The Mullen Group Limited
First Quarter 2023 Earnings Conference Call Transcript

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Speakers:

Murray K. Mullen
Chair, Senior Executive Officer and President

Carson P. Urlacher
Senior Accounting Officer

Richard J. Maloney
Senior Operating Officer

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

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

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, to our quarterly conference call.

We'll provide shareholders and interested investors with an overview of the first quarter financial results. In addition, we will discuss the main drivers impacting our operating performance, our expectations for the year, and close with a Q&A session.

Before I commence today's review, I'll remind everyone that our presentation contains forward-looking statements that are based upon current expectations and are subject to a number of risks and uncertainties. As such, actual results may differ materially. For further information identifying the risks, uncertainties and assumptions, all these documents 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 Executive team, Richard Maloney, Senior Operating Officer. We have Joanna Scott, Senior Corporate Officer, and Carlson Urlacher, who is the Senior Accounting Officer.

Let me start off before I turn it over to Carson. Let's start off with a review of the financial and operating performance for Q1.

It was a good quarter for our Company. That probably suggests to me that shareholders should be pleased with our performance thus far in '23. I'm going to discuss the major reasons behind the results, and my good friend Carson will provide a deeper analysis of the numbers.

Let's start by looking into the macro issues and the economy, because it all starts there. From my perspective, there was no sign of that economic recession that so many experts were calling for to actually happen; it didn't happen. But, there was a freight recession, and I think we need to differentiate between the two, which was more intense in the United States.

Now, there are a few reasons for the current challenging transportation environment, and firstly you'll recall that the freight surge that began in earnest in late 2021, that's at a time when consumers were loaded with cash and buying what seemed like anything and everything. At the same time, productivity levels declined, due to new regulations, health and safety protocols and the lack of available workforce to meet the surge in demand.

In other words, what we had was a supply shortage. Costs skyrocketed, bottlenecks emerged, prices rose and inflation pressures became entrenched. But like always, nothing stays the same forever.

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By late '22, we started to see consumers shifting their spending habits towards doing things, such as travel and leisure, versus buying things. When this happened, the demand for freight services softened from peak levels. Quite simply, consumers were still spending, just spending differently. This meant the freight industry started to show signs of fatigue, whereas the travel and leisure industry began to flourish.

Now, this shift in spending, however, was not the only reason the so-called freight recession emerged. We have to take into consideration that manufacturers and shippers ordered far too much inventory during the pandemic, either because they misread overall consumer demand, or they preordered too much inventory believing the supply chain issues would last longer than they actually did.

Either way, they created an inventory overhang and are trying to rectify this by curtailing new orders. That translates into no new freed shipments. It's my belief that the mismanagement of inventories by manufacturers and shippers is the single most important reason for last year's freight surge and this year's freight recession. The good news is that inventories will eventually be brought into balance and volumes will normalize. When this occurs, the freight recession will end.

Now, I'll speak about future pricing trends and market dynamics in the outlook section, but for the rest of my comments here before I turn it over to Carson, I'll say this. The reality of the events that created the freight surge in '22 are unwinding in '23, to what I would call a more normal or traditional freight environment. I think that investors will soon have enough information to evaluate how companies will perform in today's reality.

Clearly, our first quarter was pretty good, and that was despite the fact that we were generally quite quiet on the acquisition front last year. Now, you might want to take a pause for a second; you might want to just take consideration. I never believed that the freight surge was caused by end consumer demand. I believed it was caused by other supply chain issues. That's why we didn't buy anybody last year.

What are some of the reasons for our solid performance? Well, let me give you a couple of the reasons.

Number one, I think it really has to do with our business mix. We have a diversified portfolio of service offerings, which includes some exposure to business investment. Now, this is important, because business spending and capital investment is also a key driver of overall economic activity. From what I saw in the quarter, this part of the economy was still pretty good, particularly here in Western Canada where we have a significant presence. In fact, one sector of the economy that was quite active was investment in the energy space.

Now, notice I said "energy space", because we are seeing activity in all sorts of energy, from solar to hydro to renewables to oil and natural gas. In addition, there is renewed interest in mining, because the world needs those minerals and metals to power the next generation of energy deliverability. You don't build batteries without minerals and metals. It just so happens, and perhaps not by luck, that we provide service offerings to all of these energy verticals in our portfolio of diversified service offerings. Now in fact, I'll argue that our business is built for any market and it's built for this market.

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Let me now turn to the performance of the four operating segments. Now, there's no doubt there was a few challenges associated with the slowing demand for freight, as the consumer adjusts their spend. There was the over-supply, capacity issue, especially in the long haul transportation sector. As I said to you, that's primarily due to the inventory rebalancing trend, and yes, there is a normalization of pricing due to supply and demand dynamics. Not only did all these trends hit the headlines, they negatively impacted our Logistics and Warehousing segment, along with our U.S. 3PL segment. But, this is only one part of our overall business mix.

In fact, from my perspective, there was a lot of positives. Now, consider our less-than-truckload segment. Now, this is the largest segment in our group and it held pretty steady, primarily because of the nature of the business accompanied by solid end consumer demand. Plus, we added a couple of tuck-in acquisitions that add scale and service coverage over the last 12 months. Now, Specialized and Industrial Services had a great quarter, as investment dollars continue to be allocated to the energy sector of the economy.

The last reason I'll highlight for our solid Q1 performance is that our business units did an excellent job managing the margin. They held firm on pricing, where it made sense to do so, and they watched costs like a hawk. I was very pleased with how they managed the business in Q1.

Now, I'll turn it over to Carson to discuss the details. Cars?

CARSON P. URLACHER:
All right, thank you, Murray, and welcome everyone.

I'll provide a bit more detail; however, our Interim Report fully explains our financial performance. As such, I'll provide you with some of the highlights.

Overall, Q1 is highlighted by generating consolidated revenue of just under $500 million, an increase of approximately $41 million or 9% compared to the prior year, and a record compared to any previous first quarter. The $41 million increase in revenue resulted from a $15.4 million increase in fuel surcharge revenue, $15 million of incremental revenue from acquisitions and $10.5 million from general rate increases, along with steady customer demand.

OIBDA improved by 27.7% to $77 million and was largely due to growth in the S&I and LTL segments. Earnings per share doubled to $0.34 as compared to the prior year. On a trailing four quarters basis, we've now generated over $2 billion in revenue, along with $346.6 million of OIBDA and $1.87 in earnings per share. Return on equity improved to 13.2% in the quarter.

In terms of operating margin, it improved by 2.3% to 15.5% in 2023 compared to 2022, and was mainly due to rate increases, which more than offset inflationary costs.

Let's take a look at how we performed by segment.

Starting with our largest segment, the LTL segment grew revenues by $17.2 million to $192.8 million; $10.4 million of this increase was due to higher fuel surcharge, $5.7 million was due to acquisitions, while general rate increases and steady consumer demand added a modest $1.1 million in segment revenue.

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OIBDA increased by $8.7 million to $31.8 million in the quarter, which was largely due to rate increases, while acquisitions accounted for $0.8 million of the increase. The continued strength in consumer spending held freight volumes steady.

Operating margin improved by 3.3% to 16.5%, primarily due to lower direct operating expenses as a percentage of revenue, resulting from productivity improvements and customer rate increases.

Our second-largest segment is our L&W segment. This segment generated $144.1 million of revenue, which was essentially flat compared to the prior-year period. Fuel surcharge revenue increased by $3.4 million. Excluding fuel surcharge, revenue declined by a modest $1.8 million and was mainly due to a $2.6 million decrease in revenue resulting from the sale of our Hydrovac assets and business in the fourth quarter of 2022.

This segment generated $26.1 million of OIBDA and operating margins of 18.1%, both of which remained consistent compared to 2022.

Moving to our S&I segment, revenues were up nicely by $29.5 million to $112.8 million as virtually all business units experienced revenue growth. Rate increases and strong demand for specialized services, including pipeline hauling and stringing services, construction projects in Northern Manitoba, and from greater activity levels in the energy sector, resulted in higher revenue.

Acquisitions added incremental revenue of $9.3 million in the segment. OIBDA increased by $7.1 million or 53.4% to $20.4 million, while operating margins increased by 2.1% to 18.1% compared to the prior year. Operating margins improved due to lower direct operating expenses as a percentage of revenue, as rate increases and greater demand for the majority of our services resulted in more efficient operations.

In our non-asset-based U.S. 3PL segment, revenues declined to $51 million as freight demand in the United States for full truckload shipments continued to soften compared to the prior year. However, OIBDA remained relatively flat at $1.2 million.

Operating margins improved slightly to 2.4% due to the timing of when contract freight rates were entered into compared to spot market pricing and the availability of contractors in the open market; essentially, we managed the spread in a down market. Operating margin on a net revenue basis was 25% compared to 23.4% in 2022.

Net income improved by 93.3% to $31.7 million, and was mainly due to the $16.7 million increase in OIBDA and the positive variance in net foreign exchange being somewhat offset by higher income taxes.

Earnings per share doubled to $0.34 per common share compared to the prior year, due to the combination of higher net income and a reduction in the number of common shares outstanding as we continued to buyback our stock. In the quarter, we repurchased, and cancelled approximately 2.2 million common shares at an average price of $14.45.

We continue to generate cash in excess of our operating needs, as net cash from operating activities in the quarter was $34.2 million compared to $18 million in 2022. The increase of $16.2 million, or 90%, is mainly due to two things, one being the $16.7 million increase in

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OIBDA and the other due to a $20.2 million variance in changes from noncash working capital items. This strong cash flow generation was somewhat offset by a $20.8 million increase in cash tax paid, which resulted from us paying the final taxes owing related to fiscal 2022, due to the strong financial performance that we had last year.

Our balance sheet remains strong. Our debt to operating cash flow covenant under our private debt agreement is at 1.74:1. We have a total of $250 million of bank credit facilities available to us, of which we had $68.3 million drawn at the end of the first quarter, leaving us with over $180 million of room available. We have ample financial flexibility on both the private debt covenants and on our credit facilities, allowing us to continue our NCIB program and fund acquisition opportunities.

Our private placement debt has an average annual fixed interest rate of 3.93%. The private debt matures in two tranches, with principal repayments, net of cross-currency swaps, of $217 million and $208 million due in October 2024 and October of 2026, respectively.

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

MURRAY K. MULLEN:
Thanks, Cars.

Let me now provide a look into how we're looking at the markets, the economy and our business today. I'll start with, clearly, we had a pretty good start to 2023.

But I think, really, the question for today is, "Will these trends continue?" Because, if the trends do continue as is, which they might, we don't know for sure; then the 2023 business plan we articulated in January needs updating.

Now, recall that I suggested 2023 would be challenging in January, and now it appears that my peers in our industry are catching up to my earlier prognosis, because they are all lowering their expectations. I, on the other hand, we don't need to adjust our expectations, because I was cautious all along.

Let's revisit where we're at. The economy should, and probably will, slow throughout the balance of the year. We all know that, because primarily, there's a bit of liquidity that's being removed from the financial system, and we know that's going to slow economic activity. By how much, I'm not certain.

We will watch for any cracks and we'll adjust accordingly, but as of today I expect the consumer side of the economy to be okay; not growing, but I don't see significant declines. This suggests that the LTL segment should continue to generate solid results, just not as good as last year when demand was at a feverish level. With demand leveling off and no signs of growth in the economy, our business units in the LTL segment will focus on productivity gains, yield management and cost control initiatives, and maintaining margin as our focus.

Secondly, this freight recession that we're currently in, it's going to continue for a while yet, in my view, because there really is no demand push and supply is remaining sticky, meaning pricing will be a challenge. This will be a drag on our long haul business; it's impacting several of our business units, in our Logistics and Warehousing segment. However, also included in this segment are business units that will continue to generate solid results, namely our two largest,

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the Kleysen Group and Bandstra Group, and that's primarily due to their customer base and service offerings.

As such, I expect the results for our Logistics and Warehousing segment to be similar to Q1 for the balance of the year. I'd call that a mixture of wins and losses.

The U.S. 3PL segment; that's going to be impacted, most from the freight recession in the U.S. Revenues will continue to be down from last year. However, because HAUListic exclusively utilizes third parties, they can effectively manage the spread. SG&A expenses will probably be up from prior year, and that's because we're adding new IT talent to support the next generation of Silver Express. Now, that's our proprietary ERP system. That's the future of HAUListic, making sure we've got the best IT platform for our users and our customers. As a result, revenues will be down from 2022 and overall profitability in this segment will most likely be impacted slightly.

The one area of potential growth in the Canadian economy is the energy sector, and I would say primarily in oil and gas and in mining, where new facilities are being sanctioned in British Columbia and Northern Ontario. Now, as capital is invested in these sectors of the economy, several of our business units are well-positioned to capitalize on transportation and logistics demand. Our Specialized and Industrial Services segment will be a beneficiary of new demand, offsetting major pipeline projects that are nearly completions. Honestly, we don't see any new pipeline projects on the horizon for our Premay Pipeline Group, so they'll probably experience a pretty good decline, after three really active years.

Once again, I'd say this is a pretty good mixture of wins and losses. Still, it's going to be at least as good as 2022, I believe.

In summary, we've had an excellent start to '23, but we maintain a cautious outlook for the balance of the year. We will use the next few quarters to make some smart business decisions. We're going to grow market share and plan for the next rebound in consumer-driven demand. Besides, markets like this differentiate the weak and the unprepared from the strong and prepared.

At the corporate office, we continue to evaluate numerous acquisition opportunities. We're going to consider making investments if we believe the new opportunity is a good fit within our organization and the valuation metrics are accretive to Mullen shareholders. Now, we only have three criteria for any acquisition here at the Mullen Group: fit, price and synergies. We need all three.

My last point relates to the managing our balance sheet. Now, given the economic uncertainties, we'll exercise a degree of caution. There is no reason to try and gamble on the future, in our estimation. We'll be pragmatic. Thank you.

I'll now turn the call over to the conference Operator, and let's go right to the Q&A session.

OPERATOR:
(Operator Instructions). The first question comes from Konark Gupta from Scotiabank. Please go ahead.

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KONARK GUPTA:
Thanks, Operator. Good morning, Murray and team.

MURRAY K. MULLEN:
Good morning.

KONARK GUPTA:
Good morning. Great results, Murray. I wanted to kind of dig into one of your key segments, LTL. I know you laid out how the business mix and some of the other factors help you in the quarter, but I'm really trying to compare and contrast your LTL business, which is primarily Canadian, versus what we have seen at a lot of U.S. LTL players coming out and reporting, I would probably say maybe not as good results.

What really stood out for you in the LTL market? I'm just trying to understand, is it more about the pricing catch-up that you guys did later than the rest of the growth maybe last year? Is that what's helping you, or is there something else in your LTL camp that maybe your competitors don't have?

MURRAY K. MULLEN:
I think that's a good observation, Konark. I'll start with the first part. There's a clear differentiation between what's happening in the United States and what's happening in Canada. The United States is clearly more volatile. The Canadian markets remain relatively stable and flat.

We never quite saw the same highs as the U.S., and we won't see the same competitive forces that are hitting that market right now in earnest. That explains part of it, why our LTL segment did reasonably well. We held our own pretty good because the Canadian economy was pretty stable, from our perspective.

The second one is, you highlighted that, is some different comps. Last year, we hit some ugly weather in Canada that really impacted some of our LTL businesses. We had it on the West Coast, we had it in Manitoba and Ontario, and that did impact our business last year in a negative way. We didn't have those same headwinds this year, so that's the other primary reason.

Then I think the third one is, we've got pretty good market share in our LTL businesses, Konark. We've been able to maintain pretty good flows. We haven't seen a huge drop-off in revenues, and that's your load count. We haven't seen any huge drop-off. There's been some slight decline but not a huge one, and only if there's a huge decline will you start to see pricing pressures, in my view.

KONARK GUPTA:
No, that's a great summary, Murray, thanks so much.

Then to follow-up, one of the comments that you made was pretty interesting, about the inventory levels. I think everybody's talking about how high the inventories are relative to demand, perhaps at this point. But what are your key customers telling you about their plans for the inventory? I mean, are they kind of looking to still de-stock at this point for the next couple of quarters and then look to restock in late 2023? Or, are they not even sure at this point if 2023 will be a restocking year?

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MURRAY K. MULLEN:
Well, since I don't have a strong opinion, I'm going to turn it over to Carson, because he's a lot smarter than I am with the numbers, so good luck, Carson.

CARSON P. URLACHER:
(Multiple speakers).

MURRAY K. MULLEN:
That was a good question, but I don't have…

CARSON P. URLACHER:
Yes, I…

MURRAY K. MULLEN:
…a firm answer for you, so I'm going to defer it.

CARSON P. URLACHER:
There you go, Konark.

KONARK GUPTA:
Okay.

CARSON P. URLACHER:
I'm going to say, and this is my best guess, not that I'm the smartest; I would say that the inventory rebalancing is still in process and it's still ongoing. We're still seeing a lot of our warehouses at near full capacity. But I would say that that's got to unwind here as we get later on into 2023. You're going to have back to school coming back in the fall, you're going to have restocking of shelves and new inventory needing to come in for the holiday season, for this coming winter.

I think that's when your rebalancing starts to shake itself out, is later in 2023, due to those factors. That's my best guess, let's put it that way.

MURRAY K. MULLEN:
Well, that's a good guess.

CARSON P. URLACHER:
There you go.

MURRAY K. MULLEN:
Yes, but guesses, we can't make business decisions on guesses.

Here's what I think has happened, Konark. There's too much inventory in the system, that's a fact. When I walk the floor of our warehouses, there's too much of the wrong inventory. I can virtually tell you that's a fact.

The warehouses are full, but we're full of the wrong darned inventory, that consumers are a lot smarter than the retailers and the manufacturers and shippers that ordered all this inventory. They've got to make a decision, do you want to clear out that inventory, and I don't know

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whether consumers will buy it, even at a discount. I don't know what they're going to do. I think they've got a big problem. But until they do that, warehouses are jammed, and that leaves some elevated costing pressures on—in the warehousing side.

I think end consumer demand will be okay, but it really now is going to depend on whether you have a deep recession, whether you have job losses. Job losses will kill end consumer demand. We don't see a synonymy of job losses, but it's going to impact it on the margin. But not everybody, there's still a lot of wealth in the system. Retailers and shippers are going to have to start reordering again, because you've got to have the right product on the shelves, not just product on the shelves. That's my thesis.

That's why I think there'll be some increase and a normalization of this cycle, later in '23. I said a normalization, not a spike.

KONARK GUPTA:
Right, that's great colour, Murray. I almost feel like you should run a newsletter telling which inventory is bad or good so that they can shop smartly. Thanks so much for the colour.

MURRAY K. MULLEN:
Thank you.

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

DAVID OCAMPO:
Thanks, good morning, everyone.

MURRAY K. MULLEN:
David.

DAVID OCAMPO:
Murray, I think on your last conference call or even in the business update, you guys were calling out for acquisition opportunities. You're seeing the most opportunity in LTL. Has that expectation changed, and where should we be thinking about in terms of geography?

MURRAY K. MULLEN:
No, Dave, there's not a lack of opportunity in terms of acquisitions, but recall, I never have, and I'm not going to change, so as long as I'm here, that we do acquisitions for growth. We do acquisitions for fit, because the price is right, and because we identify that we can derive synergies. When we find those opportunities, we're going to go all-in on them.

There's no real panic for us to go out and do acquisitions right now, because liquidity is drying up and there's no lack of carriers that are going to get themselves over their skis here in this market. Anybody that made the wrong calls last year is on the wrong end of this cycle, and they will pay a hefty price, in my view. We're being very, very picky.

Richard, what do you call it, precision?

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RICHARD J. MALONEY:
Precision-based acquisitions.

MURRAY K. MULLEN:
There you go, precision-based. I call it…

RICHARD J. MALONEY:
(Multiple speakers).

MURRAY K. MULLEN:
I say that we do a surgical view of how we look at acquisition, but Richard had a way better word than "surgical". I like precision-based. We'll continue to look at that.

We've always done acquisitions in our history, 30 years as a public Company. I think just leave it to us. When we do them, you'll know darn well they're going to be accretive.

RICHARD J. MALONEY:
Yes.

DAVID OCAMPO:
(Multiple speakers).

MURRAY K. MULLEN:
Not just to the top line. They will be accretive to the bottom line.

DAVID OCAMPO:
I guess in the meantime if you guys don't find any capital to deploy, I guess the idea is just to continue to execute on your NCIB?

RICHARD J. MALONEY:
Yes, you know what? We're looking—and as we said at the beginning of the year, we have multiple ways of deploying capital. We're doing acquisitions, we just explained that. We obviously pay a good dividend. But to the NCIB, we're moving forward with that. It's in place and it's there, so if somebody doesn't want our stock, we'll be there and we'll scoop it up as needed.

MURRAY K. MULLEN:
David, we're the cheapest amongst our peers, so either we're going up or they're coming down. I'd prefer that we go up. We think we're the cheapest and we're investing in ourselves.

DAVID OCAMPO:
No, that's perfect. That's all the questions I had for you guys. Thanks so much.

RICHARD J. MALONEY:
Thank you.

OPERATOR:
The next question comes from Walter Spracklin from RBC Capital Markets. Please go ahead.

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WALTER SPRACKLIN:
Yes, thanks so much. Good morning, guys.

Just a question here on how exactly—I just want to clarify how you're framing this freight recession. I know CN saw it as well, UPS and other LTL players, your peers. What most are relaying now is that this slowdown is going to continue through the year, whereas many were expecting a pickup in the back half of the year once we got through this inventory drawdown period that you're referring to.

Are you kind of disagreeing with that view, that it will resume after the inventory drawdown based on consumer spending and that we should see a better, perhaps than what your peers are seeing, both rail peers and trucking peers, are seeing in the back half, that they say they're talking to their customers, they think it's going to be lower for longer. Just want to make sure, is that different from what you're seeing or expecting, or consistent, just said in a different way?

MURRAY K. MULLEN:
I think it's consistent, Walter, but we must differentiate LTL from truckload and rail, intermodal, those things. LTL is end consumer demand. End consumer demand is primarily driven by consumer spending and business activity. The inventory buildup, the inventory drawdown, those are cyclical things that I think will play themselves out.

As I said to you, I think that shippers will have no choice but to bring in new product that the consumer of today and tomorrow will want, not what they bought two years ago. It's useless. I think they'll pivot away from it. That's my view. They're trying to manage their balance sheet and rising interest rates and rising costs, we all are, but eventually it all will play itself out. When? I have no idea, but it won't last forever, Walter, just like the inventory buildup wasn't going to last forever. I don't think the inventory drawdown will last forever.

We'll watch two data points to determine whether there's a problem going on in the end consumer demand, one is on ocean shipments; is it coming, what's happening on containers coming over? That's economic activity. Then, you might as well watch another data point, which is what's happening in the packaging business and the cardboard business, because they're the ones that package the goods.

WALTER SPRACKLIN:
Yes. On the M&A side, it sounds like your peer is also starting to pick up some tuck-in activity in Canada.

MURRAY K. MULLEN:
Yes.

WALTER SPRACKLIN:
When you look at where you're focusing your M&A, is it on Canadian LTL, or could you see some activity in Industrial Services as well? Just curious what segments you might be deploying capital?

MURRAY K. MULLEN:
Yes, both of those are interesting to us. LTL is our largest segment, so we'll continue to build around the edges on our LTL segment, Walter, for sure. That's what we're going to do.

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WALTER SPRACKLIN:
Okay.

MURRAY K. MULLEN:
Then, there's some really good specific opportunities that I think are going to happen, is the build-out and the transition of our economy from traditional oil and gas to all forms of energy. We see some good opportunity in the mining business coming up that's been underinvested in, so we'll look at those things and make sure that we're positioned so that we can drive good value for our shareholders.

WALTER SPRACKLIN:
Yes, that makes sense. Then, last question here is on equipment deliveries. I know COVID and chip shortages and so on kind of kept those tight. You're starting to see those come in; that should help alleviate some of the restrictions you had. But I'm wondering if it might—if that's coming back to your competitors or new entrants as well, is that going to have an implication of trucking capacity that might see some more capacity coming online and that affecting price, right at a time right here at least, when we're in a bit of, as you mention, a cyclical downturn because of the freight recessions, stemming from everything we just talked about. Could this capacity be coming on at the wrong time? Is there any concern there at all?

MURRAY K. MULLEN:
I don't see a scenario with more capacity coming online. In fact, I would argue with you that I think the opposite is going to be taking place in this market.

The little carrier, the ones that are undercapitalized, are going to have a real problem adding capacity because the equipment's so expensive and interest rates are so high, and rates are down. There's no way they're adding capacity. If anything, capacity is shrinking. There's going to be a shift; something's got to give on this front. I don't see more capacity coming on. I think capacity's going to come out of the market.

WALTER SPRACKLIN:
Okay, that's encouraging. Okay, well, thank you very much, that's all my questions. Thanks, Murray.

MURRAY K. MULLEN:
Very good. Bye-bye.

OPERATOR:
The next question comes from Cameron Doerksen from National Bank Financial. Please go ahead.

CAMERON DOERKSEN:
Yes, thanks very much. Good morning.

Murray, you mentioned, I guess, some of the interesting opportunities on the mining side. I wonder if you can maybe just expand a bit on that; where specifically are you seeing these opportunities, what business units and…

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MURRAY K. MULLEN:
Yes, good point.

CAMERON DOERKSEN:
…what the magnitude of it is?

MURRAY K. MULLEN:
Yes, take a look at what Ontario was really advocating there, which is the Ring of Fire up in Northern—you're not going to build mines in Toronto, okay? It's going to be in the North, that's where mines are going to be. If you look at Northern Ontario, there's some really good, interesting projects that are being looked at there.

You're going to have to have—if you're going to build batteries, where are you going to get the copper from? Where are you going to get the nickel from? Where are you going to get all of the lithium from? If we're going all-in on batteries, you've got to go all-in on mining.

Canada's blessed. I think that there's a push towards that. Quebec will benefit a bit. Ontario's a big beneficiary of that. British Columbia is now sanctioning new mines, the first time in 10 years that I've seen. We've got strong market positions in both of those areas, of Northern Ontario. Really, well, any development in the North is really going to help our LTL, our Gardewine group, because we've got such a strong position up there.

Our Bandstra group that we acquired two years ago has a real good market presence in Northern British Columbia, and they do a lot of business with the mines.

CAMERON DOERKSEN:
Okay, no, that's really helpful.

MURRAY K. MULLEN:
Mining is energy, and my thesis is we need more energy, all forms of energy, and there's going to be an increased focus on alternative forms. You'll need mining, not just drilling, or oil and gas.

CAMERON DOERKSEN:
No, absolutely, it makes a lot of sense. Just on the Specialized & Industrial Services segment, you're talking about your activity levels have looked good there. I think you've also seen some strength on the pricing side. Just wonder if you can talk a little bit about the pricing, how sticky you think that is and whether we're at a new sort of stable environment, especially on some of the oilfield services and related businesses?

MURRAY K. MULLEN:
I think the pricing's pretty stable, Cameron. You won't get any more pricing leverage unless there's a demand push, but I see pricing staying pretty sticky, because demand levels are going to be similar to last year. Costs are up so pricing will stay up, a bit. I see it being in the range that it's at now, and would only have more upside in the pricing is if there was increased activity, which I'm not counting on the increased activity. I think activity will be pretty solid and we'll have pretty good pricing.

The only area of our Specialized Industrial, Cameron, is really not—we don't see a lot of good, inertia there is really our Premay Pipeline group, and that makes imminent sense. Premay

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Pipeline was involved in building the infrastructure so that we could move natural gas and crude oil out of the Western Canadian basin. They're nearing the completion of those major projects, so their run of good times and life is nearing the end, and then it just translates over into other parts, which is mining and drilling and support services there.

I still think we'll be, on balance, our Specialized Industrial will be better. We're going to look at building out in that area also, because we see some really good opportunities there over the next bit.

CARSON P. URLACHER:
I think that speaks to the diversity of our Services, actually within the S&I segment. As Murray alluded to, as you put that pipe in the ground, you're building that infrastructure out, now you've got to fill the pipe. Now you need that natural gas to flow through, you need that oil to flow through. We participate in all of those sectors of the economy, not just in building the infrastructure and putting the pipe in the ground. Now that demand is going to shift more to drilling and filling those lines. We participate in it virtually all the way along.

RICHARD J. MALONEY:
The most recent acquisitions we did, of Cordova and Butler Ridge, we enforced that, we saw that, we negotiated that before. We started reporting on this, so again, just anticipation of where the puck is going.

CAMERON DOERKSEN:
Perfect.

MURRAY K. MULLEN:
Cameron, on those two opportunities, we held a minority position, so we're moving from a minority position to a wholly-owned position, because we see a good opportunity.

CAMERON DOERKSEN:
Okay, no, that's great. Appreciate the colour. Thanks very much.

RICHARD J. MALONEY:
Thank you.

OPERATOR:
The next question comes from Tim James from TD Securities. Please go ahead.

TIM JAMES:
Thanks very much. Good morning and congratulations on the good start to the year.

My first question, Murray, you've talked about where the strengths are. I'm wondering if you can reflect more specifically on, relative to your thoughts coming into the year, what maybe surprised you about the strength? Or, as the quarter turned out, was it very much the strengths were where you expected, or was there anything that was surprising even to you? Again, I'm thinking about the industry backdrop and what you're seeing from some of your peers. What surprised you to the upside, if anything, in the first quarter?

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MURRAY K. MULLEN:
Well, nothing really totally surprised us in the first quarter. I would say that, I looked at the year of 2023 maybe differently than my peers, and we all got experience. But maybe it's just my cautious nature that—I go, "Nothing lasts forever." Nothing goes up forever, nothing goes down forever. I just said, "This makes no sense."

We didn't get sucked into it. We played along and had a great year; everybody had a great year last year. But if everybody's having a great year, you know something's wrong. I just took the contrarian view and I said, "Look, it's going to come down. Let's plan for it. Let's be prepared, that way you don't get hurt."

The market will be the market, but the market is shifting. The prepared will do well, the unprepared will get crushed. It's just business. I don't know if I really looked at it any different, but we just tell it the way we see it here. We never know if we're right or wrong, but we tell everybody the way we see it.

TIM JAMES:
Okay. My second and last question, when growth does pick up again, I'm thinking about your LTL business and your Logistics and Warehousing business in particular. What do you have in the way of capacity pressure points, if any, whether it's warehouses or trailers or any type of equipment, where do you think you could be restricted first, or maybe I should say, where do you need to add some investment first to increase your capacity to deal with that eventual pickup in growth?

MURRAY K. MULLEN:
Oh, boy. I would say, yes, yes and yes. If you're going to have growth in the economy, you're going to have to add capacity to meet that growth. Otherwise, you go back to what we had last year, which is bottleneck, bottleneck and bottleneck. That's what caused inflation, inflation, inflation is all of that.

In my view, the only real solution to really controlling inflation is add capacity. We're going to have to add—the whole market will have to add capacity, which I think I'm seeing some of that happen now. I think we all take a pause and say, "We're all adding, we're positioning for the future to make sure we're efficient." But I don't know of everybody adding for a whole bunch of new growth over the next bit. I don't think we're going to see a market like we saw in '21, '22 again for a long, long time. Probably not in my career, so I won't be planning for another one in my career. It will happen, but probably not in my career.

What we're planning on is steady growth, stable. We've got to focus on being pinpoint accurate. We've got to watch our costs, we've got to add productivity again, and you're going to have to work with your customers to make sure that we're adding value. We'll look at all of those things, but we're not planning on a major rebound in growth.

There will be a rebalancing of the inventory, don't get me wrong, but that's not growth in the economy. Growth in the economy is more people spending more. Eh, I'm not so sure on that. I think it'll be good but not great.

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RICHARD J. MALONEY:
I think Tim, to add on that, one of the things, we're obviously investing significantly in the LTL side from a CapEx perspective. We do know that. We're making those investments, it takes time. We also know that there's going to be failures for smaller operators, so what our focus is going to be is about yield strategy. You hear others talk about that, so make sure all of our trailers are going to their final destinations absolutely full, with the best freight we can get in there. As others do not make it, and that we can start backfilling with newer, better equipment like our CNG trucks that we've recently announced and talked about as well, we're going to continue to focus on that.

Because we don't think there's necessarily growth in the overall economy, but we do know, if others fail, we'll be able to pick that up. People want to come and work for us and we're seeing people coming to our organizations and our business units wanting to work for us.

MURRAY K. MULLEN:
Yes, that's a good point, Rich. On LTL, we're going to open up a brand new terminal, a facility in Kamloops, British Columbia here this month—next month, it's already this month. We'll be opening that up, and that will allow for future growth, and that future growth will come because the interior of B.C. grows, but also because we're able to do some tuck-in acquisitions to add scale to that business.

LTL is facilities, making sure we've got a good low density and being pinpoint accurate on making sure that we've got the most efficient equipment, along with really—you've got to invest in technology. I've got to make sure I make that point clear. Technology allows you to move the data faster, obviously, but it also allows you to make sure those trailers are going full and we're getting good utilization out of everything.

That's our plan. We're going to continue to strive for higher margin in LTL, through a combination of adding tuck-in acquisitions and being pinpoint accurate in how we apply our capital into those businesses.

TIM JAMES:
Okay, thank you.

Maybe just to round that off, and is it possible just to give sort of updated thoughts on, approximately, your CapEx, total CapEx spending plans for this year, and any insights you have on 2024? I'm not thinking about multiple speakers).

MURRAY K. MULLEN:
Carson, we're not changing our CapEx plans. We set out a plan at the first of the year, and we're not deviating from that, right? Eighty-five million was our…

CARSON P. URLACHER:
Yes, we came out with $85 million at the beginning, in January here. Now you can see in our Q1 results, that we…

MURRAY K. MULLEN:
About $25 million, weren't we?

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CARSON P. URLACHER:
Yes, we had about $25 million come through here in the first quarter, and a lot of that was carryover from what we had previously ordered. At this point in time, I don't see any change. Obviously as the year progresses, if something changes, we can update you later on in the year, but we don't see anything at this point.

TIM JAMES:
Okay. Thank you very much.

MURRAY K. MULLEN:
Thank you, Tim.

OPERATOR:
(Operator Instructions) The next question comes from Matthew Weekes from iA Capital Markets. Please go ahead.

MATTHEW WEEKES:
Good morning. Thanks for taking my question.

Obviously Q1 was a very strong quarter, and just as you think about how things played out with the inventory de-stocking cycle, you talked about some strong areas of the business. I'm wondering if you have a comment on how the cadence, profitability or demand sort of evolved on a monthly basis, was it more backend-weighted in the quarter, how did you see it evolve through March and then in April here, if you have any sort of indications of how it's progressing?

MURRAY K. MULLEN:
I don't think it's—there's no demand push, Matthew, that we're seeing going through the cycle right now. From that perspective, I think we're totally aligned with all of our peers. We just don't see the demand push. We think that the business that we have now is the business we have, is pretty stable. I don't think it's going to deteriorate a whole bunch more from what you see today. It's going to deteriorate from last year because last year was a boon.

I'm just giving you our expectation and my expectation for the balance of the year, it's going to be kind of where we're at right now is about where the market. Typically you have a seasonal push, and last year we had a seasonal bump. Not this year. The seasonal push, as consumers get out of the winter and stuff like that, it'll be muted compared to last year. We still think we're on target for what we articulated and opined in January of '23, which would say to you that our Q2 and Q3 will not be the same levels as last year. If it is, then we've got to change our '23 assumptions…

RICHARD J. MALONEY:
(Multiple speakers).

MURRAY K. MULLEN:
…and we'll come back to you, Matt. But I don't see it, Matthew. The market is what the market is right now. I don't see it going up and I don't see it going down a whole bunch more from here.

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MATTHEW WEEKES:
Okay, thanks, appreciate the commentary.

I wondered if you can just talk a little bit about maybe some of the productivity gains that you made, particularly on the LTL side, and how much more opportunity you see from a productivity standpoint going forward, given the strength in the LTL margins? Not just compared to last year, but in general, looking historically at Q1s, it was quite a strong quarter for LTL on the margin side. Just wonder if you have a comment on that?

MURRAY K. MULLEN:
Yes, last year, labor was killing us, because we didn't have enough and you were double-handling everything. You had a freight surge, not enough workers, so you're double-handling everything, lots of overtime for those dedicated workers that helped meet that surge in demand.

RICHARD J. MALONEY:
Mm-hmm.

MURRAY K. MULLEN:
We don't have that same cost push that we got this year. There's not as much urgency, and therefore, we're able to plan more. But we're being—all of our businesses are 100% focused on yield, and you've got to have lane density to get yield. Our job at the corporate office is to backfill some of that yield maybe the market doesn't give them, and we're looking at opportunities.

MATTHEW WEEKES:
Okay, thanks, appreciate the commentary. I'll turn it back. Thanks.

MURRAY K. MULLEN:
Thank you.

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

MURRAY K. MULLEN:
Thanks, folks, for joining us. I think spring has sprung, although we have snow here this morning in Alberta, so I wouldn't—I'm not opining about that, but yes. The market's going to be—I'm really pleased with what our business units are doing and how they're responding to the change in market. It's right up our alley. We're well-positioned.

We look forward to chatting with you in a few months' time. Take care and we'll talk soon.

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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