The Mullen Group Limited
2023 Budget and Business Plan
Conference Call Transcript

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Speakers:

Mr. Murray K. Mullen
Chair, Senior Executive Officer & President

Carson Urlacher
Senior Accounting Officer

Richard Maloney
Senior Operating Officer

Operator
Welcome to the Mullen Group's 2023 Business Plan and Budget 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, Chair, Senior Executive Officer, and President. Please go ahead.

Murray K. Mullen
Thank you and welcome everyone. This morning, we will be discussing our business plan and expectations for 2023, but before I commence today's update, I remind everyone that this presentation contains forward-looking statements that are based upon 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, I have our senior Executive Team. I have Richard Maloney, Senior Operating Officer, Joanna Scott, Senior Corporate Officer, and Carson Urlacher is our Senior Accounting Officer.

Now, we have a full agenda this morning and I already see that the queue is building for the Q&A session, so let's get started.

You know, it's a new year, and along with it comes that annual ritual of re-calibrating expectation. Everyone knows that this year is going to be different than 2022 with the most likely scenario being that there will be some interesting developments throughout the year that will alter future expectations, so this is why it's so important to remain flexible.

It's also why we have a diversified business model, and that business model is one that provides logistical support and services to a wide range of sectors and verticals in the North American economy. The reason we have this diversified business model is because you just never know how any sector of the economy could be impacted by events or by short-term capital flows.

Today I'll provide a quick summation of how '22 finished off, and the final results are not available today; as such, I can only make general comments because in a few weeks, we will provide the detailed results in conjunction with our Q4 update, and this is after the auditors have completed their review. Now, this update is scheduled for release on February 9.

The primary purpose of today's call is to outline our 2023 business plan, it's to provide insight into how we believe the new year will unfold, along with highlighting the priorities that we will focus on this year. This will include a discussion on the emerging trends we view as crucial to our long-term growth strategy, and as always we'll close with that Q&A session.

Let's start with an update on '22. What we do know is that MTL will close out '22 with financial results that far exceeded our initial projections. There were four primary reasons for this strong performance, with the most obvious being robust freight demand which we partially attribute to strong end consumer demand, along with that freight surge precipitated by shippers and retailers ordering far too much inventory in late 2021 and early 2022. This over-buying trend, by the way, occurred at exactly the same time that supply was limited, and let's blame a lot of it on

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COVID-related issues. This all led to supply chain shortages and bottlenecks that very quickly morphed into shipping delays and productivity losses, a combination that ultimately contributed to the second reason that we had such good results, and that's significantly higher pricing as shippers scrambled to move their freight.

In addition, diesel prices skyrocketed, costs that were passed along to customers in the form of fuel surcharges, and that became a third revenue generator in 2022. Of course, in 2021 we completed a series of acquisitions that added scale and size to our core business. Now, each of these factors - strong consumer demand, higher pricing, fuel surcharges and acquisitions - contributed to our outstanding performance in 2022.

Initial revenue projections for the fourth quarter are coming in at around $500 million - that's generally in line with the expectations we articulated during the Q3 conference call; in other words, I would say to you I think there still appears to be a pretty strong correlation between end consumer demand and our overall revenues. Operating margins, however, are slipping as pricing comes under pressure from slowing freight demand in certain segments of our business, which I believe is related to that recent trend of shippers and retailers right-sizing inventory levels. They have virtually closed their order books as they try and get a handle on bloated inventories. There was also a slight decline in fuel surcharges which is correlated to the drop in price of diesel fuel, and that's a slight negative to margins as well.

Then to close out the year, operations across our network of companies were really hampered by the winter storms. Business virtually came to a standstill and as a result, we do not expect operating profitability to be as strong as Q3, or even as we'd originally planned in our latest correspondence. Now in saying this, December is never really a strong month due to the holiday schedules, and this year we virtually lost two weeks of work in the month of December, so December kind of is a difficult month to translate into future expectation.

What we can say is that the quarter started out very strong but as the quarter progressed, we started to see some clear and pronounced changes in the economy and in overall freight demand, which as I mentioned has now translated into a freight recession territory after several quarters of a freight surge. Now, this is—a freight recession is not the same as an economic recession. The freight recession, as I'll talk about later, really is because of inventory re-balancing, in my view.

This is the one trend that I think is the primary reason why I was so reluctant to pursue acquisitions in 2022. Far too many carrier-owners believed that business and profitability would remain elevated forever, that this time it's different. Well, I took a different view. After several years in this business, it's taught me that freight volumes eventually normalize, and that's why one must pay particular attention to end consumer demand, not to events. This is precisely what we did last year and what we see happening today; and besides, when I look backwards, I said the asking price was way too high or much higher than my bid price, so we just waited. Now, I firmly believe that this prudence and patience will eventually serve our shareholders well over the longer term.

So, enough on '22, what about 2023? I'll start with the obvious. The general economy, and I would say in particular the consumer is starting to adjust to high interest rates; however, despite all the negative headlines circulating the newswires and the short-term challenges associated with that inventory re-balancing I spoke about, we do not see any material or structural declines in most of our business. The fact is that end consumer demand remains quite strong even

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though central bankers are pushing really hard on the brakes in an attempt to slow the economy. No one really knows how hard they will push or how steadfast they will be, and just in case the central bankers get what they wish for at rooting out inflation, we stay on high alert here at the Mullen Group.

What we do is that there is a little bit higher level of uncertainty today which can—I think can easily manifest into an economic slowdown. The extent of any slowdown will ultimately be determined by future economic activity, consumer spending which in turn is influenced by the most factors like headline inflation, interest rate policy, capital markets stability, geopolitical stresses, etc. So, within this context and given what we know today, it is reasonable to assume that our 2022 financial performance will not be repeated in 2023, at least in terms of our same existing store sales or same 38 business units.

Now, this in itself does not mean we will not have a good year; in fact, we will have another solid year despite the recent drop in freight demand, which as I said is closely associated with the precipitous decline in overseas import shipments and a more challenging pricing environment, particularly in the full truckload and long haul freight business. Now as I discussed earlier, I believe this is more to do with the inventory re-balancing than a decline in end consumer demand. You'll recall that in 2023, shippers and retailers, manufacturers, they changed their traditional buying trends in response to the supply chain disruptions, and as they tried to get ahead of the shipping bottlenecks, they started booking freight two to three cycles ahead, either that or they misread overall end consumer demand, ordering far too much inventory. Now of course, when they did this, all they really accomplished with excessive buying was to exacerbate the supply chain issues, and this led to the freight surge that we witnessed in late '21 and most of '22.

However, as they say, too much of a good thing is not a good thing. Inventories became bloated, and these same retailers and shippers have curtailed new buying, and I would offer quite significantly. This is why carriers involved in the long-haul freight business are now suffering as the freight surge has now morphed into a freight recession, so today we see prices declining just as yesterday we saw them surge. I expect that we will start 2023 with less freight to haul at competitive pricing. Now, thankfully a good portion of our long-haul freight business utilizes independent third parties; as such, our business units will be focused on managing the spread and should do well at maintaining margins, but I would say to you some carriers are going to pay a hefty price, I suspect.

What matters most to us is not these temporary, let's call them transitory supply chain disruptions. It really is end consumer buying that eventually drives demand, and from all the data I read, consumers are still buying, maybe not quick as much as early '22 but they're still buying. Most likely, they will cut back, if they do, on big ticket items like a new car or a new home, but they will still be buying the necessities, and we also expect, by the way, the bloated inventory levels to normalize. Retailers and shippers are going to once again begin re-ordering for tomorrow's sales - that's going to create another cycle. I suspect we'll see a new ordering trend sometime in Q2 as they rush to meet back-to-school and the next consumer buying cycles. Truthfully, folks, this is just inevitable.

There's another reality that must be factored into the supply chain story, and that's warehousing. Now, warehouses remain full and near all-time capacity limits, primarily because shippers and retailers, etc. must order in advance of the selling cycle; however, a significant amount of today's inventories are what are referred to as dead inventory. Now, I know this

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because when I visit our warehouses, they are full of stagnant inventory. It simply will not sell because consumers are very picky and a lot smarter than what some of the retailers and manufacturers have thought they would—would be buying. From our perspective, this is not all bad news, at least for our warehousing business. This dead inventory I referred to takes up valuable and expensive warehouse space, keeping warehousing charges sticky.

As we think of 2023, there are just a few critical components that we have factored into this year's budget and business plan, and to be honest, there was nothing easy about trying to calculate what '23 would look like, which is why our senior executive has taken a practical and prudent approach to setting out our expectations for this year. Now, we know there is a changing economic landscape, but exactly how everything plays out, that's way beyond our control. This is why we budgeted four different scenarios for 2023, and in each scenario MTL will generate strong free cash, enough to meet all of our obligations, including CapEx which is to ensure our business units can continue to generate outstanding results, our obligation on interest on the debt, which is now mostly tied to long term—just our long term notes, and I think, Carson, that's still at about sub four percent?

Carson Urlacher
Correct.

Murray K. Mullen
Taxes, which everybody knows they fluctuate with earnings, lease payments which we try and keep to a minimum, as you know, and of course dividends which will be held at $0.72 per share in 2023, and that's payable monthly at $0.06. The level of excess free cash that we will generate will ultimately be determined by the level of economic activity, freight demand and pricing stability; in other words, we have stress-tested our business model under various scenarios, and I can say with a high level of confidence that 2023 will be another very good year for the Mullen Group.

Today we will outline our base case scenario for '23, which by the way only reflects the results we expect from the business units we currently own and operate. It does not factor in any acquisitions. This base case budget encompasses a dose of reality along with what I refer to as the power of our diversified business model. Consolidated revenues are still going to come in around $2 billion and operating profitability, or OIBDA will be around $300 million. Now, that's down from 2022 but that's still very good. That does not mean we will do $300 of OIBDA. What we've done is we're just planning and doing our allocation of capital as if we're going to do $300 million.

All in all, I think it's a pretty good outcome given the changing economic circumstances, and I've got Carson Urlacher, who is now going to provide some additional detail by our operating segments. Carson, it's over to you.

Carson Urlacher
All right, well thanks, Murray, and good morning everyone. As Murray mentioned, I will provide some detail of how our $2 billion of revenue, our $300 million of OIBDA, and our $85 million of CapEx is broken down by segment.

Before I get into the details, let's look at what $300 million of OIBDA means from a high level. At $300 million of OIBDA, we generate approximately $45 million of free cash, which is calculated after paying dividends to our shareholders, funding CapEx, paying cash taxes, interest on our

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debt, and our lease payments. The $45 million of free cash is then reinvested throughout the year.

So, how do we get to $300 million of OIBDA? The breakdown is as follows. We expect to generate $135 million from the LTL segment, $100 million from the L&W segment, $75 million from the S&I segment, and $6.5 million from the U.S. 3PL segment, all of which is somewhat offset by corporate costs. Let's first start with our largest segment, being the LTL segment.

Our LTL segment is predominantly driven by consumer demand. We expect approximately $800 million of revenue to be generated within this segment, generating operating margins of 17% to 17.5%, resulting in OIBDA in the $135 million to $140 million range. This budget assumes that economic activity and consumer demand is slowing but not collapsing. Our business units have strong regional market share within our LTL network that provides final mile delivery. Pricing is therefore less volatile and more sticky than other types of freight. Our LTL segment is largely an asset-based business whereby our business units can adapt to changes in demand levels to ensure load density remains strong.

The 17% to 17.5% operating margins budgeted for 2023 is a slight contraction from the operating margin generated in 2022. The margin contraction is largely due to some continued inflationary pressures, as well as some pricing pressure noted within the segment. We expect capital expenditures within the LTL segment to be approximately $40 million. That will focus on newer, more efficient operating equipment that will assist us in maintaining our margins.

Our second largest segment is our L&W segment, which is mainly driven by large capital projects and infrastructure programs. Unlike the LTL segment, these business units are more asset-light, so the focus becomes on managing the spread. We expect approximately $600 million of revenue to be generated in the L&W segment, generating operating margins of 17% to 17.5%, resulting in OIBDA in the $100 million to $105 million range. This budget is likely to be flat compared to 2022 from a revenue perspective as many of the sectors of the economy with which we operate in are expected to remain strong. That said, we expect some margin contraction within the segment as pricing has come under pressure due to a lack of overall freight demand compared to what we experienced in 2022.

Smaller, independent operators are leading prices lower. Given the higher cost of new equipment and higher interest rates, this trend may not last. We expect capital expenditures within the L&W segment to be approximately $25 million. That again will focus on the newest, most environmentally advanced operating equipment.

Our third largest segment is our S&I segment, which is driven by a number of sectors of the economy including the energy sector, the mining industry, civil and infrastructure projects including pipelines. We expect approximately $375 million of revenue to be generated within the S&I segment, generating operating margins of 20% to 21.5%, resulting in OIBDA in the $75 million to $80 million range. There is some optimism in the oil and natural gas sector going into 2023 as drilling activity levels are expected to be slightly above 2022 levels. This should bode well for our business units in both the production services and drilling-related services groups. We anticipate that this increased demand will offset a decline in pipeline hauling and stringing activity.

We expect demand in our specialized group to remain strong due to the continued investment in civil and infrastructure projects supporting both Smook and Canadian Dewatering, respectively.

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We expect capital expenditures within the S&I segment to be approximately $20 million that will focus on introducing new capital into those business units where we have seen increased pricing and commitments from our customers. This marks the first time in many years where we've allocated any meaningful capital to this segment.

In the U.S. 3PL segment, we exclusively utilize third party contractors to move freight, so the focus will become managing the spread to improve margins. We expect approximately $225 million of revenue to be generated within the U.S. 3PL segment, generating operating margins of approximately 2.5%, resulting in OIBDA of $6.5 million. A significant portion of our revenue in this segment is tied to LTL, which is not declining as steeply as the full load truckload business.

We expect 2023 to be another competitive year in the U.S. freight market, and we plan on continuing to develop our next generation of proprietary transportation management software, named Silver Express.

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

Murray K. Mullen
Thank you Carson, appreciate that.

Now to achieve these results, we've established a set of goals and priorities that our organization will focus on in 2023, and I've asked Richard Maloney to speak to these initiatives and how they are aligned to support our '23 budget, business plan and long-term growth plan. Richard, over to you.

Richard Maloney
Thank you Murray. The four priorities we've established for the 2023 business plan and budget, first and foremost we're going to continue to invest in our companies' capital investments. We have identified $85 million of capital investments - this does not include any investments in investments or—pardon me, in acquisitions or facilities, lands or buildings. Seventy million of this capital will be directed to maintenance capital, and specifically you will see us focus on new power units. The fuel efficiency of the new power units is providing us with a 30% to 40% improvement in miles per gallon. Fifteen million dollars will be focused on sustainability-focused capital, things like C&G, compressed natural gas trucks which are focused on reduced emission vehicles, electric transit vans - Gardewine in partner with our Manitoba group have focused on those investments, and intermodal, we will continue to build out that aspect of our operations, knowing that intermodal transportation reduces greenhouse gases by 65%.

Our second priority, prioritize margin over market share, and we're going to focus with our business units on process improvements. Within that, effective deployment of technology - think about automation with our existing ERP, and enhance our digital platforms that we have, Silver Express with holistic and their direct IT platforms. We will continue to optimize the operations of our business units. We will make sure we are working with the right customers and we will continue to focus, as we did in 2022, on monetizing non-core assets.

Three, we will pursue acquisitions, opportunistic with consolidation opportunities. We believe the climate could be right. With high interest rate environment and the cost of new equipment, this is making things difficult for our competitors, so with that, we will continue to look at tuck-in acquisitions that make our business units stronger, and we will continue to focus on strategic acquisitions that are presented to us and we will vet all those out.

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Four, we will continue to maintain balance—balance sheet flexibility, and that will be a focus for us.

Murray, those are our priorities for the 2023 year, and I'll pass it back to you.

Murray K. Mullen
Thanks Rich. Now just before we go to the Q&A, let me turn to the longer term.

Despite what everybody is going to say - oh, the obvious economic slowdown that I think most of us would probably expect, there are a couple fundamental trends that are emerging within this higher interest rate environment. First of all, the comment I'd make on the high interest rate is anybody under 40 probably hasn't seen, doesn't know about high interest rates as your first 20 years you didn't know what an interest rate was and you had no money, so it didn't matter, and then over the last two decades, interest rates have been very, very low, so we've been living for two decades in a—you know, a lot of money available and very, very cheaply, so things are changing with higher interest rates.

The first fundamental trend that I see changing is, and that's the shrinkage of the independent operator that's the backbone of the long-haul trucking industry in particular for the last several decades, and today they're facing higher costs, they've got higher borrowing rates, and at the same time you've got this price sensitive environment at exactly the same time that many are entering the twilight of their careers. Like all of us, age can have an impact on your investment decision, and this trend favours large, well capitalized operators like MTL because we can pivot and we'll add company trucks as required, and this trend, as it changes, would also impact our financial results because as the company fleet grows, we would expect higher margin expansion compensatory with the capital investment. You can see from our capital intensive businesses, if you're capital intensive, the margins are higher.

The other trend that I see, and probably not new and Richard highlighted a little bit of this, it's—that it's very active these days, and that's consolidation. Entrepreneurs need to monetize their investment. They too are entering the twilight of their careers, and selling to a well-funded public entity is a compelling option. For 30 years, we've been growing via acquisition - I doubt this is going to change anytime soon. I'll also point out that we do not do acquisitions to meet anybody's expectations - an investor, an analyst, anybody's expectations. We invest when we find the right fit at the right price.

In summary, I believe our future remains pretty bright because MTL has the potential to grow over and above baseline overall economic growth, which by the way we just don't see any growth in overall—the economy in 2023, but we really have two paths to grow. Firstly, is the acquisition route that we talked about. All you've got to look for when you're doing acquisitions, truthfully folks, is it the right fit and is it the right price. Those are the only two things that I really focus on here, along with my senior team. The second option that we can grow is via internal market share gain as weaker competitors struggle under the weight of the slowing economy and substantially higher borrowing costs. You know, our balance sheet today is in excellent shape primarily because we prudently managed last year's exceptional year to pay down debt, and everybody knows we crystallized over $50 million with the same of non-core assets. So, in other words in 2022, we bullet-proofed the balance sheet.

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At the end of 2022, for example, our overall bank debt was a very modest $25 million, leaving available lines of credit of nearly $250 million to pursue strategic alternatives. You'll also recall that Carson talked about talked about that free cash that we'll generate in 2023 as well. So, we have lots of flexibility to pursue additional share buybacks, acquisitions, or growth wherever we see it fits. We also know that the Canadian banks are eager to lend additional funds to MTL to pursue a large transaction, so in other words we're well positioned to capitalize on the right strategic opportunities as they arise.

We've got a lot of calls in the Q&A. Let's turn it back to the Operator and let's go right to the Q&A session.

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

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

Konark Gupta
Thanks Operator. Good morning everyone. Happy New Year, Murray and the team.

Murray, my first question is about the four different scenarios you mentioned. So, if you can help us understand what those four scenarios were and which of those scenarios did you pick as your base case for '23.

Murray K. Mullen
Of the four scenarios in '22, Konark? Is that what you're talking about?

Konark Gupta
No, I thought you said 2023. I'm not sure, I'm sorry, like if you can lay out what the scenario is you are assuming for 2023, what's your macro assumption there and what are you (multiple speakers 0:28:42).

Murray K. Mullen
Yes - no growth, a little bit more competitive pricing. Last year, we saw surge pricing - I think that comes off. I think diesel prices are going to normalize, at least for the first part of the year. That will take away some growth, some revenue, and if you have brand-new equipment and you get good fuel mileage, you kind of make a margin on that, so I see some—a little bit of erosion there. Inflationary pressures are going to take a little bit, so.

When we come out and we say, look here, we're going to do $300 million, I don't know what number we're going to do, nobody knows for sure. Last year, I think I came out and I said we'd do 260 to 270, or something like that, and I was only off by about 15% or 20%, so. You can't predict what the market's going to do.

What we can do is outline, here is our base case plan and this is how we're allocating the cash that we generate. I can tell you we'll manage the short term market gyrations that might be down, might be up, depending on what happens, but really we manage this business, Konark, for the longer term. We play the long game here, as we say about, which is why we always are cognizant of the balance sheet, but I think there could be some short term issues in the economy, so why not just come out at the start of the year and say to everybody, look, there's some headwinds.

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The central banks might get it right and they might slow the economy a little bit more than they think, and we don't want to get trapped on the downside, so we just took a prudent approach. I think we took a middle of the road—you know, we're not predicting it's going to be a disaster, but I'm going, you know what, it's going to slow a little bit.

Konark Gupta
Okay, that makes sense, Murray.

Murray K. Mullen
Now remember, that's just off of the existing businesses we've got. It's nothing to do with acquisitions. Acquisitions are a whole—you've got to add on top of that, and as Richard pointed out, when we find the right ones, we're going to do them.

Konark Gupta
Right, that's great colour.

In terms of the cadence for the year, are you seeing, as you pointed out, in Q4, late Q4 of 2022, the supply chain started to kind of normalize so rates have come down and the competition (inaudible 0:31:18). Is it fair to expect then the first half could be tougher than the second half under your base case assumptions for '23, or it's the opposite?

Murray K. Mullen
Yes, that's a good point. We don't think there's as many supply chain issues today as there was three months ago, and not as much as six months ago for sure, not as much as nine months ago, so they progressively got better. There's still a couple little bottlenecks that might have happened, but I think those are virtually in the rear view mirror, Konark. Along when that happens, you get the surge pricing goes away and that's happening.

If one takes a look at the ocean freight, movement of containers and freight that comes in through the ports into North America, those rates have collapsed back to kind of pre-pandemic levels in many cases, so I suspect that we'll have a little bit of contraction in the freight business, but that's mostly in the long haul. The LTL, it's sticky, it doesn't change much, and we just manage the spread in LTL, so it really is in the long haul business. That's a part of our business, but as I said, we're a diversified company so, yes, that gets hit a little bit.

We did mention that our pipeline business is going to come off this year. We built the pipelines - well, that's fantastic news. Our pipeline business did a great job for us for three—the last three years. Now we've laid the pipe, now we've got to put the pipe in the ground and drill, and that's why we're predicting that they'll balance themselves out and drilling activity is going to increase to offset our pipeline stringing business.

We've got all these levers that we pull back and forth - that's what a diversified business model does for you, but on balance it will be softer, but we still generated—you saw how much cash we generated last year, we're still going to generate a lot of cash this year.

Konark Gupta
Okay, that's great colour, Murray. Thanks so much, and appreciate the time.

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Murray K. Mullen
Thank you.

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

Murray K. Mullen
Hi David.

Operator
David, your line is live.

David Ocampo
Oh, sorry about that. Just a quick clarification for Carson to kick things off. In your prepared remarks, you gave kind of a range for all four of your segments - LTL, TL and S&I. In the press release, I think you guys just gave a $300 million number, but when I add everything up, the 300 is the low end of your range, so is that what you guys are using as your base case or should I use the middle of the range as the base case scenario?

Carson Urlacher
Well, we always come out conservative, David, as you know, and we always tend to, like Murray said, manage the business based on worst case scenarios. For the news release, we picked the lower end of what we were expecting for margins to come in at for 2023. We allocate capital based on those, and you've got to remember that it's a budget. We use the budget to manage the business. Obviously as we go into 2023, things are going to change and we're going to have to call audibles here and there, but I would say that for the base case, we used 300 and that's really for us to allocate capital when it comes to the $85 million of CapEx that Richard talked about.

David Ocampo
Yes, I'm sorry - I just want to make sure I have the numbers right. So the top end, if I add it all up, it's 320?

Murray K. Mullen
Yes, there's some corporate costs in there, David.

Carson Urlacher
Yes.

Murray K. Mullen
You add in what the business units do, and then I think we got in the press release, we've got the corporate costs in at about $16 million?

Carson Urlacher
Yes, you've got to back out…

Murray K. Mullen
So you back out corporate costs and then you get down to roughly $300 million, so. As Carson said, it's not going to be exactly $300 million and none of our—we won't get any of the segments exactly right, but when we go to allocate capital, David, that's the number we thought

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was prudent. We don't want to be naïve that there couldn't be some economic challenges given some of the headline news that—we're not in control of the headline news. We just report the numbers. But yes, it might be the calibration of the corporate costs that come out of there.

David Ocampo
Okay, sounds good. Then on your revenue guidance, it's essentially flat year over year. Murray, you just talked about no surge pricing, lower diesel prices, so is your expectation for volumes to be slightly up if they're flat year-over-year?

Murray K. Mullen
Yes, volumes are going to be pretty flat, that's why we came in at two. We think—we don't think it's really so much on the volume side, David. We think it's more on the cost side and things are competitive. I mean, our customers are all discounting to get rid of this inventory that they've got. They've got too much of inventory and they've got too little of the good inventory, so they're starting to push back. Six months ago, customers said move it; today, they're going what's your price, so we need to be realistic. Until the inventory thing re-balances itself, we don't know how—exactly how that price is going to stabilize out.

I suspect they're going to have to go back ordering here pretty quick, David, because otherwise the shelves will be bare come summer. There's not enough freight coming in from overseas. You just have to look at the shipping statistics coming in from overseas, it's not going to be enough to meet current end demand, not from my perspective.

David Ocampo
Then last one here on M&A, you guys noted that you have quite a bit of dry powder available. Just curious what segments of the market interest you the most - is it LTL, logistics, or even further expansion into the U.S.?

Murray K. Mullen
LTL for sure—yes. Our number one priority is LTL because when you build the network out, it's really, really—it just helps you strengthen your business and improve margins, so. LTL will be, let's call that focus number one.

Then focus number two is kind of on the warehousing and the long mile, which is intermodal. We've got to marry the two together. If all you do is chase intermodal, that's a 10% margin business, you just have to look at JB Hunt or Schneider or Knight, anybody. We try and marry the warehousing component with the intermodal so that we can feed our own LTL network. We just want to be that virtuous supply chain provider - one call, one stop, and we'll look after it. Warehousing is a very, very integral component of where we're building this freight network out because, once we get it, we can move it long mile and then we can feed our LTL network.

David Ocampo
That's perfect. That's all for me. Thanks guys.

Murray K. Mullen
Thank you.

Operator
Our next question comes from Tim James of TD Securities. Please go ahead.

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Tim James
Thank you very much. Good morning everyone, and happy New Year.

Murray K. Mullen
Yes, thank you David—or Tim, sorry.

Tim James
Yes, thanks. I guess my first question, just as you look at 2023, you talk about—you know, prudently about some uncertainty here, which shouldn't be surprising. Are there any particular business lines that you think uncertainty is actually higher than others, or are there some business lines where maybe the certainty is a little bit stronger? If you could just talk about that by business line for a minute.

Murray K. Mullen
Yes, so LTL, as we've articulated, pretty sticky. We still see end consumer demand staying up, so we're not anticipating too much on that. I think we said, look, we might have a little bit of margin erosion, but we still get a little bit of pricing leverage, we have some cost, so we said—let's call LTL is basically flat on our current business lines.

On our logistics and warehousing, I think there's going to be—revenue is going to be okay, but there has been some pricing challenges on the long haul part of the business, particularly as it relates to, as I said, that long haul business, which is part of our logistics and warehousing. It's not the whole thing, but—so a little bit of margin there.

Specialized industrial, the only thing we're losing out there is the pipeline business, but we think we'll pick that up and balance it, and then the U.S. 3PL business, it's down, but that's—the top line is down more in that business, but the margin, it's going to be down a little bit but it's still—that's all free cash to us because there is—it's really a technology play that's in the logistics business. It's really not a trucking business because there's no CapEx in that business. It's just all—we've just built out our technology platform and we've encouraged our team, don't stop building out and investing in technology, because that's our future of that business. We're building out a digital platform there that will be seamless to the shippers and to all of our suppliers, so that's what we're going to continue to do there.

But outside of that, it's just a little bit here, a little bit there, a little bit on fuel, and—so I think just to be practical, Tim, I think same-store sales, existing business will be down a little bit, but when that happens, we will then become more active on the M&A front because M&A now is a lot more—these business owners are a lot more practical today than they were six months ago because they're starting to see the same things that I'm just talking about, and they don't have the diversified business model. They are in a certain vertical and they can whipsawed pretty easily. So, you know, the overall market might be a little bit softer, but to our shareholders, I'd say the win for us is we'll be aggressive on M&A, so what taketh away on one side, it giveth on the other side.

Overall, I think we're in pretty good shape. All we've got to do is get the right fit at the right price and we'll be able to backfill in 2023 with M&A.

Tim James
Okay, that's helpful. Maybe just to sort of round that off, maybe I can ask this way as well. Do you find one segment is tougher to budget than the others? Like, is one more difficult to

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forecast, like maybe LTL because it's consumer and it's tough to judge what the consumer is going to do, or is it the project basis that can kind of drive specialized, or do you find budgeting and planning for each segment, the challenge of it is pretty similar with each?

Murray K. Mullen
Yes, you know, generally—clearly on the project side business, whether it's pipelines or a major construction business or those kinds of things, you need a lot of things to go right on those things, so they can be a little bit choppy, I guess, Cars?

Carson Urlacher
Yes.

Murray K. Mullen
But you know, budgeting, it's just a plan. You take a look at it, you make your best guess, your best analysis after all your years in the business, and say okay, well, what do you see happening on the demand side and what do you see happening on the supply side? Then you just kind of reverse engineer from there.

So, all we're trying to articulate to everybody is that the economy is going to be different in '23 - we acknowledge that. We're not going to bury our head—I'm not going to come out and tell you, no, everything is good. There are—it's going to be a different economy and that's what the central bankers are telling you - no, we've got to slow it down a bit. Well, I'm taking my cue from the central banks that says it's going to be a little bit slower. When you're a little bit slower, you'll have a little bit more price sensitivity, and we built that into our business model.

Specialized industrials probably doesn't have the same kind of issues, it's not quite as price sensitive. The central bankers won't influence that. That's more public policy - you know, on the fiscal side and government and whether the government would support mining businesses or whether they'll support carbon capture, or whether they'll support oil and gas, those kind of things, so.

But budgeting is never easy, that's why I say all we do is re-calibrate it and then we manage the business every week, every month. That's what we do every quarter, so. But it doesn't—if you've got your balance sheet squared away, you can always play the long game. If you don't have a good, strong balance sheet, you can't play the game. These counter-cyclical opportunities just won't help you. So, as I say, just count on the fact of the economy a little bit slower, but we'll be more active on the M&A front and everything will be just fine.

Tim James
Thank you.

My last question, Murray, you mentioned about the—you know, your thoughts, and of course the independent owner-operators and probably the challenges that they will face in this environment, which is beneficial to companies like a Mullen Group. Are you seeing at this point as we sit here today any benefits starting to come from that capacity leaving the system, or I would think also is it having any impact on the availability of equipment, of your ability to procure new equipment in a timely manner? Just wondering if you're seeing any changes in the market at this point, or if that's more something you think is still to come in '23.

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Murray K. Mullen
Yes, I think it's—we see it right now. There is no new entrants, independents coming into the business, so that's the first thing.

The second thing is age is—demographics is catching up to independents. They get in and they're not going to make another investment. So, over this next cycle, it's catching up to it, and besides, they can't get a new truck. New trucks are being hogged by the big order books, by the big carriers, and so they're kind of boxed out. Heck, they can't even get parts and service right now, so they're just—they'll eventually just—they're not going to make the next investment.

The question is whether they stay in the business and come back to work for carriers like ourselves. I think they will, but they're going to increasingly want to work more local and regional and not long haul. That's why we're investing in intermodal, because intermodal is the long haul and regional, and short haul LTL is where we see the future for the trucking business and for the business we have.

Tim James
Okay, that's great. Thank you very much.

Murray K. Mullen
Thanks Tim.

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

Walter Spracklin
Yes, thanks very much, Operator. Hi everyone, how are you doing?

Murray K. Mullen
Hi Walter. So, we are going to do acquisitions again!

Walter Spracklin
Good to clarify that one. That will be my second question.

Murray K. Mullen
I only paused at Walter because the asking price was too high based upon the reality that I was anticipating in the market, so, but reality is hitting home. We're going to continue to do acquisitions to grow our business, guaranteed.

Walter Spracklin
I think that makes sense. I mean, from what I understood, you indicated the sellers' expectations weren't properly reset back in 2022. You feel like they're reset now, or will be reset in time or at some point in '23, where you can get a lot more active in acquisitions, is that right?

Murray K. Mullen
Yes, yes. The conversations we're having today with people, Walter, are substantially different than six months ago.

Walter Spracklin
Right, okay. Awesome.

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Murray K. Mullen
Yes, substantially different.

Walter Spracklin
Okay. Just to understand your scenario here for the base case, what I understood, you said slowing, flat growth, tough pricing I heard you say. But it doesn't sound like recession is part of that base case, or if we do have even kind of a mild recession, is that your base case when you say slowing, or if we have a mild recession, there could be some downside to the numbers you provided today?

Murray K. Mullen
Base case is—I don't think there's a difference between low growth and a mild recession. The change that we've seen in the freight business right now has to do with inventory re-balancing. The major retailers and shippers have—they ordered too much, now they're right-sizing inventory levels, and that—but that causes—that's a freight recession if you're involved in that business.

Walter Spracklin
Got it.

Murray K. Mullen
We see that as a short-term scenario, just as we saw—Walter, last year we saw the freight surge as a short term surge. Why? Because we look at end consumer demand and we're looking at our LTL business and saying, okay, it's good but it's not surging, so. The slowdown we're seeing, Walter, is more with inventory re-balancing than the economy really suffering, but I did say to you I don't know whether the central bankers are going to get what they are trying to do, which is slow the economy. So far, they've hampered the value of equities and certain things, but it really hasn't slowed the economy a whole bunch, Walter.

There has been a little bit of shift in the consumer spending - they're now traveling more rather than buying more, but it just shifts. Consumers are still spending. I still see it being reasonably strong, so we're not counting on a recession. But that's why we budgeted—we had four different scenarios. We had one where everything gets normal - I could have come out with that and said, oh, everything is going to be great. We could have come out and said, oh my God, it's going to be terrible. Well, I don't know which one it's going to be, so we took a base case.

Walter Spracklin
Okay. On industrial services, there was some questions about some of the activity levels going on there that could be—could result in a good year in that segment in '23, and you were a bit below us on that again. Is that kind of just conservatism, or are you not seeing…

Murray K. Mullen
No, I think, Walter—you know, you have to look at the sum of the parts, and what we're highlighting to you today is that the pipeline business—the stringing business is not going to be as strong as it was for the last three years, because we're nearing the end of those projects. Coastal Gas, Trans Mountain, we're still on the projects but one of these days, those projects are going to be done, and I don't see any major projects on the horizon that our federal government will sponsor, so I think we're going to move away from that—it's that pipeline business that's going to come down, and that was high margin business.

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Now it's going to go to drilling, which is high margin business, so it will probably come out flat, which is I think what we're articulating, and then the only way it hits is if we decided to do some M&A in that side because we think just the deals are so good. But, that's what you'll see on specialized.

Walter Spracklin
Okay. You were running corporate costs fairly low in 2022, or the corporate cost adjustment in the segmented approach to your business, and down substantially at least on a year-to-date basis from 2021, and your guide for this year is showing quite—again, quite a bit lift. Is there anything going on in the corporate cost segment that would—or, will there be a true-up in the fourth quarter that will bring it more closely in line with '21 and '23, given that it's been running a lot lower year-to-date in 2022?

Murray K. Mullen
Carson, this one's yours. I suspect there's some currency adjustment that moves around.

Carson Urlacher
Yes.

Murray K. Mullen
We take out all currency adjustment.

Carson Urlacher
There's a little bit of noise in there, Walter. We don't budget for foreign exchange gains and losses, and we held the U.S. cash within corporate, so if there is noise, it's going to happen within the corporate cost segment based on that, so that's probably your biggest bogey point in there that's moving it around a bit.

Walter Spracklin
All right, understood. Then the last thing, you did kind of re-affirm the $500 million for the fourth quarter in revenue, but you didn't mention the—I know you mentioned in the third quarter that $90 million was your target for the fourth quarter, but you didn't mention that in the fourth quarter. Just to make sure expectations, to your point, are aligned appropriately, are you still thinking 90 is doable and that's in the plan, or does some of the pricing and margin weakness that you alluded to make that a little less achievable?

Murray K. Mullen
Yes, I think it's a little—I think I—like, we spoke about a lot of things, but that was one of the things that I did point out, is that it's not going to be quite as strong as that because of the winter weather. It shut down every one of our business virtually for two weeks because it happened right around Christmas, which is already a slow period anyhow, and so we really lost two weeks of work there.

What we do know is we do know that October-November were pretty solid, but December was kind of cranky, and I don't know yet—we won't have all the numbers out for another week or so, but I'm just cautioning people, maybe not quite as high on that side.

Walter Spracklin
Yes, the railroads were communicating the same.

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Murray K. Mullen
Yes, we just lost too much business there and it got a little—got a little bit competitive there for a little bit, too. But I think that competitive stuff, I think that goes away in 2023. It's just—it's going to be a quarter or two, but once the buying trends come back in, everything will normalize again and we'll be okay.

Walter Spracklin
Excellent. Okay, that's all my questions. Really appreciate the time.

Murray K. Mullen
Thanks Walt. Bye.

Operator
Our next question comes from Matthew Weekes of IA Capital Markets. Please go ahead.

Matthew Weekes
Good morning. Thanks for taking my question. Mine was kind of just on the sustainability CapEx and where you are in terms of evolving the fleet and the fuel efficiency and the compressed natural gas. I'm just wondering if you have an idea of how much of the fleet right now is compressed natural gas. Is it a significant amount?

Richard Maloney
No, you know what, Matthew? Right now, again the availability of these reduced emission vehicles is very limited. You can't get many of them. You hear a lot of headlines about them but it's very tough to get them. The CNG trucks we do have, compressed natural gas, are within our Mullen Trucking business unit, so it wouldn't make a big constituent of our 4,000 trucks all together, but it's one of these initiatives we have. We're looking and we're working with the various OEMs, the Cummins Group as well as the Clean Energy group to make sure that they're working well.

I can tell you from our initial—we bought a set last year, we have a new set coming in right now that are in the works, and they're operating very well. They give very similar fuel mileage to what we get with the standard internal combustion engine, but the fuel costs $0.70 instead of $2 a litre and they reduce emissions, so we're continuing to work with it, it's just difficult to get large scale of them as well. We are able to subsidize part of this through grants from various government initiatives.

Murray K. Mullen
The reason we're kind of—we're just taking a measured approach to this, one of the major reasons is we can go get electric trucks but we can't get power into our facilities to recharge the electric trucks, so what good is an electric truck if you can't get power? So, the biggest issues with electric trucks is the grid and distance - those are your two biggest things with electric trucks, and I can tell you right now—like for example, in Vancouver we want to get electric trucks for the City of Vancouver. Get in line - you can't get any power grid for at least a year.

Matthew Weekes
Right, that makes sense.

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Murray K. Mullen
We're just easing into it. The trend is inevitable, but it's—we need a bunch of other things to go right before we deploy a lot of capital. I don't need to buy a bunch of company trucks that are all electric or CNG and then you don't have the infrastructure and they just sit there idle, so we're trying to match up reality with our commitment to do our part for sustainability and all those things.

Matthew Weekes
Okay, thanks. Just one last question from me, just thinking about a bit more of a focus in the coming year on sort of cost optimizations. I'm just wondering if you can point to a few things maybe specifically you could do or that you're kind of looking at to drive those efficiencies, drive increased yield in the network and just things like that.

Murray K. Mullen
Go ahead, Carson, why don't you—?

Carson Urlacher
Sure, all right. I'd say, Matthew, on the LTL side, it's predominantly asset-based, so we own the truck, we own the trailer. Specifically, if we're looking at driving margin within that segment, you're looking at lane density, so how much is in that trailer because virtually—a truck going up and down the road costs the same whether it's empty or full. It doesn't matter, so it's all about getting that trailer full to capacity. We have wiggle room on the trucks going down the road, when they go down the road, that sort of stuff, so we look at lane density as the best way of driving margin in that segment.

In the logistics and warehousing segment, I would say predominantly we use owner-operators and subcontractors in that space, so really that's just managing the spread, and that's really the way that we can maintain and hold margins within that segment.

Specialized and industrial, it's really—it's largely about pricing. Again, mostly focused on asset-based equipment, so if you're getting the pricing from the customers, then we can deploy capital and put it to work, so really those are kind of the three factors.

U.S. 3PL, again it's all about managing that spread. So far we've done a good job in there. We're deploying a little bit more capital into our technology platform, which is tweaking margins a little bit, but again that's an internal thing that we've decided to play the long game on that and we're happy with the progress that we've made, and we'll continue to do so.

Matthew Weekes
Okay, thank you. Appreciate the commentary on that. I'll turn the call back. Thanks.

Murray K. Mullen
Thanks Matthew.

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

Michael Robertson
Hey, good morning all. Appreciate you taking my questions. Cognizant of the time here, so might just slip a quick one in here.

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You noted the potential for monetizing some non-core assets, pretty successful with that last year. Was just wondering if you have any sort of rough bookends in terms of potential proceeds expectations.

Murray K. Mullen
For last year?

Michael Robertson
No, for this year, Murray.

Murray K. Mullen
For this year? Well, we'll look at monetizing. We don't have anything on the books. The ones we had earmarked for last year, we got—we did—we got two of the three done, I think Richard, is what we did?

Richard Maloney
Correct, correct.

Murray K. Mullen
And that looked good. This year, you know, what we've said is to all of our business units, look, if you want capital, you need a margin, and if you don't—if we're not going to deploy, put capital to work in your business, then we might look at just monetizing you, so get your bloody margins up. I don't—we don't have anything else planned right at the moment, but you've got to have a willing buyer, and it just so happened last year, we had willing buyers. We don't actively go around looking to sell a bunch, but when there's willing buyers at our price, we'll monetize and re-deploy that capital into other areas where we think we can build out for the future. But, we don't have anything—there's nothing to factor in on that, that I see at the moment for 2023, but we—we're always on the lookout that we'll either make good investments or good—or de-invest.

Michael Robertson
Understood. Just one other one for me, have the supply chain bottlenecks and limitations there eased enough that you've got a high level of confidence in being able to procure what you're looking at in terms of that $85 million CapEx budget? I know last year, there were some difficulties in being able to actually get out and purchase the stuff you were targeting, so.

Murray K. Mullen
Yes, last year, you're spot on - even if you wanted things, it just—you know, the supply chain in manufacturing and everything was kind of bottlenecked, and that's why we're—you know, we think that there's going to be a better flow this year, which is why we're budgeting up at that 85. I think what's going to—I think we'll know this next quarter. We might have some more commentary on that come at our February meeting, but certainly in our first quarter.

If the trucking industry doesn't (inaudible 1:04:41), I think there's going to be a lot of the order book is going to be accelerated because some of these carriers are getting—they're getting over their skis. These high interest rates, you've got high price for the truck, whenever you put technology into a vehicle, I don't care if it's our personal vehicles or our trucks, and let me tell you, there's a lot of technology in these trucks. Yes, they're good and they help us be safe, but they're very expensive, and now you've got really high interest rates. That's why I say to you, if you're not well capitalized right now—little independents are not well capitalized, and they have

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to pay a pretty steep price on interest rate and lease payments, so I wouldn't be surprised if some of that order book doesn't really soften for these manufacturers.

We've already had a number of calls already this year, Michael, where they're saying, hey, all of a sudden something's available. I say, well, give us a call back when your price comes down and then we might be a buyer, so we're on top of both ends of this. We don't like to overpay for anything.

Michael Robertson
Understood, well appreciate the colour as always, team. I'll turn it back.

Murray K. Mullen
Thanks now.

Carson Urlacher
Thanks a lot.

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
Yes, thanks folks for taking us. We've got a decent plan for this year. We're going to have another good year. Same-store sales will be down a little bit but we'll be more active on the acquisition front. We look forward to buttoning up 2022 with a short call on February 9.

Thank you very much and take care, everybody.

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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