The Mullen Group

Mullen Group Limited Investor Update Conference Call and Webcast.

Transcript

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Speakers:

Mr. Murray K. Mullen
Chairman, CEO & President

P. Stephen Clark
Chief Financial Officer

Joanna Scott
Corporate Vice President

Carson Urlacher
Corporate Controller

OPERATOR:

Welcome to the Mullen Group Limited Mid Quarter Update Conference Call and Webcast. As a reminder, all participants are in listen-only mode and the conference is being recorded.

After the presentation, there'll 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 Operator by pressing star, and zero.

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

MURRAY K. MULLEN:

Welcome to our mid-quarter update conference call, folks.

Before I commence today's update, please I want to remind you, everyone, that our presentation does contain forward-looking statements that are based on current expectations and are subject to a number of uncertainties and risks and actual results may differ materially. Further information in identifying the risks, uncertainties and assumptions can be found in a disclosure document, which are filed on SEDAR and www.mullen-group.com.

I'm fortunate to have with me most of my senior team this morning. We've got Stephen Clark, our CFO, we've got Joanna Scott, Corporate Secretary and VP of Corporate Services, Carson Urlarcher, who's our Corporate Controller, and Richard Maloney is in the office, but we are practicing the art of social distancing.

In terms of the mid-quarter updates, many of you recall that I committed to provide a mid-quarter update, given all of the uncertainty due to COVID-19, and on today's call, I will provide a quick summary on business activity for the two months, April and May 2020. The call will not go into the same level of detail as our quarterly conference calls, but I will hold a Q&A session after I give some comments.

Now, to be clear, what we're providing today represents what I believe the economy look like with directives and basic oversight of much of the government policy over the last few months when it was basically controlled by healthcare officials. But, as we see government officials pivot to responding to kind of the new world, they will find a balance between the whole picture and not just a COVID-19 perspective.

In other words, I wouldn't be surprised that with a more balanced approach that the economy will recover. What did we see? In revenue, our overall revenues are down about 22% this quarter, year-over-year, and that's to the end of May. How did our segments too? The Less-Than-Truckload segment, which is tied to the consumer has sailed in the most steady. It's down about 15%, and this is very much in line with when we channel check with the big LTL providers in the U.S. and others, they're down 15% to 18% our 15% generally align, and I would add that we're starting to see volumes returning. I think that's because we've gone away as consumers from just meeting our basic needs to some wants now. I know all of us, people are going out and shopping more, that tells us that the LTL side will probably be the quickest to recover, and truthfully, we think that consumers appear to have cash and are itchy to spend. As I said, I think that supports a quick recovery from the volumes being down for 15% in our Less-Than-Truckload over the last couple of months. To be clear, it's down 15% primarily because consumers had to be focused just on needs and not on wants. You couldn't go up, you couldn't buy. That's just the way it worked.

Now, in the Logistics and the Warehousing segment, we saw the trend down by 20%, and this is primarily due to demand destruction and cross-border traffic. Canada, as many of you know, sources a lot, if not the majority of all of our value-added products, capital goods, equipment, etc., from the U.S. With plant closures, we saw a meaningful drop in orders coming from the U.S. Now, however, as factories and plants reopening, we're starting to see some freight demand pick up, but thus far, I would tell you, that's not back to pre-COVID demand levels. We did see some market share gains in two areas of our business, specifically our transload operations at our Kleysen Group. We've got some good market share gains there, and we saw e-commerce shipments increase dramatically at DWS, which is our warehousing specialist. Now, our view is, once again, that this segment of our business will probably improve steadily over the balance of the year as the consumer starts spending, factories open up, that means you've got to move product, and we think that the Logistics and Warehousing will get steadily better as the year progresses.

In our third segment, the Specialized & Industrial Service segment, it was down 30%, and it will come as no surprise to anyone that anything related to the oil and gas companies was down sharply. However, offsetting the declines in drilling activity, service work, production hauling, and actually even maintenance work, everything was put on hold for a while. There continues to be the strong performance by our Premay Pipeline Hauling Group, which continues to stockpile pipe for the TMX and the coastal gas projects, and as well, Canadian de-watering where de-watering services and pump rentals remain firm. We do not anticipate any significant recovery in this segment until 2021. Until then, our pipeline activity and de-watering services will do most of the heavy lifting in this segment.

We believe that everything related to the oil and gas companies is not structural. It's temporary, it's being pushed out, including maintenance and production work. As the year progresses, as commodity prices recovery, as balance sheets get fixed up, we think eventually then the oil and gas companies will go back to spending on the things that we just talked about. That's where we're at in terms of the revenue. Once again, just to reiterate it's down 22%, is what we saw trending in the first two months.

In terms of margins, this is where we see the benefits of adapting quickly and decisively to COVID-19. In spite of the revenue declines, we held our own on EBITDA and actually improved margins.

As a result, EBITDA is trending down by only 15%. I think the news gets even better, which Stephen will talk about shortly. What this suggests is that after two months of actual data, (inaudible 07:35) view that the second quarter will generate revenues in the 240 to 260 range, and that EBITDA should be around $40 million, and that's before adjusting for government subsidies. Now, what we want, obviously, but considering the circumstances, this is not what we want, but considering the circumstances, I've got to tell you, it feels pretty good about the performance of our business.

Now, as the economy reopens, one should expect freight demand to improve. In fact, we've already commenced bringing back 20% of those receiving temporary layoffs, which is great news. We look forward to updating these numbers in July as part of our second quarter reporting.

Now, the second part that I'll just update you on this morning, and that is really, let's talk a little bit about liquidity and cash position. As of today, we have $115 million in cash, which is up nearly $30 million from the end of March. If it wasn't obvious to you before, perhaps it is now, and that is that Mullen Group is a generator of free cash, and with this cash, we are actively looking at deploying it. We will continue the share buyback.

We've already commenced accelerating CapEx and those business units that we see have the opportunity to gain market share, and we will once again re-engage on the acquisition front.

I've asked Stephen to provide you with an update this morning on two important aspects of the business. One is the government subsidies, which have turned out to be quite lucrative. Even though business has been really hampered as a result of the steps taken by the governments and the economy to slow it down, the facts are the government subsidies virtually get us back to whole, and Stephen will give an update on that.

Then also, Steph, I think it's important to talk about the share buyback because we've continued to buy back our shares over this period as some shareholders thought that the world was going to end. Why don't you give an update on those two fronts and then we'll go to a Q&A session.

P. STEPHEN CLARK:

Yes. Thank you, Murray, and good morning, fellow shareholders.

On the Canadian Emergency Wave Subsidy Program, we took some steps and we've made applications now in the month of June for 19 of our business units. Most of those business units are within our Specialized & Industrial segment, as they have suffered the most damage here, as far as revenue losses.

This is supporting jobs for about 1,500 employees and the applications will total, although we've only applied for the first two periods, we estimate will total approximately $10 million, and of course, these were designed to preserve employment in which we've met those goals. As far as the analyst community goes here, I just wanted to provide that full disclosure of these wage subsidies will be given in July when we release our quarterly results, and that we will break it down between DOE wages, and then we'll have a recovery of DOE wages as a sub-line within our MD&A, so you'll be able to have full visibility of that. Again, we'll break it down on the SNA wages and then the SNA wage recovery.

You'll see two new lines within our MD&A that will give you full clarity, and you'll see that on a segmented basis so you'll be able to tweak your models as need be.

But as Murray stated, we're trending towards EBITDA or OIBDA at approximately $40 million for the quarter, and then once you add on these subsidies will be approximately whole. That really has resulted in a strong cash position because we've had strong operator results, stronger than expected here. Let's be perfectly blunt, in April, when we were last talking to the community here, we were uncertain and it was unprecedented.

But we've implemented early cost controls and we've got good working capital management procedures here. Our cash position has been enhanced and as Murray said, our bank balance today is about $115 million. From that, I just want to clarify, because I know some of you have been asking, there has been no defensive draws on our credit line. Our credit facility remains at $150 million and it remains undrawn so that cash is just pure cash and cash generation.

We've had two notable items, and Murray had spoken to it, our share buybacks. Since March, we've bought back, up till yesterday, 4,470,776 shares. About 4.5 million shares, at a cost of about $23.7 million year-to-date as of yesterday, and that was an average price of $5.31. For us, we thought that was a good return to shareholders in a time when we had a great sell-off and there was great uncertainty. We took advantage of that and gave some good returns to shareholders.

Secondly, did our cash generation come at the expense of CapEx? No, we did not cheat on CapEx. To the end of May, we've invested $17.4 million into capital expenditures into our business units. We expect that to slow a little bit here in the third quarter as factories have closed, but we're still on track to meet our announced budget of $50 million for the year. Again, our cash position there is enhanced. We generate cash because of our diverse business model. We've maintained margin because we were early on the COVID action plan. As much as low oil prices has hurt our oil field services businesses are Specialized & Industrial segment, it certainly has aided our Logistics and Warehousing and our LTL businesses as cost of diesel fuel was at historic or pretty lows here during the spring, so in April and May.

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

MURRAY K. MULLEN:

Okay. Thanks, Steph. That's a quick update, folks. Judging from some of the emails we got, there's going to be a few questions, I guess. Why don't we just open up to a couple of questions. As I said, this is just a quick update on our business. We'll have full updates once we get the quarter off, of course, then we'll go through our more traditional update for shareholders at that time.

But we wanted to provide some clarity to shareholders because, to be blunt, after the last, none of us knew for sure and we said we'd give an update, and that's what we're doing. I'll just see if there's a couple of questions here. I think there's a couple I see now, so I'll turn it over to 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 from Scotiabank. Please, go ahead.

KONARK GUPTA:

Thank you, and good morning, guys, and really appreciate you updating us mid-quarter for the trends. I'll keep it brief. Maybe if I can ask a first one on the trends. Obviously, we got some good colour from you on the segments and how they shaped out in the quarter, in the two months. Between April and May, is it kind of safe to assume that obviously in those 22% revenue decline, 15% EBITDA decline, April could have been the worst month between the two months, and you think the trends might have improved from May as well into June?

MURRAY K. MULLEN:

I would classify that most—for both segments, May was worse than April. We think there was some pent up demand coming into April as consumers and everybody kind of stockpiled if you will, and some of it was irrational buying or whatever. May was actually a little more challenging than April, but then as the end of May started to come in, you started to see some demand pickup, and we're seeing that trend improving here in June. Particularly in the Logistics and

Warehousing and the LTL side, we're seeing some nice rebound as we come into June, which is why we've added back in roughly 20% of our people. That's all good news.

As I said, I hope that trend continues as more and more of the economy start opening up. That will be healthy for those two segments, for sure. Then on the Specialized & Industrial services side, I think it's going to be kind of more of the same for a little bit there until our customer's balance sheets get fixed up. I sense they're still having a few more challenges, then it'll take a little bit of time to repair those balance sheets, I think, before they go back and spend the money. Although we are starting to see—we're having better discussions, let's put it that way, but I haven't seen it turn into actual demand and freight yet. That's kind of how we see it.

The first part of April, the first three weeks was good, then it tailed off bad at the end of April. For the first three weeks of May, it was awful, and then it started picking up at the end of May. We went through a four week window, partly in April and partly in May. That was the worst of the worst. Hopefully that helps.

KONARK GUPTA:

Yes, no, absolutely. That's great colour. Thanks so much for that, and then...

MURRAY K. MULLEN:

That probably aligns with what you're seeing and reading with all the economic data and everything else. All we're doing is just really reiterating what the trends are in the overall economy. We've seen, just for an example, cross border trucking. This was reported a week ago. Canada-U.S. border freight started moving up by about 2.8% week-over-week. But here's the number that was most compelling, cross border traffic was down 25.5% as compared to last year. That tells you there was a real downdraft in that cross border traffic.

You've seen the rails come in and our pipeline (phonetic 18:44), how they've been down. Many of our U.S. competitors that disclose their public numbers on the LTL side are down 15% to 20%. Our numbers are trending very much in line, but clearly, as I say, we move quickly and the robustness of our business model helped on the margin side, which was most pleasing to us.

Some of our business never got hit. Our LTL remained margin the same, even though a lot of LTL is fixed costs with your terminal network, etc. They did a very good job just holding margin the same, and then actually in Logistics and Warehousing and in the Specialized Industrial, we actually improved margin there in each segment by two basis points.

Then overall, that worked into one basis point margin improvement, which is why our EBITDA looks to be pretty stable here, and why we generated so much cash, to be blunt.

KONARK GUPTA:

Right. That's actually a good segue into my actual next question on the segment margins. I was wondering, I believe that the 14% EBITDA decline, and the margins, if you include the wage subsidy, the margins are like 20%, obviously. I mean, that's, I don't know, it's probably the highest in the last five years or four years for you guys.

But, if you want to split into the segments, where would you think the margins would be? Would they be similar trends as you have seen before, as in like I think specialized and a lot of the six-layer house tend to have sort of, like not logistics, but specialized in LTL, tend to have higher margins perhaps and then logistics has lower margin. Is that how it was?

MURRAY K. MULLEN:

I don't think that's a fair statement as Stephen commented. It's difficult. We have a high level of employment levels in our Specialized & Industrial services sector, and that part was hit the hardest, which is where the majority of the wage subsidy comes in. Correct, Steph?

P. STEPHEN CLARK:

Correct, yes.

MURRAY K. MULLEN:

The vast majority of it. Now remember, we didn't lay off everybody. We kept a lot of people on, so that just really keeps you whole. We had virtually no wage subsidy in the LTL side because the revenues weren't down enough, and the majority of our Logistics and Warehousing didn't qualify. What you're seeing is, we manage costs very effectively, and kudos to our business units. Those businesses that maintained business did a great job. The companies that lost all their business did an even better job because they minimized the losses. Overall, pretty pleased.

KONARK GUPTA:

Okay, and then very quickly the last one for me on the CWS, I just want to clarify, Stephen, what CWS, I know you have applied for it, is there a timing difference between how you recognize on P&L versus when you receive the cash?

P. STEPHEN CLARK:

No. we went through a series of steps and we wanted to make sure that we were getting these applications fully and wholesomely reviewed by KPMG and such. We've made the applications now for the first two periods, and we will recognize that in June. Then for the third period, we expect to recognize that again in June. We would recognize those as we applied because the counterparty, the federal government is certainly viable and wholesome. Once vetted by our third-party consultants, we feel confident that we'll receive the money.

KONARK GUPTA:

Okay. Thank you so much and all the best.

P. STEPHEN CLARK:

Thank you.

OPERATOR:

The next question comes from Michael Robertson with National Bank Financial. Please, go ahead.

MICHAEL ROBERTSON:

Hey, gentlemen. Thanks for taking my call and congrats on pretty resilient results in the face of COVID-19. Could you provide even a ballpark breakdown of where that $40 million came from on a segmented basis, just your three main segments?

P. STEPHEN CLARK:

I think at this point, we'll give that in July when we give the wholesome quarter, but we've given you what the revenue declines were and we've told you the margin is largely held. I think you can do a bit of back in the napkin calculations there, Michael, and other analysts there, that'll get you in the ballpark. Again, I would remind you that this would be pre-wage subsidy sort of numbers and then the actual numbers will be adjusted upwards, especially for S&I for wage subsidies.

MURRAY K. MULLEN:

Just to reiterate on that, just so that it's clear. Then I'll reiterate what I said, is revenue in our LTL side is down about 15%, revenue in our Logistics and Warehousing is down 21%, and in the Specialized & Industrial Services, down 32%. That blends out to roughly over 22%, and then the margins, we've maintained margin in LTL.

We had a two-point basis point increase in margin on Logistics and Warehousing and two-point in Specialized & Industrial Services. That tells you that overall, our revenues are down 22.5% or 22%, and our margins up by 1% overall. That kind of fills in the blanks for you as to what we are overall.

Now, I will also say this to everybody. Carson, we increased our allowance for doubtful accounts, if I'm not mistaken over the last bit, right? Due to what we perceived as counterparty risk.

CARSON URLACHER:

Yes. We have. At the end of the year, we had about $7.8 million sitting in the allowance. Then over the last five months here, we've increased that by about $1.2 million. We're sitting with our allowance at about $9 million now.

MURRAY K. MULLEN:

Yes. We increased our reserve just in case of counterparty risk. We've only had a couple instances of kind of significant, you know, where we've had some clients go bankrupt or at a CCAA. We think we're well covered off on that. We didn't fudge the EBITDA numbers. They may be even a little bit—we've been cautionary on that front.

CARSON URLACHER:

Yes. For the most part, we work with companies that are large and well-capitalized. We do have some risks and some exposure to counterparty risks in servicing those clients, but for the most part, we deal with the majors. We're fairly secure on that side.

MICHAEL ROBERTSON:

My other question, you guys already touched on in your opening commentary, just on the wage subsidy. Going forward, trying to wrap our heads around that of the business subsidiaries that have been impacted thus far, do you have like a ballpark approximation of how many you see continuing to be impacted on a forward basis and eligible for that?

MURRAY K. MULLEN:

Well, it looks like the majority of it will be in the Specialized & Industrial Services side. To the extent that the government's going to continue to provide such subsidy, it looks like—I doubt if there's going to be a large increase in employment levels or inactivity levels in our Specialized & Industrial Services side until at least later this year, maybe next year. I can't opine as to how long they're going to continue the programs or whether they're going to modify it. But we know that we can only talk about what's going to happen until the end of June because we've got those numbers. June is predicated upon May, if I'm not mistaken, Steph.

P. STEPHEN CLARK:

Correct. Yes, and really, we know the program has expanded out to August and as we told you, it's mainly Specialized & Industrial. We're seeing some improvement, for instance, week-over-week in LTL. I suspect our one company there will fall off. We've seen some downturn in cross border traffic. Again, we're starting to see some recovery there. I don't think that'll maintain the same levels of subsidies through August. It'll be S&I that'll really continue on. I just don't see how that—it's almost (inaudible 27:47).

MICHAEL ROBERTSON:

That's very helpful. I appreciate the commentary there. I'll turn it back.

MURRAY K. MULLEN:

Yes, and I think it's obvious to everyone, is that we can't wait to get rid of this subsidy crap, which means that the economy has started to recover, and we're hopeful and it looks like we're in the process of rebuilding from a pretty low base. It'll be very fluid over the next bit. We can't tell you how fast the recovery will be, but the trend is up.

MICHAEL ROBERTSON:

Well, thanks again, guys, and have a great weekend.

P. STEPHEN CLARK:

Thank you very much, Michael.

OPERATOR:

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

The next question comes from John Gibson from BMO Capital Markets. Please, go ahead.

JOHN GIBSON:

Hey, guys. Just had a quick question around the potential dividends. Are activity levels trending in the direction you want to see that you could actually start to think about re-implementing the dividend, or is it kind of more of a function of you'd rather focus on the buybacks considering where your shares are at?

MURRAY K. MULLEN:

Yes, that's clearly going to be a discussion that shareholders are going to be looking for us for some guidance and advice on. I think the very best, we put out and said, "Look, let's suspend it for three months", which is what we're going to do. We will have all the data we need by the time we finish Q2, for the Board to be able to take a look at that data, make some extrapolation of what we see the last half of the year look like, and then we'll come back in with a response to all of our shareholders at the Q2 meeting conference call that says, this is what our plans are with the reinstatement of the dividend or what we're going to do with that dividend.

I'm going to just leave that until we get the rest of the data coming in for the quarter. We said we were going to suspend for 90 days and that's what we're going to do. We said we were going to keep the share buyback going, which we're going to do. We've, now, Joanna got roughly 4.4 million. I think our original filing was for...

JOANNA SCOTT:

Seven point nine.

MURRAY K. MULLEN:

Seven point nine million. We'll be well over 5 million shares bought back by the time we get to our July meeting, which would probably entail somewhere around a 5% reduction in our share count. Then we'll just take a look and we're going to continue the share buyback because I'm just looking at it and going, every acquisition I look at doesn't generate the same return as what our nice return is we're getting from buying back our shares. But be clear, we had implemented the share buyback before COVID hit. That was part of our strategy for this year because we said we generated enough free cash to do both a dividend and a share buyback, and meet our CapEx requirements.

The trend I'm seeing now is is we probably could have maintained the dividend, but it was not the right message. When you're laying off a thousand people, 15% of your workforce and everybody's scared about everything, we balanced what we thought was the right thing, and that's what we told shareholders, and then we'll revisit it in July. But we're starting to bring back people, which is very healthy and I think we've seen the worst. We'll have a good discussion on that in July.

JOHN GIBSON:

Okay, guys. That was all. Thanks.

OPERATOR:

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

MURRAY K. MULLEN:

Hello, Elias? Let's go to the next one as Elias—we'll see if he comes back online.

OPERATOR:

The next question comes from Jeff Fetterly from Peters & Co. Please, go ahead.

JEFF FETTERLY:

Good morning, everyone.

MURRAY K. MULLEN:

Hi, Jeff.

JEFF FETTERLY:

A follow-on to John's question. In terms of the dividend, what are you looking to see or what do you need to see to look at bringing that dividend back?

MURRAY K. MULLEN:

Just additional clarity on what the last half of the year looks like. That's probably the only thing that will be on the agenda for that. As I said, I think it's really a Board decision, and the next Board meeting we have is in July. That'll be on the agenda for the Board to take a look at, but I think it's all predicated upon how we see the last half of the year shaping up.

Given that what we've opined on today is that it looks like business is starting to recover and will come off of where we've been this quarter. That should be better, is in the second half, if the economy keeps opening up, which it appears it is. The next Board meeting will address that and it's based upon what we see in the second half, and we'll be able to make our best guess at that time.

JEFF FETTERLY:

Do you need to see a positive trend to think about bringing back the dividend, or is the current, call it pace, or run rate of the business sufficient to support that and give you confidence?

MURRAY K. MULLEN:

Yes, so I think, Jeff, as I talked about on the last with John, is that look, we've got a strong enough cash position, we can continue the dividend. But when you lay off a thousand people and people are scared and worried about this and that, it wasn't the right message. We've got a lot of people that are suffering out there.

When you take a look at our society, you have to have a more balanced approach. So we did the right thing and we're very comfortable with it. Then we'll start to talk about what that future looks like, but clearly, we've got the cash position, and clearly we generate cash. Then it's just a matter of what's the right messaging, I think, as we go forward.

JEFF FETTERLY:

What's your thinking on the M&A side right now? I know you made a reference to it earlier about (inaudible 35:27).

MURRAY K. MULLEN:

Yes. Well, we're actively back engaged in looking at some files. It's an interesting dynamic going on in M&A right now. We've got some in which some of our competitors are getting these nice little top-up wage subsidies, which is really supporting them. We'll have to—probably they're going to maybe get through it a little bit better than what we'd originally thought before this very aggressive wage subsidy program came in, of which we're a beneficiary too, of that.

Then secondly, but we have seen some, particularly in certain parts of the business out here in Western Canada, we're seeing some CCAAs, and there's some screaming deals out there that we're evaluating now. We're looking on all different fronts and trying to position ourselves for next year and beyond. I don't know if doing the M&A's would add huge value this year because we're so late into the year now, but we'll position what we think is the best ones for next year and for the future.

But we're sitting on, to be blunt, too much cash, so we'll be looking actively at deploying it. All of our business units have been notified, give us great ideas. We're open for business, and if you find ways that you can capture market share, let us know what those opportunities are and we'll support them. Then clear we're on the M&A front, and we'll continue to do our share buyback, and then we'll look at the dividend in July.

JEFF FETTERLY:

The organic investments you talked about in the comment earlier about market share, are you making those investments in anticipation of resumption of, call it broader market growth? Or, are you just trying to take advantage of business failures or competitor weakness?

MURRAY K. MULLEN:

There's been a readjustment in the business lines. As business fell off, we saw, for example, in the LTL side, where we actually picked up some market share gain as some of our smaller competitors couldn't meet service requirements. That was a nice win. The other thing that we're seeing on the LTL front is you're seeing a shift from—one of the trends that we've really seen is this massive shift towards acceleration, not a shift, but an acceleration of the e-commerce trend, which is really, let's call that direct to consumer. That means we're trying to capture more of that business of direct to consumer, and meaning we're going to invest in equipment, smaller equipment because you're going into communities, not into industrial areas, to deliver stuff to the consumer or to the malls, for example. All that stuff going direct to consumer. So, yes, we see an increasing trend there and we'll make CapEx commitments there to grow and do that.

Our transload centers will continue to gain market share in our view, that's an internal market share growth. We're not counting on a whole bunch of from—we're not counting on a whole bunch that the economy is going to grow, but we think the economy is going to recover. Then we hope to gain some market share in some of our businesses, particularly those that really rely on technology. I don't think we should discount that the technology has been the big winner out of this COVID-19. It's accelerated a bunch of trends, and our robust platform and technology allowed us to totally handle our business remotely and it really is accelerating and helping our business in the logistics side for sure.

Those are trends that we see. It's not just a trend, so we'll continue to feed on those ones.

JEFF FETTERLY:

Just a clarification. Stephen, you said year-to-date capital spending at the end of May was $17 million?

P. STEPHEN CLARK:

Yes.

JEFF FETTERLY:

The fairly modest amount in Q2 of $3 million, give or take, is that a function of not being able to get the equipment or just the timing of equipment coming in, and do you (inaudible 39:59)

P. STEPHEN CLARK:

Yes, I mean, a lot of the factories have shut down, Jeff, right? So, it's hard to get trailers when trailer manufacturers have shut down. That’s a net number. We sold a bit off here in the spring auctions, but, yes, we’re at seventeen-four until the end of May, but on trend to still spend our $50 million for the year. We have orders and it's all a matter of how much slack is there because of factory closures. But...

MURRAY K. MULLEN:

Jeff, that goes back to—after the first quarter, we said, look, we're not changing our CapEx for the year, but we should be prepared that we're going to go through a low because you can't get this stuff. We stayed on course on the first quarter, which is right on trend for what we thought. Then they'll probably be slowed down for the next bit because you can't get it. Then as the factories open up, we'll see more of a pickup on the last half of the year, I think. But we never changed our $50 million. We're moving forward and we're already placing orders for 2021.

JEFF FETTERLY:

The orders you're placing for 2021, are you anticipating a similar level of spend next year?

MURRAY K. MULLEN:

Well, Jeff, I can't answer that right now. It could be up. It could be down. I don't know exactly what's going to happen in 2021, but we're already—we're not stopping our business. Like, is it up or down? I can't answer that right at the moment, that's for next year. Let's try and get through the next little bit.

P. STEPHEN CLARK:

Yes. I think the orders that we're placing today are really primarily within our LTL space, which we have confidence in the consumer.

MURRAY K. MULLEN:

Yes, you got clear visibility on LTL because the consumer still makes up two thirds to three-quarters of the economy and it's the most robust part, and consumer's got money. That's the one we have the clear visibility on. The other ones we have a good feeling about, but we have visibility on LTL.

JEFF FETTERLY:

Thanks, and I appreciate the colour on those things.

MURRAY K. MULLEN:

All right, good. Thank you.

OPERATOR:

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

ELIAS FOSCOLOS:

Good morning. I'm back and I apologize. It was on mute.

MURRAY K. MULLEN:

Hi, Elias. Are you social distancing on us or what?

ELIAS FOSCOLOS:

Physical distancing.

MURRAY K. MULLEN:

Physical distancing, yes.

ELIAS FOSCOLOS:

Most of the questions have been asked and I just wanted to sort of maybe point this towards Stephen. The Q2 EBITDA, that's 40—I'm going to use the $40 million number, that's a pretty clean operational number. Is that correct with pretty much no gains or any one-time other items in there, correct?

P. STEPHEN CLARK:

Correct. It's a fairly clean number. We've had some one-time severance costs here in April and May, but primarily that's been minimized. As Carson spoke to earlier, maybe we've been a little bit too conservative on some of our reserves, but time will tell. I think it's uncertain and unprecedented so we're taking a cautious approach.

Maybe you'll see some puts and takes there between Q2 and Q3, but for the most part, that is a clean one that doesn't include anything under the OIBDA line for gains or losses on PP&E, or investments or foreign exchange.

ELIAS FOSCOLOS:

Okay, and then maybe to be a little granular with the wage subsidy coming in, will that help in terms of a covenant ratio?

P. STEPHEN CLARK:

You know, I've had lots of worries through this thing through March and whatever. I think every CFO across Canada has had some sleepless nights, but I've never worried about the debt covenant calculations. We were very well positioned. Not only did we have ample cash, so if we ran into trouble, we could always pay down debt, but our coverage right now we're trending, as we told you, around two and a quarter times.

Certainly, what we have for consensus for the quarter is going to be now recalibrated, and with the CEWS or the Canadian Emergency Wage Subsidy will be more or less whole for the first two quarters, which really gives us a lot of breathing room on that debt covenant calculations. I would remind everybody that our debentures, our convertible debentures are not in that calculation with our private placement holders. It's really just our private placement debt in relation to our cash flow from operations.

From that perspective, worst-case scenarios, I really don't see, but a worst-case scenario would be our EBITDA has to be below about $132 million on a trailing 12-month basis, and you'll have a lot of time to correct. Now, listen, the future again is uncertain, but if Q2 is the low point of the COVID-19 health and economic crisis, you'll have lots of time now to rebuild in your trailing 12. Again, on the trailing 12, if we make acquisitions, we can incorporate those into our debt covenant calculation. It really hasn't kept me awake one iota. I haven't worried about it one bit.

MURRAY K. MULLEN:

Well, let's just really simplify it for everybody. If the, based upon our debt, which is all tied to real estate, but let's just use the covenant. If the covenant threshold is $130 million of EBITDA, and by the end of Q2, which we've just given you the update on that says we're going to be about $50 million with the wage subsidy, plus the $45 million in the first quarter, you're at $95 million out of $130 million on the first two months. I have two quarters, I go—I don't even think it's a discussion point, to be honest with you.

ELIAS FOSCOLOS:

Yes. I was looking at it more from the acquisition perspective, not the—so that was the angle I was coming at.

MURRAY K. MULLEN:

But with the acquisitions, we could do acquisitions because we've got cash of $115 million. I mean the worst case is you say with $115 million, we don't we have an acquisition, well, pay down the debt and all of a sudden your threshold goes down to $110 million or $115 million, I guess. No, it's about $110 million or we do acquisitions and it adds to our EBITDA. Once again, I think it's not even an issue for us here.

P. STEPHEN CLARK:

Then for M&A again, we still have lots of flexibility. I remind everybody, we have $150 million line of credit that's unused over $100 million of cash. Obviously, we wouldn't spend every single penny on an acquisition, but we'll balance it out, but we have lots of flexibility and we're looking at lots of transactions now. We've reengaged on the M&A front after taking a pause for a couple of months.

ELIAS FOSCOLOS:

Okay. That's it for me. I appreciate it.

MURRAY K. MULLEN:

Thanks, Elias.

OPERATOR:

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

MURRAY K. MULLEN:

Thanks, folks. Look, we're going to be back chatting here in just about a month. I think we've given an update as we promised we would give you. It will help us all. We all have a little bit more clarity. I think we're all hopeful that the worst is behind us. It's not over, but it appears the worst is behind us.

As I said, we're going to probably balance all of the issues. The government people and policymakers will be balancing health and the economy for the whole, not just for COVID-19. Hopefully, the worst is over for us and way to go. Let's get on with it. Thank you very much for joining us today and take care.

OPERATOR:

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