The Mullen Group Limited

2021 Business Plan Conference Call and Webcast

Transcript

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Speakers:

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Chairman, CEO & President

P. Stephen Clark
Chief Financial Officer

Richard Maloney
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OPERATOR:

Welcome to the Mullen Group Limited 2021 Business Plan 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, CEO, and President. Please go ahead

MURRAY K. MULLEN:

Good day, everyone, and welcome to Mullen Group's 2021 Business Plan Conference Call, and we'd like to welcome you all today, even during these chaotic times.

But before I commence today's review, I'll remind everyone that our presentation contains forward-looking statements that are based upon current expectations and are subject to a number of uncertainties and risks, and actual results may differ materially. Further information identifying the risks, uncertainties, and assumptions can be found on the disclosure documents, which are found on SEDAR at www.mullen-group.com.

So, we're social distancing this morning, but on the call with me this morning I have our entire Executive Team. I have Stephen Clark, who's our CFO, Richard Maloney, Senior VP, Joanna Scott, Corporate VP, Secretary and VP of Corporate Services, and Carson Urlacher, who's our Corporate Controller.

So, I'm going to start and—right into to the '21 budget and business plan, so my presentation today is primarily going to focus on the '21 budget and business plan. However, I think it's probably a little bit appropriate to provide what we'll expect—what next year will look like, and let me cover a couple of topics as we near the end of this crazy year, including how COVID has changed our business, and within this, I'll—it's accompanied by a look at some of the macro issues and trends that we believe are going to have a lasting impact on our business, some are positive.

The impact of COVID on our 2020 results, and then a summary of the corporate developments we undertook in 2020, so clearly, this is a COVID-led economy. It's different. It's been a year that we—none of us will easily forget, but amongst the many issues we've all faced, there's two thoughts that really resonate with me.

The first is just how impactful COVID-19 virus has been on the society in general, and the second relates to our business. It's just how resilient and adaptable people are, and nowhere is this more evident than in the consumer spending trends, so the underlying theme is that consumers may have changed their spend, but they have not quit spending all together. In fact, not only are we reading about how the economy has changed, we see it firsthand in our business. So, here's a quick overview of how the change in consumer habits has impacted our business. Let me start with consumer spending trends.

Air travel, hospitality has been crushed, and that's directly impacting employment levels in that sector, and a sub-sector of that is energy demand. In North America, government support initiatives have helped cushion those directly impacted by the loss of employment, and the old thesis goes, putting money into those most negatively impacted supports people and their families, and then that translates into economic activity through consumer spending.

The second trend we see—second issue I'd like to point out is as consumers spend less on expensive travel vacations, that's all of us, which has been estimated by some to be in the range of 12% to 15% of a consumer's disposable income, they just altered their spend towards consumer goods, and in the earliest days of COVID-19, consumers were spending only on staples such as food and basic necessities, or in other words, what I refer to as their needs, but very quickly we saw a pickup in demand for other consumer wants, such as home improvement, electronics, and other durable goods, so I've often referred to this as the wants makeup consumer spending, so this was a pleasant surprise to our warehousing and LTL business.

Now, on the other hand, as I mentioned here, travel curtailed crude oil demands, and pricing has clearly been negatively impacted. However, that appears to be finding a new equilibrium, so as a result, the only natural gas companies have seen their cash flows severely reduced as to directly impacting everything from drilling activity, the maintenance, and capital investment. We've spoke about this throughout the year with all of our shareholders, so very difficult days for all participants in the oil and gas business this year. In fact, I would suggest to you that it's very challenging times for the, in fact—in the capital investment part the economy. We see that in the data that—data flow we've got and the customers that we have. They're just not as busy as they once were, so capital investment is not as robust as consumer spending.

The second issue I wanted to talk about today, and trend that we've seen, is really about how technology rules everything, and the concept of social distancing has changed the way we interact. Think about how we've all adapted from in-person meetings to online communicating, so at the office we have fewer in-person meetings. We work from home. That's a reality, at first because it was a safety-related issue, and I guess maybe it is now today, because we're told again we must work from home. Tomorrow will be the new norm, however, I think, and it'll be a new way of conducting business for all office support staff.

Now, we don't need to be in the office with the way that technology's transformed everything. The business world is clearly in a digital age, and connected support personnel can work virtually. It's the new world that we live in. As for the vast majority of our workforce however, the world has also changed, but it's changed for different reasons. Field workers, drivers, warehouse staff, they'll continue to work as before, but their jobs have been impacted due to—more to bottlenecks in the supply chain, new safety precautions, less personal interaction with the office, and I would tell you way more sick days.

The essential worker is not immune from COVID. They just happen to be on the front lines, so we're seeing those sick days—if we're sick, we can still probably work, but for them, that's very difficult, so way more sick days we're seeing in our Company. So, as a result of all those things, we really think that the costs are going to go up as productivity slows throughout society, and I think this will be an issue and a focus that the senior executive is—really going to keep our eye on this one.

The third trend is e-commerce accelerates. Now, there has been a trend towards online shopping for quite some time, and that has been accelerated in ways that once thought might take a decade to achieve. Direct home deliveries is here to stay, and direct home deliveries is the end game of e-commerce, so direct home deliveries is here to stay and it's driving disruption of the traditional retail and supply chain model, and this has changed the way—how the supply chain must be managed, and I believe the changes—the narrative from just in time inventory management to just in case, and this implies more warehousing. It's an increase in delivery times for companies, and for us, smaller delivery type vehicles, so the concept of final mile delivery is now a reality.

Four; safety, safety, and more safety. Everyone has become a germaphobe; wash your hands daily, stay away from people, disinfecting, clean everything, wear the mask. The virus has altered the way we think and interact, and in my view is that many of today's trends will remain regardless of whether COVID subsides or not, so our—for our business, we have adopted new safety protocols. We've increased safety PP&E, and ensuring the health and welfare of our employees. We know that there is increased scrutiny on everything. This would be especially in the area of pharmacy and food. New regulations are going to come in from the government that are going to change the way the supply chain works.

Now, these new regulations add costs, but this also create opportunities for those that are well-positioned, and you'll hear me talk more about that later on in the call. So, these macro-trends that I've kind of mentioned, they're going to have a lasting impact on our business, and we must consider all of those implications as we give a better part of our strategic initiatives, so the most obvious being that the mass of increase in public spending in response to COVID, which has been supported by aggressive monetary policy, has changed a lot of how money is flowing. The government debt obligations have skyrocketed, and interest rates have been reduced to support what was we all thought were unfathomable public debts.

Now, this experiment, which has been referred to or identified as new era of monetary policy, is akin to sailing in uncharted waters. I don't think anybody really knows, but what we can tell you is that what we see happening is that there's a lot of money circulating in the system, and it's impacting certain asset classes. Clearly everybody sees the stock valuations—stock markets at all time highs, etc., but in addition we're seeing rising real estate prices, particularly in big urban centres, like the GTA, and the lower mainland. Money appears to be flowing into—continually flowing into those properties, driving up the price of that real estate, particularly on the industrial and commercial side, so the overall trend in real estate is the valuations have increased as interest rates have declined, so I guess the thesis is if you own your own real estate, you've benefited quite nicely, and of course, everyone knows that real estate's our single biggest asset class.

Now, if you're a leaser, your rent expenses are going up, and I think they're going to continue to rise, and we're seeing that firsthand how this trend impacts our cost structure, as some of those facilities we do lease, landlords are demanding significantly higher returns as lease obligations are renewed, so it's our belief that freight prices are going to have to rise to offset these increases; otherwise, profitability clearly will be negatively impacted. So, of course the wildcard's always politics with many governments and elected officials in general looking to use COVID-19 as a catalyst to reset the economy. We've heard that on occasion, essentially moving further away from capitalism to a government system of socialism. There will be many unanswered questions, and a lot of uncertainty in my view. So, in summary, my view that our business will be both a beneficiary of the changes, but we're going to face some significant headwinds, and I'll outline how the three segments of our business may be impacted.

Now, let me start with less than truckload; that segment that is getting the most attention in our Company these days. A less than truckload business benefits from consumer spending as long as the consumer either has job stability or has government assistance, so the primary business of LTL is determined by how many consumers there are, and how many consumers are doing well, not by whether some have a lot of wealth, so wealth really doesn't help less than truckload. More people having more money helps the less than truckload business.

However, in the logistics and warehouse segment, we think this is going to remain stable. In fact, it's going to grow because consumption translates into freight demand, and we've also talked about this just in case inventory thesis. However, in the logistics and warehouse segment, we also need to see some capital flows move away from real estate and capital preservation into capital investment to see any meaningful impact, for example, in our long-haul flatbed business, which is including in the logistics business, so this is not evident yet. We haven't seen it, and I don't know if it'll take tax policy to get the capital flowing again, or what it's going to take, but I have not seen that as of yet, and the flatbed business of our logistics and warehouse segment has underperformed this year because just capital is not flowing as freely as it once was.

Now, let me move to our specialized industrial service segment. We think there is going to be some significant change there. This is a capital investment thesis segment. We'll see the need to see some policy adjustments for any material positive change. In the short term, pipeline construction activity is going to remain okay for the next little bit, but I don't see any new pipelines coming on, so that will probably start to wind down late 2021, maybe into 2022, and that's going to impact our pre-made pipeline group. The good news is we see stability returning to the oil and natural gas service industry as producers that have survived the worst of COVID-19 demand destruction appear to be getting some legs, so we've seen that very recently in some of the data coming out from our customers. So, the industry has now entered a live within your cash flow environment, but we think there will be some additional recovery in drilling activity as we move throughout 2021.

Our business at Canadian Dewatering, Smook, and our hydrovac business, we still think that'll remain steady. A lot of their businesses are tied to municipal and environmental services, so that—they'll be steady, I think, going into 2021.

Now, I should also speak a little bit about acquisitions. Clearly, acquisitions remain one of our best opportunity for top-line growth, but it's also important that one needs to stay focused on strategy and not just growth. We're seeing valuations high. It's difficult to do due diligence in a time when you can't really get out, so that implies additional risk when you're buying these, so we want to be careful as valuations go up to make sure that we're doing the right thing for shareholders, and we'll want to acquire companies that we believe can add value and become a platform for future opportunity.

So, moving on, let me talk a little bit about our 2020 performance. We're nearing the end of 2020. As we recall, we started the year with a good plan and high expectations, and then everything was thrown into chaos, but I suggest to you as we close out 2020, it's obviously that we weathered the storm pretty well, and there's several reasons that I'll highlight, including number one, I think, as I discussed earlier, the consumer's been pretty resilient, and this is really—our less than truckload segment, for example, will be very close to projections, which I think is remarkable, all things considered. I guess that tells you the trend that I spoke about earlier. We were well-positioned to capitalize on that emerging trend of serving the consumer.

Second, we moved quickly and decisively to—once COVID-19 was identified as a health threat. Discretionary expenses were reduced across the board. Overall costs were reduced, including some that I classify within our control, and let's call those SG&A expenses, along with some of those costs outside of our control such as fuel expense. Well, fuel expense went down, because the price of diesel fuel went down, because the price of oil went down, so we have a bit of built-in hedge there, so our cost structure went down for that reason. Overall, I'll give credit to our business units for rising to the challenge and managing our costs as effectively as they could. So once again, I give a shout out to all of our business units for doing their part in 2020.

Number three, not all business units were negatively impacted by government-mandated shutdown orders, and many segments of the economy were deemed essential, and as a result, activity levels were maintained in many of our business units, and the oil and natural gas industry, one of the hardest hit. I think everybody knows that. Offsetting that will still be infrastructure build outside of our pre-made pipeline group, which had a great year. They beat budget and target, and they were very active in building out two very, very important infrastructure projects for the downstream sector of our business, which is Trans-Mountain Pipeline crude oil and Coastal Gas, which is natural gas (inaudible 18:12), so two very large projects.

Those projects are still under construction these days. I personally talked to my head of the pipeline group. We think Trans-Mountain will continue for quite some time; probably going to be one of the most expensive pipeline projects anywhere in the world by the time it's finished, and we haven't even got to Hope yet, so that's where the problems will really happen, so—but we do believe once that pipeline infrastructure is built out, is that that provides future opportunity and better price discovery for Western Canadian producers, which has to be good for them, so good news on that front.

Fourth, I've got to say 20—in 2020, the federal government somehow turned us all into socialists. The subsidies that they implemented, particularly the Canadian Emergency Wage Subsidy Program, benefited our Company. We're going to get a lot of money from that government. A significant portion out of that improved our EBITDA. Now, we used some of that money to employ more people than we otherwise would've if we had not have received the subsidies. We gave bonuses to our people, the front-line workers, that were slugging it out every day and doing their part, but I think most importantly, you're going to hear us talk about, we are going to use all of the CEWS programs—funds not for shareholder benefit, but that is going to be used to invest in capital and in whether—and to grow our business. However, that is—we grow it internally, or whether we invest in businesses in Canada and we buy product in Canada, and they create the jobs, it's going to be used to grow this economy. That's our primary use of that proceeds, but I will reiterate to everyone, no CEWS funds will be paid to shareholders in any fashion whatsoever.

So, overall, as we—as I finish off, let me just say I think that revenue's probably is going to be down about 10% from budget; maybe about 10% or 11% from year-over-year, but for the reasons I mentioned, EBITDA will be up. Even adjusting for CEWS, EBITDA will be close to prior—to budget and to prior years, so I think the bottom line is, as I can with good confidence say to our listeners, to our shareholders, and to our business units, we do have a really great business.

Let me know turn quickly to corporate developments. For the purpose of this presentation, I want to highlight two significant events.

Now, firstly, our decision to implement a share buyback program was validated. Most importantly, it's not whether you have a buyback program. It's whether you use it judiciously. We executed near perfection, repurchasing stock when others panicked or shunned us. By the end of the third quarter, we had repurchased our annual authorized allotment. Total shares repurchased eight million, average cost $6.70, total cash outlay $53.4 million, so essentially, we reduced our shares outstanding by nearly 8%—7.6%, and today our stock price is near $11, so I think we add—we—our existing shareholders, the ones that stayed with us, I think we did this part of the corporate development to near perfection.

Secondly, we maintained a significant cash position throughout the year. We'd planned to use this cash to complete acquisitions. However, the right opportunity, the one that I want to use, that just didn't materialize the way I wanted it to, to be honest, and we just—all we did is, we did a couple of tuck-in acquisitions, and I'll be—but I'll be honest with you. Big acquisitions give us a platform. Little acquisitions give us value because they're all tuck-ins, and that's where you find great synergy, so we balanced that out, but as we turn our attention, maybe we always have our eyes open, and we'll go after the ones that we think have great value and great—provide great opportunity down the road, such as our Kleysen Group, our Gardwine Group have—those are acquisitions. If I could do those all day long we'd be—man those would be great, but they come around only once in awhile. What you have to do is be positioned and know what you're looking for.

So, speaking of next year, let me talk about—just summarize what was in the press release for 2021. We think what we'll do is presenting to shareholders are rational, given the state of the COVID crisis. It's going to be choppy. I don't think it'll be any choppier than 2020, to be honest with you, but it's—I don't see a clear path forward yet either, so 2021, in the overall, is most likely going to look pretty close to 2020. You know they're probably going to be—we're in the midst of this second wave. There's probably going to be some slowdown in the first part of the year. That's what I'm anticipating, but based upon what we saw last year, if you put people away and they can't go out and spend, then when they come back out, they're going to spend, so from that perspective I think it'll work out just fine, and I think the—once again the bottom line is we feel pretty good about where we're situated in that business model.

We're clearly one of the most diversified logistics companies there are. We're well-positioned to capitalize on the long trends that I talked about earlier, and we'll generate pretty good free cash again in 2021. We'll end out the year with over $100 million of cash on the balance sheet. All of those funds will be allocated to pursue strategic acquisitions or do strategic initiatives, so we're in pretty good shape.

So, the quick summary of what the Board approved yesterday is we presented to the Board a pretty good compelling case. We think we can be in the range of consolidated revenues of $1.2 billion to $1.3 billion; OIBDA, EBITDA, operating earnings, whatever you want to call it, in the range of $210 million to $220 million, so that implies a margin somewhere between 17% and 18%. I think we're going to have difficulty increasing the margin in 2021.

I don't see a whole bunch more cost. If there is, it's going to come from pricing leverage, and that will be dependent upon how strong the economy is. Free cash from operations of $100 million, funds that we'll allocate to either grow the business or return to shareholders via share buyback or dividends. Our core CapEex, excluding land and buildings, facilities, that's going to be $50 million, and then we're going to add another $10 million in for growth CapEx. That's funds that we're going to invest in Canada to create jobs in Canada. You heard me talk a bit about that on the CEWS—with the CEWS funds we got, so we're going to get aggressive because, with some of the emerging trends we see, I want to really up—tell our business units, let's go and let's get ready for these home deliveries. This is a huge trend. We've got to get smaller vehicles. We want to get Ambient type vehicles so we can provide more service and expand our service offerings.

We're going to once again implement the share buyback program. We'll apply for that in March of 2021, and you'll recall that this year—earlier this year, we outlined a three-year game plan to allocate $100 million towards buying back our shares, and we remained committed to that plan, although we used up half in the first year, so that was very timely.

We're also going to increase dividends to $0.04 per month, $0.48 annually, and that'll commence starting in January's first payment, and in February, so the truth of the matter is, folks, we probably could've paid a little bit more on the dividend side, given our free cash, but the Board bought into our thesis that there's opportunity, and we'll want to keep that cash, maybe, for our business units and for strategic alternatives rather than giving it all in the dividend, and you hedge your bets a little bit in case this COVID and the vaccine doesn't quite work out, so we've taken a pretty balanced approach to it, but we feel very comfortable we can maintain the $0.04 rate throughout the whole year. Early in 2020, we started at $0.60. We suspended in April for three months, because of COVID. We reinstated at $0.36, and now we're back in the middle of the—of that at $0.48, so a nice hybrid, so 2021's going to be challenging, but I think there's also going to be opportunity, and if you're positioned well, you'll do okay.

Consumer spending tends to favor our LTL business, especially now that e-commerce has emerged as the dominant form of consumer buying, and, as I mentioned earlier, e-commerce really entails final mile delivery, and final dot mile delivery is now of everything from pizzas, to pop to barbecues. It's everything that's going delivered, and in fact, I'd like to say yesterday we used to deliver to Home Depot and now we deliver to the home. That's just how much it's changed, so this directed to consumer trend is happening across all consumer products, whether it be ambient pharmaceuticals, food, booze, or barbecues, as I said, so consumers want everything delivered to their door, but to be successful at this, companies must have a great track and trace technology. I'm delighted to say we're really pleased with where our business units are in terms of the technology trend. Now, technology changes, so you've got to keep going with it, but I really like the position we're at in terms of the technology.

We have a great terminal network in our LTL side, and that's close to the consumer, and you'll recall, our terminal network is out from the major centres. The hubs are in the major centres, but our terminal network is servicing all these little communities, and it's literally hundreds and hundreds of communities from Toronto right out to the West Coast, so we have a terminal network that we can leverage quite nicely with the technology, and with this consumer trend, so we can deliver from our terminals right to the consumer, so I like—I think we're really well-positioned.

We're just going to invest in some smaller delivery trucks and vans. We've got some good initiatives going on in that, because when you're going into the neighbourhoods, you've got to be quick, fast, efficient, and you can't be too disruptive in the neighbourhoods, or they don't want you there, so the LTL is one of the three pillars of our business model, and I'm proud to say our network is as good as it gets in Canada. The consumer is going to be here for a long time. We all know it, and I suspect our LTL segment will get bigger, and it's going to get better over these next few years.

Of course, the other important trend I talked about is capitalizing on just in case and inventory management versus just in time. This implies more warehousing, and our plan is to expand our full-service warehousing logistics service, and this is the second pillar of our business model, so the supply chain has been totally disrupted by COVID, and we're going to intend on being a service provider of choice to our growing customer base.

The third pillar of our business is tied to what I refer to as the capital investment part of the economy. That's our specialized industrial service statement. I think that eventually all that money that's sitting idly in the system is going to have to be deployed. Companies will be forced to invest in new projects, capital equipment, and yes, even oil and natural gas. They'll be forced to invest, build, and drill, and we'll position—well- positioned, once again to—once the capital start—part of the economy starts—start going, so maybe that's later next year; not sure, but I can tell you we'll be well-positioned for that.

So, if you're looking for the added reason that the future looks bright, I'll just point to acquisitions. It's part of our DNA here. I've learned over time, however, that patience is a necessity, and this I am—I'm pretty good at when it comes to acquisitions, but not very much else. I'm not very patient on anything else, but I sure am good when it comes to acquisitions, so thanks for joining with us today folks.

I'll be glad to open up the call, and Stephen is well-positioned and prepared, as he always is, to answer some questions on the segments, or what you may have, so let's open it up to the Q&A section. Thank you.

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.

There are currently 64 active participants in the call, and five in the queue.

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

WALTER SPRACKLIN:

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

MURRAY K. MULLEN:

Well, we're hunkered in place. We've got lots of bosses these days that tell us what we can and can't do, so we're hunkered in place and we're making the best of it, as we hope you are too. We're all in the same boat, so nobody's got special treatment, it doesn't sound like, today.

WALTER SPRACKLIN:

Yes, absolutely. The new normal.

So, I'd like to start with your revenue guide, I think pretty much in line with what—where people were expecting on a total basis, but then your commentary about one-third broken down by business line. Really, it's the LTL component that kind of stands out there. You did $442 million—or, sorry—you're trending at around the $440 million mark for this year, and the one third guide would indicate a step down from that. Obviously, we've had an easy—presumably, we had an easy compare in the second third—second, and potentially, third quarter. Just curious if you're seeing any early signs. I know you touched on potential lockdown having some negative implication for your early part of the year. Is that really what you're focusing on; a kind of a weak first quarter due to the pandemic lockdowns, and then, perhaps, ramping up through the year?

MURRAY K. MULLEN:

Typically, Walter, the first quarter for LTL is always the slowest. You're through with the big surge for consumer spending. There's no big, big days, big Christmas or Thanksgiving or back-to-school or spring buying, so typically LTL's a little softer, so I think that's in recognition of that—primarily for that, so—but we say about a third. It's a ballpark. It's not a precise number. We gave that just as a—as an overall guidance. It could be a little bit different.

Am I correct on that, Steph?

P. STEPHEN CLARK:

Yes, Murray.

I would say that LTL would be just slightly above a third, and then S&I would be slightly below a third, but those are rough numbers. We also expect that through the course of 2021, we'll see some strikes ending, we hope, with the truckload sector, which we're starting to see some signs on pricing in the U.S. market. Volumes are still down, but—which is odd—an oddity, but we expect it—rough number, a third, a third, a third, but you're right, a little bit more weighted towards LTL and then a little less weighted towards S&I.

WALTER SPRACKLIN:

Okay. Got it, and then. Murray, you touched on home delivery, and I've heard a lot of truckers, yourself included, talking about how difficult that whole process has been. It's been tough to make reasonable returns in home delivery. Is this a—how are you going to change that? Is it renegotiating contracts? Is it investing in the right equipment, like you said, the smaller trucks that will allow you to earn better margin than kind of jamming it through with your old—with equipment designed for a different purpose? Is it technology? What are the ways that you—you're focusing on improving profitability in that direct-to-home delivery side?

MURRAY K. MULLEN:

Walter, I think the most important aspect of home delivery is you’ve got to be quick, you've got to be efficient, and you've got to have critical mass, so—now, I think that's—home delivery's easier to do in the big cities because you can group in segments and get your critical mass, and those kind of things, so think of FedEx or UPS or anybody. You can make money in the big centres because you've got—there's just a lot of consumers, but I would say to you, I think that our terminal network is—gives us a competitive advantage for home delivery outside of the big centres, so where people are having trouble with home delivery is if somebody in Oxbow, Saskatchewan says, hey, I want my barbecue delivered in Oxmill (phonetic 36:21). Well, if you don't have a terminal network in and around there, that—you can't give a home delivery, and then you have to go through a third party that doesn't give you a deal, so I like—I think that's our terminal network that positions us extremely well to capitalize on this emerging consumer trend. You've got to have technology, you've got to have critical mass, you've got to have smaller vehicles, and you've got to have the terminal network to get out when you're outside the big centres, if that makes any sense.

Now, we don't cover every little spot, but we cover a lot of the spots, but sometimes you have to help the clients out by servicing some out-of-the-way places. Those are the ones where they hurt you, but FedEx and UPS learned the same lessons, but we're situated pretty good. It's not going to be easy, Walter, but we're as well-positioned as anybody, I'll tell you that.

WALTER SPRACKLIN:

Are your margins for that business below average, and is it—if so, do you still have room to improve on those factors that you just mentioned; the density, the equipment, being in the right markets, and so on, or are your margins where you want them to be?

MURRAY K. MULLEN:

Yes, I'm hoping we can improve the margins as well, because right now we don't have enough small delivery vans. We're going to have to—we've got a big trend toward—let's just see if that works. That's our thesis, but I'm with you on this. I mean home deliveries—we got—you've got to get it figured out, but you've got to do it, figure it out, and then get your margins. We'll do that, but if you think about it, there was home delivery. We just all did our own home deliveries before. We went to the store, and there's a cost that, today, we've got to figure it out, but that's what business always does. You figure it out.

I think if we get new vehicles in the Sprinter van area that are going to be really using—and there'll be a—probably in the future be electric powered rather than diesel powered. We're seeing some pretty good trends on them lowering the cost of operation, and if you've got smaller delivery vans, you don't have to have a Class 1 driver, so you don't have to pay the pizza delivery guy the same as you pay a Class 1 driver, as an example, so you've got—we've got to figure all that out, but we're doing it, I can tell you. That's a focus of ours.

WALTER SPRACKLIN:

Final question here is on acquisitions, Murray. What would you say is the bigger—biggest hurdle today in terms of doing deals? Is it availability of deals? As you mentioned, not all the good ones come along very often. Is it the price require—price asked by the sellers, or is it the logistical challenge of doing due diligence in—when you can't move around very well in shelter in home?

MURRAY K. MULLEN:

Yes, well, there's no doubt the due diligence and the logistical challenges slows the process down. It isn't going to stop it, but it does slow it down. That's a guarantee. There's lots of opportunity, just tremendous opportunity in terms of the consolidation of this business. What we're trying to do is make sure we focus on the LTL and the warehousing logistics business, Walter, not just get trucks and get bigger in trucking. We're trying to get bigger in the consumer-driven; that's the LTL, warehousing, because we can leverage what we've already got, so that's our focus. We're not chasing everyone. I'll be blunt with you. We've turned down way more than we want, and that's how we look at that, so lots of opportunity. Yes, for good companies, there's no deals. People who've got good companies are smart. They're not going to give you a winning lottery ticket, you—so we just try and figure out whether it's in a business that we see the emerging trends, and if it is, then we'll make the investment and try and make the deal.

WALTER SPRACKLIN:

That's great. I wish you, Stephen, and the team a very Merry Christmas. Thanks.

MURRAY K. MULLEN:

Thanks, Walter. Always a pleasure. Take care.

OPERATOR:

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

AARON MACNEIL:

Hey. Morning, guys. I'm going to...

MURRAY K. MULLEN:

Good morning, Aaron.

AARON MACNEIL:

Hey. I'm going to stick on the acquisitions theme. You guys mentioned the focus on strategic acquisitions. I also took note that you specifically highlighted warehousing a couple of times in you're prepared remarks, and you just mentioned the focus on infrastructure and the network, but as you look at your LTL and logistics and warehousing segments, are you willing to provide any specific details about the types of gaps you see in the portfolio, either geographically in terms of the platform, or even as it relates to technology that you hope to address from an acquisition standpoint next year?

MURRAY K. MULLEN:

I will tell you this; our technology platforms that we've got in our warehousing side, I'm—I've—I'm pretty comfortable with that. We've done a pretty good job. I really give my teams a lot of credit here. We gave them the challenge; you've got to become a technology company, not warehousers, because the key to warehousing's all technology. If you don't—and the key to home deliveries and the key to direct deliveries is all in—is in technology. If you don't have the technology platform, you've just got a dumb warehouse that just stores stuff. There's no money in storing things. There's money in moving things, and to move things, particularly smaller packages, you must have that technology platform.

So, let me give you an example. A few years ago, we invested in a company—not a huge company, but it was a warehousing company called Diversified Warehousing System out of Toronto, the GTA, and we've had that now, Steph, for three years?

P. STEPHEN CLARK:

Correct. Yes.

MURRAY K. MULLEN:

I think it's three years, yes, so time is not as relevant as it once used to be to all of us, so I'm not far off, but DWS—I've worked with that management team, and we just—they're becoming experts in the moving of data, and I'll tell you, I am really impressed, so I think we can expand. Once you've got the technology, then you can scale. If you don't have technology, you can't scale, so a lot of the stuff we're looking at—people tell me they've got lots of warehouses. They've got no technology, and a lot of people have come to us and they want a big multiple off of an emerging trend that just happened, but they haven't figured out all the costs that go with it, so there's a bit of a bridge between price ask there.

On the warehousing side, big centres; that's a—big centres. That's where the housing's going to be—or the housing—that's where the opportunity is going to be to get the—to get that, and the big facilities, but you've got to have—the LTL network becomes the delivery to the final mile out, and so it's kind of a combination that—dual strategy we've got there looking at that, but it all has to do with the consumer, and it doesn't appear the consumer's going away.

AARON MACNEIL:

So, is it fair to assume that the focus of acquisitions will be adding infrastructure that helps you with those final mile deliveries?

MURRAY K. MULLEN:

You're spot-on on that, so we will do acquisitions that give us that infrastructure, or else we'll just go and try to get the infrastructure ourselves and then build around it. Yes, it's one of the two, but that's where we see the growth. If you do the acquisitions, it comes quicker, better, and faster, but the better returns for shareholders if we make our own investment in the infrastructure and then add around it. That's a better long-term return, so that's why I say if I'm going to—if we're going to look at a big acquisition, it's got to be a platform that you can use to also grow that big acquisition. Just to get bigger and more revenue and more EBITDA without better returns to our shareholders, I go—that one doesn't excite me a whole bunch.

AARON MACNEIL:

Understood. You mentioned the lower interest rates and what that means to the value of your real estate portfolio. Do you have a refreshed estimate of what the fair value of your portfolio is and how that might compare to the book value of the real estate portfolio?

MURRAY K. MULLEN:

No, we haven't done a table-top on that for quite a few years, Steph.

P. STEPHEN CLARK:

Yes. No, we know we've seen some gains. We've seen some unsolicited offers for some properties, for instance, and we only fair value those that we hold for investment purposes. Everything else is a historical book, but there has been some appreciation there, especially in the major markets; Vancouver, Toronto.

AARON MACNEIL:

Okay, and then final one for me; more of a clarification for Stephen, but does the $200 million to $220 million of EBITDA or OIBDA guidance include any contributions from the wage subsidy, and either way, if it does or if it doesn't, do you have an idea of what the contributions might look like in 2021 from that program, if any at all?

P. STEPHEN CLARK:

Yes, so we think that we achieved those numbers with or without CEWS, but CEWS will not be as material as they were in 2020. We're already seeing that trend downwards as we have less of our business units qualifying now for CEWS because the revenue is starting to rebound, and then also what you're going to see is, although the program is extended out until June, really, for us, April onwards, and part of March, I mean, you're not going to see those same revenue declines now because you had severe revenue declines last April, for instance, so for us to have a revenue decline over a severe declining month, we think that's unlikely, but really, it's two options.

Either we have some CEWS because everything's blown apart and such, or there's a small and steady recovery of the economy as vaccine gets distributed and confidence starts coming back and the consumer has funds and continues to spend, I think primarily on goods rather than vacations and experiences. We're not going to be going to a Leaf's game anytime soon, so those are sort of factored in, and that's our best estimate right now on a recovering, but let's call it steady economy, but there's going to be stops and starts in 2021, and we—just like in 2020, but what we're banking on is that maybe there won't be the severe declines that we saw in the spring of last year, but overall what you're going to see is it's not going to be a steady just uphill. It's going to be up, down, up, down as this grips hold of the economy and threatens livelihoods and lives, so long-winded answer to say CEWS is kind of in there, but we're not really making a definitive estimate.

AARON MACNEIL:

Understood. Okay, that's helpful, and that's all for me. I'll turn it over. Thanks.

MURRAY K. MULLEN:

Thanks, Aaron.

OPERATOR:

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

JOHN GIBSON:

Thanks. Good morning, and thanks for taking my questions.

MURRAY K. MULLEN:

Good morning, John.

JOHN GIBSON:

Good morning.

I'll start shorter term. Just looking into Q4 '20, I'm just wondering how your business has trended just given the recent lockdowns across various parts of Canada. Are you still seeing strong consumer demand as we head into the holiday season here?

MURRAY K. MULLEN:

Yes. I think what I'd have to say is yes. We've still seen that, because the supply chain was bottleneck, and we got bottleneck because everything got disrupted in March and in the first quarter, and it really hasn't gone back to normal. They've been struggling to get a good flow going there, so yes, there's been some pent-up demand of re-stockpiling, of slowness in the system, of deliver—slow delivery of parts which bottlenecks other things, and those things, so there's been some real bottlenecks in the system.

The data I think we have to look at, John, is what is the actual consumer spending? We're seeing lots of freight still in the system and it's still coming over, but what's the end demand going to look like and our consumers going to continue to spend? I know we're all locked down, but every time I drive by a shopping mall, they seem to be packed, so—and I know that our LTL business is still strong, and I watch the data in the U.S. and LTL is still strong, so I don't know, I—honestly, you can't figure it out, but there's lots of lockdowns that I don't everything—I don't think everybody's locked down.

JOHN GIBSON:
Yes, I hear you there, for sure, and thanks for that.

Just second one for me, just on the dividend; obviously, nice to see the bump, and I know you touched on this in your preamble a little, but I guess longer term, what signs do we need to see in order to move back to the pre-COVID level of $0.05 a share, because I mean, financially, your business is performing at or above the level it was in the pre-COVID era?

MURRAY K. MULLEN:
Yes, there a very good point. I think because there's so much disruption going on in the supply chain right now and so much opportunity, I think we wanted to—each penny is roughly $12 million, $11 million of cash. I think what we're telegraphing, and what the Board bought into too was why don't we stay flush so that if we find strategic assets that we can use to—use those funds to build out for our future, might not be a bad use of proceeds rather than giving it all away, so we took a hybrid approach. We gave a bump, but we're also telegraphing. With this changing consumer market, we see an opportunity here, so we want to keep the cash for that opportunity. I think that's, maybe, the best messaging we could give you.

JOHN GIBSON:
Okay. That's fair enough.

MURRAY K. MULLEN:

But based upon what we've given you and the budget and the cash, we could easily have done that. However, we think it's probably—if we're correct, and let's just say this—with all this money in the system, and that the stock market's correct and there's going to be this big pent-up demand, we want to be well-positioned to capitalize on that, and I don't want to be behind the curve on it. I want to be ahead of it.

JOHN GIBSON:

Okay, that's fair. That's all for me, and I'll turn it back.

MURRAY K. MULLEN:

Thanks, John.

OPERATOR:

The next question comes from Konark Gupta with Scotiabank. Please go ahead.

KONARK GUPTA:

Thanks, and good morning, everyone.

MURRAY K. MULLEN:

Good morning, (inaudible 52:43).

KONARK GUPTA:

Good morning.

Maybe I can start with a clarification question. I think I heard you said revenue is likely down 10% or so this year, but I missed maybe the EBITDA comment or EBITDA comment. Were are you looking to have EBITDA without wage subsidy this year flattish versus last year, or it's still going to be down slightly?

MURRAY K. MULLEN:

Stephen, are you...

P. STEPHEN CLARK:

Yes, I can answer that, so if you look at the way the year progressed, second quarter was our low point, and then, really, we've held our own on a CEWS-excluded basis. In fact, we expanded margin just a little bit because of two factors.

One was pre-made pipeline has just been a superstar this year, and they have high margins and they've been working hard building out infrastructure, which is a good sign of things to come for the rest of the S&I businesses that might be more drilling-related or production-related, but also you would have seen that the cost of fuel was—and the cost—and the price of oil has been down, so that allowed us to expand margins, so save for Q2, what you've really seen, though, is a slight margin expansion, so—but really net-net you're down in EBITDA without CEWS because revenue is down, although you've expanded margin by about 100 basis points, but then once you add and layer CEWS onto that for the loss of revenue and such, and it's really our job to make sure that whatever we're doing when we reduce revenue, that we're right-sizing and making sure that we're as efficient as we can be and making sure we're getting the load factor, more importantly, correct on LTL. That's why you've seen a little bit of margin expansion, but you just can't avoid when you have a revenue down-drop that you can't—EBITDA will naturally come down, but what saved us there was CEWS.

I don't know if that answers your question.

KONARK GUPTA:
No, absolutely. I mean, it does. Thanks for that, and maybe extending to that, as you pointed out the margin expansion, and it looks like you had a pretty decent margin expansion across the three segments, even without CEWS. Heading into next year, it's kind of appreciated the revenue distribution you provided, but how should we look into the EBITDA distribution or margin distribution across the three segments? I mean, like where do you see margin expansion opportunities further from 29—from 2020, excluding CEWS, obviously, and where do you see any kind of maybe a risk or overhang from lots of fuel or something else?

P. STEPHEN CLARK:
Yes. No, clearly there's going to be some cost push, especially on fuel, so I think that that was somewhat temporary, but it's really—where we're focusing on, especially in our LTL business, is of getting a bit more efficient, managing that load factor, so overall, the guidance that we've given you was a number—might include some immaterial CEWS amounts, but really what we

think is it's more or less flat as far as margin goes. Yes, we had some headwinds with fuel, but then we've got some wins on technology, and we're hoping we're getting some wins with better economies of scale, because revenue will start coming back, not only in LTL, which we have the most confidence in because consumers are spending, and the consumer economy is really becoming more goods-focused than it is experience, or what I'll call travel-related, hospitality-focused, but also we've had a bit of a freight recession on our trucking and logistics, or what we traditionally call trucking and logistics and warehousing. We see that slowly—there's no immediate wins here, but slowly repairing itself, as is the price of oil and natural gas, so that'll help our S&I segment just a little bit.

KONARK GUPTA:

Right. Thanks for that.

MURRAY K. MULLEN:

I think, Konark, if there is—I don't see much risk in the LTL side, because we just continually get increased throughput, more consumer spend, using our facilities. We've got better critical mass. The new technologies that we're implementing in some of our—they're just absolute world-class, so I don't—the—I don't see any margin deterioration in 2021 in the LTL business. Logistics and warehousing, as Steph says, I think, if anything, we can—we might get some pricing leverage on that side. If there's risk, it's probably on the specialized industrial service side if that capital side doesn't—if we don't see some capital projects and some capital flowing, I could see some risk on that side.

KONARK GUPTA:

Yes, that makes sense, and I think, Murray, you pointed out that the freight rate environment should get a push from the cost inflation, and obviously, real estate, leasing rates, and all those kind of things, the regulatory environment. What kind of freight rates have you been discussing about lately with your customers? What are their expectations? What are you looking to kind of increase the rates by for next year?

MURRAY K. MULLEN:

Yes, each market's a little bit different, but I think you're usually in the 2% to 3% range, which if you're in the 2% to 3% range, that basically keeps you whole. I think what we're looking for is better margin improvement through better efficiency and through more throughput rather than pressing the customer too much. I think we'll get cost. We'll stay whole on cost with 2% to 3%, but then the upside comes because we run a better business, and our teams are focused on that. They're locked and loaded.

KONARK GUPTA:

Right, and thanks, and last one for me on the free cash flow, EBITDA visibility you have provided, and you have, obviously, the CapEx budget, which is not up materially from this year. Maybe there's a few odd pieces of land that you pick up next year. Where do you see the free cash flow stand with these assumptions that you've laid out? I mean, like, will we see something similar to what we saw in 2019, or are we going to see an increase from that level?

P. STEPHEN CLARK:

Yes, I think we have to all agree on what's the definition of free cash flow. I think the accountants and the business people don't always see it eye-to-eye, but the way that we really think about free cash flow is we start with EBITDA and then we say, okay, what obligations do we have? We certainly have an obligation for tax, which will be roughly $30 million. We have an obligation for interest payments, which will be a little bit dependent on the exchange rate, but we would estimate that to be about $27 million, and then under the new accounting rules, we have this—these lease obligations, which we used to expense, but now are really debt repayments. That's around $10 million, $11 million, and so after that, really the variables that we're discussing at the Board level and the executive level is how much for CapEx, and you saw in the news release that that was $60 million, and then after that, it's really—the free cash after that's roughly $80 million to $100 million within our guidance from $200 million to $220 million, and you saw a portion of that being dedicated towards a dividend increase.

So, with that, I'll just turn it back to Murray and he can get a little bit more colourful.

MURRAY K. MULLEN:

Yes. I think, Konark—I think—my instincts are telling me I'm ready to even actually increase CapEx and to make strategic investments if we see the market—we've seen some stability, but I'm not ready yet to say the vaccine solves all problems with COVID and all problems with the economy, so I'm playing a bit of a wait-and-see attitude, but clearly, our current business, it will give us—will still generate additional funds, and I'd want to allocate those additional funds towards growth, and I hope like hell the damn economy and the COVID thing goes away, because if we can free that up and get employment levels back and whatever, boy, I think we're on a good run, but I'm not a frigging virologist or an epidemiologist, or hell, I barely have trouble doing what I'm doing, so I'm just going to hold and wait and to see if it works, and then like everybody else on the line today, just hope like hell that we can get life's little bit back to normal and go from there, but until then, I'm going to hedge my bets a bit.

P. STEPHEN CLARK:

Yes, and Konark, I think it's worth mentioning, again—so, we're focused on free cash flow for 2020 or 2021. We have excess funds. We've made investments and acquisitions every single year, and you're right, we invest in facilities every single year it seems, but we're also starting this race with 100—or in excess of $100 million in the bank at year end, and the line of credit available to us for $150 million, and I could tell you that I get calls all the time that given the right strategic initiative or right investment, that we have a prudent record of prudently deploying capital, but even more than that would be available to this team if a great opportunity that was large came around, so from that perspective, I don't think we're really capital-constrained.

What we're constrained by right now is sometimes the returns are hard to come by, and the best returns, as Murray alluded to earlier, were these tuck-in acquisitions, and over time, a PCX that adds $30 million of revenue and a IWD that adds $10 million or $15 million in revenue, and then we're able to enhance that—them with better technology and such and service the customer a little bit better, those little bunts and singles, as we say—or it's American League baseball, you can still win the World Series with that strategy, and—instead of looking for that big home run all the time, but clearly we can live within cash flow and do a lot of things, but enhanced by that is the substantial dry powder that we have available to us.

KONARK GUPTA:

That's great. No, thanks for all the colour, and appreciate the time, as always, and happy holidays in advance. Thank you.

MURRAY K. MULLEN:

Thanks, Konark. Same to you.

OPERATOR:

The next question comes from Kevin Chiang with CIBC. Please go ahead.

KEVIN CHIANG:
Hi. Thanks, and good morning, everybody.

Maybe just a clarification point; I think, Stephen, you had said, I think, maybe in answer to Walter's question earlier, that from a segmented perspective of LTL in 2021, I think your base assumption is modestly up year-over-year, if I'd heard correctly. Wondering if you can confirm that.

Then, too, just when you look at your LTL business versus maybe what you see from some of your U.S. peers, do you think you're seeing the same trends as some of the publicly-traded comps south of the border are seeing, or if there are any differences, what do you think are the drivers of those differences?

MURRAY K. MULLEN:
Yes, that's a great point, Kevin. So, in our thesis and in my view, I don't see any scenario where LTL will be down next year over this year. I'm not factoring that in. That doesn't mean it won't happen, but that—I don't see a scenario where that—where the consumer won't be spending as much money next year as this year, so I feel really good about our LTL sector, so we should be up year-over-year on that basis, and that's without acquisitions, okay, so just—I think we'll be up there, so that probably means we'll be a little bit higher than a third by the end of the year. We'll start off with a plan of a third, a third, a third, but I wouldn't be surprised to see LTL a little bit higher by the end of the year than what we're talking about today.

When I talk to our peers, a lot of LTL comes up from the United States. It doesn't emulate and isn't manufactured in Canada. It's warehoused in Canada, but it's not always manufactured, so it comes up. When I talk to the feeder network, the big LTL carriers in the U.S., they're having record pro-bill days even as of last week, so—and so we collaborate with them on the trends, and they've seen really nice year-over-year gains; actually more than what we've seen in Canada, and I think—and we've seen that same on the trucking side, too, and the carload side, that the supply chain is way more bottlenecked than the U.S, and stronger down there than it is in Canada.

KEVIN CHIANG:

That's helpful.

MURRAY K. MULLEN:

Why is that? Why is that? I can make some guesses at it, but we should be better here, but they're just more aggressive in the U.S. than we are in Canada, and I think the biggest—the one thing that I see is different is the consumer's strong on both sides of the economy because you've got money going in—because consumers have got money and they're spending, but business is more aggressive in the U.S., which leads to more activity in transportation than in Canada. Don't know why that is. Maybe it's because there's too much government intervention in Canada. I don't know that. I'm just saying to you what I see is they are way more aggressive and they're swinging for the fences every damn day down there, and we're kind of, in Canada, taking a more slow, steady, wait-and-see attitude. That's the single biggest reason I say.

Now, we are going to find out very quickly in Canada whether we're going to have a driver shortage and whether—how that could impact. I'm starting to see some strains in the system, because you don't go from being a—working in the hotel industry and a cocktail waitress and being a bartender or being a hotel manager, whatever, or an airplane pilot, and being—working in a warehouse or a truck driver, so—and we've got ELDs coming into Canada. That's going to tighten it up even more. You've got more stringent training programs coming in, so it's going to be tough for new entrants to get in. You can't just walk down and go get a license to drive a truck, so (inaudible 68:14), so there's reasons to think that maybe what happened in the U.S. might happen in Canada in 2021. We just seem to lag it a little bit.

I think it'll be very interesting to see what happens in the first quarter, Kev, with U.S. freight demand. I think it's plateauing right now, when I'm talking to some of my peers down there. It's not declining yet, but after you plateau, then you look over the—is it going to climb again, or is it going to decline? I can't really give you the full answer to that, but I'm going to suggest to you I think the risk is it might decline because there's been so many lockdowns, so I think we're going to have a short period where it's going to decline a little bit, but then once people get that confidence, boy, it'll just—we'll go right back to where we've seen the last six months. That's my view.

KEVIN CHIANG:

No. That's great colour.

P. STEPHEN CLARK:

Kevin, I'm going to just add to that a little bit of the difference between the U.S. market and the Canadian market is the amount of digitalization that we have. The U.S. is a far ahead in that digital world than Canada, so you saw a bit of a spike in the springtime where digital was starting to really gain traction. About 7%, 8% of all retail sales is digital, and then we saw it spike up to about 16%, 20%, but, of course, that was a factor because online went up, but also total retail went down, but as Canada gets more digital, we are so well-placed to take advantage of that, and I'll give you one example.

Like Gardewine, our—the small packages under 10 pounds, that's still going to be dominated by UPS and FedEx, but our volumes from 10 pounds to 100 pounds has seen a four-fold increase, and that's why you would have seen the news release from Gardewine about a month ago saying we're buying 20 more hybrid Sprinter vans, and we're on the queue to buy a bunch more, and we're positioned not only to take advantage of that, but also with our DWS warehouse and our software there that we have custom—software that we have there, we have these hooks and these integrations into these big online retailers like Shopify and other—a bunch of small-time retailers, again, so that it becomes seamless for them, and especially for the small to medium e-retailer.

Now they don't have to go through Amazon, and I think it's a cost advantage to them and it's an opportunity for us, and so that's what gives us confidence on LCL, really, for 2021, so it's not only—that phenomenon that you saw in the states is really that e-commerce. They're ahead of us, and we're so well-positioned to take advantage of that as it becomes more and more predominant in Canada as well, and for all the reasons Murray spoke to as well; the infrastructure and the terminal network and everything else.

KEVIN CHIANG:

No, that's great colour, and maybe just last one for me, you spoke about, I think, in your prepared remarks, Murray, kind of the opportunities in, I guess, healthcare logistics, and I guess how the country thinks about moving things around, and I guess you mentioned, also, investing in some Ambient vehicles, but do you need to make any investments within your warehousing facilities either adding cold storage opportunities? Is there anything at the infrastructure side you need to do, or do you think you're pretty well-placed there, and it's really just a function of getting wheels to the ground?

MURRAY K. MULLEN:

Yes. No, we're going to have to make some investments in the facilities to make sure that we can—so that the chain of the Ambient cycle—let's call it the blockchain, and from the time it leaves—it doesn't break once it leaves our facility, so we're situated on Ambient. We won't be very good in the big centres, but in all of the out-of-way centres, I mean we've got the terminal network, and so all we need to do is get these little Sprinter vans and all—some of our LTL in the Sprinter vans, and some of the Ambient to look after that, so we're uniquely-positioned. Very few companies are going to have that network that we've got, so the people that live in the small communities are going to demand, and are entitled to exactly the same standard as in downtown GTA. It should be delivered Ambient, okay? Maybe in Thunder Bay we only need three Ambient vehicles, and in the GTA you might need 300, but it's the same thing. We've got to have them, but you’ve got to have that facility, and our facility can be easily adapted, a portion of it, to Ambient. We just made an investment, for example, just this last week I approved it, with some cold storage units with a little company out of Victoria. They've developed what they call cryologistics units.

Richard, you can opine on this a little bit, but it's—they're called Snow Buddies or—I got it wrong on that, but really...

RICHARD MALONEY:

Kevin, sorry, they're called SnowSHIPs. It's just refrigeration technology; giant sub-zero fridge that can fit a pallet in there, and they have track-and-trace capabilities. They have chain of custody. They monitor and maintain. They're mobile app capable, and we're investing in them. Now, to be clear, as Murray said, this is a Canadian-based manufacturer that we're supporting, and that's part of that growth capital that Murray talked about.

MURRAY K. MULLEN:

So Kev, it's not that this is going to be massive, but it's part of that changing that you're just going to layer in, and that's the growth potential of our LTL, so it's additional LTL freight that we’ll be hauling in the future. We're not reinventing the wheel, but we're making—we are going to make investments to make sure that we're the carrier of choice and the supplier of choice, for sure.

KEVIN CHIANG:

That makes sense. That's it for me. Wishing you all happy holidays and best of luck as we go through 2021 here.

MURRAY K. MULLEN:

Thank you so much. Appreciate it. Cheers now.

OPERATOR:

There are no more questioners in queue. This concludes the question-and-answer session. I would like to turn the conference back over to Murray K. Mullen for any closing remarks.

MURRAY K. MULLEN:

I don't have many, folks. I probably spoke way longer than I needed to. I took up too much of your time, but we're—we think our business model's robust enough to get through this damn pandemic, and it's because it's tied—so much of our business is tied to the consumer today, and—but I would tell you, oh boy, we can't wait until the capital side to really get going, because that'll be good fireworks times for us, and we'll just even go to newer, higher levels with that, so until then, please, everybody, stay safe. Let's stay calm. We'll all get through this. Take care, and we'll talk to you in February 2021. Cheers.

OPERATOR:

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