



The Mullen Group Limited

First Quarter Earnings Conference Call Transcript

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Time: 8:00 AM MT

Speakers: **Murray K. Mullen**
Chair & Senior Executive Officer

Carson Urlacher
Senior Financial Officer

Richard Maloney
President & Senior Operating Officer

Operator:

Welcome to the Mullen Group Limited 2026 First Quarter Earnings Conference Call and Webcast.

As a reminder, all participants are in a listen-only mode and the conference is being recorded. After this 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 Mullen, Chair and Senior Executive Officer. Please go ahead.

Murray Mullen:

Welcome everyone to Mullen Group's quarterly conference call. This morning we released our first quarter interim report. That's a nice 53-page document full of details, numbers and analysis prepared by our team headed up by Carson Urlacher and Nik Woodworth. This document contains updated information that's available on Sedar+ and on our website at www.mullen-group.com.

I'll remind everyone that today's comments contain forward looking statements that are based upon current expectations and are subject to a number of risks and uncertainties. As such, actual results may differ materially. Further information identifying the risks, uncertainties, and assumptions can be found in the disclosure documents.

This morning, I'm joined here in Okotoks by the senior team. It's an expanded senior team. I want to welcome Lee Hellyer, who's now our Senior Commercial Officer and has joined the executive team at Mullen Group.

In addition, I have Richard Maloney in his expanded role as now President and Senior Operating Officer. So, Richard, Carson Urlacher, Senior Financial Officer, and Joanna Scott, Senior Corporate Officer. That's the senior executive that we have here at Mullen Group. My name is Murray Mullen. I am the Chair and the Senior Executive Officer.

This morning, we're going to follow the similar format as last conference call we held, and that's all in an effort to make this call as meaningful and productive for everyone as possible. So, Carson and I do not have prepared remarks for today's call. These can be found in the MD&A, the press release, and the financial statements. And anyone that's on the line today can use any of their AI tools to query anything, so we'll head straight to the Q&A session.

There are probably going to be lots of questions about the quarter, most likely about where we see the economy, the state of the consumer, fuel prices, the freight markets, and, of course, those often talked about nation-building projects. So, I like the fact that we generated record revenues and solid profitability, even during a period of basically no economic growth. I'd suggest to you this bodes for us very well when the economic conditions improve. Until then, we will keep a keen eye on costs. We're going to focus on margin over market share and we're going to look for quality companies to join our network of 44 independently managed business units.

Now, I see many of you already joined the queue, so I will now ask the operator to open the lines. Operator.

Operator:

Thank you. 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're using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star then two.

The first question comes from Kevin Chiang from CIBC. Please go ahead.

Kevin Chiang:

Good morning everybody and thanks for taking my question, and congratulations, Richard, on the expanded responsibilities here. Maybe just—well deserved.

Maybe if I can just focus on the L&W segment. It looks like you put up the best organic growth that we've seen in quite some time. I know there's some optimism south of the border in terms of what we're seeing in the broader freight economy. Just wondering what you're seeing in the L&W space here, just given the organic growth rate you printed in the first quarter and if there's anything you'd point to in terms of driving that tailwind and maybe stuff that could have been transient in the quarter or maybe stuff that might be more structural that you would expect as we get through the remainder of 2026 here.

Murray Mullen:

Yes. That's a good observation, Kevin, is that—I think the majority of it was probably driven, the performance in the month of March, Carson, we had—it was a decently strong March. I can't tell you, Kev, whether that was because of the—everybody was at quarter end and those kind of things, but March was a pretty good month for L&W.

Everybody performed reasonably well.

Carson Urlacher:

Yes.

Murray Mullen:

Had a couple of real stars that continue to do well. Kleysen Group comes to mind and some others. But I think what that reiterates, Kevin, is that's a general economy is our L&W side, and if the economy gets a little bit of a momentum to it, I think our business and our L&W segment is nicely positioned to capitalize on that.

That's a little bit different than the LTL side. It still seems to be—still seems to be stuck in neutral. We did okay. But as you could see, if you're not doing acquisitions, really, it's still very difficult to grow. That's what we see.

Kevin Chiang:

Maybe just on the LTL side, maybe if I could follow-up on your answer there. Just the momentum you saw in March in L&W, has that carried on through the first few weeks here in April?

Just on LTL, I guess some of that organic growth rate that you saw, negative organic growth rate you saw, it seems like you were demarketing some businesses. Is there a way to quantify maybe how much that weighed on the first quarter growth rate?

Murray Mullen:

Carson?

Carson Urlacher:

Yes. I would say, Kevin, with respect to the same-store sales being down in LTL a large portion of that would be with respect to demarketing some customers.

The other issue that we also saw in LTL in the first quarter—and this was really in the month of January—was some very inclement weather, especially in East, which virtually, we had a couple of operating days where we had trucks that barely left the yard. So that was kind of a headwind early on in the quarter that kind of righted itself in March.

Murray Mullen:

That impacts two of our larger business units, our Gardewine Group and APPS Group, which have pretty significant footprint back in the East. So they got hit in January, February. Decent Marches, but we got hit with weather.

We don't like to make excuses too often, but that's a reality is that we just didn't have any work days, so you can't move freight if the trucks are stopped and people can't get to work.

Kevin Chiang:

No, it seems like it was winter everywhere by my observation.

Just on L&W, just the April trends, has that momentum carried forward from what you saw in March there?

Murray Mullen:

Not to the same degree, Kevin. I think what we're watching very carefully is, was March strong because of quarter end and everybody tries to get their inventories moving quarter end. What we're unsure of is whether it was that or whether there's no doubt that the situation in Iran and the spike in fuel prices has just caused people to take a little bit of a pause, I would suggest. So we have to watch that, and I've commented on that. Let's watch that carefully. I think it's going to take a little bit of time for people to adjust to that.

We're fortunate in Canada that we have our own energy supply. So maybe price went up a bit, but we have it. Many parts of the world do not have it. So I think let's just see how it plays out. April is not as strong as March, and we didn't expect that, because it's the end of the quarter. But let's see what happens here is whether that momentum builds up through the quarter. I think it will, but that's just—that's a personal observation.

Kevin Chiang:

That's helpful.

And then just last one for me, maybe a bigger picture question. I'm sure you've seen all the headlines around AI disruption potentially hitting the brokerage business. Just wondering from where you're sitting, what implications do you think this might have for your U.S. operations, whether it's HAUListic's or the recently acquired Cole Group. Opportunity threat? Maybe what you're seeing on the ground as we see some of the headlines here.

Murray Mullen:

Richard oversees both Cole and HAUListic, but we're building all the AI tools into our SilverExpress platform at HAUListic which is—HAUListic, it's a bit of a software tech play and a freight forwarding because we provide the technology to a bunch of agents, right? So I haven't seen—we haven't seen any disruption. In fact, what we think will be the AI tools that our team is implementing into this, I think, is going to help them gain market share, Rich, that's just.

Richard Maloney:

Yes, absolutely. Hey Kevin, it's Richard.

Kevin Chiang:

Hey, how are you doing?

Richard Maloney:

Maybe I'll talk quickly about the U.S. and what we're doing there, maybe more broadly on AI for Mullen Group. But down in the States, we have two business units. They have their own separate operating systems with teams that are working and supporting that from an IT infrastructure perspective, but I can tell you that both of them are working at on how AI is going to help and support and build out the technology specifically to HAUListic. We are working diligently on that with our Director of IT on that. We met with them earlier this week and discussed that with them, just on the helping of coding and doing things like that. And we're not like others or a hyperscaler where every time we have an idea about AI, we do a press release. But I can tell you they are very diligently working on many fronts, both at HAUListic and Cole U.S.

Up here in Canada, we have a very similar initiative underway within our LTL space, looking at how LTL will make us better and having some—it's like everybody else. You have some wins and some losses, but you learn along the way and you make it better, and the real focus is how to enhance load factor. And we have a team—we did a presentation to our Board yesterday, and we are certainly moving in the right direction on that.

But it's not an event. It's a journey, and it takes time to do, and you'll have to stay with it. So we are working full frontal on that one as well on AI.

Murray Mullen:

Yes. I would say this too, Kevin. I think if you haven't built your the AI tools into your technology platform and your service offerings to your customer, I think you—anybody will be at risk, whether you're a 3PL or an asset-based carrier.

Kevin Chiang:

Right.

Murray Mullen:

We're just embracing it, and we're building all of that intellectual capital and know-how into our businesses, including specifically in the U.S.

I don't think it's going to hurt them. We hope it's an enabler, but we're going all in. We have to change. We have to adapt. We have to make sure we're ready for the future and that's what we

do in our business here, is we make sure our business units are prepared for the next five years, not the last five. The last five are over.

Kevin Chang:

That's very helpful. Congrats on a solid start to the year here, despite all the weather issues. Thank you, guys.

Richard Maloney:

Thanks, Kevin.

Murray Mullen:

Thanks, Kevin.

Operator:

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

Konark Gupta:

Good morning, everyone. Maybe just first question in the absence of prepared remarks, Murray, I think in the press release and the documents that you guys talked about the capacity is coming out of the system gradually. I think it's more of a U.S. trend than Canada it seems, correct me if I'm wrong. The demand seems stable, but the rates have yet to move up.

I'm just wondering like when you talk about March being strong, and I think everybody is kind of talking about how the spot rates are continuing to move up. Just curious, what are you seeing in the pricing environment for you guys? I mean, organically, obviously your margins were not expanding in Q1 yet. But I'm wondering if there's expansion opportunity down the road. Curious your thoughts on pricing and margin.

Murray Mullen:

Yes. I think once again, that's a pretty good observation is that, Konark, the U.S. market, I think everybody needs to differentiate the U.S. market from the Canadian marketplace, and you're spot on. They're tightening quite rapidly as they implement English proficiency rules and remove certain carriers, drivers off of the—from having a CDL, which takes capacity out of the system because you don't have the drivers. So U.S. is tightening.

That also translates into the cross-border market tightening. So any freight that's moving cross-border, that's tightening. But the Canadian market is—it's not tightening, but the regulations and the safety standards and the government is really enforcing things a little more diligently than what they did—than they've done for quite some time. So that's not getting rid of capacity, but it's forcing some discipline in those that didn't follow the rules quite as much. So that will help pricing and take the pressure off, Konark, in the Canadian market.

So if you get any demand push, any like we saw in March, it will be okay. If you get demand push in the U.S. with a reduction in supply, boy, that could be an outsizer in terms of the rates. That's how we see it.

Konark Gupta:

Okay. That makes sense. The other side of the coin, I guess, is if the U.S. administration keeps pushing out these drivers from the pool, and I think the numbers are quite staggering if you look in some of the studies—ould you expect or would you see some sort of wage inflation or maybe

not so much given your drivers are still sticky. I mean, you don't have any retention issues. Like what do you think about the wage inflation potential here?

Murray Mullen:

Well, that will not impact our U.S. operations because we don't have—our business really isn't company truck fleet operations. It's all 3PL and the use of owner operators on cross-border. So the owner—that will—they will benefit if the rates go up because generally they get paid a percentage of the transaction. So I don't think it will impact us from that standpoint, and we don't see any wage inflation in Canada right now at all until you see a demand push. If you see a demand push, which may or may not come, I'll let you opine about that. But I'm not too worried about the wage thing, to be honest.

Now, if I'm a U.S. carrier, you're going to see some stress points there, but those costs are going to be passed on into the rates. But I think the rates have to go up before anybody moves on wages. The spot markets moved, but the contract market has been a bit stubborn. I would challenge anybody to go ask Amazon or Walmart or Costco for a rate increase. Like they're just not embracing that at the moment.

Konark Gupta:

Yes, thanks. And maybe last one for me before I turn over. On M&A, I think you made a note in the MD&A talking about your increased reliance, I guess, on M&A until you see structural organic tailwind. When you're looking into M&A, I know you guys have done recently some tuck-ins in the S&I segment.

Are you pivoting to S&I now given structurally maybe higher oil price at least for some time or the—Canada Nation Building focus in Western Canada, any thoughts on where would you like to spend the incremental dollars here with respect to your segments?

Murray Mullen:

Well, I think it's evident. We did two acquisitions in the first quarter, and both of them were in the S&I segment and specifically tied to energy. I would tell you our basic thesis here as the senior group is that I doubt if you're going to get any—we doubt that you're going to get much economic stimulus going on in Canada unless we really get on these nation-building projects and get started creating great jobs and get capital flowing again. So we're buying the thesis that is being messaged by the governments that nation-building projects are going to go ahead. So we're positioning as if it's going to.

The timing of it is a little less certain to us. But Canada needs to get its act together in the world scene and start making our vast resources available to the world that need it. We can't just hog the puck and say, "No, you can't have access to it." They need it. So we're buying that thesis.

The timing? It's Canada, you got a lot of issues you got to work through. But I think longer term, that's a real growth potential so we want to make sure we're well positioned.

We haven't invested in the energy sector for—basically, we really deinvested for 10 years, but over the last bit, we've just been adding really good companies into our network that do okay in this market, but if the capital flows back into that sector, they will do outstanding.

Carson Urlacher:

Konark, I think it's important to point out those acquisitions we did, one was Lac La Biche Transport, right in the Clearwater play. The other one is water management tied to upstream fracking and so on. Now those are all done and closed prior to the war starting and the spike in commodity prices, and that would suggest or should suggest to everybody that, again, we're looking at where the puck will be going. So these were done prior to all these elevation in commodity prices. Whether they stick or not, who knows? I'm not smart enough to figure that out. But Murray just said it – at some point, Canada is going to have to say, “We've got to do something here.” And I think these puts us in a—solidifies ourselves in some key plays.

Murray Mullen:

Yes. So these are really good acquisitions that are doing well in this current market and if there's any growth in the capital that goes into the energy space, they'll do better than just good. They'll do very good.

So that's our thesis. We've derisked it because they're great companies. And so we'll continue to look at those kind of opportunities, Konark, when we see them come up.

I think that's—that's what we do. There's acquisitions available everywhere. Like we're one of the few companies that can do them. But as I say, we've got to look through the rock pile and look to find these gems. But we don't need to just grow to grow. We need to grow by adding value, whether that's a consolidation play and market so we can reduce costs or just get great quality companies. And that really hasn't changed in our acquisition strategy. It's in our DNA in this organization.

Konark Gupta:

I appreciate the time. Thank you.

Murray Mullen:

Thank you.

Carson Urlacher:

Thanks a lot.

Operator:

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

Cameron Doerksen:

Thanks. Good morning. Just kind of following up on, I guess, sort of the commentary around the nation-building opportunities that might be out there. I'm just wondering if you're actually having any specific discussions with some customers on potential opportunities? Or is it all still sort of more theoretical at this point? Just trying to gauge, I guess, maybe the timing of when some of these things might move forward? And are we at that stage yet where some of your customers might be actually doing some planning?

Murray Mullen:

Cameron, I would love to be able to say that in Canada we're having constructive discussions and everybody is excited. But everybody is still sitting on their hand and waiting for, I guess, the governments to say let's go rather than let's talk. In fact, I was going to open this call with a song about what we need is a little more, a lot more. A lot less cost, a lot more action. And I

think Canadians are begging for it, but it still seems to be in the consultation phase. I don't know how much longer we have to consult, but that's outside of our pay zone, and we're not in-charge of that file.

I can tell you that we're having active discussions on a major energy project in Alaska. Alaska LNG. Richard is the project in the game. So we're—there's—we're actively engaged with the customers on that, and we're at the bidding table, and it appears that, that project may go before the projects in Canada. And we will participate if we're fortunate to get the bid...

Richard Maloney:

We're still in the process.

Murray Mullen:

But we're having active discussions with the customer out there on that. But not—in Canada, we all sit around and we say, "When are we going to go? When is it going to happen? How much talk are we going to have?" That's a frustrating part for Canadians and for good jobs in Canada. And what can I tell you; we're waiting.

Richard Maloney:

And we're waiting for the capital. And you've heard of the meeting that's being convened four or five months from now in Toronto. And I'm not sure what they're intending to do there, but a lot of these projects that kind of are in play have been approved at some point or other. I don't know. Joanna, at one point, you worked for the law firm that actually went through an oil pipeline that was going to get approved to the West Coast. It's been done. So when that money starts coming back, private capital, which we have not heard, and we're waiting to see what happens on that. And as it stands today, it's kind of a hurry up and wait.

We're not—we've been accused of being pessimistic and we're not optimistic. I think we're realistic. And we'll go to where the nations are building for now. That's the commentary on the LNG in Alaska. We're looking hard at that.

Cameron Doerksen:

Okay. No, that's great. At least there's some projects moving forward, whether they're in Canada or not. So that's good to hear.

Maybe just a second question, just on, I guess, sort of the financial targets that you put out earlier this year, the \$2.3 billion to \$2.4 billion in revenue and \$365 million in EBITDA. Are you still, I guess, comfortable with that? Any changes on how you're going to get there if you are still comfortable at least by segment from what you originally expected?

Murray Mullen:

Carson, I'll refer that to you and then I'll make a final comment.

Carson Urlacher:

Sure. No change to the guide right now, Cameron. As we're coming out of the first quarter, I would say, by segment, everything is largely in line with what we articulated back at the beginning of the year.

I would say no material changes to the guide that we kicked out in January. If March holds and we continue on that trend, I don't see any...

Murray Mullen:

Yes. I mean if the March trend was sustained, we'd be above. So—and I think the other thing is, Cam, is that we didn't plan any nation building projects in our plan, in our budget for this year. So if those start to go, that's on top of what we said we would do.

Carson Urlacher:

And that doesn't include any acquisitions?

Murray Mullen:

No additional acquisitions. So we've got a couple of things that we're going to maybe go ahead and beat that, but that's not built in the plan that we put forward.

We said, "Look, this is what we think our existing business will do," and so far we're on track for it.

Cameron Doerksen:

Okay. No, that's great to hear. I'll pass the line. Thanks very much.

Murray Mullen:

Thank you, Cam.

Carson Urlacher:

Thank you.

Operator:

The next question comes from Benoit Poirier from Desjardins. Please go ahead.

Benoit Poirier:

Good morning everyone and congrats, Richard, for your new role.

Richard Maloney:

Thank you.

Benoit Poirier:

Talking about the opportunity in Alaska, the LNG project, could you maybe provide more colour about the potential size of this opportunity, and is it your understanding that there's a limited number of companies that could handle such a project?

Murray Mullen:

The project itself, Benoit, is—that project in Alaska, probably bigger than all the nation building projects that have been announced in Canada. It's upwards of US\$40 billion. So, how much are we going to carve out of that? We will be specifically—right now, we're at the table on the hauling of pipe for – I think it's 800 miles from Prudhoe Bay down to Anchorage and that will be a big LNG project.

So it's pretty sizable. We're going to be in the final bidding phase here in the next couple of days. It appears that it's got all of the presidential support, and I think they're waiting for the Governor of Alaska and a couple of other things, but that one has probably got the best chance of going in the short term.

And if we get past and we get chosen as a bidder with our partner, then we'll come out with more firm numbers. But let's just suffice to say, this is not just a couple of million dollars. This is pretty big. I think we just need to—it's kind of sensitive right now. So we'll just—I don't know. But I can tell you, we've got a great partner up in Alaska. We've done business with them for 20 years and there's a short deck of how many suppliers can do this project, and we're one of them.

Benoit Poirier:

That's really great colour, Murray.

Regarding the S&I segment with the increase in oil prices, have you already started to see a pickup in drilling and other activity from customers? Are customers beginning to try and lock up capacity for the months ahead?

Carson Urlacher:

No. I think what everybody is sitting—it's so new, right, and everybody sees the price increase, but most of our customers, the oil and gas companies are just saying, look, we don't know if it's going to be for how long. So they haven't made capital commitments yet, Benoit. I haven't seen it yet. We channel check, we talk, but we haven't seen that translate into any increased demand for drilling or for other services.

And by the way, you still need to have the pipelines built, whether it's for LNG or if it's crude oil, otherwise, there's no sense adding capacity. There's no—we don't need any more natural gas unless we get an export customer. So I think we're just—we just got to be—it hasn't changed yet.

Richard Maloney:

One data point, Benoit, is that the active rig count is still below what it was last year.

Benoit Poirier:

Okay. Okay. Great colour.

And on the M&A, you made some comments before, but any thoughts on the current landscape? And what about the deals that are crossing your desk these days? What segments are seeing the most seller activity? Have you seen any change in seller expectations given the encouraging signs we see across the industry?

Murray Mullen:

Yes, that one is all over the map. There's—I can tell you that the industry is—and our peers are—everybody is waiting for that inflection point. And we talked about whether March is going to be sustained or not. And if it is, then I think that would be really supportive for the whole industry. There's no doubt about it.

On the M&A front, once again, we're just being very, very selective as to which ones fit into our self—you've got to be a self-managed business unit. You've got to be profitable. You've got to be well run to be added into our group. And so we're being very selective. But that hasn't changed, Benoit. We've never changed that.

Benoit Poirier:

Okay.

Murray Mullen:

But we'll continue to do M&A. Which ones will we do it in? It depends on what segment. We're happy to do it in any one of the segments. but it has to be the right opportunity. And we love all four segments the same. If we can find a great LTL company, we're going to put it in. And S&I? Our door is open, and we talk to a lot of people all the time.

Benoit Poirier:

Okay. And just on the CapEx side, it seems it came pretty—a little bit lighter in Q1 at \$12 million, but Class 8 orders in the U.S. are starting to inflect. So any thoughts on the need or timing to replenish your fleet?

Murray Mullen:

We don't think so. We think we're on target for that. That was that was a steady-as-you-go kind of a CapEx budget. I think what we're—what the senior team is talking about here is that I think we're going to know this next quarter, we'll see whether the Canadian economy continues to build momentum. Benoit, if it does, I wouldn't be surprised if we don't up our CapEx for the last half of the year. But that was—I need to see the Canadian economy being sustainable and so we're just on standby. But so far, we're—that was a little bit of timing as to when we order and those kind of things. But we're still on target for our CapEx for this year. No reason.

But we'll have more to say on that in our next quarterly call because we will know whether the Canadian economy is really caught—is catching a little bit of a bid here in the second quarter.

Benoit Poirier:

Okay. And maybe last one for me, very quickly. You mentioned, Murray, that the LTL is still stuck in neutral. What are kind of the key indicators that you're looking at? We've seen capacity tightening in LTL. So is it kind of the signs that you're looking at expecting that the natural LTL volume will flow back to the LTL market that could provide some help?

Murray Mullen:

Look, I think the LTL is—we tell all our business units, “Look, you can't wait.” We'd love to see a nice demand push to come. But realistically there, Benoit, we're really working hard on operational efficiency being the best in the markets that our business units are at and trying to gain market share through efficiency and, as we say, new AI tools.

Richard Maloney:

Yes, that's one technology that ...

Murray Mullen:

Yes. We're working really hard with our business units to make sure that they're gaining market share. If they gain market share it's because they're the best in the market. We can't rely that the marketplace is going to get significantly better in the short term in our view.

It's still a good business, Benoit. Like LTL is one of our core businesses. I don't see huge growth but there's huge opportunity to run more efficient businesses and that's what we're focused on.

Benoit Poirier:

That's great. Thank you very much. Great call.

Murray Mullen:

Thank you very much.

Carson Urlacher:

Thank you.

Operator:

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

Murray Mullen:

Good morning, Tim.

Tim James:

Good morning. Thank you very much for your time today. My first question, we touched earlier on the demarketing of customers noted in a couple of segments. I'm just wondering if it's unusually significant, the demarketing that's sort of been going on since the start of the new year? Or is this kind of normal conditions that we would have seen last year or would see on a normal run rate basis?

Murray Mullen:

I think most of the demarketing really happened last year, Tim, and it just showed up in the quarter. Like last year, in the energy space, in the production services, we had some big oil companies that wanted us to do it for free, and we said the...

Carson Urlacher:

Capital market in the Quarter 4 of last year (inaudible 37:36)

Murray Mullen:

That capital is too expensive to replace. Like you're asking us to do it for nothing, like give it to somebody else. So really, it just showed up on a year-over-year comparison basis. I don't think we really demarketed too much in the quarter per se.

Carson Urlacher:

Correct. Prior year.

Murray Mullen:

Yes, prior year demarketing. It was maybe one, I think our Hi-Way 9, we demarketed in truckload.

Carson Urlacher:

Little bit—a couple in the LTL space, we did—again, it's unrealistic expectations and then a couple in the oil patch, but you backfilled it and isn't interesting along the way, maybe your margins improve a little bit, too. And yes, so it wasn't significant.

Murray Mullen:

We did do a little bit in ContainerWorld where anything to do with freight forwarding coming across the ocean. The beverage businesses got very competitive and some of the product that's

coming in from overseas, they wanted you to do it for nothing. Well, we're not doing it for nothing. So we demarketed a little bit there.

Carson Urlacher:

Right.

Murray Mullen:

We're happy to give all of the underperforming customers and nobody pays to our competitor, go for. We don't care.

Tim James:

Okay. So the pace of demarketing then really has slowed down this year.

Murray Mullen:

Yes.

Tim James:

This is primarily a '25 issue. Okay. Okay. That's helpful.

Carson Urlacher:

Correct. For sure.

Tim James:

Then I was actually going to ask you, you touched on it, the ContainerWorld. There was some weakness called out in the quarter. Is that primarily what we're talking about is some of the ocean freight? Like I'm just wondering what...

Murray Mullen:

Yes. It's about imports coming in. There's been a buy—I think it's a combination of, really, there's been this buy Canadian push, which has been really helpful for Canadian producers of wines, of spirits, of beer at the expense of foreign buyers, whether it's U.S. or international buyers. So we're busier with some other—some of our local customers, but not so much with the foreign customers.

Just as consumers have really gone to buy Canadian—and they're very price sensitive today. So—and it's expensive to bring stuff in from across the ocean. So I think the foreign—it's working overall not bad, but it changes your supply chain, and we have to adapt to that.

Tim James:

Okay. Okay. That's helpful.

Just returning to the strength that you saw in March, and I don't want to beat this one up too much and I know it's difficult for you to have a lot of confidence in sort of what the implications are from the March strength. But is it—is one possibility that it was kind of catch-up from earlier in the quarter and so by the time we get to Q2, we might think of Q1 overall as a bit of a better indicator? Or do you feel fairly confident that March strength was more of an indicator of an actual step-up in business conditions overall?

Murray Mullen:

I would have said it probably would have been a better indicator, but once the things happened over in the Middle East and kind of the disruption in the energy markets that could have an impact around on economic activity, I think people are sitting on their hands a little bit. People just don't know how it's going to play out and uncertainty is not good for capital allocation and for people getting aggressive. So we're just going to wait and see to see how that plays itself out. It might push off that economic growth a little bit as people just take a pause here to see what's going on.

That's what we sense, but we were very optimistic going in, but this fuel thing scares people. I don't know if it's headlines or if it's whatever, but people are quite concerned about it. That's what we're hearing.

Tim James:

My last question...

Murray Mullen:

I can't tell you—I'll be honest with you, Tim. I cannot tell you whether what we're hearing is the excuse or the reason. I think there's two different outcomes here. But at the end of the day, it doesn't matter. If they cut back either as a consumption or in being aggressive on bringing in inventories or in capital deployment, you're going to have the same result. It slows down a little bit.

So I see a little bit of a pause, but I think the long-term trend is going to be more March like. And boy, I'll tell you, if we get a bunch of Marches for the rest of this year, we're going to do very well.

Tim James:

Okay. That's helpful.

My last question, just around fuel and fuel surcharge revenue. Is it reasonable to assume that when we get into Q2, just because of the timing of the increase in fuel prices that there's a bit more weight there on earnings or drag because of the time lag between fuel surcharge revenue and the expenses? Would it be a bit more of a headwind in Q2 even relative to Q1?

Murray Mullen:

We talk about that here all the time because fuel is our second biggest expense after labour and so we're on top of it. I think our business units did a pretty good job of mitigating that rapid rise. It wasn't that fuel went up. It's that it spiked up and then you're behind the curve on that. But Carse, you did some really deep analysis on this. What are we finding?

Carson Urlacher:

Yes. You kind of have to take a look at what the fuel surcharge program is, and it's been going on for obviously decades. And really, the program is set up to reimburse transport companies for the excess cost, so really it's a cost recovery program.

The most recent guide that I can give to you is to kind of look back at our 2022 results. In 2022, obviously, we knew that fuel prices spiked due to the conflict in Ukraine with Russia. Normally, our fuel surcharge revenue hovers around \$50 million a quarter. Well, back in 2022, that jumped, that spiked up to about \$70 million in fuel surcharge revenue per quarter, so up quite

significantly. And if you look at the timing, it was almost identical. Both conflicts happened in the month of February. So we saw this little bit of a lag because of fuel surcharge lagging, and it didn't really impact our first quarter results significantly.

But then as you look towards the remainder of the year, our fuel as a percentage of revenue went from about 7% at the beginning of the year, which is where it is right now—7% as a percentage of revenue is what I'm referring to. And by the end of the year it was up at about 10%.

So it would not surprise us if that trend holds because in a cost recovery mode, if you're increasing the numerator, which is fuel expense, at the same time you're increasing the denominator, which is fuel surcharge revenue, you're recovering the absolute dollar but as a percentage of revenue, it goes up. So that's kind of the trend that we're seeing.

And just to kind of put some numbers to you, in March of 2022 we did about \$19 million of fuel surcharge revenue in that month. And in March of this year, we did about \$22 million. So we're a bigger company now than we were four years ago, so I would suspect that our new trend is not \$50 million a quarter in fuel surcharge revenue. It's going to be north of that, all things considered, if the conflict continues in the Middle East.

Murray Mullen:

I think the other thing about that I'll comment about fuel surcharge, Tim, is that fuel surcharge is in response to a fuel price increase. It's not in anticipation of a fuel price increase. So we're always behind the curve on that. Unless the fuel price continues to go up in March, it should be neutral in the second quarter.

Carson Urlacher:

Yes. Correct.

Tim James:

Okay, that's very helpful. Thank you very much.

Murray Mullen:

Thank you.

Operator:

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

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

Walter Spracklin:

Yes, thanks very much. Good afternoon, or good morning. Afternoon everyone.

Focusing on your outlook for this year and coming back to that question you got there and just comparing it to where we were three months ago when you set your outlook, I guess I can understand you don't put in the nation building, you don't put in the acquisitions, you don't put in Alaska. But just looking at your commentary, I think clearly, you're saying that the outlook is better now than it was then. In your press release, you pointed to market conditions showing signs of improvement, demand holding steady, supply tightening. So it seems that we're hearing all of the same things from your counterparts north and south of the border. So if there is a

better top line emerging here, I'm just curious why you wouldn't see that coming through in the bottom line.

I don't know if you're suggesting it might be a structural capacity issue? Or is it just caution right now at this point? But again, looking back three months ago, I think things seem a lot better now than they were then and just pressing a little bit on why you wouldn't change your guidance here for the full year.

Murray Mullen:

Probably because of the spike in fuel and the impact that it might have on the economy and business and consumer psyche. That's probably the number one reason, Walter, that we're just—so let's just wait and see. We don't want to get ahead of our skis on that. That's something that we hadn't anticipated three months ago. I don't think anybody did. So nobody knows how—what that ultimate outcome will end up being in terms of their...

I think structurally, it was getting a little bit better but now it's—I think people are taking a bit of a pause. Let's see what happens in the second quarter, then we can talk about the last half of the year.

But so far, we came out of the first quarter spot on with what we anticipated. March was very nice and let's see if March continues on. I hope it does, but I have to hedge it by being upfront on the spike in fuel could impact consumer psyche.

Walter Spracklin:

Okay. Then when you look at your M&A strategy and you kind of peek over to the truckload sector, you see a lot more—certainly a bigger rebound going on there, some of the demand characteristics look a bit better as well. I know when you focus and zero in on Canada only, there's not as many—certainly not as many opportunities, specifically in LTL out there? Or are there? Are there enough that you don't need to go to truckload? Or when you peek over there and you see what you're seeing in truckload, does that entice you at all, Murray, to go into that segment at all in Canada? Just curious on how you're looking at that.

Murray Mullen:

Zero chance that we'll go into truckload in Canada. It's not an investable business. It's a job, Walter, but it's not an investable business from a capital—from a return on capital basis.

We'll focus on where it's a little more difficult, where it's these gems that we talk about. We don't go after the rock pile. We go after the gems. We look at where there's opportunity to generate free cash. So you've got to be very thoughtful. I can just tell you truckload is not where it's at.

Now you might consider the cross-border as a little different animal now and we've got to think that one through because that market is going to tighten significantly. Any demand push when the U.S. drivers are not going to be readily available to come to Canada, that one could be interesting. We'll watch that one carefully, the cross-border movement.

Walter Spracklin:

Okay. That's great. Appreciate your time and...

Murray Mullen:

Walter, on the long haul, Walter, we love intermodal long term. Yes.

Walter Spracklin:

Okay. Okay. That's great. Thanks very much for the time.

Murray Mullen:

Excellent.

Carson Urlacher:

Thank you.

Operator:

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

Murray Mullen:

Thanks for joining us, folks. It's been a full morning already. Everybody's busy. Thanks for everything.

We had a pretty good quarter. We are working hard to make sure that we continue to produce great results, and we look forward to chatting with you at the end of second quarter. Thank you for joining us again.

Operator:

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