



The Mullen Group Limited

First Quarter Earnings Conference Call

Transcript

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Time: **8:00 AM MT**

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

Richard Maloney
Senior Operating Officer

Carson Urlacher
Senior Accounting 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. 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:

Good morning, all, and welcome to Mullen Group's quarterly conference call. The format for today's call is similar to previous investor calls, and we will cover three main subject matters before I'll be turning the call over to you for a Q&A session. I will provide a review of the macro environment; a recap of Q1, if you will. Carson Urlacher will provide an overview of the first quarter financial highlights, and for those interested in the details, the Q1 interim report has been posted on our website at www.mullen-group.com, as well as on SEDAR+. Now, this 47-page document contains all of the information you need as it relates to our Q1 financial results and balance sheet. Then, I will close with our very best guess of what we expect in Q2 and beyond.

Now, 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, and, as such, actual results may differ materially. Further information identifying the risks, the uncertainties, and assumptions can be found in the disclosure documents.

With me this morning, I'm joined in Okotoks with the entire Senior Executive Team: Richard Maloney, Senior Operating Officer; Carson Urlacher, is our Senior Financial Officer; and Joanna Scott is our Senior Corporate Officer.

In terms of Q1 financial operating performance, let's have an overview of the macro environment; that's where I'll start. It was really only two short months ago that I provided an overview of our expectations for '25. I said at the time that we were maintaining our '25 outlook and business plan as articulated in December 2024, but, at the same time, I acknowledged that the risks to the economy were heightened under President Trump's Make America Great agenda.

Now, our thesis was that parts of the Canadian economy would be directly impacted by the imposition of tariffs on Canadian goods, but that our business would be—would not necessarily feel the same negative impact, because truthfully, we've been de-emphasizing cross-border shipments for a number of years. Now, what I also said in February was that I was concerned about how Canadian politicians would react, and the reciprocal tariffs would cause more harm to our business and to Canadians in general. I hoped that calmer heads would prevail and a negotiated deal would mitigate a lot of the potential damage. Well, I'm still waiting, as is everyone else, and until these tariffs and trade issues get resolved, it is logical to assume that future business activity in freight demand will suffer. By how much or little, I have no idea. We will simply adapt as required.

For 2025, we expected the economy to be generally in line with 2024. Any growth that we had planned would be attributed to acquisition, and truthfully, not much has changed over two months. The economy is flat at best, and we are actively pursuing acquisitions; for example, like the recent announcement regarding the Cole Group of companies—which is an absolute gem of a company, and I want to thank Mr. Don Lucky, who, unfortunately, is not with us any longer, for trusting The Mullen Group to be the custodians of the great brand that he built, and it'll be a great company in our organization.

In the first quarter '25, what—we did not really see any material drop in freight demand in any of our four segments, and that's despite all of the chatter. Any decline we experienced was because we de-marketed certain customers that had unreasonable rate requests. Grimshaw Trucking comes to mind here, was—it was impacted when we gave up a \$10 million-plus revenue winter ice road project that was servicing the mines in Northwest Territories, and it was all due to pricing and risk. We just said it is not worth it to take the risk based upon what the customer was asking. At the end of the day, we just simply do not compromise when customers are unreasonable or they put our people at risk.

Overall, our other 38 business units held revenues very close to the first quarter of 2024, which, in itself, is an accomplishment given that the competitive nature of the business these days, the lack of material growth in consumer spending, and along with this virtual capital investment freeze-up in Canada. Our quarterly revenues were up nicely year-over-year all because of those previously-announced acquisitions, which, you recall, is the only viable means of growing a business today in our view. On balance, a decent quarter from an operating perspective.

Now, looking at the business by a segment basis, our best-performing segment, once again, is LTL, with revenues up \$9 million year-over-year, and that's despite that \$10 million decline in Grimshaw. The other business units held flat and we did a nice couple of tuck-in style acquisitions that we did last year that supported this—the business. This really is the steadiest part of our business, and primarily because our 12 business unit provide an essential service to well over 5,000 communities, Richard?

Richard Maloney:

Yes, 5,500.

Murray K. Mullen:

Fifty-five hundred, and people still—now, people still going to need what we deliver regardless of the state of the economy, tariffs, or trade issues, at Mullen Group, I can honestly say we love LTLs.

Now, in terms of Logistics and Warehousing, ContainerWorld added all of the incremental revenue growth, which was nearly \$26 million in the quarter, and while we think we've turned the corner in terms of profitability, we fully appreciate that we still have work to do. The previous owner has just exited the business at the end of the year, so we—it'll take a little bit of time to get the margins where we expect, but I tell you, once we get there, get the team focused on measurement and process improvement, I honestly believe that the returns will be there.

Overall freight demand was similar to '24, but it was here that I have to be a little pragmatic, because I'm not sure if that was due to shippers pre-ordering to front-end any tariff issues. We're not exactly sure on that, and I've got to be honest with you, I think the second quarter will tell the rest of the story, in our view, on this issue.

In Specialized Industrial Services, we saw a modest increase in revenues in the segment, and it was all due to Cascade Energy Services' team. They had an excellent quarter. The team is winning market share by investing in new technology like robotics to support plant turnarounds and tank cleanings. This technology is safe. It is efficient, and the customers benefit from really quick response time. Once again, I'll highlight the power of diversification. Cascade, for example, wins market share. Why? Because we invested in a new technology, but when we don't see the returns there, we close a business like we did with the OK Drilling Group. We shut it down this year, so we didn't have their revenues this year. We just don't see how we were getting paid appropriately for the capital we had invested in that business and we didn't want to invest anymore, so we shut that business down and we sold those assets. We keep looking at how we can win market share and make acceptable return for our shareholders.

In the U.S. 3PL segment, this one is—up to this point in time has been holistic. We held revenues flat, but corporate costs and technology continue to hurt margins, and we either have to grow this business by adding new revenue flows or downsizing it to ensure an appropriate margin is generated. We love this team, but the 3PL business is ultra competitive these days, and then the second thing I will say is that starting in Q2, we're going to see some real growth in this segment, Carson, because we are going to be adding our Cole Group into this segment. You're going start to see some real growth in the U.S. 3PL, and, in fact, one of the real synergies we see from the Cole Group is the cross-selling of services with holistic. We now have more options available to both teams to expand their respective businesses throughout North America, and you've got to have a bit of a secret sauce to get business today because it is ultra competitive.

In summary, we were able to accomplish revenue growth primarily due to acquisitions, but it also needs to be noted that our existing business units did a pretty darn good job of managing a lot of moving parts in Q1. From a profitability perspective, we have some work to do with our new business units. As I said, however, I'm pretty confident we can get them in a better spot before the end of the year, and that is our goal.

Corporate costs, I'm going to talk about that a bit. We were higher, but this was mostly by design. We added depth to our Corporate Team and in our technology department, because we were anticipating that we were going be growing big acquisition, for example, like the Cole Group. We kind of anticipated what we knew was going to happen.

I'll now turn the call over to Carson for more of the first quarter financial performance. Carson, take it away.

Carson Urlacher:

Perfect. Thank you, Murray, and welcome, everyone. I'll provide some additional highlights from the first quarter, the details of which are fully explained in our first quarter interim report.

Overall, our first quarter results continue to highlight the diversity of our organization. Through our acquisition strategy, we have ensured that we are not reliant on any one sector of the economy, which we believe is a competitive advantage, especially in uncertain times. Our 39 business units operate in many different verticals of the economy, allowing us to consistently generate steady revenues and free cash in yet another competitive operating environment.

Revenues were nearly a first quarter record and only \$700,000 shy of our first quarter of 2023. Revenues increased in all four of our segments, and were approximately \$500 million, an increase of \$34.5 million compared to the prior year.

In terms of cash, which is what we focus on, we generated net cash flow from operating activities of \$39.9 million in the first quarter, a 3.4% increase from the prior year. This cash generation continues to be in excess of our requirements, including our interest payments, cash taxes, CapEx, and our lease commitments.

I will go through the results by segment shortly, but the overall theme is this. Top line revenues increased due to \$37.7 million of incremental revenue from acquisitions, while revenues from our legacy business units were essentially flat compared to the prior year. Within our legacy business units, we de-marketed the winter ice road project that Murray referred to earlier, which is a first quarter project. However, we offset this decline in revenue with market share gains at certain other legacy business units.

Operating margins as a percentage of net revenue decreased to 14.9% from 15.7% as we continue to work with our newly-acquired businesses on margin improvement, but, as we know, this takes time and is not achieved in one single quarter.

In the first quarter, revenue per working day increased compared to the prior year to \$8 million. We generated OIBDA of \$68 million, an increase of \$1.8 million compared to the prior-year period, with acquisitions adding \$4 million of incremental OIBDA.

Operating margin decreased due to our acquisitions generating lower margins, along with a reduction in certain higher-margin business. Direct operating expenses as a percentage of consolidated revenues were generally flat year-over-year, as our business units did a great job adapting to the current market conditions and controlling costs.

S&A expenses as a percentage of consolidated revenues increased by half a point due to a combination of higher corporate costs, which resulted from a negative variance in foreign exchange, professional fees associated with new acquisitions, and from adding staff to facilitate our future growth initiatives. Our newly-acquired business units also experienced higher S&A costs as a percentage of revenue.

Now let's take a look at how we performed by segment. First, our largest segment, revenues in the LTL segment were \$191.5 million, an increase of \$9 million from last year due to \$11.6 million of incremental revenue from acquisitions, being somewhat offset by a \$10.2 million decline at Grimshaw Trucking that resulted from de-marketing the winter ice road project. Revenue growth from our legacy business units almost offset the decline experienced at Grimshaw Trucking through market share gains, as some competitors exited certain lanes. OIBDA was \$29.3 million, down slightly by \$1.5 million from last year, and this decline was due to a \$3.2 million decrease at Grimshaw Trucking, again, from de-marketing the winter ice road project, being somewhat offset by \$1.3 million of incremental OIBDA from acquisitions. Operating margin decreased by 1.6% to 15.3%, primarily due to de-marketing the winter ice road project.

Our second largest segment is our L&W segment. Revenues in the L&W segment were \$151.8 million, up \$25.5 million from last year. This increase resulted from adding \$26.1 million of incremental revenue from acquisitions. OIBDA was \$25.4 million, again, up \$2.9 million from the

prior year, with acquisitions adding to \$2.7 million of incremental OIBDA. Operating margins decreased by 1.1% to 16.7% primarily due to lower margins experienced at ContainerWorld. We continue to work with our very talented Leadership Team at ContainerWorld by implementing new technology and process improvements. However, these changes take time to be reflected in operating margin improvements.

Moving to our S&I segment, revenues were up slightly to \$112.2 million, driven by the strong performance of Cascade Energy Services LP, as they continue to gain market share for their advanced specialized robotic technology systems. Through meticulous planning, skill, and seamless execution, they showcased their abilities and their robotic tool family associated facility and maintenance turnaround work. This increase was offset by a \$2.4 million decline in revenue for pipeline hauling and streaming services and a \$2.8 million decline in revenue from our drilling related service business units due to lower drilling activity in the Northeast British Columbia region tied to natural gas.

OIBDA increased by \$2.1 million to \$18.8 million on higher OIBDA being recognized at Cascade Energy and Canadian Dewatering due to the commencement of facility maintenance work and certain dewatering projects, respectively. These increases were somewhat offset by lower OIBDA from our drilling related services business units. Operating margins increased by 1.9% to 16.8% on lower direct operating expenses due to the greater proportion of higher margin project work.

In our non asset-based U.S. 3PL segment, revenues were up slightly at \$44.9 million compared to last year due to the impact of a stronger U.S. dollar relative to the Canadian dollar in the first quarter of 2025 compared to the prior-year period, which was somewhat offset by lower freight demand and pricing per shipment resulting from the ongoing competitive operating environment in the U.S. market. OIBDA decreased primarily due to higher direct operating expenses. Operating margin on a net revenue basis was 2.8% in the first quarter compared to 12.8% in 2024, which was primarily due to higher direct operating expenses as a percentage of segment revenue.

That wraps up our first quarter commentary, but let's have a quick look at the balance sheet before we go. We ended the first quarter with cash on hand of approximately \$131 million, working capital of \$286.7 million. We also have access to \$525 million of bank credit facilities, of which only \$7.2 million was drawn at the end of the quarter, providing us with ample liquidity.

In terms of our debt covenants, we effectively have one main covenant which we focus on, which is total net debt to operating cash flow. Our total net debt to operating cash flow covenant on our new 2024 notes is 2.23 to 1 and 2.47 to 1 under our old 2014 notes. Our 2014 notes are set to mature in October 2026 with a principal repayment being \$207.9 million net of our cross-currency swap.

In summary, our balance sheet is once again well-structured and positions us to make long-term strategic investment decisions like our recently-announced acquisition of the Cole Group of companies, opportunities that generate free cash.

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

Murray K. Mullen:

Thanks, Cars. Well done again. We're now putting Q1 officially to a close, and I'll give you my best analysis of what shareholders and investors should expect over the course of the balance of the year, knowing full well that I have no idea how the trade and tariff discussions will ultimately unfold or what the President of the United States is thinking. I'll offer you this, a wise person once said during a rather stressful time, never let a good crisis go to waste. Well, it certainly appears we have one of those crisis moments to deal with today, and I can tell you we will not be letting the uncertain times deter us from our pursuing our long-term objectives. In fact, I would argue that the current uncertainty may actually turn out to be wonderful times for The Mullen Group.

Now, how is it that I can so boldly make this statement? As others around us enter full on panic mode, we keep a steady hand on the wheel and we keep our eyes wide open for great opportunities, and, as Carson said, plus having the balance sheet is absolutely key to building for the future and taking advantage of opportunity. I'm delighted to highlight that we have an excellent, well-structured balance sheet, so we can weather any storm and we can invest for the future. How many can actually say this? I say not many of our peers. In the short term, however, it is reasonable to expect some disruption in trade flows and cross-border freight demand, at least until there's clarity on the tariff issues.

We all know that the President of the United States started this disruption. As such, it is reasonable to assume that only he can resolve these issues. As I mentioned earlier, my hope is that these issues are transitory—now, there's a word from another time of market disruption, and that there will be a resolution to all of these issues sooner rather than later. Until then, my very best guess is that business activity will underwhelm. I don't think it'll be terrible, but there's no way I see any growth in the economy overall freight demand until the tariff issues are resolved and the Canadian politicians adopt a more pro growth agenda. Longer term, this is a totally different story, and it is here that we create value for shareholders, because when we exit this current self-induced messy time, we will be bigger and we will be stronger. This is the job of the Senior Team, and I can tell you we are up to the challenge. Pursuing quality acquisitions, as we mentioned, like the Cole Group, is in our DNA, and we will continue to be active.

Secondly, we believe the economy will recover, and by the time it does, it is very plausible that our existing business units will gain market share as the competition falters under the weight of not pricing appropriately or having too much debt. We are already seeing evidence that this is happening. Competitors are closing shop or going bankrupt faster than we've seen in a decade, maybe longer, and if my thesis is correct, I expect the trend will accelerate as the year progresses.

In summary, not only are we all well-positioned to take advantage as other fails, but we can also and we will continue to add quality companies into our network. This crisis will not go to waste here at The Mullen Group. In terms of our 2025 outlook, which we articulated in December of last year, we are maintaining our goal of \$2.25 billion in revenue and \$350 million of OIBDA, and despite all the potential for a choppy second quarter, but if we look beyond the short term, we believe the path to meeting our goals gets easier. This optimism is because of our recent announced acquisition of Cole Group.

Today, we're awaiting approval from the Competition Bureau. We anticipate this to happen sooner rather than later, but we're on hold until the Competition Board provides their ruling. This acquisition on its own will drive our growth in 2025, along with what we expect is a steady

performance for our existing 39 business units, and this includes that we think was—we can start improving the margin our acquisitions that we completed last year. It just takes a little bit of time. We know we still have work to do, but I am optimistic we can start moving the needle later this year.

Let's now turn the call over to the Operator for the Q&A session, and thanks for everything, folks.

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 and two.

The first question comes from Konark Gupta with Scotiabank. Please go ahead.

Konark Gupta:

Thanks, Operator, and good morning, Murray and team. I just wanted to ask you maybe first on the near-term outlook, Murray. What are you hearing from your customers? You don't seem constructive on Q2 and expect some choppiness here, and it's pretty obvious given all the kind of tariff noise that we are seeing right now, but what's the reality? What exactly are customers telling you? Are they shying away from moving goods or are they expecting impact of tariffs that's been implemented so far, or they're just waiting? What's really the deal here in the second quarter that makes you a little bit more cautious?

Murray K. Mullen:

Yes. I think that's a good question. That's insightful, Konark. Everything that we're saying is kind of anecdotal evidence, because what we saw in the Q1, really—you've heard lots of noise and there was lots of this and that, but we didn't really see any significant drop in freight demand. What I don't know, Konark, and this is what I was trying to highlight, is I don't know how much of that demand in the first quarter was pulled forward because of people trying to front-end the tariff situation. I don't know that for sure. We've heard anecdotal evidence about that. We've heard from our shippers, and remember, now, we don't do a lot of cross-border anymore like that. We used to at Mullen Group, but today, we don't do it as much as we any—what we used to, so what we are hearing, though, is that there's been some disruption and everybody's sitting on their hands, and, in fact, we're kind of doing a little bit of that ourselves where we're going to just slow CapEx until we—what's the cost going to be of the—are they going to put tariffs on trucks that we—and equipment we buy? Are they not? All that uncertainty just leads me to believe that people are just going to sit on their hands until they get some more clarity as to how the bureaucrats and the politicians are going to deal with these—all these tariff issues and stuff like that. Personally, think it's just short-term noise, but the short term, we don't know.

We do know that the issue from—on imports coming in the United States, we do know that the sailings from China have really deteriorated and that's going to impact freight coming in from China. That's got to get resolved pretty quickly in my view. I think that's a major issue for North America, and I think there's already been some pullback on that. I think it's just reasonable to assume to be cautious for this quarter, although I don't have any evidence right now to say we've heard nobody's doing anything. That's not the case, and I don't think it's going to impact LTL, Konark. If it does, it's going to impact our Logistics and Warehousing.

Konark Gupta:

That makes sense. That's great colour, Murray, thanks. Just to follow up on the Cole acquisition, congrats on the announcement. Seems like a big acquisition, actually, and I wanted to kind of parse out some of the numbers there, because when you set out the budget in December, you were expecting about \$150 million of M&A spend, and I think your disclosure is suggesting the Cole acquisition could be \$190 million, so you're already exceeding that. Are you baking in any more acquisitions in your unchanged targets for '25?

Murray K. Mullen:

No, not for the current. We anticipated when we did the budget—we were optimistic when we put the budget together in December and our business plan in December of '24, that included Cole, but anything else we do is not included in our 2025 business plan.

Konark Gupta:

Okay, and how does the Cole business create strategic value for you guys? They sound like logistics to me, but, at the same time, they don't seem like same as QuadExpress that you bought years ago in the U.S., and they have some trade consultancy work as well, which could be meaningful, in the light of obviously what's happening right now. Can you explain like what excited you about this business and how do you expect accretion from this?

Murray K. Mullen:

Well, we've always liked the customs brokerage business. Now, remember, we're in the logistics business. Most of the business that we have facilitates the movement of the freight. We move freight. That's what our trucks do. That's what our 3PL does, etc. In this case, by investing with Cole, we're now helping with the transaction of any cross-border or importation or export of any goods. That's what the customs brokerage business is all about is just facilitating that cross-border transaction. In fact, in 2009, we were a very, very large shareholder of The Livingston Group, which was the largest customs brokerage at the time, and—but we were unsuccessful, and that bid, Richard, I think went to...

Richard Maloney:

Yes, it went to Sterling Capital and CPPIB at the time.

Murray K. Mullen:

Yes, we were—we've always had our eye on this business, but, Konark, these businesses only come up once in a while. These companies like Cole and some of the others I've seen, they're like hundred year old companies. This came up to us last year with Mr. Lucky, was looking at doing some restructuring for his planning purposes, and he chose us to be the custodians of that really good business. We love the customs brokerage business. It's a transaction-based business. You know we like the asset-light business, Konark, because we don't think that you get paid to make capital investment today. We like the asset-light. We like dealing with the transaction.

I suspect, and this has been confirmed by others, including Purolator who bought Livingston just a few months ago, that the trade issues are getting more complex, not less complex, and governments will want to know everything that's coming in and leaving their country. We think this is a sustainable business and we love it. In addition, the Cole Group also had a pretty large 3PL business that will marry quite nicely with our listed group, and we hope to leverage that once we get in and find out how we can really identify some synergies and those kind of things, but really good company, asset-light, and Carson, they generate cash. We'll identify more. Once

we get Competition Bureau, we'll outline more, again, once we get it approved, Konark, but until then, everyone can just assume that the Cole Group, as we outlined in 2024, will help achieve our objectives for this year.

Konark Gupta:

That's great colour. I appreciate the time, as always. Thank you.

Murray K. Mullen:

Thank you.

Operator:

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

Kevin Chiang:

Hey, Mullen Team. Thanks for taking my questions here. I was just wondering, when you look at—obviously, we're in the middle of a federal election. There seems to be a focus on, I guess, leveraging Canada's position as an energy-based economy and there's a lot of proposals around pipeline projects and energy infrastructure. Just as you look at the various plans put forward by the parties, just how do you see that impacting S&I, or are there opportunities you see that you're pretty optimistic on? Does that change your M&A strategy? Are there things you'd want to add to your arsenal to take more advantage of some of the opportunities you might see in the pipeline as we move past the federal election?

Murray K. Mullen:

Well, that's a very topical discussion, and I think the politicians are applying that—all of them, that says how do we actually provide good jobs and growth in Canada and how do we diversify our—away from being totally reliant upon the U.S. for our exports of our energy. Finally the politicians are talking about that. It's—from our perspective, we're encouraged by those discussions, but we've got to take discussions into policy action and capital investment, which we think is what politicians say and what politicians do. We're not making investment quite yet, Kevin, because I think they talk a lot and don't do a lot. We'll just wait until they actually do something and then we'll put our shareholders' capital to work at that time, but suffice to say, our S&I segment, which is our old oilfield, that used to be a very large segment of our Company. We lost \$600 million of annual revenue in that segment, would we be supportive of pipelines in Canada, which is the only way to access export markets? You have to get it to market and you have to have pipelines, and if we—if Canada said we want to diversify our energy customer base away from the U.S., you need pipelines both east and west, but, boy, there's a lot of hurdles to get that from political words into action. When we see that action, I tell you we will be very aggressive putting capital to work, because that is a great business when that comes back, but until then, they're words.

Richard Maloney:

Kevin, on that note, we—as you know, we are well-positioned to take advantage of any new pipeline development when it happens, and it's not like we need to go out and buy an organization that does that, because we do it. We do it very well. When the pipeline needs to be filled up, I'm talking natural gas, we have well-positioned and we have been there forever being ready to fill for LNG development that goes to the West Coast. We're—it's not like we have to go out and find and make acquisitions. We will have to reinvest in the fleet at the right time, but as Murray said, until we see money going in and actual decisions being made, we will wait and we'll just continue to work within the—within our means at this point.

Murray K. Mullen:

Would we like to see that—those words turn into policy actions and then into—yes, you know why? Because that's big capital and capital's where we would shine a good chunk of our business in the S&I side, including on logistics warehousing. Those would be massive job creators for this country, but let's see, Kevin. Now you know why we never get out of the S&I segment. We downsize, but never get out, because it's—we still sit on one of the best asset bases in the world in Canada.

Kevin Chiang:

That makes a tonne of sense, and I guess we'll find out in five days or so.

Murray K. Mullen:

Yes, you just can't sit on it. You have to do something with it if you want to create great jobs for Canadians and lots of tax revenues for—to help out, so let's see.

Kevin Chiang:

That's helpful colour. Maybe just two quick ones for me. One, maybe for Carson, \$14 million of CapEx in Q1. You're guiding to about \$100 million for the year. Just wondering how comfortable you are on that full year target just given what you invested in in the first quarter. Then just secondly, within ContainerWorld, a lot of headlines all say at a minimum around shifting consumer preferences around where they're sourcing their alcoholic beverages from. I know ContainerWorld, that's a key end market for them in terms of being, I'll call a logistics provider for the alcohol industry. Any plusses or minuses just given the changes in consumer habits as it pertains to ContainerWorld?

Murray K. Mullen:

I'll deal with that. You deal with the CapEx, Carson, I think on that 14...

Carson Urlacher:

Okay, for sure. Sure. I'll start off with CapEx, and to Murray's comment earlier that we've purposely delayed some CapEx here just with respect to ordering. On an annualized run rate, hitting that \$100 million for 2025 is probably not going to happen. I think, Rich, we've got orders in for approximately \$50 million right now, so, for approved orders coming in, and once we hit that, we kind of hit the pause button because of tariffs. What's your landed cost going to look like? We don't know. On an annualized run rate, you're probably still around that \$100 million, but as for right now, we've delayed a lot of it. I would say that we will be under that \$100 million guidance for 2025.

Kevin Chiang:

That's very helpful. Thank you.

Murray K. Mullen:

On ContainerWorld, I think that you've heard a lot of the tit for tat that's going back on—we're going to buy Canadian and not buy American and we're going to do this or that. There's been a shift that we've seen, but you just can't ramp up production short term kind of thing, but we have seen some reduction. There's no imports really coming in from the U. S. right now of alcoholic beverages, Rich. It's still coming in from overseas, which they do.

Richard Maloney:

Correct, in containers.

Murray K. Mullen:

Yes, it comes in on containers from Europe and the rest of the world and local. There has been a—kind of a fire strike by Canadians and by certain politicians to not buy American alcohol. How long that lasts for, Kevin, I have no idea, but I don't think it's going to last forever. I think it's a moment in time, and like I said to you, I think all these little tit for tats are all transitory, but timing, I don't know.

Richard Maloney:

I would also add to that, Kevin, that in terms of volumes and those sorts of things, that the younger generation clearly is switching to non-alcoholic options. However, if you look at the producers of who makes non-alcoholic beverages, it's the folks that make the alcoholic beverages, which both of those clear through our facility. Whether there's alcohol in it or non alcohol in it, we're still handling it. We don't see a difference. Consumers are still consuming. It may just be a different type of product.

Murray K. Mullen:

Yes, we haven't seen any reduction at ContainerWorld in terms of the revenue flows, Kev. It's been pretty stable year-over-year. It's not growing right at the moment, but I think it could—it's going to shift for a little bit for sure for the two reasons that we talked about. One is U.S. alcohol not being quite as dominant as it has been. You won't be able to buy your Jack Daniel's up in Canada, and a lot of it is—a growing proportion is now more non-alcoholic and those kind of things, but their overall revenues have stayed stable.

At ContainerWorld, the team is well on their way to improving the business there. We're only into it for three months, four months now since Mr. Christmas departed the business, so we couldn't make any change when he was there during his earn-out period, and—but the team is small. They're focused. They know what they've got to do, and we have to improve the technology to reduce our admin costs. Their admin costs are too high, and we've got to invest in technology to be more efficient in the warehouses, which we've made—already started to make some of those investments to help them gain market share. We've got to invest in technology to gain market share today. We talked about it at Cascade and we'll talk about it with ContainerWorld, and we're investing in technology so that we can be more efficient and provide that value-add to our customers. That's how we're gaining market share. That's our expectation.

Kevin Chiang:

That's very helpful. I'm sure people are swapping their Jack Daniel's for Canadian Club today. Thank you very much, everyone.

Murray K. Mullen:

Crown Royal from Manitoba or CC? Yes.

Operator:

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

David Ocampo:

Thanks. Good morning, everyone.

Murray K. Mullen:

Good morning.

David Ocampo:

I guess either for Murray or Carson, I respect that you guys aren't going to provide disclosure for revenue and EBITDA for the Cole acquisition until Competition Bureau goes and completes their assessment, but I am curious—because I know the share purchase agreement that you had with Cole is for \$190 million, but I'm just curious if there's any assumed debt from that transaction. I guess I'm trying to figure out what the total enterprise value is.

Murray K. Mullen:

You just heard it. There is no debt.

David Ocampo:

Okay, and...

Murray K. Mullen:

We'll disclose the whole breakup. It's generally in line with what we had said. I think we had said we were going to target about \$150 million for the year to achieve our objective of...

Carson Urlacher:

Correct.

Murray K. Mullen:

Two point two five billion and \$350 million, and it's within the wheelhouse, because we got—once we get it all figured out from Competition Bureau, once we get their blessing, we'll outline it, but there's some other reasons in there, working capital and some real estate which changed the overall purchase price, but not the business.

Carson Urlacher:

Correct.

David Ocampo:

Okay. That makes sense, and then it does seem like acquisitions could pick up even despite this \$190 million transaction, especially as some of these smaller companies might fail or maybe even some of the larger ones do. Carson, I'm just curious how much are you willing to take up your pro forma leverage for the right transaction?

Carson Urlacher:

Well, I think we've always articulated...

Murray K. Mullen:

Five times.

Carson Urlacher:

Yes. I think we've always articulated to the market that we like to be one full turn away from our threshold of 3.5 to 1 on our operating cash flow to debt. With this acquisition, with Cole coming in, we're still in our comfort zone, if I can put it that way, with respect to our covenants. In terms

of new acquisitions, there's still tonnes coming (inaudible 43:30) calls. Obviously, we're quite picky, and if it fits within our network, we'll look at it.

Murray K. Mullen:

We'd go up to a little bit higher. We'd go up to, say, three short term, David, to get the right acquisition; not to get—not to go gambling on something. Like to get the one that is just a game changer, we'd go up to that, to three in the short term with a plan of how we would get that back down to 1 turn, which is down to 2.5 longer term. We're comfortable longer term at 2.5, but in the short term, if you've got the best opportunity and it's one where you've got to—either got to step up to the plate or go back in the dugout, and we'll step up.

David Ocampo:

Yes. Makes sense. Then last one for me, just on the potential adjustments that you guys could make to your network if we do see a slowdown in the economy. Can you guys just remind me what those levers are that you can pull and how quickly you can implement those strategies?

Carson Urlacher:

Well, I think there's a couple of ways, obviously, that we would mitigate a downturn much better than most. One being that we own our own real estate; that's a natural hedge that we would have versus some of our competitors that are locked into competitive lease rates. The other is we do a mixture of both company truck and owner operators. Owner operators, we have the luxury of being able to adapt to market situations by getting rid of that variable cost if the demand isn't there. I would say those are kind of two of the key ways that we would adapt to any short-term fluctuations in customer demand.

Murray K. Mullen:

Yes, we have a very flexible business model, David, as you know. We have company trucks, but company trucks, the problem you have in a very competitive market is you really don't get paid an appropriate return on that capital right now because the capital is very expensive, might be more expensive with tariffs coming in. Unless you have higher rates, we're very reluctant to put a whole bunch of work—new capital to work when there's so much excess capacity in the system called owner operators and subcontractors. Our job is to own the customer. We don't need to own the truck. We'll only own the truck when it makes sense. We just want to own the customer.

Richard Maloney:

Within our LTL segment, the levers are what? When we are having—if it's tough, I mean, it's going to be tougher on our competitors. We have great lane density going to various areas. We continue to look at how to best utilize and adapt to make sure lane density, load factor are optimized here along the way. We have a great one. We're well-positioned. We go to 5,500 communities throughout—from Ontario to BC. Within the Logistics and Warehousing segment, as well, when things slow down and you see customers' appetite shift, they can go from long haul, full load van, which we don't do a lot of, but they can shift to intermodal, and we do a lot of intermodal through our Kleysen and our APPS group as well, which helps adapt, and when customers are looking for a more economical option as well. That's a diversity built into our business model that we—and the flexibility that we are able to provide. Yes, so, I mean, these are the things that we're looking at and the levers that we'll be able to pull at the right time.

Murray K. Mullen:

When you look at this, David, and you'll say how do we—we'll gain market share because our competitors just, they're either stretched or not pricing properly, there's going to be a lot of failures. We're going to be able to pick it up and we'll be able to pick it up and we'll price it appropriately any way it goes. I think we'll do well on that as the markets change on—from our competitive landscape side.

Murray K. Mullen:

Number two is...

David Ocampo:

Yes.

Murray K. Mullen:

We've encouraged all of our business units, take a look at how you can do business more efficiently and with technology, and, by the way, a truck is not a technology. The truck is a tool, but when we can see a technology that will be a game changer, like in LTL, Rich, we put in cubers and weighters.

Richard Maloney:

Yes, weight dimensions and (inaudible 47:54) connected to (inaudible 47:55).

Murray K. Mullen:

(Inaudible 47:56) game changers when we're looking at technology with ContainerWorld for co-packing, which moves to technology and robotics rather than people, and then we did that also with Cascade Group with—that enhanced that robotics of—for tank cleaning. We're looking at how to use technology efficiently, but as I said to you, trucks are not a technology. That's just a tool, but the big thing that we're looking for that I think will be the big game changer outside of our acquisitions and those things, just the rationalization that's going to happen in this industry. The tougher it gets over the next quarter or two, the faster it will happen and it'll come to our way in market share gain. We're seeing it already.

Richard Maloney:

We're seeing failures now.

Murray K. Mullen:

Yes. We're seeing it and we're picking it up. We think we're in good position, and our diversity and our balance sheet and ability to grow and plan for the future is something that very, very few have that luxury that we have. That's our business model.

David Ocampo:

No, I appreciate the colour there, and hopefully the bankruptcy courts let some of these larger guys actually sell this time.

Murray K. Mullen:

Yes, you watch it, but it's happening, and you can't go into bankruptcy and then go back to the big banks and ask for more money. People get a little bit sensitive on those things, so...

David Ocampo:

Yes, okay. Thanks a lot, guys.

Murray K. Mullen:

I think it's happening, David, but it doesn't happen as an event, but it does happen.

David Ocampo:

Okay. I'll hop back in the queue. Thanks a lot, everyone. Appreciate the colour.

Operator:

The next question comes from Tim James with TD Cowen. Please go ahead.

Tim James:

Thanks very much. Good morning, everyone. It was mentioned earlier the lower sailings from China that are showing up now. Does that impact Mullen at all or not really because it's mostly a U.S. port issue, and is there any—could that even create any opportunities for Mullen? If you could just talk more about how that impacts Mullen, if at all.

Murray K. Mullen:

Yes. What we're seeing on that, and it's not just—it's the docking fees that—on Chinese ships that Mr. Trump has put a fee on that, and that's disrupting some shipments coming in, because sometimes the shipments are coming in and they don't all go to L.A. Some of it goes to L.A. and some of it comes to Canada or some of it goes to here and there. We're hearing anecdotally from some of our shippers that they're just not able to get their goods right now because there's an increased cost, and increased costs say how do I pass it on when you've fixed your price to your customers. I don't know how much—I just highlighted as an issue that it could impact business in the second quarter, for sure. I don't know how much—I can't quantify it. It is a risk, though.

Tim James:

Okay. Was there anything in the first quarter results that was surprising to you, Murray, in terms of the way things shook out, any particular trends? I know it was a highly uncertain environment in the first place and you're staying with your full year guide, but was there anything, just any kind of moving parts either positive or negative that were—that surprised you relative to kind of what you thought two months or three months ago?

Murray K. Mullen:

No, not a thing. We didn't want to de-market the business. It was a good size of contract that we had done in the past with our Grimshaw Group, but that was all factored into our plan for '25, but it just shows up in the first quarter because that's when it happens. There was really no surprises. If anything, I was pleased with how it actually worked out, because given all of the noise and all the negativism and everything else, my goodness, you would thought we were going to have to slit our wrists, that there'll be no business, but actually business held in reasonably well.

What we know is happening is when there's so much commotion, you're not having job formation and you're not having capital put to work. People are sitting on their hands, and that's just going to slow things down for a bit, and we have to be aware of that. But as I said to you and Richard (inaudible 52:36), we think that it impacts our competitors exponentially more than ourselves. We can withstand a couple of hits and a couple of soft periods. Some of our people are living on the edge, our competitors, and they just can't stand a couple of months of difficult times. But nothing—there was nothing really negative. I was really pleased that some of the

things that we did too and put the capital to work at Cascade worked out as well as we—as well as it did, but if anything, the one area where we were that maybe was the negative, our corporate costs have crept up. We kind of knew it was going to happen, but I don't think we quite planned on quite as many fees and those kind of things. Corporate costs is something we're going to watch. That's about it.

Tim James:

Okay. That's helpful. Just returning to Grimshaw for a moment, was it called out just because it was particularly large? I'm just wondering are there other sort of de-marketing opportunities or initiatives underway? Were there smaller ones that are just sort of normal course? Is that why this was brought up, just because of its size?

Murray K. Mullen:

Yes, just because of its size. Every day we're in a market—this fight for market share, and sometimes you have to stand your ground. We're not just going to do it because somebody tells us to do it. It's got to make sense. We know our costs and we know the risks. That was a particularly big one. There's no other, but we are gaining market share. Some of our businesses, Gardewine in particular is gaining market shares as our competitors exit the market.

Tim James:

Okay. If I could, sorry, just squeeze one more quick one in.

Murray K. Mullen:

A very quick one.

Tim James:

You've mentioned that the competitors struggling opportunity for you through M&A. How should we think about when you do that M&A, does the environment mean that the margins that you're—of the companies you're buying may be a little bit more depressed and therefore there's a bit of sort of initial dilution, or is that not the right way to think about the impact of M&A?

Murray K. Mullen:

Well, M&A is all about return on our cash investment, and we look at what does the business generate in terms of cash, not EBITDA. You know that, everybody. Don't talk to me about DAW. DAW is gone. It's all about return on cash. We make an investment if that business will generate us cash. That's it.

Richard Maloney:

The fact that the companies are failing doesn't mean we're going to buy them. It means that some competitors are going away; then we can wait. We'll be patient and we will reinvest at the right time, but it does say that there's a competitor out of the market that may be a price maker. We'll be patient, and as they blow up, as we've seen a few in Canada here do, and then we'll just be patient. We're not going to go buy their (inaudible 55:34).

Murray K. Mullen:

Yes, we're not running out to cover the board, Tim. We do thoughtful, strategic acquisitions like the Cole Group. This company was never for sale. We were in the right position at the right time with the balance sheet to be able to execute. We're in a business. It'll be around for another hundred years.

Tim James:

That's great. Thank you very much for the time.

Operator:

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

Walter Spracklin:

Yes. Thanks very much. I'll just keep it to one, Murray, just keep it brief here and just on a kind of larger, bigger picture M&A strategy. I know you're dipping your toe now back into—in a heavier way, into customs brokerage. Just curious, as you look at the landscape now, do you continue to go more adjacent businesses with your M&A strategy, or is there still opportunities in Canadian LTL? I don't think you're going to go U.S.—Canadian LTL, or do you start looking at Canadian truckload, or like...

Murray K. Mullen:

No, no, no.

Walter Spracklin:

Okay. All right. Canadian truckload's off. Yes, but Canadian LTL, is there opportunities there, or do you really centre in on adjacent businesses, and is that your real focus, kind of like what you did with customs brokerage here?

Murray K. Mullen:

Well, yes, I think we'll look at the potential. First of all, with Cole, fantastic company, independent brand. We don't have to fix anything there. What we're going to look at doing is no different than what Purolator said when they bought Livingston, is cross-selling and providing a full package service to your customers that you're using in 3PL and cross-border. We see some opportunity there. We think that's the future, and boy, that gives us something that very few "truckers or logistics providers" have. We have that tool in our toolbox, but it's a great company.

We look forward to working with them to find some real synergies on that, but, yes, you're right, we've got to—we're going to pick up market share. That's our best way to gain is to grow as others fail and then we can—we don't have to pay for it. I'd love to be able to grow like that. Unfortunately, it's at the expense of somebody else, but that's the only way you can grow in this economy, unless you and your advisers tell me that the economy is on a big growth spurt. If you don't see that, then the only way we can grow is through acquisition or market share gain at the expense as others fail. That's it. It's not that complicated.

Walter Spracklin:

Right, but, again, back to the adjacent—how far adjacent are you? One of your competitors you look like—rumoured to have looked at Life Lapse, right, which was a very significant departure from what we would have considered adjacent, but certainly, that was one of the areas that they looked—are you looking further adjacent—when you look at M&A, are you looking—are you widening the lens in which you're using to examine M&A opportunities, or are you focused really kind of on 3PL, LTL, and logistics? Yes.

Murray K. Mullen:

Logistics. It's logistics. We just facilitate moving of goods for customers.

Walter Spracklin:

Okay.

Murray K. Mullen:

That's what we do, and I think customs and brokerage and 3PL's all part of that. In fact, I think it was you that maybe asked the question a couple, three quarters ago, would we be interested in the customs business, and guess what? Yes, we were. I couldn't tell you I was, but yes, we were looking at it.

Walter Spracklin:

I remember. I was covering Livingston when I saw you both went halted and saw that bid at the time, so...

Murray K. Mullen:

You must have known that Livingston was available or something, because you didn't know that Cole was available because that was a private company and Mr. Lucky was extremely private man.

Walter Spracklin:

Yes, absolutely. Okay. That's all my questions, Murray. Really appreciate the time.

Murray K. Mullen:

Thank you.

Walter Spracklin:

Okay.

Operator:

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

Cameron Doerksen:

Yes. Thanks. Good morning. I'll keep it to one as well. Just going back to the election in Canada. There's been a lot of talk about interprovincial trade barriers being taken down. Maybe that changes some of the regulatory environment. Just wondering if there's any materiality to your business from elimination of interprovincial trade barriers if that were to happen and sort of thinking from an operational regulatory point of view or perhaps even domestic trade volumes that potentially could benefit you? Just any thoughts there?

Murray K. Mullen:

Well, I don't see it, to be honest with you. I don't think it'll make a huge difference.

Richard Maloney:

The one operational issue, Cameron, is that weights and dimensions, when we haul a certain size and weight within Alberta, when you go to BC it's different. We're mindful of that. That's with the bigger stuff, if you will, but not at the end of the day, it's not significant.

Murray K. Mullen:

They're not going to harmonize that.

Richard Maloney:

They've been trying since 1992, to be honest with you.

Murray K. Mullen:

They're not going to do—once again, politicians talk, but they don't do. They all talk like they want to get something done, but I'm not holding my breath on it.

Cameron Doerksen:

Okay. Fair enough. I'll leave it there. Thanks very much.

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 for joining us, folks. We look forward to our next update. Carson, I think once, and Jo, once we get the approval from—we'll give more colour on the Cole of what to really expect on a pro forma basis, but other than that, thank you for joining us, and let's hope that calmer heads prevail and all these issues are transitory. Take care.

Carson Urlacher:

Thank you.

Operator:

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