Mullen Group Ltd.
First Quarter 2024 Earnings Conference Call Transcript

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Speakers:

Murray K. Mullen
Chair, Senior Executive Officer and President

Richard Maloney
Senior Operating Officer

Carson P. Urlacher
Senior Accounting Officer

Operator:
Welcome to the Mullen Group Ltd. First Quarter 2024 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 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 Mr. Murray K. Mullen, Chair, Senior Executive Officer and President. Please go ahead.

Murray K. Mullen:

Thank you. Good morning, everyone, and welcome to Mullen Group's quarterly conference call.

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

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

This morning, here in Okotoks, I have the entire senior team. We have Richard Maloney, who's our Senior Operating Officer; Joanna Scott, who's our Senior Corporate Officer; and Senior Financial Officer, Carson Urlacher. Once again, Carson is the primary architect and author of the very informative and detailed Q1 Interim Report. Today, Carson will be providing analysis and discussion on the Q1 performance, but before I turn the call over to Carson, let me start with some opening comments.

If you look at the first quarter results, perhaps what I'll do with this opening comment is remind everyone we expected some challenges in the freight market, in the economy and, more importantly, in the demand for freight to start the year. In fact, in the 2023 annual financial review, which we released in February of this year, we highlighted that the first half of '24 would be soft, and with economic activity gaining momentum providing central banks started lowering interest rates. Let's talk more about that in the outlook section, but we did—what happened in this quarter is not really a surprise to us. I think, based upon our quarter results, it's pretty evident that we got the outlook, at least the first part of the outlook, correct.

Economic activity was muted, but, more importantly, to the logistics and warehousing industry, freight demand, it was pretty soft, and this was the case in most verticals. You have less freight to handle, accompanied by the increase in capacity in virtually all parts of the business that were added during the '22/23 cycle, and this all led to competitive and, what I would now say sometimes, predatory pricing. This basically explains what happened in the first quarter, and not just at MTL, but across the transportation and logistics industry. Quite simply, there just wasn't a lot of demand, and our results, however, on a comparative basis, held up reasonably well, because, truthfully, we were prepared for this market softness, and we have a diversified business model. For example, our emphasis on investing in the LTL segment provides a solid

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base of revenue, and it's not as competitive as the long haul full truckload business. This is, and will continue to be, a significant competitive advantage, in my view. As our competitors struggle with the reality of the current soft demand and overcapacity, we think it creates opportunity.

The strong, the nimble, they'll not just survive, they'll capitalize on opportunity, and the most effective way to capitalize in this market is via acquisitions. It's the only bright spot for our organization, really, in the first quarter. For example, we added $20.5 million of incremental revenues from acquisitions that we completed in 2023. Primarily that was the B&R Group, which was a very synergistic and strategic acquisition. Not a lot of money, but it did add $20.5 million of revenue in the first quarter, $20.5 million.

The other thing we had, and a plus—and this didn't show up in our first quarter results—we announced the acquisition Container World and Freight Forwarding. Now, that gets us into a new vertical on the West Coast primarily, but they're in the distribution, the handling, and the logistics warehousing of the liquor business. I'm pleased to report that we have now received all regulatory approvals to proceed with that acquisition, meaning, that we will close on May 1, and then we'll include those results starting in May, with the May results. This transactional loan will get us back onto a growth path, which is, I think, a real positive in an otherwise kind of difficult quarter.

I'll turn it over to Carson and he'll provide you a more detailed analysis of the quarter. Carson, you're up.

Carson P. Urlacher:
Okay. Thank you, Murray, and welcome, everyone.

Today, I'll focus on the highlights from the first quarter, the details of which are fully explained in our Q1 Interim Report, which is available on SEDAR+ and on our website.

In the First Quarter Interim Report, given the relative consistency and predictability of our business model, we highlight revenue per working day as a way to identify and explain year-over-year financial results and to identify variances in customer demand levels for our services.

Consolidated revenue, OIBDA and operating margin in the first quarter of 2024 all declined, compared to the same period in 2023. However, all of these financial metrics exceeded the results recorded in the first quarter of 2022.

Consolidated revenue in the first quarter was $462.6 million, a decrease of $35.2 million, as compared to the prior year, and was due to a combination of a decline in revenue per workday and from one less working day in the quarter. What compounded this effect was the impact of losing three working days in the month of March, which is our most productive month in the quarter.

Revenue per working day was $7.5 million in the first quarter of 2024, a decrease of approximately $400,000 per working day, as compared to $7.9 million in the first quarter of 2023. The $400,000 decline of revenue per working day was due to the following factors.

Overall freight demand was negatively impacted as suppliers and manufacturers were reluctant to increase inventory levels. Economic activity levels slowed in Canada due to a lack of capital investment in the private sector. There was low demand for major capital construction projects,

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including pipelines, as both the Trans Mountain Expansion Project and the Coastal GasLink Pipeline Project have essentially been completed. The activity that was generated by these large projects in the prior year had not been replaced. Fuel surcharge revenue also declined by $12 million, as diesel fuel prices declined on a year-over-year basis. Somewhat offsetting these declines was $20.5 million of incremental revenue from acquisitions.

We generated OIBDA of $66.2 million, a decrease of $10.8 million, compared to the prior year, due to the decline in consolidated revenues being somewhat offset by $3 million of incremental OIBDA from acquisitions. Operating margin declined to 14.3%, as compared to 15.5% last year, due to higher S&A expenses as a percentage of consolidated revenues, resulting from the relatively fixed nature of these expenses. DOE as a percentage of consolidated revenues remained consistent year-over-year, despite more competitive pricing conditions in certain markets and a reduction in higher margin specialized business.

Now, let's take a look at how we performed by segment.

Starting with our largest segment, revenues in the LTL segment were $182.5 million, down $10.3 million from last year, due to a change in working days compared to last year, a slight decline in revenue per working day on lower freight demand, and a $6.4 million decrease in fuel surcharge revenue. These declines were somewhat offset by $5.5 million of incremental revenue from acquisitions. OIBDA was down $1 million to $30.8 million on lower segment revenue, while operating margin actually improved slightly by 0.4% to 16.9%, due to lower DOE resulting from more efficient operating operations.

Our second largest segment is our L&W segment. Revenue in the L&W segment were $126.3 million, down $17.8 million, due to lower freight volumes and logistics demand, a lack of capital investment and competitive pricing in certain markets, while fuel surcharge decreased by $4 million. OIBDA was $22.5 million, down $3.6 million from the prior year period, on lower segment revenues. Operating margins declined slightly by 0.3% to 17.8%, primarily due to higher S&A expenses as a percentage of segment revenue. DOE improved due to our variable cost structure and our business units' ability to adapt to current market conditions, resulting in lower DOE as a percentage of revenue.

Moving to our S&I segment, revenues were down slightly by $0.9 million to $111.9 million. Lower demand for pipeline hauling and stringing services accounted for an $8.1 million reduction in revenue. Smook Contractors experienced a $4.6 million decline in revenue on lower demand for civil construction projects in Northern Manitoba.

The production services business units experienced a decline in revenue due to inclement weather delaying the commencement of certain projects, and fuel surcharge revenue declined by $1.6 million. These declines were somewhat offset by $15 million of incremental revenue from acquisitions and greater activity levels in the Western Canadian Sedimentary Basin, which resulted in higher revenue being generated by our drilling-related service business units.

Canadian Dewatering also experienced greater demand for the sale of some water management equipment. OIBDA decreased by $3.7 million to $16.7 million due to lower OIBDA at Premay Pipeline and Smook Contractors on reduced activity levels. Canadian Dewatering generated lower OIBDA due to a change in sales mix and from preparing equipment for upcoming projects to commence later this year. Somewhat offsetting these declines was $1.9 million of incremental OIBDA from acquisitions. Operating margins decreased to 14.9% from

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18.1% on higher DOE and S&A expenses due to a greater proportion of lower margin business and from preparing equipment for project work to commence later in the year.

In our non-asset base U.S. 3PL segment, revenues declined by $6.6 million to $44.4 million, due to slowing freight volumes and excess trucking capacity in the U.S. market, particularly for full truckload shipments, resulting in lower pricing per shipment. OIBDA declined to $0.5 million, and margins came in at just over 1%, due to higher DOE and S&A expenses as a percentage of segment revenue. Operating margin on a net revenue basis was 12.8%, compared to 25% in 2023.

From a balance sheet perspective, we continue to maintain a well structured balance sheet, with a book value of over $2 billion in total assets, with our largest asset class being real estate.

In January, we entered into a new $125 million credit agreement with PNC Bank Canada Branch, increasing the amount available on our bank credit facilities to $375 million. We had $90.8 million drawn on these bank credit facilities at March 31, providing us with over $280 million of borrowing availability.

In October 2024, we have $217 million of private debt notes coming due, that we expect to be able to replace with new long-term debt this year.

Our debt to operating cash flow covenant under our private debt agreement was 1.94 to 1, meaning, we could, theoretically, add $180 million of debt to our balance sheet and still be a full turn away from our covenant threshold. We consistently generate free cash, as you know, so adding new debt to our balance sheet would be to grow the business through our precision-based acquisition strategy.

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

Murray K. Mullen:
Thanks, Cars.

You know, perhaps I'll just comment a little bit about the real estate, since Carson highlighted that near the end. You know, real estate, it's our single largest asset class, as Carson suggested. There's a funny thing about real estate. Real estate seems to be like that elusive sports star, that there's inflation for great players. Real estate is very, very similar. Real estate's really not going down in value. In fact, what we're noticing is it's staying sticky high, and even in some markets, if you can believe it, it's still going up, and that's because of limited supply. Fundamentals of supply and demand always drive price, we all know that. We are delighted to say that real estate is our single biggest asset holding, yes.

In terms of the outlook, which is what, I think, everybody's interested in, what's next. You've heard (inaudible 14:47). You know, this morning, so far, we've discussed, we've analyzed, we've provided our insight into why the first quarter results were soft, okay? Yes, okay, but what's next, you know, that's what we've got to talk about.

First of all, let's just reiterate, the softness was not unexpected, from our perspective. Nonetheless, it's quite sobering when it happens to you. You don't like it, but it happens. But, at least, we were prepared, and we were—you know, it didn't surprise us. The softness that you're

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seeing, I think you have to be awfully careful, because you're comparing to '22 and '23, which was a period of robust freight demand, tight supply and favourable pricing.

Twenty-two, '23 was a market that was born out of COVID, but that market's over and now we have a new market, and it's different. I think the most instructive thing that we can say is, "Okay, how are we going to handle this market?" We know it's different, because all you have to do is look at, say, for example, the general trucking industry, the general logistics industry, all the results coming out, as an example. The long-haul full truckload business, specifically, the conditions are awful, demand is soft and there's too much capacity, and we all know what happens when supply exceeds demand, prices fall. This is precisely what has happened. While I'm not exactly sure how long the current challenging conditions will last, I can tell you that the only solution to the market challenges is higher prices, not more freight at lower prices, and this is because the cost of doing business today, of even living, is so high, compared to yesteryear.

Let's consider the number one expense for nearly all businesses, wages and benefits. These costs are up nearly 30% since pre-COVID. Equipment costs have virtually doubled, and this doesn't include new mandated emission-free vehicles. How about those carbon taxes? Does anyone really think that taxes don't increase costs. This is why I suggest that only higher rates will cure the profit squeeze that is devastating many in the trucking industry. This is what happens when supply and demand fundamentals adjust, it will eventually adjust. Stay tuned on this, because the current situation, in my opinion, cannot last much longer.

How does this impact our business? Now, even though we have a large—we don't have a large full truckload presence by design, by the way. We're, too, being affected by the slowdown of freight demand. We're starting to see it creep into the LTL segment, for example, we're feeling a little bit of a pinch there. This means we have to watch costs very carefully. Our business units must work together more closely than they have in the past, finding those elusive synergies that everyone talks about. At the corporate level, we need to find those tuck-in acquisitions, and our team is laser-focused on that. Acquisitions that will backfill any loss in overall demand, which, by the way, will come once the consumer has more disposable income. In other words, I think overall demand will improve once the consumer has more disposable income. This is why I've been so adamant that interest rates need to come down. Until this day, however, I do not expect any significant economic growth or significant improvement.

In our other segments, I simply ask where's the growth. Thus far, we just don't see it. No economy will achieve—overachieve, sorry, when governments, the public sector becomes the primary fuel for the economy. Until the private sector starts to believe the rewards associated with taking risks in investing improve, I question if the economy can actually grow. There will be business, for sure, but I just do not see growth. Once again, this means we must be razor-focused on costs.

As I wrap up this morning's call, it would be easy to be quite cynical, but at the Mullen Group, I'll be honest with you, we're built for these types of markets. Why do I say it? We've been through it before, and today, just like yesterday, we are well positioned to plan, to prepare and to grow for tomorrow's market, which will come, just like it always has. The only way to realistically grow today is by acquisitions, just like Container World, and now that we're out of the quiet period due to the review of the Competition Bureau, we'll be looking to add additional synergistic opportunities as the year unfolds, and trust me, this market is providing plenty of opportunity on this front. We will focus on those that just don't provide growth, but also will provide our Group to achieve margin improvement. We have the balance sheet—and we have the balance sheet

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because, Carson, we didn't do any acquisitions in 2022 and 2023, when the market was its peak. That discipline is going to give us that opportunity today.

Lastly, in terms of the dividend, we'll leave it at the current rate at $0.72, and to all of our shareholders, I say this. Your dividend is sacred, and you can count on your monthly dividend, even as the market conditions are challenging.

Thanks for joining us and let's go straight to the Q&A session.

Operator:
We will now begin the question-and-answer session. To join the question queue, you may press star, then one 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 Kevin Chiang of CIBC. Please go ahead.

Kevin Chiang:
Thanks. Good morning, first of all, and thanks for taking my questions. Quite a sobering outlook you provided there, Murray, on the broader Canadian economy. I guess, when I think of the way Q1 played out, it sounds like, broadly speaking, it kind of played out the way you expected. I guess the one segment I wanted to focus in on was S&I, about $17 million of EBITDA in the quarter. You have a full year target of roughly $100 million. Maybe just walk me through how you, I guess, build momentum, or what you see in the pipeline that allows you to build momentum as we look to the year to hit that target?

Murray K. Mullen:
Yes, The S&I segment, which is a pretty large segment in our Group, we knew that the pipeline business was—the pipelines were being completed, that we factored in. When you're building pipelines, our pipeline group did very well, and there was a lot of economic spin-off when you've got all that happening. We knew that was winding down, we saw that. What we didn't see coming, Kevin, was that we thought that that business would be replaced with more drilling activity, because once the pipe is built, you've got to fill it with natural gas and with crude oil, for example. But we didn't see drilling activity really improve, because, truthfully, natural gas prices have totally collapsed. Temporarily, the natural producers have really cut back on their CapEx programs and their drilling programs for a little bit, and that's just what happened.

That just delays when our S&I will improve, but it definitely did in the quarter, just not as much drilling activity, and damn, that cold weather virtually shut down our oilfield and specialized business in the first part of January. You know, you can't go to work when it's 40 below, it just doesn't work, and that kind of set us back, and January's usually a good month for our oil and gas business on our specialized side. That, we didn't count on that. That's really the—in the S&I side, that's the only thing that kind of caught off guard a bit, was, I think, really, just that cold weather and the natural gas prices collapse, so they didn't quite drill as much. But I think what that does, it just backs up when it goes. Eventually, they're going to drill. I'm just saying they didn't drill in the first quarter because natural gas prices were quite soft. Yes, that part is down.

We'll still do okay in that sector, because we did the B&R acquisition last year, it'll be about flat, but I don't see any growth there. The only part we'll probably be really down on is because we're just not going to replace that pipeline business until and unless Canadians support more

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pipelines. That's just a fact. We'll be very cautious on that side. We've just leaned up our Premay Pipelines side, and those kind of things, but that was a good driver for us for a bit. But, our Canadian Dewatering side, it's going to be fine. There's stuff they've gone back to work on. They were busy in the first quarter selling pumps, but their project work was delayed because of weather, so we didn't have the high-margin business. They still had business, but not the high-margin business, right, Carson?

Carson P. Urlacher:
That's correct. Yes, there was a shift in their revenue mix, really, going from selling water management equipment versus their day-to-day water management services, which is higher margin.

Murray K. Mullen:
S&I will be fine, except for the pipeline side of the business.

Kevin Chiang:
Okay, that makes a ton of sense to me. Maybe if I just ask what you're seeing in the LTL side of things. If I look at just the more publicly traded LTL players in the United States, if I kind of sum up, I think, what they're saying, is as we looked at Q1 and into early Q2 here, revenue trends have been improving on a year-over-year basis, but maybe below normal seasonal trends. They're still seeing—you know, there's pressure on LTL volumes that's leaking to the weaker truckload market because rates are soft. Is that effectively what you're seeing in Canada, as well, too? Is there anything different in the Canadian LTL market versus maybe what you're seeing or hearing from the U.S. players?

Murray K. Mullen:
You know, that's a really good question and it's one we think about a lot, Kev. I'll give you, my view.

First of all, the LTL market in the U.S. is different than the LTL market in Canada. It's LTL, but it's not the same duck. In the U.S., last year they lost a really, really big competitor in that market, called Yellow, they just shut down. Now, that supported the market and all the LTL carriers in the short term when the overall market and the overall demand was softening. Even the best of the best down in the U.S. are seeing no growth in LTL, and that's with one of the major competitors going down. That tells you freight, overall freight demand is not growing, in my view.

Now, in Canada—yes Yellow shut down in Canada, but, really, they weren't a big player in the Canadian market—we haven't had any major failure in the LTL side. There's no growth in demand. It's not collapsing in LTL, by any stretch. As you can see by our numbers, it still held in pretty good, but there's no growth. The way you're going to be able to do that is with tuck-in acquisitions, in my view, which we're well prepared to do, and we'll continue to do that. But that market's not growing at the moment, it's going to be a challenge, and consolidation will happen in our industry. It's got to happen.

Kevin Chiang:
For sure, for sure.

Murray K. Mullen:
We're in pretty good shape when it comes to the consolidation game.

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Kevin Chiang:
Yes, for sure. Your balance sheet is in a good spot there.

Murray K. Mullen:
Yes.

Kevin Chiang:
Maybe just last one for me, and I know you—unless I totally missed it somewhere. I don't think you provide like a mark-to-market on your real estate, but you did make a comment in your prepared remarks. If I look at it simplistically, your cost base, your undepreciated value is probably about—it's about eight bucks a share, it sounds like the value that's probably higher than what you have on your balance sheet on a gross basis. I know you get this question frequently enough but is there anything you can do to surface that value, or even highlight it to investors, you know, your stocks at $13 and the gross book value is at $8. It sounds like you could—market value is probably higher than that. Obviously, the market's not giving you much benefit for this physical asset here.

Murray K. Mullen:
You always have options, to do things, and which we've got options. Our preferred path is to use that really, really strong asset base to secure long-term funding at the very best rates that we can. Because, once you secure long-term funding, then you can play the long game in terms of acquisition, whatever you do with the rest of your business. I think that's our primary objective, and we're well down that path, Kevin, of securing long-term funding. That will replace our long-term bonds that come due in October.

Carson Urlacher:
Yes.

Murray K. Mullen:
It's either that or you monetize them and then you pay off. But that's our primary thing. The other thing I'd say to shareholders is it's an irreplaceable asset. You just can't go get that stuff in the open market. Take a look at Yellow. Yellow, the business made no sense, they couldn't make any money, but their real estate was worth a ton.

Kevin Chiang:
Yes, that's a good point.

Murray K. Mullen:
Maybe some investors don't see the value of that, but I can tell you, as a large investor and as the Senior Executive of this Company, I go, "I love owning real estate."

Carson P. Urlacher:
It also protects us ...

Murray K. Mullen:
I also love owning the business that's occupying the real estate, because I like to own—I like to know the tenant. We like to own both of them.

Carson, you were going to say?

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Carson P. Urlacher:
I was just going to say it also protects us quite nicely from inflationary pressures when you go to renew lease agreements with landlords, and such. As those rates come up for the property, those got to get passed on through higher trucking rates. Owning your own real estate in that network provides a benefit to our organization.

Murray K. Mullen:
Yes, and the last point I'll make on that, Kev, is that when you own your own real estate, you can probably pay your shareholders a dividend, because they're really the landowners.

Kevin Chiang:
Perfect, that was great colour, Murray and Carson. Thanks for taking my questions.

Murray K. Mullen:
Thank you.

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

Murray K. Mullen:
Good morning, David.

David Ocampo:
Good morning, and thanks for taking my questions, Murray and Carson. I really appreciate all the commentary that you provided on the outlook, both in the MD&A and in your prepared remarks, but you guys are calling for more of the same in the short run, as it could take some time for capacity to exit the market here. When we look back at your plan for '24, you were originally calling for $325 million of EBITDA, and that was before acquisitions. Just curious, with your current view of the market and with Container World closing, how should we be thinking about that number for 2024 now?

Murray K. Mullen:
Honestly, I think that maybe the one thing that I had anticipated, David, was that I, personally, didn't see from what we were looking at, is how interest rates could stay high and that they had to come down. Then that would spur demand, and then we would be—you know, everything would be good. I have to question whether that thesis that I had is correct now. It doesn't appear those damn interest rates are coming down, and if interest rates don't come down, I don't know how we spur demand. It's going to be complicated. It might be pushed out. I think my analysis might be pushed out until interest rates start coming down, and then I can see demand—that will be, I think, the catalyst for growth, both for the consumer—because lower interest rates put actual disposable income into consumers' hands, and it makes it easier to invest for capital.

Honestly, I thought interest rates, I thought they had to come down. From our perspective, they need to come down, but they aren't coming down, so I have to be realistic on that. Probably, right now, I think we're still okay for the year end revenue and EBITDA, but we're not going to be above it now. We will need acquisitions to backfill to get to that number, yes.

David Ocampo:
Yes, that makes sense.

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Murray K. Mullen:
Just given that interest rates are not coming down, as I had originally anticipated, and it's going to push off as to when that demand increase comes. Now, once that demand increase comes, then everything changes again, because then you've got the economics change on supply and demand and then rate per shipment will go up. That's the fundamental problem we've got in the business right now, is that there's business, but the rates for that business are ultra-competitive. Something has to change, and if you get a demand push or you get companies going bankrupt, then rates will adjust to where they need to. You can not just cover costs, you can have an appropriate return on your capital investment.

David Ocampo:
That makes sense, Murray, and when I look at your LTL Division, even against that backdrop, you guys were able to improve your margin profile. I think even in the outlook section, you guys are calling for another 100-basis-point increase for the full year. I'm just curious where you guys are finding those efficiencies to drive up your margin profile, especially against a tougher pricing environment.

Carson P. Urlacher:
I would say one of the items there, David, is obviously the acquisition of B&R Eckel's last year. Last year, we got revenue from the B&R acquisition in LTL, but we did not get EBITDA. I think the margin improvement of us calling for 1%, in large part, we've restructured that business now. Now, it's into a network where there is technology, there's a greater load factor, because we're not running two trucks to the same town. Those sorts of things. We see margin improvement on that side going forward for the remainder of this year, as a comparative to what we did in 2023.

Murray K. Mullen:
David, we'll continue to—as Carson says, the B&R thing was—we knew what we were getting into, which was factored into our price when we paid for it. We didn't pay much, we just got it for asset value. We knew what the challenges were, but we did the restructuring last year. You can't do it on day one, but we did get it down relatively quickly, in nine months, Rich, Joanna, we got that done. Restructuring usually means job losses and I think we had, I think, 50, or thereabouts, Joanna, or roughly 50.

Joanna K. Scott:
Yes, roughly.

Murray K. Mullen:
In that business, David, the average employee cost is about $100,000 per employee, so that's $5 million right there.

David Ocampo:
Right, right, that makes a lot of sense. Okay, that's all the questions I had for you guys. Thank you.

Murray K. Mullen:
You're going to have to be smart, you're going to have to consolidate if growth isn't happening. We'll continue—we did a couple of consolidation opportunities, B&R was one, and we did one with a couple other business units, and we'll look at a couple more this year. If business stays

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slow for a bit, we'll have to combine the best with the best and give it to our very best teams. That's what we'll do.

Richard J. Maloney:
David, it's Richard. The other thing—and you know LTL is a core strategic focus for us and anything—when we talk about LTL, we are consistently and constantly looking at how to get better load factors and get better process improvements. Not only with B&R tuck-ins, but every other of our business units in LTL, that's the perpetual focus, how do we get more stuff in the back of the trailer, a 53-foot trailer going to where it needs to go, and that is the focus. We're looking at technology process improvements, and everything, and Carson highlighted it. When we're able to go to one spot and wherever, Alberta, with one truck full, rather than two trucks with a third or half full, that's an immediate gain. That's how we continue to, and will continue to, look at LTL.

Murray K. Mullen:
The other thing that I would comment on, David, I think, that is happening in this market, I think every company, ours included, we're focusing on where we have competitive advantage and we're exiting business where we were just doing it to do it, that didn't really add margin. We're being laser-focused in the business right now, not just on costs, but on where we can be profitable and win the game. If we're just playing the game, we may exit it. We will be laser-focused on where we can win the game. That's where you get margin improvement.

David Ocampo:
Okay, that's perfect. Thanks a lot, everyone.

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

Cameron Doerksen:
Yes, thanks very much. Good morning, everyone. A question on the Container World. Good to see that you got all the regulatory approvals and it's going to close soon. Could you just maybe talk about the margin impact that business will have on the logistics and warehousing segment? If I understand correctly, maybe, as it's currently constituted, the business is maybe a little lower than the average margin. Just wondering if you can talk about the margin impact and how you see your ownership of that business improving margins over the next couple of years?

Murray K. Mullen:
You know what, it's going to be—Container World is going to be a little bit like B&R. We knew what we're getting into, we didn't—the company ran into a little bit of problems as a result of the freight surge that happened, they got trapped with that, some additional costs. They weren't able to really manage through that, but those things are behind them now. We stepped in and we got that business. It wasn't highly profitable, but I can tell you our expectation is right out of the shoot we'll probably have low-teen margins. That's not to our standard, Cameron, but I would say to you, over time, you improve margin with technology, with automation, with robotics, and with using our critical mass buying power, as an example, on equipment, and then sharing within our network.

We're pretty confident that we saw synergy there. It'll take us a little bit of time to achieve it, don't get me wrong. You buy a company, you go in, and it takes a little bit of time to earn the

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trust and the respect of the people and the customers, and those kind of things. But, like every one of our other business units, like Gardewine, like Jay's, like nearly all of our LTL businesses and logistics, we improve the margins. That's what we do here. We acquire companies and we strive to improve their performance. That's what we do. We will do it here, too, I'm absolutely convinced of it. If I wasn't convinced, I wouldn't have sponsored it and said, "Let's do it." But give us a little bit of time and we'll get it done.

The great news is the previous owner, Dennis Christmas, did a fantastic job of growing the business. As I said to that team, "The heavy lifting's been done. You've got significant market presence." That is not easy to get in any vertical, and they've done it. Now with us going in, we will measure, we will focus, and we will improve margins, period. Just give us a little bit of time and we'll get it done, right? Put that in your calendar, that said Murray said on this day.

Cameron Doerksen:
Okay, I'll do that. Just a second quick question. Just sort of thinking about competitive capacity, it's clear there's an unbalanced market here between supply and demand. Your comment, I guess, was that the current market conditions really can't be sustained for much longer. I'm just wondering if you are seeing at all some of this competitive capacity disappear, fuel bankruptcies.

Murray K. Mullen:
No, no. No, we're not seeing it disappear. The first phase that you've got to go through is denial, and everybody thinks, oh, no, it's all going to get better in the market, and I can just—everybody stays in business. The next phase is animal instincts kick in, which is survival, and that's where we're at right now. It's going to take us a quarter or two, I think, but eventually it's going to happen, Cameron, and I'll tell you why. Capital is going to dry up. Richard knows this, we all know it here, is if you don't have the balance sheet, you can't get the insurance. If you can't get the insurance, you can't get your licence. It will eventually happen, Cameron, but it doesn't happen in the first phase of what happens.

Since I don't think that demand is going to come roaring back, I suspect it's going to take a little longer for the banks to not just book their bad debt, but to try and realize on that bad debt. It'll take a little bit of time, but it's going to happen. I suspect that—we've already seen a major bankruptcy happen in the industry—receivership, not a bankruptcy, that's the wrong word, it's a receivership—but that's just the canary in a coal mine.

Richard J. Maloney:
Cameron, it's Richard again. It's kind of a double-edged story here. We're not seeing the capitulation, but what we are seeing is significant things being thrown at us through our acquisition opportunities, right? People are desperate to get rid of their businesses. I don't know if it's a function of—it was even before the full capital gains thing. I won't get into that, but people are looking to sell their trucking businesses and we're getting—I got two pitched to me within two hours yesterday.

Murray K. Mullen:
Richard, just on that, I just got one come across my desk this morning.

Richard J. Maloney:
While we're just sitting here. While we're sitting doing this.

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Murray K. Mullen:
While we're sitting here giving this presentation.

Richard J. Maloney:
That speaks to the point Murray makes and Carson makes, that we will be focused on acquisitions. We're not going to do them all, we're not on some sort of super-growth platform, but we will do the ones that make sense, precision-based acquisitions. Just some colour and commentary that ties our acquisition thesis on that.

Murray K. Mullen:
To button that up for you, the current market conditions are brutal for carriers, but they're great for acquisitions, and guess what we're good at?

Cameron Doerksen:
Yes, absolutely. No, I look forward to seeing more activity there. Appreciate it, I'll pass the line. Thanks very much.

Murray K. Mullen:
Thank you.

Operator:
The next question comes from Konark Gupta of Scotiabank. Please go ahead.

Konark Gupta:
Thanks, Operator, and good morning, everyone. Murray, I know you love your stock, which is why you keep buying that in the market. Just following up on your last comment on M&A, you've been getting a lot of these inbounds from sellers, I get it, but what's really your kind of strategy here with respect to M&A? Are you talking about, now that Container World is done, you have more sort of bandwidth to do more tuck-ins, or what's really your focus in terms of M&A type, size or quality or region? Where are you focusing on right now, and what's keeping you from doing something more imminently as opposed to in the next two quarters?

Murray K. Mullen:
The first quarter was clearly the Competition Bureau, we were in a quiet period with them, Konark, so we kind of had to put everything on the back burner, because once you're in with the Competition Bureau, if we get anything else, we'd have to refile with—we would never have gotten Container World done if we kept doing it. We were in a bit of a quiet period, but now we've got lots of—our desks are all full with the files of ones that intrigue us, but each one that we look at must make us better. Some are smaller, but really will drive margin in certain of our business units, those are the tuck-in acquisitions, and others, like Container World, get us into new verticals that we really, really like, that we see a long-term future in. Can I tell you exactly which ones? No, I can't tell you that, because it's competitive, but I can tell you we look at them. That's the two things we look at.

Konark Gupta:
Okay, no, that's helpful, thank you, and then if I can dig into, perhaps, on the performance in the quarter. It's great to see the revenue per day metric. That kind of gives us more visibility as to what's happening on a daily basis compared to just on the quarter. From a trans perspective, January sounded like the weakest month. Any thoughts on how revenue or EBITDA per day

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trended throughout the quarter and into April so far? What I'm trying to get it is how is your quarterly EBITDA progression planned to get to the full year of $325 million?

Murray K. Mullen:
That's a good question. That's one we look at all the time, too, Konark. Before I turn it over to Carson, I'll just say, look, I don't—Konark, I don't see the second quarter—I don't see any economic growth coming in the second quarter, in the first quarter. We might not have the weather issues, and I think it's the same days, same number of working days, Cars? Was there one less this year than last year, last year's quarter?

Carson P. Urlacher:
Yes. In Q1 of this year, we had 62 working days versus 63 last year. Going into Q2, we're going to have 64 working days this year versus 63 last year, we're going to gain that day back, and it's really due to when the Easter holiday fell.

Murray K. Mullen:
You'll gain one day in terms of revenue, and at $7.5 million or $8 million once we get Container World starting in May, we'll be back up to $8 million a day of gross revenue. You can see how that changes from just one working day, right? But, the overall economy, I don't see—in the absence of doing acquisitions, Konark, there's no way that we're going to be at the same revenue per day as last year, because the economy is not as strong. It's adjusting to a little bit lower demand and much, much more competitive than it was a year ago. That's just the reality of the situation. That's why we're saying to you, you've got to be really, really focused on costs today, you can't be loose right now. You can't have too much debt, and you can't be owing the bank too much money, or else you're going to be—we don't get a call from the owner, we get a call from the bank. We get lots of restructuring calls, trust me.

Konark Gupta:
Okay, that's fair.

Murray K. Mullen:
On the actual number, the only thing we're probably not going to have this quarter is maybe just that ugly weather, but I don't—it's not going to be as strong as last year. I don't see it, because the revenue is not as strong as last year, you know, on the same-store sales. But then you add acquisitions coming in, that will add a little bit to it, and that's going to be our game over the next—it's going to be tough, Konark, on existing business, and we'll backfill it with acquisitions. Then, we wait for the next market, and the next time the market turns, we'll be bigger, and we'll be better, and we'll be leaner, and the profit margin will go straight to shareholders.

Konark Gupta:
That's great colour, thanks so much, guys, and just maybe one quick follow-up L&W. You talked about the full truckload market being really under pressure because of overcapacity and pricing, which I think we are seeing all across the industry right now. How much does this full truckload be a driver on the L&W segment? What's your exposure there, directly and indirectly?

Carson P. Urlacher:
We really only have essentially two to three business units that dabble in that space. It's not a significant component of us, by design. When we do dabble in that space, we do it with owner/operators, just so that—it's a variable cost structure for us. We don't have a fleet of company trucks in the full long haul truckload business. That's where you get into trouble. We

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look at it differently, and we've positioned our organization so that's more of a variable cost structure for us there, Konark.

Murray K. Mullen:
Very, very by design, as I said, in my comments earlier today, Konark. The full truckload business is not a business that attracts my attention or my capital. I've been in this business too long, it's just a tough, tough business, and that's not one that we like to put capital to work in. The trucking business is substantially different than, for example, the rail business. Both sectors move a lot of freight, but in rails, they're not price competitive. Truckers can be—they can be predatory prices for a short period of time, and we're going through a market segment like that right now. The truckload business, which is a huge part of the Canadian landscape, that's not one that we'll probably put a lot of capital into, to be blunt.

Konark Gupta:
Appreciate the colour, guys, thank you.

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

Walter Spracklin:
Yes, thanks very much, Operator. Hi, everyone. Just to recalibrate here, I know you have a business plan, and a lot has happened since. Murray, you called out interest rates, that you thought would come down and spur growth, but have not yet. You've seen some mix changes in your business that has resulted in some lower margin business taking more of your—or representing a larger share of your total EBITDA. There has been M&A activity that you've done, imminently closing. My question, I guess, is when you put all that together, how does that change the outlook you have out there officially on revenue and EBITDA, if at all?

Murray K. Mullen:
I don't think the—with the acquisitions that we've announced thus far, I think we meet our revenue targets quite easily, Carson.

Carson P. Urlacher:
Yes.

Murray K. Mullen:
EBITDA may be close, by maybe not quite as strong, and the reason is, Walter, is that in the specialized industrial side, they're just not drilling at the moment because natural gas prices are so low. The whole thesis was you build the pipelines, then you've got to drill to fill the pipelines, and they're just not drilling to fill the pipelines right at the moment. They've just delayed some of those projects, they're just working off their current inventory levels, and they probably won't drill until the price of natural gas goes up, but eventually it will, and then that helps our specialized industrial side and gets us back to where we had been, and that will replace what we lost on the high-margin pipeline business.

The drilling side, when it's going, is high-margin business. The pipeline side, when it's going, is high-margin business. The pipeline side is not there, and the drilling side needs to get going, but that's been now pushed out because natural gas prices are too low. That caught a lot of people by surprise. It's pushed it out. But eventually, our S&I side will be just fine.

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Now, I think the more instructive thing, are we going to put more capital to work in there? It's kind of like long haul trucking. We'll be really, really careful on that. Only when we get something at such a favourable multiple, that allows us to get a quick two- to three-year payback, would we even consider something like that, Walter. Really, that's not our preferred use of capital, and if we did go into that market, you knew that we got pure synergy, no growth. We don't really care about growth; we just want to maintain margin and grow margin in that sector.

Walter Spracklin:
On your margin within that segment, given the fluctuation with commodity prices, and so on, you had trended up to just over 20% EBITDA margin in your S&I segment. I'm just curious if there was probably some expectations for that to continue to go higher. What I'm hearing from you is that probably not this year, but on a longer term basis, fundamentally, do you see this as a 20% margin business, something higher, or even something lower, based on where you look at it today?

Murray K. Mullen:
Walter, that's a really good point to consider. Twenty percent is kind of the minimum we expect in that business, because it's a very capital-intensive business. That business, if you're going to put more capital to work in there, 20% is not high enough. Right now, we're still—you know, we don't put a lot of capital to work in S&I, we're still working off of yesteryear's capital …

Carson P. Urlacher:
That's right.

Murray K. Mullen:
. .. but eventually—just like it cost a lot more to build a pipeline, I can tell you it cost a lot more to get some of that equipment, so your prices have to go up before we will deploy capital. If I see margins—if I see prices going up, then we'll put capital to work, and then that will be the cue card that margin goes up. But margin won't go up until capital gets more capital deployed, but we're not putting more capital deployed till rates go up. It's kind of a—and I'm not presuming that they'll go up, I'm waiting for them to go up before I put capital to work. I'm from Missouri, you've got to show me.

Carson P. Urlacher:
Yes, and that segment, 20%, you need that, because you need 10% for depreciation.

Murray K. Mullen:
Yes. Yes, very capital-intensive, Walter. We'll be careful. Right now, it generates a ton of—it's a segment that generates a lot of free cash for our business, because we're not putting a lot of capital to work in there. But, when you have to put capital to work, I can tell you the margins will be going up.

Walter Spracklin:
Okay. Okay, that's all my questions. Thank you very much for the time.

Murray K. Mullen:
Thank you.

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Operator:
The next question comes from Tim James of TD Cowen. Please go ahead.

Tim James:
Thanks. Good morning, everyone.

Murray K. Mullen:
Good morning, Tim.

Tim James:
Just to start, a big picture question, I guess, Murray. I think I'm hearing you correctly, that conditions can improve though either a demand response driven by lower interest rates or a supply response by rationalization as, I guess, current conditions eliminate some competition. From your perspective, which path to stronger conditions is better, is it a demand response or is it a supply response? I'm just wondering if there's a bit of a silver lining to conditions remaining tough for a little bit longer because of what it will do to the longer term competitive environment. Just curious for your thoughts on that.

Murray K. Mullen:
Once again, that's a good observation. Look, to everyone, I say this. We've been in business since 1949 and we've seen every damn market you could imagine. We've seen brutal, we've seen the best of the best. This is pretty tough right now. What I've learned from my experience is the longer it stays tougher, those that are better prepared will do much, much better. Because we're able to play the long game, we're just fine, but for a lot of new entrants, for a lot of people that just got in and thought this is an easy business to get into, they're the ones that flooded the system with market.

By the way, who funded them was the big banks. The banks are going to eat this, because they funded them. They didn't pay cash, they borrowed. I suspect, when you go talk to the banks, that they're tightening the lending standards today. That creates less capacity tomorrow. Then, eventually, interest rates will find a new path. Either interest rates come down or you're going to continue to have inflation for a long period of time, because you can't put new capital to work, Tim, unless we get higher prices. Nobody is going to do that, which tells me interest rates might stay higher for longer, because the only cure to many of the problems is higher rates. I don't know if higher rates really help inflation pressures, to be honest.

Tim James:
Okay, thank you.

Murray K. Mullen:
We really kicked the can down the road on lower interest rates. We've come to grips with it here, that says, man, they're staying stickier than what I want them to do, but what I want to happen and what really happens is two different things. I don't see them coming down. That means it's going to be slower growth for awhile, but eventually higher rates are coming, Tim. I'm telling you it's coming. We've just got to bide our time and we'll focus on those things that we can control.

Rich, you've talked about it. We'll be laser-focused on costs, we'll do restructuring, and, of course, we'll backfill with acquisitions, because we've got the balance sheet and we've got lots of capacity to backfill and position for tomorrow's market, and that's everything we're focused on

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right now. The short term is we've got all our business units focused on costs, but at corporate, we're focused on how we position for the future.

Tim James:
Okay, thank you, that's helpful. Then just my second question. Murray, you mentioned earlier on that—I can't remember if it was yourself or Carson mentioned it—some of the TL weakness that's been prevalent for awhile now, you're seeing it creep into the LTL market. I'm just wondering if you could kind of expand on that comment and what the tie is there between the two, or how that's happening.

Murray K. Mullen:
Yes, the LTL is a much, much more disciplined market than the truckload market, which is why we've invested in the LTL market, it's much more disciplined, but that doesn't mean that it can't be more competitive. Then, the second thing is in the LTL market, as Richard opined about, is, look, we are always looking at efficiencies. How can we combine, how can we share freight, how can we make sure every truck is loaded to its max? Part of that is sharing, but part of that is technology. You always can work on productivity improvements in the LTL sector. In the truckload side, a truckload is a truckload is a truckload. You can't haul more weight than you already are. You can't go more miles than you're already going. Really, the only thing that cures that market is rate. LTL, you can always be more efficient. You can swap better paying freight for lower quality freight, etc. We're always working on margin there.

Tim James:
Okay, super. Thank you very much.

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

The next question comes from Michael Barth of Raymond James. Please go ahead.

Michael Barth:
Hi, good morning. Most of my questions have been answered, but just two quick ones. First, I'm just curious, given the broader industry weakness, are seller valuation expectations declining significantly, or is there some stubbornness there? I ask because you've indicated the denial phase is behind us. Then, a follow-up to that. In the past, when your stock offered good value, you've shown a willingness to really ramp up buybacks. Just given where the stock is this morning, I'm curious how you view the relative attractiveness of M&A versus buying back more of your own shares.

Murray K. Mullen:
Aha! You'd think you're sitting in our boardroom talking with our Board. I'll leave you with this, Michael, is that M&A is the way we grow the business. I would tell you that is our preferred use of free cash, and the preferred use of our balance sheet, and that's what we articulate to our Board. In saying that, sometimes it's compelling to buy back your stock when others don't believe in you and don't believe in the long term. We have a share buyback, and we'll most likely be active buying. We'll balance it, but our preferred way is to grow the business and to plan for tomorrow.

If we buy back stock, that's really just kind of short-term thinking, and maybe supporting a stock price, but that's kind of short term. Longer term, I'm a big investor, and we'll balance it. I don't

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mind increasing my position in Mullen Group. I bought some stock last quarter and might buy some more. I don't mind if others don't like it, we'll buy it back. But I also like building, I'm a builder. We've always done acquisitions and we've always grown, so that's my preferred way to do it. But we're not naïve and we'll look at all of them, all opportunities. We will not increase the dividend right now, we'll keep the dividend as it, and we'll either grow through M&A or we'll buy back stock.

If we don't like the M&A opportunities that come across our desks, well, then, we'll be aggressive on buying back stock. But, my God, the sellers, they're in virtual panic mode. Where I have not seen panic yet is on the real estate front, Michael. Real estate is still stubbornly high if you want that prime piece of property. There's no capitulation there, I can tell you. I don't see it. Richard?

Richard J. Maloney:
Not at all.

Murray K. Mullen:
Not at all?

Richard J. Maloney:
No.

Tim James:
Okay, that's helpful.

Murray K. Mullen:
Look, we—just to summarize, when the market was at its peak in '22, '23, we didn't bid on acquisition. Now, many of our peers bid on acquisition. They thought, I guess, that the market would stay strong forever. I never did buy that thesis. But I'll tell you what, we did a hell of a good job of capitalizing on the market and letting our business units—they did a great, we capitalized on it, but we were quiet on the M&A front. I don't think we'll be quiet at the bottom of the market, because all your risk is gone. There's no risk now, everybody knows what the bottom is. It's just a matter of when it returns, and it will turn, just like every market always does. Yes, we think we're going to be able to really be in a great position to grow the business in this cycle, because M&A, it's pretty attractive right now. We just have to pick the right ones that fit in our group.

Tim James:
Picking the right horse. Okay, that's helpful. Thank you.

Murray K. Mullen:
Thank you. Bye-bye.

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

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Murray K. Mullen:
Yes, thank you, folks. We'll let you get going. It's the end of a quarter and I know everybody has got a lot of quarter results to look at, and we've got a business to run. Thank you very much for joining us. Take care.

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

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