The Mullen Group Limited

2021 Year-End and Fourth Quarter Earnings Conference Call Transcript

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Time:	**9:00 AM MT**
Speakers:	**Murray K. Mullen** Chairman, Chief Executive Officer & President
	P. Stephen Clark Chief Financial Officer
	Richard J. Maloney Senior Vice President

OPERATOR:

Welcome to the Mullen Group Limited 2021 Year-End and Fourth 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 Mr. Murray K. Mullen, Chairman, CEO, and President of the Mullen Group Limited. Please go ahead, sir.

MURRAY K. MULLEN:

Thank you. Welcome all to Mullen Group's quarterly conference call. On today's call, we'll provide shareholders and interested investors with an overview of the fourth quarter financial results. We'll discuss the main drivers impacting our operating performance, and we'll close with a Q&A session.

Before I commence today's call, I'll remind everyone that the presentation may contain forward-looking statements, which are based on current expectations and are subject to a number of risks and uncertainties, and as such, actual results may differ materially. Further information identifying the risks, uncertainties, and assumptions can be found in the disclosure documents which are filed on SEDAR and at www.mullen-group.com.

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

The first thing we'll start with is a review of the Q4 financial results and operating performance. What I'm going to do is give you a bit of a high level overview of it, and then Stephen will get into the details, a little more granular.

With the release of the '21 annual financial review and today's call, we'll officially put '21 in the history books. As I said, today what we're going to do is focus on the fourth quarter. We'll provide insight and commentary on our results. A complete and full disclosure of the fourth quarter and full-year results can be found in the Annual Financial Review, which has been prepared, reviewed and approved by the auditors and the Audit Committee. This document can be found on SEDAR and on our website, www.mullen-group.com. A huge thank you to the entire team that worked just tirelessly to prepare this detailed documents, so thanks, team.

Clearly, the number one highlight that anyone can glean out of the quarter has to be the 48% increase in revenues, and you'll recall that we completed a number of acquisitions earlier in the year, six to be exact. We had the full benefit of these acquisitions during the quarter, $136 million of incremental revenues come from acquisition. Stephen will talk more about the numbers in a minute, so let me share with you a few comments about what these acquisitions actually mean to our Company.

First off, each of the companies we acquired last year will drive annual revenues of—I think, collectively, they'll drive annual revenues of around $500 million. I'm always proud when we're able to acquire good companies into our network, but bringing six on board in a year is pretty amazing, and let me tell you that these are all great companies. We got immediate access to new customers, new markets, excellent Leadership teams, and a quality workforce. This is at a time when people are the most difficult obstacle to any organization's potential growth, so am I happy? You know it.

Those business units we have owned for over a year; let me talk a little bit about them. Let's call them our legacy BUs, business units. They generated just over $305 million in revenues, and I just spoke about how the challenge is to grow your business due to the current state of the labour market. This shows up in our year-over-year revenue numbers, which are up only $8 million, after accounting for a drop of nearly $14 million at our Premay Pipeline Group, and I'll talk a little bit more about that later.

Certain market segments such as LTL had some growth, but overall there wasn't much growth in the economy, which if you think about it, makes perfect sense because, how can you grow an economy if there's not a lot of people available and with all the supply chain issues we had? Let me be clear, what I'm saying is that this doesn't mean that the economy was bad, that's not what I'm saying. What I'm reiterating is that the economic growth is difficult to achieve given the current labour markets and supply chain challenges. Because what we did witness was that the overall consumer spend was still pretty robust, providing solid freight demand for our LTL, Logistics, and Warehousing, and our newest segment, our U.S. and International Logistics.

I think the big change that we started to see in March of last quarter was in the capital investment part of the economy, especially the energy industry, as commodity prices have reloaded the balance sheets of these companies. If this trend continues, and I believe it will, then we are in for some solid long-haul flat deck freight demand and we'll see some improvement in everything to do with the energy business in our Drilling Services side.

Productivity and demand for Pipeline Services delayed us; there was a lot of—you heard us last quarter, lots of delays, delays after delays and the Pipeline business got hurt. It is noteworthy that I should reiterate that in 2022, the Pipeline business will most likely be about the same as what it is now. We've got to finish those big projects. But they really started in earnest in 2020, so 2020 was just really robust for our Pipeline side, and thankfully it is because that is the impetus to fuel for the Drilling Services, the Drilling side, and all of our other ancillary services that we provide. In our business model, when one area falters, another steps up. That's what we have in our diversified business model strategy.

Stephen will be providing additional details by segment shortly, but before he starts his presentation, I'll comment on the newest battle for businesses that is the inflation trend. No denying that it exists; the challenge that everyone has is trying to stay ahead of the curve on this emerging issue. Our business units have raised pricing, which is why if you look at our margins, adjusted for our U.S. and International Logistics segment, which is a non-asset-based 3PL, if we back them out, then you'll see that our business was pretty much in line with last year, which, I think is pretty commendable considering the loss of the high-margin business we had in Premay Pipelines. From my perspective, I'm very pleased.

Now, however, as I've reiterated to all of our business unit leaders, this inflation issue's not going away and they must raise prices, and I've had to be pretty firm on this. I don't want to have any debate on this with me.

Overall, a very solid quarter, which is precisely what I indicated on our last quarterly call where I called for revenues to be strong and operating profits to track close to the Q3 result, so we were pretty spot-on with that.

Stephen, I think what I'm going to do is call upon you now to provide some additional details on the fourth quarter financial results.

With all the details, here's Stephen.

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

Firstly, like Murray, I would like to thank the over 7,000 people that made these results possible, and a special shout-out to all the people that joined our team this past year via acquisition. I trust your first experiences under the Mullen banner have been rewarding. Again, thank you.

I'll get a little bit more granular; however, our 146-page Annual Financial Review contains the details that fully explain our performance. As such, I will only provide some high-level commentary on the quarter.

For the quarter, we generated record fourth quarter results with revenue of $441.9 million. Again, this is a record revenue that far exceeded any previous Q4 by over $100 million, and it was achieved through acquisitions and by modest, I'll call it same-store sales growth, within our LTL and Logistics and Warehousing segments. But this was somewhat offset by the decline in the Specialized and Industrial Services segment.

Year-over-year, revenue was up $144.2 million. In total, acquisitions contributed $136.1 million of new incremental revenue to the quarter. The remaining $8.1 million of growth was due to the net effect of about $7.8 million, or about 0.9% of growth, once adjusted for fuel surcharge fluctuations within the LTL segment; $8.7 million, or growth of about 5.9%, once adjusted for fuel surcharge fluctuations within the Logistics and Warehousing segment; and then $4.5 million of growth within our Drilling-related businesses, within the Specialized and Industrial Services segment, being offset by lower revenue from our Construction divisions, mainly Premay Pipeline which was down $14.3 million, and Smook, which was down by $3.3 million. That resulted in net segment decline for the Specialized and Industrial Services segment up $6.7 million. Of course, this is excluding acquisitions.

Revenue also rose because of higher fuel surcharge. Consolidated fuel surcharge revenue increased by $20.9 million to $37 million in total, as compared to $16.1 million in 2020, with acquisitions contributing about $10 million of incremental fuel surcharge revenue, and the remaining $10.9 million of increased fuel surcharge revenue being attributable to higher diesel fuel prices in our legacy businesses. I'll remind everyone, this flow-through of higher diesel prices is actually detrimental to margin, and I'll get into that a little bit more detailed later on.

A bit more granular on segment revenue; the LTL segment revenue grew by $52.5 million to $168.8 million as compared to $116.3 million in 2020. Acquisitions accounted for $44.7 million or 85% of the rise in revenue. The remain increase of $7.8 million was due to increases at all business units, due to the rebound in the economy and fuel surcharge revenue increases. On a same-store basis, again, adjusted for acquisitions and fuel surcharge fluctuations, this segment experienced a 0.9% or nearly 1% increase. As COVID, again, specifically the Omicron variant, slowed the economy in December and we had challenges in November with flooding in the Lower Mainland.

Revenue in the Logistics and Warehousing segment rose by $35 million to $131.8 million as compared to $96.8 million in 2020, due to the $26.3 million of revenue due to acquisitions, as well as the $3.2 million increase in fuel surcharge revenue. Again, on a same-store sales basis, adjusted for acquisitions and fuel surcharge fluctuations, we were up by 5.9% during the quarter.

Specialized and Industrial Services segment declined by $2.8 million to $82 million as compared to $84.8 million in 2020, primarily, again, to lower revenue at Premay Pipeline Hauling; that was down $14.3 million, and Smook, again, was down. It was partially offset by a return to strength in the Drilling-related BUs, and the acquisition of Babine in the spring of 2021. Again, more discrete numbers can be found on Page 61 of the MD&A for the breakdown by category in the S&I segment here.

As for profitability, operating income before depreciation and amortization, commonly referred to as EBITDA, increased by $13.6 million to $65.8 million. This, however, is somewhat a misleading indicator, as our results included $5.2 million of CEWS, or government wage subsidies in 2021 in the fourth quarter, as compared to $5.3 million of CEWS in 2020. We measure the success of our strategic goals by measuring the underlying business performance without CEWS. We included, within our MD&A, a non-GAAP measure we call Adjusted EBITDA. This definition and reconciliation for two EBITDA, or OIBDA, can be found on Page 93, but essentially, we adjusted OIBDA for CEWS. The underlying OIBDA number, adjusted for CEWS, was $60.6 million in the current quarter, as compared to $46.9 million in 2020.

How did we achieve growth of Adjusted EBITDA by nearly 30%? From a high level, it was the $13.9 million of new incremental OIBDA from our numerous acquisitions, being partially offset by lower profitability at Premay Pipeline and Smook. More specifically, on a segment level, LTL, the adjusted OIBDA increased by $8 million to $25.7 million as compared to $17.7 million in 2020. This increase, again, was really due to acquisitions, which accounted for the majority of the increase of $7 million, being somewhat offset by higher costs due to inflation. As a percentage of revenue, adjusted operating margin, though, remained stable at 15.2% in the fourth quarter of 2021, and in the fourth quarter of 2020.

Adjusted OIBDA in the Logistics and Warehousing segment increased by $4.4 million to $23.3 million as compared to $18.9 million in 2020, the majority, again, of the rise of EBITDA or OIBDA was due to our recent acquisitions, as they added $4.7 million of incremental OIBDA, being, again, offset primarily by inflation, but you would see that manifesting in fuel and purchase transportation costs. Because of inflation, Adjusted OIBDA margin decreased to 17.7% compared to 19.5% in 2020; again, 17.7% being a pretty respectable margin for a trucking Company though.

In the Specialized and Industrial Services segment, Adjusted OIBDA decreased by $2.3 million to $12.3 million as compared to $14.6 million, largely due to the $5.1 million decline in OIBDA generated by Premay Pipeline. Adjusted operating margin decreased by 2.2% to 15%, as compared to 17.2%; again, this is without CEWS, so this is just comparing apples to apples. It declined, again, due to that change in revenue mix, essentially the reduction of Premay Pipeline and Smook's revenue. But more specifically, the $2.3 million year-over-year decrease in Adjusted OIBDA in the Specialized and Industrial Services segment could be attributed to a $3.5 million decrease relating to the business units providing specialized services, including Premay and Smook, a $0.3 million or $300,000 decrease in those business units involved in the transportation of fluids and servicing in wells, but a $1.5 million increase in the business units tied to the Drilling-related activity.

Looking at Adjusted OIBDA as a percentage of revenue, or adjusted operating margin as we find it within our document, it's down to 13.7% as compared to 15.8% in 2020. Again, this is adjusted without CEWS, so trying to compare apples-to-apples. That appears to be alarmingly low, but we are comfortable with these results given that $61.2 million of our revenue was generated by our new U.S. and International Logistics segment. That achieved a 3.3% operating margin. But, without this segment's lower operating margin, consolidated adjusted operating margin, again without CEWS, would have been, and without the U.S. and International Logistics segment, would've been 15.4%, as compared to 15.8% in 2020. So, just a small decline in margin.

I would remind the listeners that our U.S. and International Logistics segment generated $4.9 million of OIBDA in the first six months of operations under our banner. That's not a bad return on a $49.6 million investment. In fact, it's about a 20% annualized return, and we expect margin to improve over time. We have some work to do there, but that will improve over time. In other words, this segment has low margin and is pulling our average down, but terrific returns on capital. Again, without our U.S. segment, our adjusted operating margin was a healthy 15.4%, down just a little bit from the 15.8%.

The other impacts on that margin, though, was the detrimental effect of the operating margins associated with the $20.9 million increase in fuel surcharge that I mentioned earlier. That resulted in a corresponding increase in fuel expense, and that fuel surcharge now represented 8.4% of revenue that generates little or no margin as it is a flow-through to compensate us for rising diesel fuel prices. Taking Adjusted EBITDA and dividing it by revenue, excluding fuel surcharge revenue, and the U.S. and International Logistics segment, margin was 17%. Take those two anomalies out, 17% is actually pretty good on a historic basis. This reinforces the underlying strength of our Canadian business.

Further, the $14.3 million reduction at Premay Pipeline revenue that resulted in a $5.1 million decrease in Adjusted EBITDA, you can clearly see that the margins there pulled us up in the past. But essentially, this change in revenue mix had a large negative drag on our operating margin. I know this sounds like a lot of "yes, buts", but these factors really explain the degradation in margin. It's not as bad as it appears; in fact, I would tell you that it's on par, in fact, without fuel surcharge, even better. Some of these factors that I've mentioned that helped bring the margin down were offset by productivity improvements, and the tireless effort by all of us to maintain or improve our margin in an inflationary cost environment.

If you make it to Page 146 of our document without falling asleep, you will see our geographic disclosure information. That essentially carves out our Canadian operations from our new U.S. operations, and you will see that our Canadian operations, again, you'll see that discretely in the document where we achieved that 17% margin. Hopefully that's a good understanding on why margin is down a little bit.

Now, looking at some other notable items, net cash from operating activities for the period was up $13.3 million, to $65.8 million. Our borrowing on our credit facilities, though, did increase by $3.8 million to $89 million, despite that great cash generation. But I would remind you all that we acquired Direct IT for $9.2 million and we purchased another great facility in Edmonton for our newly acquired APPS acquisition for $8.5 million. Essentially, we would've been very cash positive and repaying that line of credit if we didn't make these long-term investments on our line of credit. We acquired another great company, another great facility, and really would've been cash positive without that. The bottom line is we generate a lot of free cash.

Lastly, our basic earnings per share was up to $0.21 as compared to $0.10 in Q4 of last year, in part because of the reduced share count as we bought back 3.5 million shares in the last 12 months. But also, we finalized our purchase equation during the fourth quarter, and you would've seen a change in the amortization. We reduced the amortization; we overbooked it in the third quarter, but once we did the analysis and finalized those purchase equations, we had trued up our adjusted fourth quarter down a little bit. A little bit of an anomaly there when it comes to amortization, but nonetheless a healthy pace, where we continue to increase our earnings per share on a continuing basis, fourth quarter included.

Lastly, a quick word on ESG, which I've been summarizing quickly for everybody on the calls here lately; I'd like to maybe just address our carbon intensity. We've made these acquisitions, APPS being one of them, an intermodal player. We have intermodal freight moving at Kleyson and others, and Tri Point. This has really resulted in our carbon intensity being down about 20 grams per dollar of revenue, from about 23 grams per dollar of revenue in 2020. Again, we are managing everything well, profitability, and keeping an eye on ESG and reducing our carbon footprint, our carbon intensity yet again in 2021.

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

Well, this is where Murray usually gives us a nice summary of the quarter and opens up for Q&A. It appears we've perhaps lost him off the call here. Here is he back.

MURRAY K. MULLEN:
I was on mute.

P. STEPHEN CLARK:
Here he is, back.

MURRAY K. MULLEN:
I was on mute, sorry folks. Thank you, Steph, for that.

As I summarize this, there's a lot of granular information that Stephen gave us there, but if you look at 2020, 2020 was a year in which we were able—COVID first hit, and we slashed expenses, we didn't know what was happening, nobody knew it. This is across nearly every business, and specifically to ours. We did that, and then we were very fortunate to have this really quality company called Premay Pipelines and they just did a fantastic job in 2020.

In '21, everything changed. We brought people back, but not only brought people back, you started to see this inflationary spiral really take hold. What we took away in 2020, it came back with a vengeance in '21. I think that ends up being, I think, the biggest step change if you will, between '20 and '21. Then of course, on the corporate side, we did a number of acquisitions. I think that's really the two big themes that somebody can take away from the change, on a year-over-year basis.

Now, if I take a look at the outlook, there's really not much I can add. I've got a lot of people, a lot of questions queued up here, so I'm going to be short on the outlook. There's not much more that I can add that's not contained in the press release and the Annual Financial Report, or truthfully, in our December press announcement, which referenced our '22 business plan, which, by the way, included an increase in the dividend.

But I think what I'll just summarize the 2022 outlook as, we're going to achieve record revenues. This is going to be driven by the full-year results from the six acquisitions we completed in '21. In addition, I fully expect we're going to complete additional acquisitions during '22, which will drive additional revenue growth. We're going to have record revenues in '22. We have a balance sheet that has over $150 million of available credit. Then truthfully, when you think about the tightness in the labour market, acquiring good companies with great teams may be the best way that anybody can grow, add additional capacity, to service their existing customers.

From that perspective, we will do acquisitions so we can service our customers. But, and I reiterate with the "but", we need to see some pretty significant rate increases of customers who want service, and speaking of rate increases, I tell you, this is how we're going to grow profitability. This message has been delivered loud and clear to all of our Canadian-based companies, and I deliberately mention Canada because rates here in Canada have lagged U.S. rates by a significant amount, I'm thinking in the range of 20%, which explains why the U.S. carriers have experienced such a great run over the last couple years, strong earnings, outstanding stock prices. But in Canada, we did not see that same market adjustment.

We live in envy of our friends in the U.S., which ultimately means, this is what I expect from our business units here in Canada, as long as the fundamentals of freight command stay as they are and the labour markets remain tight, I suspect that will happen. We're going to have record revenues, and I can tell you, we're going to focus on raising prices, because that's the step change that we fundamentally see happening in the Canadian marketplace, that's going to happen throughout '22. I think whenever you look at change, what's the change, well, there it is. If I look at it from the Logistics business, it's going to be on pricing. If I look at it in the Commodity business, or the Energy space, the step change is pricing increases. That's providing the impetus for the step change there. I think exactly the same thing is going to happen in the Canadian Logistics, Transportation business. Our job is to manage that and to make sure that we drive margin improvement for our shareholders.

That's kind of what we've got for the outlook. Now, what I'd like to do now, we've got some new opportunities that we're working on. What I want to do now is call upon Richard Maloney to speak to the joint press release we have with our trusted business partner, Canadian National here that we just did on Tuesday. I know, Rich, I've asked you to kind of just give an overview of what that really means and some of our initiatives, what we're going to do on the intermodal business.

Richard Maloney, I'll turn it over to you, and then I'll finish with closing comments before we go to the Q&A session. Richard?

RICHARD J. MALONEY:
Okay, thank you, Murray.

On February 8, 2022, we announced that our APPS Transport Group entered into a multi-year agreement with CN, in which the railway would continue to provide intermodal service to APPS. Why did we do this? Well, it's about messaging and communicating to our shareholders and the investment community that the strategic shift we made a number of years ago to becoming a North American logistics leader is still Mullen Group's priority.

To begin with, both Mullen Group and CN believe that this announcement was important to emphasize the strong, mutually beneficial working relationship CN and APPS Transport have developed over many, many years. It is also worth noting that a number of other Mullen Group business units have longstanding working relationships with CN as well.

In addition, this announcement demonstrates Mullen Group's continued focus on building out our intermodal capabilities. Murray calls this the long mile, which really started in 2006 when we acquired Kleyson, and was greatly enhanced with the acquisition of APPS Transport in 2021. In fact, concurrent with APPS Transport signing the intermodal agreement with CN, we approved a sizable capital request to order new intermodal containers to support this planned work. This aligns directly with the capital expenditures we outlined in our 2002 (phon 28:52) business plan, specifically, investments towards sustainability initiatives.

As many will know, intermodal transportation is an efficient and effective manner to move goods long distances, something ideally suited for Canada, an importing nation, and particularly important as there are fewer and fewer long-haul truck drivers. Intermodal also greatly cuts down on fuel consumption, and more importantly, reduces greenhouse gas emissions, a cornerstone of Mullen Group's ESG initiatives that Stephen pointed out with our carbon intensity and our continued focus on reducing that.

When you combine our extensive final-mile LTL network that services well over 5,000 points of service in Western Canada and Ontario, with the focused and deliberate build-out of our long-mile service offering, with a strategic partner like CN, we are able to provide a comprehensive service offering to our customers. Stay tuned everyone.

Murray, I'll pass it back to you now.

MURRAY K. MULLEN:
Okay, thanks, Rich.

I really appreciate that update for our investors, shareholders alike is that we've got a dual-purpose here. Stephen talked about it. We want to make sure that we're doing our part on climate initiatives, and I think that's an important of ESG that we're focused on.

The second part is, we're going to have to be able to provide our shippers and our customers with viable, multiple service offerings, so then they can choose which one is best for their requirement. I think we've got some great initiatives. These are the kind of things that you get, that I spoke earlier about, when you invest in really good quality companies, and let me tell you, I couldn't be happier with those acquisitions we did in '21. We're ready for '22, we've got a long list of questions, so I'm going to turn it over to the Operator and let's get right to the Q&A session.

OPERATOR:
Certainly. The first question comes from Michael Robertson with National Bank Financial. Please go ahead.

MICHAEL ROBERTSON:
Hey, good morning all. Congrats on a solid quarter and thanks for taking my questions.

I appreciate that it's still early days for the U.S. and International Logistics segment, and we should probably expect margins to bounce around a bit as you add station agents and fill that out. But, sort of just wondering, at a high level, what you saw there, sequentially, and maybe how you expect that to trend moving forward?

MURRAY K. MULLEN:

Well, I think first of all, we've got a really good platform to build on there. A little bit of the noise comes in that our costs are going up because we're still involved in the carve-out process, got some additional costs that we've got to accrue as a result of getting the carve-out of the technology from Quad/Graphics into our own platform, so it's a little bit noisy on the expense side.

Revenue side, we're pretty strong; the economy in the U.S. is pretty robust, so on that front doing well. It's on the cost side that we're going to have a little bit of noise in the cost side until we get that total carve-out done. Then what we're going to do, once we get that done, we'll really go into full throttle here and challenge that group down there to take this Company to the next level.

We're in the right space; there's no doubt about it. They compete head-to-head with every one of the big logistics companies down there, and they do very successfully, including new start-ups like Convoy and Uber Freight and all the others. We've got a heck of a great team there and expect they'll continue to expand their market share down there once we get finished. We think we'll be done most of the carve-out by the end of June. That was our original plan, and I think collaborating with our group down there, they're pretty comfortable that we'll be on that.

All good from there; the U.S. economy still remains strong, freight is still moving. From that perspective—what they watch very, very carefully is what's happening with the trucking rates in the United States, because what they do is just, they manage the spread between what the contract expense is to what they charge to their customer. Really, the margin should not change if the markets get a little competitive because then the availability of trucks becomes available and prices will go down there. But we have not seen any degradation in pricing in the U.S. market yet, not at all. It's still pretty robust. We watch that every month, for sure.

MICHAEL ROBERTSON:
That's helpful.

MURRAY K. MULLEN:
Yes, it's a great platform. We need it to get another growth opportunity outside of Canada; this is just the start. We're proving down there that we just follow the same platform we got up here, you invest in good companies with great Management teams and turn them loose and reward

them for their successes. We'll probably continue to grow in the U.S. is what we'll do, but you got identify the right opportunity. There's no sense just growing to grow and then getting into a heck of a problem, but we didn't get into a problem with this group. They're first-class.

MICHAEL ROBERTSON:

Got it. Thanks for that.

You also noted in the release last night that you're focusing on a new differentiated pricing model to help support margins. Sort of wondering what the bigger picture there is, in terms of what you think that might look like?

MURRAY K. MULLEN:

Yes, I think what we've done in the past—this has been throughout history, is you kind of charge the same price to everybody. When I say a differentiated pricing model, we're saying to the customers, "If you want guaranteed service, you've got to pay a higher price." If you want to give us flexibility so that we can do it on our time and when we've got additional capacity, it'll sit on the dock or we'll get to it when we can, then that fits in our network, we'll give you that. But it's not going to come with that guaranteed service.

If you want service and you want commitment from this group, your prices are going up pretty significantly. If you want to give us flexibility, if you have got ability on that, then we probably won't move our pricing quite as aggressively on that side. That's what I mean by the differentiated pricing model. If you want service, you got to pay for it.

MICHAEL ROBERTSON:

That makes sense. That's super helpful, I appreciate it. Again, congrats on a solid quarter; I'll turn it back.

MURRAY K. MULLEN:

Thanks, Michael. Appreciate it. Bye.

OPERATOR:

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

KONARK GUPTA:

Thanks and good morning, everyone.

I wanted to ask you about the 2022 business plan that you rolled out in December, and we didn't really have a chance to kind of speak on that broadly. You mentioned, Murray, last year's acquisitions will generate about $500 million in revenue, and that's up 119% from your Q2 disclosure. If I simply take the incremental there, given they were done midyear last year, are you probably going to see your revenue grow up, maybe $1.66 billion or so in 2022, just by those acquisitions, and perhaps there is some organic growth across multiple segments. How would you break up your 2022 business plan that you laid out, in terms of revenue and margin outlook, by segment, in this year?

MURRAY K. MULLEN:

Steph, I don't think we broke that out by segment. I don't recall us doing that. Did we?

P. STEPHEN CLARK:

No, we never did give guidance to it. The previous year, we said it would be a third, a third, a third, and of course that didn't turn out to be right. But it's going to roughly be, probably, again looking at the trend on the quarter, is you can just adjust your models, but you can see what the pace of U.S. Logistics is. You can kind of see what the pace of LTL growth has been.

Again, I'll give it with one caveat. You've got $1.6 billion to $1.7 billion in revenue, and again, you're not adjusting for any new acquisitions that we might do during 2022 here. Again, that mix is—we can get a little bit more granular, Konark, maybe after the call once you've done your math.

MURRAY K. MULLEN:

Konark, I think the thing is, you've got new acquisitions, they're going to add about $500 million. You take same-store sales in '22, you had $500 million, or '21, sorry, annualized revenues of $500 million. Then I'm telling you, we're raising prices. If you're raising prices by 10%, that's quite a bit of money on a $1.5 billion, $1.6 billion Company.

KONARK GUPTA:

Murray, is pricing coming along with this organic volume growth, or it's coming at a cost of more than decline (phon 39:01)?

MURRAY K. MULLEN:

No, right now, the—we've never seen this cost curve like what we're seeing right now. We raise prices, and then the next thing you know, your costs are going up, just about as fast or even higher. It's a little bit like the fuel surcharge. The price of fuel goes up, you raise the fuel surcharge; costs go up, you raise your prices.

I would suggest to you we're a little bit behind on that curve, because our teams, we said, “Raise your prices” and they did. Then all of a sudden, the costs, it's very difficult to contain costs right now. We're having to adjust rates. We'd do it once a year before, now we're going to have to do it—we're already talking about adjusting rates, kind of second quarter. I know for sure we're going to adjust rates to maintain margin. I know that for sure. But our teams, I've said we're going have this differentiated pricing model, I expect a higher margin in '22; so they'll have to raise above what the costs are going up, for sure. Let's just ballpark it and say prices are going to go up by 10%. On $1.6 billion, that's $160 million.

KONARK GUPTA:

Okay.

MURRAY K. MULLEN:

Then that's going to flow through. The question then becomes how much of that is going to flow through on the cost side too? We tried to give you a reasonable guideline when we did our first blush at '22, which suggested, that's what I think is going to happen. I gave a bit of a small bucket, but every 1% margin improvement now is $16 million to $18 million of EBITDA.

The business units know the game plan. We expect prices to go up, because I think the Canadian marketplace has now changed, and the U.S. marketplace has already changed. That's already happened. They're not going to get big, big rate increases any longer in the U.S., but in Canada, I suspect we're going to get it.

Some of the things that I'm seeing now are not 10%. Some of the stuff is, you've got border closures, you've got blockades, you've got less drivers that can go to the U.S. because of new vaccine mandates. All of that reduces capacity. When you reduce capacity and demand stays strong, price goes up. Our job is to manage the price, and I can tell you, we're 100% focused on that in '22.

KONARK GUPTA:
Okay, that's really good colour. I appreciate that.

Then perhaps my last question before I turn it over, on the real estate, a lot of your shareholders kind of wonder about what your strategy is with that real estate book value you have. I think it's about $631 million. Also at this point, and I'm sure with the kind of inflation we are seeing over the last decade or so, the real estate market value has probably gone up significantly for you guys. A couple of questions, a two-part question there; what kind of real estate do you own at this time, and what do you see, or what kind of plans you might have for leveraging the market value strength?

MURRAY K. MULLEN:
Well, as you commented, I think Carson, Steph, you can chime in on this, but I think the book value, the stated value on our books is around $620 million, $625 million or something like that.

P. STEPHEN CLARK:
Yes, $630 million, Murray.

MURRAY K. MULLEN:
Yes, $630 million. You've got the real estate that we hold in the crazy markets in Canada, which would be Vancouver, which would be the GTA, and some of those markets, it's through the roof. We're talking about multiples over our book value. Then we've got some absolute strategic assets in Calgary and Edmonton that are tied to rail. Those are irreplaceable assets. We've got lots of—our market value of our real estate is higher than the book value, we'll just leave it at that.

My strategy's really simple. We got one really, really great asset, and it's called real estate. You got to own real estate in a rising inflationary environment, and I suspect that when we go to renew our debt facilities, that that's going to be a pretty darned good leverage that we'll be able to use with our debt holders to say, "This is a fantastic asset and I think we'll be able to add some additional liquidity to our business so we can grow through acquisition." That's our strategy.

KONARK GUPTA:
Okay. That's pretty simple and clear. Thank you.

MURRAY K. MULLEN:
Yes.

OPERATOR:
Our next question is from Kevin Chiang with CIBC. Please go ahead.

KEVIN CHIANG:
Yes, thanks for taking my question.

Just on the re-pricing opportunity you mentioned here, Murray, just wondering, how much of the book of business do you think today is maybe below a pricing level you think is acceptable, and how much of that can you re-price? In other words, do you have contracts in place that maybe-push out when some of that re-pricing can happen, just because you're under a contractual obligation to provide that service under a previous rate?

MURRAY K. MULLEN:
Yes, I think we've got some of that. I think, in '21, Kevin, nobody that was pricing in Canada was factoring in an inflationary spiral that really happened particularly in the last half of the year. It just absolutely exploded. By the way, we're not the only ones that are talking like that. Our Bank of Canada governor's talking about it, and everybody is now. Inflation's now totally embedded within the Canadian landscape.

I think what we were, was basically behind the curve on some of that, a little cautious on pricing improvement. You've got to remember, this is the first time in decades where you've had an inflationary environment like this. I don't think that's the case now. I'm telling all of our business units, "Don't be shy." We expect pricing, pretty significant pricing increases to happen, and by the way, we have to have that because driver salaries are going to go up quite significantly.

We already know what's happened with fuel; you can't get new equipment. New equipment's going to be up, I bet you 20%. We're not talking about 5% anymore, Kevin. It's got to be significantly higher than that. Then our job then, is to get something higher than what the cost is. Our job as a senior team is to improve the margin, in '22, and it's going to come through pricing, and then hopefully we can mitigate some of our costs by being smart. But you can't mitigate driver's salaries; that's a market-driven thing. I mean, you've got to pay what you've got to pay, just like for fuel.

KEVIN CHIANG:
Right.

MURRAY K. MULLEN:
Where I think you get some of our margin degradation, Stephen talked about this, is we have moved our business away from owning the asset to being non-asset, to being, really, asset-light. Our asset-based businesses, we expect 20%+ margin. If we're buying the asset, the truck, the trailer and everything, we expect 20%+ margin. If you're using all subcontractors, well, you're not going to make 20%, because the contractor's going to make that.

In those where we have no assets, you have a much lower margin than when you would, on there. That's kind of our game plan, because what we do is just manage the spread. We have a nice mixture; I expect when we invest the capital, we expect 20%+ margin businesses. When we just have logistics, or asset-light, then the margin goes down, and we've been moving more and more towards asset-light business where we're not making the capital investment. We love to invest in real estate, because it's long-term. We love the intermodal business, because it's long-term.

KEVIN CHIANG:
Right, that makes a ton of sense. You can still generate good ROI on a lower asset.

MURRAY K. MULLEN:
To us, it's all about, do we generate cash and a return on the cash we invested? We're still Warren Buffett disciples here at Mullen Group.

KEVIN CHIANG:

Makes sense. You made a comment a few times that you think there's a structural change in the Canadian freight industry. It's been underpriced for a long time now, and maybe that's starting to change and maybe following what we've seen south of the border. Are you seeing any behavioural changes with your shippers or your customers? To the extent they have a crystal ball, they've seen how disruptive it has been to shippers south of the border, if they did not secure capacity ahead of time. If what you're calling for is something maybe similar to what we've seen in the U.S., the past few years here, is that incentivizing shippers to, as you mentioned, maybe lock in some dedicated capacity, lock in rates, maybe at a higher level, but knowing that there's consistency of service? Are you seeing any of that behaviour change, if what you're calling for is really what's happening?

MURRAY K. MULLEN:

Truthfully, Kevin, I haven't seen that yet, at least in the Canadian marketplace. By the way, no customer that I know of yet, and I've told this to all of our group, has come to us and offered us a price increase. We’ve got to go ask for it, we’ve got to get tell them, “If you want service, this is what you will pay.” These are awkward discussions when you haven't had these discussions for a long period of time. You're going to win some, you're going to lose some, but net-net, prices are going up.

I think generally, though, all the customers that we've had are receptive to the pricing increases. What we are still involved in, nobody just accepts a huge increase. There's lots of debate and, “Hey, can you mitigate?” “Can you do this? Can you do that?” That's where I want to give our customers the option of, what do you want? If you can give us time and you want to move it intermodally, that's probably going to be a much more cost-efficient way for you than if you want truck and you want it delivered tomorrow. That service is going to cost you a lot of money.

We have to manage it, Kevin. I know prices are going up, but the market will pay if they have to pay, not because they want to pay.

KEVIN CHIANG:

No, that's a very fair statement there. I'll leave it there, Murray and team. Thanks for taking my questions and congrats on a solid Q4 there.

MURRAY K. MULLEN:

Yes. Thanks, Kevin, I appreciate that. Cheers now. Bye.

OPERATOR:

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

DAVID OCAMPO:

Thanks, good morning, everyone.

Murray, you mentioned that acquisitions should continue to be a story here in '22. But when I look at your outlook section in your annual release there, you called out being uncomfortable with the current valuation expectations. How should I frame those two comments together?

MURRAY K. MULLEN:

Well, I think that's the toll that we're going to have, David, is that, if you think about it, a seller is now saying, “Well, I'm going to get pricing increases, so I want higher valuation.” I think that ends up being the difference between what we're paying for and what we expect. We just have to manage that. You’ve got to find a happy medium. Everybody tells me they’re raising prices, all these guys that are trying to sell their businesses, “Well, I'm going to raise my prices.” Well then, go raise your prices and show me, because I want to see how it works out before I invest money in your business.

Where we would invest, is when we think we get a really quality company with a great workforce and great leadership, just like we did last year. We'll continue to look favourably at acquisitions like that, but I'm not going to go—some of these businesses, they need to get their shit together and raise some prices and get their margins up or they need to get out of the business. That's how simple it is.

DAVID OCAMPO:

Right. I guess just as a follow-up, if you can't get anything across the line this year, how would you prioritize your free cash flow? Is it just paying down debt, dividends, and buybacks?

MURRAY K. MULLEN:

Buy back shares. We already increased the dividend for this year; really comfortable with that. I can tell you right now, we're really, really comfortable in buying this really cheap company. It's called MTL.

DAVID OCAMPO:

Perfect, that’s it for me, Murray. I’ll hand the call over.

MURRAY K. MULLEN:

Thanks, David. Bye.

OPERATOR:

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

WALTER SPRACKLIN:

Yes, thanks very much. Hey, Murray, how are you doing?

MURRAY K. MULLEN:

Good.

WALTER SPRACKLIN:

Good. Just on your outlook for December, just to recap what I think I've heard here, is that you gave an outlook for December, you highlighted that Canada was behind the U.S. We've heard from one of your key competitors here that that was true, but now the gap is closing, Canada is getting its act in gear, getting its act together, and now conditions have improved significantly that will allow you to drive price in Canada at a much better level than you saw in December. Is that fair to say?

MURRAY K. MULLEN:

I think that’s the expectation, Walter, is that the gap was going to narrow between the two markets, Canada and U.S., I think that's exactly what's going to happen. I have not spoken with Mr. Bedard but I can tell you, it’s the market. He sees it from his perspective, I see it from ours, so that tells me it's a market force, that prices are going up because they have to, and that gap is going to narrow. When that narrows, then I think that what you're going to see is margin improvement.

What’s going to change in our business, there's not going to be substantially more revenue, economic growth. The economy is kind of growing about what it can right now. You've got a tight labour market; you've got supply chain issues, where you just can't grow much more. Where we do see the step change is in the cost side and appropriate pricing levels. How much? I gave my best guess that we're going to improve margin, we're going to strive to maybe improve margin by 1% or something like that. That's $18 million. But that was just my best guess in December, and this is a very fluid market right now. Some of the stuff I'm seeing, this is not 1% margin, this is quite significant, so we'll have to see how it plays out.

I'm just telling everybody, prices are going up. I think there's a step change that's happening in the logistics and Canadian trucking business, and our job is to manage that and drive margin and it's going to come from pricing leverage, period. It's just that simple. I think there's going to be a step change. Then you'll be able to monitor us every quarter, how are we doing on that? Now, you start the year, yes, we got pricing improvement. Then you're sitting at the borders waiting, because there's backlogs, there's protests. Whenever there's a protest, it didn't matter if it was protesting the pipelines, it didn't matter if it's this protest, that protest, when there's protests, which are really labour disruption moves, then those are awkward times. You don't have good productivity and those things during that period of time.

But protests don't last forever, they'll go away. What I'm talking about is the trend, and I think the trend is higher prices, and I think that will be the trend for those people that know how to take advantage of that.

WALTER SPRACKLIN:
Okay. You highlighted your intermodal deal with CN. As you know, and I know I've asked you this in the past, CN is currently examining how they're going to operate their intermodal segment from that trucking side, particularly with their transaction, H&R and so on.

You appear to be getting a deeper and deeper relationship with CN on the intermodal side. Does it stand to reason that there could be further partnership here if they do indeed go ahead with that kind of JV model that they've talked about? Or, on the flip side, if they didn't go with Mullen on the JV model and went with another player, do you see that intermodal business that you've announced with CN at risk in the future, depending on who they go with if they do JV with someone else?

MURRAY K. MULLEN:

Well, I can't speak for CN; you can talk with them, they've got their strategic plans and their initiatives and I'm not privy to them and whatever. Suffice to say, I'll look at any deal that comes up across our desk, so I can speak of what we would look at. By the way, I looked at the H&R assets before and I looked at the TransX assets before they bought them, so it's not as if this is new to us.

But if it comes our way, we'll reengage and we'll look at it, and we'll see, does it make sense for Mullen shareholders and for our business and for our customers? Absolutely, we'll do that. Am I worried about if we don't get it? No, because we don't have it now. All we're talking about, if it makes sense, then we will certainly put our best foot forward and whatever. But the steps that we're taking, and Richard talked about it, we continue to get—we're going to move more and more towards providing a full intermodal, long-mile service offering for our customers. Intermodal is the way of the future for the long haul, for the long-mile.

LTL, your regional network, that's delivering to the customer. We've built out an excellent platform in LTL, now we're building out the long-mile, and intermodal will be a very, very critical part of it. We engage with our friends at CN because you can just say, look, they know that we're going to be a player, and they'll want to engage with us because we move a lot of freight with them. They're a big subcontractor to our group. We're going to continue.

Then you saw, we've already put some nice little capital addition, a lot more capital into intermodal trailers than into trucks. Trucks use fuel, trucks have drivers, trucks have repairs and maintenance. The three big costs in trucking, they're going through the roof. In intermodal, we've signed a long-term deal with CN which gives us price stability.

WALTER SPRACKLIN:

Finally, just on technology here and the continued integration, a little bit on the edges, at least on intermodal with trucking and so on, I noticed that Union Pacific, through its logistics, has done some interesting moves here, acquiring transload facilities, but recently partnered with TuSimple to go down the path of autonomous driving, really taking what we all viewed as a conceptual down the road kind of idea and really now starting to invest dollars and test out equipment and so on.

What's your view on that whole path? Are you going to be, wait and see how it develops? Or is it possible that you start looking at some ways to integrate more with rail by investing in autonomous driving?

MURRAY K. MULLEN:
Well, I think there's a way for autonomous vehicles, but probably in my career, the rest of my career, autonomous vehicles will be used when they're on a specific site. Like in an intermodal yard where you can ring-fence all the parameters in there.

We already know that they're using autonomous trucks in a lot of the mining, even in the oil and gas business, up in the oil sands and whatever, using autonomous vehicles on platforms where you just program it in and say "Here's what you do." Going over the road, no, that's not going to happen in my lifetime, I don't see that. Our autonomous truck is going to be that intermodal platform, that's where we're going. Will you have autonomous trucks in our yards to move freight and equipment? Yes, I can see that happening, but it's so early stage.

Right now, I'll tell you what we're really focused on. I'm really focused on making sure we have the right strategic assets and facilities. We're going to continue to invest in facilities. If you don't have facilities, you're not going to be a player in this game. Am I happy with our real estate portfolio? Take it to the bank, shareholders: it's fantastic. But do I want more intermodal? Yes, but boy, they're expensive. We've got some good platforms now and we'll continue to add where we can.

But on the technology side, yes, technology is just going to continue to evolve, we all know that. Whether it's going to be one big blockchain where everybody in the world goes through one technology, I doubt it. I think there's going to be just a continued evolution of technology and integration of service providers into one platform; if you want to call that blockchain too, go ahead, but we'll be more integrated in with your service providers. No doubt about it.

WALTER SPRACKLIN:
Okay. I appreciate the time as always, Murray. Thanks.

MURRAY K. MULLEN:

Thank you, Walter. Good chatting. Cheers now.

OPERATOR:

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

MATTHEW WEEKES:

Morning, thanks for taking my questions.

MURRAY K. MULLEN:

Hello.

MATTHEW WEEKES:

I just wanted to touch, first of all, you briefly mentioned disruptions from blockades and protests and that sort of thing in the business. I'm just wondering if this is anything that's been material so far in the quarter, or if you've, for the most part, been able to work around any blockades or disruptions of that sort?

MURRAY K. MULLEN:

Well, it's been a pain, there's no doubt about it. But as I said, we've endured many, many blockades, over the last bit. In the fourth quarter, we endured the floods, blockades, you couldn't get through the road. The other one was Mother Nature, this one is manmade, so it's a disruption, but you have to work around it and costs are going up. You avoid those areas, but you have to tell the customers, "We'll avoid it."

If you're stuck in the middle of it, yes, we've had some disruption there. But our business is totally diversified across so many different platforms. We've had some disruption, and then we've had some gain. Net-net, I don't think you're going to hear me say, "Oh, my God, these things destroyed our quarter." I don't think you're going to hear that. Are they a pain? Yes, but as I said, most disruptions are a pain, so we just have to work around them.

MATTHEW WEEKES:

Okay, thanks, I appreciate it.

MURRAY K. MULLEN:

I know one thing that happens. If we're taking that freight and you're going to and from the United States, as an example, I can tell you, the rates are up pretty significantly right now.

MATTHEW WEEKES:

Okay, thanks.

Speaking of rates and pricing, there's been a lot of talk on that today. If I can just try and summarize it a little bit, would you say that, overall, demand remains strong in the business, but on the volume side, capacity is tight, so Mullen will be able to leverage pricing to meet the higher costs, and potentially even leverage pricing increases over and above to capture incremental margin, is that correct?

MURRAY K. MULLEN:

Yes, you've summarized it better than maybe I did, which is, demand remains pretty strong. It's not growing; I want to make sure that I'm clear with everybody on that. I think it's not bad, but it's not growing. Capacity is the thing that has tightened, for the reasons we talked about, so that tells me that price is going to go up. Our job is to move the pricing over and above our cost push, and myself and Richard, particularly, and even Stephen and Carson, we're on top of our business units all the time. You better make dang sure that you move your pricing. Don't come in with your monthly numbers to me that says we were busy but we didn't do well. You wouldn't want to have that call with Murray and Richard these days.

MATTHEW WEEKES:

Okay, thank you, I appreciate that.

My last question is more macro. I think if you look at the recent supply chain bottlenecks and inflation going on globally, it's highlighted some weakness in global supply chains and logistics networks. Would you say that this is positive for the business overall in the long-term when you consider the investment needed to bolster these networks, investments needed in technology and on the 3PL side of the business, and that opportunity as well?

MURRAY K. MULLEN:

Yes, I think that's a really good point, Matt. I think where you're finding, where there's huge pricing leverage, is really not because of a lack of technology. What technology, I think, allows us to do is be more productive. Where you're having the bottleneck is, and let's look at ocean shipping: demand went up but you couldn't add any supply. You don't go build a ship in a day. You don't build a new port.

Then things got bottlenecked, so those containerships were coming from Asia over to North America, instead of being on the water and in port, a total rounder being 45 days. Well, they're sitting in port waiting to get offloaded because it's bottlenecked, because there's not enough capacity to move it out of there efficiently, so they're sitting out in open water for 15 days, on both ends. Well, that adds 30 days. That takes away how many rounders you can do.

There was actually a capacity reduction of available ships because they weren't productive. That is kind of happening in trucking now. We're not as productive as we once were because there's all these new safety protocols. There's vaccine mandates, there's this mandate. It's just another form of regulation, and you cannot add capacity today, in anything. Nobody's building a new facility in trucking. It's too expensive. I think, we can't add supply, which means that if demand stays strong, price must go up.

MATTHEW WEEKES:
Okay, thank you, that's helpful.

MURRAY K. MULLEN:
That's why I think it's a step change, and this could be—it could be a trend that's here for quite a while.

MATTHEW WEEKES:
Okay, thanks, absolutely. That's helpful.

That's all my questions. I'll turn it back.

MURRAY K. MULLEN:
Thanks, Matt, good chatting. Bye.

OPERATOR:

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

MURRAY K. MULLEN:

Thanks, folks.

We've taken up enough of your day today. Wish everybody well, and we've got a lot of work to do in '22. I can tell you, our team is totally focused and you've heard what we're going to be focused on. Thanks so much, we'll talk to you after Q1. Cheers now. Bye.

OPERATOR:

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