The Mullen Group

Mullen Group Limited First Quarter Earnings Conference Call and Webcast.

Transcript

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Speakers:

Mr. Murray K. Mullen
Chairman, CEO & President

P. Stephen Clark
Chief Financial Officer

OPERATOR:

Welcome to the Mullen Group Limited First 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 Murray K. Mullen, Chairman, Chief Executive Officer, and President. Please go ahead.

MURRAY K. MULLEN:

Welcome to Mullen Group's quarterly conference call, and today we'll address three main topics.

Firstly, Stephen and I will provide comments and discuss our financial and operating performance for the quarter ending March 31 2020, and this is the first period that our results are reported in three new operating segments. It's a structure that we believe provides shareholders with better clarity into our overall business.

Secondly, I will provide an overview on how the Mullen Group has responded to the outbreak of COVID-19, including any potential impact on our shareholders, and thirdly, I'll provide a best guess look into what the next few months might look like, and this will be followed by a Q&A session.

Before I commence today's review, I will 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 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 Stephen Clark, who's our CFO; Richard Maloney, our Senior VP; Joanna Scott, Corporate Secretary and VP of Corporate Services; and Carson Urlacher, who's our Corporate Controller. They're all practicing the art of social distancing, but they are on the line and available as required.

Before I turn the call over to Stephen to talk about Q1 2020, let me open with some opening comments. Clearly, we're in the midst of some challenging times. Now, from my perspective, what's started out as a health crisis, COVID-19, has now morphed into an economic crisis with the potential to cause significant damage to the financial system. For this reason, I am a full-on cheerleader of our government officials, hoping that they might make the right policy decisions so that the damage to our citizens, the healthcare system, our economy, and the financial system can be mitigated. I don't always agree with their approach that they've embarked upon, but I sure in the H are hoping they are right.

Now, with this as a backdrop, I believe we may be in the early innings of some dramatic shifts in the economy. As such, I will state just for the record that the outlook I shared on February 13, 2020 will not be achieved. The 2020 business plan and expectations have been totally altered due to the outbreak of COVID-19 here in North America, but in saying this let me just reiterate that everything was progressing just fine in our business until about the middle of March, and as you can see from our Q1 results, our business looked pretty robust, all things considered.

LTL remained steady and would have been even better except for some challenges at our Grimshaw Trucking business unit which is associated with some inter-resupply projects in the Northwest Territories and some one-time labour costs. LTL is one of those businesses that has been declared an essential service, and it's pretty simple to explain why. Communities and consumers rely on having the goods they need, and I'll reinforce need. Likewise, where we were able to continue servicing our customers, freight volumes remained strong.

For example, at our Logistics & Warehousing segment, several of our business units, including our Kleysen Group, Tenold Transportation, and Caneda Transport, they each held in really well, and in our Specialized & Industrial Services segment, Canadian Dewatering, Premay Pipeline Hauling, and even our construction arm in Thompson, Manitoba, our small contactors, revenue actually increased.

However, the majority of our business units were negatively impacted by business closures, plant shutdowns, capital expenditure declines, and even inventory shortages, so overall, we came through the quarter unscathed, but clearly very cautious, so Stephen will provide a more in-depth review of the financial results today, but let me first take a few minutes to comment on how we handled the changing situation. We saw this early, and we reacted swiftly. In fact, we began formalizing our initial steps on March 2, and we have been actively engaged in monitoring events since then. We refer this to our COVID-19 action plan.

We have taken preemptive steps to protect the balance sheet and reduce expenses. We are managing risk as best we can in an environment where no one knows about the potential counterparty problems. We implemented a series of new safety protocols to protect the health and well-being of our employees and our contractors.

Social distancing, the new buzz word, which really means stay at home, actually worked. Our systems worked seamlessly, which is a testament to the investments we've made in technology and the brilliance of our IT team. They had us prepared. In fact, I'm proud to say we have not missed a single beat, other than we miss each other, and lastly, I'm delighted to report that thus far in our organization of over 6,000 associates, no confirmed cases of COVID-19.

So, Stephen, I'll turn it over to you to provide some additional commentary on the quarter, please.

P. STEPHEN CLARK:

Thank you, Murray, and good morning to our fellow shareholders, and thank you to all those frontline workers and administrative staff that delivered all these results; not only the goods, but delivered the results on time.

Our first quarter interim report contains the details that fully explain our performance. As such, I will only provide some high-level commentary. This is the first quarter in which we are reporting our results in three segments. The historic comparatives have been provided on Page 2 of our MD&A, and you'll see the revenue and OIBDA broken down by these new segments.

In the first quarter, revenue was basically flat at $318.2 million as compared to $319.6 million in 2019. Each of the three segments were basically flat. However, how they got there was different.

The LTL segment revenue grew by $3.8 million, as it is largely focused on the needs economy of the consumer. Specifically, revenue improved due to acquisitions of Argus and Inter-Urban, which contributed $6 million of incremental new revenue, and strong revenue growth by Gardewine, being partially offset by softness in the Alberta market that affected Grimshaw, but also to a lesser degree Hi-Way 9.

Logistics & Warehousing declined by $5.5 million as COVID-19 and plant shutdowns in March, as well as rail blockades earlier in the quarter, negatively affected demand. This was somewhat mitigated by strong performance by Kleysen, including salt sales and intermodal demand.

The Specialized & Industrial segment grew by $1.6 million, but that number masked the underlying weakness, no, I dare say disaster, that occurred in March when oil prices dropped dramatically. Pipeline work added roughly $14 million of revenue. Construction work at Smook added a further $3.7 million, and Canadian Dewatering added $2.2 million. Nice gains, but they were offset by weakness in our fluid hauling businesses and our drilling-related businesses that experienced more than your typical spring break up declines. In fact, this was the quickest I've seen the oil plant shut down production and stop drilling. I guess the industry has lots of experience now.

As for profitability, operating income before depreciation and amortization, commonly referred to as EBITDA, was $45.2 million; again, basically flat compared to $44 million in 2019. This was despite some well-known challenges such as the little thing called COVID-19; really a testament to our diversification strategy focusing on consumer needs and LTL rather than the oil patch.

On a segment basis, the LTL segment EBITDA was down $1.9 million. In 2019, Gardewine had a $900,000 back pay billing related to a volume commitment in 2018. Payments of this nature are never certain, so we took the prudent approach of only recognizing the take or pay revenue when we received it. This resulted in revenue without corresponding costs, and consequently, margin distortion in 2019. In 2020, we experienced some onetime costs at Grimshaw Trucking.

Comparing segment margin on an apples-to-apples basis, margin was basically flat at 12.5% in 2020 versus 13.1% in 2019.

EBITDA in the Logistics & Warehousing segment improved by $1.8 million. Operating margin increased by 2.6% to 17% as compared to 14.4% in 2019, primarily due to the strong performance by the Kleysen Group and the beneficial effect of a weaker Canadian dollar and lower diesel prices. There is a benefit to lower oil prices after all.

EBITDA in the Specialized & Industrial services segment improved by $1 million. Operating margin increased to 15.6% as compared to 14.9% in 2019. The margin gain was due to a change in revenue mix associated with large diameter pipeline projects that had a beneficial effect on margin, being largely offset by significant declines in margin generated by our drilling-related and fluid hauling businesses.

Lastly, a quick word on the balance sheet. In times like this, the past performance is almost irrelevant if you can't survive this storm. For us, we've got a strong balance sheet. Net cash from operating activities was up $16 million to $40.2 million in the first quarter. This is the highest first quarter amount since 2015.

We have approximately $85 million in cash. In addition to our cash, we have an unused $150 million line of credit and substantial positive working capital. Our total net debt to operating cash flow covenant under a private placement agreement, which gives us the benefit of our in the money currency hedges, was 2.29 to 1. Call it what you like, but I call it survivability.

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

MURRAY K. MULLEN:
Thanks, Steph.

Now, for my final comments, folks, before I open it to the Q&A, I'll just leave you with this, is I thought long and hard about what to say to you this morning, but in all honesty, I really cannot provide any meaningful colour or guidance as to what the short term looks like.

These are unchartered waters for all of us, but what I can say is this; we're still going to have some business. How much, I'm not sure of, and I've spoke about it. You heard Stephen talk about it, and it's what I talk quite extensively with the team about here is what I call the needs economy, which I believe will continue to support and drive this economy until the government determines that the wants part of our economy can be opened up.

Now, obviously these are early days, so I don't want to even guess at how our business will or can perform over the next few months. What I can tell you is that today we've issued some temporary layoff notices to approximately 100,000 of our associates, and I expect more in the weeks to follow unless governments start opening up the economy, so clearly, we have not shut down totally. We still employ some 5,000.

I can also tell you freight is still moving, but, and I will reiterate but, it's competitive, and I am concerned about the counterparty risk, so don't be surprised if we accept less revenue in the short term until we have a clearer picture about which companies can pay their bills. The last thing we're going to do is go to work in a competitive environment and then take all the credit risk. That's not going to happen, so I think we'll maybe just hide for a little bit on that issue.

In summary, I am looking at the world as follows. I think in the short term, let's call that the next two or three months, I really expect business to be challenging. We're going to have business, but it's going to be challenging.

In the medium term, as the economy starts to return and demand starts to recover, we'll all adapt to the new realities of the health aspects related to COVID-19 and what portions of the economy the government opens up.

As demand increases, clearly, we'll be bringing back our furloughed people back to work, and on this issue of the government support to the economy, let's just say this. They provided a lot of money into the system, and it's going to go to work somewhere sometime, so I believe that once we get told it's okay, businesses, factories, demand, you can get back doing what we're good at, so how much, how fast, let's reserve judgment on this for a little bit, and lastly, in the long term, and by this I mean 2021, we will be prepared. We're still going to be around, and we will be ahead of our competition.

We will capitalize on the markets, and who knows, we might even be bigger, so with those comments in which I said talk for a few minutes really about nothing and didn't give you any guidance, let's open it up to the Q&A session and we'll answer the questions as best we can for you.

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. To join the question queue, please press star, then one now.

Our first question comes from Walter Spracklin of RBC Capital Markets. Please go ahead.

WALTER SPRACKLIN:

Thanks very much. Hi, everyone. Hope you're keeping well.

MURRAY K. MULLEN:

Thank you, Walt, and the same to you and everybody at RB.

WALTER SPRACKLIN:

Yes, interesting times, so on that note, I think the world is changing. I think the normal that we go back to will be different. It will be a new normal, and there will be a lot of fundamental changes in the transportation side of things, both Canada and worldwide, and I'm wondering on that note, what do you see as the most substantive change post COVID-19 that will be impacting directly your business both—across all your reporting segments?

MURRAY K. MULLEN:

Well, we spend time thinking about that, and I would tell you we're spending more time thinking about that now because I would tell you since late February and through most of March, I was concerned all about what's our plan, what's our COVID-19 plan, and as I reiterated, we started very early, and it's all outlined on our website. Everybody can see every report that I give, every update every week as to what steps we're taking, so there's a whole chronological event there. I'm now starting to move beyond the plan to, okay, what's next and what is it going to look like? I don't think any of us know for sure, Walter, but I think you hit a good point here. It's going to change.

Now, is society going to change what our needs are? My view is no, we're still doing it now. If you look on the highways, trucks are still moving up and down the road because we still have to get what people need and communities need every day, so there's still going to be a base level of business.

Now, once the consumer gets going again, how much of the wants part of society, and does that lead to actual, I'm buying things or doing things? I don't know that yet, but I would suspect it'll be higher than today because once people get out and about, we'll see a shift in the demand for the wants part of society.

I don't think needs are going to go up. We're hitting maximum needs now. I mean, the grocery stores are busy. LTL is reasonably strong stuff. We've talked about that. It really didn't deteriorate in the first quarter, and I don't—it'll be down a little bit right now because we're not hauling as many shoes and things that, but there's still—the wants—the needs part of the economy's still going to continue on, and let's be honest, I mean, when we look at the unemployment levels, not everybody's laid off.

Yes, we're going to have 2.5 million people in Canada laid off, but that's not 100% of the workforce, and clearly, nearly everybody's going to have money because the government's just giving everybody money, so I think that part is going to be okay. It's when we can get those factories open up. When we can get general economic activity going that'll start to see some real industrial demand going again.

I'll be looking forward to that in June, but trucking itself, I don't think is going to change. I think people still have to have their stuff, so there's lots of other parts of the economy that are going to change a hell of a lot more than ours, if you want my honest opinion.

P. STEPHEN CLARK:
I think I would add, Murray, that I think there's going to be some stickiness or permanency. We saw an $0.11 decline to the Canadian dollar relative to U.S. dollar here in one month. Pretty unprecedented, but I don't know what will get it back rapidly, so that'll mean some inflation for

us, especially on repairs and maintenance, maybe some capital goods, but hopefully in the end it makes us more competitive as far as pricing for our trucking services, and also nationally for maybe manufacturing and other goods, but I see some stickiness to that dollar. I don't see it going back to $0.80 quickly.

WALTER SPRACKLIN:

It's interesting, because I asked that question to the three railroads that have reported so far, and all of them kind of indicated near shoring as a common theme through all of them. In a near shoring environment, how does the trucking industry change, and how does Mullen react to an environment and take advantage of, if that's the opportunity, of a significant near shoring trend?

P. STEPHEN CLARK:

Well, I think it's pretty well-known that typically manufacturing from a trucking point of view is more intensive, sometimes seven touch points. Whereas if you're just importing something from China or wherever, you've got a touch point at the port, touch point to get it to the wholesaler, and then to the retail or final market, so a lot less truck touch points, so I think it could be beneficial to the transportation sector, and we'll have to see where it lies. Does it all go to the U.S. or does it get distributed between the three North American partners on trade?

MURRAY K. MULLEN:

I think you're asking a deep question about how's the supply chain going to change, and that's going to have to be a part of public policy, Walter. It's going to have to be a part of how North America—whether markets become more regional rather than global. I think we're early on in that discussion.

In the short term, I don't think much changes. I think over the long term, I think there's—and I'm just giving my opinion, so I don't know, but I wouldn't be surprised that the supply chain doesn't become more localized than what it is right now, but our view is, is that we'll take a look at that. We still have to deliver the final goods. You have to deliver to the consumer. You have to deliver because it's all based upon consumption, so I think rails are going to clearly be an important part of the supply chain, particularly on getting bulk commodities moved and intermodal and those kind of things, but in trucking, rail doesn't deliver to the final mile. That's all about trucking.

WALTER SPRACKLIN:

My last question's on M&A, Murray. With what's gone on here now, does this really in any way alter fundamentally the target companies that you'll be zeroing in on either as a result of disruption or as an end goal as to how you want your Company to look like five years from now?

MURRAY K. MULLEN:

No, no, Walter it hasn't changed. What has changed is, as a part of our COVID-19 plan, I said what I'd rather have the strength of the balance sheet than do an acquisition, so we put our acquisition strategy on hold for a bit, but that's just to let this thing play itself out for a little bit, but we have our defined strategy as to how we're going to grow this business and what the areas we're interested in.

Growing in the LTL sector part of the economy is our number one priority, and also in the trucking logistics or in the Logistics & Warehousing business. Anything you can do where we can provide a localized business, we're going to be actively looking at that side. Those are our two primary focuses.

Along the way, we're going to find nice little gems that we would put in our Specialized & Industrial Services side because those are gems, but our primary is LTL and delivering to the consumer.

WALTER SPRACKLIN:

Okay, appreciate the time. Stay safe.

MURRAY K. MULLEN:

Thank you.

OPERATOR:

Our next question comes from Aaron MacNeil of TD Securities. Please go ahead.

AARON MACNEIL:

Hey. Morning, all. I'd echo Walters's comments and hope that you and your families are healthy and otherwise doing well. Stephen, thanks as well for adding the past five quarters of segment info. It makes putting a new model together much easier.

In the new disclosures, it looks like the Logistics & Warehousing segment is generally pretty steady overtime. Understanding your comments about counterparty risk and heightened competitiveness, perhaps you could give us a sense of how this segment has performed in late March and maybe early April, and what that might mean for the next few months?

MURRAY K. MULLEN:

Yes. The part that really started—we're starting to see some supply chain bottlenecks right now on the Logistics & Warehousing side, so, for example, a lot of manufacturing facilities have been shut down and not deemed to be essential, and let's just use, for example, the auto sector. They shut down, and the truck manufacturing facilities, and those kind of things, so a lot of factories closed down, which use a high component of logistics and transportation.

Recently, what we're starting to see is those businesses that stayed open could have had an outbreak in their facilities, and let's look at some of the processing—food processing facilities and some warehouses and those kind of things, so we see disruptions in the supply chain that could be localized. Those are not permanent, but you got to slow down, you got to make sure everybody's safe, you got to clean the place, a bunch of different safety protocols to make sure that the integrity of your business is there, but that's slowing productivity down and is causing some bottlenecks in the supply chain. The supply chain works under one thesis in the old way. It was called just in time.

That's exactly everything we've been doing for I don't know how many years, and that all works good until things like this happen, and then there's only so much in inventory, because we're relying on just in time, so it looks choppy, it looks uneven, and it's at risk right now, particularly if you go to large—the whole thing was go to large facilities, so if you have a large food processing plant, it's all good. You get low variable costs, you get this and that, but if it goes down, then everything goes down, so we're seeing some disruptions in the supply chain.

I'll just back up a little bit. The first disruption was coming out of China, in which we bring a lot of goods in, and then it goes to all of us as consumers. Well, they got disrupted because they couldn't produce anything as they shut their economy down. They're now starting to ramp up, but then you have the demand question in North America, so the supply chain is still screwed up, and so I would expect that until we get the economy going again in North America, and then get a month of two underneath our belt and get this rectified, I think it's going to be choppy, and we're seeing that right now in April. It doesn't mean it has stopped, but it's very choppy.

AARON MACNEIL:

Okay. That's very helpful. Staying with Logistics & Warehousing, the segment had very strong margins in Q4 of last year, and I was wondering can you help us understand what might have driven that, and if it's recurring or a one time in nature?

MURRAY K. MULLEN:

It's not one time. I've commented on many times, we've got one of the—our largest business in that segment is the Kleysen Group, and they've got a pretty robust business model. They have a lot of industrial salt sales that belongs to them. It's a big part of their business.

P. STEPHEN CLARK:

Yes, and that was a big part in the fourth quarter as well.

MURRAY K. MULLEN:

Big part in fourth quarter. Those are seasonal. They go when there's municipalities and roads need salt and those kind of things. That's their business model, and then they've got a very strong transload part of their business, which is pretty sticky. A lot of the transload's related to the consumer, and so their transload operation has been strong. It remains pretty strong, so that's the primary reason why we did well there, along with the rest of our businesses. We have a variable cost structure, so revenue may go down, but we move cost down kind of proportionately, and we try and manage the margin here, not just chase business.

AARON MACNEIL:

Maybe just to clarify, would Q4 normally be a seasonally strong quarter for this segment then, just given the comments….

P. STEPHEN CLARK:

Yes, so our seasonally low would be first quarter, typically, in trucking and logistics, and it's typically tied a little bit to the consumer and a little bit to the industrial sector. Third quarter is usually the strongest. Fourth quarter last year was stronger than normal because of salt sales and some of the performance at Kleysen, but not demonstrably stronger than in the past. I think it’s probably maybe the re-segmentation that's also—maybe we have to get used to that where LTL tends to be a little bit lower margin than Logistics & Warehousing.

AARON MACNEIL:

Stephen, you alluded to it, but you’ve historically talked about the third quarter being the strongest for, call it the legacy trucking and logistics segment. It's clear that that all comes from the LTL side based on the new disclosures, and I'm just wondering, given the impact of COVID, do you think there will be the same level of seasonality in that segment, or does this disrupt all the normal seasonal patterns?

MURRAY K. MULLEN:

Well, once again, I think what you're in for the short period of time is the needs economy, so the needs economy tells me that's about what you're going to see for the next little bit. Typically, LTL ramps up in the second and third quarters because you've got everybody stockpiling for and getting things going for the seasonal uptick in construction, and just economic activity. I don't see that happening until the economy opens up, so I think we're kind of stuck in that second—in what we see in the first quarter and maybe the fourth quarter for another—and we won't have a seasonal bounce back this year. I don't see that right now.

AARON MACNEIL:

Okay. Switching gears and maybe—oh, sorry.

P. STEPHEN CLARK:

Sorry, Aaron. I would say that when it comes to our salt sales specifically, pretty hard to resupply. Typically, we would resupply in sort of May, June and start stockpiling those salt piles, but this year all the municipalities are closed. They're not accepting shipments, so that's going to have some disruption. Eventually though, it gets delivered, so maybe it might shift to third quarter, I don't know, but that's just a small part of our business.

MURRAY K. MULLEN:

Just to feed off of that, Stephen, that part of the business is not going to be structurally impaired because it's just one of the needs part of the economy, but it is seasonal. It's fourth quarter and first quarter when the weather’s not well, and then you resupply in the second and third quarter.

AARON MACNEIL:

Okay, and then maybe just switching gears, and absent the obvious, so energy and oilfield services, where are you seeing the greatest counterparty risk?

MURRAY K. MULLEN:

Well, I think that counterparty risk is actually everywhere. Some companies have been disrupted so much, and it's really difficult to get your heads around this. I mean, we've seen some businesses go to zero revenue. How long can they last? I don't know, but we're awfully careful today on managing that. In the energy space, the oil and gas sector, that's going to be impacted for quite a while, I think.

AARON MACNEIL:

Okay, and last one for me. There's obviously got to be a whole bunch of additional costs relating to improving the safety of your operations due to COVID, and I'm just wondering, are you able to pass some of these costs through to your customers, or…

MURRAY K. MULLEN:

No, not yet. Not in this market. There's no way that we can do that. We have to make it up, but I will tell you, like every company, you become very, very efficient when everybody's got their game face on, so we've got some additional costs, but we'll get rid of some costs. We got rid of a lot of discretionary spending, but I don't see any way to get any leverage on that right now on the pricing side.

AARON MACNEIL:

Okay. Thanks, everybody. That's all for me. I'll turn it over.

MURRAY K. MULLEN:

Thanks, Aaron.

OPERATOR:

Our next question comes from Greg Colman of National Bank Financial. Please go ahead.

GREG COLMAN:

Hey, guys. Thanks for taking my questions. Congrats on a good-looking quarter and a stab at what we're looking at in a challenging time. I really want to just start by focusing in, by zeroing in on your LTL segment, which Aaron's already touched on a bit, but I want to dive into it more here. It's about a third of your revenue. We're hearing and seeing conflicting things on the macro side here, and then your comments to lead off. We're intimating, we're pointing towards relative strength in that business. On the macro side, for example we're hearing from Canada Post even today that they're getting (inaudible 34:10) volumes, only experienced in the busiest week leading up to Christmas. They're getting it on a consistent basis now, so that sure sounds pretty good.

On the reverse side, one of your major public Canadian competitors pointed to pressures on LTL; their direct quote being it’s shrinking every week, and it was down 17% in the last half of March and 39% in the first half of April, so there are obviously puts and takes. To ask the question in very clear, unambiguous language, is your LTL continuing to benefit from the current disruption in the economy or not, and if it is, why do you think that your LTL is benefiting and others, perhaps, are not?

MURRAY K. MULLEN:

Great. I can't answer the question for our competitor. What I can tell you is this, is that our LTL business is really a final mile business where we deliver directly to all of these communities. In fact, we provide service from Ontario right to Vancouver Island, so we're delivering—we're kind of a lifeblood to about 5,000 communities, and that's that needs part of the economy that I talk about. I think it's the network and the final mile, because, as you saw, I mean, people are still consuming stuff.

We've definitely lost some part of the wants part of the economy, but we are seeing where we're picking up market share, because some of our—we have such a broad network where some of our smaller competitors just lost volume, and then they're just not productive at all, so it'd be like flying a plane with three passengers. That's not going to work, but with ours, we have such a large network, we can manage the yield more effectively, and so, I mean, honestly, I don't spend a lot of time saying what our competitors do.

I worry about what our Company is doing, and how we watch every cost and how we are leveraging our market position, and I think maybe the easiest way to put it is we provide that final mile of LTL, whereas if you're involved in just moving LTL in bulk, well, that's a very competitive business.

GREG COLMAN:

I appreciate you taking a stab at it, and I certainly didn't want you to be dissecting your competitors' comments necessarily. I just wanted to point out that they are a little bit different, but it does sound to me as though your particular exposure in LTL in last mile seems to be benefiting from that area of the economy rather than being...

MURRAY K. MULLEN:

I think that's the best way to analyze it. I mean, they run a very good company, and they're very efficient in many areas, so I think it's just the segment of the LTL business they're in, whereas ours is really from the little communities back to the big centres, and people still need to be fed and still need to have things in the community.

GREG COLMAN:

Got it. Secondly, I wanted to switch over to the Specialized & Industrial segment, mirror Aaron's comments, thank you for the new segmentation, but Specialized & Industrial, largely, the old legacy energy services, I believe, can you help us understand what you're exposure there is in the three big buckets that you talk about, just in general terms, not specific dollars, but Stephen, in the disclosure, you talk about drilling and completion related work, that's one, production related work, that's two, and then infrastructure related work, that's three very different drivers. Drilling and completion is going to be down hard this year.

Production is being shut in, so down but not down hard necessarily, but infrastructure still very much being built. We are seeing pipelines coming in and projects carrying on, and your dewatering and your large number of pipe hauling is benefiting.

Can you give us a rough idea of, within Specialized & Industrial, are those buckets evenly weighted or is it a third, a third, a third, or is one a half, is one only 2%? Just trying to get a feel of the DNC, the production in the infrastructure related business in broad senses?

P. STEPHEN CLARK:

Very good. There was a presentation done at Peters and Co. conference last September of '19, where you see a pie chart where you would see those categories broken down, so we broke down LTL, what's now Logistics & Warehousing, what we called truckload at the time, and then specialized fluid and production services and such, so that'll give you an idea there, but obviously, you're right. Drilling and drilling-related are going to be the most impacted.

What we call fluid or production services has a lot of oil sands, plant maintenance and such. That's all going to be delayed and deferred as much as they can now, and the needs, if you want to say, is going to be we have to get the pipeline built. Those are clear projects that are going ahead. Smook is going to continue to be busy, and as I said, Canadian Dewatering, it's not a want, it's a need when you have to move water, you have to move it, so those parts of our business are specialized, for lack of a better word. We'll continue to do well and be a lot less volatile, so Murray, do you….

MURRAY K. MULLEN:

Yes, Greg, I don't have the—I mean, it's going to be difficult, and in kind of a normal situation, you might say that it's kind of a third production services, a third kind of the specialized, and maybe a third of that other bucket would have been kind of related to drilling, etc. Clearly, drilling is down. I think it's going to be down for quite some time. However, I don't think it's down forever because they're going to have to go back drilling for natural gas probably later this fall, later this year, so we see some natural gas drilling coming back, but where there is some real delays going on is in plant turnarounds where the oil companies just have been forced to save cash, and they're delaying all their maintenance, so that's just delayed. That will come back, but in the short term, I think it's delayed.

Then on the fluid hauling and that, the truth of matter is we don't like the counterparty risk right at the moment, so I'm going, hey, I'm just going to kind of shutter that for a little bit, and you know what? We might use those tankers that we got to store oil. I don't know. You never know what I'll do around here, but I might be storing some oil on those tankers, not hauling oil.

GREG COLMAN:

Well, Murray, we're certainly looking for storage, so if you got some, I'm sure you can find some customers (inaudible 41:32) that.

MURRAY K. MULLEN:

We're trying to figure that part of the market out, trust me. We are not sitting here just saying there's nothing. I would tell you I don't like what I see in terms of haul crude oil, and then we're not going to work for zero. I can tell you right now. I'll park the equipment, and I won't take the risk, and we'll just wait until another day happens, but I'm not going to work and then not get paid. That's where I talk about that counterparty risk. That's not going to happen around here.

GREG COLMAN:

Just lastly from me, and then I'll pass it back, I understand the inability to offer much longer-term guidance regarding the dividend policy given the uncertainty presented by the COVID-19 impact, but in that long term and assuming economic conditions gradually normalize, would you look to return to some form of a dividend payment? Would you consider that to be a very high likelihood, or do you think that this downturn has fundamentally changed the way you look at capital allocation, and you might look at prioritizing a different form of capital allocation, whether it's an aggressive share buyback program, more aggressive organic or acquisitive growth and reinvestment over top of the dividend?

You've taken an interesting step with a three-month temporary halt. I'm assuming you'll revisit that at the end of those three months. Assuming things normalize, what do you think is a more likely outcome? Is it going back to the pre-halt policy, or is your attitude towards capital allocation changing as the normal changes?

MURRAY K. MULLEN:

That's a really insightful kind of view, and it's one that we look at here, so why did we delay or why did we put a suspension on the dividend? There's a couple of reasons for that. One was, I said none of us know how long COVID-19 will hang around for. Nobody knows that, and truthfully, I don't listen to business analysts. I take a look at what the doctors are saying because they seem to have more influence right now than anybody else, so right now nobody can give a clear advice on that, so the first step we did is say let's protect the balance sheet.

The second part was is, I just found it, as a CEO, very difficult to say I'm going to lay off a thousand people, but I'm still going to pay the shareholders, so I said to shareholders, if I'm going to lay people off, I think the prudent for us to do is to take one on the chin, and then all of the Board, the Senior Management, and a lot of people in our organization, we all have taken a setback also. So, in respect for our fellow associates that I had to really give them bad news, I just felt very awkward doing that.

We took part of that savings from the dividend and we allocated $5 million to our Mullen Family Assistance Plan in which we said if our associates get into trouble before the government arrives with their help, and sometimes that doesn't always arrive when it's supposed to, we said we're going to have a backstop here for people, so don't worry, everything will be okay and let us focus on getting you back to work as soon as possible, but if you and your family run into trouble, we've got you covered, so I think part of it was related to that. I just didn't feel good about it.

The second thing was protect the balance sheet, and the third thing was I saw issues happening in the market in which we had—let me call it this, we had forced selling of our stock, and I said, well, if people want to sell it, we'll just keep buying it back, and so we've been aggressive on the share buyback. I think we're up at—I think we announced, what, 1.7 million, or nearly 2 million shares, if I'm not mistaken.

P. STEPHEN CLARK:
Yes, almost 2 million. We're doing about 66,000 shares a day.

MURRAY K. MULLEN:
Yes, so we're doing the max buyback that we can, Greg, because our stock is on sale. There's no doubt the economy took a setback and things are going to slow down for a bit, but does that mean we're going out of business? Not a chance. That's not going to happen, but we've had a lot of disruption in the market, and when I talk about counterparties, sometimes I had shareholders are getting more trouble in our Company, and they were just forced to sell our stock, and I said, well, okay, we'll buy it, so that's how we looked at it, and so we're going to continue to buy back our stocks as long as our stock is on sale.

P. STEPHEN CLARK:
I think, Greg, longer term, if you think about—set your EBITDA wherever you think it's going to land, and we've got ideas, but I mean, we don't think that we're going to run into problems with our debt covenants, and so when we think about free cash, we're still going to have enough to pay our interest. We're still going to pay our taxes. We're still going to have money for CapEx,

and so then we'll still have $85 million of cash and what do you do with it? Well, it'd be stupid of us to pay back 4% or 3.9% debt early, incur penalties and everything like that, so debt repayments are probably off the table there.

Then so the other alternatives, share buybacks, acquisitions, dividends, and so I think we've always taken an approach where we're trying to balance all those, but share buybacks being a little bit new to us. We've never really done that in any meaningful way in the past, but it's on sale, so we'll continue to buy back, but there's still going to be opportunities there, and so we'll balance that dividend and acquisition, but clearly, when we start getting out of this, we won't need to sit on $85 million of cash forever, but it's nice to have today, I'll tell you because it means more. It gets you further.

MURRAY K. MULLEN:

Greg, we're not going to sit on the cash forever. There's no need for us to sit on the cash. What I just want to take a look at is what happens in the second quarter. When does the government really start opening up and letting business go back to work, and then we just participate along with the demand, and that'll probably start happening in the third quarter, and then by 2021, most likely, best case scenario is we're back, maybe well on our way to getting this economy going. If it doesn't, then there's a lot of problems out there, so let's just look back. We distributed roughly $1.3 billion to shareholders over the years I've been in the helm in this Company. I think we'll probably give back money to shareholders.

GREG COLMAN:

I appreciate the colour on that.

MURRAY K. MULLEN:

It's time to be prudent on occasion, and this is one of those occasions just to be prudent. Nobody saw this coming, so we're just being prudent. I'll take a look at it. I said it's temporary, and that's what I mean, I said it's temporary because I don't think the economy is going to stay down forever.

GREG COLMAN:

Got it. That's it for me. Thank you very much.

MURRAY K. MULLEN:

Okay.

OPERATOR:

Our next question comes from Konark Gupta of Scotiabank. Please go ahead.

KONARK GUPTA:

Thanks, and good morning, everyone.

MURRAY K. MULLEN:

Good morning.

KONARK GUPTA:

Morning, Murray. I just wanted to start off on the counterparty risk comments that you made today. Have you realized any bad debt expense so far, and do you anticipate any in Q2?

P. STEPHEN CLARK:

Well, we've upped our provision trying to be cautious. There's always some bad debts. I would suspect that we're coming into unprecedented times. I'm sure the banks are looking at it as well and upping their reserves. The problem with bad debts is that you go into it thinking it's good, and then you don't know it's bad until it's bad, but a lot of our customer base, though, are large, well-capitalized companies, whether it's Lafarge or Vale or CNRL or Suncor, so that's a lot of our business. We don't have a lot of exposure to any one customer, so we're still very well-balanced. We still look at it, and we look at it like a hawk, and it's not just at the end of the month or six weeks after the quarter end that we're looking at receivables. We look at it all the time.

MURRAY K. MULLEN:

Steph, we accrue for bad debt every month.

P. STEPHEN CLARK:

Correct, and we upped our accrual during the quarter by about $1 million.

MURRAY K. MULLEN:

Okay, so we've upped the accrual, Konark, so we think the risk has gone up, so we've done two things on that. We've upped the accrual, and then secondly what we've done is really focused, fine-tuned on looking for any change whatsoever in the payables patterns, but I can tell you, it happens very, very quickly today, and we're all going to get used to—there's going to be more of that over the next few months, in my opinion.

KONARK GUPTA:

Okay, that makes sense. Thanks for that, and then on the LTL and L&W segments, these are obviously the first time we are seeing those segment disclosures, so just kind of pardon my kind of ignorance on what's there and what's not. What kind of exposure those segments have to the Alberta markets individually, if you can comment on that?

P. STEPHEN CLARK:

Well, I would tell you that LTL, our biggest business unit in LTL is Gardewine, which is Manitoba-based, so think about it, the strengths really lie in northern Ontario and Manitoba, and the largest business unit in our Logistics & Warehousing is Kleysen. Again, Manitoba-based, but they have a more of a western Canadian flavour, so listen, we are a western Canadian Company. That's where we really are, Ontario West. We have very deep integration in the LTL market in the west.

Logistics & Warehousing tends to be more of a North American freight things, and there's lots of good companies that are centred in Winnipeg, because they're central to the North America, but there's still a disproportionate piece to western Canada in both those segments, and I would look back—we would give you the breakdown on revenue for the last couple of years between LTL and—in our MD&A between LTL and what we used to call truckload. Those are basically the segments now. We've just broken them out for further clarity, and we've removed Smook, the construction business, out of Logistics & Warehousing and put it into Specialized.

KONARK GUPTA:

Okay, then that's helpful. Thanks so much, and obviously, times have been pretty fluid and it remains fluid, I think, in this quarter. Now, we are kind of in the third or almost fourth week of April. If you can comment or provide any kind of directional indications as to what you saw in the first three weeks of April, then that will give us a good indication in terms of revenue, sorry.

Murray K. Mullen:

Well, look it, the clearest indication I got is we've laid off 1,000 people. Okay, so there's your first indication that business has slowed dramatically, and most of those have happened since the first of April, and I would expect maybe the layoffs to continue through the month of April, so that'll give you a pretty good hint as to businesses being impacted now. But I can't give guidance. I've said this. I don't know where it is.

I think what we'll do is we'll probably give a mid-quarter update once we get some April and May numbers in, so kind of early June, second week of June we'll probably give an update as to what we see how the quarter's going, but I don't know for sure what the quarter is going to come in at. If you wanted to kind of guess, I guess, we're down 15% on your labour force. We might be down 20%, and then business is tougher, so we might be down 25% off of the first quarter numbers for revenue.

P. Stephen Clark:

Really industrial being the hardest hit out of the groups are oil patch.

Konark Gupta:

Right, right, no that's kind of beyond us, thanks, and for the margins, again, same thing, like these segments are kind of new to us in terms of disclosure, so I think you made some comments about margins at least on deferral and the stocks. Generally, for the segments, where do you see, or which segment of the three do you see most resilient in terms of your own actions or by its nature, and which segment do you see having most downside risk in margins in this kind of short-term assets revenues decline?

Murray Mullen

Well, short-term one with the greatest risk is our Specialized because we're shutting down a lot of business and just waiting on that side, so you make no margin. On the Logistics & Warehousing, we should be able to manage the margin reasonably well because we have a significant portion which is variable expense, so we'll be okay there, and on the LTL side, I think margins will hold in, because we just manage the yield, so revenues might be down, but I think we can manage the cost side reasonably efficiently. We just won't have as much revenue to amortize some of the fixed costs over, but clearly the biggest margin loss is probably going to be Specialized & Industrial services.

KONARK GUPTA:

Okay, that's great, and lastly for me, so you made a comment about M&A earlier. Just wanted to understand how do you think about the right time for M&A? Like if you act too quickly, you may run into cash risk or liquidity risk potentially, and if you wait too long, you may miss a good opportunity, so how do you balance those things?

MURRAY K. MULLEN:

Well, we have quite a pipeline of acquisition opportunities, but I put them on hold when COVID became a real risk, and we saw that in February, so we moved very, very early to say no, I'm just going to wait and see how this works out, and I really want to see how the whole thing works out on the counterparty stuff. We're not going to sit on the cash forever because there's no need to do that. We need cash to provide some comfort, but we're not going to sit on it forever, so we're going to continue to do our share buyback, which is really a form of acquisition. We're buying back our own Company stock.

I may decide—I'm trying to work through that right now is that depending on how we see the supply chain work out, we may ramp up our investment in capital, but we have not cut our capital expenditures this year. I'm not like some companies. I'm not cutting CapEx because, number one, you cut—I am really concerned about what happens to the price of the equipment, that's all—it's all priced in U.S. dollars, and, as Stephen said, and everybody knows the Canadian dollar got whacked, and so you're going to have—we're not going to stop buying equipment, and in fact, we may accelerate that. I may use part of that to accelerate some of our CapEx buying.

We're already starting to see part shortages for our equipment because they've closed factories down, so you want to be able to have the equipment to go to work.

Then, of course, on M&A, it's dependent upon when the timing's right, and we've got to say take a look at their counterparty problems. Like I got to look at the balance sheet and say, who are you doing business with? Are they going to be around? Who would have thought the airlines would have been done? Who would have thought all these things two months ago, so sometimes it's best to just pause and take a look around and not stick your head in there and pretend you know everything, and that's where we're at. You've got to leave that to us. We'll figure it out.

KONARK GUPTA:

Okay. That's perfect. Thanks, Murray, and thanks, Stephen.

MURRAY K. MULLEN:

Thank you.

OPERATOR:

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

Our next question comes from Dean Gullick (phonetic 59:08) of CIBC. Please go ahead.

DEAN GULLICK:

Good morning, everyone.

MURRAY K. MULLEN:

Good morning.

DEAN GULLICK:

Maybe just to kick things off, can you share some of the colour on the tailwinds you witnessed out of Smook in the quarter? Was that driven by one large project, and do you expect that to continue into Q2?

P. STEPHEN CLARK:

Smook, their biggest customer's Vale, but their second biggest customer is the government of Manitoba, and so there's road works and such that will continue on. We suspect that that construction activity infrastructure build out, governments aren't cutting those out, so as long as they're able to work, they'll have a good quarter.

Smook is not one of those business units that is large relative to the rest of the Group, but it's one of those little gems that we have that they're really the only civil construction company in Thompson, so anything that's getting spent in the north to provide infrastructure for First Nations and road infrastructure or infrastructure for the Vale mine up there for nickel, which is still a very much needed commodity, they'll do all right.

MURRAY K. MULLEN:

It's not a big company and it's not something we're going to scale into, but Jeff Kleysen, who looks after Kleysen, really oversees this business unit. Vale's a very, very large customer of the Kleysen Group, and we invested in this to provide a continuity of service to Vale, and they had a strong position in northern Manitoba for government projects. As Stephen says, they're the only player in town right now, so they've got a nice little book of business, but it's not scalable, and it's construction, so it's a bit choppy, but it's a nice little gem, as we call it, and it's tucked into this Specialized & Industrial services business.

The bigger one that is going on in the next bit is the move—is the continuation of pipe hauling and these big pipeline construction projects primarily, let's call that Trans Mountain, that pipe is still moving. The Government of Canada is still—they put us on hold for a little bit, but they're going to build that pipeline. I think I've always said this. They might get it up to Hope. I don't know if they'll get it into Burnaby, but they'll get it to Hope, and then the other big project is the coastal gas project, which is tied to the big LNG Canada project up at Kitimat, so that project is going on.

There's been a couple of delays on pipe coming in because India did a hard lock down in their economy, so ships are not bringing pipe in right at the moment, but that made push us back by a quarter. But those projects are still going on and we expect those projects to go on for a little bit, for the next year or so for sure. Keystone, there will be some additional work from the Keystone project, so we expect the pipeline business to continue to be robust this year, but it can be choppy. It can be delayed.

There can be the supply chain issues that arrive and you just got to—it's delayed. It's not stopped, it's delayed, and I hope that that's a general theme on the overall economy that it's been being delayed, put on hold, and it starts to open up. It's not going to open up on a floodgate, in our opinion. It's going to start opening up one step at a time, and then that's why I said by the time—when we look kind of to 2021, we should have a reasonable book of business. We'll either got this Goddang bug, or we'll learn how to deal with it more effectively a society, and we'll get the economy going a little bit, so we just think this is—we're going to take it on the chin for a quarter, just cautioning everybody. Okay. Okay, so it's one quarter. It's not our business. It's one quarter.

DEAN GULLICK:

Understood. Okay, that's very helpful. Thank you. I guess maybe just following up on the more oilfield-related business units, and, in particular, some of the more drilling-tied business units, how are you thinking about their operating platform in the context of, we've been in the bear market for some time now, and you guys have scaled back platforms there, yet the space is due for another move lower. Is there more areas where we could see a permanent scaling back, or is that largely in the rearview mirror and any scaling back would be temporary?

MURRAY K. MULLEN:

You know what, we got to pause for a little bit and see what happens. Let's just take a look at kind of the drilling side. What is the drilling side? Well, over the past little bit, people were drilling for Condi for oil. A lot of the Condi was used for (inaudible 64:10) went to blend with oil sands. Well, oil sands is either going to be dramatically reduced or shut in, so nobody's going to be drilling for (inaudible 64:31) for a while.

However, when you don't drill for (inaudible 64:35), you may not find gas, so you'll see them transition, in my opinion, some of the companies to gas drilling, not to (inaudible 64:42) drilling, and—because you're going to have to have natural gas. Natural gas is going to be a need. It's not a want. When it's winter, you need to heat the home, and then once we get that pipeline built and get that plant built out of Kitimat, that's incremental demand. We're not getting out of the business, but it's definitely been impacted for a bit, and that's probably two quarters, not one quarter.

DEAN GULLICK:

Okay, that's good colour. Thank you. Then last one for me, when it came to the rail blockades that were witnessed in January, can you provide any goalposts surrounding what sort of financial impact those would have had?

P. STEPHEN CLARK:

That was one of the ones that was really a supply chain disruption. It affected our Kleysen group most of all, but it was both positive and negative, so they came out of it with a stronger March afterwards, so it was sort of delayed demand there. I think it really demonstrated to the country how reliant we are on supply chains and such, but financial impacts, I think net-net for the quarter it was probably just a slight negative, not a huge negative, but there was some revenue loss. There's no doubt.

DEAN GULLICK:

Okay, understood. That's very helpful. That's all from me. All the other questions have been answered. Appreciate the colour guys, and hope everyone can stay safe out there. I'll turn the call back.

MURRAY K. MULLEN:

Appreciate that. Take care yourself, now.

OPERATOR:

Our next question comes from Elias Foscolos of Industrial Alliance Securities. Please go ahead.

ELIAS FOSCOLOS:

Good morning.

P. STEPHEN CLARK:

Good morning, Elias.

MURRAY K. MULLEN:

Elias.

ELIAS FOSCOLOS:

Most of my questions have been asked, but I've got a few maybe different ones. In terms of restructuring, could we expect to see some restructuring charges in Q2 beyond the $5 million potentially that's out there?

P. STEPHEN CLARK:

First of all, clarity on the Family Assistance Program; $5 million had been set aside really to help those that have been with us—for tenured employees that have been with us and we expect to bring back, but there will be some hits in Q2 and Q3. As some of the temporary layoffs become permanent, then we'll have some severance, perhaps, but I don't see it as being significant at this point. Really, our plan here is to continue with temporary furloughing employees, and hopefully we bring them back, and it all depends on the permanency of these shutdowns. We were first told two weeks, and now it is two months, and who knows, so it's very difficult to quantify there. There will be some charges.

Also, in our oilfield services business where we've seen significant declines, we're also going to be applying for some of those wage subsidy programs, so hopefully that'll buttress anything that we have in severance.

ELIAS FOSCOLOS:
Okay.

MURRAY K. MULLEN:
You've always got to risk that when you look at things, and we talked about that in a goodwill in the financials documents, is that, when you have a rapid market change like this, you've got to retake a look at your goodwill and those kinds of things. Those are non-cash of course, but still you've got to take a look at that, and all goodwill is based upon some future discounted cash flow based what you see going to happen and in the future. The near term is—and the oilfield side has been virtually wiped out, but is it wiped out forever? I doubt it.

I think the oil sands is in a lot of trouble, but I think we're going to have to go back drilling for natural gas, so it's not going to go to zero, and those kind of things, so it's tough to quantify right now at the moment. I'm hoping that we don't have a lot of counterparty risk and bad debt, but I cannot, with all honesty and clarity, tell people there won't be any. I would be extremely surprised if there isn't some, to be blunt.

The devastation that's happened and the swiftness to this has exposed a lot of weakness in our economic models that we have in Canada, and some companies that—some parts of the economy have been wiped out. I mean, I'm looking at the airline business and what was robust, and then it's gone, so will it come back? Yes, it'll probably come back, but for the short term it's wiped out, so we're seeing that in some areas. I think that's the biggest one for me is just that counterparty risk that keeps me awake at night.

ELIAS FOSCOLOS:

Okay. Couple of questions related to margin. I mean, historically, the Mullen Group has done a pretty good job in keeping margins, despite revenue declines, pretty constant, and I'm going to focus on EBITDA margin and I'm going to focus on 15% right or wrong, but let me just use that high level. This year we're going to see revenue declines. My assumption, but maybe you can clarify it, it will probably be impossible to get 15% margins this year. Would that be sort of a fair assessment, and do you think you'll come back to those levels longer term or maybe go higher?

MURRAY K. MULLEN:

I think, short term, you're right, it's going to be difficult when we lose too much business all at once to maintain margin, so that's a fair assessment, but longer term, the margin will go up. The margin will go up because we're going to be more efficient coming out. We've already found ways to be more efficient than we ever thought about just in the last six weeks, so we're going to be more efficient. I would be very, very surprised if we don't strengthen our market position during this next part of the cycle as some of our competitors just really run into a lot of trouble. I would be very, very surprised on that. Then we'll continue to, as we always do, try and manage that spread.

We always manage that, so some of margin is dependent upon how much company equipment you have, not necessarily what revenue do, so if we go with more logistics with no capital requirement, it's difficult to make a huge margin on that, but you do expect 15% plus if you're putting your own company equipment to work for sure. We'll play and see how this works out. Who's going to be able to get access to credit? Who's going to be able to buy the equipment? We might go to more company trucks. I don't know for sure. That's going to play out over the next two to three quarters.

ELIAS FOSCOLOS:

Okay. Now, I'm going to take margin to an extremely myopic view, and if you can't answer, that's okay. When we're looking at incremental loss and revenue versus incremental decline in EBITDA margin, I can leave it up to myself to sort of forecast revenue. Would it be maybe fair to say that for every dollar of revenue you lose short term, that you would lose—I'm going to be blunt, the goalposts are wide, but it's up to 100% EBITDA, I doubt at that, but so I'm going to just peg a number at 50% EBITDA, and again, if you can't answer, you don't. I appreciate it, but I'm going to ask the question.

MURRAY K. MULLEN:

Well, I'm glad you asked the question. However, I can't give you that answer, but I might give you an answer at the end of this quarter. I think it'll become evident. Until when, Elias, I'm no different than you on throwing a dart at a board, but we'll stress-test this quarter as to where that comes in, and then we'll all be able to recalibrate at the end of the second quarter how we did or how well we didn't go—didn't do well, from that perspective, but longer term, we're not going to go backwards longer term. I don't see that.

ELIAS FOSCOLOS:

Okay.

MURRAY K. MULLEN:

In the short term, it's somewhere between 25% and 50%. Everybody picks their number and goes from there.

ELIAS FOSCOLOS:

Okay, so if I got that right, and somewhere between for every dollar lost, between $0.25 of EBITDA to $0.50 is what you're saying. Okay, good. Good. I appreciate that. I think that's it for me.

MURRAY K. MULLEN:

If you do that math, though, you would probably still come to the conclusion to say we're still going to have positive EBITDA, so we're not one of those companies that actually has negative.

P. STEPHEN CLARK:

Yes, we'll park it. We'll park the equipment rather than go backwards.

MURRAY K. MULLEN:

Yes, so we'll manage spread and not lose money, as best we can, but even what you're saying, we're not going to go backwards \on EBITDA, so we're still going to generate cash. Not as much as we'd like, but these are different times. In the different times, we all can pick when we think different times is over. As I've said to everybody, look, it comes back when the virus decides and the government then decides it's okay for us to go back. These are outside of our control. Until then we manage and we adapt to every situation that comes up.

I can just tell you, I mean, we're virtually on the phone every day, managing every situation. We're doing it all remotely now, and it seems to be working pretty damn well, but everybody on the Senior Team and our whole Company is managing everything virtually on a daily basis, so we adapt, and we adapt quickly to changing market conditions, and I expect there's going to be a lot more change over the next couple months.

ELIAS FOSCOLOS:

I guess I'll say I appreciate what you've sort of provided for disclosure so far, and if possible, we can hold you to late May, early June commentary, it would be appreciated, knowing that you have a business to run also, so I'll leave it at that.

MURRAY K. MULLEN:

Yes. Thanks, so just on that, thanks, Elias.

Thanks to all of you for joining us. I think we've talked about it here. We're going to give an update to the Board. We give them financial—they get financial reports every month, but we're going to have an update with them in early June once we get the May numbers off, and then I think what we'll do is we'll have a quick call and give an update to everybody on that, or at least we'll provide some indication of where we're at.

Quarters go by pretty fast, but things are changing awfully fast today, so we've been very vague, but we'll be able to button that up, I think by second week of June, I think….

P. STEPHEN CLARK:

Yes, for sure.

MURRAY K. MULLEN:

That's our objective, and so we're pretty good at staying on time, so we'll leave it with that, folks. Thank you for joining us. A lot of our attention, by the way, today is making sure that we manage the health and safety of our people, because we still have a lot of people out there working every day, and damn, they're doing a good job, and part of our responsibility here as the senior executive is to make sure that we're doing everything possible so that they feel comfortable and safe working in our Company, and that we got their back, so yes, that's the other part of our job, and we're going to leave this call, and that's what we're going to get back to on that side because we still have a business to run.

Thank you very much for joining us, all, and stay safe.

OPERATOR:

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