



The Mullen Group Limited

Second Quarter 2024 Earnings Conference Call Transcript

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Time: 8:00 AM MT

Speakers: **Murray K. Mullen**
Chairman, President, and Chief Executive Officer

Carson P. Urlacher
Senior Financial Officer

Richard J. Maloney
Senior Operating Officer

Operator:

Welcome to the Mullen Group Ltd. Second 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 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 Mr. 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.

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

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

Now, with me this morning, I'm joined by the Senior Executive team. We have Richard Maloney, we have Joanna Scott, who happens to be traveling and on the road, and we have Carson Urlacher.

In a few moments, I'll be turning the call over to Carson Urlacher, our Senior Financial Officer, who'll be providing you with an overview of the second quarter financial results. For those of you interested in detail, we've posted the MD&A, a detailed report covering all aspects of our results, so they're available for your viewing pleasure.

I will keep my commentary short and provide a few of what I consider are the highlights in the quarter. Let's begin by acknowledging that this is a different market today than the last year, in fact the last two years. It is reasonable to expect results to be different than prior years. Besides, a simple comparison to what happened in prior years can be very misleading. What is more relevant is, what is the state of the markets today, is what will it look like tomorrow? But in addition, asking how we fared in this new market is a relevant question.

Now, when I look at the markets, I really focus on two fundamentals of the economy, the consumer and business investment, and nowhere is the change more acute than with the consumer. Today, the average consumer is stretched and under stress, but it's not broken, thankfully. Their income doesn't go as far as it used to, and mostly out of necessity, they've become very price-sensitive. This means suppliers must adapt as well.

The move by central bankers around the globe to slow inflation by raising interest rates is working. Not only has the consumer been hit hard, so too has business, which has slowed capital investment quite noticeably from our perspective. Once the economy slows, the supply chain disruption, a major contributor to inflation, these get resolved.

Yes, this is a different market, but that doesn't mean there's no opportunity. At The Mullen Group, we thrive in this type of market environment, one where we capitalize this other struggle. Fundamentally, I believe this is the simple key to our success, and that is that we were prepared for this market. For example, we didn't bite when times were abundant, we just stayed in our lane and we executed, being quite satisfied to generate as much free cash as we could, never overpaying or over-leveraging the balance sheet with overpriced acquisitions. Why? Because we did not believe that the policy-driven good times would last. In other words, we maintained our discipline.

Another key to our success is that we take a long-term view. For example, over the last 30 years, we've invested in lines of business where we viewed the competitive landscape as more rational. This is probably the single-most important reason why our business is generating solid results today: we invest in business verticals we believe can generate free cash.

In summary, we are happy to generate cash at the top of the cycle, we do not over-commit when it seems easy, and then we grow out the bottom of the cycle, when opportunity arises. ContainerWorld is a prime example and a major contributor to our strong revenue performance in Q2. More importantly, I'll just advise, we just started working with the team at ContainerWorld on how to improve the bottom line.

Now, it'll take our senior team a few quarters, but like all other acquisitions—and we have many examples to prove this point out—profitability will ultimately be enhanced at ContainerWorld. This is what we do at Mullen Group. We acquire companies, then we strive to improve performance.

Today, we have a large and diversified portfolio of business units that operate within multiple verticals in the economy. These business units are led by seasoned industry veterans that understand what it takes to be successful in changing markets. Quarter two just reinforces this. Strategically, we have invested significant capital in the less-than-truckload vertical, which just happens to not only be the largest component of our business, but also the most stable.

The Specialized Industrial Service segment has a cyclical component to it, but it also has the most potential to overachieve in future quarters and years because the business and the segment will eventually need new capital, and this implies higher margins. The Logistics and Warehousing segment has been bolstered by the acquisition of ContainerWorld, adding another large business line to the likes of Bandstra Transportation and Kleysen Group.

Lastly, the U.S. 3PL business segment, business remains solid, with the potential to grow as new futures, like AI, are added to SilverExpress, which is our proprietary IT platform on HAUListic.

In terms of the quarter, nothing surprises; not the market, not the economy, and not the outstanding performance by our business units. We came into '24 with a realistic game plan and we are executing to the plan.

Now, I'll turn the call over to Carson for more of the financial analysis, and then we'll close with a Q&A session. Carson, you are up.

Carson P. Urlacher:

Thanks. Well, thank you, Murray, and welcome, everyone.

As Murray mentioned, I will focus on the highlights from the second quarter, the details of which are fully explained in the Second Quarter Interim Report, which is available on SEDAR+ and on our website.

Before I dive into the second quarter highlights, I would like to make a couple overarching comments to help put our second quarter results into perspective. There are a couple fundamental concepts regarding our long-term investment strategy that enables us to generate free cash every quarter.

First is our acquisition strategy. As Murray pointed out, for years we've invested in niche businesses that have a moat or a certain barrier to entry, that tend to lead to more price stability. ContainerWorld is a great example, and had we completed this acquisition at the beginning of the second quarter, our revenues would've easily been in excess of \$500 million for the quarter. We also acquire tuck-in acquisitions that drive margin improvement at our well-managed business units, the acquisition of B&R being the most recent example.

The second concept is our diversification. With over 40 business units, each operate in their own ring, and are leveraged to a distinct vertical of the economy. Diversification adds stability and predictability to our free cash flows.

In the second quarter, consolidated revenues were \$495.6 million, which is fairly consistent compared to last year, as acquisitions added \$26.9 million of incremental revenue, most notably from the two months of financial results from ContainerWorld. The main reason revenue is generally flat year-over-year was due to the lower demand from major construction projects, including pipelines, as both the Trans Mountain expansion project and the Coastal GasLink pipeline project have essentially been completed.

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. That said, revenue per working day declined by a modest \$100,000 per day to \$7.7 million in the quarter. However, as at June 2024, revenue per working day improved to \$8.3 million. This increase was mainly due to the incremental revenue generated from the ContainerWorld acquisition. This trend is consistent from a seasonality perspective as we head into Q3, which is now typically our strongest quarter of the year.

We generated OIBDA of \$85.7 million, an increase of \$2.3 million compared to prior-year, and is the second-highest Q2 ever recorded at Mullen Group, second only to Q2 of 2022. Acquisitions added \$4.7 million of OIBDA, and we also experienced improved results in our LTL segment. These increases were somewhat offset by lower OIBDA in the L&W segment, and from higher corporate costs.

Operating margin improved to 17.3%, as compared to 16.9% last year, despite more competitive pricing conditions in certain markets and a reduction in higher-margin specialized business. DOE as a percentage of consolidated revenues decreased by 0.8%, 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 revenue increased, resulting from higher costs experienced at ContainerWorld, and from the relatively fixed nature of these expenses.

Now, let's take a closer look at how we performed by segment. Starting with our largest segment, revenues in the LTL segment were \$189.8 million, down \$3.6 million from last year due to a softening in overall freight demand, and really from us de-marketing underperforming business. These declines were somewhat offset by \$1.8 million of incremental revenue from acquisitions.

OIBDA was \$37.5 million, up \$3 million from last year despite lower segment revenue, while operating margins improved by 2% to 19.8%. The main reason for the improved operating margin was due to how we integrated B&R's LTL operations at the start of the year into our existing network, which drove greater lane density, as well as using our existing technology platform, resulted in more efficient operations. So, a great tuck-in acquisition resulting in margin improvement.

Our second-largest segment is our L&W segment. Revenues in the L&W segment were \$150.9 million, up \$8 million from last year. Acquisitions added \$22.2 million of incremental revenue, which was somewhat offset by lower revenue generated by our existing business units due to shippers electing to keep a tight rein on inventory levels, a lack of capital investment, and from competitive pricing in certain markets.

OIBDA was \$29 million, down a million from last year, due to lower revenues generated by our existing business units, excluding acquisitions. This decrease was somewhat offset by \$4.2 million of OIBDA generated by ContainerWorld. Operating margins declined by 1.8% to a respectable 19.2%, primarily due to a more competitive pricing environment.

Now moving to our S&I segment, revenues were up \$2.3 million to \$109.6 million, which was mainly due to \$2.9 million of incremental revenue from acquisitions. Our remaining business units in the segment generated relatively consistent revenue compared to last year. This is really a testament to our diversification strategy. The completion of the Trans Mountain and Coastal Gas projects resulted in a \$9.1 million reduction in revenue at Premay Pipeline, and Canadian Dewatering also experienced lower demand for their services. These declines were offset by higher revenue generated by our Drilling-Related Services business units, as activity levels in the Western Canadian sedimentary basin increased.

In addition, our Production Services business units benefited from the commencement of plant turnaround and maintenance projects. Our business units participate in large capital projects like Trans Mountain and Coastal Gas from the beginning, to its ongoing use, whereby we assisted in the construction phase, to eventually filling the pipelines through our exposure of providing support services to the natural gas drilling activity, as well as maintenance and turnaround work.

OIBDA was \$23.5 million, up \$2.9 million from last year on higher OIBDA generated by our Production Services and Drilling-Related Services business units. Operating margins increased by 2.2% to 21.4%, despite the loss of higher-margin pipeline construction work, due to more efficient operations and from plant turnaround projects, which generally provide higher margins.

In our non-asset-based U.S. 3PL segment, revenues were \$46.9 million, a decrease of \$3.9 million from last year, due to the ongoing issue of lower freight volumes and excess supply of trucking capacity creating competitive market conditions. But despite the lower segment revenue, OIBDA was generally flat year-over-year at \$800,000. Operating margin on a net revenue basis improved to 20%, compared to 18.8% last year.

Now moving to the balance sheet; on July 10, 2024, we announced the closing of approximately \$400 million of private placement debt. There was strong demand from the bond markets, and the offering was significantly oversubscribed, mainly due to our disciplined approach to acquisitions, our large real estate portfolio, and our ability to generate free cash through all business segments.

These 10-year long-term notes match our long-term investment strategy and once again provides us with a well-structured balance sheet for the next decade. We intend to use these funds to repay the 217 million notes that are maturing in October, and we also used a portion of these funds to repay the amounts drawn on our bank credit facilities.

Speaking of the bank credit facilities, in conjunction with closing the private debt deal, we upsized our facilities from \$375 million to \$525 million, which is currently undrawn, giving us significant short-term liquidity. Excluding the notes being repaid in October of 2024, the principal amount outstanding on our private placement debt is approximately \$608 million. That's net across currency swaps. This amount is less than the \$655 million we have in historical costs on our real estate on our balance sheet. Our new blended interest rate, excluding the notes being repaid in October, is approximately 5.3% per annum.

In summary, our balance sheet is well-positioned to take advantage of opportunities that come our way, whether it be tuck-in acquisitions that improve and drive margin improvement, or if we see a new vertical that we love, we'll continue to diversify our business model.

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

Murray K. Mullen:

Great job. Thanks, Carson.

Now, just before we get into what the last half of '24 might look like and give you what we call the outlook, let me take you back to our Q1 '24 conference call. Now, on that call, I reiterated that in our '23 financial review, we expected the first half of '24, it would be soft, and that economic activity might start gaining momentum as the year progressed, as long as central bankers started lowering interest rates.

Well, today, it appears, at least from the Bank of Canada's perspective, that they now recognize that the economy has slowed dramatically. In fact, Mr. Macklem noted in his most recent remarks, I quote, that, "They want to see economic growth pick up." Maybe, just perhaps, the economy might start turning the corner soon; at least that's our hope.

But as you know, hope is not a strategy, so we'll stay true to our plan, and that means the only way to grow in the short-term is by acquisitions, preferably, and Carson mentioned this, through the tuck-ins. Because this is one of the surest ways we know of to drive margin improvement. On margin improvement, we are going to stay laser-focused on margins. In fact, we will sacrifice growth as we endeavour to increase margins. Margin improvement is our highest priority today.

Last quarter, we generated some decent results, especially within the context of the slowdown in consumer spending and the dramatic decline in capital investment in Canada. Furthermore, you will recall that the major pipeline projects in Western Canada have been completed, leaving quite a void in terms of economic activity, especially in Western Canada. Yet, despite these headwinds, our results are pretty acceptable.

Our belief is that we can build off of these results during the last half of '24, and while we're not predicting any meaningful growth in the economy quite yet, we believe that demand is stabilized across most verticals we serve. In other words, we believe we have a bit of momentum on our side, and with the potential to add additional revenue through M&A, that's our plan. But I remind everyone, we are more than just disciplined, we are picky when it comes to acquisitions. We will not chase growth. On the other hand, we will aggressively pursue opportunities that can help drive margin growth.

Now, lastly, let me just speak to the dividend. There really are two important reasons why the Board decided to increase the monthly dividend payable to shareholders. Firstly, it should be obvious now that we have a constructive view for the prospects of our business, and secondly, we now have the balance sheet in place where we are both comfortable for the longer-term and for pursuing our acquisition strategy.

Starting in September, your monthly dividend increases to \$0.07 per share per month, \$0.84 annually. Last quarter, I reiterated that your dividend, so with today's announcement, your dividend just increased by nearly 17%.

Thank you for joining us, and now let's go straight to the Q&A.

Operator:

Thank you.

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

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

Konark Gupta:

Thanks and good morning, everyone.

Murray K. Mullen:

Morning.

Konark Gupta:

Morning, Murray. Murray, you mentioned the second quarter was pretty good, I know, but you also mentioned that you are seeing some stability across your business. I just wanted to dig in a little bit here, especially on the freight side. From what a lot of your competitors are telling or saying or reporting, it seems like we are still finding an inflection point in the market.

I just want to grab your thoughts, where do you see the stability and where do you see green shoots in your businesses today? What could be differentiating factors versus those competitors who are still struggling?

Murray K. Mullen:

Well, you're spot-on. It is that most of our competitor—and we're talking about our public company competitors, or those of us that are in the supply chain, logistics, it doesn't matter if it's rail or my fellow competitors in trucking, blah, blah, blah. But at the end of the day, I think all of us see the same thing at the same time today, which is, the market, it looks like demand is stabilizing. It doesn't appear to be going down anymore, which is really good news. The supply chain issues have generally been resolved. That's the good news, Konark, is that it's stabilized.

The other part of that is, though, if you're in the wrong verticals, it's stabilized and it's crappy. Like, we're stabilized at virtually variable cost. If you're in the wrong verticals, it's still going to be a tough running, in our view. But not every vertical is in that position. Every vertical's got more competitive, but some have become ridiculously competitive. But for the general part, we have avoided investing in those verticals over the years.

But most of our competitors... Everybody wants it to improve, Konark. We do, too. But it's going to take some time for it to improve. Our point is, we think it's stabilized, and we think that the verticals that we're in and the businesses that we've got, they'll be able to hold their own. As the competition—the little guys are really getting squeezed, Konark, in this market, and customers will have no choice but to start migrating more towards the stability of those that are going to be around for the longer-term. That might take a couple more quarters, but it's just going to be part of the natural cycle, in our view, and we're situated pretty good.

Konark Gupta:

Okay, that makes sense. Thanks for that.

On M&A, if you, again, just help us map out the lay of the land. The new debt issuance and the impairment coming up in October, plus the facilities you have, net-net, it seems like you have maybe more than half a billion of capital to deploy. How do you want to allocate the capital here? Dividend obviously is growing, I don't think it's going to be a huge impact, or consumption on your capital, maybe. But you continue the buybacks. How much do you really want to put aside for M&A, and where are you seeing more imminent opportunities?

Murray K. Mullen:

Well, that's a really deep discussion that we have at the Senior Executive level, and at the Board level, too, which is M&A, which implies growth. I said that implies growth on the top line, it doesn't always relate and translate into bottom line on free cash. Acquisitions, particularly major acquisitions, are complicated, and we are extremely disciplined on. I do not chase growth. Every acquisition we do must have the ability for us to generate free cash over and above our cost of capital.

That's why we say to you, the easiest ones, the best ones, the ones that give us the best opportunity for us to drive margin growth is tuck-ins, because we already have the infrastructure in place, we already got great, seasoned Management teams, and all we've got to do is layer in more business to them. Realistically, you get rid of an undisciplined market player when you do that.

But doing big transactions, that's really not our game, unless we see one that is really, really strategic. That might be LTL, as an example, as the last big one we did, Richard, was Gardewine, and that was...

Richard J. Maloney:

Yes, 2015.

Murray K. Mullen:

...2015, in the LTL business.

Richard J. Maloney:

Yes.

Murray K. Mullen:

We're picky. We're not going to lose that discipline; I can tell you right now. That's not going to happen. Every acquisition that we do, we will do it to drive margin improvement. I'm not doing it just for top line growth, that's a fool's game in my view, and we're not pursuing that strategy. That means we've got lots of capital available. Carson just explained that; we got a lot available, and we can use that to continue to invest in the strong business verticals we've got and some tuck-in acquisitions, and we'll give the rest of the money back to shareholders.

Then when you give it back to shareholders, it's either through a dividend or share buyback, and I think with the dividend increase we've highlighted, is that of the little shareholders that we've got, the individuals that invest in our stock, and we have a lot of them, the dividend is very, very important to them. We've got some big shareholders, big funds that are in us; that's not important to them. But to the small investor, the increased dividend is very, very important. We took the path that says, "You know what? We're going to look after the little shareholder," and we gave them a nice return because our balance sheet's in great shape and our business is solid. That's our strategy.

Konark Gupta:

That makes sense. Thanks so much for your answers. Thank you.

Murray K. Mullen:

Yes.

Operator:

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

David Ocampo:

Thanks, good morning, everyone.

Murray K. Mullen:

Hey, David.

Carson P. Urlacher:

Morning.

David Ocampo:

Murray, just speaking of verticals that are operating on thin margins, I think in your MD&A, you guys did call out exiting some businesses in the Specialized and Industrials space that aren't meeting your return threshold. It may be a bit too early to comment on it, but maybe you can speak to some of the general pockets that you're seeing that are no longer attractive, and maybe even commenting if that's a large portion of your S&I book.

Murray K. Mullen:

On the verticals, there's two parts to the verticals that don't meet our thresholds. One is, we just don't have any businesses that aren't generating some type of cash; we'll shut them down—we don't wait on them.

Where we get concerned, David, as we start taking a look, and this is primarily in the Specialized side where future capital requirements, we don't know whether the market will be able to justify those capital replacement cycles, so we've said, "Well, we might as well cut bait," and our OK Drilling and Treo Drilling, Richard, are prime examples of that.

Richard J. Maloney:

Right.

Murray K. Mullen:

We just said, "You know what? There's no growth. They might need more capital in a year or two." We just said, "You know what? We're not going to support the new capital, so we might... If you're not going to support it, you might as well get out of it.

That's what we're going to do, and we'll just have a transition plan for some of them. Those are not big verticals for us, David. Those are involved in—were involved in the heydays when drilling activity was very strong, they made us a ton of money, but right now they're breakeven. But pretty soon, they're going to need new capital, and I said, "You ain't getting it." So we might as well just take them to Richie Bros and sell the assets, and we'll redeploy that capital somewhere else. Right, Rich?

Richard J. Maloney:

Absolutely.

Richard J. Maloney:

Well, and part of that is, if that comes back, the people—it's hard to get the people as well. We just looked at the winding this down, and hey, it was a different day and a different time. In terms of how it will impact Specialized and Industrial Services, Carson, it's very de minimis, virtually nothing, because we haven't been busy in those operating lines for the last few years.

Carson P. Urlacher:

Yes, that's correct, Rich. Those two business lines haven't really generated much, if anything, over the last couple years.

Murray K. Mullen:

Yes, but they haven't really cost us much, David. But what we're concerned about is that the capital replacement cycle's starting to come in and there's not enough activity in those for us to justify new capital. That's primarily why we decided to streamline that down in those.

I think the other thing...

David Ocampo:

The thing about that...

Murray K. Mullen:

The second part of your question I think had to do with... Was it share buybacks?

David Ocampo:

No, but I think that was a Konark question.

Murray K. Mullen:

Yes, okay.

David Ocampo:

Just shifting gears here, ContainerWorld is now under your corporate umbrella. But if I take a look at the margins, they're already pretty close to the LNW Group average. Maybe you could walk us through some of the operational improvements that you've already identified and where you see margins ultimately going once it's fully integrated?

Murray K. Mullen:

Yes, so let's just be clear. Yes, they've got margin, but those margins has been eaten up by your right-of-use assets, right, Cars? Which is really leased facilities. The Company's paying its bills. It's generating enough cash to pay its bills, but it doesn't generate free cash yet. That's where you can get a little tricked by IFRS rules, right?

David Ocampo:

Right.

Murray K. Mullen:

It generates the EBITDA, it pays all of its bills, but it's not generating free cash, that's where we come in, as the senior team, is that we will work with them on how to drive better business processes, better measurement, and a better focus on bottom line. That's where our investment, the capital investment we made in the shares we will get that returned for our shareholders. We have a long history of improving performance in the business units that we acquire, and that will be, I'm pretty sure, the same at ContainerWorld.

But they've got to move away from running the business just to pay their bills, to where we generate free cash, and that's our job. That's what shareholders pay the senior team to do.

David Ocampo:

In terms of timing of the integration process...

Murray K. Mullen:

It's covering its bills, it's... Yes, David, it's...

David Ocampo:

Yes.

Murray K. Mullen:

...covering its bills, it's covering all the lease payments on a cash basis, so it's not a cash drain. But we don't invest to break even. We invest to make money. That's why we focus on free cash. We just saw so many opportunities there when we did our due diligence, and there's some low-hanging fruit that we'll get in the short-term, and early next year, and then process improvements will drive margin improvements for many, many years for our shareholders, because it's a great vertical to be in.

Richard J. Maloney:

If I can add, David, as we take that line, as we've articulated in prior calls, that is a very difficult business to get into, because of the sufferance bond requirements to bring alcohol and wine into the country and to move that around, and the requirements to provide all the payments, the excised tax and so on. We have a very, very strong presence with roughly 1.3 million square feet of space in B.C. that gives us a great opportunity.

When we bring our discipline to this team, and we have a very eager Leadership team that is looking to move forward on a go-forward basis here, so we're pretty excited about the opportunity. It will take time, but we think it's a great opportunity.

David Ocampo:

Okay, that's all I had for you guys, but that was perfect.

Operator:

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

Cameron Doerksen:

Yes, thanks. Good morning.

I just wanted to maybe ask a little bit about the full-year outlook. I mean, obviously, Q2 was a pretty solid quarter in a tough market. But beginning of the year, you highlighted a target of \$325 million in EBITDA. I'm just wondering what your updated thoughts are on hitting that number, and on hitting the broader targets as well?

Murray K. Mullen:

Yes. Cameron, I think that, once again, you'll probably take a look, and at the end of the year it'll all shake out. Personally, I doubt if we're going to be far off, the \$325 million is what we highlighted. That was totally predicated upon the fact that we thought the first part of the year would be difficult; we cautioned everybody, "This is a difficult market." In fact, I would highlight that many of our competitors, both sides of the border here, North and South, were way more optimistic about the economy than what we were. We were just very realistic.

We did say, "But it won't last forever, but the first part's going to be tough." Well, guess what? The first part was God-danged tough. But the central bankers will have no choice but to lower interest rates, and the governments will have no choice but to help the consumers on the lower end of the scale, of the average consumer that just grinds it out every day, they'll have no choice but to help them. That will stabilize our business and we'll be just fine, is our view.

Yes, I think the full-year outlook is pretty much... I feel pretty good about that. We're clearly on a path now, 500 again, Carson, and I think we've always said, Cameron, that the third quarter is now—traditionally has been our stronger quarter. I would expect that will show up in the score, because as Carson reiterated, even in the second quarter, if we would've had ContainerWorld in for the full quarter, we would've had \$505 million, \$507 million. We would've been up nicely on revenue.

I don't see much change. I see the market's pretty stable right now, so that implies we're generating, Carson, somewhere around \$8 million, \$8.1 million.

Carson P. Urlacher:

Per working day.

Murray K. Mullen:

Per working day.

Richard J. Maloney:

Of revenue, yes.

Murray K. Mullen:

Of revenue, and those kind of things, so I think the... Then if we do additional M&A, that will up our full-year guidance...

Cameron Doerksen:

Okay.

Murray K. Mullen:

...that we had at the start of the year.

Carson P. Urlacher:

Cameron, if you look at our trailing 12 months OIBDA, or EBITDA, we're sitting right around \$320 million, so you're right in that ballpark of what we articulated at the beginning of the year. We're coming into the back half of 2024, Q2, we were virtually—we were up a little bit in EBITDA this quarter compared to last year. The trend is very close to what we articulated when we came out with the budget in January.

Cameron Doerksen:

Okay. No, that's very good. Maybe just a quick follow-up just on the M&A and balance sheet, just wondering what your comfort level around leverage is at this point? Obviously you've got a little more stable market, free cash flow is good, but just wondering where you would potentially take the leverage to if you were to get more aggressive on the tuck-in M&A?

Murray K. Mullen:

I think it would be a major transaction. I don't think we'd be comfortable in doing them on these. We've got lots of bank lines available, but we'd be awfully careful of stretching that over too much, Cameron, to be honest. If we see a great op—like a superstar opportunity, yes, we will stretch, and then we'll go back to shareholders and say, "Look, let's do it again."

But you know what? I can tell you, we can continue to do tuck-ins all day long with the balance

sheet we got and with the cash we generate, and that will help us drive our revenue growth, but more importantly, drive our margin improvement. Don't look for us to go do a monster deal. We've grown... You know what? We've doubled the Company since COVID hit, since 2020, revenue side and everything else. We've grown a whole bunch and whatever, where we're now focused 100% on margin improvement.

In fact, if you go to margin, in 2020, our operating margin was 21.4%, and then we grew like a son of a gun, and we acquired companies, and we're still working on improving the margins of these business units. We hit the low point in '23 at 16.9%, but we're on our way back up; 17.3% this quarter, and in fact if you back out our U.S. 3PL business, which is a low-margin business but has no capital requirements, we'd have been 18.9%. Our focus is, right now, 100% on operating margin, not growth. Cameron, we've already done the growth, we're just going to make more money now. Then when we get more money, we'll give it back to shareholders, probably in the form of dividends, to be honest with you. As we've highlighted.

Richard J. Maloney:

Cameron, I think it's worth pointing out as well, in terms of M&A, the phone, the emails are constant right now, with smaller, medium-sized companies who are looking to sell. Because as we projected and prognosticated, the operating environment is very difficult now, with higher interest rates, labour costs that are sticky. Everything costs more and these people do not... Our smaller enterprises cannot, do not want to compete anymore. We get calls virtually daily, "I'm looking to sell."

We will not buy them all, but we will look at ones that tuck-in, and then tuck-in implies... Doesn't mean we're going to go and overpay for them. I'll use B&R as an example. Last year we bought B&R. We looked at it to see our operating results within the LTL side, which, as we pointed out in the report, MD&A, then we tucked them into Hi-Way 9 and Grimshaw, which both reported improved results. We are now going to destinations with fuller trailers, that's called length (inaudible 38:56), load factor.

Those are the types of M&A opportunities we're going to look at, not some giant deal that's going to stretch our... After we've done all this work getting our balance sheet in order, we're not going to stretch that.

Murray K. Mullen:

Yes. The easiest way for me to really summarize it, Cameron, for everybody that's on the line and all of our shareholders, investors, we're not going big game hunting. We're going to be pinpoint accurate, and we're out to improve margins. Hopefully that clarifies our M&A strategy for you.

Cameron Doerksen:

Absolutely, it makes total sense. Appreciate the colour. Thanks very much.

Murray K. Mullen:

Thank you.

Operator:

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

Walter Spracklin:

Yes, thanks very much, Operator.

Murray, I'm going to ask kind of the same question but more in the context of your share price. You're obviously having a good run here today, but still, even after today's run, it's only up 3% year-to-date. Your valuation, you've got 11% free cash flow yield now. You're trading at, by my metric, a 40% discount to your two Canadian peers. You're not getting the credit for... When I look at your business, you pointed to a stabilized market, but you've done a fantastic job at managing your cost base. Your margins are poised now for any macro growth that comes along. It should come with nice operating leverage. Your debt leverage is reasonable, it's even opportunistic.

I'm struggling to see, with the valuation levels where they are, what causes it? It goes back to M&A. You want to garner some attention in your share price, and tuck-ins, I hear you, they're the way to low risk capital allocation. But I'm wondering, you mention if a larger, good opportunity came along, I think certainly that would be a catalyst and garner some attention. Do you start looking a little bit more, I don't want to say broadly, at those type of opportunities, that maybe that acquisition maybe is not in your core market but maybe adjacent enough to open up a new growth avenue for you? Is that something you'd contemplate, going adjacent with a larger transaction?

I remember back in the day, you had made a run at Livingston, right? That kind of thing. Is that in the current at all? I'd just love to hear your thoughts on that in terms of the catalyst to get that valuation addressed.

Murray K. Mullen:

Yes, so that's something we talk about here; that's something you and I have talked about and others have talked about. But here's the facts: we've doubled the Company since COVID hit, so we've done a lot of acquisitions, and I don't think we really got a lot of credit for it. I can't understand this thesis that, "Well, you're not going to grow." I said, "Well, we doubled the Company in about four years. How is that for growth?"

Will we do additional ones? Yes, we'll do them, if they're the right ones, Walter. But we are not going to do an acquisition to show top line growth. I'm not interested in that, one iota. Here's what you need to think of our Company. We're not going to be this fast-paced growth. I'll tell you what we are. We focus and we study like a son of a gun, ODFL, Old Dominion Freight Lines.

Walter Spracklin:

Mm-hmm.

Murray K. Mullen:

I've known them for years. I love this, and the senior team has heard me here. Okay. We've now got huge critical mass. We're at \$2 billion in sales and a little bit more, and I love what ODFL does. Now, ODFL is maybe \$5 billion, maybe \$5.5 billion in the U.S., so us at \$2 billion, we're bigger on a relative basis, because we're just in this small little market called Canada.

They make money, and they do not chase acquisitions, Walter, they chase margin. We are chasing margin. We just happen to be in more verticals than ODFL because they've got 350 million people, but they're not growth hogs, Walter. They are just a great company, and that's what we are. That's what we're going to focus on.

Walter Spracklin:

What I'm hearing is you want to focus on being a great company in your core market, that you could parlay that into an adjacent segment that has great returns. Again, I go back to when you took a run at Livingston. What caused you to do that? Do you look back at that and say, "Okay, you know what? I probably wouldn't have done that if I had my time back." Or is that just... What I'm asking is, is there another Livingston out there that might lure you into an adjacent market if you saw the same type of shareholder...

Murray K. Mullen:

Yes. Yes. If we saw a vertical that we thought had the same opportunities that, say, LTL did in 2012...

Walter Spracklin:

Yes.

Murray K. Mullen:

...when we really started to...

Richard J. Maloney:

Yes.

Murray K. Mullen:

...go into that. LTL was a vertical that I thought was ripe for consolidation, and...

Walter Spracklin:

Yes.

Murray K. Mullen:

...for margin improvement, whatever. That was over 10 years ago. Yes, so if we see another vertical like LTL that we think has a 10-year run and a long year run, that we can—it's under-appreciated, yes, we would make that investment and go back to shareholders and make our case for it. But those only...

Walter Spracklin:

Got it.

Murray K. Mullen:

...come around once in a while.

Walter Spracklin:

Yes, you're not actively...

Murray K. Mullen:

Yes. If we see...

Walter Spracklin:

...looking at anything there right now.

Murray K. Mullen:

Look, if we see it, we're going to do it. That's the discussion we have internally and with the Board and everything else. Of course we're going to continue to look at those. But those don't come around as often as... We're talking every 10 to 12 years. If it comes around, yes, we'll look at it, but let's not count on that. Let's count on just running a great business, improving margins over the next bit. If I see something opportunistic, you got it. I'll come and make my case.

Walter Spracklin:

Awesome.

Richard J. Maloney:

Walter, if I could add...

Walter Spracklin:

Yes.

Richard J. Maloney:

...one in 2009, when we looked at Livingston, right after the Financial Crisis, we saw the energy space starting to get... That was way back when Murray projected, "Hey, we're going to have problems in the oil space, energy, because we can't get stuff out of here." We looked at Livingston. Why? Because it's a different vertical that's tied to the bigger economy. We looked at it very seriously and took a run at it.

That demonstrates the forward thinking, in that we needed to diversify our business. We know we lost out to CPP IB and Sterling, who had an infinite chequebook, basically. But as we demonstrated, shortly thereafter, started pivoting to the LTL side.

Walter Spracklin:

Okay. All right. Appreciate the colour as always, guys. Thank you.

Murray K. Mullen:

Thank you.

Richard J. Maloney:

Thanks.

Operator:

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

The next question comes from John Gibson with BMO Capital Markets. Please go ahead.

John Gibson:

Thanks and congrats on the strong quarter in a tough market. I'll ask Walter's question in another way. Wondering if you could talk about internal discussions around the dividend increase versus share buybacks, and just given where your valuation is, you're holding quite a bit of dry powder, and you've talked about tuck-in M&A. But could you potentially look at something like a SIB, just given where your valuation is sitting?

Murray K. Mullen:

Oh, we talk about that, John, all the time. That's a question that we get, and I don't know if there's a right or wrong answer to that. But under our NCIB, over the last number of years, Carson, we've bought back roughly...

Carson P. Urlacher:

Just shy of 19 million.

Murray K. Mullen:

Just 19 million shares.

Carson P. Urlacher:

For about \$200 million.

Murray K. Mullen:

Let me flip it around on you, John. I would say, okay, if we bought back 19 million and we spent \$200 million, which obviously meant we generated free cash, to be able to buy it back, and our stock price doesn't really reflect... I think, why are we doing a bunch of share buybacks? The problem is, when you do a share buyback, is you lose eyes that are following you. You know what? We're going to focus on the little investor, and we're going to reward them for their loyalty with a higher dividend. That's our primary focus right now. You're going to get paid more, and we're going to generate free cash. That's what we're all about, and then we can give that back.

But share buybacks, I don't know if they're working. I'll be blunt with you.

John Gibson:

Okay, that's fair. Second...

Murray K. Mullen:

We're going to find out whether shareholders want more money paid to them every month, which is dividends. I know our employees want more money every month, and I'm probably betting that the individual shareholder—and we've got lots of small shareholders. I guarantee you they're happy today. Some big funds, eh, they're probably not going to be happy with us. "Hey, you should buy back the stock from me," so they can go invest in something else. You know what? Okay, yes, but it's not working for us.

I think you should be... But we're going to make as much money as we can, and we're going to give it back to shareholders with an emphasis more on dividend rather than share buyback. That's probably our strategy for the next bit.

John Gibson:

Okay, great. Last one for me, something that hasn't been really touched on. We're seeing strong energy-driven activity in the WCSB and it's obviously showing up in your results. The outlook, from my perspective, also looks strong, into 2025. Could you see yourselves putting more capital to work here, or even looking towards...

Murray K. Mullen:

Yes.

John Gibson:

...some M&A in the segment, or is... Okay.

Murray K. Mullen:

Yes. Yes. Remember what I said in my comments about the S&I segment? I said, "Over the next few quarters and the next few years, I do suspect that we're going to have to have a capital replacement cycle in that business." And that implies in our margins. That's why we like S&I as a vertical in our Company. Yes, I see pretty good opportunities there. LTL is rock-solid. That's only going to get stronger as we continue to do tuck-in acquisitions in LTL.

Richard J. Maloney:

We love it. We (inaudible 50:10)...

Murray K. Mullen:

We've just proven it over and over and over again, so we'll stick on that game plan, Cars, Rich.

Richard J. Maloney:

Yes. Yes.

Carson P. Urlacher:

Yes. Absolutely.

Murray K. Mullen:

We're focused on that. S&I, we think has got good potential, because we're going into a capital replacement cycle in that segment, and that implies some growth and some higher margins. We like that. Logistics and Warehousing, that's the big market, and we will invest where we see opportunity for us to get some good moats on that. Then even our U.S. 3PL. We like what we're doing down there. We've got a great team down there that's got a new business plan, that we're going to really expand the sales agent (Multiple speakers 50:59)...

Richard J. Maloney:

Yes, (Multiple speakers 51:01)...

Murray K. Mullen:

...market, as our major... The big 3PLs are laying off 50% of their sales staff. We're not, and we're creating opportunities for these people that have been laid out, and we're giving them an opportunity to be the "Uber salesperson", if you will, because we have the technology platform and we are doubling up our investment in that to make sure that we...

Richard J. Maloney:

SilverExpress.

Murray K. Mullen:

In SilverExpress. We've got the right tools for that market. We're okay with where we at, we like our business model. We've got 40 business units. We've got lots of work to do to help each of them improve margin, and when we do, we're going to give more back to shareholders.

John Gibson:

Okay, great. Great quarter. I'll turn it back.

Murray K. Mullen:

Thanks so much.

Operator:

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

Tim James:

Thank you, good morning.

I just have one question, Murray, just a big picture question. When I think about the quarter and the performance, organic revenue was down. You had some headwinds from acquisitions and a bit of dilution while you get those streamlined, and yet your overall margin was up 40 basis points year-over-year. You also talk about capital equipment spending headwinds and consumer headwinds. Should we be thinking about that improvement in your margin percentage, is this just because—and I'm oversimplifying a little bit, but you guys were really just ahead of the game and getting ready for this, and so you were one step ahead with the cost structure, or are there places you're getting some pricing as well that may be helping offset all these headwinds?

Murray K. Mullen:

No pricing. I will tell you right now, no way, that the market, we've entered virtually a deflationary cycle, Tim. No pricing, or I'd say minimal. In the LTL you get some minimal pricing. But let me just highlight, no pricing improvements at all on the cost side, and it's all on synergy. Get your costs down and focus, focus, focus. Then you get costs down, because unfortunately, when we did B&R, I think we had...

Richard J. Maloney:

Fifty-plus.

Murray K. Mullen:

...Fifty...

Richard J. Maloney:

Plus, yes.

Murray K. Mullen:

...Fifty-plus people that were redundant as part of that acquisition. We know it going in, Tim, but unfortunately, 50 people had to find employment somewhere else but not because of... It just wasn't at any value, and we were able to layer that into our network.

When you talk about synergy, really what you're talking about, you're talking about less people and fewer turnarounds. That's what we mean by synergy. But the vertical, it's all the verticals you're in, of whether you can drive margin improvement by getting more critical mass and more operating efficiency. There is no pricing leverage in this market. That maybe comes later, '25, '26, as the market, as the competition just falters. But for right now, we're not counting on that. It's all operational efficiencies and watching your costs like a hawk.

As you said, yes, we prepared our business units, going back to—we hold our budget sessions in September of each year, and we'll be outlining our game plan to all of our senior teams in September of this year, what we expect for the next year. That's our job as Senior Executives, is

to prepare our business units, and their job is to execute with the market that we've got. But we caution everybody, don't count on pricing yet. It's not here yet. No way.

Tim James:

Okay. Well, that's great. Congratulations. I mean, it's working well.

Murray K. Mullen:

Yes. Thanks, Tim. (Multiple speakers 54:57).

Tim James:

That's the only question I had.

Carson P. Urlacher:

Tim, I would also add that, we've really got to tip our hats to our business units. You look at the performance that they've done, these are long tenured people that have been with us through many cycles. They've seen this before. They know how to react and know how to make the changes that are needed. Them and their executive teams at each of our business units are—really, we've got to tip our hat to them too.

Tim James:

Great. Okay. Thank you.

Murray K. Mullen:

Thanks, Tim. Cheers.

Operator:

This concludes the question-and-answer session.

I would like to turn the conference back over to Mr. Mullen for any closing remarks. Please go...

Murray K. Mullen:

Thanks for joining us, folks, and we'll look forward to chatting with you in, I guess late October, right, Cars?

Carson P. Urlacher:

Yes. Yes.

Murray K. Mullen:

Until then, we're going to be working with our business units to focus on our game plan and go from there.

Thanks for joining us. Appreciate all the commentary and good questions. Cheers.

Operator:

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