The Mullen Group Limited

First Quarter Earnings Conference Call and Webcast

Transcript

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Speakers:

Mr. Murray K. Mullen
Chairman, CEO & President

P. Stephen Clark
Chief Financial Officer

OPERATOR:
Welcome to the Mullen Group Limited First Quarter Earnings Conference Call and Webcast.

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

MURRAY K. MULLEN:
Morning all, and welcome to Mullen Group's quarterly conference call.

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 in the disclosure documents which are filed on SEDAR and at www.mullen-group.com.

With me this morning, and we're all social distancing, as everyone else on the line is, I'm assuming, I have our entire executive team which is CFO, Stephen Clark, Richard Maloney, Senior VP, Joanna Scott, who's our Corporate Secretary and VP of Corporate Services, and Carlson Urlacher, who's our Corporate Controller.

Thanks for joining us and participating in our quarterly financial and business update call today. I'll be reviewing the financial results for the first quarter, or we will be for the first quarter of 2021. We'll provide an update on the two acquisitions that we've recently announced thus far in 2021, and discuss our view of what the freight environment looks like post-COVID.

Now, we all must be realistic, and I caution everyone until this virus is brought under control, nothing is really certain, but—and this is the really good news, there is ample evidence to suggest that once the impact of COVID is minimized, the economy will recover quickly and show very strong growth; the active ingredient for freight demand and improved margins.

Now, we only need to look to the U.S. for guidance. That economy is on fire, and freight demand has never been better.

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Shortly, I'll be turning the call over to Stephen to highlight our first quarter results and overall operating performance, but before I do, let me recap what I see as the emerging trends and significant events that are impacting the supply chain, logistics and our business.

Now once again, the consumer reigns supreme. The evidence is compelling and it's widespread. Yes, COVID has impacted all of our lives. It is a disaster from a healthcare perspective, but nothing seems to stop the insatiable appetite of the consumer. So, even though the in-store visit has been disrupted, the ease with which you can buy online has transformed the shopping experience. E-commerce has revolutionized how consumers spend, but this has also changed the supply chain dramatically. Today, consumer goods are shipped direct to the home from warehouses or fulfillment centres, usually in packages and boxes, so if you're in the cardboard industry, it's booming, but the trees are crying out in distress. We see more deliveries, smaller packages, and lots of boxes that all need recycling.

To the consumer, this is now the safest, most convenient, and cheapest way to shop, besides, if you don't like it, send it back. This emerging trend has not only—has not necessarily changed the truckload industry, however, but—and it has also kept freight demand, especially the van and container shipment industry strong. Where the change has occurred is in the final mile component of the delivery process. As I mentioned, more and smaller packages delivered to the home as compared to pallets delivered to the store front. In essence, a significant amount of consumer freight had been diverted from the retail malls to warehouses, and this trend is the primary reason our LTL business has been outperforming.

Second trend I see is the supply chain is very tight. It's driven by a combination of strong consumer ban—demand I just spoke about, and supply chain disruptions. There’s a reduction in manufacturing capabilities due to workplace issues, additional sickness, and new safety protocols, etc. As a result, bottlenecks are now occurring regularly, and that's placing tremendous strain on the age-old concept of just in time management. In fact, I personally believe won’t be prepared to do—pivot towards just in case inventory management, and this implies higher cost, forward planning, and lots of warehousing.

Number three, Canada's not seeing, as of yet, at least, a return to capital investment. Now, the new major projects are not being sanctioned, and capital goods continue to lag, and we know it's not because of interest rates or the cost of capital. This is the primary reason the flat deck and specialized hauling component of the Canadian trucking industry continues to underperform.

Number four, this is what I'd call a mega trend occurring in the logistics space, and it's called consolidation. Mergers and acquisitions are occurring quite regularly in this space, and I'm happy to report we have found two acquisitions of size to start 2021. Both the Bandstra Group, which is based in British Columbia, and APPS Transport Group out of Ontario, are brand-name companies. They provide our Company with new growth platforms, and most importantly, the opportunity to enhance profitability once we capture the synergies. In fact, synergies are the most critical component we look for in our acquisition strategy. Otherwise, acquisitions are too expensive.

Let me give you a perfect example. Several years ago, we acquired another platform company. It's called The Gardewine Group, based in Manitoba. In five short years, under our ownership, the Gardewine management team, with our capital support, has increased revenues by approximately 50%, and doubled operating profitability, so we know the plan.

The fifth trend I see is technology. This is nothing new. Everyone knows about it, but boy is it changing, and changing fast. Here at our group, we're on the leading edge when it comes to inventory management systems, data management, and security. We're investing heavily in handheld technology. We're bringing real-time data tracking to every customer, and we are preparing for the digital revolution. We're accelerating our investment and energy efficient delivery vehicles to ensure we minimize our environmental footprint. Now, this is a transition that will take some time, but it is irreversible, so we've already started the journey.

Six, and lastly, there's now ample evidence to suggest a recovering Canada's oil and natural gas industry is within reach. Commodity prices are rising. Additional takeaway pipeline capacity is getting closer to reality. The industry is changing its focus to meet new standards. The balance sheets have been restored after nearly collapsing last year. So, all in all, we believe it's only a matter of time before the service industry will see much better days. I'm not quite ready to commit a bunch of capital to this segment yet, but we are definitely more constructive than we have been for quite some time.

On each of these emerging trends, I'm delighted to report our organization is well-positioned. We've always been a leading edge Company, and this is not about to change. We're always looking forward.

Now, a quick comment on the quarterly results before I turn it over to Stephen.

LTL was solid and up year-over-year. Logistics and warehousing was in line with last year, but as of yet, no growth, as the Canadian economy continues to be held back by government restrictions and a lack of capital goods investment. In other words, the segment results were decent, just not where I'd like to see them, and specialized industrial was down noticeably primarily due to reduction in pipeline construction activity, which was really slow due to government-mandated closures of the two major projects; the Trans Mountain Crude Oil Pipeline and Coastal Gas to the new Kitimat LNG plant, and slower oil production work we're pricing remains at distressed levels.

Overall our results were in line with our expectations and within our prior guidance to shareholders where we cautioned that COVID would be the deciding factor.

Stephen, I'll now turn it over to you. You're up, and you'll give a little more detail on the quarterly results. It's all you.

P. STEPHEN CLARK:
Thank you, Murray, and good morning, fellow shareholders.

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

For the quarter, consolidated revenue declined by approximately 9%, or down to $290.5 million, as compared to $318.2 million in 2020. The effects of COVID-19 continue to negatively impact the economy, and it is still below pre-pandemic levels, as efforts to contain the virus continue to constrain the economy.

Revenue in the consumer-driven less than truckload segment rose by 6.9% in part due to the acquisition of Pacific Coast Express. Adjusting for this acquisition, and for fluctuations in fuel surcharge revenue, revenue grew by 2.1% due to the over underlying strength of consumer spending.

Revenue in the logistics and warehousing and specialized and industrial services segments declined by 5.1% and 28.8% year-over-year, respectively. This should come as no surprise to anyone given the current situation, as the resurgence of the virus has prompted governments to re-impose containment measures and the start-stop nature will likely haunt us for the foreseeable future. Additionally, despite higher oil prices, our customers remain cautious and the rate count remains well below pre-pandemic levels.

I know many analysts work on sequential type models, so a quick recap.

On a sequential basis, consolidated revenue decreased by $7.2 million largely due to the seasonal effects of the post-holiday, and a poor February that was mired by bad weather and COVID shutdowns. March, however, performed on par with prior year, but it should be noted that March of 2020 was impacted by the initial effects of COVID, especially within our S&I segment.

The LTL segment was up 3.7% on a sequential basis, a little bit better than historic trend.

The logistics and warehousing segment was down by 5.7%, which was better than the 2020 sequential reduction of 7.8%, but more or less on par with historic seasonal trends as it was affected in 2020 by COVID-19.

The S&I segment that typically shows improved results on a historic basis, saw a sequential decline of 6.5%. Simply put, despite better commodity prices, our customers remain cautious, and COVID-19 impacted construction activity for Premay Pipelines.

As for profitability, operating income before depreciation and amortization, commonly referred to as EBITDA, increased by $1.9 million, or 4.2%, to 47.1%. Segment EBITDA increased in the LTL segment by $6 million. However, in the logistics and warehousing and the specialized industrial services segment, those segments declined by $0.5 million and $2.4 million, respectively. Of course, this number comes, in part, as a result of CEWS. The underlying EBITDA number, adjusted for CEWS, was $41.1 million compared to $45.2 million in 2020, down an absolute dollar basis, but without any benefit of CEWS, our operating margin was virtually flat at 14.1% from 14.2% in 2020 primarily due to cost control measures, especially within the S&I segment.

This margin management was achieved despite the rise in diesel fuel prices that rose nationally by 22% in the last quarter year-over-year. Fuel surcharge revenue always lags as it is set after the drop or rise in diesel prices, and we have a small win on the way down, like we did in—for the most of 2020, and a small loss on the way up. My hope is that we will be able to mitigate higher diesel fuel prices through higher fuel surcharge revenue, but also continued focus on cost, and the dollar cost averaging effect of generally fixed S&A expenses over higher revenue. Of course, higher revenue is always COVID dependent, but the revenue trend continues to improve.

Looking at other notable items, net cash from operating activities for the period was essentially flat from prior-year at $39 million. Overall, our cash build during the quarter was $12.8 million, and we exited the quarter with $117.7 million. However, our cash balance changed materially after the quarter due to the acquisition of the Bandstra Group. For the analyst community, I'll refer you to Note 17, our subsequent in note vent—events note within our financial statements, and you can see how much we paid for the Bandstra Group. You would also note that the APPS Group has similar revenue, and so, again, you would expect similar consideration, although we have not publicly announced APPS consideration quite yet.

After these investments, or after this investment of—for the Bandstra Group, as well as paying our taxes, interest obligation and dividends, our $150 million line of credit remains undrawn, so as of today we're still not borrowing any money.

Lastly, a quick word on ESG.

Profits and cash generation are good, but not if they come at the expense of worker safety or the environment. Last year this time, we were in the initial stages of a pandemic, and we took unprecedented steps to protect our frontline workers lives and livelihoods by implementing new safety protocols and providing financial help well ahead of any government programs. That ethos of taking a wholesome or balanced approach is unwavering, and our first quarter safety results continue to improve.

Our lost time claim ratio improved to 0.61%, and our total recordable injury rate was reduced to 3.05%. In short, our commitment to safety will not be compromised by profit, and on that note, I would like to personally thank our frontline workers who tirelessly deliver essential goods each and every day, ensuring our cupboards are full and our economy moves on.

Lastly, for those who have not had time to review our information circular, you will note that 2020's EBITDA was up by $16.7 million, or 8%, but our profit share was virtually flat and our total executive compensation was down. Simply put, we excluded CEWS in any of our calculations of executive compensation. We did not need government to legislate us into doing the right thing. That's good governance.

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

MURRAY K. MULLEN:
Thanks, Steph. Well, that was fulsome, good disclosure.

Folks, now typically I wouldn't have much new to offer in terms of guidance or update, because it was only eight weeks ago that I last provided some comments to our shareholders and investors. You may recall, for example, that in February, I completed the conference call with the following: I expect 2021 results to be slow out of the gate with a strong finish. Well, I got the first part right, and it sure seems I might get the second part right now as well, because we announced two pretty good-sized transactions that will ultimately drive our future growth and profitability, and of course, we all need to see COVID to be stopped in its tracks for a return to full economic growth, and for my full year predictions to be accurate. Now, in other words, there is hope out there, but we're not quite there yet.

In summary, I'm of belief that the Canadian economy will rebound post-COVID. I watch what is happening in the U.S., for example, and its successful vaccination program gets widely distributed. COVID cases fall dramatically, and the economy opens up, so we know what's in store for Canada. It's only when.

The financial system is loaded with money and liquidity. There will be pent-up demands, and both of these ingredients will drive the economic recovery.

Now, LTL will remain our steadiest business. The consumer spend will continue, and then we have one of the best networks of any company in Canada, which is only wider and stronger with the addition of Bandstra's and APPS LTL capabilities.

Logistics and warehousing is poised for a robust recovery as demand for freight returns, and with just a marginal increase in additional demand, comes pricing leverage; the secret sauce to improve operating profitability. We are well-positioned to take advantage when the opportunity is presented.

Then I even see some light in our oil fields and industrial segment as the year unfolds. Pipeline construction activity remains slower than last year due to the COVID shutdowns, but the work is still there. In fact, it looks like the work that we had originally planned for this year will be now pushed out into 2022, at least a good portion of it.

Driving or drilling activity will be stronger than last year. How couldn't it be, but it's still going to lag 2019 levels, but I suspect the difference narrows as the year unfolds, and 2022 will be better.

Our strategy as it relates to the oil and natural gas industry is to make sure we are positioned to capture business' demand increases, and to invest capital where we see we can help the industry adapt in new stricter ESG commitments. For example, we've already invested new state-of-the-art technology to clean storage tanks. These are remote data devices with zero tank entry required by our people. It's safer, it's efficient, and it’s the future of tank cleaning.

We're also investing in digitizing our warehouse inventory management systems at Formula Powell. Every product will be bar-coded, ensuring we can minimize inventory shrinkage, but more importantly, our customers now can—will be easy. It’ll be easy for them to track what product goes down the drill hole in real time. This is the brilliance of digitizing inventory. With handheld technology and inventory management systems that we use at our—in our e-commerce businesses, for example, we can adapt the old paper guesswork system to real-time data.

So, my message to our shareholders is this as it relates to the oil and natural gas industry. It is changing, and we will adapt to capture market share as best we can because it remains a big business, and if you don't believe me, look at the trade data. Energy exports reign large.

Lastly, I will reiterate our approach to acquisitions.

Yes, acquisitions provide headline grabbing attention and top-line revenue growth, but only strategic acquisitions create long-term value. To me, this means investing in targets that are strategic where synergies can be realized. We invest in technology to make the businesses more efficient, and then seasoned management teams can deliver bottom line performance. We recently announced our intent to acquire two really good companies right here in Canada, and we will continue to look for more of these platform type acquisitions, and then we always add the tuck-in opportunities to drive scale, and I always look to see how free cash can be generated.

Thanks for joining with us today, and now let's open up the lines for a Q&A session. Operator, I'll turn it over to you.

OPERATOR:

Thank you.

We have four questioners on the line, and the first question comes from Walter Spracklin with RBC Capital Markets. Please go ahead.

WALTER SPRACKLIN:

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

MURRAY K. MULLEN:

Good morning, Walter.

WALTER SPRACKLIN:

I guess I'll start here with your guidance. Now, you mentioned that you only provided guidance a few weeks—about eight weeks ago, but I guess you've got a couple of acquisitions in there now, depending on when they'll close, and then your guidance for your—the revenue guidance and one third, one third seems a little bit—I don't know if it still squares up as that one third, one third, one third, or if you're reiterating that, because it seems that, perhaps, barring any major changes, there might be a little bit of separation from that equal split. Is there any colour you can officially give us on where your guidance is going now, now that you've got the acquisitions under your belt and the first quarter behind us?

MURRAY K. MULLEN:

Yes, I'd say that it's probably going to be skewed now because most of the acquisition growth is going to come both in the specialized—or in the LTL segment and the logistics and warehousing, so just by those themselves, the specialized side will go down because that's where the growth is at, in those two segments, which is our primary focus right now. We've been articulating that for quite some time.

Overall, both of these acquisitions, if you put them in totality as—I think the total gross on a full year fiscal basis will be somewhere around $200 million that we would think in 2022, and operating margins not quite where we're at. They're a little bit below our standards, so it'll take us a little bit of time to move those margins up to where we want them, but overall, that's—they're not going to be substantially below where we're at, but they're a little bit below, so that's kind of what we're going to target about, so I think we're in pretty good shape for—I think we'd targeted somewhere around 1.2, 1.3 from same-store sales, and then you add on top your acquisitions, so we'll be, for this year, 1.3 to 1.4 now, and then 1.4 and above to 1.5 for next year, I think is basically what I'm seeing at the moment.

WALTER SPRACKLIN:

Okay.

MURRAY K. MULLEN:

With margins being somewhat similar, I think, to where we're at right now.

WALTER SPRACKLIN:

Perfect. That's great colour.

Second question here is really on the demand environment. As you said Murray, I mean, it seems that there's a nice volume lift coming our way. All the rails are saying it as well. Can you talk a bit about what the risks are as you—if volume comes in at, or even above expectations, and the risks—I mean congestion, supply chain partners failing on you. Is that something we should consider? Is that something we should be mindful of, or do you think you have enough control over all the moving parts that if we get some solid economic lift at or above expectations, that you can drive it all to the bottom line?

MURRAY K. MULLEN:

Well, I think that disruptions are not in themselves drivers of efficient bottom line, to be honest with you, Walter. I think that disruptions, whether it's at your factory or if our trucks are delayed, we don't get as much revenue from them, etc., so, in essence, the supply chain disruptions that we've seen happen in certain parts of the economy—now, ship lines as an example, they're not as efficient as they once were. They're sitting in port way too long now. Well, somebody's got to pay that cost. Originally, it starts off as the shipping line, but then very quickly it goes to, well, much higher shipping rates.

You only have to take a look at what's happened with ocean freight rates, and they're skyrocketing, and conversely, I think you'll see the same thing in the freight distribution in here. I think there'll be some bottlenecks that'll—that makes it look—bottlenecks, by the way, make look demand stronger than what it really is, and that's part of what I'm talking about. We're going to have an increase in demand. At the same time, you're not going to be as efficient. Well, that's kind of a contraction of supply, so our job is to price it appropriately, and I can tell you, my teams are fully aware that we're not paying the price of inefficiency in the supply chain. We don't have control of the supply chain. We have control of our business and our capacity, and we will be managing that spread, and we'll be managing the cost very, very aggressively. I can tell you that right now.

WALTER SPRACKLIN:

That's really encouraging, Murray. That's a great answer.

Last question here. I'm surprised, given kind of your tone last fall, that seemed like you were wanting to refocus a little bit more here on acquisitions, and to zero in on that, and certainly, we've seen those two that you've announced. I was surprised to see any buyback in the quarter given that you're really focused on acquisitions now. Can you talk to us about—is this something now you're going to consider doing through the year, the buyback, or was that kind of early in the year, and now a couple of opportunities presented themselves. We might see more. Perhaps, put the buyback on pause? Just curious your strategy there.

MURRAY K. MULLEN:

Well, investing in our Company is still probably the best returns that we can get for our shareholders, to be blunt with you, Walter. Acquisitions themselves are not—like I said to you, acquisitions give you top line growth. They don't give you accretion necessarily. Accretion and the real bottom line comes from doing all the right things, finding synergies, and then driving profitability by making those acquisitions better. So, our stock price is still, in our view, well below where its value is, and so we'll continue to buy back stock. The higher the price goes, probably the less we'll buy, but we've announced—hey we—really a year-plus ago, we were going to put about $100 million into buying back our stock. We just happened to get lucky I guess last year that the market panicked, and some shareholders panicked, and we took massive advantage of that, doing about 50% of it—of our—of it last year, but our plan is to continue to do some share buybacks, but we'll scale it back the higher the price goes.

WALTER SPRACKLIN:

Steph indicated that...

MURRAY K. MULLEN:

Our share buyback doesn't impact our ability to do acquisitions at all. It's...

WALTER SPRACKLIN:

You've got an ability that's undrawn. Would you draw it down to do buyback versus acquisitions, or...

MURRAY K. MULLEN:

No. We generate enough free cash to do buybacks. The free cash that we've got funds CapEx, and is used for dividends or share buybacks, so—then we've got our operating line to do growth.

WALTER SPRACKLIN:

Yes. Got it. I appreciate your time, Murray, as always. Thank you. Have a great day.

MURRAY K. MULLEN:

Always a pleasure. Thanks, Walter.

OPERATOR:

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

KONARK GUPTA:

Good morning, and thanks, everyone.

MURRAY K. MULLEN:

Good morning, Konark. How are you?

KONARK GUPTA:

Thanks. Good. Thanks, Murray. Thank you so much.

Maybe for a second, kick off with the recent acquisition that you announced, Bandstra. So, as Stephen mentioned in the disclosures, I think it suggests you paid $75 million cash consideration for that. Wondering if there was any debt assumption in there, number one, and then, second, it seems like there's some intercompany revenue there between Babin and Bandstra. I'm not sure if I'm pronouncing it right, and what do you think is the net revenue impact on the consolidation here?

MURRAY K. MULLEN:

Well, you're right, but the company is virtually a debt free company. They are a very, very well-run company, so on a net cash basis, they're debt free, so won't add anything on that from—on the debt side. It's a really, really strong brand company in British Columbia, exceptionally well and conservatively managed over the years, which is typically what we see in well-run family businesses. From that perspective, that kind of answers that.

There is a little bit of intercompany because they had this—the OEM, or the repair facility and some of the capital assets, they bought equipment through their dealership network there, and individually they would've—I think, Steph, maybe be up around in the high 80s, I guess, but if you consolidate, some of the intercompany stuff might be kind of mid 80s or maybe low 80s. Steph, I think that's the math we came up with?

P. STEPHEN CLARK:

Yes, so the Babin truck dealership is, in essence, the repair facility, and then they do third-party repairs and maintenance as well, but it's about $6 million to $7 million of intercompany revenue out of what we've guided towards, somewhere around $20 million, so it's significant, but certainly not material in the context of the greater Mullen, and so you'll add a little bit to our—and that one, I'll remind everyone, is going to go into our specialized segment, because it really isn't a trucking operation, so it kind of fits into that mixed bag of specialized.

KONARK GUPTA:

Thanks. Yes, that's good colour, so if I can follow on, on that Bandstra. I think the press release also mentioned that you were expecting returns for each of the individual segments, so similar to the L&W and S&I. Were you referring to margins when you said returns, or how should I think about the returns so differently?

MURRAY K. MULLEN:

On the Bandstra transportation side, they're similar margins that we've got. They're an asset. They've got a lot of asset base in there, so they're going to be very similar in margins to what we've got. Maybe not quite as high, but pretty darn close, so I don't expect any margin deterioration in our logistics and warehousing segment, and on the specialized industrial side, it's not quite as good a margins as we typically would see, because there is some equipment sale in there that doesn't—like any OEM that you sell, you don't make a large percentage off of the sale of equipment. You make most of your margin on repairs, maintenance, and aftermarket sales of parts and service, so it really depends. That could fluctuate a little bit, Konark, depending on how many truck sales there are during the quarter, and as I said, they—the Babin Group is partly an OEM distributor of the Volvo/Mack brand, and that's a quite a good brand up in Northern BC. They've got a pretty strong reputation, and the Bandstra's had a great business model up there, and they happen to be big users of the Mack and Volvo brands, so I guess now you know why they bought the dealerships. They had a really good—a whole integrated solution. I've got to give that family credit for building a really strong business model. They did a good job.

KONARK GUPTA:

Right, and that's kind of a segue into what I wanted to ask you on Babin. That's an OEM that provides some MRO stuff as well. Is that a change in strategy, you think, or this is just run-off because it came as a condition of buying new transportation from Bandstra?

MURRAY K. MULLEN:

It was basically a one-off as a condition. It was so integrated and intertwined, it was difficult to spread it out, so—or to allocate it out and disassociate. It's really part of what the Bandstra Group is all about, so I wouldn't say we targeted to get into the OEM business. Whether we stay in it or not, that has yet to be determined, but we took the whole smorgasbord, and then we'll figure it out over time, but it—for right now it's very, very integral to the Bandstra total operating model.

KONARK GUPTA:

That's great, and then last one for me on the acquisitions front, so I think you said in your prepared remarks that you're not ready yet to commit to a lot of capital in the oil and gas services businesses at this point, but when you do invest, or decide to invest, would you consider acquisitions as well as organic investments?

MURRAY K. MULLEN:

Now, that's going to be very interesting. I haven't quite come to that grip—to grips on that. The oil and gas business is so capital-intensive, I think we'd probably go more for internal growth and new capital rather than acquisitions, to be honest with you. I don't see that as an emerging trend in that business, so we don't want to do acquisitions, the old buggy whips. We'll look at investing where we think that we can provide value in a new way for customers, but I don't think you'll see us do an old-style acquisition model in the oil and gas service side. I don't see that.

For example, we're not going to acquire more drilling rig companies or stuff like that. Not a chance, but the industry has to adapt and change to the new world, and with that, that means investment in capital, and so we're looking at those opportunities, and I gave you a couple of highlights already of where—you know, we're not throwing the baby out with the bathwater here. This is an industry that's still going to be quite important to Canada. It's not going to be the growth engine that it once was, but it's still going to be important to the Canadian landscape, and so we'll keep our eyes open, but I doubt if it's acquisitions. If it is, it's—we're going to be looking at adding capital, and then—and just growing internally, I think, is our preferred way.

KONARK GUPTA:

Great. Appreciate the time. Thank you.

OPERATOR:

The next question comes from David Ocampo with Cormark Securities. Please go ahead.

DAVID OCAMPO:

Good morning, everyone.

MURRAY K. MULLEN:

Morning, David. How are you?

DAVID OCAMPO:

I'm pretty good.

Murray, in your Chairman's message, I think a couple of weeks ago, you mentioned that while pipeline activity remains strong and quite active, it will start to wind down in 2022. Can you give us a sense on how much is expected to fall off, given some of the revenue from this year has been pushed off, and perhaps the bigger question is can you offset that with demand that you're seeing in your other businesses?

MURRAY K. MULLEN:

Yes, so I think what we've said is that—what we've been articulating quite some time, is that first you've got to build the pipeline capacity to get the takeaway capacity, and then you can add the drilling activity to feed that new takeaway capacity, which is essentially new demand. So, what we think happens, David, is the pipeline activity falls off, drilling activity increases, and it should be a net zero sum game, and we thought that the drilling activity was going to be a laggard, and it'll probably gain some momentum as that takeaway capacity comes on stream, which is probably, what, 2024 when that LNG plant is finally built, and then you've really got to fill the pipeline, so the pipeline will probably be built—will definitely be built before the plant, but it's now—we thought it would be a pretty active year this year, and then start fall off next year, but now it looks like it's going to be spread out over two years, but by 2023, I don't think we'll have a whole bunch of business in the pipeline side, but by that time, you're going to have, I would suspect, a pretty sharp increase in drilling activity. So, net-net, it's probably—keeps our specialized industrial about flat, I think is my expectation right at the moment.

DAVID OCAMPO:

Yes. That's helpful, and pretty good colour.

MURRAY K. MULLEN:

Yes, and that—I mean our—we were fortunate. As drilling activity came down—it's not fortunate. It's the nature of a diversified business model is that as drilling activity came down and got crushed last year, yes, I know, but we did well because we had this pipeline division that was doing exceptionally well, and then as the pipeline division does well, I suspect the drilling activity will come back, so that's our—that's what diversification gives you.

DAVID OCAMPO:

Okay, and then just circling back here on the acquisition pipeline that you guys are seeing, and I think you guys noted that you're in discussion with several opportunities. When we think about the size of those, are they more tuck-ins that you're seeing in your pipeline, or are they similar to the APPS and Bandstra Group?

MURRAY K. MULLEN:

Look, the APPS/Bandstra Group are brand-name companies. My view is brand-name companies don't come around all the time. They are like Elvis. He's in the building, but you don't see him very often, and so—but when they're there, you've got to seize the opportunity and go for them, and then when it's a brand-name company, or what I call a platform company that you can use, then build around, you've got to make sure you can add—you can see growth or synergies. Otherwise, you're just trading dollars. You're trading capital for a return that comes in slow over a really long period of time. There will be more opportunity in Canada, but they're spotty. The tuck-ins, they're available every week, and what we do is, we just look at putting those tuck-ins into those 35, and then we'll have 36 companies that we've got, so the tuck-ins is where you drive scale and you get your best margin expansion.

Platform companies, you're buying a good company from smart people and it's a transaction. It's the building around it with new growth and tuck-ins and technology and expansion that gives you the margin improvement, and then makes those acquisitions work out well in the long run, and that's why I gave you the example of Gardewine. You take a platform and then you build around it, and you put in a really good management team, invest heavily in technology, and you—but you've got to add that scale and size around it, and that's how you get your—you get a really good return on that platform company. So, lots of, I think, tuck-ins will happen, and then we'll look for those platform ones that come around once in awhile.

I think the—we're continued to look for those, and we'll put more capital to work, but I'll be honest with all shareholders, if I don't find the right opportunity, then we're not going to just chase growth. We'll just harvest, and we will—because at the end of the day, I'm always looking for free cash, and then free cash, if we can't put it to work smartly, I'll give it back to shareholders, and that's either through share buyback or dividend.

DAVID OCAMPO:

All right. It's been a pretty active year for most truckers in terms of consolidation. Are you starting to see an uptick in the multiples paid for companies?

MURRAY K. MULLEN:

Well, obviously, I mean interest rates go to zero, liquidity is all over the place, valuation goes up. It's no different than home prices. Have home prices gone up? Yes, so have acquisition targets, and it's all a function of interest rates, available capital.

DAVID OCAMPO:

Okay. That's it for me. Thanks a lot, Murray.

MURRAY K. MULLEN:

You bet.

OPERATOR:

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

AARON MACNEIL:

Hey. Good morning, guys.

MURRAY K. MULLEN:

Good morning, Aaron.

AARON MACNEIL:

Hey. I've got a couple of follow-up questions on the acquisitions. On the Bandstra Transportation acquisition, how would you characterize it in terms of sector exposure, and I guess, specifically, what drives the revenues. Is it consumer-driven or is it capital-driven?

MURRAY K. MULLEN:

That's a unique business model, and as I said, they—because they've kind of stayed close to home kind of in BC, they are very diversified. They're kind of a mini Mullen Group if you—to be honest with you. Because they're based out of Smithers, BC, they have a very strong component in the mining business in BC, which is very active, so that's a good chunk of their business. They are up in—they have a plant—they have a facility in Kitimat and in Terrace and in Prince Rupert, so they're really tied in with Rio Tinto on the aluminum side, which I think you could—is kind of a hybrid of kind of consumer and manufacturing, so the aluminum just ships all over the place, so they're a—kind of a core carrier for Rio Tinto.

They are now going to—they're very active right now active right now with the LNG development that's going on in Kitimat, so they're in the sweet spot, and that builds out. Lots of forestry. Northern BC is lots of timber, and then they've got this great business model where they service—they started with all the—servicing all the communities with LTL, and that's a good chunk of their business, so I think LTL is probably—it's going to be somewhere around a third of their business, and they just got—they've got a great network. They just service most of the Central and Northern part of British Columbia, and they've got a brand new facility in Vancouver that I had a chance to be a part of and look at, and see it go up over the last bit, so that really fits in our overall network, in our LTL side, so I'm really excited about that. That's where I see some good synergy, and then the rest of the stuff, they just do a good—they just run a good business.

AARON MACNEIL:

Got it.

MURRAY K. MULLEN:

With the development of the LNG facility in Kitimat, Northeast—in Northwest BC is going to experience the same challenges that happen in Alberta called Fort McMurray, and that is you've got these massive capital projects that take a lot of people and a lot of capacity, and then there's not all that workforce in British Columbia, so they can learn from our experience and draw from us, and then we've got just a great network of equipment and facilities that we can help capture market share, and we kind of have a plan on how to do it, and so we've already started down that path of how we can work together more with our existing businesses, and we'll just share some of that—those capital resources that we've got that were used once in Alberta. But BC's—the growth platform—that's—I'm making that call that BC's got a better—is going to have more capital going in there than the Province of Alberta, which is more—Alberta is more heavily weighted to oil, BC's heavily weighted to natural gas.

AARON MACNEIL:

Got it, and then on the dealership side, I think I know the answer to this question, but have you had any interest historically in pursuing like a dealership business model now?

MURRAY K. MULLEN:

No. No. This just came because it's so intertwined. It's not core to the Mullen Group, but it's core to Bandstra, and from that perspective, we'll make sure that that part of the business remains a high focus for the Bandstra Group for sure, and for those communities. I mean, they provide a lot of service up there. They've got a big network, one of the largest ones up in the north.

AARON MACNEIL:

Got it, and then switching gears a bit on the APPS acquisition, do you have any updated views on the timing of close, or...

MURRAY K. MULLEN:

It depends on Competition Bureau. That's a large-scale acquisition that is subject to Competition Bureau review, and so the applications have all been made, and it's up to them just taking a look at it, and I don't know if it helps us or hurts us, but there actually is a couple of other big acquisitions that are on their desks right now. One's called Rogers and Shaw, and the other one is CN, maybe CP and Kansas City Southern, so where we fit in the queue, I'm not exactly sure.

AARON MACNEIL:

Understood. That's all for me. I'll turn it over.

MURRAY K. MULLEN:

We're plowing ahead. I don't expect any issue with Competition Bureau, to be honest with you, but it's just part of—you have to go through the process, and that's what will delay the acquisition. That's the only thing. It's just we've got to get that blessing to consummate the deal.

AARON MACNEIL:

Understood. Thanks for your time. I'll turn it over.

MURRAY K. MULLEN:

You bet you. Thank you.

OPERATOR:

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

MICHAEL ROBERTSON:

Good morning, gents. Thanks for taking my call.

MURRAY K. MULLEN:

Good morning.

MICHAEL ROBERTSON:

Just had a quick one. I was wondering if you could give us an idea of what kind of progress you're making with respect to alternative vehicles within your fleet, and if you have any sort of target goals you're looking at further out, perhaps as a rough percentage of the fleet? I know Gardewine's done some progress on that front, and any extra colour would be helpful?

MURRAY K. MULLEN:

Well, Steph is really active on this ESG file, and he's probably better to answer that one than I am.

I can tell you, as I said, look, we're not in denial, we're moving forward. Where we see the real easy wins is in the local delivery vehicles. Those will migrate towards hybrid or full electric vehicles over this next period of time, and we've already started that—those investments, right, Stephen, on the delivery vehicles?

P. STEPHEN CLARK:

Absolutely, on the EVs, or the—what we call Sprinter vans. That's well known. We news released last fall the order, and we've just about doubled the order since that time. We're also partnering with some other OEMs on alternative vehicles, so we're talking heavy trucks now, but we're under confidentiality agreement, so we really can't speak to them, but we're trialing them, and certainly, we're going to be on that cutting edge, but have we ordered pure electric vehicles? Not as of yet. We're still going to wait and see on that, but certainly, we're also making investments on other things that save electricity, so whether it's LED lights within our warehouses, those are simple, and I won't say we've got most of them done now, but we've certainly made a good progress there.

Then we're doing things like what we call snow sheds, so a different way of making sure that we're keeping cold freight cold. So, these are investments from Canadian companies that we're making into new ways of thinking about energy and transportation of temperature-controlled goods, so again, we're working on all aspects, so it's not just vehicles when you think about ESG. It's also your footprint, your warehouses, your everything from water usage. We're recycling water now to wash our trucks and (inaudible 51:26) sites, so we don't go on a big, long thing about ESG, but I can tell you, it's in our DNA and has always been in our DNA, and so we get a little frustrated, but be assured that we are trialing the—what you're looking at, which is big vehicles, and we're making strides in other areas as well.

MURRAY K. MULLEN:

Just to summarize, I think that most of the delivery trucks that we see running around in our communities, whether they're going in to deliver consumer goods or just to the regular storefront, but those trucks are all going to be hybrids or electric trucks in the future, and we're making—we're transitioning our fleet to that right now.

In the medium-haul lane, electric trucks, I don't see them quite having that capabilities yet, because the batteries become too heavy, too much of a component, so we're looking at these dedicated halls of moving to new CNG, LNG kind of opportunities, and then on the long haul, I would say there's probably two opportunities there. I would say one is hydrogen, that's—but that's a ways off, but hydrogen is the fuel—is a fuel of the future, and then we've invested—for example, with APPS, we'll be doing a lot of intermodal, as I say, which that's a—we won't be investing in as many trucks. We'll be just doing intermodal. Then we'll be doing the final model with EVs, which is all more energy-efficient and better for the environment; less trucks on the road and more efficient.

MICHAEL ROBERTSON:

Got it. That's helpful colour. I appreciate the ESG angle, but I was sort of more curious just as you get more of those out there representing a larger portion of your fleet if the over longer-term…

MURRAY K. MULLEN:

Yes. I would suspect that it will—like all technology, I wouldn't be surprised that it doesn't double every year on our investments into EVs for quite a while, so we're coming off a very low level, so don't be surprised if we don't double it, our investments in EVs of some sort for quite a long time. It'll double. It'll just get more and more.

P. STEPHEN CLARK:

Yes, and Michael, all our new facilities, like our new facility that we just opened up in Regina, were all wired up for—although I said we haven't ordered any electrical vehicles yet, we are prepared for that eventuality that we have the infrastructure, all that, the lines and the power and such going there, so we'll have the grid to charge those at night.

MICHAEL ROBERTSON:

Do you see that as a longer-term sort of tailwind on the cost side as well, helping out?

MURRAY K. MULLEN:

I think that's—you know what, I can't see that yet, to be honest with you, Michael. I think that there's—I don't think there's going to be a perfect win on this. I think it's required and it's just shifting, so I think our electricity and our infrastructure required to do that, and all those kinds are going to have a different set of economic drivers to it, or cost drivers, and then clearly, the offset is, is that you don't consume diesel fuel, but you're still consuming something. I think the net-net is that you're looking at—there is no more free ride that you can just say, well, my cost is low, but the cost of the world is—or the environment is high. It's an all-inclusive look now. We just don't stop with us. I think we have to look at all the cost of society, and I think that's—we're pivoting towards that. I would call it neutral, to be honest with you. I think they'll be more expensive, but cheaper to operate.

P. STEPHEN CLARK:

Michael, just the carbon taxes announced by the Trudeau government is currently is set to go to $100 and $70 a tonne by the end of the decade. That's $0.60 a liter on diesel fuel, so that will—that's quite a bit of inflation, so whether it's replaced by electricity engines and whatever, it's going to be built in there and it's going to go into freight rates and into inflation some way, somehow, but at least we're all in a level playing field when it comes to a carbon tax.

MICHAEL ROBERTSON:

Right. Right. Okay. Well, thanks for the colour. I'll turn it back.

MURRAY K. MULLEN:

Thanks, Mike.

OPERATOR:

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

KEVIN CHIANG:

Hi. Thanks for taking my question. Good morning, all of you.

MURRAY K. MULLEN:

Good morning, Kevin.

KEVIN CHIANG:

If I could ask a question on the LTL front, I appreciate some of your earlier comments, Murray, about the optimism you have, especially what you see south of the border, and really, it's a reflection of timing and vaccination rate momentum, but when you look at your LTL business today, can you give me a sense of I guess the push and pull between volume and yield? Are you seeing—it sounds like volumes are pretty good, but I'm just wondering if you're seeing any yield pressure, just given the change in mix in volumes from maybe more industrial customers to more consumer customers. I think that's had some—at least when I look at the U.S. LTL players, early in the pandemic, that seemed to have weighed on the yields a little bit as they transitioned through that. Is that something you're seeing as well in your LTL business?

MURRAY K. MULLEN:

I don't think so, Kevin. We haven't seen that. We think that the—that kind of the revenue side, as you say, the top-line will grow in line with GDP and consumer spend and whatever, but I think all the upside for us is all in the yield because you're really able to amortize kind of more freight over your fixed cost facilities and really fill up to get your yield management on your vehicle. So, those incremental two, three, five shipments, there's virtually very little cost to them, so that's where you get your yield management.

We continue to see expansion in our LTL side, and I suspect that will continue for quite some time as we build out scale and size, and then what we're going to do—you're really having a squeeze happening in the facility side. You have it in LTL, particularly, as we see it. It will not take much more demand. You only have to go to every LTL facility in this country and you will see the docks are full. They can't handle much more in the existing facilities. Most of those existing facilities are old within Canada, and they're all in the inner city, and you've seen how the price of real estate's gone up. I think we're in a pretty good space to get better yield management, and then you just high grade the kind of quality of freight that comes across your dock. So, that's where margin—much margin expansion's going to come from what freight you put on the dock, and you're going to squeeze out the low-margin freight.

P. STEPHEN CLARK:

Murray, if I can just add to that, Kevin, so when you look at all the LTL freight that's coming across our desk, you've seen a movement towards smaller packages. That's why we've made investments and larger investments and accelerated here into Sprinter vans, into these hybrid Sprinter van vehicles because they are getting smaller, but when you take the relationship between consumer spending, demographic growth, and GDP, they're all at around zero, right, or just slightly above zero. You've seen our same-store sales were up about 3%. Well, that's because we're not turning down freight.

If we were just a traditional LTL trucker and we said we only work with pallets and packages that are over 100 pounds, we would have lost that market share. What you're seeing with us, not only within our LTL groups, but also DWS and our e-commerce logistics warehouses, we're capturing that and we're part of that trend and that's an important growth driver in the future of this Company, and we're not ignoring it, and so Murray talked about investments into technology as well, so that's only part of it. But, the big competitive advantage that we have against most other truckers is that we have such density and such a great network in Western Canada, and I can't accentuate the fact that Bandstra really filled in a piece of that puzzle where now we are ubiquitous from Toronto all the way to the coast—West Coast now, and so as we integrate these in and get bigger with key and core customers, and it's not only LTL and e-commerce, but that network is irreplaceable.

KEVIN CHIANG:
That's great colour.

MURRAY K. MULLEN:
With APPS and Bandstra, we have a—we cover virtually every community in Canada from Mississauga west; APPS in Southern Ontario, Gardewine in Northern Ontario, Gardewine in Manitoba, Jay's in Saskatchewan, Hi-Way 9 in Grimshaw in Alberta and Northwest territories, and then Bandstra with our Argus and Inter-Urban and Number 8 Freights in Pacific Coast in Vancouver—in BC, so we go right to Vancouver Island. It's virtually every community is within our network from Mississauga west.

KEVIN CHIANG:
That's definitely a lot of Canada there.

MURRAY K. MULLEN:
Yes, yes. That's a good chunk, and it's all a master puzzle, and so we just—we haven't done it as one brand. I've done it as strong regional brands, and the reason is you just have to go to their terminals and see how our—they're very passionate about—in their communities, and the

management teams and the people there, that's their brand, and I'd tell you, they protect it. They work hard at it, and that's our secret sauce.

KEVIN CHIANG:
Culture's important.

Maybe just on the Bandstra, I know that you've provided a lot of details here. If you could remind me or provide some insight in terms of how you serviced the Northern BC market before. Were you using a third-party partner to get up there, were you shipping stuff with your own asset base, and if it was the former, just wondering—you did speak a little bit about it, Murray, in terms of the synergy opportunities, bringing this all in-house, potentially, just what that means in terms of potential margin opportunities or synergies you can capture now that you directly extend deeper into Northern British Columbia.

MURRAY K. MULLEN:
In Northern BC, there's really two parts of that puzzle.

One is the basic LTL business we're talking about. While clearly, just the synergies of having that all in-house and what we can offer the big shippers and clients is just unparalleled, and it's just incremental—once again, it's just incremental freight in the back of your truck that's going up and on the delivery trucks going out, so we'll just—we'll manage that yield.

On the other trucking, specialized or truckload or whatever, well, we could only participate with our existing network so much in Northern British Columbia because Bandstra's was up there, they have a dominant position. Where Bandstra's needs their help is they have to—as it gets busier, they need to either make the capital investments, or now we can share that capital because we've got that in our group because it's not as busy in Alberta, and then secondly, we've got a really good workforce that we can transition up there, so we can take advantage of those growth opportunities, particularly as it relates to the LNG build-out. That's going to put added strain in Northern British Columbia on the workforce and on the communities, and we'll be able to layer in, so I see some good synergy there.

Then just for all of our trucks that we service for the clients we go in and out. Well, now you've got a family member that's up there that can look after your trucks if you have an issue or you need to lay over or you need to interline or do whatever, so as before, it might have been a little choppy, now it's kind of all in-house, so I don't see a downside to this one, just as I don't see a downside to APPS, to be honest with you. APPS is more consumer product driven whereas Bandstra's a combination of consumer product and more on the capital side of that business, which has—it's not about critical mass. It's about pricing properly and having the right equipment and people.

KEVIN CHIANG:

That makes a ton of sense. Those are my two questions. Congrats on getting a couple of big deals done to start the year here. Have a great afternoon, guys.

MURRAY K. MULLEN:

Thanks, Kevin. Take care.

OPERATOR:

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

ELIAS FOSCOLOS:

Good morning, and thanks for taking my call.

MURRAY K. MULLEN:

Good morning, Elias.

ELIAS FOSCOLOS:

I've got a number of questions, but I think I'll limit them to two given sort of where we are over the top of the hour.

Murray, you hinted about house prices going up. Mullen Group has a lot of real estate, so I'm going to give you maybe a two-pronged question here. Can you talk to us about your real estate, and I think you valued it a few years back, how that might be performing, and is there any way that you could potentially monetize that, and I don't mean, necessarily, by selling it, but leverage it somehow?

MURRAY K. MULLEN:

In the key markets of the Canadian space—it's just the way money's flowing at the moment—but in the key markets, we continue to get, even in this past week or so, unsolicited offers for our facilities that we own in the Toronto, the GTA, and Greater Vancouver area, unsolicited big numbers. So, what we're seeing in those markets right now is industrial space land is going for around upwards of $4 million an acre right now.

Let me give you a couple. In Alberta, that may be $650,000, $750,000 an acre. In those two markets right at the moment, it's parabolic. You can't keep up with it, so what—then we say, well, okay, that's good. We've got a embedded derivative within our land and buildings book that's not priced at fair market value, but what do we do with it? It's there. We could raise cash by monetizing those, but then what do you do? I've always said you can't sell burgers without a burger stand. Well, you can't be in the freight business without terminals.

I think the question that we're starting to think about—these numbers have now gone into such a high stratosphere, the question is do we—is there a way to package, to bundle real estate into a different type of financing arrangement and then put that into long-term money and those kind of things?

I think we're exploring those kind of ideas, but I would tell you it's really—this explosion in pricing has just happened over the last year as interest rates have basically gone to zero, so we haven't done anything yet, Elias, but it's certainly on our radar to take a look at that, for sure.

P. STEPHEN CLARK:

If I could just add a little bit more colour, so when you're thinking about interest rates, that's one driver to higher prices. The other is the lack of warehouse space availability. That's another cause of inflation, so when our peers are now bidding and they've just got a 30% or 40% rate increase, rent increase, and essentially what happens is the freight rates all have to move up because there's tremendous inflation, not only in warehouse space and real estate, generally, in those two markets, but also with insurance. Insurance rates are going up substantially. So, as we have a competitive advantage, and ultimately, those economic rents will be captured by the landlord, which happens to be MT Investment, a wholly-owned subsidiary, where conversely, we're able to capture some of those rate increases on the insurance side because we have superior safety programs, again, so our rate increases aren't as much, so again, that goes to the house. So, there's ways of monetizing, and I'd say it's also a way of leveraging it too, so those inflation dips go back to us, so we won't lose out. That's for sure.

ELIAS FOSCOLOS:

Okay. I appreciate that colour, and it's just something I wanted to get more clarity on.

I think I'll keep the last question to—it's kind of a related question earlier. The LTL segment has grown through acquisitions, and it's held up quite well, and stepping back to a bit of—it's not quite this, but one-third LTL, the one-third logistics and warehousing, but I'm not interested in the one-third, one third. I'm interested in is there a one-to-one relationship between those, and now that you've built out LTL, would you be looking more at organic or inorganic building out the logistics side? Is that something that we can maybe think about later in '21 or '22, or is that something that—I'm not an expert in this field, but might not occur?

MURRAY K. MULLEN:

I think it's going to be a come—it's going to be the—you—it's going to be a combination of two. We're going to extend our reach by providing a better service, a better technology solution, and a more holist full mile service to our customers eventually. We've got this wonderful LTL network—final mile network to all these communities, and I'm not going to stop just with doing the final mile. We're going to look at providing a more holistic service because I think customers are going to want to—going to want that, so we're positioning ourselves to do that.

Then secondly, we'll always add in—around each of our regional hubs that we've got in our strong regional brands, we'll always build around and add in that additional capacity. The smaller carriers cannot get the—get to the technology scale and sizes that you've got to have to be competitive in this new world, but it'll be a combination of both of those things, Elias, and on LTL, I can just give you some anecdotal evidence of what's going to happen in the LTL business once COVID is over and you add in some additional economic driver into this business.

In the United States, the big U.S. LTL companies, they're having quarter-over-quarter increases in tonnage—freight tonnage of 5% to 8%, and then you have, along with that, pricing leverage on top of that, and that gives them significant double-digit margin improvement, so it's going to be an increase in tonnage, along with pricing leverage, and that's coming. It is only a matter of time, and I am delighted to say we've got one of the largest LTL networks in the country. Delighted to have that as a—one of our core platforms in our Company.

I then suspect that the trucking logistics side is going to have more freight demand and pricing leverage is going to follow in the truckload side, because we've seen it happen in the U.S, and on the specialized industrial service side, I think it'll hold its own, and it won't be as big a part of our Company, but I see at least two parts of our business model looking to be very attractive, and we're going to continue to look at adding capacity and size in those two sides. I'm aggressive. I'm not worried about the market, not cautious. I'm aggressive, and that's why we announced two pretty good-sized transactions, and we just need to get post-COVID.

ELIAS FOSCOLOS:

Okay. Well, both of you, thank you very much for that colour, and I think I'll end it at that point.

MURRAY K. MULLEN:

Thanks, Elias. Take care.

OPERATOR:

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

KONARK GUPTA:

Thanks. It's a quick follow-up. Sorry. I know the call has been pretty long here, but want to be quick.

On the M&A, I just wanted to come back to your point, Murray, about the housing market analogy that you used. Obviously, I live in the GTA, and there's not a day when there's no bidding war that I hear about, so curious as to your thoughts in the M&A space for trucking industry. What's the bidding war like? Is there a bidding war, and do you often kind of bid against multiple players, so, and secondly, can you help us understand in terms of capital discipline, what's your approach to elevation for these assets? How do you think about that?

MURRAY K. MULLEN:

Well, I think it's the platform companies, the quality companies that are seeing a nice valuation bump on it. It's the same as real estate. It's certain markets that are seeing a real bump, but not every market that's seeing the massive bump. All of them are going up a little bit, but the key markets are just kind of parabolic, and I see the same thing in the acquisition side in our space, in the logistics and warehousing.

Quality companies you've got to pay a premium for, which means that your returns are—on your cash invested are going to be somewhere between 6% to 10% without synergy, and that's why I say to you synergy's just so important because synergies is what drives your returns from 6% to 10% to 10% to 15% in the short term. That's what you do, and then it's the tuck-in ones that you probably have not—you don't see a massive bump in those valuations yet, and you're probably driving towards a 10% to 15% return on those. With synergies, it can go up 15% to 20%.

KONARK GUPTA:
That makes sense. Thanks a lot, Murray.

MURRAY K. MULLEN:
Okay. Thanks.

OPERATOR:
The last question comes from Jeff Fetterly with Peters & Company. Please go ahead.

JEFF FETTERLY:
Good morning, everyone. One quick follow-up.

MURRAY K. MULLEN:
Hey, Jeff.

JEFF FETTERLY:
Murray, at the beginning of the call, you referenced obviously the strength in the U.S. market, and back in February, you talked about how you're in the process of formulating your view and approach to the U.S. Where do things stand today? What's your thinking today?

MURRAY K. MULLEN:
Oh, that freaking market's so hot right now, you've got to—you get a little bit scared of it, Jeff. You're buying it at the top, and those kind of things, so we're looking at opportunities, Jeff, but

you've got to be really—if you think I'm careful looking in the Canadian market, I don't need to tell you how careful I'll be looking at the U.S. market. We're looking at opportunities, but it absolutely has to be the right fit, and haven't found it yet, although we look, but the U.S. market is just—it's now on total fire, so you're buying at premium earnings and premium multiples, so I'll be awfully careful.

JEFF FETTERLY:

Safe to say that apples-to-apples, you're seeing better opportunities in Canada right now?

MURRAY K. MULLEN:

Well, I see better upside opportunity, Jeff, because Canada still is a laggard, whereas in the U.S., I don't know how it gets any better that what it's at right now, and they're operating at nearly full capacity.

JEFF FETTERLY:

Thank you. Appreciate the colour on that.

MURRAY K. MULLEN:

Okay. Take care.

OPERATOR:

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:

Well, thanks for joining us, folks. We're all like you. I know that the future looks really, really bright. At least we feel it, but we've got to get through this next bit, and we all know what the challenges are that Canada's facing, so we'll leave it at that. We look forward to chatting with you in July, and by that time, I fully expect we'll have the APPS transaction done and within our Company, and we'll go from there. So, stay safe, and we'll look forward to chatting again. Thanks for joining us again. Take care.

OPERATOR:

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