Mullen Group Ltd.

Mullen Group Ltd. Third Quarter Earnings Conference Call and Webcast.

Transcript

Date: **October 22nd 2020**

Time: **9:00 AM MT**

Speakers: **Mr. Murray K. Mullen**
Chairman, CEO & President

P. Stephen Clark
Chief Financial Officer

OPERATOR:

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

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

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

MURRAY K. MULLEN:

Welcome, all, to Mullen Group's quarterly conference call, and this morning we're going to be discussing our financial and operating performance for the third quarter, and this will be followed by an update on the near-term outlook as we see it, so before I commence today's review, I remind everyone that our presentation contains some forward-looking statements that are based upon current expectations and are subject to a number of uncertainties and risks. As a result, actual results may differ materially, so further information identifying these risks, uncertainties, and assumptions can be found in the disclosure documents, which are filed on SEDAR and at www.mullen-group.com.

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

Let's take a look at the headlines. I'll address them here this morning before I turn the call over to Stephen to talk about some of the detail of the quarter, so let me just say this, that the roller coaster ride continues, and no one anticipated that there would be a pandemic this year, and I doubt many would have predicted the many changes that have occurred as a result, but what amazes me is how the economy has adapted. We see it real time in our business, and as evidenced by our results this quarter, and in fact, year-to-date as well. Our business model is more than just resilient, it's best in class, so I'm proud, to say the least, of our entire team.

Today, I'm going to focus on four headline topics that are most important to our shareholders and all investors, and let me start with revenue.

Let me just say, this economy is all about the consumer; how much they are spending, and where and how, so here is how our business participated in the consumer-led economic recovery, or economic change, let me call it that, and also let's call it the plus and minus $35 million quarter. Now, the reason I say that is this is about the amount of additional revenues we generated over the second quarter, and this is the amount by which we also are down vis-à-vis the third quarter of last year, so let's just call it the plus or minus $35 million quarter.

The Coles Notes is that consolidated revenues continue to recover from the lows earlier this year when governments, bureaucrats, and politicians determined that many business establishments should be shut down and individuals forced to shelter-in-place. Now, thankfully, these decrees were temporary, and a more thoughtful approach has been implemented. Now, as this economy has reopened, we've seen a resurgence in consumer spending, and as I've talked about earlier, this is the predominant engine of economic growth in today's economy. How they have spend has changed, but how much they have spent has not.

We see it on our LTL business. We see it in our Warehouse and in our Logistics business, and we see it today in unemployment levels. Thankfully, on this topic, we've returned most, not all, of our workforce to full employment. However, we're still not back to pre-COVID levels for one simple reason; parts of the economy in certain geographic regions have been ravaged by changes to the economy. The hospitality industry, the air travel industry, and yes, the oil industry, have been hit particularly hard, none more than the province of Alberta where the crude oil and natural gas industries play a significant economic role, but, and I say this, and here's the good news, is activity is improving even in the beaten up oilfield services sector of the economy.

Now, I'm going to go out on a limb and suggest these industry sectors will eventually recover over time. We will all adjust just like we always have in the past. Nobody likes COVID-19, but everything I see suggests we are adapting, and this trend will ultimately continue. It might take a year or two, but the industries hurt the hardest today will not stay down forever. Until they do, however, our diversified business model provides ample opportunity.

On a consolidated basis, revenue recovered nicely from the second quarter lows, although they remain down about 10% year-over-year, and the best news is that we saw revenues improving month-over-month in the latest quarter, reflecting strong consumer confidence, a continuation of pipeline construction in British Columbia, and even oilfield maintenance and turnaround work returning.

In addition, we set the stage for even higher revenues in the future with the completion of a couple of tuck-in acquisitions, along with some very strategic investments in technology, facilities, and land which we believe will allow our business units to gain market share in this ever-changing world.

Now let me go to the second highlight, and let's talk about profitability. That's the holy grail of any business. It's up nicely, so how did we do it? Well, let's start with the business recovery.

Improving revenues is the first key point I will make. Secondly, we have reduced our cost of business, and I attribute all of this to our business unit's relentless focus on managing every business process. Fuel costs are down, which is directly correlated to low crude oil demand and pricing. Thirdly, our high-performing business units such as the Gardewine Group, Kleysen Group, and pre-made pipelines had another strong quarter, and lastly, the government of Canada has virtually kept all of our business whole from the economic impacts of COVID-19. Yes, business has been impacted, but the CEWS program has mitigated the negative implications.

Now, on this issue I will be honest. Mullen did not need the government support. Some of our business units did, and, as a result, we retained more people in these business units than we would have otherwise done so, but overall, we entered this year well-capitalized and our diversified business model insulated us from much of the economic problem. Our competitors, perhaps, were not so fortunate. Regardless, it's a government program, and we will use the proceeds from CEWS to maintain employment levels and to invest in the future. Now, shareholders get nothing from CEWS other than our business will remain strong, and we will ultimately grow.

Now, let me talk about the third headline from last quarter; lots of cash, room to grow, and debt to cash flow declining. You can read the details in our Q3 interim report. Enough said.

Fourth, what about capital allocation? Well, how did we allocate our shareholders' capital last quarter, and let me start with CapEx. Equipment purchases and CapEx continue to be constrained by bottlenecks. However, we have not changed our 2020 CapEx, and we expect to be on budget by year end. You have to continue to invest in your business if you want to maintain your business in the future.

We completed our Regina smart terminal last quarter, and is designed to facilitate data interconnectivity in tomorrow's plug-in electric vehicles. It's a new facility the Jay's Transportation Group has moved into. Let me just call it for what it is. It's a fantastic facility positioning them for years to come. Undoubtedly, they will be able to gain market share from this brand-new facility.

We identified some strategic land position that will allow for future growth and expansion of our expanding LTL segment.

In terms of capital allocation, we had some share buyback. We continued to buy back stock during the quarter. In fact, we've now completed our annual authorized share repurchase, reducing our share count by nearly 8 million common shares. We did so at an average cost of $6.70, so if you were one of those shareholders that stuck with us when the share price was hammered, you are way better off today because of our investment in our own Company.

Another form of capital allocation was dividend. We reinstated the dividend, albeit at a lower rate pre-COVID, and as evidenced by our quarterly profit performance, our decision has been more than justified, and we're going to continue to monitor what happens with the economy and COVID-19 over the next couple of months and will address the 2020—for 2021 as part of our 2021 annual budget and business plan, so suffice to say, however, our business model is both diversified and robust. So, in summary, all in all, I'm going to say this. It was a great quarter in many, many respects.

In terms of safety, I've got to comment about that. Our people worked diligently to make sure that we protected each other, and we did a fantastic job. We had a couple of cases of COVID, but overall, everyone is doing fine, and other than some inconveniences and disruptions, I would say on the safety front, all is good, and now for the details on the financial results, I'll turn the call over to Stephen. Steph?

P. STEPHEN CLARK:

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

I'll get a little bit more granular. However, our third quarter interim report contains the details that fully explains our performance. As such, I will only provide some high-level commentary.

In the midst of these tumultuous times, it appears some normalcy has returned and consumer spending has, for the most part, rebounded in areas we serve. Although revenue in all three segments declined, each segment recovered from their Q2 lows at different paces.

On a consolidated basis, revenue declined by approximately 10%. Year-over-year revenue declined by $34.4 million, we'll call it $35 million, to $219.9 million. A part of the decline was due to lower fuel surcharge revenue. Excluding the effect of acquisitions and fuel surcharge fluctuations, revenue decreased by a more normalized $30.9 million.

Specifically, revenue in the LTL, Logistics and Warehousing, and Specialized and Industrial segments declined by 2.8%, 12.8%, and 17.1%, respectively. This is a considerable improvement from Q2.

The LTL segment revenue decreased by $3.2 million, or a mere 2.8%, to $112.7 million as compared to $115.9 million in 2019. This decrease was due to the $3.2 million decline in fuel surcharge. We experienced a $2 million decline in same-store sales that was offset by $2 million of acquisition revenue, so this is really reflective of the return of the consumer, and in fact, September same-store sales was up once adjusted for acquisitions and the decline in fuel surcharge revenue. Again, we are seeing regional differences, but for the most part, the consumer's back spending again.

Logistics and Warehouse segment revenue fell by $12.6 million to $86.2 million. This is down year-over-year by 12.8%, and sequentially by about 10%. Simply put, the investment in capital goods economy still lacks confidence. Projects executed in 2019 have not been repeated.

The Specialized and Industrial segment decreased by $19.1 million, or 17.1%, due to the COVID-19 related collapse in commodity prices that hampered—no, I would say killed oilfield activity. This was somewhat offset by improved results by pre-made pipelines and Smook, as well as generated in our Production Services group due to turnaround in plant maintenance work that occurred in September.

As for profitability, operating income before depreciation and amortization, commonly referred to as EBITDA, increased by $9.6 million, or 17.3%, to $65.2 million. This is almost a new record, and second only to Q3 of 2015 when the Specialized and Industrial segment generated over $33 million of EBITDA and the Logistics and Warehousing segment benefited from the Suncor Fort Hills build-out, so this period we have no projects, but steady consumer spending.

Of course, this number comes as a result also of CEWS. The underlying number is $54.9 million as compared to $55.6 million in 2019, so virtually flat dollar-wise on reduced revenue. The underlying EBITDA number reflects the strength of our business model, but also of one fundamental. Diesel prices fell by an average of 9.3% during the quarter. This benefited our businesses and reduced fuel as a percentage of revenue from 8.1% to 6.9%. The 1.2% difference added about $2.6 million to the bottom line.

Now, for the EBITDA segments detail, the LTL segment was up $3.2 million, or 16.7%, to $22.4 million. EBITDA improved due to the $1.7 million of CEWS in the segment, and the incremental $400,000 of EBITDA generated from the acquisition of Pacific Coast Express, and $1.1 million of savings resulting from our COVID-19 action plan and fuel savings. Operating margin increased to 19.9%, but the CEWS adjusted 18.4%, so still up handsomely from 16.6% generated in 2019 primarily due to lower diesel prices and cost-control initiatives.

The Logistics and Warehousing segment was up $2.5 million, or 16.4%, to $17.7 million of EBITDA. Operating margin improved to 20.5% from 15.4% in 2019, again due to CEWS—$2.3 million of CEWS in this segment, and lower diesel prices. The CEWS adjusted margin was still up handsomely, though, at 17.9%, or up 2.5% from—as a percent of revenue.

The Specialized and Industrial segment was up $3.8 million, or about 16%, to $27.5 million. EBITDA improved due to recognizing $6.3 million of CEWS in the segment during the quarter, and from higher margin, large-diameter pipe hauling and stringing revenue. These increases were partially offset by lower EBITDA from those business units involved in the transportation of fluids and the servicing of wells and from the EUs most directly tied to drilling activity, so it was a tough quarter in those segments, but a strong quarter in our more specialized groups.

Operating margin improved to an unprecedented 29.8% from 21.3% in 2019, again, primarily because of CEWS and a greater proportion of higher margin revenue, lower diesel prices, and our COVID-19 action plan. CEWS adjusted margin was 22.9%; an improvement, still, of 1.6% as a percentage of revenue.

Looking at other notable items, net cash from operating activities was up to approximately $47 million. We used some of this cash to buy back shares. We bought back our last shares on September 30, and we bought the maximum allowable of approximately 8 million shares for an average price of $6.70. During the quarter, we invested $23.9 million for share buybacks, and a total of $53.4 million of buybacks in 2020.

We also reinstituted our dividend, paying our shareholders $5.9 million during the quarter, and we continued our CapEx program, which Murray spoke to. Year-to-date, our CapEx is $31.7 million, and we announced the purchase of some adjacent lands in Calgary that closed earlier this month, but post quarter. This $31.7 million is comprised of $6.9 million of facilities and $24.8 million for rolling stock. Our announced capital plan was intended to be a repeat of 2019. However, in the first nine months of 2019, we had invested about $40 million into rolling stock. We are behind because the OEMs shut down their factories and delivery times have been pushed out. It's a timing issue; nothing more, nothing less.

We also funded the acquisition of Pacific Coast Express for approximately $14 million which included two strategic properties.

After all that, we have approximately $105 million of cash, only down $6 million from Q2. 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 a private placement agreement, which gives us the benefit of our in the money currency hedges, was 2.12 to 1, or about 2 times cash flow; rather conservative position to be in during the recession.

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

MURRAY K. MULLEN:

Thanks, Stephen, and I'll just remind all of you for those that are so inclined, that the Q3 MD&A contains all of the detail, and Stephen just highlighted some of it for you, so I would—as we look at the outlook for the balance of 2020, and I always say it's easier to be optimistic on the heels of a solid quarter such as the one we just completed, and based upon everything we see today, we do expect to finish the year on a positive note.

Now, there's always the potential for another round of COVID-19 induced shutdowns. Everyone's aware of that, but we doubt large sectors of the economy will be as impacted as severely as earlier this year, so with this as a backdrop, it seems that the consumer-led economy remains on solid footing; difficult to see how it's going to grow at the moment, but it looks to remain on solid footing. As such, we expect our LTL and Logistics Warehousing segments to continue to produce solid results, which is a good base to start from.

In our Specialized Industrial Service segment, there's always a bit more volatility due to the nature of the business cycle and project work. Nevertheless, we see a continuation of work associated with the major pipeline construction work, as well as some incremental oil and natural gas drilling activity and maintenance work. So, all in all, we expect results, at least in terms of profitability, to be similar to last year's fourth quarter, so this ultimately speaks to a very solid year for our Company despite COVID-19. What this tells you is pivot and adapt are key to performance.

Now, in terms of the balance sheet, let me just highlight a little bit of what Stephen said. It should be pretty obvious that cash of $100 million plus and an untapped line of $150 million buys a lot of dry powder, but you should all know me by now. I do not chase growth for the sake of growth. We target growth where we can add value, which is the ultimate long-term creator of wealth for shareholders, so currently, we are inundated with acquisition opportunities that needs to be vetted out, so I ask myself why are so many companies all of a sudden on the block?

My instincts are telling me that 2021 is going to be a great year of opportunity in which opportunities will be available, especially as government support payments start to run out. Then it's back to basics, and you'd better have a good business model like we do here at Mullen Group. On this topic, I'm often reminded that our stock trades at a significant discount to our Canadian peers, which is amazing considering the diversity of our business model and our best-in-class operating performance, so let me give you one example.

A peer of ours, which is, by the way, an excellent company in its own right, has a market value of nearly two times ours despite the fact that we generate more EBITDA per month, more cash flow per month than they do in a quarter. Now, one does not have to excel at math to realize something is amiss here, or let me put it another way. Our LTL segment alone is virtually the same size as this peer in terms of EBITDA, revenues, etc. It is steady, and we have grown this segment significantly over the years, yet the entire market cap of Mullen is half, and we compete against each other in many lanes and product delivery lines, so when I tell investors that Mullen Group is a solid investment, I speak with confidence.

We operate a very successful Company. We've returned $1.3 billion to shareholders over the years since we went public, and this continues to grow each year, and we will grow the business off of our strong balance sheet. Perhaps this might explain why we acquired 8 million of our own shares over the last—past two quarters. So, to the sellers I say thank you for giving us the opportunity to invest in our Company at such a steep discount; value creation 101 in my books.

Now, I'll turn the call over to the Operator for a Q&A session, but before I do, our next meeting will be in mid-December. I think we've got December 10. We'll confirm that shortly, but let's earmark it around December 10, in which we will outline our 2021 budget and business plan. It's only a few weeks away, folks, so stay tuned, and Operator, I'll turn it over to you. Thank 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 and two. We will pause for a moment as callers join the queue.

Our first question comes from Konark Gupta with Scotia Capital. Please go ahead.

KONARK GUPTA:

Thanks, and good morning, everyone, and congrats on a great quarter.

My first one would be on your expectations into the end of the year. I think you noted you want to kind of finish on a strong note, and probably flattish versus last year, if I heard correctly.

Obviously, heading into Q3, you had some expectation that your second quarter EBITDA would be kind of flattish heading into the second half, and obviously, that did not happen. You've kind of exceeded that expectation. I'm just trying to understand what really is the kind of big nuance between Q4 and Q3 that you anticipate, perhaps, revenue or EBITDA to be down sequentially? Is it the CEWS? Is it something that took place in Q3?

MURRAY K. MULLEN:

Well, CEWS we'll be down for sure as your business recovers. Stephen, we know that's one for sure, but let's just take CEWS out of the equation and look at just same-store sales and same operating performance. I don't know what's going to happen. I'm kind of hedging my comments a bit, because my general sense is, is that we've got to see what happens over the next month or so with this spike in COVID and how both the governments and consumers are going to react to what's happening, so none of us can predict it spot-on, but my general sense is one should be a little cautious and just—that's why. Maybe that explains part of it for you, but I don't expect anything too draconian, but I'm hedging my book here right now because I don't see it growing at the moment.

I wouldn't be surprised to see the consumer-led recovery slow a little bit on the heels of some of these COVID issues, and then we've got to wait and see when there's more stimulus comes in from the fiscal side, if you ask my opinion, but that's about it, and then you have your traditional kind of year-end slowdown, things that happen in the business, and those kind of things, but all in all, I still think it'll be a pretty solid fourth quarter relative to last year, and that's why I gave you that I think it'll be about the same as last year. I'll just start with that, but as we said, I've been surprised at how strong the consumer's been, so I'd rather give you a positive surprise than a negative one.

KONARK GUPTA:

Right. No, makes sense. Thanks, Murray, for that, and then you also noted some recovery has taken place in the Alberta market. I'm just curious as to is that all related to trucking and logistics, or are you seeing anything improving in the oil path as well, because when I look at your Q3 numbers for the Specialized and Industrial segment, your incremental EBITDA, or call it EBITDA growth quarter-over-quarter in Q3 came in at, call it, 40% margin. That's a pretty strong margin, so I'm just curious as to what happened in Q3 that lifted the margin so much. Is it the leverage? Is it the big pipeline hauling margin alone, or something else? Thanks.

MURRAY K. MULLEN:

Well, on a year-over-year, clearly pipeline—we've been commenting to our shareholders since earlier this year that the big pipeline projects that were going on, we were going to have a robust year in terms of pipeline construction. Once these projects start, they've got to finish off, and we've still got clear visibility right through end of next year, maybe into 2022 on the projects that are going on, so that's been a clear win, but in our Specialized Industrial Service side, as I said to you, there's a couple of things.

One is it's more cyclical, for sure, because it's tied to project work, and really more capital-intensive work, so I was quite impressed with some of the recovery there. I think it was mostly pipeline related. Some tied. We had some good activity with our construction company, Smook, that's in BC, but overall, saw recovery in maintenance and turnaround work by the oil and gas companies that had to go back in and start spending money again. You can reduce maintenance and do things for a little bit, but you can't forever, so we saw nice recovery in that side; strong pipeline construction activity; a good quarter in terms of our Smook business unit; I think is solid in terms of our dewatering business; so all in all, that's what we saw in that.

Now, remember, we always refer to our Specialized and Industrial segment as kind of our segment of little gems. There's probably nothing in here that's totally scalable, but we've made some good investments in companies that, really, when we go in and provide our skill set in terms of capital allocations and position them in their respective markets, they may not be scalable, but they can generate some pretty good returns, especially in—and I've got to tell you, they generate some pretty good cash return, so that's the nice recovery in that sector—that segment for us.

P. STEPHEN CLARK:

Yes, and if I could just add for the analyst community and those that are really wanting a little bit more granular detail, is that those specialized gems that Murray's talking about used to be about a third of our segment revenue, and a third was drilling and drilling-related, and a third was production services, so it used to be rather balanced, but now they're about 50% or 60% of revenue, that Specialized Group, because of the decline, and so that gives you a relative indication of sort of what the revenue is like, and then your very—your observations, and we break it down between those three groups within our MD&A. You're correct in that marginal EBITDA from that Specialized Group is higher, so that's why the lift in margin.

KONARK GUPTA:

Great. No, that's great colour, and last one for me before I turn it over, on the real estate side, so you identified, I think, three more real estate opportunities subsequent to the quarter, and I think in Calgary. If you can provide any colour as to what is the kind of size and magnitude of those acquisitions, and what is the purpose for that, and are you considering monetization of any pieces of real estate around the country just given the prices have gone up?

MURRAY K. MULLEN:

Look, I'll give to our investors on the call, I'll say look, if you're going to be involved in the consumer part of the economy, you have to have investments in real estate. You cannot manage the supply chain without having real estate. That's a fact, and we see a changing consumer landscape. We see they're more demanding, and that means you've got to get—and they want it quicker, better, faster. That lends itself to you've got to have your facilities in the right spots, so that's creating opportunity to say make sure you put your facilities in the right area, and facilities is one of our core competencies here. We've made some great investments over the years, and land and buildings—if you're going to invest on the consumer-led—driven economy, I don't care whether you're Amazon or you're Mullen, you'd better have some facilities, and so that's why we consider that an important part of our business model, and we'll continue to make those investments. They're both long-term and they're strategic.

KONARK GUPTA:

Perfect. Thanks for the colour. Thank you.

MURRAY K. MULLEN:

Thank you.

OPERATOR:

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

MICHAEL ROBERTSON:

Hey. Good morning, gents. Congrats on the strong quarter, and thanks for taking my questions. Just a couple of quick ones.

Even adjusting for the CEWS, margins are up meaningfully across all three segments. Some of that, as you noted, has been driven by extraneous factors like lower diesel prices, but other drivers of that increase have been some of your cost controls. How should we be thinking about that margin strength as we head into 2021? Would you consider a lot of those improvements to be sustainable next year?

MURRAY K. MULLEN:

Some of the costs—look, I'll be blunt with you, some of it is change in business process, and I give all the credit to the business units for driving out costs, and that's what I talked about earlier. That part is sustainable. Everybody's figured out I didn't have to have that cost. Now, there are some new costs that came in too. Let's be clear. You've got to invest in some safety-related costs and—you need, so that's the net—the net-net effect, though, is we're running pretty efficient businesses.

I think the other thing that we've got is to the extent that all of us really don't have too many distractions these days due to COVID, we're 100% focused on the business, and our first liners are really intense and in focus on what's going on, and they've done a great job on driving some good change right throughout the whole business, so that feels good.

Let me talk a little bit about diesel costs, so diesel costs are down because crude oil costs are down. Our thesis is that diesel costs may go up, but when diesel costs go up, then our drilling activity will improve because the margins and the fundamentals in the oil and gas sector will improve, so thinking about diesel cost, we really have built-in hedges within our diversified business model that says, okay, if diesel costs go up, yes, maybe the margin goes down on our Trucking Logistics side, anything to do with Trucking, Logistics, and LTL. Yes, that might happen, but conversely, we'll probably have more activity on the Specialized side, so that's a built-in hedge if you ask me, so it's outside of our control, but we have hedges in place.

Overall, it reduced costs. It also reduced revenue, though, right Steph, as we said about our—because our fuel surcharges, so we hedge it on multiple different ways, but yes, that margin improved because fuel costs were down. Well, that's our second-biggest cost in the transportation business outside of wages.

MICHAEL ROBERTSON:

That makes sense. Appreciate the colour, and I can also certainly relate to being 100% focused on work during a pandemic. I know in some previous years where visibility's been muddy, you've opted to somewhat delay your year ahead outlook or business plan. Do you have an idea of when we should be expecting that update, or is the timing still up in the air for the time being?

MURRAY K. MULLEN:

Steph?

P. STEPHEN CLARK:

I think we'll probably release a news release on the evening of December 9, and then maybe hold a call on the 10th. We haven't quite done that. That's barring any—I think we're getting some more clarity now, right? Last year, as you recall—we typically had done it in December prior to last year. Last year, though, was very uncertain. We had WCS hit $5 a barrel, and there was just too much fog for us to really say, okay, what is 2020 going to look like? I think we'll revert back to the norm and likely news release on the 9th of December and have a call on the 10th.

MURRAY K. MULLEN:

Yes, typically we like to release our business model—our business plan, sorry, in December for what we expect in the next year. The last couple of years we've kind of hedged that a little bit because we were really trying to see what the heck are the plans for the oil and gas sector for capital investment. That's one thing we were always waiting to see what they came out with, and they were all over the map, so we said, well, let us found out, then we can tell you what we think is going to happen.

This year, I'm not so worried about that. I just worry about—I think we'll know by mid-December how COVID is going to hurt the economy, and whether it is or whether it's not, and so we'll lay out our game plan mid-December and then let people know what our business plan is, what we expect to do in terms of revenue and operating performance, capital allocation, share buyback, dividend, all that. We'll have all of that in December. It's only a few weeks away, so I tell everybody, just let us see what happens with COVID here over the next little bit, and then it'll be a little clearer for us, I hope.

MICHAEL ROBERTSON:

All right. Well, looking forward to the next update, and I'll turn it back. Thanks for taking my questions.

MURRAY K. MULLEN:

Thanks, Michael.

OPERATOR:

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

WALTER SPRACKLIN:

Thanks very much. Hi, Murray. Hi, Stephen. How are you doing?

MURRAY K. MULLEN:

We're doing good, as we hope you are too. Morning.

WALTER SPRACKLIN:

Yes. Yes. Good. Good, so starting first question I'll focus on the capital side of your business; you mentioned tends to be more cyclical, more project-driven. When you look at your current book of business, would you characterize next year as being fairly full in terms of the longevity of these contracts carrying you sufficiently into 2021 to give you good visibility, or do you have some of these projects ending sooner rather than later that, if not replaced, creates a lot of uncertainty around next year's level of business activity in your capital segment?

MURRAY K. MULLEN:

Yes, I think we're pretty confident that every fundamental has lined up, and it's going to be tough to turn off those taps, so we have some pretty good visibility what we currently see right now. We'll confirm that, as I said, in December, but if you're asking me right now, yes, as I said, I think those projects, once they start, you've got to keep going, so pretty good visibility, and we'll be busy next year.

WALTER SPRACKLIN:

Makes sense. Now, moving to consumer, I know...

MURRAY K. MULLEN:

I think the wild card is probably going to be, Walter, is this. What the heck is going to happen with commodity prices? Commodity prices drive cash flow for the oil and gas sector which drives investment activity. Right now, the oil and gas sector is so underinvested that that is going to lead one day to a response. Now, whether that's 2021 or 2022, I don't know for sure, but I guarantee you we're getting closer to the day of when we're going to have a response, and it's going to require capital investment again.

Now, it could happen on the natural gas side this winter, because natural gas is pretty much in balance at the moment, and that's not COVID-related. That's weather-related, and let's see what happens with weather. If we have a cold winter, natural gas prices have nowhere to go but up. If natural gas—the only way to add supply is not by turning on taps. It's by drilling, but that's going to lag, so I don't know exactly when, but I would be very, very surprised if we're not going to have to have a response in the near—in the future on the drilling sector side, which is really capital investment.

WALTER SPRACKLIN:

Yes, so it sounds like with the projects you see going forward, good stability, bit of a wild card with commodity prices.

MURRAY K. MULLEN:

That's correct. That's correct. Good stability from what we see right now on the project work. Canadian Dewatering will be busy. Smook will have its. It's pretty steady. Pipelines is going to be steady. Maintenance work in the oil and gas business is going to be pretty stable. They've got to spend money. They're wearing out stuff and doing things. They've got to spend money on maintenance and turnaround, and then let's see what happens on the drilling side. That's going to be commodity price related, and then one day you're going to have a response. I'm not predicting it in Q1, but one of these days it's going to happen. That's correct.

WALTER SPRACKLIN:

Yes. That makes sense. Okay, and now moving to consumer. I know, Murray, you and I have talked about this. They're remarkably resilient here. They're spending. Why they're spending is a good question, right? Is it due to government liquidity being injected? What happens when that stops, and so forth, so would you say, then, that there might be, in fact, a little bit more—and given second wave and uncertainty around that, is there perhaps a little bit more now less—or less visibility now in your consumer segments? All things said, with what you just said about your capital segment, there still seems to be a lot more uncertainty out there with how the consumer's going to react to a tap that might be turned off with regards to liquidity. Is that a fair statement?

MURRAY K. MULLEN:

Well, I mean, look, I don't know for sure, obviously. I think nobody does. I'm absolutely amazed at how resilient the consumer is. The consumer is probably going to be the most stable part of the economy on a go-forward basis, and so let's just call it for what it is. I think the consumer's going to continue to spend. I don't know if they're—I don't think they're going to spend any more than they are right now, but I would still be pretty confident consumers are not going to sit at home and do nothing. They're going to get bored and they're going to spend. They're going to do something just like they have over the last bit, and my general sense is if you're going to get elected as a politician, you'll only elected if you give people something, so expect more fiscal stimulus, I would suspect.

WALTER SPRACKLIN:

On that, as that near-term fiscal stimulus certainly continues into the Christmas season and the peak that we're going through now, lots of tight capacity out there, lots of opportunity to price, are you seeing the ability to benefit from both, i.e. do you have the capacity to handle the surge and B)are you getting the pricing that comes with that from a general market standpoint as well?

MURRAY K. MULLEN:

Yes, so we—I don't know if there's going to be another surge. I think your next layer of pricing surge would come with more consumer spending, and that will come from more confidence that the consumer has, and then a better job creation market, etc., etc., but we're tight on capacity right now, which is why we're investing in new facilities and what we call the smart facilities that are all going to be interconnected with what we call the smart terminals, both in terms of data transfer, and also plug-ins for tomorrow's delivery vehicles—electric vehicles, so invest in real estate, because that's your future growth. You've got to have to meet demand.

The supply chain is changing, period, point blank, and that's because consumers are changing, and you're going—inventory's going from just in time to just in case. You have to have that inventory in warehouses so that you can deliver to win the customer calls, and that tells me you need facilities, so we're going to continue to invest in those areas and going to be smart on behalf of our shareholders so we can meet future demand. It's going to continue to change. There's no doubt about it. I think that...

WALTER SPRACKLIN:

I know you're going to answer this question in December, but I mean everything you're saying now suggests that after a year of a fairly depressed capital program, looking back on a net CapEx basis, not gross, but net of proceeds, you've done as high as $90 million in the past. Obviously, you're not investing in the industrial side as much, but I've got to think you'd be closer to your 2019 $70 million than you are to your 2020 $50 million. Is that a fair assessment?

MURRAY K. MULLEN:

Yes, in a few short weeks, I'll be able to tell you exactly.

WALTER SPRACKLIN:

There you go. Yes.

MURRAY K. MULLEN:

We're just getting out of this quarter. Why don't you let me digest that one for a little bit, but suffice to say, yes, I tell you what, we'll spend more capital when I see the capital part of investment of this economy starting to get the confidence to go to work. I haven't seen that yet. I see a strong consumer. That supports our LTL business and our Logistics Warehousing, but our peak capital investment will come when we see the capital investment and business confidence come back to spend capital. That will give us the cover to go in. Well, you know why? Because our profitably goes up, so until then, there's no sense trying to guess when that's going to happen, but we'll outline our plan, Walter, here in a few weeks. It's only six weeks away, so just hold that thought.

WALTER SPRACKLIN:

Okay, I'll hold up, yes, and last question here. You said you were inundated with calls with regards to M&A. Would you characterize that in mainly your consumer than your LTL Logistics and special—or would you say that's hit more in your capital side that you're getting those, or is it across the board in both?

MURRAY K. MULLEN:

Well, we see it across the board. In the Specialized Industrial side, the capital side, we don't even vet them. We don't have time. The ones that we're vetting out are all in the LTL side and the Logistics and Warehousing side. Those are the ones we're vetting out, and then we'll look at investing in those where we think that we can see that value can be added. There's no sense just paying up to get something that—just to add the numbers together. We've got to see where we can add value. Is that synergy, is that margin improvement, is that—we can use that as a growth platform? We've got to see some value proposition if we're going to allocate that shareholders' capital towards that.

WALTER SPRACKLIN:

Appreciate the colour.

MURRAY K. MULLEN:

We're (inaudible 48:42) out. We're keeping our days busy. I got my Senior Executive Team. They're looking at me like, Murray, no more for a bit, but I'm whipping them. They're just going like crazy.

WALTER SPRACKLIN:

Perfect. Thanks very much, as always.

MURRAY K. MULLEN:

Thank you.

P. STEPHEN CLARK:

Walter, Just one more thing. Just on the CapEx from '19 and '18, I would remind everybody that we had facilities in those numbers, so those were high numbers, but we had $20 million and $25 million of facility purchases during those years, so adjust for that.

WALTER SPRACKLIN:

Good point. Yes. Thanks, Stephen.

OPERATOR:

The next question comes from Aaron MacNeil with TD Securities. Please go ahead.

AARON MACNEIL:
Hey. Morning, guys. Thanks for taking my questions.

You sort of referenced it indirectly in the prepared remarks in the context of valuation, and perhaps more specifically in the Q&A, but I kind of want to maybe try and pry a bit of a different answer out of you. Your Specialized and Industrial segment predominately features oilfield services businesses, but those businesses, like your various hydrovac businesses, Canadian Dewatering, Smook, either have some non-energy exposure or aren't really energy weighted at all. I think, perhaps unfairly, you're being painted with the oilfield services and energy brush, so I guess my question is what do you think your revenue and EBITDA exposure is on a percentage basis of the consolidated that's directly tied to the oilfield services sector?

MURRAY K. MULLEN:
Well, oilfield service is two parts, and I—I just—for the umpteenth time, I'll try and tell people this. Oilfield service is really two things. One is the maintenance of everything that's going on today. That has nothing to do with growth, but once you’ve got these terminals, once you've got these plants, once you've got these refineries, once you've got all these things, well, they've got to be maintained. That's just work that goes on every day. That's very stable part.

Now, the oil and gas sector, when they were trying to protect their balance sheet, they chinced a little bit in the second quarter trying to protect their balance sheets. Well, that started to come back in Q3. We saw that, and that's what we reported in our numbers, and I think they're going back in and got to make sure that those assets are going.

The secondary part of oil and gas is tied to new capital investment, which is drilling, which meets new demand. That's constrained at the moment, but that is—golly, we've got—it's so small today of our business model, I hate even talking about it. It's de minimis, Steph, the drilling side, and so it's just one part of our portfolio in our Company, and now, when it comes back, there will be—it's not going to go back to anywhere near it was before, but I guarantee you, if we're going to be involved in it, we will make margin for our shareholders. If we don't make margin, we don't do it, but that drilling side's got to come back. It's maybe a year away at max, but the maintenance side I suggest, too, is they're going to do maintenance this quarter, next quarter, the year after quarter, and quarters after that.

AARON MACNEIL:

Maybe just to pin you down on a number, you mentioned that 50% to 60% of that would be Specialized and the other 50% would be oilfield services, so if say that segment's 40—35%, 40% of EBITDA, would it be half of that that's directly tied to both those kind of maintenance businesses and drilling completions businesses?

MURRAY K. MULLEN:

Well, let's just put it that way. There's very little EBITDA right now from anything to do with drilling activity. I mean it's—Smook'll do more money than our—more than our whole oilfield service side on the drilling side right now, but on the maintenance side, it's pretty stable, so I don't know if we break that out into each granular. We've got 34 companies in our group. We don't break it down into each company, but it's—what is it, Steph?

P. STEPHEN CLARK:

Aaron, I'll help you out here a little bit in the sense that we've had two quarters now of really non-existing drilling activity. I mean, there was 360 wells drilled in the third quarter, virtually nothing in the second quarter. The rig count in the second quarter was like 20 or 25.

In the third quarter now, it's improved a little bit, but way down, so you can see that we've really worked hard at trying to get that beta out. It doesn't make sense for us to be a dividend-paying stock and having this big ebbs and flows, so we purposely done that, started maybe with Canadian Dewatering a number of years ago. In 2018, we did the AECOM acquisition where we really were $70 million of revenue—maintenance-based revenue to the oil sands and such, and yes, they've had some hiccups here in the second quarter and through most of the third quarter, but they're back to doing maintenance. They have to do maintenance.

To get a little bit more granular, our rig moving used to be 60% of our revenue and EBITDA 20 years ago. It's now 4%, 3% of revenue, and EBITDA is constrained even lower than that, so it's really not that high beta, and we really are a logistics company. We have always moved stuff for the oilfield and it's always been about smart logistics, and we are less so an oilfield service company, and I think we are painted with a bad brush there as far as some investor sentiment, and I think that's been changing over the last couple of years. We've proven that we are able to get that variability out of our earnings and stability in our dividend, but we don't give discrete information on each business unit. It's just something that we...

MURRAY K. MULLEN:

Aaron, it's Murray again. Look, it's so de minimis. You're chasing the wrong car here. I mean, our Jay's Group does more money than our whole drilling size out of Saskatchewan, so why do you think we put a new terminal in there and helped them, so it’s just de minimis. Enough said.

AARON MACNEIL:

Okay. On the flip side, what do you think the percentage of your consolidated business would be entirely consumer-driven and basically back to pre-COVID levels?

MURRAY K. MULLEN:

Well, LTL is 100% consumer-driven, and it's nearly back 100% to it. The Logistics and Warehouses business has some—it's not quite back in, because there is some capital goods that, when it's moving on the logistics side, heavy equipment, capital goods and whatever, that's still a laggard in this economy, but a lot of consumer goods still have to be moved into the warehouse or whatever. That's the full truckload side, but anything to do with the consumers is virtually back to 100%. Anything to do with capital goods is still not even close to pre-COVID levels. Anything to do with specific sub-sectors like the energy industry or the hospitality business or the air travel business is still out in the woodshed getting a beating.

AARON MACNEIL:

Final question for me, and Walter asked in more general terms, but in the pre-made business, what’s sort of the visibility on the continued strength of that book of business that you’ve got in hand today?

MURRAY K. MULLEN:

On pre-made pipeline?

AARON MACNEIL:

That’s right.

MURRAY K. MULLEN:

Just to go back to that area, and I said we get pretty good visibility right through to the end of 2021 because those are big project goals, and you don’t turn the tap off on a project, so we get good visibility once the project starts, so that’s right through 2021.

AARON MACNEIL:

Great, thanks. That is all for me. I'll turn it over.

MURRAY K. MULLEN:

Thank you.

OPERATOR:

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

JOHN GIBSON:

Thanks, and congrats on the strong quarter.

Just first off here, just a follow-on to the question around margin improvement, so you received $10 million in wage subsidies this quarter. Net-net, if you lived in a world without wage subsidies, how much do you think you could recover of that $10 million, and I guess…

MURRAY K. MULLEN:

Just same-store sales—let's just say same-store sales, say there was no COVID, right? Without COVID, then there would be no government response. Correct? That's what you are asking?

JOHN GIBSON:

Yes. Exactly, yes.

MURRAY K. MULLEN:

I'd say at least 50%, because clearly, our revenues would be higher, if you had the same economy as you had going in and what we thought, we would be virtually spot-on to what we articulated to shareholders in early February, so I would say at least 50% of that we would have been maybe not quite 100% to 60%, but I'll bet you pretty close to it, because we just had strong recovery. We saw process improvement, we saw investments in some of the real estate that we've been making, some of the technology, etc., etc., so maybe not 100%, but I'll bet you 50% is a good rule of thumb as anything.

JOHN GIBSON:

I guess more what I'm trying to get at is how much further would you have cut costs and—without the wage subsidies, so say that revenue, is in this post COVID world…

MURRAY K. MULLEN:

I don't think we would have—I don't think you would have cut costs anywhere to the same extent, because once you have a good crisis, there's always a response to that, so I doubt if we would have been able to cut costs as much, but we would have had more business, and so maybe the margin wouldn't have gone up quite as much, but we would have certainly had way more business. Certainly, more than we're down, so we might have been up very nicely on business, so you might have had the same EBITDA, and maybe margin was enough.

We responded to COVID with margin improvement on the margin side, but without COVID, we would have still had higher EBITDA, because our business model was pretty robust, and we saw pretty good visibility with the things that we talked about in our business. We were improving in gaining market share, and the economy was doing reasonably well, so I'm not sure we would have anywhere near the same margin improvement, but we would have had EBITDA improvement.

JOHN GIBSON:

Okay, fair enough, and then just last one for me, you were pretty aggressive on the normal course bid this quarter. I guess, in fact, you finished it. Just for clarity sake, do you expect to continue repurchasing shares under a new normal course bid, and how do you balance share buybacks versus M&A, especially with regard to your view on valuation?

MURRAY K. MULLEN:

Well, this is exactly the same as I said to—just a few minutes ago to Walter is about what do we expect for capital? Why don't you wait until—hold that thought until we come out in a couple of weeks, and I'll tell you how we're going to allocate our capital for next year? We can't do anything on the normal course issuer until next year. The question is are we going to renew it and to what level, and I'll just be blunt without telling you the quantum of it, is if shareholders want to continue to sell our stock at a steep discount, give it to us.

JOHN GIBSON:

Okay that's fair. Thanks a lot, and I'll turn it back.

MURRAY K. MULLEN:

Thank you very much.

OPERATOR:

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

MURRAY K. MULLEN:

Good morning, Elias.

ELIAS FOSCOLOS:

Good morning. I've got a couple questions to ask. Murray, you alluded to tight capacity, I think within Warehousing. Could that lead to some inflationary pressures, and if that does sort of appear, are you able to sort of move that—push that through?

MURRAY K. MULLEN:

Yes, I think that's a good observation that there are some bottlenecks. Clearly, there are some issues in the economy that have led to price destruction and price reductions, but conversely, there has been some big moves as the consumer has shifted, and that's causing some price rises, and we're seeing bottlenecks and some in that part of the economy and some pricing leverage.

We will be able to recover in those areas where the economy is strong through pricing improvements, and most of that has to do with just the changing consumer. My view is that if that consumer continues to spend as much as that consumer is, if we have any type of recovery in additional spend and that capital gets moving or that the money gets moving and that velocity goes, I think we're going to have some inflationary pressures. We'll be able to pass those on, but that's what's inflationary pressure, so we're monitoring it very, very carefully.

Clearly, with getting us margin improvement, we had to get costs down, but we're able to recover all of our costs with pricing at the moment, except in the capital goods movement of the economy. That will be the laggard of it, but I suspect you're going to have some recovery in that end of the economy shortly.

You can only cheat on capital investment for so long before that cycle starts again, so I'm a little bit concerned about what the inflationary implications might be, but I know one thing, that's another reason why we want to own our own real estate, because if there's inflation, that's going to show up in lease payments, and we own the vast majority of our own real estate, so we're protected from that inflation cycle to a large percent. That'll either make us more competitive, or we'll have pricing leverage, one of the two.

ELIAS FOSCOLOS:

Okay. I appreciate that colour. Just sort of briefly on the land, just sort of acquisitions, and I might have missed this, and I apologize if I have, the land acquisitions that you're thinking are generally outside. I know acquisitions are outside your capital budget, but are some of the incremental land acquisitions that you're looking out also outside of your stated capital budget number?

MURRAY K. MULLEN:

Yes.

ELIAS FOSCOLOS:

Okay.

MURRAY K. MULLEN:

The reason is, those are long-term assets. What we'll call sustainable replacement CapEx is basically for rolling stock, but anything to do with land is about positioning for future growth for sure.

ELIAS FOSCOLOS:

Right. They're non-depreciable, so I understand, but I just wanted to be clear.

MURRAY K. MULLEN:

No. You're spot on on that.

ELIAS FOSCOLOS:

Last thing Murray, you made a comment about margin improvement, and you threw in the word technology. Is there something—and of course you talked about, I guess, the warehouse for

Mullen Group

Jay's, but is there something on the technology side, and of course I am thinking a bit about move it online, but not specifically, that is giving you a couple of basis points or something that is helping you, because you did bring that up?

MURRAY K. MULLEN:

Well, I think as the—I mean, we live in the digital world, so everything has been digitized. Your business model has to have that technology platform to even survive, and that's one of the things we continue to invest very, very strongly in, and heavily in, I guess is a better word, so part of it's moving online, and that really helps your logistics non-asset business about just how you handle the transaction in a digital marketplace.

We had to make that investment to protect our Company, there's no doubt about it, but when I talk about technology, it's about there's so many different types and uses of technology, but everything is about how can you work remotely. That's investment technology so that we can manage our business effectively. How can we put technology into our new facilities, right Rich, on the—what we call the smart facility to make sure that everything is bar coded and digitized coming in so that everything moves quickly and efficiently and with no misdirects, and particularly, if you're going to be in the e-commerce world, it has to be a digital world.

You cannot be in e-commerce if you're not in the digital space because it moves way too fast, so you've got to invest in technology as both an enabler, as well as a business protector, so I think investing in technology is just like investing in—I mean, that's your future and investing in your education of your people and those kind of things. It's a staple, for sure.

ELIAS FOSCOLOS:

Okay. I wanted to cut it off, but maybe I will ask one last question. With the increased need of technology, and potentially the wage subsidy which benefited Mullen, but probably would have disproportionately benefited some of the companies that you might be looking at, is there a potential for a—I'm going to use tsunami, but maybe I want to use larger wave of acquisitions to come into 2021, or a larger pipeline into 2021?

MURRAY K. MULLEN:

Elias, I don't know if it was a larger pipeline, because the pipeline is full right now, and therefore, that gives me cause for concern. Why do so many people want to sell their businesses right now, so whenever so much happens all at once, it gives me pause for cause. My general sense is I think that the sellers might be a little more realistic next year when they realize that their margins aren't quite as good. Sellers aren't stupid. There's a reason why they're selling. Hey, maybe they're counting on the buyer being stupid. I can guarantee your—well, I won't say the other word, but I can guarantee you that we will not be stupid, but when I get this many, I'm starting to think they might think we're stupid with our money just because we got it, so—but I think there'll be a lot—I think there'll be some great deals next year. That's exactly right.

ELIAS FOSCOLOS:

I'll leave it at that and turn the call over. Thank you very much for the colour.

MURRAY K. MULLEN:

Thanks, Elias.

OPERATOR:

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

The next question comes from Miguel Madera (phonetic 69:58) with Cormark. Please go ahead.

MIGUEL MADERA:

Hey, good morning, guys. Dialing in for David Ocampo. Just one question on my end, just want to touch on future contract pricing given where spot rates are. Have you started discussions for rent renewals, or any colour you can provide with regard to those conversations would be great.

MURRAY K. MULLEN:

Have we got any colour on that one, Steph?

P. STEPHEN CLARK:

Well, I think there still is a little bit of uncertainty out there. We've seen in our LTL, our rates. Now we're recovering inflation, so we've put in some rate increases here due to—scheduled to go in November, but basically rate of inflation type of there, but for longer-term contracts and Logistics and Warehousing and certainly pricing in the oil—I'll call it the oilfield services segment. I slipped there to Specialized and Industrial, but for the winter season, there is no rate increases on our hourly oilfield work, so it's still pretty uncertain there, but we are at least recovering inflation in the LTL bill—part of the business, which is the mainstay right now.

MURRAY K. MULLEN:

I haven't seen—Miguel, I haven't seen enough demand response in Canada. The Canadian marketplace a little different than the U.S. marketplace. They've had a massive demand response, but they have a much higher propensity of manufacturing, and etc., and capital investment than we have in Canada. There's still some cautiousness from what we see on behalf of business and investment. We need to see that for me to say we're back, and every piece of information and every report you hear come out would say that's still the laggard in the Canadian marketplace, and so I'm hopeful, but I don't know. We have to see.

That's all confidence driven, and I think there's still a lack of conviction amongst the business community to invest capital significantly on lead life assets in the Canadian marketplace; not on the consumer side. The consumer's just spending like crazy, but on the capital side, so that's what's going to drive pricing on that part of our business. The consumer-led, we're being able to keep whole on that side.

MIGUEL MADERA:

Perfect. Thanks for taking my questions. That's all for me.

MURRAY K. MULLEN:

Thank you.

OPERATOR:

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

MURRAY K. MULLEN:

Thanks for joining us today, folks, and as I say, we'll come out in early December, probably—I think the early date is December 10, and we'll outline our plan, CapEx, everything for 2021, and let's just all hope that we can handle the second wave and adapt to it and pivot and everyone stays safe, and then we'll talk to everybody in December and hopefully we have some good news, and good news on the economic front, and good news from a safety perspective. Everybody stay safe, and we'll talk 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.