Mullen Group Limited

Investor Update Conference Call and Webcast

Transcript

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Speakers:	**Murray K. Mullen** Chairman, Chief Executive Officer and President
	Richard J. Maloney Senior Vice President
	P. Stephen Clark Chief Financial Officer

OPERATOR:
Welcome to the Mullen Group Limited Investor Update Conference Call and Webcast.

As a reminder, all participants are in listen-only mode and the conference is being recorded.

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

MURRAY K. MULLEN:
Thank you and good morning, all.

Well, as most of you likely have noticed over the last little bit, we've been pretty active here at the corporate office at Mullen Group, with the announcement of three quality transactions in the last couple weeks. I guess my opening comment is, who says COVID slows us down?

But this morning, I'm going to speak about our announcement that we announced, the acquisition of QuadExpress, a U.S.-based non-asset 3PL service provider which is headquartered in Naperville, Illinois.

But before I get started, I want to send my regards from our Legal counsel and remind our listeners that this morning's presentation will contain some forward-looking statements that are based upon current expectations that are obviously subject to a number of uncertainties and risks, and outcomes 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 mullen-group.com.

Now, also on our website this morning, we have posted up today's presentation so you'll be able to get the formal part of our talking points.

On the line with me this morning, as traditional with most of our conference calls, I have Stephen Clark, our CFO, Richard Maloney, our Senior Vice President, Joanna Scott, Corporate

Secretary and VP of Corporate Services, and really the workhorse of getting all these transactions consummated as she's the quarterback on them, and Carlson Urlacher, Corporate Controller.

This morning, what we're going to do is we're going to have a discussion—and I'll give the presentation, talking a bit about Quad Services. We're going to talk about the rationale and why we've invested in Quad, along with our vision into what we think Quad brings to our organization. Then of course, we'll open it up to a Q&A session.

Let me start with really, what is Quad? Well, Quad is a pretty darned good company that we got exposed—introduced to, sorry, a little while ago. As I said, they're a 3PL provider. They're focused on the freight brokerage services business across multiple modes of transportation, and that's domestic, cross border, a lot of air freight, ocean freight, and tradeshow shipping. They're a true 3PL-er from that perspective. They've got a heck of a global carrier network and they've got relationships with about 6,600 active carriers and freight providers, and a lot of specialty transportation options. They cover a wide range of the logistics market.

I think one of the things that really, the two things that really attracted us to this business—strong Management team. I had a chance to meet with that Management team not that long ago, and I came away dutifully impressed. Then along with that, we then took a deep dive into their technology platform, SilverExpress, which is really their customer interface. Those things intrigued us. Everyone knows you've got to have a strong Management team when you work in our business, because that's what we're about. We're about the self-managed business units, so you've got to have a strong Management team and we've got one here.

The technology platform, all of our investors know we're huge believers in technology, because that becomes your enabler for everything else. We really saw something here that we liked, otherwise we would not have shifted our strategy of moving geographically. Perhaps that's the biggest change, what you're noticing with QuadExpress. Typically we don't hold a conference call after we do an acquisition; typically, they speak for themselves, but this is a bit of a change of strategy. Not because it changes the type of business we're investing in, but it changes the geographic market that we're going after.

As I said to some of our folks, I said, “Look, at the end of the day, we’re taking our game down to the U.S. market and we’re taking our game down to the Big Smoke, as I say.” It’s a massive market, everyone knows it. This acquisition aligns with our strategy of self-managed business unit, investment in companies that have a strong technology platform. We really like the asset-light 3PL business. There’s no way we could’ve went down to the U.S. and got a platform like this, that’s scalable and expandable and all those kind of things that go with it, if we would’ve bought into the hard asset business.

We’ve entered the U.S. market. Strategically, that’s a geographic shift. The other things are not—it’s not a change of strategy. We’ve invested in a strong Company: great Management team, strong technology platform, a good network, and that’s exactly what we get with this company. That’s what Quad is; really, really excited about having them on. We introduced ourselves to the rest of the Management team yesterday, and we will be engaging with them over the next bit as we roll this out and expand our presence in the U.S. 3PL market.

What is it we really see with Quad? Beyond what you see what they have today, which is they’ve got a pretty good book of business. When we enter into the U.S. market with Quad, they’ve already got a strong platform. They’ve already got a good book of business; they’ve got a large and growing carrier network; lots of shippers that are doing business on the technology platform. That’s all exciting to us, and we think that is the part that’s scalable and will allow us to grow in the U.S., which is a strong market to begin with.

I think the other thing that needs to be reiterated this morning is this. We have a very, very good platform in Canada. It’s been built up over multi-decades. We’re proud of what we’ve built. I don’t think we get recognized for what we’ve built by the investment community, but that’s beside the point. The biggest thing that we see is, we needed another growth platform for our Company because we just don’t see an unlimited growth in the Canadian marketplace. Canada, it’s a great country, it’s got lots of things going for it, but it doesn’t have that big thing that you’ve got to have to be a large public Company. What we’re going to do is we’re just taking our game now and we’re going to expand outside of the Canadian borders, which I’ve been reluctant to do through most of my career. However, with technology, with 3PL, we think it’s expandable, we think it’s scalable, and we think we minimize the risks for our shareholders.

New growth opportunities, and as everyone knows, you just don't do one of anything. This will open up a whole bunch of new doors for our organization. Now, we're still going to be this great Company in Canada, but this is another growth platform for us. Yes, we'll continue to do some acquisitions in Canada, we'll do bolt-ons where we can continue to make our existing business units better, stronger, more efficient, but we need to have a growth platform outside of the Canadian borders, and that's what we've done with this acquisition.

That's our strategy. Our vision aligns with it; everyone knows that we've been big proponents of technology. We have an online marketplace in which we call the load board, Moveitonline. We've built a great platform there, but the problem is, in Canada, the marketplace just isn't big enough to support that platform. We also built Haulistic, which is a better way to dispatch. It ties the driver directly into having access on their mobile device so that they can access the loads and do all the transaction there. Really, it's no different than what Uber provides to their service providers and to the customer.

We've got Haulistic, we've got Moveitonline, and now we've got QuadExpress, which has their own carrier platform, shipper platform called SilverExpress. Our vision is, we're going to merge those three together. We've got a chance to build a big marketplace in which shippers and carriers can come together and they can consummate the transaction, they can find price discovery, they can find carrier capacity, and they will know exactly, precisely, where their loads are at, at any moment in time. Once you use Haulistic, it's run off the mobile app, you know exactly where that load is. We've got great plans for this Company, we've got an outstanding team that is going to take this to the new level. We're excited, they're excited, and it's a big day for our organization.

That's our quick overshoot of why we're doing what we're doing, what Quad's about, and I'd be glad to now open it up to some Q&A from our listeners. Short and sweet, but an exciting day for our organization and for our shareholders.

We'll go to the Q&A now.

OPERATOR:

Thank you. We will now begin the question-and-answer session.

The first question is from Walter Spracklin with RBC Capital Markets. Please go ahead.

WALTER SPRACKLIN:

Thanks very much, Operator. Good morning Murray, how are you doing?

MURRAY K. MULLEN:

Good, Walt. Thank you very much.

WALTER SPRACKLIN:

Good, good. I remember a number of years ago, you and I were discussing acquisition strategy and geography and the U.S. certainly came up, and you had a very cautious view on Canadian companies going south of the border. You said the market is a completely different one than what we have in Canada, it requires an extra level of caution when doing deals. Do you just feel that there's an opportunity or perhaps the transportation and logistics has changed, that's opened the door to new opportunities that can't be ignored any longer? Perhaps give us a little bit of colour on how you're looking at risk given what you relayed a number of years ago on that topic.

MURRAY K. MULLEN:

Well, the simple answer is you're right, and I did this in the preamble, is that look, I've always been cautious on the U.S. market. It's not that the U.S. market is isn't big, it's what's your competitive advantage? Owning truck is not a competitive advantage in the United States, never has been my view. The competitive advantage is if you have the technology, and we really like the SilverExpress; haven't seen a shipper-centric technology platform that's as good as SilverExpress.

When we had—this came across our desk, we did a deep dive into it, did probably more extensive due diligence on this than we've done on anything. That was the most intriguing part, Walter, because technology, if you get it right, is scalable. It doesn't matter what markets you enter into.

The other thing about Quad that's really exciting to me is the agency model, the owner/operator model. We use owner/operators today, all over, we have for decades. But the owner/operator used to own the truck. Today, what we've entered with Quad is the owner/operator is the station agent. They have access to the customers; they have the customer relationship. What Quad provides is the technology: that's the interface to the customer. But with the agents, the owner/operators let's call them, they have the touch point with all the customers.

Our vision's quite simple to the agents, I talked to them yesterday. I said, "Look, we'll invest in the technology so you don't have to. You go look after the customer." I love that agency model. Walter, this is the exciting part about this one. That will allow us—that gives us the best chance to scale up. We'll let them do what they do best, which is the customer relationship, and we'll do what we do best, which is putting in world-class technologies.

That's what's exciting about this.

WALTER SPRACKLIN:
I'm looking more past QuadExpress and your strategy as you grow in the U.S. Do you see this as a platform just to grow in 3PL and focus there as an area of expertise, or could you go into other more asset-oriented aspects of trucking, looking at perhaps the specialized markets there. Or again, are you focused on asset-light?

MURRAY K. MULLEN:
Well, asset-light to begin with. We've got a great platform here. My first plan is to work with this team and we're going to get the transition done. This is a complicated transaction because QuadExpress was not a company per se, it was a business within a business, so we have to decouple it. We've got a transition agreement with Quad/Graphics, the parent co-company that will give us the time and the space to get things transitioned over. We'll do some rebranding and whatever.

Then we're going to—we're starting work, the first of July, and we're going to start work on the next generation of SilverExpress, which is, we'll call it SilverExpress 2.0, and with some of the things that we've learned over time and what we know about technology, including Moveitonline and Haulistic. We're going to build out that next generation of SilverExpress, which we'll make sure not only that this business continues to be competitive and viable, but that it can actually grow and expand, and that's my primary objective.

Will I look at other opportunities in the U.S.? Well, if we're going to the Big Smoke, I guess we'd better take a look at everything. Everything's going to be on the table. All I'm telling you is it's a new day for our organization. We've got to spread our wings beyond, and we're going to take our game down there. But we'll still use the same disciplines. We've got to have great teams, we've got to see where you got a competitive position in the marketplace, and then we'll make the right deal on behalf of our shareholders.

WALTER SPRACKLIN:

That's great. Then the last question, you briefly touched on it, Management, you highlighted, this is a business unit as opposed to a company. Is there any Senior Management coming over and do they have any lock-up agreements? You also mentioned branding. Are you going to do any major rebranding; is there going to be any kind of one-off expenses in, I guess, the third quarter, associated with the acquisition?

MURRAY K. MULLEN:

Absolutely pleased the entire Senior Management team came with this. That was one of my absolutes before we did the deal, I needed to have the team. I was delighted to engage with the team not that long ago. We met and we just had a meeting of the minds so I could check that box.

Along with that Management team, they asked who they could bring along, I said, "Bring along the people you need to run this business." They're bringing along all of their people, so we have great alignment. This is a standalone business, so bring the people along. Keep those customers happy, keep those agents whole, and then let's plan for the future. Part of that future is, we're going to change the name from QuadExpress to NewCo. What is NewCo going to be? We're engaged with that Senior team right now. We'll get a name that's appropriate for what it is, and that will be a standalone business, not just a business within a business. We'll have that done in the next 90 days.

Yes, there's going to be—whenever you do an acquisition, there's going to be some one-off expenses and those kind of things, but that's all investing in the future. We're not buying trucks and trailers and buildings. We're investing in fiber and technology and branding.

WALTER SPRACKLIN:

Okay, that's it. Congratulations on the acquisition, Murray. All the best, thank you.

MURRAY K. MULLEN:

Thank you very much.

OPERATOR:

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

MURRAY K. MULLEN:

Hey, Kevin.

KEVIN CHIANG:

Hey, Murray, thanks for taking my question and congrats on this deal here.

Maybe just a couple of quick modeling questions, if I may; $135 million of U.S. revenue is what they did last year. If you could give us a sense of how you think about that revenue growth opportunity? It does sound like this is obviously a growth platform.

Then you talked about operating margins being kind of peer average. If you were able to put a finer point on what you view as peer averages, either on an operating margin or EBITDA margin basis, that would be helpful.

MURRAY K. MULLEN:

Well, that's last year numbers. The market's stronger this year than last year. I gave last year's number; we'll come out with more guidance on that as we get this integration done.

But it looks—from everything we've done during due diligence, the logistics market in the United States is just going crazy, so the team down there is doing a fantastic job. Margin is a little different. This is a 3PL. In a 3PL, you don't own the assets. But I think if you took a look at net revenue rather than gross revenue, then you would see that the margins are pretty good and the returns on capital are pretty good on that side.

We got to get in and determine exactly what the margins are going to be, but it's very consistent with what I've looked at with all the other 3PLs that are out there. You've got gross margin, then you've got your net EBITDA, whatever, but the EBITDA is really the cash. I make investments based upon cash generated, and I think if you kind of use gross margins, we're in around industry average, what I've seen with most 3PLs in around 10%. That's the gross margin, then you got to take off your operating expenses.

We're going to get—I don't know exactly—we'll disclose that once we do our modeling in the third quarter, but suffice to say, it's a profitable Company. I wouldn't be investing if it wasn't profitable, and it'll give us a decent return on our investment.

KEVIN CHIANG:
Okay, that makes sense.

MURRAY K. MULLEN:
A decent return on that investment, so if I invested $40 million with a decent return, the return's higher than 5%, let me just put it that way. It's not a major bet by our Company with Quad logistics. It's US$40 million. But boy, we get an opportunity that I haven't seen for quite a while, and that biggest thing to me is the content.

Once we get eyes coming into our site, I think we can monetize. That's where I'm excited about us taking what we have done a very good job of, but we just don't have the content in Canada. It's not a big enough marketplace to make Moveitonline and Haulistic work, but boy, all of a sudden we get 6,600 carrier network, a lot of them are independents; we think we can—we've got a great future ahead with that company. It's not going to happen in a year, but I can tell you, that company, NewCo, QuadExpress, is going to have a world-class shipper platform, guaranteed. That's going to be our secret sauce, as I call it.

KEVIN CHIANG:
Just in your prepared remarks and I guess the answers you gave Walter, it sounds like you're especially excited about the SilverExpress TMS. I'd be interested—and you've obviously done a lot of due diligence here. I'd be interested in hearing what makes the system stand out versus, say, other TMS products out there? Obviously, you have some in-house ones yourselves. Are there a couple of things you can point to that really stood out here as you were doing your due diligence on QuadExpress?

MURRAY K. MULLEN:

Yes, I would think that the easiest way for me to explain that is, is SilverExpress was built by a shipper with the shipper's needs at the forefront. Most of the team as that you see by carriers was built from the carrier perspective, what was good for the carrier. SilverExpress is, this is what we need as a shipper. That's something that we haven't come across too often. Now, I think what we're going to do is just marry the two together and have a best-in-class solution. So, 3PL, let's be clear, 3PL is all about focus on the shipper.

KEVIN CHIANG:

Okay, that makes sense.

MURRAY K. MULLEN:

Carriers are focused on the carrier.

KEVIN CHIANG:

Mm-hmm.

MURRAY K. MULLEN:

We just happen to be—we're going to merge the two together into a more holistic marketplace, but you've got to be shipper-centric, and that's what these folks are, the Senior Management team, and that's what SilverExpress was based upon. Quad/Graphics, I give them credit—well, I gave them credit, I gave them money for it. I liked it, I liked what I saw, and it gives us a great entry point.

Now, we're going to take that and we're going to put it on steroids. Two-point-oh, we're going to make sure that we're going to be relevant in the new digital world. Everything's being digitized, and that's going to be our form of blockchain, and we're going to use SilverExpress. Obviously it works because you're doing $130 million, you've got all these shippers all using it. It's clearly working. What we're going to do is just put 100% focus. When it was embedded within Quad/Graphics, the company, it was a division, and they had to fight hard for capital and to make product improvements and whatever. In our organization, it's not about fighting hard for it, just get it done, because we know that that's how we're going to grow.

KEVIN CHIANG:

That makes a ton of sense. Then just last one for me, just wondering if there's any, I guess I'll just call it cross-border opportunities, when you look at your domestic network here in Canada, I suspect you have customers here that require a cross-border product; now you have your own in-house U.S. freight brokerage. Does that extend out some of the service offerings you have here within your domestic network? Is that a potential synergy opportunity that you foresee, or does Quad kind of stand as a standalone freight brokerage business in the U.S., kind of servicing the…

MURRAY K. MULLEN:

Well, yes.

KEVIN CHIANG:

…customers that you're looking at today.

MURRAY K. MULLEN:

Yes, that's a great point, and it's clearly one of the synergies that we'd be looking for. We have a massive customer base. We do a lot of cross-border traffic. We do not do internal U.S. traffic, we've stayed away from it. But guess what, we now have a sister company that does that.

We just take our customer base and we're going to just expand it, and we're going to say, "Here's the new service offering", and we'll just create these new opportunities and cross-sell. That's another—we didn't pay for that. That's what we get with this opportunity. I just don't see the downside that we've got with this, I see nothing but opportunity in terms of expanding market share, investing in the technology, cross-selling. Once again, I'm just going to revert back to this: we've got a really engaged and great Management team. They're excited to be on their own and have their own chance to show their skills out and grow it, and I'm absolutely excited to be aligned with them. I've said, "You tell me what you need and I'll be there with you, and I'll work with you on strategy. Now, let's go."

KEVIN CHIANG:

Okay. I don't know if you have this handy, but just out of the 1,700 North American customers that you noted in the press release, do you have a sense of the overlap between customers you would service within Canada on a cross-border basis? Do you have a…

MURRAY K. MULLEN:

No. There wouldn't be much crossover yet…

KEVIN CHIANG:

Okay.

MURRAY K. MULLEN:

…to be honest, and we…

KEVIN CHIANG:

Okay.

MURRAY K. MULLEN:

…did have a call with that with the agents yesterday, what's our opportunity, what's this, what's that. I said, "Look, the agents typically have a nice geographic area, so they're strong in a certain geographic region, whether it's in the South, the Southwest, or the Northeast or wherever. The agents are all over the place", which is what I like about it, it's scalable.

Those agents, if we give them a better tool, they'll be able to go get the customers. Then we'll be able to feed them a couple of ours that we've got, because we can say to our customers, "Yes, we can look after that. Here's our customer." We'll give them the names, they'll chase it down, and away it goes. I'm quite excited about that.

KEVIN CHIANG:

Definitely. Again, thanks for taking my questions. Congratulations everybody.

MURRAY K. MULLEN:

Thank you very much, Kev. Thanks, bye.

OPERATOR:

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

AARON MACNEIL:

Hey guys.

MURRAY K. MULLEN:

Good morning.

AARON MACNEIL:

(Cross-talking 29:43). Might have embarrassed myself with the first question, you talked about the shipper and the carrier perspective as a difference, and you've talked about merging with Moveitonline and Haulistic, but can you maybe just take a step back and dumb it down and explain to all of us what each of these companies do and what the combined Company looks like when you put all the pieces together?

MURRAY K. MULLEN:

Do you mean Moveitonline?

AARON MACNEIL:

That's right, yes.

MURRAY K. MULLEN:

Yes, so Moveitonline is not a company. Really, what it is, is a technology platform.

AARON MACNEIL:

Sure.

MURRAY K. MULLEN:

It's a load posting board in which carriers or shippers that are trying to move their freight can post a load and they can find two things. You can find price discovery, and you can find availability of carriers. Now, the supply chain is screwed up right now, but everybody needs to have what—you either sign a contract with a trucking company, or you go in and you look at the spot market. Moveitonline's really a load board in which you go in and find price discovery, and which carriers are available in the marketplace, who can do what.

If you're a shipper, think about it. What is it you're trying to do? Well, I need my product moved. Okay. Can you do it, what's the price? Then the third part of the equation is, which is where Haulistic comes in, and where customer service comes in and all that, where in the hell is it in the supply chain? Everybody wants to know everything today, and they want it available on a mobile app. What we've done with Haulistic is, we've built a mobile app, and it's fantastic. We just don't have enough critical mass in Canada to make it worth—to capitalize on it.

Each of those are technology platforms, SilverExpress is a technology platform. Then you have the company that markets all this, and that's how you create a marketplace for carriers and shippers.

AARON MACNEIL:

Okay. Then you talked about Version 2.0 and putting either some capital, whether it's operating costs or capital costs, but how material would that investment have to be to merge these things all together and come up with…

MURRAY K. MULLEN:

Yes, I think…

AARON MACNEIL:

…a new platform?

MURRAY K. MULLEN:

…what our shareholders and investors should be thinking about is, when we're investing in QuadExpress, the cash flow we're going to generate from Quad I'm just ploughing back in to make it better. We're not going to strip money out of there and put it back into corporate office or increase dividends with this investment, no way. We need to—when you're the technology game, this game, you've got to go fast. The capital that we're going to generate over there, we'll be ploughing back into Quad so it can continue to grow. This is a true growth platform, so we won't be—it's not time to harvest, it's time to grow down there. We'll be planting more trees down there.

AARON MACNEIL:

I was just thinking in the context to your guidance; should we be thinking about more capital spending or higher operating costs in the near-term?

MURRAY K. MULLEN:

Yes, we just got more EBITDA and we're going to have more capital expenditures, but the CapEx is going to go right into not trucks and trailers, all into technology.

AARON MACNEIL:

Got it. The transaction multiples are relevant, as you know, but even with a very low margin, it implies a relatively low multiple. I guess I just want to understand the motivation of the seller. Do you have anything you can share on why they'd want to get rid of this?

MURRAY K. MULLEN:

It's not core to their business, and Quad needed to monetize because they had some corporate issues and some Treasury issues, so this was something that they needed to do from the corporate standpoint, was to divest and raise some capital. They just weren't putting capital into this. They were trying to put it into their business, because they have to reinvent their business model. Quad/Graphics was in the hardcopy marketing business and publication and blah-blah-blah, well, they've got to digitize. They're working hard to transition their company and they just didn't have any capital for the business, and they wanted capital to do two things: as I understand it, pay down debt, and also to redeploy in their core business.

This was not core to them; they put it up for sale. I just have an absolute bird-dogger in Richard Maloney that found it, it came across his, and Richard said, "Murray, we might like this." Rich, are you on the line?

RICHARD J. MALONEY:

I am, yes, how are you?

MURRAY K. MULLEN:

Yes. Remember you came …

RICHARD J. MALONEY:

(Cross-talking 34:37)

MURRAY K. MULLEN:

…with this idea, and he's come to me with a bunch of crazy ideas, I'll be honest with you, over the years. But this one was just crazy enough it got my attention.

RICHARD J. MALONEY:

Yes. It's very interesting. I can tell you that the Quad/Graphics, they do have a press release, you can refer to that and then it virtually reiterates what Murray said. But this opportunity is, it's kind of once in a lifetime. Murray's been talking about this type of opportunity for at least a decade, and when it came to us, I presented it the first time, it didn't go over—he said, "Well, we're looking at some other things. We have Bandstra and APPS in the play". But we said, "No, this might be it. That agency model is very, very intriguing to us, and the technology, and what they can do with the technology, for example." I know Kevin asked that, is they get immediate price discovery from a whole pile of—for example, LTL carriers, when the shipper puts in their load information, "I need to move from A to B", they have it within minutes. They can get price discovery with a whole slate of carriers, so it's quite intriguing.

As Murray very clearly pointed out, we're going to make that better. We're going to enable it with mobility technology, with our Haulistic and such as well. Yes, it's a very exciting opportunity for us.

MURRAY K. MULLEN:

Yes, so that kind of fills in why this came available. The reason that I think we got it was twofold. Quad/Graphics and, I think, our Company, we're kind of built on the same fundamentals and principles. Their ownership and their senior people were very, very aligned, that they wanted to make sure that the people of Quad Services were—that it was a good opportunity for them to continue on. They built the thing and they wanted to make sure that they were done right by.

That aligned with us because I needed the team, so that was good. A lot of the others that were maybe looking at it would've been a bolt-in, and there would've been disruption and synergy and blah-blah-blah. With us, it's about growth, and that's what we came to quickly realize is that we're aligned on that.

Then of course, then you get into it and say, "Okay, we've got to make sure we get the monetary number right", that it fit for both Quad and fit for Mullen. As everybody knows, I drive the best bargain I can on behalf of our shareholders, I'm not a riverboat gambler from that perspective.

That's how the deal came together. They needed to monetize, it was—oh, it's complicated, because it's embedded within Quad, but that just piqued our interest and said, "We can do it." We said, "We will do it. This is what we need from you, Quad, and if you do that, I'll make the investment." We negotiated it all. It's a lot of hard work, but this is going to be worth it.

AARON MACNEIL:

Got it. Well, Richard, congrats on finding a great deal. Last question for me, you've done a lot of acquisitions this year. Even with partial contributions, it looks like you'll end up above your guidance range. I know you made some comments on the last conference call, but maybe if you like, you could give us an update in terms of how you think the year might pan out with all these acquisitions closed?

MURRAY K. MULLEN:

No, I'll keep that one in the back burner until the second quarter comes out, then we'll talk about what the rest of the year looks like. I think everybody can just add them up and see that we were in a growth mode. We're repositioning the Company strategically, so we'll have more commentary on that after we get the second quarter out and those kind of things. We'll just have to park that one.

AARON MACNEIL:

Okay, had to try. All right, that's all for me. Thanks.

OPERATOR:

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

ELIAS FOSCOLOS:

Good morning.

MURRAY K. MULLEN:

Good morning.

ELIAS FOSCOLOS:

Probably a couple questions, and forgive me if they've been touched on tangentially, I'll try to keep focused on them. One is kind of a numerical revenue number; maybe not too important, but I am interested in clarity. It seems like Quad/Graphics will continue to use QuadExpress for 24 months. Is there any colour you can provide on what percentage of QuadExpress' revenue would come from Quad/Graphics? I did some hunting, and Quad/Graphics isn't very well-covered and I couldn't find any information on that.

Then of course, the last question is, is it even material? Am I just going down the wrong path in even asking that?

MURRAY K. MULLEN:

Yes, no, there's three parts of the Quad Services business about how it's generated. One is, you're right, it was internally generated from Quad/Graphics, and that would've been somewhere in the neighbourhood of maybe 15% to 20% of the total revenue base there. That's where this all started, is that, hey, they need an internal way of moving their freight, so they said, "Well, why the hell are we using all these other 3PLs? Let's be our own." There's about 15% to 20%.

Now, we've got a contractual obligation. You guys said, "Look, if you want to monetize for that, you've got to give me some commitments on that" and away it goes. But our objective is, and our team, Pat Malone, who's going to head this up, we know. "Look, make sure you keep that customer happy, they're our customer, and they're a big shipper, so they'll work hard to keep it."

But for the agreement side, it was a two-year commitment that they would agree to give us, up to $40 million worth of business on a continuous basis and use that. But truthfully, that was just in the agreement, that's the contractual side. But the real thing we're going to go after is make sure that they know that we'll be a good provider to them.

There's that. The other part of the revenue stream is traditional 3PL. That's headed up by Dan Hall, really seasoned veteran, knows 3PL business like the back of his hand, great connections. He's got a whole team of customer service people that look after customers.

Then the next part is the agency model in which agents are scattered all across the United States. I believe there's a couple in Mexico that bring the customers and use the platform. Those are the three ways they generate revenue. You make the deal with the shipper, you make the deal with the carrier, and then we split the spread. It's a revenue sharing agreement with those agents. The biggest part of the business, about—Pat's probably going to shoot me on this, but I think it's about 60% of the business, somewhere around there, 60%, 63% of the business is the agency model, which is owner/operators. I don't know how that—I love it because they're entrepreneurs and they look after the customer and they service the heck out of them, and they're entrepreneurs and the better they do, the better they do. Our job is singular: make sure they've got something really good to sell, and that's our technology platform.

I know I'm over-simplifying it, but that's it. The key is taking SilverExpress, investing in it to make it SilverExpress 2.0.

ELIAS FOSCOLOS:

Okay. I want to sort of—Murray, thanks a lot, because I'm beginning to understand it, and I'm going to use the word beginning.

The next question kind of came to me, so I might paraphrase it a bit also, but it is something that's been in my mind. The question is, how on earth did this ever come together in Quad/Graphics? It just doesn't make any sense to me, looking at the company, so there has to be something with the individuals and the technology, and I can see the geographic, but there's also, from what I've seen, trucking to air shipment, ships to trucks. I can also see that different horizontal, or maybe that's vertical, I don't know, as an addition.

Somehow, can you give some colour on how this occurred within Quad/Graphics? Then, maybe a specific example, if you can—and I understand if you can't, on where you can take it, to give us that angle?

MURRAY K. MULLEN:

Well, I think the—as I understand it and as I went through it, Quad/Graphics was a big user of—they have a big supply chain. They were having trouble, and they wanted to improve the supply chain and they said, "Well, let's do it ourselves", so they really became their own 3PL within their own company to service their own needs. That's the genesis of where it started, and then they brought on a team and they just kept expanding it and expanding it and expanding it, and expanding it. It just took on a life of its own.

Then, it was—the business is doing, actually, pretty damned good, but they just had to shift the strategy at corporate office that said, “We got to focus on our core business, not on this,” and that’s great, we’re going to monetize it, and that created the opportunity for us. It started with a shipper saying, “I’ve got to do a better job of my own shipping,” and here’s the opportunity.

By the way, I think that’s what every shipper is going to transcend to, because I think Amazon’s doing the same thing. They became the customer, then they became their own logistics provider with technology. We think we can help shippers improve their supply chain by giving them access to a technology and visibility on price, on service capabilities, and a visibility of where your shipment is within the supply chain. That’s the opportunity. It’s scalable, and we’re not going to—Amazon’s not going to come and use our platform, they’ve got their own. But, for all the others that are out there, of which there’s—Amazon’s big, but everybody else is much, much bigger. That’s who we’re going after, and we’ll provide them with a great platform. That’s our objective.

ELIAS FOSCOLOS:

Okay. As I said, I think I got it, but let me try this just to make sure that I’ve got what—I’m going to date myself a bit. This kind of reminds me of American Airlines, with an airline, that built the Saver Reservation System that was used by travel agents, where the travel agents could go online and get you the best deal and the best connections and things like that. Is that a decent analogy or am I way off again? I’ll leave at that for questions.

MURRAY K. MULLEN:

Yes, it’s a good analogy, I think, which is—I wasn’t thinking about that specifically, but if you connect the dots, the travel agents and all the clients, most of them are local, but they need access to price discovery and availability. That’s what SilverExpress gives us.

ELIAS FOSCOLOS:

Got it.

MURRAY K. MULLEN:

Yes, yes, and everybody’s going to need it. But not everybody; the agents cannot invest in the technology. They don’t have enough time or money; they’ve got to focus on the customer. Our job is 100% make sure they have the best user experience and the best access to the best technology, and their sell game will be easier than not, and now it's a race, in technology, who can get there. What we've got with this is a great starting platform. I couldn't be happier.

ELIAS FOSCOLOS:

Okay, I'll leave at that. Thank you very much for the colour.

MURRAY K. MULLEN:

Thank you.

ELIAS FOSCOLOS:

I'll turn it over.

MURRAY K. MULLEN:

Thank you.

OPERATOR:

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

MICHAEL ROBERTSON:

Hey, good morning, Murray, thanks for taking my questions and appreciate the colour thus far, it's been really helpful.

Maybe just one for me at this point; you guys have had a really busy June, closing this acquisition as well as Bandstra and APPS. I was just wondering if you could maybe give us a bit of a ballpark idea of sort of where, I guess, the balance sheet sits. Once the dust settles here, trying to get an idea of what kind of dry powder you have left moving forward to not only invest in this, but potentially look at further bolt-ons this year.

MURRAY K. MULLEN:

Stephen, I knew you'd be called upon.

P. STEPHEN CLARK:

Well, Michael, and as shareholders and analysts listening in, I can assure you that our balance sheet is still under-levered. We're not hitting anywhere near a 3.5 times bogey point, which is under our private placement. Certainly, though, this has depleted our cash balances, not only this acquisition, but APPS and Bandstra, we've gone on a bit of a shopping spree. Now we're into our line of credit to the tune of about $60 million or $70 million out of the $150 million that is available to us.

Is that an uncomfortable spot to be in? No, not really. Borrowing money at 3% or 2.5% after tax is not uncomfortable for us. Again, we recognize that we typically have a history of not being on a line of credit forever, in that we've done it before; I think the last time we were on our line of credit was, again, for an acquisition. We were $35 million into our line about three years ago for one quarter or two months, and again, I'd have to go back to 2008 or 2009 when we did the Essential transaction to say, "Okay, yes, we were on our line of credit then."

It's one where we still generate a lot of free cash, and when we don't take into account—which we're allowed to do under our private placement calculations, when we don't take into account prior years' earnings, so we can take those trailing 12 from all the acquisitions and add them in too. But we're still under three times levered, so it's still not an uncomfortable place to be, it won't be forever, and I think that you'll find that when you do your models and we can check in July when we have our next quarterly conference call, channel check with everybody, you'll find that really it's not an insurmountable amount of debt. Considering that, prior to these acquisitions, we've always said we're going to generate, call it $200 million, $220 million of EBITDA; yes, we have debt obligations, we have some CapEx obligations, we have taxes to pay.

But even after all that and our dividend, we still had $40 million or $50 million of free cash. That was prior to these three sizable acquisitions, and I won't forget our friends from Tri Point, but let's just focus on the three sizable ones, that we're still going to generate a lot more free cash. From that free cash, we're going to be able to pay down that line of credit, or we'll get other alternatives to top up after. Let's get us integrated here through and get the messaging to the market correctly. But again, it's not an uncomfortable place to be, so that's sort of the bogey points to that.

Does that answer your question, Michael?

MICHAEL ROBERTSON:

That is fantastic colour and I will turn it back. Thank you very much and congrats on the acquisition, guys.

MURRAY K. MULLEN:

Thank you.

Just to reiterate, I mean, shareholders, we headed into this year and we had a lot of cash on the balance sheet, and I was telling everybody, I said, “Look, it’s not from a lack of trying. We’ll do the acquisitions once we see the right ones.” Well, guess what? It just so happened, this year, that we got a bunch and we deployed our cash, and then we got all this unused operating line we said we could have access to. We’ve now gone into that, but they’re all for great acquisitions and great opportunities, and as Steph says, we generate free cash.

If we’re going to continue to do acquisitions, then we generate free cash or we’ll be out of that operating line next year if we decide not to do anymore, so. Pretty good, but the Company's a lot bigger today than when we started the year in 2021, so as I said, to damn with COVID.

On that note, any other questions, Operator?

OPERATOR:

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

JONATHAN GIBSON:

Thanks, good morning, thanks for taking my call.

Just a few quick ones; looking at your broader U.S. strategy, can we assume it will be consistent with your growth strategy in Canada over the past few years, i.e. growing LTL in the smaller city centres and maybe some logistics warehousing in the larger centres?

MURRAY K. MULLEN:

No, no. LTL, it would take us to, I think, about—just in Canada for us to develop our LTL market up here, it took us 10 years plus to piece that puzzle together. No, no, no. The U.S., the puzzle’s been pieced together. It was not pieced together in Canada, which is why the opportunity that I saw, and why we went after that market—but no, we're not going after the hard asset LTL business in the U.S., not a chance. No.

JONATHAN GIBSON:

Okay, fair enough. That was all. Well, the rest of my questions have been answered, but congrats on the acquisition.

MURRAY K. MULLEN:

Thank you very much.

OPERATOR:

The next question is from Matthew Weekes with iA Capital Markets. Please go ahead.

MATTHEW WEEKES:

Hi, I'm sorry, all my questions have actually been asked at this point. I was unable to take myself out of the queue, so I'll just turn it back. Thank you.

MURRAY K. MULLEN:

Thanks, Matt. Okay.

OPERATOR:

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

KONARK GUPTA:

Thank you, Operator. Good morning, Murray and Stephen.

MURRAY K. MULLEN:

Good morning. I guess it's been afternoon for you now, just about.

KONARK GUPTA:

Good morning. It's almost about good afternoon, yes.

MURRAY K. MULLEN:

Yes.

KONARK GUPTA:

I have a few quick ones from me here. It's been a long call, appreciate the colour you have provided so far. The first one, maybe, you mentioned using a line of credit, Stephen. Any equity issued to the vendors; any amounts there?

MURRAY K. MULLEN:

No. Clean deal.

KONARK GUPTA:

Great. In terms of getting the bid there for these guys, you mentioned they were brought to you recently. If I look back recently, R.R. Donnelley, which is another printer/publisher in the U.S. that competes with Quad, they also sold that, DLS to TFI, that's logistics. It's pretty sizable, actually, from nine times EBITDA.

I'm just curious, was there any interest in this asset other than you guys?

MURRAY K. MULLEN:

Oh yes, we were only one of the dance partners. But as I said, we were fortunate enough that they chose us. I'm sure we had to be competitive on the price; I mean, that's just business, the way it is. But the value proposition to Quad that aligned with their principles and values and whatever was that we were going to take the whole team and keep everybody whole, which is precisely what I mean because we're going to grow. I said, "We need everybody. Let's go."

What they needed from us, just the Senior team, they just needed their own platform and they need us to invest in the technology to give them that next leg of competitive advantage. It's already a pretty good size. This is not just a little business. They've got a good book of business already, and all we're going to do is help that Management team just grow it.

P. STEPHEN CLARK:

Konark, it's Stephen here. I think the other thing, our ability to execute on deals in a quick fashion also makes a difference. I'm sure they had other offers, but if you're going to close in and you're going to take 180, 200 days to close it where we can do something in short order—and I'll give you Bandstra also as an example where we closed that one, gosh, in less than 30 days. We did this one, again, in less than 90 days, so a lot of hard work, and congratulations to the team. But, our ability and our experience in this area is also a differentiator, and our ability to execute is clearly one of the things that a vendor is looking for.

KONARK GUPTA:

That's great. Then last one for me; so it seems like all of (inaudible 58:03) printing companies, R.R. Donnelley, Quad, and they are kind of selling their assets that they kind of built from scratch on the logistics side. There's a few other kind of major players in this market, like LRC Communications for example, and they have a logistic family as well.

My question is, do you guys, maybe not immediately but over time, do you see the need to acquire another logistics company within a printing company like these guys to kind of scale up further? Or, can you just do organically?

MURRAY K. MULLEN:

Both. With the seasoned team that we've got with Dan Hall and with Pat Malone, that they identify that they can add in a 3PL that fits into our network and into their platform, good, let's look at layering and growing through acquisition. But the scalable part, the growing internally, is just getting more agents. People that have customers and people that are looking for a really good technology solution.

It's a combination of those two, along with, I think the third way that we've identified growth is just that the U.S. 3PL market is growing faster than the U.S. economy. You've kind of got a trifecta there that we're going to take advantage of. I think we've minimized the risk, Konark, to our shareholders, but forget about minimizing risk. The most important thing is, strategically, we just gave our shareholders another growth platform, and we usually don't stop at one.

KONARK GUPTA:

Yes, no, that we can see for sure. Thank you, that's all my questions, Murray. All the best, thank you.

MURRAY K. MULLEN:

Thank you very much.

OPERATOR:

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

MURRAY K. MULLEN:

Thanks, folks.

Everybody's been on the line for a while; some really good, insightful questions. Hopefully we answered them to you, and we left you with, really, the main talking points, which is we invested in a great company with a great team, and strategically. We just entered a new market, geographically, 3PL and technology, it's exciting times.

Thank you very much and I hope everybody enjoys the long weekend coming up. Take care.

OPERATOR:

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