THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TFI.TO - Q3 2018 TFI International Inc Earnings Call

EVENT DATE/TIME: OCTOBER 22, 2018 / 9:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Alain Bédard *TFI International Inc. - Chairman, President & CEO*

CONFERENCE CALL PARTICIPANTS

Albert Brad Delco *Stephens Inc., Research Division - MD*

Benoit Poirier *Desjardins Securities Inc., Research Division - VP and Industrials, Transportation, Aerospace, Industrial Products & Special Situation Analyst*

Cameron Doerksen *National Bank Financial, Inc., Research Division - Analyst*

David Bruce Tyerman *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

David Griffith Ross *Stifel, Nicolaus & Company, Incorporated, Research Division - MD of Global Transportation and Logistics*

Gianluca Tucci *Echelon Wealth Partners Inc., Research Division - Research Analyst*

Jason H. Seidl *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Kevin Chiang *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Analyst*

Mona Nazir *Laurentian Bank Securities, Inc., Research Division - VP of Research and Transportation & Infrastructure Analyst*

Scott Anthony Schoenhaus *Stephens Inc., Research Division - Research Associate*

Turan Quettawala *Scotiabank Global Banking and Markets, Research Division - Director, Transportation and Aerospace, Equity Research*

Walter Noel Spracklin *RBC Capital Markets, LLC, Research Division - Analyst*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to TFI International's Third Quarter 2018 Results Conference Call. (Operator Instructions).

Before turning the call over to management, please be advised that this conference call will contain several statements that are forward-looking in nature and subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated.

Lastly, I would like to remind everyone that this conference call is being recorded, Monday, October 22, 2018.

I would now like to turn the call over to Alain Bédard, Chairman, President and Chief Executive Officer of TFI International. Please go ahead, sir.

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Well, thank you, operator, and thank you, everyone, for joining us this afternoon. Within the past hour, we announced our third quarter results. If you need a copy of the release, please visit the Investor Relations section of our website.

We generated record quarterly operating results for the second quarter in a row as we continue to have a strong year at TFI. Our main goal remains the creation and unlocking of shareholder value, and whenever possible, returning excess capital to our shareholders. To accomplish this, we constantly strive for operating efficiencies, which means innovating to find value-added solution for our clients, pursuing an asset-light business model, maintaining a strong balance sheet and seeking accretive bolt-on acquisitions in a disciplined manner. Our focus remains on profitable growth, not just growth for growth sake. These have been our principles for some time and they continue to guide our decision-making.

During the third quarter, our total revenue grew 9% to $1.3 billion, which is up from the prior quarter's 4% growth and the 1% decline back in the first quarter. Our operating income more than doubled to $125 million versus a year ago, and our adjusted net income per share on a diluted basis was 96% to $1.04.

Our net cash from continuing operations, a very important metric for us, was $167 million, which reflects 29% growth. We believe that these consolidated results are a testament to our overreaching -- for our overarching focus on driving profitable growth.

Now let's have a look at our performance by segment. As a reminder, we have 4 reportable segments. And this quarter, all 4 generated top line growth, all 4 produced robust operating income growth and all 4 generated stronger margins.

Starting with the P&C, Package and Courier, which represents 14% of our segment revenue. Our revenue before fuel surcharge grew 3% to $155 million and this growth was entirely organic. Operating income expanded 19% to $28 million and the operating margin was up a very strong 250 basis point to 18.1%. As we continue to see volume growth and rate improvements, we remain focused on finding the optimal business mix and on efficiency initiatives.

Turning to our LTL segment, which represents 21% of segment revenue. Our revenue before fuel surcharge was up 5% to $228 million. Operating income was up a robust 80% to $25 million on a margin that expanded nearly 5% points to 11.2% from just 6.5% a year earlier. Our revenue per hundredweight excluding fuel surcharge increased 15.6% as we eliminated less profitable freight and we delivered an operating ratio of 88.8% in the segment.

Within our Truckload segment, which represents 46% of segment revenue, our revenue before fuel surcharge was up 7% to $521 million. Operating income reached $60 million, which is an increase of more than 300-fold (sic) [3-fold] from the $17 million a year earlier on an operating margin that expanded 8 percentage point to 16.6% from 2.5%. Our Canadian operating ratio were 85.2% in conventional Truckload, 85.6% in specialized Truckload. Our U.S. Truckload operation delivered their fourth consecutive quarter of sequential improvement in the operating ratio at 92.4%, a 210 basis point improvement over Q2.

Our final segment to discuss is Logistics and Last Mile, which represents 19% of total revenue. Our revenue before fuel surcharge was up 2% at $235 million, operating income of $17 million was up 27%, with the operating margin expanding 140 basis point to 7.2%.

E-commerce continued to grow as a portion of overall retail sales. And with our extensive Logistics and Last Mile operation, we were very well-positioned to capitalize.

Summarizing our segment performance, we are seeing strength across the board, despite the significant diversity and breadth we've achieved across geography and service type. We believe that's a testament to TFI's strong positioning in today's transportation and logistics industry.

Turning to capital allocation. As I mentioned, returning excess cash, capital to our shareholders is one of our guiding principles. During the quarter, we returned a total of $24 million, including $18 million of dividends and $6 million of share buybacks.

Looking ahead, we will remain active and opportunistic buyers of our stock, always with an eye toward enhancing shareholder value.

Taking a look at our balance sheet at the end of September, our debt-to-adjusted-EBITDA ratio stood at 2.3x, which is well within our prior 2 to 2.5x target range.

As many of you have seen -- may have seen, on October -- on Friday, October 5, we filed a shelf prospectus with the Canadian commission for an unspecified mix of debt and equity securities. This filing was done as part of a general corporate housekeeping initiatives and is a benefit of being a large season issuer like -- such as CFI.

The filing allows us the option to issue security over the next 25 months via an expedited registration process on either the TSX or another exchange but does not require anything from us. Such a filing allows us the flexibility to manage our business in a prudent and efficient manner.

Now, let's review our updated guidance. The general freight environment is strong throughout North America and all of our segments are benefiting, as I'm sure you've gathered. Volumes are rising and capacity remains somewhat constrained. As a result of these favorable conditions and our own success driving profitable growth today, we are raising our 2018 EBITDA guidance to a range of $665 million to $675 million from the prior range of $635 million to $645 million and this also compares favorably with our initial forecast closer to $600 million at the beginning of the year.

Our adjusted diluted earnings per share guidance, which is an important measure of TFI's overall financial success, rised to a range of $335 million to $343 million from the prior range of $321 million to $329 million.

Our next -- our net CapEx guidance, excluding real estate, for the year increased from $150 million to approximately $190 million. Approximately $30 million of this increase is due to the fact that since June of this year, we have been replacing leased tractors in our Truckload division with purchased tractors and the remaining $10 million difference is in part prior results of change in currency rates. This approach has little to no impact on net earnings because what was once lease expense will, by and large, be replaced with interest and depreciation expenses.

We are also pleased to inform you that the Board of Directors today of TFI has approved a $0.24 quarterly dividend. This is a 14% increase over our previous dividend of $0.21.

In closing, thank you all for joining us today's call. We appreciate your continued interest in TFI. And, operator, you may now open the calls -- the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Jason Seidl from Cowen.

Jason H. Seidl - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Just wanted to ask a couple of quick questions for you. On the LTL segment, you have your revenue per hundredweight was up a large amount. If we were to look at that on just pricing ex-fuel surcharge, what would that have been?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Well, you see, Jason, the big story behind that huge improvement on per hundredweight is because we let go a lot of insignificant freight, the low minimums and the small shipments, because this has always been, as you would say, a loss leader. So we get rid of all -- most of all those loss leaders. So this is why you see a big improvement in the per hundredweight like you see there. So this is why also, we are now running an [immediate] large in our LTL. It's because of all this pricing, if you want, or getting rid of all those shipments that cost us a fortune and don't bring any revenue or small revenue.

Jason H. Seidl - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Let me ask it in a different way. If you look at in terms of your same-store pricing renewals, how is that tracking in the Canadian LTL?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Pricing renewal or improved pricing in Canada on the LTL side is small, Jason. So it's not like the U.S. market where the guys should come up with 5% or 6% or 8% in pricing improvement. In Canada, we don't see that yet. The only areas where we can see some improvement is all the transborder

LTL that we do all over the road with companies like Cavalier and Tripar and Normandin, and all these guys that we do. Also, we have better pricing on the intermodal business. Their issue, it's helping us. But the over-the-road, like in the TST Overland or the CF, this is still flat to no increase on quality revenue.

Jason H. Seidl - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Okay. So it's more of a just addition by subtraction with some of that freight?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Yes. For the over-the-road thing, Jason, that's right. Now the intermodal, like I said, in the transborder, we see some 3%, 4%, 5%, 6% improvement in pricing there.

Jason H. Seidl - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

That's pretty good price increases. If we were to look at the U.S. number, I mean, it's nice to see and they continue the sequential improvement there, but I'm sure you would also say a 92.4 OR is probably not your target OR.

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

No.

Jason H. Seidl - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Talk to us about where you thinking -- where are you thinking you can get that business? And what are the levers you're going to have pull to get it there?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Well, the 92 OR is the average between CFI and TCA. So right now, what we're showing is average. But let me tell you that 92 OR, like you just said, we're not happy with that. Absolutely, there's no future for a company that runs on 92 OR in a very good season. Okay. Like the 2018 is a good year for Truckload guys. Now what are we going to do is very simple, it is that we're going to keep on doing what we're doing what we've been doing for the last 8, 9 months, is we are working on our costs and our efficiency and our productivity. That is the name of the game. We've been very successful at CFI. A little bit late in the game at TCA, but we have a plan, we're working on it. And for sure, in a good year, like in '18, normally, if you look at our Canadian operations we're running something like an 85 OR. That makes sense. That's normal. 92 is much better than last year, but it's still far away from where we should be.

Jason H. Seidl - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Okay. And the blended, what do you think the goal is? I mean, you mentioned, 85, is that the goal for the division?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Well, in a good year, Jason, it's got to be 85. In a normal, if you look at it on a 10-year spread, if you're running a 91 because, in a difficult year, you could be a 93, 94, 91, 92 buy, but on average, on 10 years, you got to be around 90. All right. So right now we're 92.4. So yes, but look at where we come from. I mean, we come from a long, long, long way. Okay. So we've made a ton of improvement. And every quarter, we keep on improving. A lot has to do with costs, some has to do, also, with pricing, but also a lot has to do with cost. So Q4, we're going to keep on working the same kind of formula and, hopefully, we'll get closer to 90 versus the 92.

Jason H. Seidl - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Well, you're headed in the right direction. One more and I'll turn it over to somebody else. All right. Can you talk a little bit about peak season? And what are your expectations? And what have you seen so far?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Well, if we look at the Canadian side, our P&C is just bursting at the seams. I mean, the e-commerce, which went really, really well there and just look at our numbers in Q3, I mean, 18% EBIT in our Canadian P&C businesses, is second to none. It's -- we've never seen that. And talking to my guys last week when I was in Toronto, I mean, the guys are just going crazy with volume. And you saw a little bit of organic growth in our P&C in Q3 year-over-year. On the LTL side, the transborder business is doing very well. The intermodal business is doing very well. So we're going to be crazy busy there as well. The over-the-road thing that -- no, there -- I mean, we see some depreciation. Some of our customers are losing to the e-commerce players. So the over-the-road traditional LTL in Canada, I mean, we're not seeing any growth there. On the Canadian Truckload and the specialty Truckload, it's all good. On the U.S. side, talking to our guys, I mean, we feel good about Q4. We feel pretty good. Our Last Mile guys in Canada are just going crazy, same thing with our U.S. boys.

Operator

Your next question comes from line of Walter Spracklin from RBC.

Walter Noel Spracklin - *RBC Capital Markets, LLC, Research Division - Analyst*

I guess, one of the things that we noted in the U.S. pricing in the Truckload side was a turn earlier in this year or perhaps last year that now seems to be topping out a bit and might be seeing pressure on the other side. Are you seeing that at all in your U.S. operation despite the labor shortage and all those things? Are you seeing a little bit of initial softening in pricing in the markets that you serve within the U.S. side?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Not yet, not yet, Walter. I mean, don't forget, we come a long way on costs, and -- but we also come a long way on quality of revenue. So far, we're probably still behind the good trucking company like Knight, like Werner, in terms of the quality of revenue. So far, us, we're still getting every month, 1/2 a penny, a penny more, okay, total miles. But there, again, I mean, we don't control the market, so our focus has always been the same. Guys, let's address the cost issue, maintenance, fuel economy, et cetera, et cetera. Efficiency, making sure that the customers that we serve fit the network. Let's not be jack of all trade and master of none.

Walter Noel Spracklin - *RBC Capital Markets, LLC, Research Division - Analyst*

And would you say that in the Canadian environment, you are still seeing opportunity for pricing that is kind of lagging what we saw in the prior periods in the U.S.?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

No. On the Canadian side, we're market. I mean, we're doing as good as the market can bear today. On the Canadian side, whenever you run, Walter, an 85 OR, in Canada, it's because you are very, very good. Okay. So market -- we're market on the rates. There's no catch-up there. We're still working on the cost because that's a never-ending proposition to TFI. But to say that -- now, in terms of volume, that could be a little bit different. I mean, we've said all that this NAFTA thing there, okay, so which was a little bit of a cloud, now this has settled. So what we believe on the Canadian side specialty TL even more than the regular event, maybe not in Q4, but probably sometimes in '19, we believe that we're going to see a little bit of improvements on the volumes.

Walter Noel Spracklin - *RBC Capital Markets, LLC, Research Division - Analyst*

You also mentioned that the Canada post-potential strike had a little bit of a lift on your operations in Canada that will probably amplify in the fourth quarter. What do you think is the opportunity for you to hold onto some of that share if it shifts your way, even if we get a strike resolution on the Canada post side?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Well, you see, that's always a big problem for us, Walter. It's because this is fall. We're really busy with our existing customers and this thing -- this rotating strike comes in. A lot of customers call us, customer that we don't serve, some customers that we use to serve and we say, "Hey, we can't keep on servicing you with 4% bottom line." So they walk and they went with somebody else. Now they're calling us back, so what we're trying to do is, we're trying to protect the good customer that we have that sometimes split their business between us and somebody else. Okay. So that's a really our goal #1 because to tell you that we're running at 60% capacity and we should take a lot more freight, it's not true. I mean, we're very close to capacity in the fall. All right. But it's not going to be highly significant for us in Q4, this thing with Canada post. Now, one thing is for sure, some other customers that we're helping, existing customer of ours, for sure, they're thinking, well, if I use TFI, better service, more money, though, but you've got a great carrier to that you deal with, so maybe they'll stick.

Walter Noel Spracklin - *RBC Capital Markets, LLC, Research Division - Analyst*

That sounds good. And then, last question here. I know we're looking into 2019, you're a little reluctant to provide anything into 2019. We're -- I guess, we're 3 months closer now. Are you able to kind of give us guidance in terms of relative growth rates? Are you expecting a meaningful growth in EBITDA next year to locking in some of the gains on a full year annualized basis in 2019 that you've achieved in 2018? Is there any sense of outlook you can provide into 2019 for EBITDA?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Not yet, Walter. The only thing I could say, well, first of all, we're not done with our budget. So it's always the same story. Fall is a busy time for us. What I could tell you, though, is that we revised '18 and I would feel very confident that '19 is going to be better than '18. I could say that so far. Now more than that, it's still difficult for me. But I feel very good about '19 when I looked at some improvement on the cost that we could still do in '19 on the U.S. TL operation. If I look at the volumes that we're growing on the P&C side with the e-commerce, the opportunity that we have, we just signed a new deal with a major customer and we just said to this customer, we said, "Sorry, sir, we cannot service you in the fall, we're too busy, but, okay, we'll definitely take on your business Jan 1." Major customer. And don't forget, with this new thing, the minimal that's been in the new deal with Canada - U.S., you're going to see a lot more e-commerce transported between U.S. and Canada. And that new customer is going to highly benefit from that. So we feel good about our LTL as well. I mean, our transborder LTL is growing well; intermodal too. So this is why -- the only thing I could see, as of now, is we are convinced that we are going to beat '18. By how much? Still too early.

Operator

Your next question comes from the line of Turan Quettawala from Scotiabank.

Turan Quettawala - *Scotiabank Global Banking and Markets, Research Division - Director, Transportation and Aerospace, Equity Research*

I just wanted to ask you a few questions. First of all, on the LTL side, I think we talked a little earlier on the call here about revenue per hundredweight going up quite a bit. I guess, on the flip side, your revenue per vehicle is going down and that's, obviously, because you're getting bigger shipments so that makes sense. As I see I'm just wondering how much excess capacity, I guess, do you have in this segment? And -- or should we just expect you to maybe have some sort of truck for failure?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

You know what we're always adjusting ourselves, Turan. So like I just said, on the international LTL, we don't have excess capacity. As a matter of fact, we're growing there. The only areas where we have excess capacity and we shrank our footwork -- footprint and we also sold some equipment is our traditional over-the-road LTL like the overland. Okay. So there, we shrank. We shrank the number of shipments. We shrank the number of trucks, et cetera, et cetera. And we don't see that coming back. Okay. So really our area of focus in our LTL is really the transborder and the intermodal. There, we are really, really happy with what's going on there. We have a new team under Bob McGonigal's leadership on the intermodal. I mean, brand-new team. Tony at Vitran retired about 6 -- 9 months, a year ago. Darell at Clarke did the same thing. And the guy at the NFF, he retired probably like 8, 9 months ago. So we feel really, really good there. So we're not in the practice of -- we're not in the business to practice that delivery in 2%. So if you go back 2 years ago, we were running our LTL at 5%, 6% EBIT. And we were not really happy. How can we invest in a business buying trucks for 5%? No way. And the guys, they're back to work. We're really happy with the results, and it's just going to keep improving there.

Turan Quettawala - *Scotiabank Global Banking and Markets, Research Division - Director, Transportation and Aerospace, Equity Research*

Okay. And I guess, just in terms of the U.S. Truckload, obviously, the operating ratio there also getting better. I know you mentioned that you -- it's still not as good as you like it to be. Fair -- Is it fair to assume that you should get to a below 90 OR in the U.S. Truckload operation, sort of, in 2019?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Well, if market stays the same. Because a lot of people are speculating now that maybe we're at the end of the cycle; maybe, maybe not. I mean, nobody really knows. But let's say, market stays the same. Okay. In terms of quality of revenue, I'm a firm believer that with the super team now that we have in the U.S -- I mean, a year ago, we didn't have really a team. So the team has been built over the last year -- and if you just look at the results, it's -- I'm really proud of these guys. So market stays the same in '19, I'm convinced that we're going to be at least at 90 and maybe a little bit better. But, let's say, we're going to be at least at 90.

Turan Quettawala - *Scotiabank Global Banking and Markets, Research Division - Director, Transportation and Aerospace, Equity Research*

Okay. That's great. And just last question from me on leverage. That's obviously come down quite a bit as well. I guess that sort of opens up the opportunity for acquisitions. Are you looking at any deals right now into 2018 or early 2019?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

We're looking at a lot of transaction, lots of deals right now. We just purchased a great carrier in Windsor, Gorski. We will probably buy 2 or 3, 4 more carriers before the end of the year in Québec and in Ontario. We're really, really busy with that. This is why we've added a guy on our M&E team, Mr. [Satong] who will start in the next few weeks working with David there. Lots of possibility there. Big whale, big transaction, probably in '19, I don't see it. Well, we never know. But probably just in '19.

Turan Quettawala - *Scotiabank Global Banking and Markets, Research Division - Director, Transportation and Aerospace, Equity Research*

Okay. As we end the year here in 2018, there is no major reason to believe that leverage goes up substantially?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

No. With all these transactions that we're looking at, if we close all them, our leverage will stay around 2 -- 2.3.

Operator

Your next question comes from the line of Cameron Doerksen from National Bank Financial.

Cameron Doerksen - *National Bank Financial, Inc., Research Division - Analyst*

So just on the 2018 guidance, and just wondering if you can talk a bit about the free cash flow expectations? I mean you've increased your CapEx a little bit here, but EBITDA was coming in better than expected, so I was hoping maybe you can just update us on that?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Well, I think that if you include the new CapEx. And you guys, I'm sure you understand what's going on right now is that we -- in Canada, we use to lease the trucks to a certain degree. On our U.S. TL, the same, we used to lease the trucks on the Truckload. Okay. So as of June, we made the decision to stop leasing. When we started looking at this IFRS 16, we said this doesn't make any sense. So we got to stop leasing and we're going to start buying. So this is why, from that time, we started buying the trucks both on the Canadian and on the U.S. side. Okay. So that's why our guidance of 150, we're going to miss that and we know why. And the other portion is that we buy trucks in USD. So for sure the dollar now is $1.30, a $1.31. When we made the forecast, we were talking about a dollar, something a $1.20 or $1.22. So that's the FX thing there. And now if you take these new kind of CapEx and if you look also at our new guidance for EBITDA, free cash flow will stay about the same.

Cameron Doerksen - *National Bank Financial, Inc., Research Division - Analyst*

Okay. And I think if I remember correctly, it was kind of in at $355 million to $370 million range?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Yes, yes.

Cameron Doerksen - *National Bank Financial, Inc., Research Division - Analyst*

Okay, okay. And just on the U.S. Truckload, obviously, pricing is helping you guys, and there are other things going on there to improve the margins, but can you just talk a bit about the contract renewable profile? I mean, I just still wonder if there is, sort of, more of that to kind of flow-through things, maybe, price higher in Q3 that we have maybe yet to see in the numbers?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Well, definitely, that's a very good question, Cameron. We are probably done with all this stupidity that we had to leave with the past. But that will take also -- that will trickle down in next year in Q1 and in Q2, okay. Because you have a new pricing in Q3, so that takes -- changes the picture completely for next year. But in terms of the major business that didn't make any sense for us, I mean, we just finalized one just lately in TCA dedicated that we were running freight for a dollar, a bucket mile or close a bucket mile. It didn't make any sense. So we just changed that at the end of October -- at the end of September, okay. But those kind of mistakes, we're done with. I mean, big thing there, we're done. I mean, now is just the fine-tuning, making sure that the freight fits the network, making sure that the price is really the market. So I don’t see major improvement in the quality of revenue, but what I see is major improvement on the cost side of things.

Cameron Doerksen - *National Bank Financial, Inc., Research Division - Analyst*

All right. Okay. And maybe just final one for me. Just on, I guess, sort of the Last Mile business and then, particularly, with the e-commerce growth, I mean, mentioned a new customer signed that sounded like it was fairly large. I don't know if there is any way you can quantify that for us, but I guess, maybe more important is, what kind of e-commerce growth we're able to parse that out? What kind of growth are you seeing right now? And given the customer wins you've had, I mean how do see that trending over the next year or so?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

You know Cameron, we could roll e-commerce by 30% or 20% if we would want to do that. That's not an issue. The problem is to grow that with 10 points or 15 points or 8 to 10 points. Okay. So this is why you look at our Q3, on our P&C side, you say, "Oh, all right, yes, it's growing by 3%." But our main focus is really to grow the bottom line. It's always been like that. So what we are seeing now, Cameron, is we believe that in '19 and in Q3, we're going to play maybe 3% to 5%. So we're not going to be like the 15%, 20%, or 30% that maybe some of the guys could do on the e-commerce because we're very difficult in terms of pricing, also. We have to make our 10 points. If not, then we'll the other guy do it.

Operator

Your next question comes from the line of Brad Delco from Stephens.

Scott Anthony Schoenhaus - *Stephens Inc., Research Division - Research Associate*

This is actually Scott showing on for Brad. I wanted to follow-up on the M&A question earlier. I know you mentioned you have some maybe Canadian Truckload deals that you're looking at.

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Yes, yes, yes.

Scott Anthony Schoenhaus - *Stephens Inc., Research Division - Research Associate*

Since last quarter, we've seen the U.S. Truckload guys multiples contract significantly. I'm wondering if that has changed your perception of doing more -- growing your U.S. TL revenue stream by M&A.

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

You know what, right now, our focus is really to work with our U.S. team to be closer to 90 OR, okay. Until we get to that point, for us, it doesn't make any sense, in my mind, even if the price is cheap, okay, to start investing into a new company. We need a solid team in the U.S. and that's what we are working on with the people there. Once we have that, then we could go to the next phase. You need a deep bench to grow. The only exception, I would say, on that is specialty TL. We are really in love with that. We are doing fantastic in Canada and we have so many customers that are asking us, "Guys, when are you coming to the U.S." I mean, guys -- customers that are around the states like Michigan, around Canada, okay. So there is a possibility there that maybe as a small acquisition, we could start looking into the specialty TL in the U.S. Right now, on the small deals we're so busy in Ontario and in Québec that, that's been our focus in Q3 and in Q4. Now, come 2019, a sizable deal has to be from the U.S. in my mind.

Scott Anthony Schoenhaus - *Stephens Inc., Research Division - Research Associate*

Great. When you see specialty, do you mean like flatbed? Is there a particular...

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Flatbed, tankers, no refers though. But everything that is not a van. Dumpers.

Scott Anthony Schoenhaus - *Stephens Inc., Research Division - Research Associate*

Great. And I guess, my follow-up question is, when I'm thinking about your final mile business you continue to grow that, and I'm wondering how you're trying to scale that in the U.S. You know that's a big question that we get repeatedly is, how to scale the final mile business within the U.S.?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Yes, that's a tough one. So right now what we've been doing for the last, I would say, 3 or 4 years is, really shedding low-margin business and replacing that with better business. That's what we've been doing for the last few years. Now it's been -- it's tough to buy in that Last Mile because there is not that many players of size. There's a lot of small players, okay. So right now, our focus has always been to, "Hey guys, let's get rid of that 2% guy, 3% guy, 4% guy," which we've done a good job of that. Now the next step is, "Okay, what can we find -- is there anything that we could do," and that's what we're working on. Now it's still early in the game, maybe in '19, we'll find something that makes sense, it's still early.

Operator

Your next question comes from the line of David Ross from Stifel.

David Griffith Ross - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD of Global Transportation and Logistics*

So focusing back on the Truckload segment. I guess, do you have comment on where you guys are in the driver recruiting and retention side and what the unseated truck count looks like in the U.S. tractor -- or trailer?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Doing well. Doing very well, doing better, okay? Doing better. Well, it's maybe too strong, but doing better, absolutely. I mean, we have some success in retaining our drivers at CFI. That's the asset. It's your driver. So we're not where we would like to be, but we're getting better.

David Griffith Ross - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD of Global Transportation and Logistics*

The tractor age is pretty young so it looks like the U.S. fleet is in very good shape there. But we have seen the trailer age creep up a little bit. Is there an issue with replacements in terms of getting the orders from the manufacturers on time? Is that the strategy we're using...

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

No, it's not that, David. It's a decision that we made. We've decided to age a little bit our fleet at CFI because we get lots of trailers in Mexico at one time. So talking with Greg or -- and the team there, so they said, "You know what? I think we could live a little bit older fleet there on the trailer side." So that is really the reason why we're living with a little bit older. So on the trucks -- on the trailer side, I'm really happy with our maintenance costs on the trailer. So I don't see any reason why we should run a younger fleet than what we have today. The fact, also, that also CFI wants to have more trailer available in Mexico.

David Griffith Ross - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD of Global Transportation and Logistics*

And then moving on to the Logistics and Last Mile segment. Personal expenses were down year-over-year even as you grew revenues a little bit. I guess, what went on there? Was that just some cost cutting from some unnecessary positions or what?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

A little bit of that. I mean, we have one of our division that have a program with their employee that didn't make any sense. So we took the bull by the horn. We have Scott Lane that took over. Scott is the person responsible for those division, and he's done a fantastic job of adjusting our cost to the reality.

David Griffith Ross - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD of Global Transportation and Logistics*

And then last question around that U.S., Mexico, Canada trade agreement. You made a comment that it may generate more cross-border activity. Could you elaborate a little bit on that? I guess, with the resolution now, what is good? What goods are flowing? And what do you see in terms of the growth?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Well, in terms of the e-commerce, Dave, what we see is, because now they moved the de minimis from $20 to $40, and also, the fact that there is no duty in Canada on every shipment is as high as USD 100, we believe that we're going to see a lot more activity between U.S. and Canada, goods flowing from the U.S. to a Canadian consumer. We haven't seen that yet because the new thing is not in place, but this is what we believe is going to happen. On the Truckload side, I mean, we're so busy right now. And we have tariffs on steel. We have tariffs on aluminum. They're still on, but what we're hearing is that, that's also another thing. There's a lot of discussion about that. So we lost a little bit of volume on the steel side. But our guys are so busy in other sector that we don't see anything. We don't see a drop in our business. And now if the tariff go away on the steel side, I mean, we're just going to be even more busy. You will see us adding to our specialty fleet in Ontario within the next 2, 3 months. The Gorski acquisition was fantastic. Gorski has a small operation in the U.S., very small, but it's our first foothold on the U.S. territory in terms of specialty truckload. And we could add to that probably with within the next, I don't know, 6 months to 12 months.

Operator

Your next question comes from the line of David Tyerman from Cormark Securities Inc.

David Bruce Tyerman - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

My first question is just on Canadian ELD. So it looks like it's going to become real. I'm just wondering if you had any thoughts on how you see that affecting the business in 2019?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

It's going to be, in my mind, a big benefit for safety in Canada. And it's also going to eliminate some cheating. Sadly to say, I mean, we have some smaller carriers that are cheating the system, and it's very dangerous for safety. So I think that what we've seen in the U.S., we will probably see something similar in Canada, which will be a small contraction of the offer, I don't know, maybe 1 point, 2 points, 3 points. So that's going to be favorable to us because us, we don't cheat.

David Bruce Tyerman - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Okay. So would you expect to see the kind of pricing power that they seem to contribute to in the U.S. and Canada this year, maybe in the second half side?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Yes, yes. You know what we saw, David, is this, so far, listen to that. I mean, a lot of Canadian -- not a lot but some Canadian drivers, when the ELDs came into force into the U.S., they said, "I'm not going there." Okay? So that created a little bit of shortage, okay, in terms of Canadian running into the U.S. So we had to increase salary, and at the same time, shipping rates went up, and we were winners on that. Now, those guys went to Canada and stayed in Canada. So when we have ELDs in Canada, I don't know where these guys are going to go. Maybe in Mexico, I don't know. But one thing is for sure is that this is going to help the Canadian market, and it's going to be a blessing for safety and for us at the same time.

David Bruce Tyerman - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Okay. That makes sense. And then the other question I had was on the P&C margin, they are as high -- I think that the -- they are the highest that I can see anywhere in my model, and it goes pretty far back. I guess the question I have is, how -- obviously, there must be a decent amount of cyclical element to this. In your mind, how -- have you moved to a new level...

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Sustainable?

David Bruce Tyerman - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Yes, how sustainable are they? So have you moved to a new level that's like 5 points higher than it used to be or?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Well, David, you have to go back to 2011. 2011, our EBIT was around 14%, and we bought Dynamex and we bought DHL Canada and then we went to the (expletive) at 5% or 6%. And if you go back to what I was saying 2, 3 years ago, I said, "Guys, we're going to be double digit." Now we took on, with this new classification, we took the Last Mile out of there and then people started to say, "Oh, wow. These guys are 12%, 13%, 14% EBIT. That's good." Now this is all about all the investment that we made on equipment, sorting equipment, consolidation of the sorting in Toronto, in Montréal, and we're doing Vancouver now. We're going to do Calgary next year. So this is how we bring cost down: more efficiency. Yes, it costs us a lot of severance. We probably spent over the last 4, 5 years, $20 million, $25 million severance in our P&C in order to achieve those numbers. Now what do we see for the future? Is 18% or 15% sustainable? Absolutely. Unless something happens and the markets start to go into a pricing war, which we don't see happening at all, we're going to stick with that 15% to 20%.

Operator

Your next question comes from the line of Gianluca Tucci from Echelon Wealth Partners.

Gianluca Tucci - *Echelon Wealth Partners Inc., Research Division - Research Analyst*

Just quickly here on the e-commerce side. How much business today can you quantify that you're doing in e-commerce or e-commerce-related and how does that size up to 1 year ago?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Okay. So if you look at our e-commerce across the board from TFI, we are in the $375 million to $400 million, okay? So it's basically, like, flat over the last year because in 2017, we lost like $40 million or $50 million of business in the U.S. with the largest e-commerce player in the U.S. In 2018, the same e-tailer, we've decided to walk away from those guys to a certain part of the business. So we've replaced all that, but it's like we play on a standstill. But for coming 2019, I think that all the standstill is going to go, and probably, we should be growing that between 2% and 5% in 2019. But like I said earlier, our focus to us is growing the bottom line. We could do more than that, absolutely. But it's by choice that we say, "Guys, no. We're just going to work for the guys that can afford to -- for us to make money."

Gianluca Tucci - *Echelon Wealth Partners Inc., Research Division - Research Analyst*

Right. So you're focused on the quality of that revenue as opposed to just expanding the top line?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Quality. Quality, yes.

Gianluca Tucci - *Echelon Wealth Partners Inc., Research Division - Research Analyst*

Yes. Okay, excellent. And secondly, can you just give us a quick update on the labor shortage? I mean, has it gotten better or worse compared to Q2? And so far, in Q4, what are you seeing out there?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

It's tight. On the U.S. side, the market is tight. Everybody can see it. The unemployment is around 4% so the market is tight. So this is why, why would you invest capital for a truck and time to recruit a driver for 2%? You've got to be stupid to do that, right? So this is why our focus to us is to keep the drivers we have as much as we can and the trucks that we have and also service customers -- good customers that fit our network -- and fit our profit profile.

Gianluca Tucci - *Echelon Wealth Partners Inc., Research Division - Research Analyst*

That's great color. And just turning the tape here to Mexico, nice growth. Your consolidated growth down there, it was about 12%. What's driving that growth now that -- like, I mean, I think it's about 2 quarters in a row now of growth over 10%. Where is it coming from? And do you have any plans to be acquisitive in the region?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Not in Mexico. No. we don't plan on buying any company in Mexico, but what I could tell you though is that CFI's share -- Mexico share revenue is still below where it should be. So we went as low -- I'm just speaking, I would say as low as 26 to 28%, and we should be closer to 30% to 35%. So we still have a lot of catch-up to do over there in Mexico. The other thing also, we just stuck a deal with an LTL company in the U.S. where they're going to use us to service Mexico on their behalf. So yes, we have a good team of people. We have -- I don't know, I think it's 12 officers in Mexico, and our employees are doing a fantastic job.

Gianluca Tucci - *Echelon Wealth Partners Inc., Research Division - Research Analyst*

Perfect. And then just lastly here on my end on some housekeeping items. How should we think about CapEx in 2019, if you benchmark that to 2018, given the updated guidance on that side?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Still early, still early. But I think that the big question is how many trucks in 2019 do we have to replace. If this would be not an issue, I would tell you that CapEx for me would be basically the same as before in '19 as it was in '18. But now that we have all this truck replacement, buying the truck instead of leasing the trucks, the guys are working on it. And also, our budget is not done, completed. So it's still early.

Operator

Your next question comes from the line of Benoit Poirier from Desjardins Capital Markets.

Benoit Poirier - *Desjardins Securities Inc., Research Division - VP and Industrials, Transportation, Aerospace, Industrial Products & Special Situation Analyst*

Just to come back on the ELD, you provided some great color about how it could impact the Canadian landscape. But I was wondering if you could talk more -- provide more granularity about how it impacts the M&A. Is it kind of the key driver where you're confident to make more acquisition by year-end in Canada? And does it drive the valuation lower?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Well, I don't think the ELDs has any effect on that, Benoit. I think that it's -- those carriers are just getting to a certain age, and they look at that where could I have my team, my people, where is the best home for those guys? Okay? And that's what we see in Québec and in Ontario, that this is really the drivers. The guys are just saying, "You know what? I'm a certain age. I want to retire. But I want to find a nice home for my people, where they could grow." And they look at TFI and they say, "(expletive), those are the best." So then, they pick up the phone, they call our guys, our guys take the first call and they say, "Yes, Alain. This makes sense. This fits. We like this company. It's a great company like this Normandin acquisition that we just did in the spring. This is a fantastic company. We like the management. They do a fantastic job." So the Gorski thing that we just bought, the [Brasure] in Québec. I mean, this is all the same thing. I mean, [Mr. Brasure] wanted to retire. So okay, fine, we did the deal. Same story with -- that is really the driver. And where is the best home for if you want to sell your company in Canada? TFI.

Benoit Poirier - *Desjardins Securities Inc., Research Division - VP and Industrials, Transportation, Aerospace, Industrial Products & Special Situation Analyst*

Okay. And my second question is more around the long-term margins. Obviously, you provided some comment about the sustainability of your EBIT margin for Package and Courier, also more color about the U.S. truckload, but could you maybe give us more color about LTL Canadian truckload and Logistics and Last Mile given the great results that you published in Q3, Alain, kind of the long-term margin target?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Yes. On the LTL, I feel really good because our mix of transborder and intermodal is really changing, okay, the way we run our LTL. So I would say that we run transborder and intermodal. Transborder is already about 10 points EBIT. It's got to be. And the intermodal is not at 10 today, but it will be probably by the end of 2019 because that's where we have to be. And intermodal, in my mind, 10 point is not where we should be. We should be between 12 and 15. So still lots of room to play. On the over-the-road, our focus being profit, not volume, I think that over-the-road, being the very difficult market that we live right now in Canada, I'm confident that we could be an 8-point guy. We're very close to that right now. So 8 to 9 points, I'm going to feel good because, don't forget, the sum of all in Q3 is about, what, 11 points, 11.2. They're our EBIT in Q3. On the Last Mile side, the problem we have is not Canada. Canada, we're doing well, and we're going to do even better, okay? Canada is a double-digit EBIT company. The U.S. is not. The U.S. is not, and the reason being is that we compete with a lot of guys of size that don't like to make money. It's just they don’t like to make money. They -- one of our competition of size, they don't make money, they lose money. So this is why my guy Scott and his team, it's not easy because they compete with guys that don't care if they make money, right? So this is why slowly but surely, if we could add to our -- organically to our business, number one, and also maybe do a little bit of M&A to eliminate some of these guys that don't like to make money or don’t know how to make money. Maybe that's the problem. And on the Canadian TL, 85%, 84%, 86% OR, I think that in Canada, because of our size, because of -- we're the leader in Canada, specialty and van, I believe that on a 10-year period, when I was talking U.S. 10-year 90% OR, I think it's attainable, it's normal. On the Canadian side, I think an 87% OR on 10 years, 87%, 88% is attainable, maybe 2 to 3 points better than U.S.

Operator

Your next question comes from the line of Mona Nazir from Laurentian Bank.

Mona Nazir - *Laurentian Bank Securities, Inc., Research Division - VP of Research and Transportation & Infrastructure Analyst*

So I know you spoke extensively kind of, of your expectations for growth into 2019. And I'm just looking at the numbers ahead. I just wanted to clarify if my takeaways were correct, adding up the points. So you spoke of continued efficiency specifically in the U.S. TL side and organic growth to continue kind of in the low single digits, but your focus, if I view this correctly, is to expect margins to remain at the current levels with some further expansion in pockets and all of that to be augmented by a marginal top line growth. So net-net kind of very low to mid-single digit growth should be achievable for next year. Would that be correct?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Well, Mona, you've got to look at it sector by sector or segment by segment. So what I say is that my P&C, I'm convinced that we're going to do 2% to 5% organic growth in '19, and the bottom line will follow probably even better, okay? Now if you look at our LTL, there, I'm saying that our transborder and our intermodal will grow 2% to 5% there as well, and the bottom line will probably even improve even better than that because we're still away from our 10% minimum EBIT in our intermodal. Now the over-the-road LTL, that will shrink probably 1% or 2% or 3% because we always shed the small guy -- small shipment, not the small guy -- small shipment where we can't make money. And we got more competition there as well, okay? So that being said, we will probably reduce a little bit in terms of revenue on the over-the-road LTL, but our profit will go up because we still have lots of good stuff that needs to be done there. Last Mile on the Canadian side, doing great. The e-commerce will help us a few points. Bottom line is fantastic. On the U.S. side, some growth. A little bit more difficult to improve the bottom line because of competition that we have that don't want or don't know how to make money, and that puts pressure on pricing. Tough for us to really to grow and make our 8 to 10 points there. So this is why I'm saying a little bit cautiously that if we could eliminate one of these guys now, that would help us. And the U.S. TL, it's really a game of keep on doing this more of the same, working on the cost, reducing the cost. And I don't look really at a lot of major improvement on the quality of revenue there, but our focus on the U.S. side is really how can we take that 92.4% in Q3 '19 closer to (inaudible) future.

Mona Nazir - *Laurentian Bank Securities, Inc., Research Division - VP of Research and Transportation & Infrastructure Analyst*

Okay. You were just breaking a little bit at the end, but I will check the transcript, but I got most of it down. Can hear me properly?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Yes.

Mona Nazir - *Laurentian Bank Securities, Inc., Research Division - VP of Research and Transportation & Infrastructure Analyst*

Okay perfect. And just -- so that was very helpful. And just turning to Greg, the current CFO. Your retirement is still planned for early next year. Is the CFO search ongoing? Is that the focus for you? Or are your eyes on the business and not a huge priority at this point?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

No, no. CFO is a priority. I mean, Greg has done a fantastic job for the company. And I said it I think on the last call, we think that we'll be announcing the new CFO before the end of the year, 2018. So there is going to be some transition with Greg.

Mona Nazir - *Laurentian Bank Securities, Inc., Research Division - VP of Research and Transportation & Infrastructure Analyst*

Okay. Okay, perfect. And lastly for me, you touched on driver recruiting and the labor shortage. But just delving a little bit more into the wage and labor expenses, looking at a number of U.S. peers, they've been citing a significant uptick in labor, double-digit increases have been pressurizing the bottom line. I know I mentioned, I think, the last call even that you've already put through wage increases. And just looking Note 16 in the statements, I'm not seeing that significant double-digit increase from you guys, albeit it could be clouded by the other things. So have all your labor costs kind of increases been put through? Or do you expect some further increases going forward in the near term? Or is it status quo to continue?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

No, on the U.S. side, Mona, for sure, I mean, we have more increases to our employees that are scheduled for next year. Absolutely. Now the reason maybe you don't see that is also at the same time we're improving the productivity of our employees on the U.S. side and, to a certain degree, the Canadian side. But whatever increases we were so happy to give our employees, we've also worked with our customer to pay an improved rate, a fairer rate for our services.

Operator

Your next question comes from the line of Brad Delco from Stephens.

Albert Brad Delco - *Stephens Inc., Research Division - MD*

Alain, can you hear me okay?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Yes.

Albert Brad Delco - *Stephens Inc., Research Division - MD*

Just one follow-up from me real quick. In your remarks, you talked about that shelf, and I think you said this will allow you some flexibility to issue in Canada or any other exchange. Is it possible we could see a U.S. listing as a result of this?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Well, you know what? Another exchange could be U.S. I don't think it's going to be Mexico.

Albert Brad Delco - *Stephens Inc., Research Division - MD*

Well, I wouldn't expect so. But could provide any more color on your thoughts behind that?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Well, we say that -- I would say, for, I don't know, maybe in the last 2 years that we would like to list on the New York Stock Exchange when the time is right, okay? Absolutely. And then, one of the reasons behind that, we don't need to issue equity because, like I said, our debt-to-EBITDA is 2.3. We don't have a big fish. We don't have a big whale in terms of acquisition. So we don't need that equity. So this is why, when time is right, absolutely, we would like to do something like that. But the timing has to be right, okay? And then we are not forced to do something like that. We will do it if it makes sense. One thing we know based on our experience of what we've done over the last year is we did a nondeal roadshow in the U.S. And that really confirmed to us that at what point when the timing is right, absolutely, because there is a big valuation in the U.S. in terms of the (inaudible) whereas TFI is still valued in Canada mostly on an EBITDA, which to me, I have said it many times, doesn't make any sense because our capital intensity is only 4%. It doesn't -- with the cash flow that we generate from our operation, it doesn't make any sense to be valued on an EBITDA basis. So we will see. But we have 25 months. So that's 2 years. When the timing is right, absolutely, we will look at it.

Operator

Our next question comes from the line of Kevin Chiang from CIBC.

Kevin Chiang - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Analyst*

I just had one question. I think some of the drag in your U.S. TL business you've talked about in the past were some of your trucks coming off warranty and then you've talked about something like how much are you going to spend. Do you, basically, lap all those headwinds in '19? And if so, just wondering how much of that alone would improve your OR relative to what you're doing today.

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

Yes, that's a very good question, Kevin. Even with an average age of 2.1, we still have lots of trucks out of warranty because the fleet was poorly managed, not so much at CFI. CFI, it's probably by the end of the year, the trucks out of warranty is going to be gone. But at TCA, we had a major issue there in terms of managing the fleet property. And normally, you have trucks out of warranty because of age and because of miles. If you have trucks out of warranty because of miles, I mean, you didn't manage your fleet property. And at the same time, you have trucks out of warranty because of age. So this is not normal. So for sure, now our guys are really being very focused on that. So this is why probably by the end of '19, we will be done with all the out-of-warranty trucks. The other thing, too, is that you could buy an extended warranty. So in Canada, we buy up to 6 years warranty on the trucks. In the U.S., the guys were thinking more about 4 years. So again, that doesn't help. So -- but all the new stuff that we've been doing for the last 12 to 18 months is being bought with these protection. And the same thing in terms of safety, the collision avoidance and lane change, the forward-facing camera, these are all different things that will help us reduce our costs of claims because we do believe that our cost of claims in the U.S. is 4x our cost in Canada. So turnover -- driver turnover doesn't help. But for sure, safety, equipment should be there to help our drivers reduce the number of incident or accident.

Kevin Chiang - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Analyst*

That's helpful. Actually, just on that last point, if you were to -- if you had a comparison, drivers that have newer equipment with all the safety features versus ones that might be driving older equipment, could you give a sense of the potential cost savings as you replace that fleet with equipment with all the bells and whistles?

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

It's important, Kevin. I mean, if you exclude the maintenance -- because maintenance, let's say, when we started CFI, our maintenance cost per mile was between $0.10 and $0.14, which is unheard of. I mean, this is a disaster. Now CFI's maintenance cost is closer to $0.05 to $0.06, which is not perfect, but it's really close to where it should be. In terms of the fuel economy between the 2014 poorly-built and 2018 well-built, I mean, fuel economy could be a few cents a mile, which is important. And the safety, I mean, it's still an issue, but in my mind, $0.08 a mile on safety and claim, it's way too high. I mean, could we do it for $0.06 or for $0.04? It will take time for sure, but that's the goal.

Operator

There are no further questions at this time. Mr. Alain Bédard, I turn the call back over to you.

Alain Bédard - *TFI International Inc. - Chairman, President & CEO*

All right. Well, thank you, operator, and thank you, everyone, for participating in today's call. We're excited about the opportunities ahead, and we'll continue our focus on creating and unlocking shareholder value and, wherever possible, returning excess capital to our shareholders.

Well, thank you, again, and I look forward to updating you when we report our fourth quarter results. Have a good evening. Thank you all. Bye.

Operator

This concludes today's conference call. You may now disconnect.
