider as duplicative people now, head count, and that's about $5 million on a run rate for 50 people if you average about a hundred grand a year per head, and so we're going to make sure that's all buttoned up in the fourth quarter.

We don't think it'll help our LTL division in the fourth quarter because we've got to go through all the last of the phase of the integration, but we hit '24 with no real lingering legacy-based costs. We're going to—we're just going to layer that in and it will not be part of the B&R Group. B&R's going to focus 100% on energy services - that'll be a big company on its own, and that is very complementary to many of the other service offerings that we have within our S&I group, so.

Yes, we think our—basically our LTL folks did a pretty darn good job of maintaining margin. We lost some revenue just because it just wasn't quite as active in those things as last year, but generally they did a very good job of protecting margin; but we did in the fourth quarter, we lost about 1.1—I think it was 1.1, wasn't it, Carson, of …?

Carson Urlacher:
Yes, it was 1.1%.

Murray Mullen:
One point one percent in our LTL division, about 1.1%, so add that back in for next year would be a pretty good rule of thumb.

Kevin Chiang:
Okay, that is super helpful.

Murray Mullen:
That's what we'll look at doing - yes. LTL is still the core part of our business, Kevin, you know that. It's our biggest segment that we have. We'll continue to add, because in LTL, it's not a transaction. You can actually change the denominator, you can manage the spread by getting either content or making sure that you have got good density in your lanes, so.

The reason that we've rolled B&R, the LTL side into our other business units, is because our business units have really good technology and we're big investors in that. B&R did not invest in technology, so they were left on an island by themselves, the people there. But that's what we're good at as a Company, and we take smaller carriers and we layer them into our network where we've got professional management and good networks and great technology, and we should be able to drive margin over time. LTLs should improve over time with density and technology.

Kevin Chiang:
That is great colour, and very helpful.

Just in your S&I division, as you pointed out, obviously the standout segment especially this past quarter, and the outlook is maybe a little bit more differentiated versus your more freight exposed segments. If I run some quick math here, it looks like backing out acquisitions, some of the fuel surcharge headwinds, it looks like you posted organic growth of roughly, call it 4% to 5%. You also called out premade was a headwind. If you were to back out premade, what did the rest of the business grow at, because it seems like you're going to lap some of the premade headwind in 2024, so just trying to get a sense of what the rest of that S&I revenue might be growing at, ex some of the large diameter pipeline headwinds you're facing in 2023 here.

Murray Mullen:
Carson, this sounds like a question for you. I can give a general comment, but I think Carson might have a little more detail on that, so let me give him that one, Kevin.

Kevin Chiang:
Thank you.

Carson Urlacher:
Sure, Kevin. I would say on a go-forward run rate, you're going to start seeing premade pipeline, as you mentioned, start to come back to a position where you're not seeing those big headwinds going next year as you start looking at the comps. I think going into 2024, there's still going to be—they're still going be down year-over-year, but I don't think it's going to be as significant as what we're seeing right now. I think that's the general trend that you're going to see for pipeline stringing and hauling in that segment for 2024.

The other parts of our business within that segment are looking fairly strong and fairly robust, and I think we're just at the beginning stages of it. Now that those pipelines are in the ground and they're nearing completion, now you got to fill it, so we participate in that market all the way through its life cycle. Now it's going to switch more to demand for our production services group or drilling related services group, so it's going to backfill some of what those downdrafts are going to be, that that premade pipeline is going to experience next year.

Hopefully that answers your question.

Kevin Chiang:
No, that gives me a sense, just to level-set trajectory-wise how to think of S&I as we look out into next year, so that's helpful.

Maybe another housekeeping question, and maybe this is to you, Carson, as well. A little bit less activity on the NCIB in Q3 three versus what we saw in the first half. It seems like you're keeping some dry powder available, given some of the M&A comments that have been made on this call. As we think of the activity on the buyback through the remainder of the year, should we think of something similar to Q3, just given the M&A pipeline looks pretty robust for you guys?

Carson Urlacher:
Yes, I would agree with that comment, Kevin. We want to obviously keep some powder available based on the number of opportunities that are being presented to us. You want to make sure that you're able to capitalize on the ones that we won't end up executing on, so I would say all in all, NCIB, you're probably—Q4 is probably going to be somewhere comparable to Q3, obviously depending on what the stock price does. But I'd say all things equal, I don't foresee it changing that much.

Kevin Chiang:
That's great. I'll pass it along here, and best of luck as you close out the year. Thank you very much.

Carson Urlacher:
Thanks.

Murray Mullen:
Kevin, just to add onto that, I would say is on the M&A side, I think our primary objective is we don't want to put the cart before the horses here. Carson spoke earlier about the balance sheet and making sure that we button up and we have the balance sheet all squared away and stuff like that. We have multiple options that we're looking at, as he said. We're going to pick the best one for our shareholders, and we will have that done before the end of the year.

Once that's all tidied up and buttoned up and you got all that, then we're going to turn our attention to growth again, and there is—on the growth, there's no hurry because there's not going to be—in my view, there is no big fast rebound here in the economy, so we'll be able to just cherry-pick what we want and that's very good for our share—for our investors and our shareholders.

Remember, we'll get aggressive at the bottom of the market. I was not aggressive at the top of the market.

Kevin Chiang:
That makes a ton of sense. Thank you very much.

Operator:
The next question comes from David Ocampo with Cormark Securities. Please go ahead.

David Ocampo:
Thanks, good morning, everyone.

Murray Mullen:
Hey David.

David Ocampo:
Murray, I appreciate all the commentary that you've made on the outlook, particularly on the near term, and even in the release, you guys called out that you expect to come ahead of your initial guidance for '23. I was wondering if you could firm up the numbers there, maybe just on EBITDA and free cash flow.

Murray Mullen:
Carson, I'll just—I'll turn that over to Carson and let him answer that one for you, David.

Carson Urlacher:
Yes, so if you take a look at what we had originally came out with, David, we guided towards $2 billion in revenue for 2023 and, call it $300 million of EBITDA for this year. If you look at our year-to-date results, we're right in line with our original guidance, and in fact one might argue that we may be slightly ahead in terms of operating income.

Now, the $300 million that we talked about earlier in the year was based on our traditional business units, so ex acquisitions, so we're—you add in a little bit of acquisition EBITDA into 2023 and you're probably going to be slightly above what that guidance was. You can also do a comparative look at what we did in Q4 of last year and get a sense of what Q4 of this year might look like, just based on the trend analysis that we're currently tracking for 2023, and again, it would probably suggest that we're going to close out a little bit better than our original guidance.

David Ocampo:
Got it, that makes sense. Then just another housekeeping question on the integration plan for B&R, is there any real estate that that potentially comes out of that as you consolidate into other LTL segments?

Murray Mullen:
Yes, good question. We didn't buy the real estate from them. We entered into—the facilities that we thought we needed long term, we entered into longer term leases, five-year leases with options on them, on the leases, and the real estate we considered as, quote, non-core, we just took a one-year lease on, so we matched that I think pretty well. I think, Richard, we're only off that maybe one or two terminals or facilities …

Richard Maloney:
At one or two locations, agreed - yes.

Murray Mullen:
… of all of the ones they had off that initial—off our initial due diligence and negotiating with the family, so we didn't buy that real estate. We have the option to buy - we always get that when we take leases where we can, but we took five-year leases on the stuff that—on the facilities that we considered core to the business on long term.

David Ocampo:
Got it, that makes sense, and is the non-core factored into that 110 basis point improvement that you guys are seeing?

Carson Urlacher:
I would say no …

Murray Mullen:
I think it is. Rich, if I heard that—if I gathered that question, the non-core will expire in April, so we won't have anything that's on those legacy based costs after April.

David Ocampo:
Got it, thanks, Murray.

Murray Mullen:
If I just add a comment, so last year, I took heat because we came out and said, look, the economy might not be as good, and we came out early and said, we still think we can do $2 billion but some of this fluff that we saw happening in '21, '22, that most people didn't want to talk about but we tried to be rational about it, so we came out and said, we'll do $300 million of OIBDA. As Carson highlighted, it looks like we might be off by a couple percent because when you add in the acquisitions we did, it might add about $10 million on top, so we're going to beat $300 million but we did some acquisitions to beat it.

But our initial—our same store sales and our existing businesses and what we saw in the market, we're not off by much, so from that perspective, I think that tells you. When we take a look at the market, we take a look at it on a very practical basis and we don't look at it on a hope basis.

Operator:
The next question comes from Cameron Doerksen with National Bank Financial. Please go ahead.

Cameron Doerksen:
Yes, thanks. Good morning.

My question is on the competitive capacity situation that you mentioned - not significant excess but still some excess capacity out there, particularly in the L&W segment, and your expectation that we'll see a bit of a shakeout in the market here, either with smaller carriers in financial difficulty or some consolidation. Just wondering if that's something you're seeing already as far as companies maybe going out of business or scaling back operations due to financial difficulty, and if that's something you're seeing already, how do you expect that to play out? Is that something that you're going to take a couple years to play out, or is that something you think will happen more quickly?

Murray Mullen:
Yes, that's a good question. For the most part, I would say the freight recession, Cameron, really hits the L&W segment more than the LTL segment. LTL segment is still in consumer demand - that's basically what that is. L&W, that's full truckload, that's a part of the inventory balancing, blah-blah-blah, all those kind of things, so that's where we saw most of the risk on the freight recession.

Now, some of our businesses are not really—the L&W are not really tied to the consumer, that bloated inventory at Kleysen as an example, or Bandstra, those are two pretty good-sized businesses in our group. But the industry talk that you hear about all the negative and the difficulties, most of it is going to be in the logistics and long haul business, or warehousing side as we classify them, and it's been pretty nasty on people. If you were an asset-based carrier, in other words you had a lot of company trucks and you're in the long haul business, last year was fantastic and this year is a disaster, and that's because of pricing.

When will pricing turn? When I'm talking to everybody down here at the conference, down at the big U.S. carriers, I'm down talking to them, I'm getting their viewpoints. They were caught off guard by it, and of course now they think it's going to turn quick - I'm not of that vein. I think there's a lot of independent contractors in the market that are really hungry and they're tough competitors, and so it could take a little bit longer on the full truckload side than what people are anticipating, unless you said to me, the economy's growing and demand increases. If demand increases, I have to change my thesis; but I don't see demand increasing, therefore, we're stuck in this—in a lower price environment. You better focus on your costs, better be pinpoint accurate, and we're back to old school from my perspective on that side.

I think it's going to take a little bit longer than a couple quarters. We're at the bottom. It's not going to get worse, but I don't see an uptick for a while.

Richard Maloney:
Cameron, it's Richard. If I could add, when we do see the acquisition opportunities presented to us, I think part of your question was are they coming now and are we seeing these challenges, these financial challenges, and the answer is yes. As we get them—a couple yesterday, they just are looking simply to get out. They won't even in some instances provide financial information, they just say buy my assets, because if you think about it, some of these smaller people who are fully drawn on an operating line have gone from 2% to 8% in terms of real financial costs they've got to bear, and they have an old fleet - five years or older is an old fleet. They can't afford to get a new truck, and they just said, we're done, can you buy me?

As Murray said, in our acquisitions, our precision-based acquisition strategy, we're very precise and we will look at things that add value to us, so. In those instances, those people, you know what? We'll just as soon let somebody else acquire them, but yes, it's present, right now.

Cameron Doerksen:
Okay, no, that's very helpful.

Just maybe quickly on the LTL side of the business, obviously you're more exposed western Canada versus eastern Canada, but you did call out eastern Canada, at least in Q3, as being obviously where most of the weakness was in LTL. Are you seeing any signs of stabilization in the eastern Canadian LTL at this point?

Murray Mullen:
Yes, we saw a little bit of it. The LTL side got a little bit of a bump when Yellow announced that they're shutting the doors, and you saw how that capacity and that—all that freight was just gobbled up, like, within two weeks. Nobody cared, it was just all taken, so that added a little bit of capacity for everybody. I'm sure you'll hear that from all the other carriers as well.

Okay, but that's over now. There's been a little bit of consolidation on that business that's very healthy for margin. It's not healthy for demand, overall demand, but it's healthy for margin and it allows you—those that are able to take advantage of it and fill their lanes and get density, that was an unexpected win for most of us in that, so. It went down and then it—we got a little bit—we got a little bit of benefit from that.

The economy is in—I still see it in balance right now, I don't see a lot of growth, but it's in not a bad spot. If this is bad, we'll take it all day long.

Cameron Doerksen:
Right, no, that’s great. Appreciate the time. Thanks very much.

Murray Mullen:
Thank you.

Operator:
Once again, if you have a question, please press star, then one.

The next question comes from Tim James with TD Cowen. Please go ahead.

Tim James:
Thank you, good morning.

My first question, I'm thinking out to 2024, and I know it's early, I just want to—I’m wondering if you can frame how we should think about pricing in your LTL business, just given spot pricing versus contract and your mix, and if there's any remaining adjustments lower that are required to pricing in that business, just because of all the pressure over the last couple years and maybe there's a—I shouldn't say last couple years, the last year, year and a half, and maybe there's a lag effect there. Is there any kind of residual, or has the pricing in the LTL business sort of been reset to align with current market conditions and there shouldn't be any material change, obviously other than changes in market conditions or spot pricing in 2024?

Murray Mullen:
Yes, I think if you look at the LTL side of the package business, you watch—you take your cue from UPS, from FedEx and whatever, and they're generally in the 4% to 5% range that they're going to get in terms of pricing. That goes off the book, and then the contractor goes down from there - if you've got big shippers, you can negotiate deals. We had FedEx at our meeting here with our station agents, and we drive scale and—we're telling them we can't do that because we can't pass it on, so we have good discussions on that.

I think there will be enough pricing leverage to hold margins. Margin improvement comes because we run a better business, better technology - that's how we're looking at margin improvement. Can we get better lane density, can we acquire a nice tuck-in business that gives us that lane density and that—layered in, and then we're really, really focused on accessorial charges and technology.

Richard, we're working on some really neat things in …

Richard Maloney:
Absolutely, (inaudible 0:49:54.7).

Murray Mullen:
… in some of our business units that are just absolutely doing a bang-up job, and that, we'll be taking to all of our LTL businesses in the very near future, if I'm not mistaken. Rich?

Richard Maloney:
Agreed. Yes, some of the systems we're working on, just a reweighing system for example, that we do within our organization. If the customer says it weighs a hundred pounds and it shows up and it weighs a thousand pounds, you don't have to charge them any more in terms of rate, but you just charge them more on the weight that they forgot to tell you they missed by a few pounds, type of thing, so we have technology that is able to identify that and we send it right back to the customer. It's all interlinked to our ERP, our enterprise resource planning system, and that's the efficiency and productivity improvements Murray talked about, and all of our business units are working to that. That's why we move B&R into the other entities, because they do that very, very well.

Tim James:
Great, that's helpful, thank you.

My second question, and you talked and provided some good detail on B&R and the integration of that into the business, and I know you haven't been as active lately on M&A, but are there any other underlying past acquisitions that still provide synergy opportunities at this point, or have all past M&A transactions, the synergies have been more or less realized from those ones?

Murray Mullen:
We've derived most of those synergies, but our business units, I think you heard me say that earlier, they have their marching orders for 2024. We'll look at doing additional tuck-in acquisitions with our 40 business units, if not the smaller business units. If you're not performing at a high level, you'll be tucked in with one of our high performers and we'll find either synergies within our group or by acquiring people outside, so everybody's got their marching orders: up your game, up your margins, protect your margins, and then we'll look at acquiring some really good value-add tuck-ins for our business units. That's how we think we can really add margin.

If we can't, we'll find the margin corporately, because we're going to shorten our bench; but our first objective is and our priority is, let's go after and gain market share from our competitors. We think there's a—we think a lot of people have trapped themselves in '21, '22, and we'll be here to take advantage of that for our investors and our shareholders.

Tim James:
Okay, that's great. Thank you very much.

Murray Mullen:
Thanks, Tim, sure.

Operator:
The next question comes from Trevor Reynolds with Acumen Capital. Please go ahead.

Trevor Reynolds:
Morning, guys. Most of the questions that I had have been answered, but Murray, I was just wondering if there was any takeaways from the conference that you attended that changed your view in terms of the viability or timing of investments in CNG and electrification.

Murray Mullen:
Boy, that's a great question and good observation. Generally speaking, I would tell you there was just a real sense of—there was a positive attitude, everybody was relatively upbeat. They thought that the worst was over. I think that some of the big carriers in the truckload side, I think they're living on hope.

LTL is different. LTL, there's no new capacity coming in, and you can work on your margin - that's why it's the biggest part of our business. But on the basic truckload side, I think they've missed the boat, that there's a lot of competition and the competition is tough, and pricing isn't going to go up. Big carriers, they increased their cost structure over this last bit, particularly on driver wages, and if you bought equipment last year, you bought—did an acquisition last year, you overpaid because those acquisitions are not going to give you the return that you thought, no way, not in this market, so. Overall, there's a pretty good tone that the consumer's still okay in the U.S.

There's concern about things in the market - of course there is, but everybody's pretty much in the same viewpoint as I am, which is growth will be difficult, but everybody thinks they're going to win at the expense of the other guy, so everybody else is screwed up except me. That's what I heard.

Trevor Reynolds:
Got it.

Murray Mullen:
But there will be a lot of—there's going to be a lot of—there's going to be some more pain in 2024, and this is really going to get back to now, you've got to run a good business. Those that run good businesses are going to win and get market share, but you're hearing about difficulties and failures every day in the market.

Look at today - you just read about Convoy, which was a startup and they're a broker, and they're load—they're shutting the doors. Yellow shut the doors, and they were LTL. There's going to be a lot of—there's going to be a lot of reshuffling of the deck, and the well-run companies that have a long term game plan and good verticals, they will do quite well.

Trevor Reynolds:
That’s very—that’s helpful.

The question was around the viability and timing of investments in CNG and electrification. Just curious what sort of takeaways you had from that conference.

Murray Mullen:
It's all over the place. Every major manufacturer, OEM, engine, they're all—they've all got their colouring books out, they've all got their prototypes out, but it's not scalable yet.

Trevor Reynolds:
Okay, so nothing there changed your view in terms of timing and investment in that business?

Murray Mullen:
Not on timing, no. The future's in great hands, but it's not here tomorrow. It's going to take a little bit of time to get there, and we know that.

We stay on top of this. I personally have been over to Sweden to check the latest technologies that they were talking about. Hey, we can do this - yes, but it's not scalable yet. Our clearest path right now is we're big in CNG - compressed natural gas. I think, Richard—I don't know if Lee's on the line, but Lee's our head of this, and I think (inaudible 0:56:47) in Canada of …

Richard Maloney:
Yes, I can give some colour on that. Yes.

Murray Mullen:
… CNG trucks, and they're performing quite well. They have not disappointed. Now, they're way more expensive than a traditional diesel engine, but those price points will come down with the more critical mass (inaudible 0:57:04). We're hearing some big carriers down here really starting to embrace CNG rather than diesel. It's a good transition to perfection, which is zero emission, but zero emission is—let's talk about that next decade. Let's have a good transition for this decade and then we can go to zero, that's going to be our next objective. But we've got to get better, and CNG's a path towards that.

Richard Maloney:
Trevor, maybe just a little more colour on that. Me and some of the team went down to—the Cummins organization is making strides in the natural gas engine, the X15N, and we were driving it and it works. To Murray's point, you've got reduced emissions, and we think that's the gap fuel, if you will, and more importantly when you think about alternative energies, you've got to think about infrastructure and how you're fueling that. As we know and we've announced, we were part of that announcement, Tourmaline's working on this, and there's more infrastructure for the compressed natural gas. It's a real thing and it's coming, and we believe—and today, we're probably the biggest users of CNG. We have 20 units in Canada, and we're only restricted by the amount Cummins is making. But having met with them last week or a couple weeks ago, they're ramping up to start doing this, so we're front and centre on looking at that.

Murray Mullen:
My last comment on this is, look, every senior exec that I talked to who is an OEM and the engineering folks, everybody's focused on getting better. Everybody understands the path forward, which is let's get better, let's do our part, and when everybody's focused on that, it'll eventually happen. I saw some really, really intriguing stuff, and I'm very optimistic that we're just in the first inning of a long game here.

Trevor Reynolds:
That's great. Thanks, everyone.

Richard Maloney:
Thank you.

Operator:
This concludes the question-and-answer session. I would like to turn the conference back over to Mr. Mullen for any closing remarks.

Murray Mullen:
Yes, thanks, folks, for joining us. We'll look forward to chatting with you as we wind up ’23. I hate saying that, but we've already turned our attention towards trying to develop our business plan, along with our budget and our CapEx for 2024, and once we get it, we will share that information on our best analysis of what we see will happen in ‘24.

Thank you very much for joining us. Appreciate it, take care.

Operator:
This concludes today’s conference call. You may disconnect your lines. Thank you for participating, and have a pleasant day.