The Mullen Group

Mullen Group Limited Fourth Quarter Earnings Conference Call and Webcast

Transcript

Date:	**February 13th, 2020**
Time:	**9:00 AM MT**
Speakers:	**Mr. Murray K. Mullen** Chairman, Chief Executive Officer & President
	P. Stephen Clark Chief Financial Officer
	Richard Maloney Senior Vice President
	Joanna Scott Corporate Secretary and Vice President of Corporate Services

OPERATOR:

Welcome to the Mullen Group Limited Fourth 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 and zero.

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

MURRAY K. MULLEN:

Welcome all to our Mullen Group's quarterly conference call. We'll be discussing our year-end financial and operating performance for Fiscal 2019 which will include the fourth quarter results. Then this will be followed by an update on our business plan and outlook for 2020 as we see it.

Before I commence the review, however, I would remind everyone that our presentation contains forward-looking statements that are based upon current expectations and are subject to a number of uncertainties and risks, and the actual facts may differ materially. Further information identifying all of the risks and uncertainties and assumptions can be found on the disclosure documents which are filed on SEDAR and at www.mullen-group.com.

With me this morning, once again, I have the entire Executive Team of Stephen Clark, who's our CFO; Richard Maloney, Senior Vice President; Joanna Scott, who is our Corporate Secretary and VP of Corporate Services; and Carson Urlacher, who is our Corporate Controller.

Today we will focus really our comments on two topics. The first is both Stephen and I will review the financial results and operating performance, and we will spend more time on the fourth quarter of 2019 than the full year. Secondly, I'll outline our expectations and business plans for 2020.

Before I turn the call over to Stephen, let me open with the discussion on the important macro issues and developments last quarter.

Overall, it was a challenging quarter and this is due to, in large part, to the macro environment. In fact, the trends, the story line, everything remains virtually the same as I articulated going back to February 2019 when I outlined our 2019 business plan and expectations for the year.

For example, I would be surprised if anyone on this call believes the economy is strong and growing at a rapid pace. In fact, everything we experienced this last quarter was the opposite. In other words, it was stagnant and really no growth. On top of this, the freight recession that we've spoken about at length about hit everyone involved in the trucking logistics space very aggressively in the fourth quarter. Simply put, I characterize last quarter as extremely competitive and challenging.

Now, too many trucks were changing too few loads. From this perspective, the fact that any growth in our Trucking Logistics segment really became a pleasant surprise to me because we remained very quiet on the acquisition front last year. Segment revenue of $225 million was actually a record for the fourth quarter, by the way, and that was versus $220 million in 2018, which is by no means what we'd like or what we should all expect in the future, but I'll settle for a small win given all the headwinds, and thanks in large part to a strong quarter by our Gardewine Group, which is our largest LTL business unit, and the Kleysen Group, a large transload operation that just keeps executing on all cylinders.

Now, in terms of the oil and natural gas industry, nothing has changed. Drilling activity levels remain at or near multi-decade lows. In addition, we saw some very intense pricing pressures emerge, so we took the path of least resistance and we de-marketed a few customers and contract hauls rather than work for nothing. These are the primary reasons that our revenue generated in our Oilfield Services segment fell by nearly $23 million year-over-year in the fourth quarter.

As I indicated earlier, we just did not have find the acquisition market to be to our liking last year; not because there were not opportunities, because truthfully our inbox has been loaded with companies wanting to sell. Rather, we just didn't like the opportunities from a strategic perspective or the seller's expectations were unrealistic in our view and, as I say to the team, patience will be rewarded.

Overall, a flat quarter as compared to 2018 which I really don't want to call a win but we'll take what we were given.

For more of the details on the quarter, I'll now turn the call over to Stephen.

P. STEPHEN CLARK:
Thank you, Murray, and good morning fellow shareholders.

Our 2019 annual financial review contains the details that fully explains our performance. As such, I will only provide some high level commentary. Two-thousand-nineteen was on par with our guidance, in fact, almost spot on. For the year, revenue was nearly $1.3 billion and OIBDA was $200.9 million. This was up again from prior year, up about 1.4% with the Trucking Logistics segment generating approximately $880 million, or nearly $900 million of revenue, and the Oilfield Services segment roughly $400 million; both segments being up marginally. We did, however, experience a slowdown in the Oilfield Services segment in the fourth quarter. This slowdown was somewhat mitigated by revenue improvement at our Less-Than-Truckload businesses and, to a lesser degree, the acquisitions of Argus and Inter-Urban.

I would also like to remind our listeners that, as much of lower oil prices hampered our Oilfield Services segment and our Fuel Surcharge revenue, it helped to reduce fuel cost to 9.4% of revenue versus 10.5% in 2018. That 1% change is a significant savings.

For the year, the Trucking Logistics segment represented approximately 70% of our revenue, Oilfield Services the remaining 30%. This is, however, likely one of the last times I speak to you about our business in the context of two segments. In 2020 we will be reporting our results in three segments: the Less-Than-Truckload segment, the Logistics and Warehousing segment and the Specialized and Industrial segment, details of which can be found on Page 19 of our MD&A and further detailed within the notes to the financial statements.

As for the fourth quarter, although challenged, came in with revenue of $314.6 million and OIBDA of $49.9 million, roughly $50 million. It was another record revenue fourth quarter for the Trusting Logistics segment with revenue of $224.6 million and, again, record fourth quarter OIBDA of $37.5 million. As good as it was in the Trucking Logistics segment generally, the record was achieved primarily because of strong performance at Gardewine and, to a lesser degree, Smook and Kleysen, as well as those two acquisitions. The same cannot be said of the Oilfield Services segment where drilling activity again was at multiyear lows. In fact, wells completed were 20% below the five-year average. This downdraft was somewhat mitigated by yet another strong quarter at Premay Pipelines. Revenue and OIBDA in the Oilfield Services segment were $91.4 million and $15.5 million, respectively.

Consolidated OIBDA came in at $49.9 million, down $3.5 million, but our margin was only down a little bit to 14.7% once adjusted for IFRS 16, the new lease accounting standard, as compared to 15.5% in 2018.

On a sequential basis, consolidated revenue was $10.7 million lower than the third quarter, largely due to the seasonal rhythms of the trucking industry and stagnant drilling activity in Western Canada. Full details may be found in our MD&A starting at Page 31.

Lastly, a quick word on cash flow. Everyone knows that cash is king and we have a proven track record of cash flow generation. In 2019 we generated $170.6 million of net cash from operations, up year-over-year by $29.9 million. In fact, we've generated $453.7 million of net cash from operations over the past three years; or in another context, we've generated enough free cash to pay out $0.75 billion in the past decade in dividends and distributions and nearly $1.3 billion lifetime. Bottom line, we generate cash that is significantly above our cash flow needs and I would encourage everyone to read Murray's Chairman's Message for further insights on how this cash flow will allow us to pursue strategic acquisitions to grow the Company and provide returns to shareholders.

Lastly, sometimes perspectives can't be lost. You can't see the forest for the trees, so to speak. Comparing to last year is great, but let me provide some further context. Mullen Group has grown revenue from $1.1 billion in 2017 to $1.3 billion. Good growth, while maintaining margin at a time when the oil patch was, let's say, tough, and we are experiencing a freight recession currently. If that's good context to say that we've performed well, not only year-over-year but over the last number of years. Further, we have financial flexibility. By that I mean we are not overlevered. We have $80 million of cash, plush an unused credit facility of $150 million. The suggestion that we should use our free cash to de-lever makes little sense from my point of view. Our average interest rate on all of our outstanding debt is 4.2%. Our maturities are in 2024 to 2026. To prepay that low interest debt, incur prepayment penalties and to do so at the expense of not pursuing acquisitions make little sense, especially given our current debt covenant leverage ratio is about 2.0 times versus the allowable 3.5 times. With that, we have ample financial flexibility.

Overall, again, an admirable feat given the context of the market and, again, proves our dividend is rock solid. Murray, with that I'll pass the conference back to you.

MURRAY K. MULLEN:
Yes. Thanks, Steph, for that overview. For those of you that are so inclined, all of the details are available, as Stephen pointed out, in our 2019 Annual Financial Review, which has been posted on our website.

Perhaps the best way I can start my discussion about what you should expect from our company this year is by reviewing my outlook for 2019 that I so boldly predicted last February, and that was at my own peril. But, overall, I indicated that I was not necessarily optimistic about 2019 but rather, I suggested I was constructive. In other words, I believed one year ago that our Company would have another good year with our Trucking Logistics segment expected to perform in line or slightly better than 2018. Okay. So, what did we do?

Well, revenue of $881 million versus $873 million in 2018 appears to be spot on; in terms of OIBDA, virtually flat after adjusting for some IFRS accounting changes. I also believe that other parts of our business, which we aggregated into the Oilfield Services, other than drilling activity, would offer some opportunity. Now, once again, results were very close to what I suggested coming in at about $400 million of revenue versus $390 million in 2018 and OIBDA coming in basically flat. Now, this is primarily because we saw opportunity in the pipeline construction business.

All in all, the message articulated a year ago was pretty close to the actual results.

Now, with 2019 now in the rearview mirror, what is the plan and our expectation for 2020? Well, let me start by clarifying what I think confuses some in the investing world. Do you know that Mullen Group is now a logistics company? We have a small and a declining exposure to the oil and natural gas industry, which by the way we commenced on reducing our reliance upon in 2014. Way back when, when the conventional thinking of the day was that the oil and gas industry and oilfield services was a great investment, I saw it differently and set our company on a new course. Today I'm proud to say we weathered a terrible storm and we are now well-positioned to grow our business in the new decade, but not in oilfield services. This was yesterday.

Today we're focused on the logistics. We provide a wide wage of trucking, warehousing, transloading, and specialized services to customers across a multitude of industries. Today, not only are we one of the largest logistics companies in Canada, we have one of the largest LTL terminal networks ranging all the way from Toronto to Vancouver Island. We call this the LTL or final-mile network, providing a scheduled service to literally hundreds of communities, delivering everything from pallets to packages to parcels. This is where we see the future.

Overall, I'd expect 2020 to be another solid year. We have some internal growth opportunities that we see, but they will remain challenging for all of the same reasons as in the past couple of years. Namely, economic growth will be modest at best in our view. The challenges facing the Alberta economy remain, but I fully expect we will be way more active on the acquisition front in 2020. Since, as Stephen has articulated, we have a very respectful balance sheet and cash position, we can execute on our plan when the timing and the valuation metrics are right.

Within this context, let me summarize our plan and objectives for 2020. In terms of our financial goals, we're targeting consolidated revenue of $1.4 billion and operating earnings or OIBDA, as it is referred to in the financial world, in the range of $210 million to $220 million.

Now, to achieve these goals we will and we need to do the following. We need to pursue acquisitions that will expand our network and service coverage, as well as where we identify synergies with our current business. Number two, we'll continue to invest in technology as a way to improve operating efficiencies and change the way we do business. Number three, we'll continue to look at ways to reduce cost, streamline business processes and reduce the redundancies where practical. Number four, we think we need to invest $50 million in CapEx to ensure our existing businesses can meet their objectives and service their clients. Number five, most importantly, we're 100% focused on creating value for our loyal shareholders.

Now, what does this mean? What do I mean by this? Well, we're going to continue to pay a $0.60 annual dividend per common share, which equates to about $63 million in 2020. We're going to initiate a share buyback program by way of a normal course issuer bid. In fact, we will initially target $100 million of the course of the next three years. We're rebranding the Mullen Group, and earlier I referred to our company as a logistics company. To ensure our shareholders have a clear line of visibility into our business, we will commence reporting on results as of January 2020 in the three operating segments that's Stephen spoke about: Less-Than-Truckload, Logistics and Warehousing, and Specialized Industrial Services.

Now, in my Chairman's Message I outlined in detail our plan and objectives for 2020 and, as such, I encourage our listeners today to go to our website for the full report. Thank you and I will now turn the call over to the operator for the Q&A session.

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:

Thank you and good morning, everyone. Just wanted to understand the guidance a little bit here. You said $1.4 billion revenue and then $210 million to $220 million of OIBDA. I think it sounds like you're saying that that reflects your plans for M&A. Just want to understand how much of this revenue and EBITDA you are anticipating from M&A or future M&A and how much is organic, if you can help us on that. Then, if you can talk about also what sort of M&A opportunities you see and how much cash debt or equity funding requirement you see for those M&A? Thank you.

MURRAY K. MULLEN:

Yes. Good question. I think maybe reading between the lines of what I said about it, I really don't see a lot of growth, Konark, in the Canadian economy. As such, it's difficult for me to say that you're going to have internal growth opportunities, substantial internal growth opportunities. I mean, there's going to be some but I don't see enough to really move the needle. I don't see the economy growing enough from that perspective, to be honest with you. That means that the majority of the growth that we are planning has got to come from our M&A activity. Now, the reason I put in $210 million to $220 million is because it depends on the timing of the acquisitions. If we do them earlier, then we will have more of the benefit; if we do them later, then we'll be closer to the $210 million. A lot of it depends on the timing.

I would reiterate what I said. Look, when I talked to our Group and I talked to our Board, I said, look, we don't run a business here for 2020; we're running a business for the next decade, which is why we'll focus our M&A on where we find good strategic opportunity and where we can drive value. Where do I see that? Most likely in consolidating the Less-Than-Truckload business, continue to grow on that side. That's where we see the best opportunity to not only grow but to find synergy and even increase yield. The LTL business is a game of yield and it's about having critical mass. I think that's probably going to be our number one focus.

But in saying that, we always have to be attuned that there are other good gems out there that come available in the acquisition opportunities, and if they provide great returns on capital employed, we're going to look seriously at those opportunities. Those are maybe more one-offs, but strategically, I think our primary focus is on building out our expanding LTL network, which we think is going to be very, very difficult for anyone else to replicate.

KONARK GUPTA:

That makes sense. Then, you didn't talk in the MD&A, kind of the funding or the size of those acquisitions to support those kinds of revenue and EBITDA growth numbers. If you can throw some context on the size, because if you're kind of baking in your revenue and EBITDA forecast, then I think it's also going to make sense to look at what kind of impact it might have on your net debt position or balance sheet or equity.

MURRAY K. MULLEN:

Yes. As Stephen pointed out, you can just do the math on the free cash. We'll probably have cash from operations—last year we were at $170 million or $172 million or something like that. That's about what our current same-store sales business units generate, $170 million-plus of cash. Then as you do acquisitions you'll generate more.

What have we got? Well, as Steph pointed out, we've got $80 million of cash. Well, there's the starting point. If we spend $80 million, that'll grow our business, but that doesn't add to our debt. Then you've got $150 million of bank line that's sitting there unused. I don't even know if we pay a standby fee on that.

P. STEPHEN CLARK:

We do not.

MURRAY K. MULLEN:

We negotiated with our bank. We don't even have to pay a standby fee, but that money is available. That would increase your short-term debt. I wouldn't like that forever, but we would go deeper into that if we saw great opportunities that are going to grow our business. But, I don't think we have to go much into that to go beyond our cash position and what we generate next year to get the objectives that we got that I've talked about here, $1.4 billion. I don't think we have to go a whole bunch of more debt to get to that number.

If we got more debt, then you should expect we will have more revenue and more EBITDA.

P. STEPHEN CLARK:

I think also I'd add further that if you went to Murray's Chairman's Message, on Page 6 or 7 we have a nice little graph on what free cash and based on our business plan and where we can be there. I would encourage you to maybe take a look at the Chairman's Message and look at that waterfall graph and you'll see that gives you a range of (cross-talking 21:58)

MURRAY K. MULLEN:

Konark, I don't think we need to. To get to $1.4 billion I don't think we have to go get any more debt, any more debt, not any significant debt.

KONARK GUPTA:

Okay. No. That makes sense. Then, secondly, if I can ask on the CapEx front. You mentioned on the MD&A there is about $50 million of CapEx that you expect. That's excluding obviously M&A—it makes sense, but it is also excludes lands and buildings. If you can help us understand, the $50 million number is a gross number and is it maintenance or are there some growth embedded in that as well? Then, how do you think about any asset sales and then maybe land and building CapEx?

MURRAY K. MULLEN:

Yes. I would say CapEx is probably—$50 million is a maintenance CapEx. I think that gives you slight improvements because you're investing in new assets and replacing old assets, so that's a productivity gain. If I saw huge opportunity internally, then that CapEx, you'd have growth CapEx. But I'm telling you, I don't see great internal growth opportunities. There are a few, but not significant enough for me to—that would change the needle on a $1.3 billion, $1.4 billion company.

So, $50 million maintenance CapEx and your company gets a little bit better because you've got nice new assets rather than old assets. The new assets we get, we get better fuel mileage, they are more productive, less repairs and maintenance, and those kinds of things. That's how we view the CapEx. We'll probably have some asset sales, and if we do, we might put that into new capital at the same time.

KONARK GUPTA:

Perfect. Thanks so much. That's all of my questions.

MURRAY K. MULLEN:

Thank you.

OPERATOR:

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

The next question comes from Walter Spracklin with RBC Capital Markets. Please go ahead.

WALTER SPRACKLIN:

Thanks very much. Hey, guys. How are you doing?

MURRAY K. MULLEN:

Good morning, Walter.

WALTER SPRACKLIN:

Just going back to your guidance, you indicated that there is little growth, organic growth in your Trucking division that most of the growth that you're going to get that's built into your guidance is going to be in the form of acquisition. If we were to go into just your, I guess, Oilfield Services or Industrial Services division, is it fair to say that embedded in your guidance there, will be continued declines? You're calling it a no-growth industry, so does that mean we build in zero and see what happens, or is this, based on what you are seeing in the near term, there's going to be further declines year-over-year in that business?

MURRAY K. MULLEN:

No. That's a well thought, well posed question. Let me talk about the Trucking and the LTL and then the Warehousing and the Logistics and Warehousing segments. Those are the areas of the economy that we see have the best potential for consolidation and future growth. However, in saying that, we need to be realistic within the context of what's the current GDP growth, how's the economy growing? It appears to us that there's not a lot of growth in the economy and therefore we've got to be smart and we will have to be thoughtful and we will have to do acquisition to drive future growth, find synergy and then drive yield.

Let me give you an example of doing a good acquisition and then driving growth and synergy. Steph, let's talk about Gardewine Group.

P. STEPHEN CLARK:

Yes. Certainly Gardewine Group we acquired it in 2015, as you recall January of 2015. The year prior to—we've told many people this—in 2014 they did about $20 million of EBITDA. When we acquired them, we improved them, rather, rebalanced sheet, the engineering and such, but we generated about $22 million of EBITDA in our first year of ownership. Now, five years down the road we are about $37 million of EBITDA there. The returns on capital employed, our trucks that we put into that business, is around 15% to 20%. We like to see that where we get a good base of business and then we're able to feed it capital and allow it to grow both in terms of profitability and then give great returns on those further investments in those trucks and trailers.

Further, I would also just say we're very proud of Gardewine Group and how they improved their safety record as well. That also helped them improve the bottom line. It wasn't just the capital, it was also an attitude.

WALTER SPRACKLIN:

That kind of begs the question then, Murray, that you're really going to have to go outside of Alberta. If trucking logistics is your growth engine going forward, closeting yourself in Alberta probably is not the strategy you're going to pursue. Gardewine, by your own example, brought you outside of Alberta, brought you into Northern Ontario and Manitoba. Acquisitions have been a growth area for a number of national companies here. There's not a lot of Gardewines left out there unless you see opportunity that I'm not seeing. How would you respond to that and could you see growth into the U.S. if you didn't see opportunity in Canada?

MURRAY K. MULLEN:

Well, let's just say I think there are Gardewine opportunities, but they only come around once in a while. But I would be very, very surprised if more really good acquisition opportunities don't come up in the new decade. This company will be prepared to do those ones. They don't come around all the time, but I would tell you there're some really, really good companies in Canada, and eventually everybody has to monetize and Mullen Group is one of the premier liquidity providers in our space.

In terms of your comments about Alberta, yes, I think our company today has got as many or more employees out of Manitoba and Ontario than we do in Alberta, so it's a reflection of how we've changed our company. We don't mind being based in Alberta. The tax rate, the corporate tax rate is the lowest in the country. This is where we have our corporate office, but our business is Canada-wide. Our operating businesses are right from Vancouver Island all the way to Toronto, but it just happens the corporate office is here in Okotoks in Alberta which has the lowest corporate tax rate.

In terms of the oil and gas industry, let me speak about that. For a long time we rode the coattails of the Oilfield Services business. But for a long time, a lot of our business that we classified an Oilfield Services really wasn't tradition Oilfield Services. For example, our Canadian Dewatering business—well, we clumped it into Oilfield Services, but it's not really Oilfield Services. Our pipeline construction business is really not Oilfield Services, it's an infrastructure play. Then you have some Oilfield Service in terms of production service. Well, production is always going to go on and the oil and gas business is a large business. It's not going away. What is going away, in our view, is the growth, and growth is tied to the drill bit. We just didn't see any growth on the drill bit side.

Realistically, I think our part of our business that is tied right to the drill bit, to drilling—that's rig moving, that's moving of pipe, moving of drilling muds, and things to the drilling site—that doesn't represent 10% of our business. Really, the Oilfield Service business, I rode that coattail when investors wanted oilfield services. They don't want oilfield services today. Well, you know what? We're not oilfield services. We've got a very small part of our business and it will get probably less and less because of capital is going into the other side, which is LTL and Logistics and Warehousing. That's where we see opportunity, that's where we find the best yield. By the way, in the old days we used to see great yield when it was tied to the energy business, oil and gas. Why? Because capital was flowing into the sector. That's where you find yield. Well, capital is gone. It's just a replace and repair business today. We'll have a footprint there, but it's not a growing footprint.

That's why we call it Specialized and Industrial Services. We've got all of our businesses that are tied to the Construction business and the Dewatering business, the Turnaround business, the Cleaning business. We're doing everything from cleaning railcars to industrial cleaning. So, it's not really not—we're not focused on the oilfield; we just don't see it is as a growth business. The oil business is not going away in Canada, just like the auto sector isn't going away, but it's not a growth business.

WALTER SPRACKLIN:
Okay. Thank you very much.

MURRAY K. MULLEN:
Thank you.

OPERATOR:

The next question comes from Greg Colman with National Bank Financial. Please go ahead.

GREG COLMAN:

Thanks very much. Just a couple quick ones here. On the Energy Services business, which we spent a lot of time talking about, given your view that you're articulating quite a few times, can we assume that effectively everything in that legacy OFS business segment would be considered for sale? Would it be something that at the right price you would look to get rid of it if it's no longer a growth sector?

MURRAY K. MULLEN:

Yes. Greg, I think that would be, all other things being equal, yes, we'd monetize it if you could. But who's the buyer? What are they going to pay for it? It's small now, so it's not material to Mullen anymore. As I said in my message and I've been articulating for quite a while, I've been deemphasizing the energy space since 2014. Thankfully we did.

GREG COLMAN:

Then on the other part that you are now—not now, but that you have continued to emphasize specifically the LTL and in the Logistics side, you mentioned the freight recession in your commentary. What actions can you take to insulate or combat or, I don't know, better weather that type of scenario given where you're positioned on the Trucking Logistics side?

MURRAY K. MULLEN:

Well, I think we did a pretty good job in our business the way we weathered it because if you take a look at our fourth quarter, our Trucking Logistics side was not bad. In a market that is classified as a freight recession.

Now, let me talk about the freight recession. The freight recession, in my mind, is cyclical. In 2018, we had a freight boom. In 2019, the freight boom dissipated. You had an inventory overhang, you had too much truck supply, and you had a slow growth economy, so that led to a very competitive market. But that's a cycle that will eventually resolve itself. As I started thinking about 2020, I would have thought that the freight recession would have probably ended around midyear. Now, that may come quicker, that may come later now given the destruction of the supply chain because of the coronavirus situation that is really disrupting the supply chain.

I don't know how it's going to all play out, but I can tell you there are not as many containerships coming over from China today into ports, and that's going to hit very quickly, which means the goods are not coming into the country. We've got lots of product in inventory in our warehouses, so the consumer and everybody—everything's good for bit, but the warehouses are going to get emptied out faster than what people are maybe thinking.

I think the freight recession is cyclical. I think it goes away sometime in 2020. I don't know exactly when. I would have predicted no later than midyear, but now with coronavirus that's relatively new—it's only a couple of months old—I don't know for sure, Greg, on how all that it is going to work.

But, you take a look at how we handled the fourth quarter in the midst of a brutal trucking—take a look at all the U.S. truckers, take a look at all the results that came in and same-store sales were down huge; we still managed around that. A lot of that has to do with LTL. LTL is not getting hit as hard as the rest of the system because consumers are still—job creation is still pretty robust. So, in our LTL—is a big part of our business today. That's what we know. LTL is one-third of our business because when you look at how we split it out, LTL is one third, Logistics and Warehousing, that's one-third, and then Specialized and Industrial is one-third. We didn't craft it that way; it's just the way that it came out. But it's basically a third, a third, a third now.

I think we handled that. We anticipated it, Greg. We use a lot of subcontractors, as you know, and we use a lot of logistics, so we don't have a lot of fixed costs. The fixed costs we've got is in the LTL.

RICHARD MALONEY:

On the Logistics side—it's Richard here—as Murray is pointing out, we saw a tremendous amount of activity with our Moveitonline app, which we saw a lot of our subcontractors posting their trucks in the quarter, the last half of the 2019, which tells us that they were desperate for loads and they were able to—so our Logistics groups within each of our business units were able to capitalize on these stranded truckers and being able to manage and move on a freight.

GREG COLMAN:

Got it. Just one last for me just on current activity. We're seeing a lot of protests regarding the Coastal Gaslink pipeline. Does this current social action change sort of the views or the activity or the probability of your business as it relates to that project, the business you're generating from that project and the related LNG undertaking?

MURRAY K. MULLEN:

Greg, I'm glad you brought that up because this is a new form of eco-terrorism and commercial terrorism that's going on. What you are seeing is that started as a protest to slow down the coastal Pacific gas project related to the LNG project because of some disagreement by what is known by Hereditary Chiefs on the West Coast, not by the First Nations. The First Nations are all part of this; they're all signed on. They are all part of the line. But some Hereditary Chiefs who don't believe they've joined Canada, and it's their—have started as a protest.

But, Greg, it's dwarfed from that and morphed into a—they're disrupting the whole supply chain. You can't move people on Via Rail. We can't move goods. You can't move farmer goods. You can't move anything by rail because these little groups are blocking rail right across the country. The supply chain is being—it's chaotic.

I could tell you it is not good news for Canada. Therefore, it must be bad news for Canada because there is no such thing as it doesn't matter. Everything matters.

I can't tell you how it'll all play out. I can't tell you what the government is going to do about it, but they better do something or a lot of Canadians are going to be hurt by this, by the disruption in the supply chain.

GREG COLMAN:

Appreciate your views as always. Does it impact your business as it pertains to the Coastal Gaslink pipe?

MURRAY K. MULLEN:

Well, it's slowing. I tell you, you can't move pipe up by rail. They blockade it. We're still busy there, but it's just awkward. It's just creating issues. But beyond that, I'm not worried about that specific project, to be honest with you. That's just one part of our business. I'm way more concerned today about how the whole supply chain is being disrupted. If you go beyond that, you start thinking about, well, if the eco-terrorists and the commercial terrorists can start disrupting our economy, just a small group, what is the big message to Canadians, is that a few can decide what the laws of this country are? There's no way that's good for capital formation in this country.

GREG COLMAN:

Appreciate your views as always. That's it for me.

MURRAY K. MULLEN:

Thank you.

OPERATOR:

The next question comes from Elias Foscolos with Industrial Alliance Securities. Please go ahead.

MURRAY K. MULLEN:

Good morning, Elias.

ELIAS FOSCOLOS:

Good morning.

MURRAY K. MULLEN:

Good morning.

ELIAS FOSCOLOS:

A couple of questions. One, a bit of a follow-up on Greg's. If we re-winded four weeks ago or maybe early January, would your outlook have been a little more positive? Instead of $210 million to $220 million? Could we have maybe seen a bump of $10 million or so?

MURRAY K. MULLEN:

Yes. When I'm starting to craft up my Chairman's Message and I write it over the holiday over the Christmas season, I was actually quite optimistic that the freight recession would be resolved, that we were moving forward on Coastal Gas, TransMountain Pipeline's approval were being—yes, yes. Then you get into mid-January and all of a sudden you have this new issue arising in China that is called coronavirus, and today here we are six weeks later and you're starting to go, 'Okay, well, this isn't good news.' How's that going to impact us? Don't know yet, but I don't see that as a positive.

Then just this last week, as we've got some vigilante groups out there deciding what the laws of Canada are. In fact, I would say to you they don't believe in laws, otherwise they wouldn't be doing what they're doing.

Is it good news, Elias? I don't think so. How's it going to work? I don't know. I know the rails are in a lot of trouble and you can't move anything by rail. That's going to impact part of our business that's tied to Intermodal and tied to logistics. But I think the trucking industry might actually be helped by the rails not being able to move goods. You're going to have to move it somehow and trucks would then be a beneficiary of a lot of freight not being able to move by rail.

All in all, I don't think it's a positive, but we've got a bit of a hedge in there because we're not just in logistics; we also have a pretty large trucking component. We will have to see how that plays out over the next bit, Elias. I can't tell you for sure, but I would say while it's not that I'm not—but I can tell you these things, like that are happening today, are very frustrating and you wonder why are we doing this? Why are we letting a few impact a whole but to Canadians? We've got 6,100 employees, Joanna, in our group?

JOANNA SCOTT:

Yes.

MURRAY K. MULLEN:

Contractors, independent contractors and employees, and we're responsible for them and we're articulating and—I just hope it doesn't disrupt the country enough where we don't have as much work and their paycheques aren't as good, and maybe we have to shorten the bench up. It's not good news. I don't see one good thing coming out of this.

ELIAS FOSCOLOS:

Okay.

MURRAY K. MULLEN:

Now, I would view that as all temporary. This is an irritant. I can't believe our country would be so foolish that we wouldn't eventually get this resolved one way or another. But I can tell you, the longer this goes on, the more angst will start happening amongst a lot of other people. I can't imagine the farmers are going to be happy when they can't get product to market. I can't imagine consumers are going to be happy when the price of goods goes up because they can't get their produce moved and delivered to them. I think the longer this goes on, the more anger will start building amongst Canadians.

That's my take. I know I'm frustrated and angry because it impacts us right away, but it'll eventually go through this whole system. It's not going to stop with Murray and a few of us.

ELIAS FOSCOLOS:

Okay. Again, sort of sticking with your outlook, I'm going to try to simplify things and maybe you can tell me if you agree or disagree. I kind of view the base business as flat, maybe Oilfield Services will be down and Trucking and Logistics will show some organic uptick, but sort of overall flat with the increase in your outlook of $10 million to $20 million fuelled by acquisitions. Kind of backing into that, you must be budgeting, would it be fair to say, $50 million to $100 million of acquisitions to get to your $10 million to $20 million of growth?

MURRAY K. MULLEN:

That's a big range, $50 million to $100 million, but that's a fair range. But, you know what? Acquisitions, Elias, they come around. I don't care if it's zero, $50 million, $100 million, $200 million, $500 million, if it's the right opportunity for the right reasons, we will figure out how to get it done, but a reasonable target for next year I would say $50 million. Fifty million dollars would be just using part because of the cash we have on our balance sheet, so that's for sure. A hundred million dollars would be in the range that would be reasonable. But I can tell you if the right opportunity would come along I would do $300 million because the right opportunity is something you could use to build your company for the next decade.

I think the easy one to use is the 1.4 that we get and what we've given is would assume that we would deploy the cash we've got on our balance sheet, but not increase our debt. If we went to $100 million, we probably would probably be at the high end or above.

ELIAS FOSCOLOS:

Okay. Sort of moving on to the issuer bid, which is new and, in a sense, a bit surprising, but I'll put it this way, do you think your company is a bit under-levered? I guess before that last comment, I was thinking that you would use excess free cash flow for acquisitions and the balance sheet to acquire. I guess what you're saying is you plan to use excess free cash flow to maybe make $30 million a year of stock buyback and the balance sheet to acquire. Is that kind of the way to think of it one way or another, that you're going to use one of those two; you're going to try to double charge growth in a sense, one by using balance sheet, one by using cash flow?

MURRAY K. MULLEN:

Steph, I think that's a pretty good synopsis is that at the current levels, our dividend yield is, what, 6.3%, 6.4%? What's the effective yield on that on an after-tax basis, it'd probably be 8% or 9%.

P. STEPHEN CLARK:

Yes, pre-tax 8%.

MURRAY K. MULLEN:

I'd go—that's a pretty good thesis from our perspective to use the cash we generate. We're fortunate we've got a good business model that's diversified and we generate cash. We have three choices. We had four choices with cash. The good news is we generate cash. We always have and Steph articulated how much we' generate. Do we use that cash to grow our business? Yes. Well, we've got lots of cash on the balance sheet and we've got lots unused bank lines, so we can grow. Do we pay down debt? Well, we're not going to pay down debt that's averaging at 4.2% blended interest rate and pay off our long-term debt that's at 3.85%.

P. STEPHEN CLARK:

And incur penalties.

MURRAY K. MULLEN:

And incur penalties. Like that, I'm not going to pay off 3.85% debt. That doesn't make any sense. Then you say, "Well, okay, let's increase the dividend.' Well, at a 7% yield or a 6.5% I go, well, I'm not paying any more dividend. That doesn't make any sense. We might as well buy back stock. We've got a dual strategy. We'll buy back stock, we'll invest in ourselves, and then we'll invest in growth with our balance sheet through M&A.

ELIAS FOSCOLOS:

Okay. Great. Next question, probably near the end so I'll ask. Not an oilfield service company anymore, definitely haven't been on the index since June. Who do you think we should compare you to, or maybe that's up to me to decide, but I thought I'd ask you anyway.

MURRAY K. MULLEN:

Well, I mean, that's a good—I don't know who to compare us to. I would say this, is that I take a look at the cash we generate, I take a look at the yield that investors get in this, I take a look at the strength of our business model, how long we've been in business, and you'd say—and the potential opportunity for M&A and consolidation improving businesses like we just articulated we've done what the Gardewine Group and many others, and I'd say it's up to shareholders to decide whether they like a diversified company that generates a lot of cash that can give it back to shareholders—$1.3 billion over the last…

P. STEPHEN CLARK:

Yes, 20 years.

MURRAY K. MULLEN:

…bit, and I'd say that's up to them to compare us to, but we're pretty comfortable with the business model we're building. But I know one thing. We've looked at the declines in the Oil and Gas business as not a cyclical decline, it's a secular decline. We just don't see future growth in the energy space and that's because Canadians have decided that the resource that we are blessed with is not—we should leave it in the ground. That's basically what you are hearing. I don't agree with it, but that's the reality of the situation, so I think we're in a secular downturn in terms of the oil and gas industry. It'll remain a big business, but it's not a growth business, but the overall economy will continue to muddle forward and grow. Will we grow as fast as if we had a robust energy business? Probably not, but we will still grow. We're a pretty stable business.

As I said, we've retooled the business and we feel real good about being a logistics provider. To us it didn't matter. We will follow where we think the best opportunities were. In previous days and movies, we followed the oil and gas business. We saw capital going in, we took advantage of it. We saw things changing, get the hell out of the way. Now we see opportunity in other parts of the economy that we will continue to do what we are good at, which is to just run a great business, do it safely, do it responsibly, and be a really good employer to a lot of people; like I said, 6,100 people. I think they're pretty happy with some of the decisions we've made.

P. STEPHEN CLARK:

Yes. Elias, I would further add that there's no easy comp for us. We're unique in the Canadian landscape and I would liken us not another company but more to an ETF of Western Canadian economy or the Canadian economy or North American economy generally. It's one that really has stable cash flow, so maybe it's more of a REIT. We have a large real estate portfolio or maybe it's an ETF because we have a broad base of services that we offer and a broad customer base. You would see in our MD&A, we have no customer that's greater than 4% of revenue. Like, we really have—our top 20 customers, it's pretty diverse and when you look at the top 100, I mean, you're getting such a list of names that it's all over the place. But, if you want to choose a company, maybe choose a pot stock or a tech company to compare us to because I'd love that multiple.

ELIAS FOSCOLOS:

Okay.

MURRAY K. MULLEN:

Yes. Elias, I think I should comment a little bit more on the oil and gas business, the oil and gas service sector.

When I look at some of our successful peers and counterparts in the oil and gas service business, we had a choice a few years ago, did we want to diversify our company vertically and go into the trucking logistics and the LTL business, or did we want to go geographically and go to the U.S.? Many oilfield service companies diversified and moved away from Canada. Remember, there's a common theme here—moving away—and they went down to the U.S. They diversified, but they diversified geographically and we diversified by product line because we just saw the fossil fuel business as hitting more—just running into more obstacles than others. That was our thinking. But successful companies diversify. Successful portfolio managers diversify.

ELIAS FOSCOLOS:

Okay. One last question, and probably straightforward it's going to be more for Stephen. But, if it's not a question, it's an ask. Would you or do you plan to provide us some of the re-segmented information for 2019 quarterly before the Q1 results?

P. STEPHEN CLARK:

We certainly have it done. We have to do it on a retrospective basis and you would see in the MD&A where we gave you revenue and EBITDA and then in the financial statements we gave you EBIT, we gave you assets, we gave you goodwill and such. On a quarterly basis, I don't want to do selective disclosure and certainly it would be our intention than on Q1 we would give you a retrospective comparison on Q1. We'll have to give some thought to that. Maybe when we think about updating our website, Elias, I just don't want to give it to you and not to others, so we'll (cross-talking 55:14).

ELIAS FOSCOLOS:

No. I'm not asking for it specifically. If you want to do maybe a recast and put it up on the website at some point in time and just…

MURRAY K. MULLEN:

We will take that under advisement. We'll make sure that we give the appropriate information so that the people that are following our stock can make the right analysis and form a position. We have nothing to hide on it. We'll take that under advisement.

P. STEPHEN CLARK:

Yes. Thinking aloud, we have '18 and '19 that maybe we could easily recast on the website.

ELIAS FOSCOLOS:

Great. That's it for me. Thank you very much. I'll turn it back.

MURRAY K. MULLEN:

Thank you.

OPERATOR:

The next question comes from Jeff Fetterly with Peters and Company. Please go ahead.

JEFF FETTERLY:

Good morning everyone.

MURRAY K. MULLEN:

Jeff, you're not going to ask me about the oil and gas business, are you?

JEFF FETTERLY:

I am, Murray.

MURRAY K. MULLEN:

Well, very soon, if we keep moving away from it, I won't know what the heck is going on in the oil and gas business.

JEFF FETTERLY:

Envolve and Canadian Dewatering are two businesses that you've allocated growth capital to in recent years. What are your plans and thoughts on those two going forward?

MURRAY K. MULLEN:

Well, Canadian Dewatering is a very diverse company that is involved in business from Winnipeg all the way to Vancouver up to the Northwest Territories, so we're involved in every aspect of the movement of water, the pumping of water, and some environmental services. Because the old and gas business and the sector is quite large, and even including the pipeline business you've got a—it doesn't matter if it's civil or construction our industrial or mining or oil and gas, that's what the business there involves. It's very multidimensional.

Envolve is strictly tied to the drilling side and to the production side, as you know. Our plan is to—if there's one part of the business that we like that the potential for that is, it's the Disposal business. The reason is because every well that produces, the older it gets, the more water it produces. Every new well it produces, produces water. That's something that if we're going to invest anything in that sector, it might be that business.

Now, we're taking a cautious approach because we will see how much drilling activity is really going to go on. There're a lot of disposal wells out there and we'll determine whether we think that business is going to start improving or not. My general sense is I don't think drilling activity picks up for a few years until after we get Coastal Gas built and you start moving some natural gas over Asia, which means we've got to get pipelines built and plants built out in the West Coast.

JEFF FETTERLY:

Your comment earlier about essentially everything in the Specialized Services re-segmentation being potentially for sale, is it reasonable to assume that you would look at those two businesses also in the same vein?

MURRAY K. MULLEN:

I doubt if we'd sell Canadian Dewatering. That's a core business to us. That's a business that we think continues to grow and good returns on capital employed. We've got a great business, great team; we've got a great market presence. I doubt that. That's a good business. We're either going to deploy capital in or we'll look at monetizing. We're open to anything on that front. We will either grow or we will get out of it. You're specifically talking about Envolve, I think, in the Disposal business; is that correct?

JEFF FETTERLY:

Asking in the context of both, but also Envolve.

MURRAY K. MULLEN:

Yes, Disposal, but, I mean, that's just one part of our business. But my general sense is it's not a really good bid ask on anything to do with the Oilfield Services. I can tell you we're comfortable with the returns on capital we've employed there, but that's not our primary focus. Our primary focus is LTL, Less-Than-Truckload.

JEFF FETTERLY:

A follow-up on the NCIB side, recognizing your comment about the implied dividend yield and the incentive to buy back stock, but when I think about it simplistically, based on your guidance, Mullen is trading at 7 times on an EBITDA basis. You've historically done deals between 4 and 6 times. What's the thought process about by buying back stock at 7 times versus being able to put some capital to work at less than that multiple?

MURRAY K. MULLEN:

What's the thought process?

JEFF FETTERLY:

Why buy back your stock at 7 times if you could put that capital on the M&A side to work at 4 to 6 times?

MURRAY K. MULLEN:

Well, I think, Jeff, that you need to take a look at you're talking about EBITDA, right, when you talk about 4 to 6, correct?

JEFF FETTERLY:

Yes.

MURRAY K. MULLEN:

You're not talking cash, correct?

JEFF FETTERLY:

I'm referencing the EBITDA.

MURRAY K. MULLEN:

You're not talking cash. You're choosing to different numbers, one is EBITDA and one is cash. You can't buy a company at 4 times cash or 6 times cash. Four to 6 times EBITDA is not 4 to 6 times cash. I think that should explain it. It's a return on capital.

JEFF FETTERLY:

Can I interpret that meaning that you believe the return on capital of Mullen as a consolidated entity today would be competitive (cross-talking1:01:12)?

MURRAY K. MULLEN:

We're one of the best companies in Canada.

JEFF FETTERLY:

But what I'm asking is the return on capital (cross-talking 1:01:18)

MURRAY K. MULLEN:

If I could find another Mullen to buy them at 7 times, I'd buy them all day long. They're very difficult to find.

JEFF FETTERLY:

But from a return on capital standpoint, what you can do on the M&A side would be similar to what Mullen is doing today.

MURRAY K. MULLEN:

Well, like I say, we would do them all day long if I felt that they were out there, yes.

JEFF FETTERLY:

Okay. Thanks for the clarity.

MURRAY K. MULLEN:

I don't know what the question you're asking. We would do it if we found them, but obviously I haven't found them or else I'd do it.

P. STEPHEN CLARK:

I think, Jeff, that we have to put it into context. Again, read Murray's Chairman's Message. It's almost required reading here to understand the Company. Our preference is still to do acquisitions, absolutely, but what you're seeing in 2019 is that we stalled because we had a bid-ask spread. We've had a bit of that dynamic and we also suffered from a low stock price. I mean, sure, we're $9.15—whatever—today, but, I mean, we were as low as $7.50 at one point. So, you've got to do something different. We just can't sit on our cash and grow the cash and do nothing, so now we're just telling everybody we're going to have another option there and, yes, if we can reduce the number of shares outstanding, that'll also benefit the shareholders. It's just another form of return on capital and that's, I think, what the market is telling us is that you're at about 9% yield pre-tax guaranteed buying back your own stock today. That's a guarantee. Whereas when we're doing cash-on-cash acquisitions, there's a lot of uncertainty on the Oilfield Services side but on the Truck and Logistics side you're targeting 10%, maybe 12%, but that's not a guarantee, so we have to balance those. We are very good at finding and providing liquidity for acquisitions, but we're not going to be undisciplined. This gives us another outlet for our free cash.

Again, just read the Chairman's Message, the first few pages especially about acquisitions and where we are headed.

JEFF FETTERLY:

Thanks for the clarity.

OPERATOR:

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

MURRAY K. MULLEN:

Thanks, folks. We've put closure on '19 as of today and we look forward to growing our business and doing some exciting things in 2020. We will monitor these two situations very, very carefully over the next bit, which is the coronavirus situation that we all hope doesn't morph into something much more complicated than what it already is and more devastating, and then also whether Canada will get control of an unruly group here and make sure that this country can move forward.

Thanks so much for joining us today and we'll talk to you in April, only a few months away. Take care. Thank you.

OPERATOR:

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