The Mullen Group Limited
Third Quarter 2024 Earnings Conference Call Transcript

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Speakers:

Murray K. Mullen
Chair, Senior Executive Officer and President

Carson P. Urlacher
Senior Financial Officer

Richard J. Maloney
Senior Operating Officer

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

Murray K. Mullen:
Thank you and welcome to Mullen Group's quarterly conference call.

Once again we'll provide shareholders and interested investors with an overview of the third quarter financial results and, in addition, we will discuss the main drivers impacting these results, our expectations for 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. These 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.

With me this morning, once again I have the full Senior Executive team. I have Richard Maloney, Senior Operating Officer; Joanna Scott, Senior Corporate Officer, and Carson Urlacher, who is the Senior Financial Officer.

This morning, what happened in Q3 '24 in terms of our financial and operating performance? Well, the three main topics that we'll be discussing this morning, and then we'll turn the call over to the Operator and we'll go straight to the Q&A session. I'll begin with the call with talking about the macro environment that we had to migrate through last quarter, along with discussing what has changed year-over-year. Then I'll turn the call over to Carson Urlacher, who will provide an overview of the third quarter financial results. I will remind you, for those interested in detail, we have posted the MD&A, a detailed 60-page report covering all aspects of the results and balance sheet, both on our website, which is www.mullen-group.com, and on SEDAR+. After that, we'll close with a discussion on the macro environment as I see it and how our results might be affected for the rest of the year. Then we'll go to the Q&A session.

Let's talk about the macro environment. Last quarter, you'll recall that I stated that really in our markets that kind of everything had changed, acknowledging the fact that the market is different than last year, in fact the last two years. Under this scenario, it would be reasonable to expect that results would be different than in prior years. This is precisely the case with the results that you're seeing for most carriers and from ourselves. Except for one reason, and that's acquisitions. I've commented that I think acquisitions were the only way you could grow in a no-growth economy.

We were right on the first and perhaps we were one of the very few public companies to acknowledge that acquisitions would be the only way to grow given the market fundamentals, and we didn't see a whole bunch of reason to change that from the internal market dynamics that were going on.

In early '24, after we were comfortable with the prospects of strengthening the balance sheet with a new and expanded bond issuance, and we expected a meaningful acquisition—we executed a meaningful acquisition, finding what we believe is a real market leader in ContainerWorld. On that, ContainerWorld has a significant presence in the beverage and alcoholic vertical in the province of British Columbia. They generate around $120 million of annual revenues. They operate as a freight forwarder. They operate a customs bonded warehouse, and they are a delivery company. These are three attributes that we consider crucial to being successful in this market.

We also know we've got lots to do with this business to make it a profitable venture for our shareholders, and we'll turn our focus and attention to that in 2025 and beyond. It will take a while to change the culture to one of cost-driven and be very focused on those kind of things, but for right now, thus far we've been focused on making sure that there was a smooth transition from a customer perspective. Next year, we're going to focus on the cost side, as I talked about, and that's really kind of come from a combination of investing in new operating assets, technology and some business process improvements.

But I've got to tell you, I think there's more to our results in Q3 than acquisitions. We could not have achieved record revenues and near-record profitability if our existing 39 business units did not manage the challenging market conditions as well as they did. A big shout out here to all of our business units. Your hard work and disciplined cost management initiatives are a big reason MTL had a very good quarter.

Now, we also know that solid senior leadership must also be accompanied by investments in the right verticals in order to achieve solid results today. I've commented many times, there's lot of really good operators in our business, but if you're in the wrong vertical you're trapped right today. I continue to state the case of the strategy because not all verticals are created equally. Now, you may recall that over the years we've built a large, diversified organization by focusing on acquiring quality companies and that operate in verticals of the economy that we believe are sustainable and where we can achieve acceptable rates of return. This means we must be disciplined and not chase incremental revenues streams simply for top line growth.

Our strategy to invest is where we generate acceptable returns on capital for our shareholders,. For example, let's consider the LTL segment. Not only is this business in one of the most stable parts of the supply chain, but it also offers in our opinion the opportunity to expand margins through a combination of tuck-in acquisitions that help us drive scale through the introduction of new technologies at reduced cost, and something that really the smaller competitors just simply cannot implement, and we focus on yield management. I think there's some evidence of this strategy's working and I refer you to our Q3 operating segment results where operating margins in our LTL segment actually increased year-over-year by a healthy 1.1%.
Pretty impressive given that the economy is stuck in neutral.

The discussion on the market trends last quarter is also relevant to our performance last quarter, so I'll highlight a few of the challenges our business units had to deal with. Let's start by looking at the overall economy. Central banks have successfully brought inflation to the 2% range, but this has only been achieved by slowing the economy through a more restrictive monetary policy and our interest rates. These initiatives have resulted in virtually no growth in the economy. But, it has not collapsed the economy either. We also know that the consumers' pocketbook has negatively been impacted by yesterday's inflation, which I call the worse tax of all on the vast majority of society and high interest rates. In other words, consumer spending has moderated as compared with prior years, and what this means for the freight and logistics business is that overall demand is softened from heightened levels of '22/'23.

But I always say this: Demand only tells one half of the story; supply is the other. In this case, it's pretty evident there's more supply today than there was two years ago, and this means there's only one outcome—pricing comes under pressure. I would argue that this is now the Achilles' heel of the freight and logistics business. There's freight to haul but the rates are too low for the cost structure the industry is burdened with today, and customers have been quick to bite on the low rates, giving precious little credence to long-term relationships or quality.

This explains why it's difficult to maintain margins today in most verticals. This in turn exposes the business models that are too dependent on full truckload market, as an example. But—and perhaps this is the good news—nothing lasts forever and I'll have more to talk about this topic in the outlook section.

In summary, nothing really surprises this quarter. Not the market fundamentals, not the economy and not the performance of our business units, which are professionally managed and focused on generating the very best results they can.

I'm now going to turn the call over to Carson for more on the Q3 financial analysis. Carson, you are up.

Carson P. Urlacher:
All right. Thank you, Murray, and welcome everyone. As Murray mentioned, I will focus on the highlights from the third quarter, the details of which are fully explained in our Third Quarter Interim Report.

I thought this quarter it would only be fitting for me to first talk about the balance sheet since we closed a $400 million 10-year private placement debt financing in the quarter. This new financing enabled us to end the quarter with $344.4 million of cash on hand. Earlier this week we used $217.2 million of this cash to repay some previous notes that came to maturity. After this week's repayment, we now have approximately $130 million of cash on hand. We also have access to $525 million of undrawn bank credit facilities, providing us with ample liquidity.

In terms of our debt covenants, we have lots of room available. We effectively have one main debt covenant, which is total net debt to operating cash flow. Once adjusted for this week's debt repayment, our total net debt to operating cash flow covenant is 2.26:1 and 2.54:1 under our new 2024 note agreement and on our previous private placement note agreement, respectively.

The total net debt to operating cash flow covenant is calculated differently under the new 2024 note agreement compared to the previous private placement debt agreement, the main difference being what is considered debt for covenant purposes.

Under the new 2024 note agreement, lease liabilities with respect to real property is excluded from debt, while our $125 million of convertible debentures is now included as debt for covenant purposes. These two items differ from the previous private placement debt agreement.

Our $130 million of cash is not reflected in this covenant so our covenants would actually be lowered even further once our cash is deployed to generate new operating cash flows.

Excluding lease liabilities with respect to real property under the new 2024 note agreement provides us with greater flexibility in positioning our existing business units into strategic facilities, and provides greater optionality when it comes to making long-term investment decisions with respect to acquisitions. Our new blended interest rate, excluding the notes that were repaid this week, is approximately 5.3% per annum.

In summary, our balance sheet is once again well structured and positions us to make long-term strategic investment decisions with over a full turn of room available on our debt covenants and cash available on the balance sheet to grow.

Now to our operating results. The third quarter highlights that really stick out are that we generated $532 million of consolidated revenue, a record compared to any previous quarter. We generated a very respectable $95.3 of OIBDA, which is the third highest OIBDA compared to any previous quarter. We generated net cash from operating activities of $66.2 million and our return on equity was 15.3% in the quarter.

Earnings per share also remained consistent year-over-year at $0.44 per common share. A very solid quarter from a financial perspective considering current market conditions.

I'll go through the results by segment shortly, but overall theme is as follows. Top line revenues grew due to the acquisition of ContainerWorld. We entered a new vertical of the economy at a reasonable valuation, giving our organization a new platform and opportunity for future growth. We also improved operating margins that resulted from the combination of our tuck-in acquisition strategy, from the niche markets we serve, and from the diversity of our 40 business units.

In the third quarter, revenue per working day improved by approximately $500,000 per working day to $8.6 million, with revenue peaking at $8.9 million per working day in the month of September. From a seasonality perspective, the revenue trend continues with Q3 typically being the strongest quarter of the year.

We generated OIBDA of $95.3 million, an increase of $6.7 million compared to the prior year, and this is the second highest Q3 ever recorded, second only to Q3 of 2022. Acquisitions added $6.4 million of OIBDA. We also experienced improved results in the LTL segment and in the L&W segment excluding acquisitions. These increases were somewhat offset by lower OIBDA in the S&I and US 3PL segments, and from higher corporate costs.

Operating margin improved to 17.9% as compared to 17.6% last year, despite more competitive pricing conditions in certain markets and a reduction in higher-margin specialized business.

Direct operating expenses as a percentage of consolidated revenue decreased by 1.3% as our business units did a great job adapting to 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 a negative variance in foreign exchange.

Now, let's take a look at how we did by segment. First, our largest segment, revenues in the LTL segment were $188.7 million, down $5.5 million from last year due to a softening in the overall freight demand, from demarketing underperforming business, and from a $1.6 million decrease in fuel surcharge.

OIBDA was $35.7 million, up $1.2 million from last year despite lower segment revenue. Operating margin improved by 1.1% to 18.9% due to the tuck-in of B&R's LTL operations into our existing network, driving greater lane density as well as using our existing technology platform.

Our second largest segment is our L&W segment. Revenues in the L&W segment were $168.9 million, up $31.8 million. Acquisitions added $33.6 million of incremental revenue, which was somewhat offset by lower revenue generated from our existing business units due to the lack of capital investment in the private sector from competitive pricing in certain markets and from shippers electing to keep a tight rein on inventory levels.

OIBDA was $35.2 million, up $8.4 million from the prior year, with ContainerWorld adding $6.4 million of incremental OIBDA, while our other business units added $2 million of OIBDA due to more efficient operations.

Operating margins improved by 1.3% to 20.8%, primarily due to lower direct operating expenses.

Moving to our S&I segment, revenues were up $6.4 million to $131.8 million due to increased activity levels in the Western Canadian Sedimentary Basin. The diversity of our 17 business units within this segment led to higher revenues.

Our Production Service business units benefited from certain projects related to facility maintenance and plant turnaround work. Our drilling-related services business units also saw an increase in demand for their services. Somewhat offsetting these increases was a reduction in revenue of Premay Pipeline due to the completion of the TransMountain and Coastal Gas projects.

Canadian Dewatering experienced lower demand for dewatering services, and Smook Contractors also experienced lower demand for civil construction services in Northern Manitoba.

OIBDA was $28.5 million, down $1.2 million from last year, due to lower OIBDA being recognized at Premay Pipeline and Canadian Dewatering.

Lower OIBDA was also experienced at our drilling related service business units as OK Drilling experienced certain one-time wind-up costs.

Operating margins decreased by 2.1% to a respectable 21.6% due to the reduction of higher margin business and from higher S&A costs.

In our non-asset based U.S. 3PL segment, revenues were $45.7 million, a decrease of $3.1 million from last year, due to the ongoing issue of operating in a higher competitive market.

OIBDA declined to $0.3 million and operating margin on a net revenue basis was 7.5% compared to 25% in 2023. The decline in operating margin was primarily due to S&A expenses—higher S&A expenses as a percentage of segment revenue.

In summary, a very solid quarter from both an operating and financial perspective. As well as exiting the quarter with a balance sheet that puts us in a very enviable position, going forward with cash on hand, lots of room available on our debt covenants, undrawn bank credit facilities, and long-term notes in place at decent rates that mature in 10 years.

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

Murray K. Mullen:
Thanks, Carse.

Now, as I look to as to what's going to happen in the outlook over the next ten months and think about the near term, personally I don't see much that's going to change in the near term. Demand has definitely stabilized over the last quarter or so in most verticals, but as I noted in my earlier commentary, pricing is currently kind of the Achilles' heel of the majority of the industry right now. It's very price competitive in a lot of verticals. This is what I now describe as maybe a structural issue for the industry, and if my analysis is correct then it's going to take some time for the industry to come to its senses and price to generate a return rather than priced to gain market share. This is a strategy that simply is not sustainable. Eventually we know that it will revert to the mean, but we've got to get some common sense that returns to the market by many of the industry players.

With this as the backdrop, let me just reiterate that our strategy, our focus has not changed. We continue to keep a tight rein on costs. We'll work with our customers to help streamline their supply chain needs, but we need to be profitable, and of course we will pursue acquisitions that meet our base criteria.

We also know that the independent business model works for us, and to this end I will tell you we just completed our bi-annual Insight conference. We brought together 160 of our business leaders to collaborate, to learn about what's going on with the latest trends like AI, and to hear from industry leaders like John Hinckley from FedEx. Now, his presentation about how one of the biggest and best logistics companies in the world is navigating these choppy waters was fantastic. We all learned from one of the best.

In terms of the four segments, let me share a few of the expectations. The less-than-truckload segment, that's where we still see the most stability, and because the smaller carriers in our network are struggling in this market, we think we can still continue to advance our tuck-in acquisition model, which can help drive future margin improvement, and that's through route, terminal and equipment rationalization. To that end, we've already completed or are in the process of completing three smaller tuck-in acquisitions, number one. Those will help our existing business units that we roll them into, to help them. That will continue to be a strategy for us going forward.

In the Logistics & Warehousing segment, we still believe that our core business units will perform well, and that's backstopped by the likes of Bandstra Group and Kleysen Group, companies that have unique and sustainable business models. We do not, however, believe that there are any internal, real internal growth opportunities for the foreseeable future. Growth in this segment is going to come from our acquisition of ContainerWorld and that will be for at least another few quarters.

We are, of course, on the lookout for other quality companies that will fit in our organization. Logistics & Warehousing, probably going to be up because of the acquisition of ContainerWorld.

3PL, HAUListic is currently our only business unit in the U.S. and 3PL International Logistics segment. They're going to continue to struggle until we can get some scale and size. Most likely it will have to come via acquisition of a complementary or a competitor business. Now, we have a solid senior team there. We've got a fantastic technology platform. We just need more revenue stream and they'll do just well, but our focus right now has been, folks, stay in your lane and keep working on that technology platform because that is going to be the future of HAUListic.

In the Specialized and Industrial Service segment, there is going to be some changes. Some of it is market-driven. It might be a little bit softer now that commodity prices have softened a little bit, but we're also doing some realigning within some of our business units, particularly those business units that are very, very capital intensive where we don't think that the returns on future are going to be good enough to justify future CapEx, we're going to realign and shutter a couple of those business units, like the OK and drilling groups. They're so capital intensive and I just don't think the returns are there to justify new capital, and we've got to give them new capital to be best-in-class. We've kind of decided. They're small business units; we're just not going to put more capital into those businesses. As I say, in our world, if we're not prepared to invest then we'll divest. The core of the segment, though, we still expect to meet our investment thresholds and we think that will be okay.

In summary, just before we go to Q&A, I'm going to say a little bit like what Carson said: We think we're in an enviable position here, especially within the context of the majority of our competitors and our peers. First, we have a very large and diversified portfolio of well-managed business units. They've been acquired over 30-some years and many are operating in verticals where the fundamentals remain pretty solid.

Secondly—and this is where we have a tremendous advantage—we have a well-structured balance sheet. We have no bank debt. All the long-term debt is interest only at what I believe is pretty attractive rates. And Carson, we're still sitting on some cash to be able that we can go deploy on some new opportunities.

With that, I know there's a number of you wanting to ask some questions, so let's move right into the Q&A session. Operator, I'll turn it over to you and let's go to Q&A. Thank you.

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

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

David Ocampo:
Thanks. Good morning, Murray and Carson.

Murray K. Mullen:
Good morning, David.

Carson P. Urlacher:
Morning.

David Ocampo:
I just wanted to first kick off with a question on the S&I segment. You just touched on it briefly there about the wind-down of TREO and OK Drilling. I was just wondering what the impact is going to be on revenue and EBITDA, and perhaps even the cost to wind down these businesses as it looks like you guys did incur some costs this quarter related to that.

Murray K. Mullen:
Not much on the revenue side. These are really small businesses today. There was a time TREO Drilling was just one of the really stars of our organization when there was a lot of delineation of oil sands work and they just did a fantastic job for us, but that's changed. There's no growth and there's no really drilling for—significant drilling for delineation on that. We're not going to put more capital into it. We really haven't had much revenue from TREO for three years, four years.

Carson P. Urlacher
Three years, yes.

Murray K. Mullen:
Yes, that's not going to impact us. OK is very small. What are they? About $4 million, $5 million a year maybe of revenue, and the impact on EBITDA will be virtually nil because they really weren't that profitable, and that's why we're saying, "Okay, we kept them around when we had really good people and those kind of things," but once you need new capital, I'm saying, "Well, if you don't make money with the capital we got you now, I don't know how you're going to make money with more expensive capital." Once our leader there decided he wanted to retire, we also retired along with him in that business. But it won't impact significantly either top line or bottom line.

Maybe we have some restructuring costs that came in in the quarter, Carson, of about half a million or something like that, that you've got to settle up and those kind of things, but once we sell the assets we'll recover that.

David Ocampo:
That's helpful. Then Carson, just quickly on the CapEx, it was a little bit light this quarter. It does seem like you're running behind the $80 million budget. Just curious if there's going to be a pretty big catch-up here in Q4? Or do you have a new number where you guys expect to land for the year?

Murray K. Mullen:
Well, yes, at the start of the year, I think our objective was $80 million.

Carson P. Urlacher:
It was, yes.

Murray K. Mullen:
Seventy was going to be for replacement and then $10 million was going to be for sustainability. But early on, we put everybody on a diet because we said, "Look, there's two fundamental reasons. One is you're not going to need new capital to grow. I can tell you that because there's no growth. And number two is, just be patient because the equipment valuations, they're coming down for new equipment." Yes, we just waited for prices to come down a little bit, and we were correct. Over the next bit, we'll start back into the replacement cycle, primarily because equipment values are coming down, so we can get more bang for the buck. There was no sense buying in

the first half of the year because we thought that prices were coming down and, sure enough, prices are coming down.

David Ocampo:
That makes a lot of sense.

Carson P. Urlacher:
I wouldn't expect us to hit that target, David, by the end of the year.

David Ocampo:
Okay. Sounds good. Then just last one here, just on the growth outlook. It does seem like it's mostly going to come from M&A, and you guys typically have always maintained discipline there and keep your multiples quite consistent. Just curious what seller expectations are now. Have they come back down to earth and are you starting to see more files across your desk, just given all the pressure that we're seeing with some of the smaller trucking operators out there in the marketplace?

Murray K. Mullen:
Well, first of all, David, you're right. We've been disciplined, and you can probably—all of our shareholders and potential investors can probably assume that we will continue to be disciplined. I don't think we're going to lose that.

In terms of sellers' expectations, I think it depends on what denominator you're using. You got to remember, most of the industry was really profitable in '22, '23, and we didn't bite. The reason was, I said this doesn't make sense. It's too good. I've been in the business too long to know that good times don't last for too long. We didn't bite.

Now you've got the rebound of those really good times, which is really difficult times, so the sellers' expectations have come down from the highs, obviously, but they're not making any damn money. I say to my shareholders, “Well, do you want us to go buy companies that don't make any money?” Well, that doesn't seem to make much sense. We’ve got to find ones that are tuck-ins where we can get rid of costs. I think that makes imminent sense, David.

Then secondly, we'll take a look at opportunities where we think the future is long and bright and then we can work through and help streamline those businesses and get their cost structures in line, i.e.. ContainerWorld. We know that the beverage and the alcohol vertical is going to be around for a long time, so all we have to do is work with that company to implement technology, streamline business processes and become more profitable. We'll look at those opportunities for sure.

Carson P. Urlacher:
And Murray, the phone and the other final point was, are there lots of opportunities. I mean, David, it’s daily. The opportunity is coming from all angles and sizes and shapes. But at the end of the day, as Murray said, we will pick the ones that work for us.

Murray K. Mullen:
I could tell you, David, I'd rather be sitting in our chair with cash and the opportunity to do deals than having to sell my business right now.

David Ocampo:
That's all the questions I had. Thanks a lot guys for the commentary. I always appreciate it. Thanks.

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

Walter Spracklin:
Thanks very much. Hi, everyone. Maybe a few rapid-fire questions here. I don't know how deep you want to dive, but really interested to see if, Murray, you're seeing any signs of life here in the overall macro. I know you said it was a fairly neutral environment in your statement. Could you touch on what you're seeing and any inflection in trucking rates? Any conversations with customers that might signal changes either direction in demand? Any of those factors getting you more or less optimistic with regards to kind of the outlook for the next three months to six months?

Murray K. Mullen:
Yes. Boy, that's one, Walter, that all of us struggle with. We think there's some structural things that have happened in the market, so you've got to be careful in most verticals.

Demand is—Walter, I think demand is okay. You can see from our revenue number, it's not a disaster and most—the rails and everybody else, the demand is okay to flat. It's solid, I think is the word that we use and many, many other people use. It's solid. I'd call it okay. There's no growth. We don't see that. Will low interest rates and other factors lead to more growth? Well, you've got a whole group of economists that will pick that. You don't need to hear from me on that.

But in terms of pricing, I've got to be honest with you. I kind of think we're in a really complicated market in terms of pricing. My primary thesis behind that is, I just don't think the average consumer can tolerate high prices today. They're strapped. I think there's been a compression of that and I think that could stick around for a while, Walter, and so we're being very, very cautious on that side. I don't see a big rebound in the rate side.

Now, if you said to me we're going to have a big reduction in supply, that the competition folds, there's huge consolidation, blah, blah, blah, then I can say, yes, that's where it is. Otherwise, you've got to rely on the thesis that they come to their senses, that you got to price to make a profit, not to gain market share. I wouldn't count on that for in the short term.

Walter Spracklin:
That's my second question, actually. It doesn't really seem that that's happening, right? You look at Pride. They go bankrupt, but there's still business as usual operating under restructuring and it just seems that there's more leniency or opportunity for those type of situations to prevail and remain and continue to kind of keep this excess trucking supply issue out there for longer.

Does that then—you said in your prepared remarks as well, you're going to kind of be patient and wait for those to happen. You just mentioned maybe there's going to be failures and consolidation, but it doesn't seem like that's happening. If that's not happening, does that adjust your strategy of waiting? Do you start to get a little bit more aggressive in terms of what you do if failures just aren't happening?

Murray K. Mullen:
We will only invest in verticals where we don't compete with the likes of Pride. I will not compete. There's no sense. You just explained why; there's no common sense and I don't see them going away anytime soon. We try and stay away from that type of market, Walter. We try and stay away from that type of market. We try and stay away from having to compete or do business with Amazon, for example.

When you hear me talk about verticals that have some competitive edge, that's what we search for here as this senior team. We're out there. We know which ones we want to go after and which ones we think have—don't have to, butt up against that competition every day, so LTL is our primary one, and then we look at verticals like we did with ContainerWorld where we go, “You know what? We've got a really strong position; we’ve just got to improve their margins. That's what this team is—we know what we're doing. We know what to look for. We know what to measure, and then we'll improve their performance. We're going to be—Walter, I'm going to continue to be picky because, you know why? It's served us well for 30 years as a public company.

Walter Spracklin:
Yes. That actually dovetails exactly into my next question, is the type of acquisition. Are larger deals in the space you're going after, do they exist, or is it just really just tuck-ins?

Murray K. Mullen:
Well, of course they do. There's larger deals that exist, Walter, absolutely.

Walter Spracklin:
In Canada, I mean.

Murray K. Mullen:
Yes, in Canada.

Walter Spracklin:
Okay.

Murray K. Mullen:
Of course, there's larger deals that would be strategic and then—but remember what I said. No market is going to stay down forever. No market stays up forever. No market stays down forever. Eventually you're going to have a rationalization that happens in the industry.

But one thing, I'm not looking for common sense from our industry, but I am saying to you, one of these days, they may not be able to get insurance because if you don't have a balance sheet, the insurance companies aren't going to take that risk. If you can't get insurance, you're not in the business. That may be the rationalizer of this business. If that happens, we'll have a very quick recovery in terms of rates because then all of a sudden customers are saying, “Well, I need you to haul.” Because there's demand. It's just currently there's just a little bit too much undisciplined pricing.

Walter Spracklin:
Yes. Last question now, as we go into 2025, can you give us some indication, either preliminary or indication as to if you're going to be coming out with your business plan as you have in the past? When you look out to '25, even just broad revenue and EBITDA metrics, consensus. Are

you comfortable with it? Anything. I think consensus around the $350 million level for EBITDA for next year?

Murray K. Mullen:
Yes. I hear what you're saying. I think we've got early December set as the time that we'll—we're in budget season right now with our business units. Our process here is we give guidelines to our business units, but we tell them it's your budget, that you better—go through it and then you've got to present it to us, us being the senior team. We then go through each budget and question their rationale and all those kind of things, but it's their budgets. Then we'll aggregate them together early December and then we'll come out with what we think will happen next year.

But from a macro side, let's start with that. Is there going to be a lot of growth in the Canadian economy next year? But let's be honest. I mean, we're running a $50 billion deficit in Canada right now to get no growth. If we weren't running a $50 billion deficit, we might have negative growth. Can we go to the $100 billion deficit next year? I doubt it, to get—I think it's going to be okay, but I don't see a huge rebound in the economy unless you said, there's a lot of capital coming into Canada. We've got a grand new scheme that says, "You know what? Invest in Canada." I'm not feeling that right now. I think we've scared away capital out of Canada, and we're really just a consumption economy right now. I think that consumption economy will remain about where it is right now, maybe up a little bit, maybe down a little bit, but my early indication suggest is more of the same next year. That's why we've got to stay focused on cost, process improvement and maintain our discipline, but we'll be able to still outperform the overall market because of acquisitions. Why? Because we got the damn balance sheet. We're one of the elite few that have got that balance sheet to execute and then it's just up to the senior team here to pick the ones that are going to add value to shareholders.

Walter Spracklin:
Okay. Just as a—I don't know, Carson. I think the last official guide for this year was $325 million for '24. It looks like you're going to come in nicely ahead of that if we take the—you're running at about $7 million above Q3 this year versus last year, and if we assume kind of the same run rate of seasonal outperformance there, then you're kind of coming into the $330 million, $335 million mark. Is that a…

Murray K. Mullen:
Walter, we came out with $325 million in '24, and we're not going to be far off that. We might be a little bit above it. We think that if you look at Q4 of last year, I think we were at eighty…

Carson P. Urlacher:
Eighty million.

Murray K. Mullen:
Right, Carse?

Carson P. Urlacher:
Yes, we did about $500 million in revenue in Q4 of last year and, call it, $80 million of EBITDA. If you kind of look at the trend line right now, we've got ContainerWorld that we've got now that we didn't have last year.

Murray K. Mullen:
Let's just call it a little bit better than last year, Walter.

Walter Spracklin:
Okay. That’s great.

Murray K. Mullen:
The third quarter, we were a little bit better than last year and that's what we think right now, is we'll be a little bit better than last year. Then, of course, we're feeling much more comfortable that we'll have some—be able to take advantage of some acquisition opportunities next year, and that will add us another growth curve in '25.

Walter Spracklin:
Okay Appreciate the time. Thanks, guys.

Murray K. Mullen:
Thanks, Walter.

Carson P. Urlacher:
Thanks, Walt.

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

Cameron Doerksen:
Thanks. Good morning. Just a question on the L&W segment. Just looking at the margins, like a pretty solid number in the quarter. My original thought was that maybe you've done some good work at the ContainerWorld business to cut some costs there, but just based on your comments it doesn't sound like that was necessarily a contributor to the margin in this quarter. I'm just wondering what did drive that nice kind of margin improvement in L&W year-over-year and sequentially?

Carson P. Urlacher:
Well, I'd say it's probably a combination, Cameron. ContainerWorld does generate good EBITDA. However, the majority of their costs fall below that EBITDA line with respect to leases.

Murray K. Mullen:
That's an IFRS number.

The good news about ContainerWorld is that number that you see that they're generating, that pays all their bills, okay, under IFRS rules, correct. Our job is to improve that above there so that we make money on our investment, and I can guarantee you we're going to improve that. ContainerWorld didn't hurt our numbers. We've got some really good solid business units in there like Kleysen and Bandstra, we highlight them. They're in good market segments. They're in good verticals.

Some of our business units didn't perform very well. If you're involved in competing in the full truckload side, like some of them like Tenold and Payne and oh my goodness, even Caneda, they're in a tough market for a little bit. It won't stay that way forever, but it's that way for right now. I'd say it's really ContainerWorld and then our two real good ones in Bandstra and Kleysen that continue to perform at the highest level of any business units we got.

Cameron Doerksen:
Okay. No, that's helpful. Then just the second question for me around capital allocation, and obviously M&A is a priority, but it sounds like it's probably more focused on tuck-in acquisitions. You've got very significant cash on the balance sheet now and lots of available credit and free cash flow generation is still really positive. Just wondering how you're thinking about, I guess, the other aspects of capital allocation, specifically on NCIB. There's been some activity, but just wondering if that's something that you expect to do more of in the absence of a bigger ticket M&A? Or is that something you're just comfortable kind of at the same pace that we've seen for this year?

Murray K. Mullen:
Yes. We talk about that at the Board level, which is really—that's a Board discussion. But our thoughts on that are this. Is that given the opportunities that we see on the acquisition front, Cameron, we think that if we buy back—if we do a share buyback, we're allocating capital to that, that's not helping our business grow for the next 10 years. But if we do a good acquisition and use those funds that we've got, that sets us up for the next 10 years or plus. I think our priority is go out and get some really good acquisitions and grow rather than share buyback. We'll still probably do some, but it won't be the highest priority. I think our highest priority is going to be growth.

Cameron Doerksen:
Okay. That’s pretty clear. That was all for me. Thanks very much.

Murray K. Mullen:
The tuck-in acquisitions will help you drive margin in the short term. If you do a bigger acquisition, you've got to be a little patient, just like ContainerWorld, because it takes a while for the market to come back and for you to get the disciplines in place that we think you have to have to be a free cash generator.

Cameron Doerksen:
Absolutely, it makes sense. Thanks very much.

Murray K. Mullen:
Thanks, Cameron.

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

Konark Gupta:
Thanks, Operator. Morning, Murray and team. Just one question to begin with. You talked about Q4 to Walter's question. I understand you're running a little bit ahead of your initial expectation for full year EBITDA, and ContainerWorld certainly is a big contributor there. How should we think about the other segments like LTL and S&I in Q4? Do we see any signs of growth versus last year in Q4?

Murray K. Mullen:
I don't. I think if I look at the LTL segment, there really was no growth. What there was, was some—we met our objective, of course, which we said, let's go out and improve the margin this year, even though there's no growth.

Carson P. Urlacher:
Correct.

Murray K. Mullen:
We said we could get 1%. That was our target, and we've met that. Once you—that's tough work, right? You don't get margin improvement without pulling some pretty good strings there, particularly when there's no growth in the market and you really can't get pricing leverage from customers today. We did some good rationalization, and I think Carson highlighted that. We took an underperformer in B&R Eckel's and we put it in with top performers, which is Grimshaw and Hi-Way 9. We flipped that from a negative to a positive and that's where we saw the 1% growth. But really not a lot of growth in that segment.

Specialized Industrial, not a lot of growth right now. We had a couple of good wins, a couple of losses—we lost the pipeline business. That project is over, okay. But the rest? We're diversified, and we had other business units pick it up and those kind of things. I don't see a lot of growth, Konark, unless we do acquisition.

We could go give you growth tomorrow, but as I said to you, what the hell good is growth if you don't bring margin with it? What's that doing? To us, that's a fool's game so we don't play that game. It's never been our DNA, and we're not changing. We're going to—we like what we're doing on that. I love having—as I said to you just now, we will do acquisition. We always have done acquisition since 1993. How many have we done?

Carson P. Urlacher:
Eighty-plus.

Richard J. Maloney:
Eighty-plus.

Murray K. Mullen:
Eighty-plus. I think we'll probably do some more, particularly with, we got that nice balance sheet. Let us choose where we think we can drive margin. I'd love to be able to hit you a home run and say, "Hey, we got high margin, high revenue, everything, yes." There's only a few of them out there.

Konark Gupta:
Right. That makes sense. Thanks for that colour, Murray. Just following up maybe on M&A then, I think you guys are obviously a little bit more careful and disciplined, I would say, in terms of chasing acquisitions and pursuing the right fit and all that, which is great. But obviously, you can see clearly the market loves to pay for a lot of growth, right here. There could be opportunities, which could be small, medium or big for you guys, right? In terms of your appetite, I wanted to ask. Like you have good cash, you have good lines and all that. Your stock is actually not doing bad, like considering obviously the last many years. It's sitting at a decent level here. What's your strongest currency right now? Is it your debt? Is it your equity? If something big like a $500 million-plus deal comes through?

Carson P. Urlacher:
Well, I would say, obviously, right now, Konark , the debt markets have been pretty favourable for us and that's just a function of the Board deciding that it was prudent to own our own real estate.

There's value in that that the debt holders see but doesn't show up in earnings per share because you don't fair market it in every quarter.

The other thing that sets us apart is we generate free cash every year and have done so for the last 30 years. That consistency just leads you to that debt market where they love that consistency, they love that balance sheet. There's a hidden gem there that doesn't show up in the stock price or in your earnings. I would say if we had a really good idea that came up that I think we've shown the history is that the debt markets would support it. We would also go to our equity holders and say, "Hey, do you support us in this great idea?"

Murray K. Mullen:
The good ideas will be supported by the market, whatever that market, the debt markets or the capital markets in general. Konark, you know that. Those would be transformational acquisitions, what you're talking about. If you're talking about just growing at our standard, what? Since 1993 (multiple speakers 52:01) 11.7%? We can do that without any more debt and without any more—we generate enough free cash flow from what we got now to continue to grow at 11% for quite some time. We don't need to go to the markets. But if we saw a transformational acquisition, okay, well, that's a different discussion.

Carson P. Urlacher:
Yes.

Konark Gupta:
Makes sense. Perfect. Thank you. Thanks for the time.

Unidentified Male Speaker:
Thanks, Konark.

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

Tim James:
Thanks very much. Thanks for the time. I just want to drill down a little further into two previous questions, actually. One, just the margin performance, the really good margins in the logistics business. You called out Bandstra and Kleysen. Is there anything specific there that accounts for why they're performing so well, whether you can—is this a pricing dynamic? Is it cost initiatives that have been undertaken? I'm just trying to understand better why it's performing so admirably.

Murray K. Mullen:
Well, it's the business models they have. Both of them are in verticals or in markets or have assets that are really, really difficult to replicate, so you don't have the same pricing pressures as you're experiencing in most other vertical. That's number one. I guess the other is they're—quite simply, they don't have the same competitive pressures. They're unicorns, they're so good. I'd love to have a whole bunch more of them, to be honest with you. We look for them, and we wait for them, and when we see them, we buy them and we invest in them. They're two really solid business units.

We don't have better management teams at Kleysen and Bandstra than we do in among our other business units, but they are in really solid verticals at the moment, for sure, and we think that their verticals they're in are pretty sustainable. That's probably the number one reason. Yes.

Tim James:
Okay. The U.S. and International Logistics business, Murray, in some of your earlier comments, you're talking about that you need to grow the scale there to really take advantage of HAUListic. Is this environment—and I want to specifically think about the U.S. I'm assuming you kind of have your eyes in the landscape there for opportunities. Is this environment that we're talking about with this kind of supply or capacity imbalance, this excess, is this not a good market relative to a year ago or a couple of years ago for finding a transaction to build scale in the U.S.? Do you feel sort of incrementally positive on the opportunity set that you're seeing down there?

Murray K. Mullen:
Yes. We've spoken with the senior team there, is that we all have our eyes and ears out, and we're listening and we're watching to see if something fits quite nicely with them. Until we find that, I've told the senior team there, I said, “Look, just keep working on your game plan. Make sure the customers are looked after and make sure you keep advancing that SilverExpress platform that we've got that's really difficult to replicate.” When we find the right one, we're just going to be able to flop in the revenue sources, and that's when we'll get the margin improvement.

Either that or maybe the economy improves down there. You know what? But for the moment right now, what you're seeing across most transportation companies both sides of the border, very competitive markets. Even though demand is reasonably—it’s not bad. But if you have a small reduction in demand, but no corresponding reduction in supply, what happens to price, Tim? I don't care what market you're in. Until they find a new equilibrium, price will be low. Not everybody is going to survive this low price environment. You can take that to the TD Bank or any bank.

Richard J. Maloney:
If I may add as well, within that business model here, we know it's more of a little bit of a volume issue right now because, as Carson has articulated, we have kind of a fixed nature of our SG&A. We do know though right now that a lot of the big 3PLs down in the states have been kind of laying people off, and they did that in the last part of last year. Our focus, in addition to SilverExpress, building that out, is we’ve enhanced our recruiting efforts on independent station agents, so they're independent, they’re not employees. That's not going to double the size, but that will certainly help us backfill and get a little bit more volume until that moment in time when there is that acquisition. That is a major focus of our team down there—and I know they're listening in right now as well—and will continue to be.

We'll kind of add things along as we go. People like the platform. We know it because people are coming on. We've added four or five additional station agents or agent models, and we'll continue to do that.

Murray K. Mullen:
Yes. I think, Tim, on that side, by having HAUListic and that team as part of our big, big diversified network, we give them the time and the space to kind of work through these very difficult markets, and we don't have to over—put too much pressure on them. I said just work on the long-term fundamentals and everything will take care of itself longer term. But work on the fundamentals. Make sure that we're the best—one of the best employers in that business, best places for people to want to apply their skills, because it's a people business. It's not a freight business. It's a people business, and work on that damn technology because that's going to be your secret sauce of the future.

We've said just stay in your game. Eventually, if we do the fundamentals right, we think it will all take care of itself because we got the patience when many others are single source. The pressure is too hot on them. We're in a good space. We just wait for the right opportunity that fits in with them, because I'll tell you, we got the team. They got more horsepower down there than–we can grow. We just need the right opportunity to fit with those horses down there. They know what they're doing.

Tim James:
If I could just squeeze one more in quickly. We talked about on a number of occasions, the fact that supply has not yet responded or capacity has not yet responded accordingly to sort of the demand, the pricing environment, and you mentioned sort of there's a bit of a structural issue here. I'm curious, Murray, to your thoughts on why it hasn't responded, like specifically? Is it changes in the CCAA process? Is it something to do with creditors in Canada or that holders of capital are prepared to accept lower returns? Is there anything you can point to as to why there hasn't been a supply side response yet?

Murray K. Mullen:
Yes, they're damn tough. What are they going to do? They fold their tent or they just work harder. My history tells me when times got tough—and I saw this even in our business when we were a small company. When times got tough, we worked harder and we worked leaner. We were tough damn competitors to big companies. There's just a lot of them out there, and they're just damn tough right now.

But eventually, you can only be tough for so long. Eventually, you have to be profitable. I explained what I think the major issue will be; you're going to have to show a profit one day or the insurance companies are not going to insure you—take the risk on your—and then if you can't get insurance, you can't haul the freight.

I think it resolves itself, but not quickly. It could take a little bit of time. But I think the insurance companies may be the ones that bring discipline to the market.

Customers are not going to do it. Customers are going to take advantage of low rate whenever they can. That's just the way the game is played. Right now, they're doing a hell of a good job of it. But the tide will turn and come back in, and we will be positioned to take advantage of that. Others may not last through it. You've got to stay in tough times to be successful over the long time. How long we've been in business, Rich?

Richard J. Maloney:
Seventy-five…

Murray K. Mullen:
Seventy-five years.

Richard J. Maloney:
Every economic cycle, everyone through. Tim, I think in addition to that, Murray talked about the insurance part of this, but those who remember, and you're talking—you said CCAA, whomever would have lent credit to groups that have kind of bucked that system, if you will, if you want to call it that. It will be interesting going forward if they'll be able to get fuel. You got to pay that bill every seven days. Anybody who sold them equipment on credit, it will be interesting if they'll be

able to do that. You know what? It could take time, but maybe they got salvaged, but can they afford to operate going forward? Will they be able to get fuel? Tires? Don't know.

Murray K. Mullen:
It's just going to take time, Tim, but it will work itself out. I can't tell you which quarter will be the inflection point. I can't tell you that yet. I haven't seen it yet, but I know we're one or two quarters closer to when it's going to happen.

Tim James:
I know you guys can't reflect on 75 years of history, but in your experience is this supply response taking longer than what you've witnessed in other comparable times in the cycle? Or is this just normal, do you think?

Murray K. Mullen:
Well, the cycle hasn't played out yet, so give it time.

Tim James:
Well, I mean the upturn. The timing of how long it takes (multiple speakers 1:02:35).

Murray K. Mullen:
We've got one more question we're going to move on to, but I don't think we're in the ninth inning, Tim. I'll leave it at that.

Tim James:
Okay. Super. Thanks for the time.

Carson P. Urlacher:
Thank you very much.

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

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

Murray K. Mullen:
Good morning, Kevin.

Kevin Chiang:
Good morning, Murray and team. Thanks for squeezing in here. Maybe just two quick ones. One, you talked about demand. Demand is okay. Obviously, excess supply, a lot of comments on this call about that. Just wondering, when you look at your LTL volumes, do you have a sense of maybe what percentage or what amount of revenue might have temporarily shifted to the full truckload market just because rates there are unsustainably low and maybe those are ones that come back as the freight cycle starts to hopefully inflect at some point in 2025?

Murray K. Mullen:
I've seen some of that commentary, Kev, and I haven't been able to reconcile that with our network.

Kevin Chiang:
Okay.

Murray K. Mullen:
Most of our LTL network is in the smaller communities and whatever, so we're not going to lose it to the full truckload in our LTL space.

Kevin Chiang:
Okay.

Murray K. Mullen:
I don't think there's been a lot of that. You know what? Have we lost some out of California and some long haul? Yes, we've lost a little bit. But honestly, I don't think that's the issue from our perspective. We just think that you've got to be really, really careful of the impact that Amazon has on LTL. They're the biggest. They're one of the biggest LTL guys now, right? Because of ecommerce.

Kevin Chiang:
That makes sense.

Murray K. Mullen:
I guarantee you, I am way more worried about Amazon than I am about the full truckload guy getting a little bit of our freight. I guarantee you.

Kevin Chiang:
That's a fair comment.

Richard J. Maloney:
If I could add, I think if you think about the interlining component of LTL, where the trailer is already full and he's got to move it from here to the other place, we're hearing that happening maybe more in some of the U.S. locations their making it almost a tractor service. But getting to the final mile, how we—what our core focus is on LTL, to Murray's point, we don't see that. You maybe see some of that reaching and what we're hearing down in the States, not so much here. But once the trailer is full and it's just got to go from Toronto to Edmonton, anybody can haul that across the country. We don't see that as imminent right now.

Kevin Chiang:
Right. Right. That makes sense.

Murray K. Mullen:
I'll tell you what I see in the U.S., and on the LTL side because I know you follow them as well. There's a lot of tough competitors down there, and every one of them I see having capacity, but I don't see the economy growing. When in Canada, there's really only a few of us. The market is really spread-out vis-a-vis the U.S. market, right? We're just a little different space. I mean, we—you see what Transforce does. Their Canadian LTL is best-in-class. They're fantastic.

Kevin Chiang:
Yes. That's a good point. That's a good point.

Murray K. Mullen:
You know what? TFI is a disciplined pricer. We don't mind competing with TFI or Manitoulin. These are business people. They like to make money because they have to invest it. so we can continue to provide the service to the customers, yes.

Kevin Chiang:
Alain would agree with you. He likes to make money.

Murray K. Mullen:
I think he would, yes.

Kevin Chiang:
Maybe just sticking with LTL, a last question here. When you buy these tuck-ins, I'm assuming you're buying a company where maybe they've been less rational on pricing. Correct me if I'm wrong. Just wondering, as you look to reprice their book, as you integrate those assets into your own organization, has the success rate been pretty good? Have you had to kind of hold the price at a lower level than you would have otherwise liked to just because of the freight economy and maybe you'll look to reprice when things are better? Just wondering how that repricing cycle works when you acquire some of these companies.

Carson P. Urlacher:
Well, I guess, Kevin, I would say the first thing that we look at when we look at layering in LTL is lane density. That's first and foremost. That's what really drives your margin. Also on facilities. Facility costs are, as you know, quite high, and when you can consolidate facilities that's another win. Those are really kind of the two arching aspects when we look at layering in LTL acquisitions.

Pricing does come into effect, that's for sure. As you saw in our MD&A, we de-marketed some businesses in that segment. It didn't make sense for us to continue servicing those customers at those rates. I'd say that that's where some pricing discipline comes in as well, too.

Murray K. Mullen:
I think when you do an acquisition, Kev, of these smaller companies and these tuck-ins, clearly, you have synergy on cost because you're driving yield and network and utilizing the assets, so we don't need every truck following each truck. That's how we drive margin.

But I think the other thing that comes into it is more pricing discipline. Smaller carriers, sometimes they're very tough. Once you take that undisciplined pricer out of the market, if we don't raise prices, we have more discipline on pricing.

Kevin Chiang:
Yes, that's makes sense.

Murray K. Mullen:
That's what really happens. It's just more discipline, yes. I don't want anybody to think you go and you do an acquisition and then you can control pricing. No, the market controls pricing, not us. But sometimes you have done disciplined pricing. Like, for example, our B&R Group, they were just undisciplined pricers, and as I said to you, a customer will always bite on low price, Kev, always. That's never changed in my career.

Kevin Chiang:
That's a fair point. Hey, look, you're definitely executing well in a tough market here, so congratulations on that. That's it for me. Thank you very much.

Murray K. Mullen:
We appreciate it. Thanks.

Carson P. Urlacher:
Thank you, Kev.

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

Murray K. Mullen:
Not many more, folks. Thanks for joining us. We've been a little longer than our one-hour allotment, so we've got a lot of horsepower on the line. I'm going to let you go. Thank you very much. Next communication will be after we do our Q4, which will be in early February. Until then, we've got a lot of hard work to do. Thank you very much.

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