The Mullen Group Limited
Third Quarter Earnings Conference Call and Webcast Transcript

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Speakers:

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Chairman, Chief Executive Officer, and President

Carson P. Urlacher
Corporate Controller

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OPERATOR:

Welcome to the Mullen Group Ltd. Third Quarter Earnings 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 Murray K. Mullen, Chairman, CEO, and President. Please go ahead.

MURRAY K. MULLEN:

Thank you all, and welcome to Mullen Group's quarterly conference call. We'll be following our standard format today and providing shareholders and investors with an overview of our third quarter financial results, discuss the main drivers impacting operating performance, our expectations for the balance of the year and, of course, we'll open the lines to answer your questions.

Before I commence today's review, I'll remind everyone that our presentation contains forward-looking statements that are based on 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.

On the line with me this morning, I have the majority of our Executive team. I have Richard Maloney, Senior Vice President, I have Joanna Scott, Corporate Secretary and VP of Corporate Services, and I have Carson Urlacher, Corporate Controller. Stephen is not with us this morning, Stephen Clark, our VP of Finance. Stephen has been called into elective surgery; he's got to get his ankle operated on again, so today he's in the hospital getting well-cared for. Carson will be filling in for Stephen today.

Let me move right into the Q3 '21 financial and operating performance, and I will start with this. Three quarters are completed. We've got a year that's quickly passing us by, and while it appears the worst of the health crisis associated with COVID is now close to being contained, the reality is the negative effects of this pandemic are not over. The crisis just seems to mutate from one issue to another. Let's take, for example, some of the newest challenges: inflation,

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surging commodity prices and the supply chain shortages. These are just a few of the economic issues now front and centre, and now we have labour shortages.

We all ask the question: are these the result of an extremely robust and strong economy, or a fundamental shift in the market? Need I mention to anyone that our health care system is in need of some major spending? Quite simply, all of these types of systems are under duress these days, and these are not easy issues to resolve.

Despite all of these issues, though, that I just talked about, we have relentlessly pursued an aggressive growth strategy and we've acquired six companies in 2021, the vast majority of which are tied to consumer activity. Now, I believe the moves we have already taken, accompanied with a constructive outlook for the economy, is a nice combination that sets us up to deliver strong results not just for the balance of '21 but also for a long period of time.

Let's begin today's discussion with some highlights from the third quarter, and the most obvious is revenue growth. The economy was good, but there was one standout reason for the big increase, and that's acquisitions. In Q2 of this year, we finalized a number of transactions, acquiring what I would call really good companies. Q3 is the first full quarter our results reflect the previously announced acquisitions, and it's the primary reason why consolidated revenues increased by $142 million in the quarter, year-over-year.

While I'm on the topic of acquisitions, anyone that knows anything about our history will recall that acquisitions have been an integral part of our growth strategy ever since we went public in 1993, and I doubt this changes anytime soon. Our strategy remains clear and steadfast. We acquire good companies and then we improve their performance, which is precisely what we will do with each of these companies that we acquire this year. As I've always said, growth first, followed by improved profitability. We have an excellent track record when it comes to integrating companies into our organization as well as delivering performance, and I expect nothing less this time.

The second highlight that I believe deserves mentioning today is the discussion on the overall state of the economy, the markets our Company serves and the impact these macro issues have on our business units. Sometimes the best way to look at how the economy is working is to review the results and performance of those business units that we've owned for a full year.

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Now, this is often referred to in other movies as same-store sales. Looking at the diversification of our business, you will see that we cover a large part of the economy, particularly here in Canada where we are one of the largest logistics providers. This provides us with a very good overview of the economic activity by region as well as by subsector of the economy.

For example, our largest segment, Less-Than-Truckload, or LTL as it is commonly referred to, it's the bellwether when it comes to consumer activity. In Canada, consumer demand remained strong throughout the quarter. However, we started to witness disruptions in the supply chain, impacting everything from the availability of many goods, to productivity levels. In other words, demand continued to be strong, but overall freight volumes appear to have peaked, at least in the short term, due to supply chain issues. In fact, I'm beginning to wonder if these supply chain problems may become the Achilles' heel of future growth in the economy, but more on this later.

Now turning to the Logistics & Warehousing segment, which includes full-load trucking services. It continued to improve, but we have not hit our full stride as of yet, and by this I mean we have not seen the pricing increases that are both required and inevitable as capacity here in Canada tightens. But it is coming. As demand returns, especially as capital goods start moving again, we are telling all customers, we can service your logistics needs, but you need to pay our price. This may end up being the new trend, the new normal, especially given the driver shortage facing the industry. Because without access to new professional drivers, there's precious little the industry can do to drive growth; in other words, limited top-line growth, but improving margins due to pricing increases. By the way, this has already occurred in the United States. In Canada, we have lagged on this market change, but as I have suggested, I am of the view that we are in the early days of improved pricing. I can tell you this: our business units have heard me loud and clear, prices must rise.

The Specialized Industrial Services segment is closely correlated to capital investment in Canada, including construction, major project development, oil and gas, natural drilling, and pipeline construction. During the quarter, this segment continued to be the most impacted by COVID restrictions: project delays, base camp quarantine protocols. It didn't just curtail revenues, it also led to increased costs; a challenging period for most of our specialized and industrial business that services business units is all I can say. The most positive takeaway during the quarter was the continued improvement in oil and natural gas drilling activity. It certainly appears that this part of the economy will only improve as commodity prices hit

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multiyear highs, driven of course by improving demand fundamentals, accompanied by tight supply. I think ultimately this is going to be good for our business.

Our newest segment, U.S. and International Logistics, is off to a very strong start. Recall that this segment is focused on 3PL, is basically a non-asset-based business, except for investment in technology. As such, gross margins on stated revenue are typically lower, and this is why we look at operating performance on a net revenue basis, because it shows how well the senior team is managing the spread, the difference between gross revenues less cost of moving the goods via third parties. On both metrics, the team at HAUListic LLC did a great job beating our initial expectations in terms of total sales and net margin.

The U.S. freight market is—and I'm not stretching this, it's on fire. It's driven by strong economic fundamentals and a tight supply chain. The most exciting and encouraging aspect of this investment is we're still in the early innings of transitioning the business from the previous ownership group, Quad/Graphics, into a standalone business unit within our Organization. This was not an easy acquisition, given that we needed to carve out the business from Quad. We need to establish a new U.S.-based operating entity, which, by the way, we rebranded as HAUListic LLC, and ensure a continuity of operations. Kudos to you all at HAUListic: well done, team. From my perspective, there's nothing by upside. A great business model, operating in a big market with an experienced and motivated Senior Management team. We have an excellent technology platform that will only get better as we invest to ensure HAUListic maintains its industry-leading capabilities.

Now, my next discussion point, and while I don't like referring to COVID as a highlight, there is a certain reality that we must deal with. It continues to cause havoc, both from a health perspective, but now from a supply chain perspective. Disruptions, slowdowns, delays, plant closures have all contributed to reduced productivity. That implies increased costs, and more generally speaking, I believe it's leading to inflationary pressures, which we all know has its own set of consequences. We are watching this very, very carefully.

Speaking of inflationary pressures, this is the last highlight I will comment on before turning the call over to Carson Urlacher, as I said, who's subbing in for Stephen Clark this morning. Rising costs, lack of productivity, and now increasing wages driven by a labour crunch. Across North America, there appears to be a shortage of workers. In our case, we know it is difficult to recruit

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and hire truck drivers, dock workers, mechanics, and other frontline workers. The question we're all trying to determine in is: where did they go? I'm not exactly sure, but this I do know for sure. Labour shortage, it's widespread, and wages are going up.

But here's the rub. Along with higher wages and higher costs, more generally speaking, comes higher pricing. This all sounds inflationary to me. Whether you believe all of this is transitory is up to your interpretation of the current trends, but from my perspective, admittedly I don't know for sure, this I can say with confidence. Unless we get more Canadians back working, rising wages will continue as long as demand remains at current levels. There are no quick or easy fixes to the driver shortages, or, more generally speaking, to the labour shortage.

Overall, let me summarize the quarter this way. Revenues at record highs, and we had a solid performance, operating performance, and that's driven by a couple factors. First is the new acquisition. They just take time to get the profitability levels we expect. Second, in our Q3 2020 performance, which was over-the-top good for two reasons, the first contributing factor was due to pipeline construction activity here in Canada and the strong performance of our Premay Pipeline Group. This year, pipeline construction has been disrupted time and time again. The projects remain, but they are not on schedule, and they're not as profitable. The second factor, of course, was CEWS. Last year, government subsidies were $10 million; this year, virtually zero.

In other words, when you look at this quarter's results, you will see we successfully replaced both the loss of a profitable pipeline construction business, and CEWS. More importantly, what we have today is a larger, more stable and sustainable business, and this I feel really good about.

Carson, I'm going to turn it over to you to provide a more in-depth review of the financial performance for Q3 2021. You're up, Carson.

CARSON P. URLACHER:
Perfect. Well, thank you, Murray, and welcome, everyone.

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I'll get a little more granular; however, our interim report contains the details that fully explains our financial performance. As such, I'll provide you with some of the financial highlights for the third quarter of 2021.

For the quarter, we generated record revenue as compared to any previous quarter period. A greater proportion of our revenue is now directly correlated to consumer spending. Year-over-year, revenue was up $141.6 million, or almost 50%, to $432.5 million. As Murray alluded to earlier, this record revenue was mainly achieved through acquisitions, which added incremental revenue of $136.5 million.

We also experienced modest same-store sales growth within our LTL and Logistics & Warehousing segments, which was somewhat offset by a decline in same-store sales in our Specialized & Industrial Services segment. Including fuel surcharge, same-store sales were up about $5.1 million, and was due to the net effect of an $8.5 million increase in the LTL segment, a $7.4 million increase in the Logistics & Warehousing segment, and these increases in same-store sales were somewhat offset by a $10 million decline in the Specialized & Industrial Services segment. Our fuel surcharge revenue rose year-over-year because of higher diesel fuel prices. Total fuel surcharge revenue, including amounts from acquisitions, was $32.9 million, an increase of $18 million as compared to $14.9 million in 2020. It's important to note that no margin is made on fuel surcharge revenue, so this increase is actually detrimental to our overall margin, but more on this later.

Now going a bit more granular on our segment revenue, first starting with our largest segment, that being the LTL segment, grew by over $56.4 million to $169.1 million as compared to $112.7 million in 2020. Acquisitions accounted for $47.9 million, or 85% of this rise in revenue. The remaining increase of $8.5 million was due to increases at all business units due to the continued strength in consumer spending, providing a steady flow of freight for our LTL group of companies. On a same-store sales basis, adjusting for acquisitions and fuel surcharge, this segment experienced a 3.7% increase in revenue, which was largely due to gains at Gardewine.

Revenue in the Logistics & Warehousing segment rose by $35.7 million to $121.9 million, compared to $86 million in 2020, due to the $28.3 million of incremental revenue from acquisitions as well as a $2.8 million increase in fuel surcharge revenue. Same-store sales,

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adjusted for acquisitions and fuel surcharge fluctuations, were up 5.6% during the quarter. The freight market is improving, as overall economic activity continued to improve and drive greater demand for freight services.

Revenue in the Specialized & Industrial Services segment declined by $6.7 million to $85.7 million, as compared to $92.4 million in 2020, primarily due to an $11 million decrease at Premay Pipeline Hauling, which came off a stellar performance in the third quarter of 2020. We also experienced a $5.8 million decrease in revenue at some contractors. As Murray mentioned, COVID-19 restrictions and other temporary delays resulted in a significant decline in major pipeline construction activity in B.C. as well as civil construction work in Manitoba. These decreases were partially offset by greater drilling-related activity in Western Canada, as higher crude oil and natural gas prices resulted in an $8.2 million increase in revenue from our Drilling-Related Services group of companies. This segment also generated $3.3 million of incremental revenue from acquisitions.

Revenue generated by our new, non-asset-based U.S. and International Logistics segment were strong, exceeding our expectations by adding $57 million of revenue in the quarter. Our team at HAUListic continues to grow in the 3PL space by adding new regional station agents to our SilverExpress technology platform as the U.S. market continues to benefit from strong economic fundamentals coupled with a tight supply chain.

Now in terms of profitability, operating income before depreciation and amortization, commonly referred to as EBITDA, decreased by $0.7 million to $64.5 million as compared to $65.2 million in 2020. This, however, is a misleading indicator of our underlying results from operations, given we included $10.3 million of CEWS in Q3 of 2020 as compared to only $100,000 of CEWS in 2021.

We measure our success by measuring the sustainable underlying business performance, and we adjust our Senior Management and Executive profit-share performance plan to exclude any amounts received from CEWS. That said, we included within our MD&A a non-GAAP measure this quarter we call adjusted OIBDA. The definition and reconciliation of adjusted OIBDA to OIBDA can be found within our reconciliation of non-GAAP terms within our interim report. But essentially, it’s OIBDA excluding CEWS.

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Our adjusted OIBDA was $64.4 million for the quarter, an increase of $9.5 million compared to $54.9 million in 2020. The $9.5 million increase in adjusted OIBDA was due to acquisitions, which generated $15.7 million of incremental adjusted OIBDA. This, however, was partially offset by lower profitability at Premay Pipeline and Smook.

Let's take a look at adjusted OIBDA by segment. In the LTL segment, adjusted OIBDA increased by $6.2 million to $26.9 million as compared to $20.7 million in 2020. This increase was due to $6.8 million of incremental adjusted OIBDA from acquisitions, which was somewhat offset by higher purchase transportation costs. As a percentage of revenue, adjusted operating margin decreased to 15.9% as compared to 18.4% in 2020 due to lower margin generated by our recent acquisitions. Currently, our recent acquisitions in this segment are generating margins below the segment average; but for those that have followed us for a while, know that our reputation of improving margins is intact. In fact, that is our mission statement. We acquire companies and strive to improve their performance, both in terms of profitability and in terms of safety and other ESG metrics.

Adjusted OIBDA in the Logistics & Warehousing segment increased by $7.3 million to $22.7 million as compared to $15 million in 2020. Five-point-seven million dollars of this increase was due to incremental OIBDA from acquisitions, with the remaining increase being due to the improved performance by most business units in this segment. Adjusted operating margin increased to 18.6%, as compared to 17.9% in 2020, as some rates started to improve and our cost control initiatives remained intact.

Adjusted OIBDA in the Specialized & Industrial Services segment decreased by $5.6 million to $15.6 million compared to $21.2 million. The $5.6 million decrease is attributable to a $6.5 million decrease in those business units providing specialized services, a $1.2 million decrease in those business units involved in the transportation of fluids and servicing of wells, which was offset by a $2.1 million increase from those business units tied to drilling-related activity.

The largest decline in this segment came from Specialized Services Group, which was almost entirely due to the $5.3 million decline in adjusted OIBDA by Premay Pipeline. Again, Premay's performance was outstanding in 2020 and could not be repeated. As a result, adjusted operating margin decreased by 4.7% to 18.2%, as compared to 22.9% in 2020, due to the change in revenue mix.

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If we strictly look at margin now on a consolidated basis, adjusted OIBDA as a percentage of revenue was down 4% to 14.9% compared to 18.9% in 2020. This 4% reduction is explained by the following factors. First, the shift in revenue mix that I just mentioned between Premay Pipeline and Smook being down $17 million in revenue and $6 million of adjusted OIBDA. High-margin project work with respect to pipeline activity in the third quarter of 2020 was exceptional, whereas this year's projects have been left with setbacks and COVID-19 restrictions and other project delays.

Second, we expect lower margins to be generated from our new $50 million acquisition of HAUListic in our non-asset-based U.S. and Industrial Logistics segment, which added $57 million of new revenue this quarter. Gross margin was $5.3 million, or 9.3% of revenue, and adjusted OIBDA was $2.9 million, or 5.1% of total revenue. This margin alone accounted for 1.5 points of the 4% lower consolidated adjusted operating margin, as without this segment's results, consolidated adjusted margin would've been 16.4% as compared to 14.9%. From a strictly cash perspective, adjusted OIBDA in this segment is virtually the same as EBIT.

Third, we generated $32.9 million of fuel surcharge revenue, an $18 million increase from the $14.9 million generated in 2020. Fuel surcharge is detrimental to our operating margin, since it's effectively a flow-through to compensate for rising diesel fuel prices. Some of our peers exclude fuel surcharge when they report margins, whereas we do not. If we were to exclude the $32.9 million of fuel surcharge revenue in the third quarter of 2021, our adjusted operating margins would've improved by 1.2% to 16.1% from 14.9%.

Lastly, we generated $47.9 million of incremental revenue from acquisitions in our LTL segment that achieved an adjusted operating margin of 14.2%, which is 1.7% below the segment average. This provides us with the opportunity that Murray spoke to earlier, which is for us to do what we do best, and that's acquire companies and improve their performance.

Now just a quick word on CEWS. As you know, we recorded virtually no CEWS this quarter, as we are currently in the process of evaluating the legislative framework surrounding the payback provisions for public companies. We'll complete our evaluation in the fourth quarter, and we will know whether we will be applying for CEWS or not.

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Looking at some other notable items, we continue to generate cash in excess of our operating needs, as net cash from operating activities for the period was $37.3 million. Although this is a decrease of $10 million from the prior year, the decrease is mainly due to growth and business expansion from our acquisitions, as we were required to finance our working capital requirements. We now have a total of $250 million of bank credit facilities available to us, to which we had $85 million drawn at the end of the quarter, thus leaving us with over $160 million of room available.

Our basic earnings per share was down to $0.18 as compared to $0.27 on a reduced share count as we bought back 2.3 million shares in 2021. The main reason for the decrease in earnings per share this quarter was due to the $4.6 million increase in amortization of intangible assets, which is a noncash item. Virtually all of our intangibles consist of customer relationships and non-competition agreements acquired on acquisitions. At Mullen, our intangible assets are amortized over a five-year period from the date of acquisition, which is pretty aggressive and may not be comparable to other reporting issuers.

Lastly, a quick word on ESG. For those that know us, it's no secret that we have always had an unwavering commitment to safety and our people. Our year-to-date lost-time claims ratio in 2021 is 0.81, which is only slightly higher than the 0.79 for the same period in 2020. In fact, our total recordable injury rate was down year-over-year to 2.57 from 2.79 in 2020. Our safety results continue to be best-in-class, which is a testament to not only our core business but also our new acquisitions, knowing that we have similar views when it comes to our safety culture.

With that, Murray, I will pass the conference back to you.

MURRAY K. MULLEN:
Thanks, Carson, just a great summary. Appreciate that.

To all, with the third quarter now completed, I'll spend the next few minutes outlining our outlook for the balance of '21. In just a few short weeks, we will post our 2022 Business Plan and Operating Budget, at which time we will be better prepared to talk about what we expect in 2022.

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As for the fourth quarter, there are a lot of issues to consider with a lot of moving parts. Nevertheless, on balance, I have a pretty constructive view for the majority of our business units and for the markets we serve, which leads me to believe we will finish ’21 on a positive note and generate some good results, and let me explain why I say this.

I’ll start with the obvious: acquisitions will drive top-line growth, and earlier I spoke of six acquisitions completed this year. Well, five were completed in the second quarter alone, and we just completed one and finalized one on October 1. You’ve heard discussion and rationale for the earlier acquisitions, which are substantive and a game-changer for our business. As such, there’s no need for me to expand further. I will however provide some details on the transaction we recently completed. It’s not large; they’re generating around $15 million annually, which is why we did not press release, it’s a small acquisition. But it does foretell what we are thinking strategically.

Direct IT group of companies is the leading provider of courier and small package deliveries in the Calgary market. They have an excellent reputation, providing best-in-class service. They have the critical mass that’s required in the courier business to be profitable. They utilize a fleet of independent contractors that minimizes capital required, and they have a proprietary technology to manage the business. It’s a platform I believe we can use to enter new metropolitan markets.

I like this transaction not just for the good company we acquired, but also because it has the potential to be scalable. Plus, I see how there’s potential for us to leverage the e-commerce business that we have and expand our Ambient delivery footprint. Now, the reason being is that the courier business is better suited to capitalize on these opportunities than our current LTL business for one simple reason: small package requires small delivery units, not trucks. Once again, Direct IT has the critical mass in the small package business to make this happen profitably.

Now, in addition to acquisitions, from the evidence I see, the economy remains on solid footing, which is very supportive to the markets we serve. Now, I do not expect, however, to see a lot of internal growth, and that’s for two fundamental reasons. The first is the supply chain. You’ve heard me speak about that earlier. There’s far too much inventory that’s stuck somewhere in the system that’s limiting consumer choice or factory productivity. Retailers cannot sell what they

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cannot access, and factories cannot build without every component delivered on time. There are, quite simply, too many bottlenecks for the system to be productive.

The second and perhaps the more long-lasting issue is the labour shortage. Yes, there are a lot of people working; but where will the next qualified worker come from? Everyone in business knows that without additional labour joining the workforce, it is difficult to see how a company can grow. Furthermore, when labour markets are as tight as they currently are, it's un-doubtable that wage pressure will not arise.

In summary, from a top-line revenue perspective, we should deliver some really nice results in Q4. Consumer spending remains strong but probably not growing, so this is a solid indicator for what to expect on our LTL segment. Logistics & Warehousing, along with Trucking, appear pretty steady with some early indications that capital investment is finally starting to accelerate here in Canada, which would be very positive for our flat-type businesses.

Then there's the higher crude oil and natural gas prices. One would expect the drilling activity and investment by the producers would increase, given the cash flow they are generating. There is however a dark side to rising energy prices: higher fuel costs come to mind. Inflationary pressures are building. As such, we are mindful of these impacts. The one negative I see again this quarter is the decline in year-over-year pipeline activity; the pipeline projects are still bottlenecked with issue after issue. Recall once again that, in 2020, our Premay Pipeline Group had an outstanding year capitalizing on just an active pipeline year, project-wise. This year, the drama on these projects is nearly laughable if it were not so sad. Delays of every sort you could think of have hampered activity and productivity, and to our shareholders, I doubt this changes in the fourth quarter.

Revenues associated with pipeline construction would be down, year-over-year, that's negative to our Specialized Industrial Services segment, again, in Q4. However, we do expect drilling activity to be up somewhat to mitigate part of that.

Lastly, a comment on our U.S. and International Logistics segment, our newest reporting segment. The freight market in the U.S., as I suggested earlier, is on fire, and the HAUListic team is doing a great job capturing market share. They're managing the demand flow and at the same time working through the transition of the old QuadExpress business into HAUListic. It's

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taken a total team effort and a lot of support from people at Quad/Graphics, the previous owner. I want to thank them tremendously for everything they've done to help with this transition. It has gone just about as seamless as possible, particularly to our customers and to our people. We'll continue to make progress on the transition plan in the fourth quarter, and with business remaining strong, I'd expect another really solid quarter performance from our U.S. team.

A couple of comments on profitability before I close out today's formal presentation. Profitability as it's measured today could be measured as OIBDA. It should be similar to Q3 results, given the top-line growth I spoke about, which just hasn't grown our revenues with the top-line growth to record highs. It really has fundamentally altered the structure of our business. The acquisitions completed this year are generally on the asset-light side, meaning we really don't have a lot of CapEx required to maintain the business, and that's a good thing. But less capital employed also means lower OIBDA numbers but not operating income, folks. I wanted to make this distinction clear, because, while our OIBDA will grow, the margin will fall as we include more light-asset business units into our network of wholly-owned subsidiaries. This, by the way, is all by design.

In addition, we have a couple of nonrecurring items that occurred in Q4 2020 that will not be repeated this year: CEWS and reduced pipeline activity in the province of B.C. I guess the best way for me to summarize what to expect is we'll have replaced these nonrecurring items with sustainable, long-term profitable business. I sure feel good about that.

Now, earlier you heard that we've increased our banking facilities by about $100 million, and that's providing ample liquidity in the event we identify additional acquisition targets. But to be blunt, I'm not sure we'll need these additional lines of credit, because I do not like the valuations today, but we're also ready if the right opportunity presents itself.

Thank you again for joining us today, and let's now open up the phone lines for that always interesting and informative Q&A session.

Operator, I'll turn it over to you.

OPERATOR:

Thank you.

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Our first question comes from Michael Robertson of National Bank Financial. Please go ahead.

MICHAEL ROBERTSON:

Hi, good morning, everyone. Thanks for taking my questions, and Carson, nice job subbing in for Stephen. Wishing him a speedy recovery.

Wanted to maybe start with something you sort of touched on at the end of your comments there, Murray. Looking at the inaugural quarterly results for the U.S. and International Logistics segment, you noted revenue was above expectations, given the strength of the U.S. freight market and the addition of regional station agents. But looking at the 2020 revenue, highlighted for that business at the time of the acquisition, this looks like a really strong quarter. I was just wondering how lumpy you would expect this business to be from quarter-to-quarter and whether there's some seasonality at play here.

MURRAY K. MULLEN:

I think, typically, you kind of have three buying seasons in the freight business, because a lot of freight is consumer-driven, you have the holiday season which is coming up, so the fourth quarter should be pretty strong. First quarter would probably be your softest, and then you'll get ready for the summer season, and then you have the back to school.

If you have a softer quarter, it's probably Q1, but three pretty strong ones. Q1 there'll probably be a little bit of consumer hangover from all the buying at Christmas and whatever. That's typically what you see, and I wouldn't be surprised if that happens again this year. Now, that might give a little bit of cover for the supply chain bottlenecks that we've got to maybe catch up a little bit in Q1. I wouldn't be surprised.

But I would suspect Q4 will be similar to Q3, maybe stronger. The team has indicated that the market's still doing extremely robust activity right now, but Q1 might be a little bit softer. That's just traditional. Yes, three strong, one soft.

MICHAEL ROBERTSON:

Got it.

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MURRAY K. MULLEN:

Yes, typically, yes.

MICHAEL ROBERTSON:

That's helpful colour, Murray, and yes, good to hear regarding Q4 as well. Sort of switching gears here, do you see the M&A landscape shifting at all right now, given the change in the government subsidy programs that you referred to?

MURRAY K. MULLEN:

Yes, you know what? I think if you want one reason why the Canadian marketplace has not had the same pricing leverage as the U.S., it's simply called CEWS. Everybody in Canada got money, and that protected every business unit, and we got money too. Full disclosure, our Company qualified for a lot of CEWS, but that's the system. We were prepared without CEWS, and if there was no CEWS, we would've probably picked up some really good companies at a really good discount price, but that's not the case. Everybody survived, but CEWS is now running out. Now they've got to survive without CEWS.

Remember, CEWS are bottom-line numbers, so it's not top-line numbers. Everybody was kind of protected. Now you've got rising costs and you've got this. I think it's only a matter of time until that catches up in this marketplace. When we look at all the business units, Michael, or that we look at acquiring, I can tell you right now, we discount CEWS. We do not pay for CEWS. We take a look and make sure the company can recover from that, and if we aren't convinced of it, then we don't bite on those targets.

MICHAEL ROBERTSON:

Got it.

MURRAY K. MULLEN:

I would suspect some problems coming up in 2022. If companies don't adjust their pricing, they will be in a lot of trouble.

MICHAEL ROBERTSON:

That's helpful colour as well. Maybe last one for me here, is it too early to ask about cap expectations looking out to 2022? I may have to wait a few weeks for your business plan, but I

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know some of the planned expenditures you had this year were disrupted by supply chain challenges, so wondering if you see that sort of spilling over into next year and what that might entail.

MURRAY K. MULLEN:

Well, I can tell you, you can put whatever you want in CapEx; bottom line is you can't get it, and everybody's on allocation right now. I would suspect, in 2022, that it'll be difficult, really, to ramp-up CapEx, because you just can't get the product. But another comment on CapEx for us: we've grown the business substantially. We've grown by 50%, but I don't think our CapEx will grow by 50%, because a lot of the business that we acquired are non-asset-based companies. They're asset-light.

For example, our business in the United States, HAUListic, we own no trucks. We own no trailers, we own no facilities. We only invest in technology. That's a pure 3PL, very asset-light. What you get in OIBDA is what you get in operating income, really. By design, we went more asset-light because we just saw some problems in the market on the asset side base. We'll invest in asset businesses, but I want a return. If you invest in an asset-based business, you'd better have a 5% margin built in for the asset, because that's depreciation.

MICHAEL ROBERTSON:

Right.

MURRAY K. MULLEN:

That's what you need. If I go asset-light, 15% tomorrow might be the same as 18% or 19% of yesterday, because we've just fundamentally changed the structure of our business.

MICHAEL ROBERTSON:

Understood, well, thanks for taking my questions. I will turn it back.

MURRAY K. MULLEN:

Thank you very much. Appreciate your comments.

OPERATOR:

Our next question comes from Walter Spracklin of RBC Capital Markets. Please go ahead.

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WALTER SPRACKLIN:

Thanks very much. Thanks for taking my question.

MURRAY K. MULLEN:

Hi, Walter, how are you?

WALTER SPRACKLIN:

How are you doing? Good.

MURRAY K. MULLEN:

Good, we're doing good, thank you.

WALTER SPRACKLIN:

Excellent. Maybe starting on margins and the input costs and labour inflation and difficulty getting drivers and wage inflation and so on. Do you think, given the pace of your contracts, customer discussions, are you able to keep ahead of that in your pricing, not so much for this year, but for next year? In other words, do you think you can protect margin with pricing to offset the cost pressures for next year, or is there a disconnect or a lag there that is not going to allow you to grow margin because of that dynamic?

MURRAY K. MULLEN:

That's the one that everybody's struggling with. I'll give you a couple of comments on that, Walter. Let's start with the most obvious price increase, that's fuel, because it's representative on fuel surcharge. That shows up as revenue, but you make no margin on fuel surcharge. In fact, you're actually behind as fuel prices go up, because you always adjust fuel surcharge 45 days or 60 days after the price increase. It's not on a daily basis, and you have to build that into your rate structure. As fuel prices keep rising, you're a little bit behind on that. It's when the fuel prices level off that you'll be able to catch up and get normalized. We're behind the curve on fuel prices.

Now let me go to some of the other. Capital costs coming in, that's more long term. I can just tell you right now, trucks, trailers, everything we do, not only does it take longer to get, but it's more money. We have to build that into our cost structure. That really hasn't hit us quite yet. What has

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hit us, Walter, is parts and labour. We were behind the curve a little bit in the third quarter; there's a little bit of noise in there because so much was on our pipeline side. But I would say to you, I suspect we're behind a little bit on that just because parts pressure is quite significant.

The labour issues, it's the newest one, Walter, and all of our business units have heard us loud and clear. We've had our calls. You can give your wage increases to your employees, and they won't be 2%, it's going to be a heck of a lot more than that, but you've got to recover it from the customer. Our plan is to stay at least equal on the labour front, and then let's see what happens when these carriers that have been getting CEWS—I think they're going to have to raise the prices. The marketplace has been more competitive in Canada, substantially more competitive than in the United States. Let's see what happens in 2022. This cost curve is catching up to everybody, and we're going to at least stay even, I can tell you that.

WALTER SPRACKLIN:
Okay, that's great. Moving over to Industrial Services, obviously with the downturn in that sector previously you saw your revenue follow suit as capital spending dried up there. Now with commodity prices coming back up, how much of a line of sight do you have on those projects? In other words, are we likely to see—and I know you gave guidance already for fourth quarter that it's going to be probably the same, so presumably we're probably going to see another quarter of similar contribution from Industrial Services. But do you have line of sight for next year that, on the capital spending front, that we might get a step function increase in your revenue in that segment as capital projects start to pick up amid higher commodity prices?

MURRAY K. MULLEN:
Walter, I don't think so. I'm concerned because there's no labour and there's not a lot of capital going into the sector. I suspect that it'll be better next year, but I don't see a substantial increase, because there's just no labour to do the work.

What I can tell you is that I'm not satisfied with the returns, and we're going with pricing. I expect our margin to go up, but I don't think our revenues will go up a whole bunch, but we're raising prices. That's all there is to it. If you don't want to pay the price, then give your business to somebody else. I'm okay with that. I can't get the people anyhow, so don't worry about it. But if you want our people and you want our service, you're going to pay more, and that's what we're telling the oil companies. You're charging the consumer more, you're paying more to us.

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But I don't know if all the money they're making is going to be put back into the drill bit, because of ESG, because there's not support from shareholders or from government or policy for the industry to go and invest to grow. It looks to me like it's going to be pretty difficult to grow supply unless you go drill. It doesn't just come out of thin air. As an industry, as a service provider, you make money not when the oil companies make money but when they spend money. I keep hearing more and more, they're going to pay dividends, buy back stock, reduce debt; not put it into investing into adding supplies. I don't see that yet. We won't be putting any capital into that business, but I can tell you we're going to charge more money, and those customers who don't want to pay it, well, give somebody else a call. Don't call us. I don't need to take your call.

WALTER SPRACKLIN:

That makes sense. Final question for me, Murray, you've been following no doubt the drama at Canadian National, and you've heard that they're under pressure to perhaps divest of some of their non-rail assets. Would those fit into your strategy? Are they consistent with the type of growth that you want to see, assuming it comes at the right price, or are these businesses completely not what you're interested in, in terms of where you're looking to drive growth?

MURRAY K. MULLEN:

No. I think what you're talking about is, let's call it the TransX assets, the H&R assets. A lot of the business that CN acquired there was not the trucking, per se; they wanted to protect the intermodal business, which is why they bought TransX and H&R. That intermodal business is a key part of our future because we think that it's going to be really difficult to get long-haul truck drivers, it's going to be really difficult to get trucks that will not need diesel to go long haul.

We like the intermodal business. We think that's the way freight's going to move. If CN decides, we'll look at that, just like some others will. That's why we bought APPS. APPS has a big intermodal business. Our Kleysen Group is very big in the intermodal business, and we continue to see that as the way that freight will move across Canada, East-West, is the intermodal. Yes, we'd take a look at it, and we have really strong relations with CN Group. We'll engage with them when their time is right. But as you've said, they're working through some issues, but we do a lot of intermodal work with them right now. We'll talk with them for sure.

WALTER SPRACKLIN:

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Thanks for the colour as always, Murray, very helpful. Thank you.

MURRAY K. MULLEN:

Okay, thanks, Walter.

OPERATOR:

Our next question comes from Konark Gupta of Scotiabank. Please go ahead.

KONARK GUPTA:

Good morning and thanks, everyone.

MURRAY K. MULLEN:

Good morning, Konark.

KONARK GUPTA:

Morning, Murray.

Murray, I wanted to ask, maybe the first question I wanted to ask, on the cost of inflation, which was the real kind of detriment, I think, on the quarter in terms of margin performance, even though obviously the revenue performance is phenomenal. I wanted to ask you on the purchase transportation side, so the purchase transportation cost, which is pretty heavy in the LTL segment compared to the other segments, was up more than, I think, 100%, maybe 140%, 150%. How much of that was driven by one-time purchase transportation due to lack of qualities of contractors? Was this driven by acquisitions, or rate increases by those guys?

MURRAY K. MULLEN:

Yes, a lot of it's driven by acquisitions, or the newest acquisition of APPS. They use a lot of purchase transportation. They're the asset-light business model that I talk about, and you use third parties that make the investment in the truck and sometimes the trailer. APPS, they're a hybrid 3PL provider because they have some of their own delivery, but basically they move a lot of freight with third parties. The market started to tighten in the third quarter, so the price of third parties started to go up, and we'll have to make sure that we recover that in our pricing. Those are things that everybody is looking at as we do our 2022 budgets. But the majority of it came from—associated with our new acquisitions.

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Carson, I think I got that right. Did I not?

CARSON P. URLACHER:

Yes, indeed.

MURRAY K. MULLEN:

Carson's my expert on this.

CARSON P. URLACHER:

Yes, you hit that one spot-on, Murray.

MURRAY K. MULLEN:

Okay, yes. Oh, geez, okay, I knew the numbers. Yes, that's good. Mostly it was because of the new acquisitions we did and because they're asset-light business models. Meaning, I don't have a lot of CapEx with these businesses, which is precisely why we've invested in them. Our thesis right now, Konark, is that we want to own the customer, not the asset.

KONARK GUPTA:

Right, makes sense. These costs going up, how quickly can you pass on these costs to your customers? You pointed out, at the Logistics & Warehousing segment for example, prices have not gone up yet to the extent that you like. What's keeping pricing or rates to go up at Mullen facilities?

MURRAY K. MULLEN:

Well, I would tell you prices are going to go up. It may have been a bit of a lag in the third quarter, but not significantly, Konark. What we see happening right now is the market is getting tight and tighter, and the biggest thing that's going up now is labour, and there's other pricing pressures going up. We'll be at least with the curve, as I said. All our business units know it. You've got to remember, and this is to all the listeners, that we've been 10 years of really not having a lot of pricing leverage in the market, so we've been aware that it's coming. Customers would've always been 1%, 2%. It's not 1%, 2% now; it's 5% to 10%. Those are difficult discussions to have, but everybody knows that prices are going up, throughout the whole supply chain. I think 5% to 10% now is the new norm, but boy, that's a big jump from a couple percent,

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but that's the new world that we're living in. We're just telling people you're paying, or don't call us.

KONARK GUPTA:

Right, and do you have certain periods when you renew your pricing? Is it a Q4, Q1 timeframe which we are now still waiting for?

MURRAY K. MULLEN:

Yes, we're all over the map on that because we're so diversified. We've got 40 different business units. There's not one set time of year; but typically, for most, we start setting our strategy in October as we do budgets. We will be looking at wages and benefits for next year; this is the time we do our strategy, and then we do the strategy on the pricing for our customers at the same time. This market is very, very fluid at the moment. I'm struck by how, in certain segments, it just happens overnight in the shipping industry. I can tell you right now the railways are moving prices like crazy. They are not being kind to anybody, and they're a big subcontractor. When you see our contract expense go up, well, that's because we're using the rails. They're a big subcontractor, because we do a lot of intermodal. Those prices are going up, which implies that we've got to pass that onto our customers.

KONARK GUPTA:

Yes.

MURRAY K. MULLEN:

I'm telling everybody, I'm telling all our business units. None of our business units are going to take this on the chin for too long, because everybody's paid on profit share in their business unit. They're going to make sure we're kept at least whole…

KONARK GUPTA:

Right, right, (multiple speakers 55:09).

MURRAY K. MULLEN:

…and they've heard from me.

KONARK GUPTA:

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Yes. Quickly on the Quad, or HAUListic, and great set of results in the first quarter, so congrats on that. Just wondering, I think to an earlier question, these guys were doing 135 U.S. revenue last year. Now, if you annualize their Q3, which I know Q1 is seasonally softer, but still, if you annualize 57, you get to a 35% kind of growth rate this year. Is it growing at a significant kind of double-digit rate, do you think, in the next couple of years, or is the growth kind of going to soften down to single digits?

MURRAY K. MULLEN:

Yes, that's going to be the issue we've got to take a look at. I'd be extremely surprised if the market can continue to grow at the same robust pace that we've seen this year, and I'm talking about the whole trucking industry and everything else, all trucking, logistics, warehousing, everything. I can't see the same type of growth rate next year. I would tell you though that I really like the business model these folks have and we would hope that we can beat the overall trend, because we've got an excellent team and a great business model.

Will they be in the 35% range going into next year? No, probably not, but I wouldn't be surprised seeing them in double digit. This team continues to amaze me. I tell you, we've had no negatives out of that acquisition.

KONARK GUPTA:

That's great. Then last one for me before I turn it over. Premay Pipeline, I think it's been a few quarters of decline, given the delays right now. The delays, it seems more like not a lost opportunity, more it seems like a delayed opportunity. What we are pushing out from this year, it's going into probably 2022 and maybe some part of 2023. A, is that correct, and second, when do we start lapping the Premay (inaudible 57:32) comps?

MURRAY K. MULLEN:

Well, I think we had a really strong year last year. A good chunk of that was just a special moment, and they just did a fantastic job last year. We expected it to come down this year, and we highlighted that, but we didn't expect every project to have the delays they have, and it's pushed it out here, correct, into '23, '24 even now. These projects have just been delayed so much.

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I think the problem I have is that profitability's not going to be as high, because delays don't allow you to make a lot more profit, because you're just less productive. The projects are not going away, but I don't think they'll be as productive and profitable as we were in '20.

But let me just make a comment on that. That's the power of our diversified business model. When the rest of the world was struggling, we had this wonderful business unit just ace it for us, one of our business units. That gave us a great—that buffeted us last year when the others were struggling. Now they're coming down, and now we've got the consumers strong. That's the power of our diversified business model, and I got to tell you, make no apologies for it. The pipeline side, when there's a pipeline project to go, that team over there, led by Paul Schultz and his team, they're the industry leader. They'll do fantastic.

What you need to have in Canada is—Canada, do you want more pipelines to move the product, yes or no? I doubt if it's going to be crude oil pipelines, but it might be natural gas pipelines, because there is a huge shortage of natural gas in the world. Is Canada going to provide some of that, or not? That's up for Canadians to debate.

KONARK GUPTA:
Perfect, no, that's a great summary. Thanks, appreciate the time as always, and speedy recovery to Stephen. Thanks.

MURRAY K. MULLEN:
Thanks, Konark, appreciate that.

OPERATOR:
Our next question comes from David Ocampo of Cormark Securities. Please go ahead.

MURRAY K. MULLEN:
Hi, David.

DAVID OCAMPO:
Hi, Murray, how's it going?

MURRAY K. MULLEN:

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Great, thank you.

DAVID OCAMPO:

I just had a quick one for you on the package and courier business that you acquired. You mentioned that you wanted to expand it to other regions across Canada. Are you going to be able to do that all organically, or are you going to have to step in and make other acquisitions as you enter new markets?

MURRAY K. MULLEN:

That's what we're debating with the team that we've got over there, the two previous owners have stayed on, I mean, they're our keys to this business. Part of it's going to be organic, that we've got going on. For example, our Gardewine group, a good part of their business is in the courier business, in Winnipeg and Northern Manitoba, Northern Ontario. They have a really good network.

But I think it'll be a combination, and I'll tell you why. You can do it organically, but you've got to invest, and you're not efficient right off the bat if you do it organically, because you have to have the critical mass in order to be profitable. If you want to be profitable in LTL or you want to be profitable in package and courier, you'd better have critical mass. You can't have one shipment in the back of your little delivery van, you've got to have 50. That's how you make money in that business.

These guys, they've just got a great platform in the Calgary market, and the Calgary market, it's not chump change. I mean, Calgary market's one-point-some million people. But I can tell you we've got the business model, and I can tell you they've got just one of the best technology platforms I've seen. Yes, stay tuned on that. That's going to be part of our growth, package and courier, and these guys are competitive. Their pricing is exponentially below the rest of the competitors, which is why they have all the business, and they're profitable. That's a tough competitor. We'll continue to look at opportunities to expand that business, I think, David, over the next bit.

DAVID OCAMPO:

That's perfect. That's all I had for you. Thanks a lot, Murray.

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MURRAY K. MULLEN:

Thanks much.

OPERATOR:

Our next question comes from Aaron MacNeil of TD Securities. Please go ahead.

AARON MACNEIL:

Yes, morning all, thanks for taking my questions.

MURRAY K. MULLEN:

Good morning, Aaron.

AARON MACNEIL:

You already had a couple questions—hi, how are you?

MURRAY K. MULLEN:

Good.

AARON MACNEIL:

You already had a couple questions on HAUListic revenue, so maybe I'll ask the margin question. I'm just recalling the last conference call, you mentioned, in general, 3PL gross margins were typically around 10%. You sort of downplayed margin expectations for the near term at that time. Just looking at Q3 margins at 9%, you've said the team exceeded expectations. I guess I'd just follow-up and ask for a bit more context. Is this business performing better than you expected out of the gate? You mentioned improving performance for acquisitions. Is that something you still think you can do here, or is it running pretty efficiently already, in your view?

MURRAY K. MULLEN:

Yes, it's about 10%, so 9% to 10% is kind of the industry standard there. You just look at all the big 3PL providers and you've got two measures. One is how much freight did you move, that's the gross revenue, and then the net revenue is just the delta that I talk about, that spread. The spread is your net revenue, and their margins are very, very high on a net margin basis. The 9% to 10% is probably the number that we're after. I can tell you they've really outperformed on the

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revenue side, and we still have some integration costs that we've got to—when we first get the business and some transition costs that are embedded in there, but overall, they've beat my expectations, particularly on the top line. They continue to amaze me, to be honest with you.

Maybe that's a good chunk of the market and they're taking advantage of that, but I also think it's what they're doing internally and growing the business, expanding their network of station agents. Yes, that's the way I look at that.

AARON MACNEIL:
Okay. Maybe one other follow-up on Direct IT and just the small package and courier business in general. Is this something that you can leverage your existing warehousing infrastructure to build out, or is that something you'd need to do in addition?

MURRAY K. MULLEN:
Yes, that's a good point and that's part of the synergy, part of the opportunity that I see. Really, if you think about it, what's a warehouse? A warehouse is just a big spot where all the delivery guys come into and then you deliver out to the consumer. That's just called e-commerce. Courier and e-commerce fit hand in glove.

Yes, our Warehousing business, I mean, I'm sitting at our Warehousing business in Toronto today, at DWS, having the meeting with that group here and introduced them to that technology and said, "Look, we do the warehousing", and they do a fantastic job, but the opportunity is, we actually do the delivery too. Now we have a technology that would allow them to be very, very efficient. What you need then is the delivery mechanism and network to make sure it's profitable. Yes, I see opportunity with Warehousing, with final mile delivery and having that technology platform. That's a good potential opportunity for us to continue to grow and expand our footprint with our customers, absolutely.

AARON MACNEIL:
That's all for me, I'll turn it over. Thanks.

MURRAY K. MULLEN:
Thank you.

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OPERATOR:

Our next question comes from Kevin Chiang of CIBC. Please go ahead.

KEVIN CHIANG:

Hi, thanks for answering my question. I've just got one here. Hope everyone's doing well on the Mullen team.

I guess I'm a little bit surprised by maybe the cautiousness around margin expansion into next year. I know there's a lot of moving parts. I get the inflation angle. But I guess when I look at, let's say, your same-store sales and your Logistics & Warehousing, LTL in Q3, you're kind of in that 4% to 5% range, then if I look at U.S. HAUListic, as somebody calculated earlier, significantly double digit. It feels like capacity is constrained on both sides of the border, you're getting a premium for capacity out there.

Are you seeing a difference in how customers are pricing or thinking about how to get price for that capacity, or are U.S. customers or shippers more open to the pricing that's being pushed through, recognizing capacity is scarce and that's just been harder to do in Canada? If that's the case, just wondering why you think that is. It just feels like it's tight everywhere. I'm surprised you don't get the same reaction in Canada as we see in the U.S.

MURRAY K. MULLEN:

Yes. Well, that's something that I've highlighted over the last bit, is the Canadian marketplace is different than the U.S. marketplace. Let me talk about HAUListic first. Prices can go up in the marketplace; but if the cost of contracting goes up too, you're still only managing the spread. You're only making 10% off the delta, right? The biggest thing that happened in the United States is massive amount of growth in logistics and demand and all those kind of things, but also, those that had the asset did exceptionally well. They priced accordingly too. You just manage a spread.

Now conversely, if it slows down, they still manage the spread. That's what I like that business. You're not going to ride this, "Oh, things are great," "Oh, things are not great" and whatever; it's quite stable, because we just manage the spread there.

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In the U.S., yes, prices have gone up, but so have costs of contracting gone up. They've made more money because they get more gross revenue and those kind of things. That's the U.S. market. We have not seen the same pricing leverage in the Canadian market. It's starting, Kevin, but it's not the same as the U.S. We're at least six months, maybe 12 months behind the U.S. market, and I told you why. It's CEWS. Everybody got CEWS, so they didn't have to raise prices. They were making money because the government gave you money. Well, now you're not getting money, you've got to make money. Well, costs have gone up.

I suspect they're going to have to raise, and now you've got wage push from drivers. You hear it: nobody can get any drivers. The market, it is where it is right now. I don't think the market's growing a whole bunch right now, Kevin. I don't know how it can grow. I mean, our warehouses are full. You can't put more freight through the warehouses, it's full.

KEVIN CHIANG:
Mm-hmm.

MURRAY K. MULLEN:
Now, the Canadian marketplace just hasn't moved on prices as fast as the U.S. market, but I would suspect that 2022 is going to be a lot different than what we've seen for a long period of time.

What I articulate is what I think will happen in the fourth quarter, and then I'll come out with my game plan in December of what I think will happen in 2022. Suffice to say, I've said we're not going backwards.

KEVIN CHIANG:
Mm-hmm.

MURRAY K. MULLEN:
That's an absolute. That is not negotiable.

KEVIN CHIANG:
Right, that's (multiple speakers 70:24).

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MURRAY K. MULLEN:

Then it's just a matter of, okay, how much are you going to press your customers, and those kind of things. I can tell you, though, there's a lot of pressure building on pricing right now. I have not seen pressures like this in my career.

KEVIN CHIANG:

Can I ask, if the U.S. is a bit of a crystal ball, if Canada is six to 12 months behind, are you seeing your customers maybe proactively come to you to look into secure capacity that you allocate to them in 2022, given with all the supply chain disruptions you're seeing in the U.S.? Are you seeing any of your customers kind of proactively come to Mullen and say, "Hey, I want to make sure I get so much trucking capacity, so much warehousing capacity, because I can see where this is going to go, if I don't line this up soon enough."

MURRAY K. MULLEN:

Yes, so we don't have a lot of that business in the United States.

KEVIN CHIANG:

Mm-hmm.

MURRAY K. MULLEN:

When I talk to my peers down there, there has been some of that. But everybody's cautious right now because nobody wants to get trapped, so everybody's kind of playing the spot market.

KEVIN CHIANG:

Right.

MURRAY K. MULLEN:

It's kind of like the ship lines, the marine lines. Nobody wants to sign a long-term contract, because prices have just gone through the frigging roof. Everybody's a little bit afraid of that and getting trapped.

In Canada, we've not heard that.

KEVIN CHIANG:

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Okay.

MURRAY K. MULLEN:

But I'm telling you, the balance of power has shifted now, where we're saying to customers, "Sorry, it's easier for me to get a customer than it is for me to get employees, so here's my price."

KEVIN CHIANG:

Right.

MURRAY K. MULLEN:

These are very…

KEVIN CHIANG:

(Multiple speakers 72:18).

MURRAY K. MULLEN:

…awkward discussions, because we haven't had these discussions before. But the pressures, the inflationary pressures in the system, everybody gets it. There's not one customer that's saying, "Yes, we get it, we get it." Then it's just a matter, "Okay, how much are we going to get?"

KEVIN CHIANG:

Yes.

MURRAY K. MULLEN:

That's where we're at right now.

KEVIN CHIANG:

No, that's great colour, it sounds like we'll get some more details in the coming weeks here. That's it for me, Mullen team, thank you very much.

MURRAY K. MULLEN:

Thanks, Kevin.

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One more comment on pricing, folks, and this is a general comment to everybody, is that look, we have long-term customer relations. We are not going to treat our customers and take advantage of them in the short term at the expense of losing them long term. We sit with the customers, we'll make sure our costs are covered, and I suspect we might get a little bit more, but I am not going to play this game of trying to catch our customers and trap them, and those kinds of things. We've been in business too long to know that that will come back and haunt you, so we're not playing that game.

OPERATOR:

Our final question comes from Elias Foscolos of iA Capital Markets. Please go ahead.

MURRAY K. MULLEN:

Hello, Elias. How are you, sir?

ELIAS FOSCOLOS:

Fine, thanks. Good morning, Murray, and to the team.

I know it's been a long call, so maybe a couple short questions. Maybe the first one, and maybe if I can direct it towards Richard. Did you turn down work in Q3 or into Q4, and is it substantial, or are you just seeing that as a potential trend of turning down work if you don't get the right price?

RICHARD J. MALONEY:

Hi, Elias. Yes, thanks for the question.

I think we've covered that, and Murray has been alluding to what we're doing with the customer and the challenges we're facing here right now as well. It's just simply kind of a supply and demand imbalance. Customers are looking for things, and we're working with each of our customers to provide the right service at the right price. I don't know if there is a kind of cataclysmic issue of saying, "Hey, we're not doing your work", but we're being smart about it. We're being mindful, working with each and every of our business units in the segments that we operate it, because it's a little different in each area. The LTL people are going into their annual discussions, and Murray said, with the customers, and what we need to move forward. But we

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are working with our customers. Murray literally just talked to that point here as well, there's the colour you need on that.

MURRAY K. MULLEN:
Elias, what we are is turning down—we have a number of new opportunities that come our way, and I suspect that could be market churning, and we're saying we can't take it, because you have to have either a facility, or you have to have access to equipment or people. No, we can't take a lot of new business, because there's no people available.

RICHARD J. MALONEY:
Not at the expense of existing customers and relationships we've had with them as well.

ELIAS FOSCOLOS:
Yes.

RICHARD J. MALONEY:
(Multiple speakers 75:38) work with them.

MURRAY K. MULLEN:
Yes, so I think what happens when we get a bunch of that is that customers are playing the market to see, "Well, I'll go and check it out." No, there's nowhere to go. Everybody's full. Every one of our competitors is full, every one of our warehouses is full, here's the market. This is what we have to pay, and we have to make sure that we maintain margin, and if we do our job properly and things work out, then our margin should improve. But we're an asset-light business model now and we use a lot of subcontractors, so we're not going to have the same CapEx requirements that we used to have in the glory days with the oil patch where we're having $150 million CapEx spend a year. No. We're not going to have that. We're going to be kind of right in the middle of where we're at now.

I think last year we were at $50 million, and this excludes, folks, that $50 million excludes acquisition and excludes real estate. Those are long-term investments. But on the pure CapEx, replace of the rolling stock, we might be up a little bit from that next year. We'll see the budgets if they all come in, but it doesn't matter, you can't get it. Everybody's on allocation. We'll be

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lucky to be able to meet our threshold for this year. I don't know if we'll get there. I don't think it'll all be delivered.

ELIAS FOSCOLOS:
Okay, I appreciate that.

MURRAY K. MULLEN:
There are too many shortages.

ELIAS FOSCOLOS:
Murray, and thanks very much for the colour, Richard.

Murray, you touched upon the next one I wanted to bring about, which is your non-depreciating asset, real estate. A two-part question, one for maybe you, one for Carson.

You have a lot of real estate. We are in an inflationary environment. Is this going to give you a competitive advantage going into the future owning it?

The next thing for Carson is, and by the way, I just want to thank you for some of the disclosure you put in the results, because I was able to get a good handle on incremental margins out of Premay and Drilling-Related, so thanks to that, beyond everything else. But are you going to look at revaluing your real estate at some point, to give us an idea of what that might be worth?

Two questions. Can you leverage the fact that you own that non-depreciating asset, and can you give us an idea of what it's worth at some point in time?

MURRAY K. MULLEN:
I'll answer the first one for sure. Yes, we're going to leverage our real estate. I can tell you owning your own real estate is a competitive advantage. Some of the acquisitions I'm looking at, and we look at the real estate, real estate has gone through the roof. In an inflationary environment, the more real estate you own, probably the better off you are.

Carson, I think the real estate value, our portfolio, is around $600 million, $650 million of book value?

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CARSON P. URLACHER:

Yes, our carrying cost is about $615 million of the $978 million that we've got on our balance sheet.

MURRAY K. MULLEN:

Okay, so that's…

CARSON P. URLACHER:

It is the lion's share.

MURRAY K. MULLEN:

Yes, that's what our carrying cost is.

CARSON P. URLACHER:

Mm-hmm.

MURRAY K. MULLEN:

We have not mark-to-market that. I think we did go mark-to-market of that a number of years ago, fair market, but the market's gone ballistic since then.

To answer the second part of the question, Elias, we haven't thought about that. I can tell you we look at our real estate as a pure competitive advantage, so we'll be leveraging that to make sure that that embedded cost of the fair market value of that real estate is reflected in the pricing models that our business units are using. I'm telling them real estate prices are up, it's not free. You're paying your fair rent, so charge accordingly.

In terms of relooking at that, we may do it, but I don't know if we will do that or not. I'll have to take that under advisement.

ELIAS FOSCOLOS:

Okay, I appreciate the colour, because I was looking, one, for pricing on that to give you an advantage, or to make sure that you're passing through what costs would be, and the second

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really was from the ability to leverage the real estate from an indirect borrowing perspective. That was really the angle I was coming from.

MURRAY K. MULLEN:

Yes, so look, Elias, if we needed more money, which we don't need more money, but if we needed more money—and the only reason we'd need money is because we do more acquisitions. We don't need money to run our business and do all that kind of stuff. We make lots of money. But if we wanted to raise capital and leverage our real estate portfolio, yes, we could do that. We would look at it at that time for sure, because there's embedded value within our real estate portfolio, you're correct.

ELIAS FOSCOLOS:

Great. Thank you very much for all the colour and all the participation.

Murray, have you set a date for the business plan?

MURRAY K. MULLEN:

I think we're going to do it about December 8 and then we'll do a press release after the Board has approved it.

ELIAS FOSCOLOS:

Great.

MURRAY K. MULLEN:

Management will prepare it. Our business units present their budgets to us. Corporate office will review it. We'll package everything together. We'll present it to the Board. The Board will debate it, and then we'll put out our plan and our budget for 2022 just after December 8.

ELIAS FOSCOLOS:

Great, appreciate that. Thanks very much, and look forward to the closing comments.

MURRAY K. MULLEN:

Thank you very much, Elias.

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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 all for joining us, folks.

Carson, fantastic job. And to our good friend, Stephen, who is in there, he'll be out shortly and back at it. But that shows you the power of the team we have here, stepped in and wonderfully well done on that.

Thank you very much, folks, and we will be looking forward to outlining 2022 in early December. Thank you again. Bye-bye.

OPERATOR:

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

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