



The Mullen Group Limited

Year-End and Fourth Quarter Earnings

Conference Call Transcript

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Time: 8:00 AM MT

Speakers: **Murray K. Mullen**
Chair, Senior Executive Officer and President

Carson P. Urlacher
Senior Financial Officer

Operator:

Welcome to the Mullen Group Ltd. Year-End and Fourth Quarter 2024 Earnings Conference Call and Webcast.

As a reminder, all participants are in listen-only and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, then zero.

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 to Mullen Group's quarterly conference call.

We'll provide shareholders and interested investors with an overview of the Q4 2024 financial results and, in addition, we will discuss the main drivers impacting these results, our expectations for 2025, and we'll close with a Q&A session.

Now, before I commence today's review, I'll remind everyone that our presentation does contain 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. For further information identifying the risks, uncertainties and assumptions, these can be found in the disclosure documents which are filed on SEDAR+ and at www.mullen-group.com.

With me this morning, I'm joined in Okotoks by Carson Urlacher, he's our Senior Financial Officer, and he's going to be speaking this morning, and online is Richard Maloney, our Senior Operating Officer, and Joanna Scott, our Senior Corporate Officer.

I'm going to start with the 2024 financial and operating performance, and, really, there are three topics that I want to touch on this morning, before I turn the call over to you and for Q&A.

Let me begin by talking about the macroenvironment that we've had to migrate through this last quarter—in fact, all throughout the whole year, which is along with discussing what has changed year-over-year. Then, I'll turn it over to Carson Urlacher and he'll provide an update on Q4 financial results, and for those of you that are interested in detail, we posted the 2024 annual financial report online. It's a detailed, 125-page report covering all aspects of the results and our balance sheet, and it's both on our website, which is www.mullen-group.com, and on SEDAR+. Then, I will close with a discussion on the macroenvironment as we see it and how the results could be impacted.

Now, let me just kind of go off topic and off script for, like, two seconds. The market's difficult, but let me just summarize what I think. Forget about the last quarters, the last year, let me give you what we've done in the last three years. Do you know that in the last three years, we've generated two, two and two, \$2 billion, \$2 billion, \$2 billion, that's \$6 billion, and during that time, we've generated OIBDA, operating income before depreciation and amortization, of nearly \$1 billion in those three years, through every market that you could imagine. Really, we've got a pretty stable business these days, that we've changed over the number of years. The last three years kind of prove the stability of performance. What we had to do at Corporate Office is we had to backfill because the market isn't give us a whole bunch in 2024. That's basically—I just go off script on

that for a little bit just to summarize it for you, to say this is who we are today, that's the new Mullen Group.

Let me start by reiterating what I think should be obvious to everyone by now. You know, we're mired in a no-growth economy here in Canada. Capital investment is not anywhere near it should be, and in the transportation and warehousing industry, there remain lingering issues associated with the inventory rebalancing by shippers and excess capacity that was built up during the '22, '23 freight recession. Twenty twenty-four started this year and it ends that way, which is precisely what we anticipated and what we articulated to investors throughout the year. In other words, really nothing changed in Q4. The markets we serve are challenging, there was no growth, it was certainly competitive, and the costs remain elevated due to inflation and the legacy issues associated with facility lease costs that had to be signed at the peak of the market, etc. Quite simply, there were no free rides in 2024.

Now, within that backdrop, how did Mullen do, how did we fare? Anticipating that the macro environment might be challenging, we've been pretty steady on that for quite some time. Accompanied by the lack of new capital projects to replace the major pipeline construction work in 2023, we planned at Corporate Office to backfill what the market would not provide to our business units. We simply reverted to what we've always done and what we're good at, and that's acquisitions. This is the number one reason why we held our financial results flat through 2024, including Q4. Not only did we hold our own, but I think we've also positioned Mullen for a bright future by investing in some really good opportunities.

What I'm really proud of is not the five acquisitions we completed last year, but it really was that stellar performance of our 39 legacy business units. They did a great job. They did not have an easy market. They managed through what I can only describe as challenging conditions. I've got to say thank you, team. Your hard work and disciplined cost management initiatives are a really big reason why Mullen Group performed as well as we did throughout 2024. Now, I also fully expect that we can continue to benefit from all this hard work in 2025, so keep your foot on the pedal, team.

How did our four operating segments do last quarter? Investors know that the organization's been built up over 30 years by investing in verticals within the economy that we believed offered the most stability and growth potential. But here's what we really focused on; can the business we invest in generate free cash flow. From this perspective alone, it is evident that our performance over many years—and some years were not good, and some were not so good, but this validates that this strategic approach to investing your money is a successful formula.

Here's the proof. We've returned over \$1.5 billion to shareholders over the years, and I believe with much more to come because of our past decisions and investments. Our business is built around an extensive network of great business units. It's operated by passionate and professional Management Teams. In Corporate Office, we maintain a healthy balance sheet, that we can add new investments as opportunities arise. Carson will speak about that in his presentation.

High on the list of great verticals within the portfolio of really good solid business units, that is our LTL segment. Earlier, you heard me speak about the challenging market conditions, but LTL, it's a little bit different. It is, generally speaking, very steady, and the fourth quarter was no different, segment revenues were somewhat flat, and this is with fuel surcharge revenues being down year-over-year by \$5.3 million, and that's only because the price of fuel is down. You lose \$5.3 million from fuel surcharge revenues in the quarter. Most impressive was the nearly 1% improvement in

our operating margin. The segment, it's not only resilient, it still offers what we think is the best opportunity for margin improvement as we continue to invest in technology, better yield management, improved line density, and we think that comes from tuck-in acquisitions.

Now, what about the L&W segment? We saw revenues improve by 14.3%, and that was mainly due to the acquisition of Container World early in the year, and the solid performance by our two largest business units in the segment, Gleason Group and Banister Transportation. Margins held steady, which I think, in itself, was a major win, and we remain of the view that this segment offers the most growth potential as we build out a national network of warehousing and logistic capabilities. You know, combining first-class warehousing with intermodal capabilities in a final-mile delivery network, that's how we're going to provide customers with a valuable end-to-end solution to meet their logistics needs.

S&I segment, that's—on the other hand, we had a tough quarter. This was not unexpected, though, primarily due to the completion of the major pipeline projects in Western Canada. Projects that were not replaced, and we always have articulated to people you have to build the pipelines, then you drill to fill. The drill to fill has not happened yet, but the pipeline work is done. The next stage will be you've got to fill the lines, and that's with natural gas and with crude oil.

We also exited—decided to exit some business lines, such as Drilling Services Group, and that was only due to one thing, the high cost to replace capital equipment and we didn't think it was worth deploying new capital in, so we exited the businesses. Plus, we chose not to invest in new acquisitions in this vertical due to the lack of quality opportunities. As a result, revenues were down year-over-year in the fourth quarter by \$18.7 million, or 15.3%. These revenue declines were virtually all due to Premay Pipeline business unit, and it's the principal reason segment OIBDA declined by \$8.4 million. Now, unfortunately for Mullen Group, and perhaps even Canadians, is the fact that capital-intensive projects came to a virtual halt in 2024. However, the remaining business units in the segment were essentially flat year-over-year.

U.S. 3PL, and international logistics segment, actually, we generated the same results in Q4 as the prior year period, and to me, that's the first signal that we've seen to suggest that the U.S. logistics market has stabilized. Margins remained under pressure due to competitive markets, but this, too, could change as revenues improve, primarily due to the fixed cost nature of the S&A expenses of HAUListic, which, by the way, is our only—currently, the only business unit in the segment.

In summary, I've got to say no real surprises. The markets remain competitive. We streamline businesses where needed. Our business units did a great job given the market conditions, and at Corporate Office, we were busy looking at opportunities. We found a couple of nice gems that we believe fit nicely in the Group, but I'll tell you, we passed on all the big acquisitions because of what we believe are structural changes occurring in the transportation and warehousing industries, and if we're correct in our analysis, this implies that competitive conditions will remain for an extended period. We'll be ultra-cautious, until we see signs of stabilization. I want to make it clear that being realistic about the current market conditions does not mean that the markets will not eventually improve. When remains the only unknown to our Senior Executives, and when the market starts rewarding the industry for the capital invested, we will be there to invest and to acquire. More on this in the outlook section.

Now, one more topic I'll talk about this morning, and that's safety. On Tuesday, we held our annual Safety Award presentation with all of our business units. Our Director of HS&E and Risk

Management, Randy Mercer, he hosted the meeting, providing everyone with a detailed report on our safety statistics for the entire Group. We benchmark every single business unit. I'll tell you this, you do not want to be the leader of a BU that comes in with poor safety results. But it is more than just about statistics, it's about culture.

Annually, we recognize the best of the best with our grand prize Safety Award, we affectionately call it "The Bear," and the winner gets to host "The Bear" at their office for the next year. This year, I'm delighted to report that our Grimshaw Trucking business, a business we invested in nearly 30 years ago, is this year's recipient of "The Bear." Well done Team Grimshaw. Celebrate your accomplishments and keep everybody safe out there.

Carson, I'm going to now turn it over to you for more on the fourth quarter financial analysis. You're up.

Carson P. Urlacher:

Perfect. Thank you, Murray, and welcome, everyone.

I'll provide some of the additional highlights from the fourth quarter, the details of which are fully explained in our annual financial review.

As Murray mentioned, we are stuck in a no-growth economy. One of the main reasons we were able to achieve the results that I'm about to summarize was the result of one factor, and that's due to acquisitions. Overall, our fourth quarter results continue to highlight our ability to consistently generate free cash in yet another competitive operating environment. Revenues in the fourth quarter were approximately \$500 million, virtually flat compared to the prior year. With respect to OIBDA, we generated \$85 million in the quarter and \$332.2 million for 2024.

In terms of cash, which is what we focus on, we generated cash flow from operating activities before non-cash working capital items of \$92.9 million in the fourth quarter and approximately \$340 million for 2024. This cash generation continues to be in excess of our requirements, including our interest payments, our cash taxes, CapEx and our lease commitments. This really comes as no surprise, though, given our acquisition strategy that Murray articulated earlier, which is to invest in businesses that generate free cash.

I'll go through the results by segment shortly, but the overall theme is as follows:

Top line revenues were flat compared to the prior year, as incremental revenues from acquisitions offset the lack of capital investment in Canada, and the continued softness in freight demand and lower fuel surcharge revenue.

Operating margins improved due to a combination of our tuck-in acquisition strategy from the niche markets that we serve and from recognizing a positive variance in foreign exchange on U.S. dollar cash balances held in the Corporate Office.

Despite completing five acquisitions in 2024, we continue to maintain a strong balance sheet, which I will highlight shortly.

In the fourth quarter, revenue per working day remained consistent to the prior year period at \$8.1 million. We generated OIBDA of \$85 million, an increase of \$5.8 million, compared to the prior year, with acquisitions adding \$6 million of incremental OIBDA. Operating margin improved to

17%, as compared to 15.9% last year, despite more competitive pricing conditions in certain markets and a reduction in higher margin specialized business.

Direct operating expenses as a percentage of consolidated revenues decreased by 0.7%, as our business units did a great job adapting to current market conditions and controlling costs. S&A expenses as a percentage of consolidated revenues decreased by half a point due to the positive variance in foreign exchange, being somewhat offset by inflationary pressures and from higher S&A costs experienced at Container World.

Now, let's take a look at how we performed by segment. First, our largest segment, revenues in the LTL segment were \$189.4 million, a slight decline from last year, due to \$5.3 million of lower fuel surcharge revenue and from demarketing unprofitable business. Acquisitions virtually offset these two revenue declines. OIBDA was \$31.4 million, up \$1.5 million from last year, despite lower segment revenue. Operating margins improved by nearly 1% to 16.6%, due to our tuck-in acquisition strategy into our existing network driving greater lane density.

Our second largest segment is our L&W segment. Revenues in the L&W segment were \$160.9 million, up \$20.1 million from last year. Acquisitions added \$30.9 million of incremental revenue, which was somewhat offset by lower revenue generated from our existing business units due to a lack of capital investment in Canada and from shippers electing to keep a tight rein on inventory levels. OIBDA was \$33.2 million, up \$4.1 million from the prior year, with Container World adding \$5.4 million of incremental OIBDA, while our other business units experienced a slight decline in OIBDA due to more competitive operating conditions. Operating margins remained virtually flat at a respectable 20.6%, as compared to the prior year.

Moving to the S&I segment, revenues were down \$18.7 million to \$103.8 million, driven by an \$11.1 million reduction in revenue from Premay Pipeline, due to the completion of both TMX and Coastal GasLink Pipeline projects. We also experienced lower demand for civil construction services in Northern Manitoba for our Smook Contractors business unit.

OIBDA was down \$8.4 million to \$16.2 million on lower OIBDA being recognized at Premay Pipeline. Lower OIBDA was also experienced within our drilling-related services business units, including our rig-moving divisions, and OK Drilling experienced certain wind-up costs. Operating margins decreased by 4.5% to 15.6% due to the reduction of higher margin business and from slightly higher S&A costs.

In our non-asset-based U.S. 3PL segment, revenues were essentially flat at \$47.5 million from last year, as the industry continues to experience lower freight demand for full truckload shipments and lower pricing per shipment. OIBDA improved by \$1.1 million, and operating margin on a net revenue basis was 28.2%, compared to 9.8% in 2023. The increase in operating margin was primarily driven by lower S&A expenses as a percentage of segment revenue.

That's a wrap on our fourth quarter commentary, but let's have a quick look at the balance sheet going into 2025.

We closed a \$400 million 10-year private placement debt financing in 2024, and we used some of those funds to repay some previous notes that matured in October. We ended 2024 with approximately \$126 million of cash on hand. We also have access to \$525 million of undrawn bank credit facilities, providing us with ample liquidity.

In terms of debt covenants, we effectively have one main covenant, which is total net debt to operating cash flow. Our total net debt to operating cash flow covenant on our new 2024 notes is 2.24:1, and at 2.5:1 on our 2014 nets. Now, total net debt under this covenant is calculated differently under the 2014 note agreement, compared to the 2024 note agreement. Under the new 2024 note agreement, lease liabilities with respect to real property is excluded from debt, while our \$125 million of convertible debentures is now included as debt for covenant calculation purposes. The \$125 million of debentures is now included as debt under the new notes, given that they mature prior to when the 2024 notes become due in 2034.

In summary, our balance sheet is once again well structured and positions us to make long-term strategic investment decisions and to be able to look for new acquisition opportunities that inevitably generate free cash.

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

Murray K. Mullen:

Thanks, Carson, excellent analysis again. As I mentioned earlier, the 2024 annual financial review it's loaded with graphs and it's got details about our Company, about the business we have and our past performance.

With Carson's presentation, we're officially bringing 2024 to a close. It wasn't stellar, by any metric, but it wasn't bad given the changes occurring in the markets. Now, we move to focus on the future. We're going to start—we've got a great portfolio of business units. We have a balance sheet to adjust to any market outcome, and the market—I'll just leave you with this—the market might now grow in '25, but MTL can, and let me now turn to the outlook portion of today's call.

On the third quarter conference call, this is what I said. I outlined my rationale as to why I was of the view that the economy and the markets were most likely not going to change in the short term. Demand was okay, it was stable, but really not growing, and there was just way too much undisciplined supply. I was of the view that we should stay focused on margin, not growth, let the competition come to their senses, and looking at all of the economic data, looking at all the results from our peers, and our own results, it appears this analysis was pretty accurate. We also highlighted our strategy, at least in the short term, let's stay focused on margin versus market share, and take a very, very thoughtful approach to acquisitions, which we did.

Okay, that was last quarter, what about 2025? Has anything changed since we announced our 2025 business plan and budget? What do we see that would signal a change for the better? It certainly isn't Mr. Trump. It seems that we have now entered a period of heightened uncertainty, which is never good for capital investment or planning, and since we have no idea how this will ultimately unfold, there will be no change to our strategy. We'll maintain a very disciplined approach to the business and, most importantly, our balance sheet.

Acquisitions, that's a founding principle of our business model, and has been for 30 years, must meet three criteria. The target must be a good fit in our Company. I'm not wavering on that; it's got to be a good fit. The price must allow for Mullen shareholders to receive a return on their investment, and you need to find synergies. Those are our three criteria for doing an acquisition in our organization.

We're choosing to maintain our 2025 outlook that's articulated in the '25 business plan, we released that on December 9, '24, and although the first quarter is probably going to be soft, just

like it was last year, given all this uncertainty and people don't know what to do, we're just taking a wait-and-see approach to current trade discussions. But let's be clear on one point, we think there's heightened risk. The problem is we don't know what the risk is. We'll know more as the details emerge. Until then, we just simply stay the course and manage our business for the long term, and listen to our customers, because it's our customers that will be impacted, if at all. Then, we'll adjust, and then we'll adapt as required.

I suspect, although, admittedly—I have no reason to base this on, other than logic—there will be tariffs, most likely reciprocal by both countries, and there'll be some change to the Canada/U.S. trade flow, which shouldn't, in itself, really negatively impact Mullen too much, because we've really de-emphasized this segment of the market for many years. Our U.S. domestic business, on the other hand, our HAUListic Group, they're poised to grow along with the U.S. economy. I know we've had some good meetings with them. There's some good enthusiasm happening in the U.S. and our HAUListic Group is poised to take advantage of that.

If we have one concern, it is certainly the Canadian market, and I have to ask whether politicians are going to get their act together and allow businesses to thrive in this country, because if you want good, long-term jobs in Canada, they might start by changing public policy to attract capital back to this country.

Now, earlier, I spoke about what I believe are structural issues in many parts of the transportation and warehousing business. I'm happy to say we've avoided most of those industries where most of the pain is at.

The issues are in no particular order of importance: There's a lack of demand growth. It's not that there isn't demand, I said there's a lack of demand growth. There's too much capacity that was built up during the last cycle. You've got undisciplined pricing. Most of that is driven by competition right now that is really pricing for what they call cash flow, but, honestly, it's just to pay yesterday's bills, so they're very undisciplined. Then, there's the willingness of customers to use unsafe carriers. But I think this is ultimately going to change, because the industry is not generating a return on capital. Too many carriers are struggling today. We know it, because we get the calls. My instinct suggests that the industry will have failures in 2025. We've actually seen some already this year. I think there's going to be a lot more in 2025. This will be the pivot point towards better returns. We will see a reversion to the mean, and by this, I mean acceptable returns on capital employed, and I think we're closer today than we were last year.

This concludes our presentation today. I'll turn it over to the conference Operator for the Q&A session. Operator?

Operator:

We will now begin the question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two.

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

Walter Spracklin:

Thanks very much, Operator. Good morning, everyone. I guess where I'd like to start the question is really on your outlook, where you said that you kind of see '25 as being the same as '24. One

of your peers in the U.S., Knight-Swift, was a lot more constructive, many even framing it as calling an end to the freight recession. Is that just because they're in a better marketplace in the U.S., or is it just a level of optimism built around what indicators they're seeing versus what you're seeing? I'm just curious as to whether this is something different, or is it just optimism versus pessimism driving their outlook versus yours?

Murray K. Mullen:

I'll give you my thesis, Walter, and it's mine. When we sit and we look at things from a strategic perspective, I always look at two things, and I'm not trying to oversimplify it, but it really is this simple. I look at demand, how does demand look, how does the economy look, Walter, flat, okay, or down? We've made an assumption that we think it's going to be about the same. I don't see any uptick. I don't see that Canadians have more disposable income. We think the demand side is going to be relatively flat.

Now, let's turn to supply. We've had too much supply. That's why the prices have been so low, and customers have just been taking advantage of that situation. Good on them, that's the way business works. The industry got customers in '22 and '23, when there was a spike in demand, and now there's excess supply, they win, but it's going to revert to the mean. Everything that I'm talking about, that it's going to be okay, is because our competition is weak and they're dying. We'll be okay, we're stable. I don't think you'll see the market improve, but I think our business units are very well positioned. When customers call and say, "Hey, I called the other guys, but they're not in business anymore, they're phones don't work." "Okay, let's make a fair deal. We'll help you be, but we need to have something that's fair for us, too." I think that's where we'll be okay, Walter, on same store sales, I think we'll hold our own, maybe do a little bit better later in the year. As the failures rise, we'll do better. Until then, it's just a fist fight.

Walter Spracklin:

Okay. No, I appreciate that colour. In your outlook this year, you put \$150 million in there for M&A, that you're going to allocate toward M&A. I don't think you've done that before, Murray, and is this because you're more—is this something see imminent, or is it just something that you're plugging in there because you've done it in the past? I'm just curious as to why you elected to include that, and do we assume it's spread out across the year? I'm trying to gauge your \$350 million, because if \$350 million in EBITDA is \$150 million in M&A investment, then that could be maybe \$30 million of your EBITDA forecast for this year is associated with M&A, and if you do a deal at the end of the year versus the beginning of the year, obviously, that \$30 million is going to vary. I'm just trying to get a better sense of do we look at your guide as being more \$320 million and then anywhere from zero to \$30 million in acquisitions, depending on when you deploy it. Is that the right way to look at your guide for this year?

Murray K. Mullen:

I think if you assumed—I think the reason we put in the \$150 million is because the auditors told us we had to, so it's just full disclosure. It had to do—the auditors are all panicked because of tariffs, "Oh my God! The world's going to end." No, it's not going to end. But, the auditors, I think that all came from them, and then said, "Well, how do you get to that?" We're not changing our outlook, because we said, "Look, we think we'll get to \$350 million, but we've got to do acquisitions to get there." Because we don't think the market will give us \$350 million. We think the market will be about the same as last year. Just like I highlighted, for three years, we've been two, two and two. It might be four years, because I don't see any growth in demand. Let's assume that we're about the same on same store sales, and that's about \$330 million. That's about what we did, Carson, \$330 million, \$335 million ...

Carson P. Urlacher:

Yes.

Murray K. Mullen:

... pick your number. Then, we do acquisitions, and I said, "We'll probably get to \$350 \$350 million, but, you know, we didn't do any acquisitions out of the gate, it's just the timing." But, to get to \$350 million, most likely, we've got to deploy \$150 million of all that dry powder that we've got. Yes, if you're doing acquisitions, you've got to deploy capital, and if we're going to add \$300 million of revenue, or \$200 million, I think you've got to spend some money. That's the math on it.

I think the question is where are we going to spend it, where are we going to invest shareholders' money? Most likely, it's not S&I. We've always said we loved the LTL business and if we can find tuck-in acquisitions, we're doing them, because that's how you drive margin improvement, as you get more critical mass and you put your technology in play.

But I tell you, depending—I'm being coy right now, but it really depends on Canada's response to how we're going to be competitive with the Americans. If Canada doesn't get its act together—and by this, I mean the politicians and Canadians, to say we've got to invest and get capital coming into Canada, we're going to turn our attention to the U.S., which implies our U.S. segment, our U.S. 3PL business.

I don't know for sure, but I can tell you, Canada, get your act together or, on behalf of our shareholders, I'm going to put our money to work in the U.S., where we think if they're going to win, we've got to follow the money. I think a lot has to do with public policy, Walter, and they better start getting capital employed in Canada again if we want to get this economy to grow. That has nothing to do with me, I'm just pointing out the obvious.

Walter Spracklin:

Okay, and then you mentioned the twos. One of the twos that you mentioned was on revenue. You mentioned there—or, sorry, over the last few years on revenue, and you're there. Do you think you're going to get there in a different way this year, in the sense that we've seen S&I very volatile. You mentioned it's very contingent on capital deployment and whether it happens or not. Do you have an assumption? When you say things are going to be the same, kind of same store basis, does that apply at the divisional level, are you expecting your S&I to be the same, your LTL to be the same, or do you just see, okay, S&I might be down and that'll be offset by LTL growing? Is it flat across the board or is there more variance within the divisions that make up your guide for this year, the \$2.2 million for this year ex acquisitions?

Murray L. Mullen:

Our first take on that is each segment will be flat to last year. You won't have any negative draw on the S&I side just because the pipeline business went from doing very, very well to doing nothing. It's not going to go down this year. Same store, it'll be about the same. Then, the real issue on the S&I side is does drilling activity come back to fill those pipelines as those pipelines—particularly, the natural gas pipeline out to Kitimat, they have to fill that line if it comes into production. The line is there, but the plant's not done, so there's no sense—you can't ship the gas through the line until the plant's done. It really goes back to that, Walter.

But we're hearing reasonable—having reasonable discussions with customers right now, that drilling activity will be okay this year, because they got to fill. That implies that our S&I segment should be reasonable, should be flat, maybe up a little bit, but let's call that flat. In LTL, it's not going to change. We did a couple little tuck-ins, but it'll be about the same. In the Logistics and Warehousing, I don't see significant change on that, either. I'd say most of them are going to be about the same as 2024.

Walter Spracklin:

Okay, that's great. Appreciate the colour, Murray, as always. Thank you very much.

Murray K. Mullen:

Thanks, Walter.

Operator:

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

David Ocampo:

Thanks. Good morning, everyone. Murray, I just want to circle back on one of your last comments there on capital deployment, if you guys would start to direct that more to the U.S. if Canada doesn't get their act together. If I look at your strategy so far, it's mostly just been asset-light through the 3PL business that you guys do have. Are you thinking something more of the same in terms of capital deployment if you start to deploy more assets down in the U.S., or are you thinking something on the asset side, which would probably require a lot more scale than you've deployed in the past?

Murray K. Mullen:

I think, David, that's all under discussion right now, and we're going to present our thesis to the Board. I've been reluctant on it, but when things change, you've got to change. It's pretty evident, with the Trump administration, that—there's two things. Number one, it's pretty evident Canada's losing the capital investment game already. Just look at our Canadian dollar, it's worth nothing. Then, if the Trump administration accomplishes what they want, which is they win and we lose, well, we've got to follow the money. We're looking at that very, very closely, David. I don't know for sure yet, but I have to change my thought. If Canada's not a place to deploy capital, I'm not going to deploy it here.

It's no different than in 2012, from a strategic standpoint. The rules changed in the energy space. We were once dominant in the energy business, S&I, oilfield service. Okay, well, it changed, and we pivoted away from it. I hope I don't have to pivot away from Canada, but I've got to do what's best for our shareholders, and if pivoting away is required, our shareholders should know I'm going to do what's best for them.

David Ocampo:

Okay, that's very helpful colour. Then, just circling back on the \$150 million of M&A that you're guiding to this year, the files that you're seeing cross your desk today, are they mostly fixer-uppers or they may be on the brink of bankruptcy, or are they well run companies?

Murray K. Mullen:

We thought last year they were going to be on the brink of bankruptcy, which is why we didn't buy them. Now, truthfully, so many are getting into such bad shape, David, I don't know if I want them.

I think you just let the market play itself out, and then what we'll do is we'll pick up the pieces and just add—which is why, Carson, if you look at it, we increased our CapEx this year ...

Carson P. Urlacher:

We did, yes.

Murray K. Mullen:

... significantly over last year for our business units, because we think now is the time for us to get ready for when that market shifts and customers call and say, "Can you service us?" Right now, they've got too many choices, but that may change in '25. That's my thesis. Check me later this year.

David Ocampo:

Got you, and then just on that point on the CapEx, in the S&I outlook section, I think you guys called out some robotic work that you may look to do this year. I'm just curious how much of that \$100 million of CapEx is allocated to S&I and what types of returns on capital are you guys looking to achieve there, since I think this is a division that hasn't received much log in recent years.

Murray K. Mullen:

It wasn't a whole bunch in S&I.

Carson P. Urlacher:

It would have been about \$20 million in total roughly, would have been what we allocated to that segment. A lot of it is, like we mentioned, that specialized type of equipment with robotics and zero entry into tank cleaning.

Murray K. Mullen:

That's a new technology, and then, also, in our (inaudible 39:59) group, we're drilling a new well because ...

Carson P. Urlacher:

We're looking at (inaudible 40:02).

Murray K. Mullen:

... that's our disposable business that we have on that, that's an exceptional margin. Each segment, the return on capital thresholds, every segments got to meet the return on capital thresholds, that's 15-plus, or else don't call me, don't call us. Last year, we told everybody, "Tighten up, you don't need capital, you need to tighten up your business." Last year, they tightened up. This year, we're saying, "Okay, you tightened up, you did your job. Now, we'll look at giving you new capital to get market share."

David Ocampo:

Okay, and, Murray, what's the timeline on that 15% return threshold? If you add \$15 million of EBITDA to your business, it does imply that the \$330 million does seem a little bit light.

Murray K. Mullen:

That means we look at the life of the CapEx and we say it's got to turn 15% a year, or else we're not investing the money. That's minimal.

David Ocampo:

Okay, got you. Thanks a lot for the time.

Operator:

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

Kevin Chiang:

Hey, Murray and team, thanks for taking my questions here. Maybe if I could ask Walter's question a different way. When I think of some of the optimism that seems to be coming from the U.S. carriers as they get through earnings season, maybe it's less demand-driven and maybe more along the lines that some of the excess of undisciplined capacity seems to be exiting the market, I guess, in 2024, and hopes are we'll see that in 2025. That should improve the bidding season as we get into maybe the middle of this year and hopefully into the back half of the year. I guess, on that side of the equation, it sounds like you're optimistic, as well, in terms of some of that capacity exiting. Just, I guess, are you being conservative in your outlook, in that you're assuming the bidding season doesn't reflect some of that normalization in supply/demand, you'll take that as upside, or do you think we're maybe a little behind what the U.S. carriers are seeing and maybe that's more of a 2026 story?

Murray K. Mullen:

As for 2025, how it's going to play out down there?

Kevin Chiang:

No, for yourself. In the U.S., they seem to be more optimistic (inaudible 42:19).

Murray K. Mullen:

The thesis right now, Kevin, is that, look, we have a footprint in the U.S. with our U.S. 3PL business, our HAUListic Group, and they do about \$185 million a year in business with us, and they generate—you know, they don't generate high margin, very low margin. It's a lot of revenue, but not a lot of margin, but it's all cash, because they have no CapEx. We still generate a return on our investment. But the thing that we're getting out of—what we're hearing from them is there's real optimism from U.S. shippers and U.S. players on the demand side. There's a real excitement down there on the demand side.

At the same time, Kevin, what we're seeing is there's still failures happening. You're having an increase in demand at the same time you're having a decrease in supply. That's why the U.S. carriers are relatively optimistic. In Canada, we see no increase in demand, but we do see some failure, so it's not going to be—you can't be quite as optimistic under that scenario as if I had a bigger exposure in the U.S. We're looking very, very seriously at the U.S. market as deploying our next round of capital. That's on our plate. Just alerting our shareholders that, hey, that things have changed and we're going to go where the capital goes. We're going to put your capital to work where capital is going, because that's where we see opportunity.

Kevin Chiang:

No, no, that makes a ton of sense. I know David pressed you a little bit on maybe what that U.S. strategy might look like in the (inaudible 44:18).

Murray K. Mullen:

Yes. Really, what I'm telling you is, I'm highlighting that's on our radar, we have to have a bigger exposure in the U.S. market. We're too heavily—we're like Canada, we're too heavy Canadian and no growth, and Canada's not growing. Okay, we're going to look outside the borders.

Kevin Chiang:

You mentioned some uncertainty just related to trade. That may be obvious in our broader economy. I guess, how does that variable play a role in how you think about M&A? Does it make transactions a little more difficult, because, obviously, I suspect trade would impact some of the targets you're looking at, or am I looking at it incorrectly that way? That for some of the deals you're looking at, these tuck-in acquisitions, from your perspective, trade doesn't dramatically change how you might value those, those potential targets—or trade uncertainty, I should say, would impact the valuation you would pay for those assets.

Murray K. Mullen:

I don't see the valuations—valuations are a little higher in the U.S., but, really, there's better opportunities down there, a better chance that you're going to have better returns down there over this next cycle. But thus far, we've been very reluctant and passed on those, but I think we're now—we're just highlighting that we've got to take a look at it. That's our response to the change in the macroenvironment and the potential change in administration in the U.S., their viewpoint, and they're set, that the U.S. wants to win.

Okay, if they're going to win—not everybody can win. If the U.S. wins, we're going to lose. It's not all tides are rising right now. We're just highlighting, Kevin, we don't know for sure, I can't get specific, but I can highlight to you we are going to be probably growing on the U.S. 3PL side this year. That's where we're going to be really focusing some of that CapEx. Yes, we're going to focus CapEx on our tuck-ins on LTL, because, as I said, that's how we drive margin improvement, you layer in revenue, you don't take all the costs. But in the U.S., ours would not be—there wouldn't be synergy, per se, there would be opportunity for growth.

Kevin Chiang:

Right, right.

Murray K. Mullen:

Right? Whereas, by doing something in Canada, probably one-on-one, you end up not having as many people and not as many terminals, and that's how you drive margin. But in the U.S., we do it because we see growth opportunity. That's the only reason we would put capital to work down there.

Kevin Chiang:

Okay. This has been great colour, I appreciate all the details you provided. Thank you very much. Best of luck as you execute on your 2025 plan.

Murray K. Mullen:

Thanks, I appreciate it. We look forward to chatting again in the year.

Kevin Chiang:

Thank you.

Operator:

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

Konark Gupta:

Thanks, Operator, and good morning, Murray and team. I don't want to beat the dead horse here, but the M&A team is pretty relevant this year, as you spoke, Murray, about the Canadian market macro-wise is not giving enough growth, obviously. I'm trying to understand your philosophy around the M&A. Obviously, I understand totally the U.S. market is a stronger market and you might have to focus on that, but if I look at the public companies there, and to Kevin's question, obviously, like, the multiples in the LTL market and the logistics market in the U.S. are quite high, at least for public comps. For truckload companies, they're more reasonable, I guess, right? Looking at your conservative approach to M&A typically, would you say you would be more attracted, let's say, if you're doing an asset-based acquisition, would you be more willing to do a truckload as opposed to less than truckload in the U.S.?

Murray K. Mullen:

First of all, I can tell you, when we go to the U.S., it won't be in the LTL space, because we could never get big enough down there, so we won't even—if you can't big enough to be a player, don't waste your time. We wouldn't do that. We would be looking at other verticals that we identify that we think there's opportunity, so that's what we're going to look at. I can't say any more than that, but I guess say every acquisition we're looking at today has to have some leverage to the U.S. market, because you can't just stay in Canada anymore, it doesn't work, Konark.

On the valuation side, yes, valuations are much higher than they are in Canada in the U.S., but we've got the balance sheet, so we can—we're just telling our shareholders don't worry, we're going to be able to grow our business. We're going to have a bigger business in this next cycle. That's what we're highlighting.

Konark Gupta:

That makes sense, I totally understand, Murray, what you can comment on, on this topic, but just on the same theme, not just the U.S., but across North America, let's say, what's your high visibility percentage for the \$150 million you want to spend on M&A? Do you have visibility spend \$50 million in the near term, at least, you think, and the \$100 million is more like an opportunistic number, or how should we think about it?

Carson P. Urlacher:

I think the timing is difficult to try and measure out there, Konark. Obviously, the sooner that we get an acquisition done, the more we're going to meet our 2025 target. Honestly, if it gets pushed back a little bit, you know, on a rolling 12 months, we're still going to be in line with what we're articulating. It's very difficult to try and pinpoint when are we going to close our acquisitions in 2025.

Murray K. Mullen:

You can't reverse engineer back to that, Konark. What we said was in our business plan for '25, we think we should get—we can do acquisitions and get to \$2.2 billion and \$350 million. That's our goal, that's our plan. The timing of it depends on when we get deals closed and when we finalize them.

Konark Gupta:

Right, right. No, that makes sense. Last one for me, before I turn it over. In case some of these deals, the M&A transactions don't happen as you expect, the cash you might have on the balance

sheet, would you be more inclined to do some bigger buybacks or some dividend growth, or would you like to keep the powder dry?

Murry K. Mullen:

Konark, if we don't find the acquisition opportunities that meet our thresholds, a fit, price and synergy, we'll buy back stock, because we've got the balance sheet to do it. What we're saying is our first priority would be we want to grow. If we don't find something, we'll buy back stock.

Konark Gupta:

Okay, that's great colour. Thanks so much, I appreciate the time. Thank you.

Murray K. Mullen:

Thank you.

Carson P. Urlacher:

Thanks, Konark.

Operator:

The next question is from Cameron Doerksen with National Bank Financial. Please go ahead.

Cameron Doerksen:

Yes, thanks. Good morning. I wanted to ask about the—I guess, going back to the tariff question, you did mention that you don't really have much in the way of direct exposure, I guess, to cross-border volumes, so maybe less of a risk there. But thinking about the indirect impacts, where's the risk for Mullen? Is it specific industries that might be impacted by a tariff war, or is it just more, in your view, a general economic impact on Canada from a tariff war? Maybe you can just go into a little more detail where you see the risk there.

Murray K. Mullen:

Cameron, I have no insight into—direct insight into this any more than anybody else, but what you've got is a tariff, it's a tax. Tax, whether it's a tariff or a carbon tax, or whatever, it hurts the consumer, that's who it hurts, but governments, why do they put taxes in place? I think they put taxes in place to raise money. I look at it, it's just a tax, and depending on the response to that response, what goes in will determine how much Canadians get hit, because if you put on reciprocal tariffs—Canada imports everything. I'd be careful of going to the store to find everything just made in Canada, you might not get very much. We're an importer, we know it, because we move the damn stuff, and we warehouse it, and it all comes from somewhere, and everything's priced in the U.S. dollar. What I'm concerned about is just the long-term effect on the consumer. That could hurt our business.

Specific, industry-wise, there'll be this, there'll be that, but you've just got to adapt to it. Cameron, we don't know for sure, but everybody will adapt and adjust. This is not the first time tariffs have been put on trade. This may be the first time for a number of Canadians, but it's not the first time. We're vulnerable because the U.S. is playing tough right now. They're playing to win. I like to say Trump doesn't play a win/win game, but then I have to change that, and I go, no, no he does. He wants to win and win, he doesn't want you to win, and that's the way he negotiates. Do you like it? Only if you're on his team. I'm just telling you the people at our businesses down there, that we got through our HAUListic group, I can tell you they're high-fiving, they're excited, because they're getting more business. They're excited about the opportunity, and up here, we're on our

heels a bit. That's the way it is. We're just being very cautious, very practical, and I'll tell you this, it feels damn good to have a really good balance sheet, Carson ...

Carson Urlacher:

It sure does.

Murray K. Mullen:

... when we're not sure what's going to happen, because our shareholders don't have to worry about their dividend and our people don't have to worry about their jobs.

Cameron Doerksen:

No, no, makes sense, you guys are in a good position on that front, for sure. Maybe my second question just on, I guess, maybe the potential offshoots of all this tension between U.S. and Canada, is that maybe there will be some more investment in capital projects in Canada, I guess we'll see if that actually happens. B.C. came out with some announcements not too long ago about accelerating some capital projects. Maybe just specific to that, is there, I guess, some potential positives here for your business in B.C. from some of these if they actually do move forward more quickly.

Murray K. Mullen:

If public policy changes, which means politicians understand that we've got to fast-track and make it more pro-business-friendly, then we would get more excited about the opportunities in Canada. I'm hoping public policy changes, but you've got to make it more pro-friendly for more business, or acceptable for capital to come to work. If you do, great, fantastic, those are great jobs, but we've already lost that game, Cameron. Look at our dollar, it's crap, and we've already lost the capital game. Boy, I hope they get it right and they get it turned around, and turned around fast, that's good for all Canadians. Then it would be really good for Mullen Group, which is a big provider of freight services. That's how we win. But we need public policy to get their act together, and politicians.

Cameron Doerksen:

Yes, absolutely agree. Hopefully, that is the case. All of the rest of my questions were answered, so I'll pass the line. Thanks very much.

Murray K. Mullen:

Thank you, Cameron.

Operator:

The next question is from Jasroop Bains with TD Cowen. Please go ahead.

Jasroop Bains:

Thanks. I'm filling for Tim James this morning. Thanks for taking our questions. We have two questions. Firstly, your 2025 guidance implies a slight EBITDA margin percentage decline, about 50 to 100 basis points. However, margin percentage was up year-over-year nicely in Q4. Could you maybe talk about some of the factors that'll be causing the year-over-year compression to weaken slightly in 2025?

Carson P. Urlacher:

I would say the margins, Jasroop, are fairly consistent. If you take a look at what we've generated over the last number of years, we're kind of in that window. There's nothing really set in stone as

to why we would think that margins will come off in 2025 versus 2024, they're pretty darn close. There's nothing really to read into why we would think that margins would come off next year.

Murray K. Mullen:

Jasroop, if you go to our, the end of the annual financial review, you'll see our margin. We have our margin graphs in there, that Carson does a great job on, on the operating margin. Let me just give it to you, for everybody on the line. In 2020, we were at 18.7% operating margin, and then we went down to 21% to 16%, 16.5%, 16.7%, and the only reason we're down to 16%, 16.5% and not 18.5%, 18.7% is because we invested in HAUListic, which has a very low margin. It's \$185 million of revenue at a very low margin. If you backed out our U.S. 3PL business, we'd be at 18.5%, 18.7% for four years stable. Really, margins stayed pretty consistent, and to do that, we focus on margin, we work with our business units, and then we do tuck-in acquisitions that help us mitigate some of the cost pressures, etc., etc. Honestly, I think margins have stayed pretty consistent for quite a period of time across most of our business segments, and also the corporate side. Yes, they change. One time S&I might be up because pipelines are doing really good, or drilling, but generally, they're pretty stable.

Jasroop Bains:

Great, perfect, and then could you provide some additional details on the leadership changes and cost saving initiatives at Container World, as well? Are those plans new or were they expected at the time of acquisition?

Carson P. Urlacher:

When we acquired Container World, we knew that the founder, Dennis Christmas, he was obviously looking to transition out, and our philosophy, our motto, is always to hire from within. That next layer of individuals that are going to be running the company are essentially from within Container World. They've been there for years, and they're ready to take on and they're excited about the opportunity to take the company to that next level. Our strategy has always been hire from within, and they've got a great team there, that they're looking at ways that they can adapt their business and fit into our network and drive synergies.

I would say that with Container World, it's no different than any other acquisition that we do. We go in and we take a look, and we observe, and we don't change everything on day one. We learn from what they do, and then, over time, we improve margin. That's our job. Our goal for 2025 is to improve their margin by 2%, a nice simple goal, and the Management Team that's in place there now is ready to take that one on and fulfill that for 2025.

Murray K. Mullen:

Yes, Jasroop, it's really in our DNA, it's actually our mission statement, is that we acquire companies and strive to improve their performance. Okay, how do we improve performance? We work with the people, and we show them how you've got to measure and how everything matters, and we are laser-focused on being efficient. Not every company we acquire is laser-focused on being efficient, they have different agendas. In our organization, you will get laser-focused on being efficient or you won't be with us. It's that simple.

Jasroop Bains:

All right, perfect. Thanks, guys. That's it from us.

Murray K. Mullen:

Thanks, Jasroop.

Carson P. Urlacher:

Thank you.

Operator:

Once again, if you have a question, please press star, then one.

The next question is from Ben Thompson with Tennell Transportation. Please go ahead.

Mr. Thompson, your line is open on our end, perhaps you have it muted on yours.

Murray K. Mullen:

I don't think Ben will be asking a question.

Joanna Scott:

We're good to carry on.

Operator:

In that case, this concludes the question-and-answer session. I would like to turn the conference back to Mr. Mullen for any closing remarks.

Murray K. Mullen:

Okay, thanks, folks. '24 is over, we are 100% laser-focused on '25. There's going to be challenges, there's going to be opportunity, and we got the balance sheet. Probably, the best thing we did last year as a corporate group, we got the balance sheet, and we didn't waste our bullets, and this year shareholders can count on us putting that money to work.

Thank you very much for joining us, and we'll be talking to you in April, only a few months from now, and we'll give you an update on how the year started out. We'll know more about tariffs in April, ask us then. Thank you very much.

Carson P. Urlacher:

Thank you.

Operator:

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