Mullen Group

The Mullen Group

Mullen Group Limited Second Quarter Earnings Conference Call and Webcast.

Transcript

Date: **July 23rd 2020**

Time: **9:00 AM MT**

Speakers:

Mr. Murray K. Mullen
Chairman, CEO & President

P. Stephen Clark
Chief Financial Officer

OPERATOR:
Thank you for standing by. This is the conference Operator.

Welcome to the Mullen Group Limited Second 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, everyone, to Mullen Group's quarterly conference call.

Once again, we will be discussing our financial and operating performance for the second quarter, and this will be followed by an update on the near-term outlook as we see it, but before I commence today’s review, I shall 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. Now, further information identifying the risks, the uncertainties, and assumptions can be found in the disclosure documents, which are filed on SEDAR and at www.mullen-group.com.

With me this morning, I have our Executive Team. I have Stephen Clark, who's our CFO, who is practicing the art of social distancing and is attending via telephone. I have Richard Maloney, Senior VP; I have Joanna Scott, Corporate Secretary and VP of Corporate Services; and Carson Urlacher, who's our Corporate Controller.

The Q2 2020 financial and operating performance; well, that was a quarter that I'll start with that we all probably want to forget. It started off with no one having a playbook, having no idea about how bad of a health crisis COVID-19 would be, how much business we would have, or how many people would lose their jobs, and not knowing can be very scary. Certainly, it was stressful. Now today, we provide commentary on the second quarter 2020, as well as provide some of our thoughts about what the next few quarters will look like from our perspective.

I think we all know and understand that business activity will return to the norm once COVID-19 has either run its course, like many past pandemics, or the really smart people of this world find a vaccine or some therapeutic drugs that stops this virus in its tracks. It's the timing we're all uncertain about, so realistically, everything we opine about today is less than an educated guesstimate. What we can tell you is what we are seeing happening in real time as it relates to our business, which, by the way, covers numerous sectors of the Canadian economy, so, from this perspective, we have a pretty good viewpoint.

Now, I'll provide a macro overview of our results, and Stephen Clark will provide additional segment commentary, as well as provide an update on our balance sheet, which we have strategically structured to ensure we have flexibility, as well as being positioned to capitalize on opportunities. Of course, all of the detail concerning Q2 can be found in our MD&A.

Most of you will recall that we provided stakeholders with a pretty detailed mid-quarter update on June 11. As such, today's call may be somewhat repetitive, so we will keep our comments to a minimum.

We all know the quarter had started out with a heightened level of uncertainty, but as the quarter unfolded it became evident that the sky was not falling, and that the crisis could be managed; not without issue, not without change, and certainly not without having to adapt, but the best news is that by the end of the quarter there were at least—at the very least some really greenshoot potential providing some room for optimism, economically speaking, as well as from a healthcare's perspective. So, how has the Mullen Group done since the onset of COVID-19?

First, I am pleased to report that we've only had one reported case of COVID-19, and it was managed. We had a young fellow that came in contact with a friend, and he made the right call and was self-isolated, and that was the only case that we know of in all of our whole Group, so we've had lots of sick days because no one is allowed at work if we have any healthcare symptoms, just so we are on the safe side. From this perspective, we're really confident that steps we've initiated worked exceptionally well.

Second, from a business perspective, we actually did okay given what we had to deal with. Revenues were down by $61.5 million, or about 20% year-over-year.

Now, there are several reasons for the decline, some of which are obvious to everyone. For example, it'll come as no surprise that the Canadian economy was hampered—hammered by government-mandated closures resulting in plant and business shutdowns, as well as changes in consumer spending patterns.

Canada's GDP, the standard measurement of economic activity and health of an economy, was the worst since the Great Depression, with estimates having GDP falling by a staggering 25% annualized, and this was from the Conference Board of Canada. Job losses were in the millions, and even as of June we had 1.8 million Canadians still unemployed since March, and then the unemployment rate is now well above 12%.

The energy industry was one of the hardest hit sectors of the economy, but not the only one, of course, resulting in unprecedented declines in crude pricing, and really undermining the financial stability of the entire industry, affecting jobs, activity levels, and sentiment, but there were other reasons for the revenue decline, so let me explain.

Lower crude prices negatively impacted the industry. However, this also led to lower fuel prices, which is somewhat of a positive for consumers of fuel, but devastating for the oil and gas industry, obviously, and not surprisingly, the province of Alberta. In our industry, fuel costs are generally a flow-through cost to shippers and recorded as fuel surcharge revenue in many cases. As such, Q2 revenues were down by $9.4 million due to lower fuel surcharges; clearly a negative from a revenue perspective. However, on the flipside, our fuel costs were also down $8.2 million because of fewer trucks on the road, but mostly because fuel prices declined. All in all, I would call this a wash from our perspective in the quarter.

The other reason I will highlight for our revenue decline deals with what I refer to as counterparty risk, and given the uncertainty surrounded financial risk, we strategically decided to de-market certain customers, limit customer credit, and exit certain markets when pricing fell to ridiculous levels. Let's refer to this as managing the risks. So, as I highlighted, there are many reasons for our revenue declines last quarter, but let me be crystal clear on this issue. The news was not all bad. Normally, 20% declines would be cause for major concern. However, let me highlight some of the positives.

Firstly, not every part of the Canadian economy was shut down. Consumers still consumed, meaning that the freight still had to move. LTL, the less-than-truckload business, is the business of delivering goods to consumers and businesses that serve consumers, and it remained strong.

In addition, many businesses were allowed to remain open after being deemed essential services by the authorities that make such decrees. Let's take, for example, our Premay Pipeline Hauling business. They had another outstanding quarter hauling, stockpiling, and stringing pipe for projects like Trans Mountain and Coastal Gas. Municipalities and businesses still required dewatering services because the snow melted, and the spring rains once again arrived. Canadian Dewatering has a strong market presence in Western Canada and had another strong quarter, and some of the business units we have, like Kleysen Group, the operator of our transload operations, gained new business.

So, yes, revenues were down, but by the end of the quarter, we could see a clear path towards a full recovery as the economy emerged from mandated closures, and we should take note of all of the government and financial stimulus that has been added, and will most likely be continually added and provided to the economy.

My view is that consumers will continue to do what they always have done, and that is consume, so from this perspective, the economy has a solid backstroke, and the more consumers spend, the quicker we get people back to work. Now, if we can get business back to investing, then the path towards a full recovery becomes clear, but more on this later.

Now, let me turn the call over to Stephen who will comment on our operating profitability, which let me just say this, it’s up from last year. Enough said. Steph, I’ll turn it over to you to provide our listeners with how we did it.

P. STEPHEN CLARK:

Well, thank you, Murray, and good morning fellow shareholders.

Our second quarter interim report contains the full details of our performance. As such, I will only provide some high-level commentary.

In the midst of a global recession, economists, governments, and investors have rightly focused on the depth, duration, and consequences of the coronavirus-led crisis. The effects of COVID-19 are widespread. However, the impact on Mullen Group were not as bad as once thought.

Revenue in all three segments declined, yes, and in the MD&A we gave more specific information how each segment fared on a monthly basis, trying to give a sense of the depth of the recession and the pace of the recovery.

On a consolidated basis, revenue declined by approximately 16% in April, 28% in May, and then recovered to a year-over-year decline of approximately 12% in June, but not all segments followed these exact patterns, with Specialized & Industrial segment experienced the deepest declines, and the LTL segment almost fully recovering in June, and you could refer to Page 23 of the MD&A to see how our LTL segment did specifically month-by-month, and the same could be said for the other two segments, but specifically, revenue in the LTL, L&W, and S&I segments declined by 9.3%, 18.9%, and 30.1%, respectively, so let's call it 10%, 20%, and 30%. Year-over-year revenue decreased by $61.5 million to $257.5 million, including $5.4 million of acquisition revenue and an offsetting approximately $10 million decrease in fuel surcharge revenue.

Excluding the effects of acquisitions and fuel surcharge fluctuations, revenue decreased by a normalized $56.9 million, or 19.2%. On a segment basis, the LTL's revenue decreased by $10.5 million, or 9.3%, to $101.9 million as compared to $112.4 million in 2019, including $5.4 million of acquisition revenue which I spoke to earlier, and a $5.6 million decrease in fuel surcharge revenue. Excluding the effects of acquisitions and fuel surcharge fluctuations, the LTL segment revenue decreased by $10.3 million, or 10.7%, largely due to declines in our Alberta-based business units.

The L&W segment revenue fell by $19.3 million, or 18.9%, to $82.8 million.

The S&I segment decreased by $31.6 million, and it had our largest decline of 30.1%, obviously due to the COVID-19 collapse in oil prices being somewhat offset by improved results at Premay Pipeline Hauling, Smook, and Canadian Dewatering.

As for profitability, operating income before depreciation and amortization, commonly referred to as EBITDA, increased by $3.6 million, or 7%, to $55 million. Fifty-five million is a new record; a new Q2 record, but a record with an asterisk. The underlying number is $44.1 million, and revenue was reduced by approximately $60 million.

At our historic margin, this equates to $10.5 million of EBITDA lost, while government took away and government replaced with CEWS. The underlying EBITDA reflects the strength of our business model, but also one underlying fundamental; diesel prices fell by an average of 15% during the quarter. This benefited our businesses, and reduced fuel as a percentage of revenue to 7.1% from 9.7%. This benefit came about because we set the fuel surcharge rate at the beginning of the month and set it for the entire month. As the price of diesel falls rapidly during the month, we capture a bit of profit, but those that have followed us for a long time would note we have been on the losing end of that formula in the past; a formula really designed to be neutral or fair, so I'll add another caveat or asterisk to our performance. As fuel prices rise, fuel expense as a percentage of revenue will come back to a more normal range.

Now, for more detail, the less than truck load segment was up $1 million in EBITDA, or 5.1%, to $20.5 million. EBITDA improved due to the incremental EBITDA generated by the acquisitions of Argus and Inter-Urban last year, and from $1.9 million of CEWS recognized during the quarter. These increases were somewhat offset by a weakened Alberta market.

Operating margin increased to 20.1%, but a CEWS adjusted 18.3% from 17.3% in 2019 due to lower diesel fuel prices and cost control initiatives, so asterisk up by 1% as a percentage of revenue is still a strong performance.

Logistics & Warehousing segment was up by $2 million, or 12.9%, to $17.5 million. Operating margin improved to 21.1% from 15.2%. Again, asterisk due to the $2.7 million of CEWS in the segment, but also because of the strong performance by Kleysen, lower diesel prices, and other cost-control measures. The CEWS adjusted margin was 17.9%, or up 2.7% as a percentage of revenue. That was strong execution by our business units, and a weighting, as I said, towards higher-margin Kleysen work.

Specialized & Industrial services segment was up $1.7 million, or 9.4%, to $19.8 million of EBITDA. EBITDA improved due to recognizing $6.3 million of CEWS. They've received the majority of our wage subsidies during the quarter. They also benefitted from higher-margin large diameter pipe hauling and stringing revenue. These increases were partially offset by lower EBITDA in those business units involved in the transportation of fluids and servicing of wells, also from those BUs directly tied to drilling activity.

Operating margin improved to 26.9%. Again, big asterisk from 17.2% in 2019, primarily due to CEWS, but also a greater proportion of higher-margin revenue, lower diesel prices, and cost-control measures. CEWS adjusted margin was 18.4% as compared to 17.2%, so an improvement of 1.2% as a percentage of revenue. Again, strong execution and good diversity where we are not tied to just one segment of the oilfield service or the economy.

Last, a quick word on the balance sheet. Net income from operating activities was up to approximately $85 million. This also comes with an asterisk as we stopped making corporate tax installments, but it's, overall, a very good cash-generating quarter, and we continue to build on our cash.

We also used some of this cash to buy back shares while they were on a discount, and continued our capital expenditure program. Year-to-date, our CapEx is $24.1 million; about half of the announced $50 million budget halfway through the year. Again, we're on pace, but we may see a slight delay in capital arrivals as plants and factories were shut down during the second quarter.

We have approximately $110 million of cash, up $25 million from Q1. In addition to our cash, we have an undrawn $150 million line of credit and substantial positive working capital. Our total net debt to operating cash flow financial covenant under our private placement agreement, which gives us the benefit of our in-the-money currency hedges, was 2.22 to 1, so about 2.25 times cash flow; a rather conservative position during the height of a recession.

With that, I would call that a strong balance sheet, and with that, I'll pass the conference back to you, Murray. Thank you.

MURRAY K. MULLEN:
Yes, thanks, Steph.

Just to summarize what Steph—and highlight a couple of things that he said.

I think the number one takeaway that I'll leave with everybody today is that, yes, there was a downturn from COVID-19, but the government stepped in. The government took it, the government gave back, but at the end of the day, what we noticed in ours is that our reported results are virtually spot on with our budget at the start of the year and the basic plan that we had articulated to all of our shareholders for 2020, so we—in the absence of COVID, our models show that we were spot on, and the government just gave back some CEWS that—a lot of our competitors are probably needing that to survive, but I'll tell you, our objective here is, we don't need it to survive, but we will be using that to reinvest in the economy and to invest in our Company for growth and to create jobs, so we're going to be reinvesting those funds in future quarters.

I think what you heard thus far is that not only did we survive a major economic disruption again, but, more importantly, we're actually stronger than ever, and just to reiterate a little bit what Steph said, we have a well-structured balance sheet. We have over $110 million in cash. We've got a $150 million in unused committed bank lines. We have a diversified business model leveraged to the consumer part of the economy, which is performing at the best levels in the economy right today. We also have a presence in some high-torque industries that flourish once capital begins to flow again into these sectors. We're positioned to grow via acquisition, which we will do again.

We announced a couple letters of intent, and we'll have more on that as we do our due diligence, and due diligence is a little bit awkward these days, as part of the new lack of travel and safety protocols we have to—it's taking a little bit longer, but really, what we're announcing to everybody is we're going to be making acquisitions and strengthening our business over the next bit, but we'll always be focused on strategic objectives.

We've already repurchased 6.3 million shares of the share buyback—under the share buyback. What I would say when the market was clearly misunderstanding our Company over some other crazy reason, some of them I heard over the last quarter, I don't know where in the heck those ideas came from, but we were happy to buy back stock, and we've repurchased 6.3 million on our way to the share buyback that will be finished in August of 8 million, and that'll be it. We'll be tapped out for our share buyback for this year, but all these initiatives are adding—thus far, have added 5.7%—5.5% in value to our existing shareholders. By the time we do all of the share buybacks, it'll be a reduction of share count by 7.5%. We've already commenced rehiring about 50% of our workforce that was either furloughed or laid off, and we sure and the heck hope to bring back more, so, all in all, I'm more than pleased with the steps that we implemented last quarter and our overall performance.

Now, what do we think's going to happen in the next—let me turn my attention to that, so first, from a market perspective, I believe that the economy's turned the corner, then we can expect more of the same from the consumer demand perspective. This provides the steady base of business for our Company. You already heard where—in June, where our LTL business was flat or even up a little bit from previous years, so that's all good news. That's the consumer part of the business.

We also believe business investment might start returning, but truthfully, I'm still on the fence on this one a little bit. It just seems that business executives and entrepreneurs are still skeptical about the future and lack the confidence to begin their reinvestment cycle again. That might take a little bit longer. The consumers are very reactive. Business takes a little more thought, and you've got to make sure they've got the right balance sheet and have confidence in the future, but I think that's going to return. The timing might be a little bit delayed, but once that happens, the economy is back on really good, solid footing, so we'll have to watch this carefully.

Clearly, some sectors of the economy will remain under duress for a little while longer, and let's just, for obvious sake, say the travel business, the oil and gas sector, but I think the base is being established for better days next year, and it just takes a little time to adjust, and all in all, I wouldn't be surprised to see similar results overall in the next couple of quarters of what we just experienced in the second quarter. The balance of the year looks to be okay, and then we'll use that kind of "okay" to build off of and plan for the future.

Now, second part I would highlight is we have way too much cash on the balance sheet for our needs as such acquisitions are now up already, but we're going to remain disciplined. We don't grow just to grow, and just to be clear, our primary objective remains focused on the consumer part of the economy during this part of the cycle.

Third, we will complete our authorized share buyback program in August, as I talked about. That'll be 8 million shares acquired at well below what every metric that I can think of, so to our loyal shareholders, you can thank those that did not believe in or understand our business model and the exciting future we are poised to deliver on.

Now, fourth, given our balance sheet, our performance, and our outlook, we've reinstituted the dividend. Now, it's not quite the same level as what it was pre-COVID-19, but it's in line with our next few quarters' cash flow projections and aligned with—actually, to be honest with you, which is the return of our workforce, which, as you know, was a very important reason why I asked shareholders to accept the suspension of the dividend in April. I simply said it was inappropriate for shareholders to continue to get paid when so many of our people were being left without employment and there was so much uncertainty, but that was yesterday.

Today, we move forward once again, and shareholders are the landlords of our business and are entitled to return on their capital, so they've invested in our organization. We're going to reinstitute the dividend at $0.03 a month, which works up to $0.36 cents annually. Now, we'll do that for the next couple of quarters and then we'll reevaluate as we get into 2021, which is—the year is half over, so it's not that far away.

We could have easily gone back to the full amount, but I didn't think it was appropriate to do it, and the Board bought the thesis that we'll get back to the full once we get employment back and once the economy is on more solid footing, and we're not going to use any of the government funding, the CEWS, for dividends. We're going to use that for growth in the economy, and that's the message that we're going to stick with, so I think the other thing was, to be honest with you, I was really personally irritated that we have such a high yield. That makes no sense for a Company of ours that's really met every downturn and every crisis head-on, and we've always come out stronger the other side.

Our future looks great, and so we implemented what we think is a balanced approach on the dividend for the next few quarters. Here's the things that we looked at on the dividend. Do we have the cash flow? Yes. Do we have the cash? Yes, and what were the primary motives we thought about that our shareholders wanted? We heard from lots of shareholders, we want growth. We heard lots of shareholders, we want dividend, so we had to balance that.

I was very concerned as I talked about the yield. What's the level that's appropriate, and we struck a balance based upon where the—our stock price trades and what our cash flow is and everything, and truthfully, we're going to have lots of cash because we're going to be finished with the normal course issuer bid here in August, so we're going to generate lots of cash. We can balance it by giving some back to shareholders, and the balance will be used for growth in this Company.

That's our presentation for today, and I'll now turn it over to the Operator, and we'll go to the Q&A session.

OPERATOR:

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:

Good morning, and thanks for taking my questions.

First one is probably on your commentary that made—that the next couple of quarters could be similar to Q2. I just wanted to kind of dig in a little bit to that. When you say flat, does that mean you're excluding the CEW as subsidy in the earnings and you expect flattish margins excluding those subsidies, I guess, plus maybe a stable revenue environment here, or do you expect some improvement as you saw probably towards the end of Q2? Just some clarification on that.

MURRAY K. MULLEN:

Yes, so that's the adjusted number that we talk about, so as the economy improves, and we bring back people, then you will generate less of the CEWS. They'll probably balance themselves out, to be honest with you. We'll either get it from the government, and they've announced they're going to continue on till the end of the year, I think, Stephen, that…

P. STEPHEN CLARK:

Yes.

MURRAY K. MULLEN:

…it's going to be—all the details come out, but I just want to be clear on this. Whether we get it from the government or we earn it, and our preference is we'd rather get the economy back and people employed again and get going. Obviously, everybody would like to do that, so I think as the economy improves, then our operating earnings go up, and the CEWS go down, so I think something similar seems to make sense. That's our best estimate, and I call it a best guesstimate at the moment.

Lots of uncertainty, but based upon what we saw in June, there was a pretty nice recovery, particularly on the consumer side of the economy. All of us can see it. It's just things are busier now. More businesses are more active, and so that gives us a little bit of cover, if you will, that the next bit doesn't look too bad. Now, we're always subject to—you never know how this damn virus is going to work out, and then what are the policies that the government's going to have to implement or whatever, but based upon what we know today, we think the next couple of quarters could be something similar to the last couple—to the last quarter.

KONARK GUPTA:

Okay, that makes sense. Then with respect to your comment on recalling about 50% of the workforce; I think last time, and probably in June, you were recalling about 20% of the workforce. It's obviously gone up, and is it because of you are kind of expecting growth ahead, and so you are preparing for that growth, or is it that you have already seen the demand go up and you're recalling those people, and how soon those people can come back to you?

MURRAY K. MULLEN:

I think that that's one that we take a lot of time when we think about here. We have parts of our economy in which we're having difficulty getting people to come to work, so in our LTL business and wherever, there's parts where we're having some shortages of people. Now, part of that reason could be that some of them maybe get paid a little bit too much by the government, are maybe not quite as aggressive as they should be at looking for jobs. Some of it might be that some of the jobs that were lost are not always transferable to the next part of the economy that’s doing well.

Let's take, for example, the energy business. A lot of jobs have been lost in the energy business. Those jobs don't necessarily lend themselves to, well, I'm going to go to work in a warehouse or in delivering freight or something like that.

I would say the same thing about the hospitality business. A lot of people have lost their jobs in the hospitality business, but they're not going to go to work in our warehouses. So, it's kind of a mixed bag there.

I'm hopeful that as the economy continues to recover, we can continue to inch back and add people. It seems like we're adding a few more people every week, and we hope that trend continues, but will we be back to full employment by the end of the year? Truthfully, I doubt it, but 2021, I would say, yes, we'll probably be there in 2021, which means our business will be back to where we thought it was at that the first of this year.

KONARK GUPTA:

Okay. Thank you, and last one for me before I turn it over. On the couple of tuck-ins that you disclosed in the MD&A, I was just wondering, one, if you can help us out without obviously disclosing what you cannot, what is the nature of those acquisitions? I mean, they sounded like there they are more on the consumer side of things, and what could be potential contributions from those M&A, and have you baked those in when you say flat the next couple of quarters?

MURRAY K. MULLEN:

Well, look, I think this is—what we've announced here this time is significantly different than we've done in the past. The messaging that I'm giving to shareholders is we are going to be doing acquisitions. We've now got letters of intent signed. Typically, we don't announce the letter of intents until we've actually got all of the due diligence done so we don't have a head fake or whatever, and then we can speak to those of what they are.

We're not announcing what those candidates are that we're looking at. We're still quiet on those, but I am saying we've signed two letters of intent. We're looking at acquisitions. We've got lots in the hopper, but two of them we've done. We are back on the acquisition front and we're going to be very strategic. Don't be surprised if they're not in the consumer part of the economy and in big markets, but I think we'll just leave it at that until we get the due diligence done.

Until you get the purchase sales done and everything, it’s just conjecture as to how they might work out, so we're going to be doing more acquisitions. That's what we're telling shareholders. We've got too much cash on the balance sheet, and I've told the team and the Board we need to be thinking about future growth, and part of that’s acquisitions, part of it’s strategy as to what parts of the economy do we think are going to be the winners in the future, the next five years or so, and that's what we're deploying that strong cash position in over the next period. That's our objective and that's why we announced that we've signed the letter of intent, but more on the details of that once we get them done.

KONARK GUPTA:
Okay, thank you for that, and congrats on a great quarter.

MURRAY K. MULLEN:
Thanks for the comments.

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

WALTER SPRACKLIN:
Hi, Murray. How are you doing?

MURRAY K. MULLEN:
Well, we survive. We adapt and we change, right? I mean, all of us are doing it, and I think that's the best I can do. Am I happy? No, but we adapt and we change, and our lives have been changed for a bit.

WALTER SPRACKLIN:

Absolutely, and just talking about change and touching on what you were highlighting as your reinvigorated move on acquisitions here, really curious to see and to get your sense of your strategy, even if you could ballpark of your free cash flow that you expect to generate for every dollar, how much are you kind of earmarking, or would you like to earmark, for acquisitions, and then, what's the pipeline? If you're looking at western Canada, is there enough in the pipeline there to satisfy that thirst, or do we start to see you move more toward the east?

I know you mentioned these acquisitions were in the larger consumer markets, and I thought that might mean some of the large ones east of you, but I think by referencing them as tuck-in that might—you might be referring to western Canada. So, just curious, pipeline in western Canada, and how much you're looking to devote of every dollar in free cash toward acquisitions.

MURRAY K. MULLEN:

Let me just highlight the free cash from our existing operations, so let me frame this for everybody, is that typically—well, the way I look at it, is that the free cash that we generate—so the cash we generate, we use to operate our existing business, to put into our existing business units to strengthen them, and to reward our shareholders with some type of dividend or something like that, so the free cash that our existing business generates would be used to strengthen our existing businesses and to give money back to shareholders.

The cash that we have on the balance sheet and the bank lines that we are not using right now are all earmarked for acquisitions and growth, so the truth of the acquisition—what we're saying is our acquisition strategy has not changed because of COVID-19. It was delayed because of COVID-19, and most of this we're quite uncertain as to what the future looks like and etc., so it didn't appear to make any sense that we go and do acquisitions when we're unsure of what was going to happen, so we put it on pause for a few months, but we're now announcing we're back, and we're looking at some of the ones we were looking at before, and now we've got a bunch of new ones that are crossing our desk.

A lot of them we just discount. We go, they don't fit our strategy, so if they don't fit the strategy, I'm not going to do them just to show, hey we got growth. No, I don't want just growth. We want to do it thoughtfully, and we think how that's going to work out for our shareholders over the next bit, so yes, we're going to deploy the capital that we've got; that cash to grow our business and position us for the future.

Now, where are we going to grow? Well, you know we've got a very strong presence in the east with our investment in the Kriska Group, and they continue to grow and continue to add acquisitions and grow their business, so we've already got a really nice presence back there, and one day the Kriska Group will be part of the Mullen Group. So, we've got a big presence down there, and then we're looking at some other opportunities also, because we've got some business down there.

Our Gardewine Group is one of the largest LTL providers in northern Ontario and Manitoba. I mean, they’re our biggest business unit, so we'll continue to do tuck-in acquisitions, because I'll tell you, those are bunts and singles, but as I said to some shareholders, that's money ball. You do bunts and singles, you can win games with that, and then we'll look at bigger ones if it’s strategic, and that's how we're looking at it, but more on the acquisitions as we get them done, Walter, but if you're going be focused on the consumer, it only makes imminent sense that we've got to be in the bigger markets.

WALTER SPRACKLIN:

Okay. That makes a lot of sense, and when you look at the consumer markets, are you looking at kind of pure LTL operations. Are you tempted to go into truckload at all? Will you move a little bit more into last mile? How do you look at—when you mentioned it doesn't fit your strategy, do you have a—maybe relate to us a little bit your strategy within those consumer markets?

MURRAY K. MULLEN:

Well, if you're going to deal with the consumer, it's kind of all parts of those things. You can't deliver LTL if somebody doesn't deliver the full mile, if that's basic per truckload, but we're not–there's lots of competition in the truckload business. Our primary focus in the truckload business is to be more in the logistics side of that and use our network and subcontractors and whatever, so that's how we do that, but the final mile LTL business, that's really where you're delivering. Those are really complicated, difficult businesses for a lot of competition to get into. We like the platform we've got, and as you can see from our numbers, that's probably—we seem to know what we're doing. We've got some excellent businesses that we've invested in over the last bit. I am absolutely delighted with those management teams of how they're driving value and working on the margin side, so that's the focus. (Audio interference 40:02) shareholders.

WALTER SPRACKLIN:

Yes, and valuation on these acquisitions, where are expectations right now among the sellers? If we were to take the cash on your balance sheet and assume some EBITDA growth through acquisitions kind of plugging in a multiple, I'll throw seven times at you, is that something way above what you would generally contemplate for the type of quality of acquisition you're looking for?

MURRAY K. MULLEN:

God, I'd hate to negotiate—have you as my negotiator, so I think I'd better just leave—not comment on that.

WALTER SPRACKLIN:

Okay. Thought I'd throw a number out there to you.

MURRAY K. MULLEN:

Yes. Are you for the seller or the buyer?

WALTER SPRACKLIN:

Okay, I appreciate your time as always, Murray. Stay safe.

MURRAY K. MULLEN:

I'm going to be signing guy on that one. Okay?

WALTER SPRACKLIN:

Okay.

OPERATOR:

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

MICHAEL ROBERTSON:

Hey. Good morning, all, and congrats on the stock.

MURRAY K. MULLEN:

Good morning.

MICHAEL ROBERTSON:

Just a quick one on the potential tuck-ins; I'm trying to get an idea for the potential size of the two that you've signed LOIs for. You've mentioned in the past that there's no need to carry an elevated level of cash on the balance sheet. Could we assume that these two LOI would be funded by cash on the balance sheet, or would they also maybe require leaning on your credit facility?

MURRAY K. MULLEN:

Yes. No, we'll use our cash on our balance sheet.

MICHAEL ROBERTSON:

Okay, great.

MURRAY K. MULLEN:

For sure. I mean, that's why we have cash, and for sure we'll be using the cash on the balance sheet. Yes.

MICHAEL ROBERTSON:

Okay, and switching gears, just trying to wrap my head around how we should be thinking about the impact of the CEWS moving forward. Should we be expecting a similar impact in Q3 as we did in Q2? Just how should we think about that sort of as we move further into 2020?

P. STEPHEN CLARK:

Yes, Murray, I think I'll take this one.

I've been the one that's been closest to the CEWS. It feels like some days like I'm a government worker rather than working for shareholders. The changes that they announced earlier this week will allow us to essentially get a few more of our business units on there, but not as many as you think. At the height of the recession here we had 18 business units on the CEWS program. This has been reduced to 12, and as you could surmise, they're all largely in what we would call traditionally the Oilfield Services segment or the S&I segment. So, for the third quarter, though, with the announced changes, it's more of a sliding scale, but we would expect a similar amount in the third quarter as far as subsidies go, unless there's a larger recovery than we anticipate, but I really think that because it's really Oilfield Services segment-focused and the price of oil, the activity there will remain low in the third quarter; that it'll be a similar number.

MICHAEL ROBERTSON:

Okay, that's great colour. I really appreciate it, and I'll turn it back.

MURRAY K. MULLEN:

Thanks, Michael.

MICHAEL ROBERTSON:

Thank you.

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:

Good morning, guys.

MURRAY K. MULLEN:

Hey, John.

JOHN GIBSON:

If you look at your mid-quarter update, it took place in mid-June, and then you take a look at revenue, it kind of came in at the high end of the guidance, do you think that the second two weeks—or the last two weeks in June were better than expected just based on sort of where your revenue came in at?

MURRAY K. MULLEN:

We've discussed that here, John, and there's two conclusions you can draw, in my view, from our mid-quarter update in June. Number one is we either sandbagged everybody, or number two is the second—the last few weeks were stronger than what we saw in the first two weeks, and I would tend to say it's the latter, is that we were pleasantly surprised with the demand response, the rehiring response as the month of June unfolded. So, we deliberately—we typically don't sandbag. We typically tell everybody exactly the way we see it, so I would have to say to you we were pleasantly surprised with the number of the business units and how strong the economy was performing in that as the month of June unfolded.

It wasn't evident the first week, but boy, it did well as we finished off, and we're hopeful that that continues on. It appears that maybe the consumer—we're at the max about—what the consumer's doing right now. I don't know if it gets substantially better from this. I don't know how the consumer can spend more unless the government gives them more. If they do, they'll—can they spend more? Will they continue to spend? I think they'll continue to spend.

The most important part that I'm really focused on right now is what are businesses doing? We have not seen a massive rebound in some of the capital goods yet—movement. We've seen lots of consumer goods moving, but we haven't seen that capital goods moving yet, and that's the last part of this equation that I think we need to see for us to give the all clear, but clearly, from the consumer side, the consumer appears to have money, there appears to be liquidity in the system, and the consumers are out spending.

JOHN GIBSON:

Okay, great. Thanks for the colour, and then second question, let me know if I'm wrong, but you said that the next few quarters could be similar to these—to this quarter in terms of EBITDA. I mean, if that happens for the rest of the year, do you—could even get close to your original pre-COVID 2020 goals in terms of operating earnings, and part of those goals were maintaining a dividend at $0.60 a share, so I mean, say that happens by year-end, you think you could see a further dividend increase almost back to where it was pre-COVID?

MURRAY K. MULLEN:

Well, we debated that at the Board, and as I said, we probably could have taken the dividend right back to where it was and not been—not harmed our balance sheet one iota. In fact, we think we'd have—the earnings would have been strong enough, but the truth of the matter is, as I said, I'm very sensitive that we are getting shareholders. We still haven't brought everybody back to work, and I'm very sensitive about the messaging that goes with that.

I also don't want any perception that shareholders are benefiting from CEWS. I want zero; that shareholders are not getting anything to do with the CEWS. That's all going to be funds that we're going to put back into the economy to create jobs and build a better—for this economy. We're not going to use it for shareholders. What shareholders are getting is based just off of our operations.

Now, as the economy recovers, and we move away from CEWS, I'll have more cover with which to be able to go back to shareholders and say, okay, we have the all clear, but I'm very, very concerned about messaging right now and how that is perceived by everyone, by our people that don't have a job. They want to go back to work. I'll bet you most of those people that are sitting at home and waiting for us to call them back would love to be able to come back to work in one form or another, so we're going to do everything we can to get them back, but there's only a certain level that I'm comfortable with to give back to shareholders. Now, look, one of the biggest private shareholders is me, but I'm uncomfortable giving money to shareholders for money that came from government. I don't like that connotation one iota, so let's get the economy back. Let's get the jobs back, and then our shareholders can get the dividend back.

The second part is, I would say to this, I'm just—I'm not—you said to me, I'm going to have a 7% or an 8% yield on our dividend, I'd go, that's crazy. That doesn't make any sense to me.

JOHN GIBSON:
Okay, great. Thanks for the colour. Again, congrats on the solid quarter.

MURRAY K. MULLEN:
Okay. Thank you very much.

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:

Well, thanks for joining us, folks. Everybody, it's the world—we're all adapting to what's going on. Everybody does their part. We're doing our part here. You're all doing your part, and as I said, I'm really looking forward to the day that we can get this economy back full going. So, stay safe, enjoy the rest of the summer as best you can, and we'll talk to you end of the third quarter, so look forward to having some positive results again. Thank you very much.

OPERATOR:

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