

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

TFI.TO - Q1 2019 TFI International Inc Earnings Call

EVENT DATE/TIME: APRIL 24, 2019 / 12:30PM GMT



## CORPORATE PARTICIPANTS

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

**David Saperstein** *TFI International Inc. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Adam Kramer** *Cowen and Company, LLC, Research Division - Associate*

**Alanna Yontef** *BMO Capital Markets Equity Research - Associate*

**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*

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

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

**Matthew Jarrod Milask** *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

**Navdeep Malik** *Industrial Alliance Securities Inc., Research Division - Research Analyst*

## PRESENTATION

### Operator

Good afternoon, ladies and gentlemen, thank you for standing by. Welcome to TFI International First Quarter 2019 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 they're 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 on Wednesday April 24, 2019.

I will now 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, and good morning, and thank you, operator. And thank you, everyone, for joining the call.

Yesterday, we completed our annual meeting and released our first quarter results after the close of trading. If you need a copy of the release, please visit the investor section of our website.

This year's off to a strong start with -- at TFI. And our first quarter results reflects our unwavering commitment to execution of the basic fundamentals of our business so that we can drive strong and consistent free cash flow regardless of the economic cycle. We know that usually investors appreciate the tangible nature of free cash flow, and we value the flexibility it provides in optimizing our approach to the business.

During the first quarter, we stay true to our goal of creating and unlocking shareholder value and whenever possible, returning excess capital to our shareholder.



Throughout the quarter, our teams saw its operating efficiencies. We pursued an asset light business model, we maintained our strong balance sheet, and we saw accretive business acquisition in a highly disciplined manner, completing 3 during the quarter. This will remain our approach throughout the year with the aim of generating not just growth but profitable growth all in the interest of creating shareholder value.

With that, let's have a look at our first quarter results. I should inform everyone that we have adopted the new accounting standard under IFRS 16, and as a result, certain numbers I'm going to discuss are not directly comparable with past results. Our total revenue grew 3% year-over-year to \$1.2 billion, and that's our highest revenue ever for the first quarter.

As you know, we're focus on profitability, not just top line growth. So more important to us is that our operating income was up 41% to \$106 million. Similarly, our adjusted EPS on a diluted basis was up 40% to \$0.77. Another focus of ours is our net cash from operating activity because of the flexibility it provides us and its close tie to creating shareholder value. You'll recall that last year, in 2018, we produced record net cash from operating activities of more than \$0.5 billion.

For the first quarter, our net cash from operating activity was \$161 million, up 178% over the year ago and another record for TFI during a first quarter. In addition, our free cash flow reached \$143 million up 172% and also a first quarter record. The growth in our net cash from operating activities and free cash flow was driven by a stronger operating performance as well as in part by the impact of our adoption of our IFRS 16. The detail this impacts are available in our Q1 financial statement published yesterday.

As you can tell, our overall results suggest that 2019 is off to a strong start and that, of course, is due to the performance of our forward reportable segment, all of which saw year-over-year increases in operating income.

Well, let's have a look at each segment, starting with our P&C [where 2% is 14%] of total segment revenue. Our revenue before fuel surcharge grew slightly to \$147 million. Operating income was \$21 million, relatively -- relative to \$21.6 million a year earlier, and the operating margin was 14.3% versus 14.4% (sic) [14.5%] in the corresponding prior period. Volume as well as incremental weather were challenging. But as I mentioned earlier, regardless of the environment, our focus remain unchange.

We're committed to deploying cutting edge technology, optimizing the business mix and asset utilization and leveraging our strong network to capitalize on e-commerce growth opportunities.

Next is our LTL, which represent 19% of total segment revenue. Our revenue before fuel surcharge was also up just slightly to \$208 million, however, our operating income jumped more than twofold to \$28 million, and our operating margin was also expanded significantly to 13.3% from 5.6% a year earlier. This was driven by strong operating performance as well as a \$9.4 million gain from the sales of one property. We also saw a 5.7% increase in our revenue per hundredweight, excluding fuel surcharge as we continue to focus on the quality of our freight.

Turning to our truckload segment, which represent 40% total revenue, our revenue before fuel surcharge was up 7% to \$527 million, operating income of \$51 million increased significantly compared to the \$36 million in the corresponding prior year period as did as operating -- as did our operating margin was jumped to 9.6% relative to 7.4% a year earlier for an increase of 220 basis points.

Looking at our adjusted operating ratio, we achieved 84% for our Canadian truckload, 80.4% for our specialty TL and 92% for our U.S. TL. We remain cost-conscious, continually looking to reduce expenses and at the same time, improving the efficiency and profitability of our modern fleet and network of independent contractors.

Next. Let's discuss Logistics and Last Mile, which represent 19% of total segment revenue. Revenue before fuel surcharge was \$224 million relative to \$237 million in the prior year first quarter. This quarter, our Canadian operation generally improved earning while our U.S. was a bit weaker. As a result, on a consolidate basis, our operating income grew 1% to \$15 million. In terms of capital allocation, during the quarter, we returned \$117 million to shareholders by way of \$21 million of dividend, \$97 million of share buyback.

We also invested \$103 million in business acquisition. Looking forward, we intend to continue to buy back shares as well as execute on attractive acquisition opportunity in a disciplined manner, extending our long track record in that regard.

Our outlook for CapEx, excluding real estate, is revised down to \$200 million to \$225 million.

Well, thank you for your time this morning. We appreciate your interest in TFI. And with that, we can now open the call for questions.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And your first question here comes from Jason Seidl from Cowen and Company.

---

**Adam Kramer** - *Cowen and Company, LLC, Research Division - Associate*

This is Adam on for Jason here. I guess, just first, I want to ask you about recent TL pricing trends for your U.S.-based truckload. What are recent contract renewals look like? What kind of trends are you seeing there in terms of contract renewals for TL?

---

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

It's a very good question, Adam. I mean, what we're seeing so far is that we're still able to pass on adjusting our price up 3% to 5% to 6%. For sure, the market is a little bit different versus 2018, okay? But us, we come from a long way. If you remember, when we were at CFI, we were really, really far from where we should have been on quality of revenue.

What we're seeing now, okay, this is a little bit of a fog. Right now because of weather, seasonal is still not really strong. In Canada, it's not strong at all. I mean, we haven't seen it because of weather. In the U.S., in the North, still not available, and in the South, we're just starting. So this is what -- there's a little bit of pressure in volume. But so far everything, every contract that we're renewing is still an opportunity to improve the quality of revenue.

---

**Adam Kramer** - *Cowen and Company, LLC, Research Division - Associate*

Got it. Thank you for that. And maybe a quick follow up here. I wanted to also ask about specialty TL. I know it's a focus for you guys. What does the M&A market look like for specialty TL? And I know with a peer of yours -- a Texas-based peer of yours, kind of removing themselves from the M&A market at the time, at the moment, are you able to take advantage of that and make more acquisitions? And just in general, what is the specialty TL M&A market look like for you guys?

---

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

Well, for sure, Adam, that's an area for growth for us. We did 2 early in the year. Now it's time for us to really digest the acquisition that we've done. They're not big. I mean, we're adding about USD 20 million of EBITDA with those 2 acquisitions. So if it's really a base for us to keep on growing. So probably, you won't see us really active on the M&A side in the U.S. specialty TL, at least for the next 6 months. But for sure, we have lots of opportunity, a lots of opportunity. And for sure, on the M&A, we could do way more, okay? But it's just that you got to do it in the disciplined manner, right? It's easy to buy. Everybody with money can buy. But what do you do when you buy the company, that's the important thing. And this is why our focus at TFI has always been to buy at the right price and also to execute, okay, all the synergies after you buy the company, right?

---

### Operator

And your next question comes from Cameron Doerksen from National Bank Financial.

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

Maybe a couple of questions on guidance. You mentioned the updated CapEx number for the full year. I'm wondering if you can maybe just talk about if there's any changes to your EPS expectations for the full year? You made a couple of deals like subsequent to that, and the previous number we had was \$3.80 to \$3.90. Is there any change to that number?

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

Well, you know what, Cameron, we've always been very conservative in -- on the promise and overdelivered. So we're still sticking to our \$3.80 to \$3.90 in terms of EPS for 2019 so far. Let's see what happen in Q2, and then probably, we may update that. And for sure, the possibility of us going onto \$4 is reasonable. But for the time being, as of today. I mean, we're still staying at about the \$3.80 to \$3.90.

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

Okay. Fair enough. And on -- I don't know if you have any comments around free cash flow was quite strong in Q1, I mean, always have a good strong free cash flow from TFI. But any expectations for the full year?

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

Well, when we said it, I mean, on that regard, we've lowered the little bit of our CapEx for the year 2019. And this relates really to the fact that not really understanding pretty well, okay, the impact of IFRS 16. So late, we're -- I mean, like in the summer of '18, we made the decision to really replace all the lease truck that we have mostly in Canada or in our specialty TL or TL with a truck that we're buying.

So after really looking at the IFRS thing there, right now, I mean, there's no incentive for us, okay? It's only a tax incentive. So this is why we'll do it slowly. So this is why we brought back our CapEx at the level of \$200 million to \$220 million. That being said, okay, if you look at our free cash flow, for sure, we should be flying in that \$400 million, \$450 million neighborhood for 2019. Now Q1 was exceptionally strong, okay, because we did a much better job in terms of collecting our ARs and controlling the way we pay our payables and all that. So the guys did -- our DSO went down a day, okay? So a day is -- just a day for TFI is \$50 million, right? Because our guys are more focused even more, okay, on collecting. Our CFI guys in the U.S. have done a fantastic job of bringing down, okay, their DSO. We are completely 100% in control over there. We still have lots of work to do with our TCE, in our TFM in the U.S., so \$400 million to \$450 million, I think, is reasonable target for us for '19.

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

Okay. No, that's great. And maybe just a final for me, just wondering if you can maybe comment a little bit about the recent BeavEx acquisition, or I guess it hasn't quite closed yet. But I mean, if this looks very interesting. I know it's not huge, but it looks it can be a really nice fit with your existing Last Mile operation in the U.S. So maybe you can comment a bit more about what that brings to you. And particularly, what kind of profitability because it does look like coming out of Chapter 11 this is probably going to be immediately fairly profitable business?

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

Well, absolutely, Cameron. This is a fantastic deal for many reason. Number one is that BeavEx because they're under the protection of the court. These guys were not making any money. So it was a nuisance for us in the market. And this is why, if you look at the profitability of our U.S. operations versus our Canadian operation. I mean, U.S. is lagging Canada. And one of the reason is because of those guys like BeavEx, a problem. So that problem disappears, so that's number one. Number two is that we're adding about \$100 million of business into our network, and we're adding only about 7 location. So think about the improvement of density in all of the -- of our Last Mile network in the U.S. This is going to be fantastic. And if you exclude the owner-op, which -- you need the owner-op to do the work, okay? So you're left with about 25% gross margin with today's

rate, which is about 5 points under what we do in the U.S. So there's potential of improving rates there. But more importantly is that the overhead that we're adding is very, very limited, right? Seven terminals with rent, okay? A little bit of executives, management and all that. So it is going to turn out to be a fantastic transaction, like when I bought Matrec in 2004, like when we bought CF in 2005. This is going to be highly accretive to our U.S. Last Mile operation. No doubt about that.

---

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

Okay. And then -- I mean, obviously, there's maybe a bit of a unique situation. But are there any other, I guess, other Last Mile-type operators in the U.S. that may be -- also be struggling that might be of interest to you?

---

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

Well, yes. There's a few, okay? But we -- Cameron, one of the -- on the M&A side, Cameron, you got to be a very patient guy. We were patient with BeavEx. The only things I'm not patient is the bottom line improvement. So there you can be patient. But on M&A, you got to be patient. So you got to pick up the fruit when it's available and reasonable in terms of price.

So yes, there's a few more, okay? And the Last Mile, we may look at other opportunities before the end of the year. I said '19 is not going to be a year for us of a big whale, a big transaction. But on the Last Mile, we're doing BeavEx, we may do more.

---

**Operator**

Your next question comes from Brad Delco with Stephens.

---

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

Alain, good job on results. Certainly better than what we were all expecting, and I think we were all pretty terrified of the impact weather may have on margins. But margins did well. And so I guess, could you give us some color on what -- some of your expectations are for margins and each of your business segments going forward? I mean, how much opportunity do we have to continue to see the types of improvements that we saw here in the first quarter on a year-over-year basis?

---

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

Yes. Well, it's a very good question, Brad. So I was with Greg Orr, the guy that leads our U.S. TL, and we still have lots of opportunity in terms of cost, in terms of improvement, in terms of saving, both CFI and even more TCA.

So if market condition remain the same. And for sure, you're right, Q1, we're not really talking about weather that much, but Q1 really affected us in terms of the weather. But that being said, I mean, we still have lots of opportunity. If market stays about the same on the U.S. TL, okay? To bring our OR down from, let's say, a 92%, 93% global ETCA (sic) [TCA], CFI into a sub-90 over the next 12 to 18 months. Like I said to Greg, I mean, the guys have done a fantastic job at CFI, we're lagging a little bit at TCA, so this is why our focus is really TCA. We made some changes over there. There's more changes to come. And the focus is really to keep bringing the cost down because like we always say, "The tiger is the last one to survive in the jungle."

On the Canadian side, our Canadian truckload guys are doing a fantastic job. Our specialty truckload, Steve Brookshaw and his team, they have lots of work to do there because we made so many acquisitions, 6 or 7 of them in Ontario, a little bit in Québec and some in the U.S. -- 2 in the U.S. So the guys have probably another 6 to 12 months to bring those acquisition into the level of what we do at TFI in terms of profitability. So if you look at the OR in Q1, now take into consideration that specialty truckload in Canada in Q1, you got lots of equipment that's parked. You don't hold a lot of cement in Q1 (inaudible) Q1, this year, we did hold a lot of salt because of weather. I mean, weather was bad, but I don't really understand

why we didn't hold that much salt, but we did not. So this is why Q1 is never the reflection of what we do, but we keep on working so still lots of potential there.

On the LTL side, I mean, still lots to do there, still lots to do. We've improve big time. But it's still -- we have a lot of good work to do, I was with Bob McGonigal and Rick Hashie this week. We see a lot of opportunity there.

On the Last Mile side, I mean, the Canadian guys are doing a fantastic job. On the U.S. side, this BeavEx thing is going to be like a shot in the arm, where it's going to really help us drive density, get rid of a nuisance and also be in a position to bring more density to our terminal network, which it's always really good. So going back to your question, we're busy. We got lots to do, Jason, lots to do.

---

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

So -- Yes. Sounds like you can see improvements...

---

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

Brad.

---

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

Yes, across the board.

---

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

Yes.

---

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

And then maybe as a follow up. On the LTL side, just curious, as it relates to April, has there been any difference in activity, business activity, freight volumes in your LTL business versus truckload? We've just been hearing that April has snapped back a little bit because of industrial activity and curious if you're seeing a difference between those trends in your truckload versus your LTL business.

---

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

Well, no. Not at all, Brad, it's consistent. The only thing we're not seeing is all the seasonal stuff. In Canada, it's really late. I mean, in Toronto, this morning, it's about 40 degrees. So even our waste hauling business is slow because it's still not -- it's like the spring is still not here, right?

---

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

Got you. So we're all just sort of hoping that once weather warms up, we'll see a little bit of a spring lift to freight volumes?

---

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

Normally, it should, yes.



---

**Operator**

Your next question comes from Gianluca Tucci with Echelon Wealth Partners.

---

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

I have a question as it pertains to e-commerce. So how much of your business in Q1 was derived from e-commerce? And what was the growth rate on that?

---

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

Yes. Our e-commerce business is about \$100 million a quarter today. Now what happened year-over-year, if you look at our e-commerce in Canada, we made a decision late in 2018 to -- we have the largest e-tailer in North America, we were doing business with these guys in cities like Vancouver and Toronto with an employee model. They've asked us to go into that direction. We tried it, and it was a disaster. It was just a failure. So this is why, if you look at our revenue year-over-year, we're replacing that business with business coming from other customers.

So with this largest e-tailer, now we're down to just servicing for them, basically the small market like Victoria, like Regina or Saskatchewan, the other smaller market. We're not in the big market like the Toronto, Montreal, Vancouver markets for these guys. So our e-commerce for sure is growing. That's one of the reason our guys, either Last Mile or Next Day, on the P&C side -- it's expensive to service e-commerce because it's always one delivery per stop. I mean you got one package, one cart, no more than that. Whereas B2B, the average would be like maybe 1.8 on average, right? So it's a little bit more expensive to service, and we're addressing that now. This is why we're working on a technology, we're working on a sorting equipment. I think as I said on the call previously, on previous calls, we're investing a lot of dollars in Calgary into a new sorting system. Once we're done with Calgary, we're going to Edmonton and then probably back to Toronto in 2 years, 3 years to upgrade our facility in Toronto.

So e-commerce, there's no question about it. This is growing within TFI. And we're really focused at that. Our Last Mile guys, same story, I mean, the guys are doing a great job there. But if you want TFI, TFI is not going to work with 0 profit. I mean, some guys are doing it to get big and with volume, okay, and hopefully, one day, make money. I mean, us, we're not in the same philosophy. We gotta make money today, not in 10 years.

So that's our approach.

---

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

And then just follow up with asking on an update for the shortage of truck drivers in the U.S. Can you comment on that?

---

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

Yes. Well, truck driver has always been an issue in the U.S. We're doing a good job, I mean, we're seating more trucks today. Our turnover is a little bit improve. We're doing a lot of stuff to make sure that we reduce the turnover because the turnover is just a killer. So it's still an issue, and it will probably remain an issue. But that's one side of the coin. The other side of the coin is that unemployment is really, really low in the U.S., so there's not that many guys looking for a job to be a truck driver. But that also creates an opportunity. If you're a smart, okay, and you sit down with the customer, you say, "Oh, I'm sorry, I mean, I [can] buy a truck, I can't find a driver, and I've got demand. So I have to move rates to a level where I can maybe attract more guys," right?

So this is what happened in '18, is that now, you saw rates moving up, okay, in the U.S. Now because of a little bit of weather issue. Some consumer were sitting on the sideline, consumer confidence was down for a few months in U.S., but it's up big time in February.





So with the weather, the consumer confidence, we should see more activity. So the demand for drivers will stay. Now the ELD in Canada, they're still supposed to be on track for the end of the year. So that will put pressure on the Canadian side as well.

But to me, pressure on driver -- it's tough to find a driver to me. We have to work this as an opportunity, not a handicap.

---

**Operator**

Your next question comes from Nav Malik with Industrial Alliance.

---

**Navdeep Malik** - *Industrial Alliance Securities Inc., Research Division - Research Analyst*

Just want to ask on the logistics Last Mile segment. So you noted that the U.S. side was a bit weaker or facing headwinds. Was that a competitive pressures? Or maybe if you could elaborate a little bit on what you're seeing in the U.S. on that segment?

---

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

Yes. Yes. So our U.S. operation, I mean, we had to make some changes there. We're not growing in terms of revenue in the U.S. It's been difficult for us, like you said, it's probably like the competition is more aggressive over there. So this is why, with Scott and his team, we're really focus in building a much or better or stronger sales force over there. Now BeavEx, for sure, it's going to help. Okay? It's going to bring about \$100 million revenue. If you look at our gross margin on the U.S. side, it's comparable to the Canadian one. So it's not an issue of cost, okay? It's a little bit of an issue of overhead because if the revenue doesn't grow, it goes down a bit, then you have a problem with the overhead.

But that will be collected with the BeavEx acquisition.

So our focus is really with Scott and his team there to rebuild a team of sales that's going to bring more opportunities for us in the future. And with that in mind, with the gross margin to be similar to the one in Canada, there's no reason why we're single-digit EBIT in the U.S. and we're double-digit EBIT in Canada. There's no reason for that.

---

**Navdeep Malik** - *Industrial Alliance Securities Inc., Research Division - Research Analyst*

Okay. So you're really focused in that segment to grow revenue on that -- in the U.S. side?

---

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

Right. And BeavEx, for sure, it's really a shot in the arm, okay? But that being said, Scott [got] to build a real solid sales team there in the U.S. We're weak on sales.

---

**Navdeep Malik** - *Industrial Alliance Securities Inc., Research Division - Research Analyst*

Yes. And that -- just kind of on that BeavEx acquisition again, I know you already touched on it. But in terms of it's like about \$100 million of revenue that you're adding, and I guess -- I mean, it's coming out of bankruptcy, of course, but I mean, I guess you could see margins in line with your other businesses in that segment? Or in that sense, like you could look at maybe being around \$10-plus million in terms of operating income? Or what are your thoughts as to where you could drive that from a profitability standpoint?



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

Well, that's a very good question. Now first of all, what I have to tell you is this, is that we got to pick and choose customers, right? So we're not that stupid. So we picked the one that made sense. So all the dogs, we said, "Hey, call somebody else." So this is why, like I said earlier, now we can always be sure 100% until we get it, okay? But we believe that the gross margin will be like in the 25% neighborhood. And that means that, for sure, the contribution to the bottom line is going to be probably like \$10-plus million. It's just normal because we're not adding a lot of overhead. So if you take 25% gross margin, and you're not adding a lot of overhead -- if you're just doing \$10 million, bottom line is because you're not that good. Maybe you could do \$10 million to \$15 million.

---

**Navdeep Malik** - *Industrial Alliance Securities Inc., Research Division - Research Analyst*

Yes. Okay, so lots of, I guess, upside in terms of profitability contribution from that transaction.

---

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

Yes.

---

**Navdeep Malik** - *Industrial Alliance Securities Inc., Research Division - Research Analyst*

And then just lastly for me, just on the acquisition side. I'm wondering if you could maybe talk about kind of vendor expectations in this environment, like where are vendors relative to you guys? Are you seeing willingness to do transactions? Or is it more that, coming off of a strong year, that maybe vendors have a bit lofty expectations for their businesses? Maybe if you could just comment on that side of the M&A strategy.

---

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

Well, like I said earlier, the way we do M&A is, first quality is patient. So number one is we are patient, we're not in a rush. We don't have to do deals. We do deals when it makes sense. So all the deals that we've done, okay, is based on a reasonable pricing. So for instance, somebody calls us and asks us for, like, 8x EBITDA because we were PE, we bought it for 8, we want to sell it for 8, at least. Well, so keep it. We're not buying things at 8. We don't even trade at 8 ourselves, EBITDA.

So I mean, this is why, for us, if it fits, if the price is right, okay, yes, we'll look at it. (inaudible) and like I said earlier, we have lots of -- I mean, we could -- we have one guy, Jason, in Chicago, on our new M&A team. I mean, that guy could be busy like crazy, we could add more people to the team, but we have to digest what we do, first of all. And it's got to fit, it's got to fit with the TFI. So no, in terms of pricing, we buy at reasonable and fair price. We work for our shareholders, we don't work for the banks or for the -- we work for the shareholder.

---

**Operator**

Your next question comes from Benoit Poirier from Desjardins Capital Market.

---

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

Alain, congratulations for the very strong start so far.

---

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

Yes. Thank you, Benoit.



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

Yes. And just looking at the winter was obviously not only challenging for railroads, but I assume also for the trucking. Are there any tidbits you could discuss about how the costs were superior to a typical Q1 either in terms of accident, insurance costs and -- would you be able to quantify some metrics to qualify the -- how harsh was the winter this year?

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

Well, that's a good question, Benoit. We have not done that, okay, but one thing for sure is this winter has been really difficult. So we have good winters, we have tough winters. So this one was a difficult one. Because of the cold, because of the ice, the ice is a killer, because of the storm, because of the number of trucks. Even the wind, even as -- when I was talking to Greg the other day, we had 15 trucks out of service just because of wind, too much wind. It's stupid, 15 trucks out of 3,000 is not much, but this is so unusual that we have in April, in the U.S., trucks out of service because of wind, right?

So it's been difficult now. If you ask me, "Are you talking \$5 million, \$10 million?" I mean, for sure, it's in millions of dollars. We don't really look at that because we don't like excuses. So it's part of the game, so you have good winters, you have difficult winters, you have cycles in -- on the activity, the economic activity that's like '18 was great and '19, maybe it's going to be good but maybe not as good. So we don't play this excuse game as our focus is bottom line, bottom line. Okay, don't give me an excuse of the weather, do better, do better than last year. And -- But we did not quantify that, Benoit.

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

Okay. And just to come back on BeavEx, you mentioned about the 10% to 15% impact on the bottom line. Were you referring to net margin or EBIT margin, Alain?

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

Yes, yes, yes. Because don't forget, this is \$100 million. So if you do the math of just 25% gross margin, which is not great, which is not fantastic but which is not bad. Because don't forget, we got to choose the customer. So a guy with 12% gross margin would say, "You know what, call somebody else, we don't want you." Okay? So we did that with some customer. No, no, forget about it, call somebody else. So if you think 25% gross margin, and you add minimal amount of overhead, you should be bottom line at \$10 million to \$15 million guy unless you're very, very lazy, right?

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

Okay. That's very good. So I assume that it's after depreciation, amortization, so it's probably more kind of a net margin, I would assume?

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

Yes. It's that because there's no depreciation, there's no goodwill, there's nothing, there's no intangible because we're buying the company for \$7.2 million, including working GAAP.

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

Yes. Okay, okay. That's perfect. And is there -- do you feel, Alain, there is an opportunity to recapture a portion of the other USD 100 million that was part of BeavEx? Or that business is kind of not profitable or not in the same locations that are interesting to TFI?

---

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

Well, yes. That's a good point. I mean, we chose 7 locations. There's some location that were really small. The customer base was okay, but it's so small, like \$1 million, and we said no. We don't want to turn over the \$1 million revenue. So this is not going to be attainable for us. Maybe in the other customers, they'll try to find another kind of BeavEx kind of guy. Maybe they'll find one, maybe they won't find one. Then they will talk to us again. But we told them, "Listen, with these kind of rates, we're not there. Call somebody else."

---

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

Okay. And DSO, Alain, when we look at your DSO, you mentioned that it's improved about one day, \$50 million impact. Are there a lot of -- are there still a lot of opportunities to improve your DSO? Is there any -- how many days do you think you could improve longer term? Is there still a lot of room in terms of a DSO opportunity?

---

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

Well, for sure. Like I said earlier, I mean, we have 2 of our U.S. operations that needs to improve. TCA and our Last Mile guys, and we're taking action on that. The CFI was not doing a great job when we bought the company a year ago. It was a Mik Mak mess. Today, they're really on top of the situation. They're doing a fantastic job. So U.S -- those 2 divisions need to improve. In Canada, we have a little bit but not so much in Canada. So I think that it's still doable that we could bring that down another day over the course of the next year. Lots of work, and don't forget, we get also a lot of pushback from customer that, oh, TFI, you're big, give me 90 days credit. No, I can't do that. You're paying the small guy 7 days, you want me 90 days, why? Oh because you're big. No, no because I got to pay my guys every day, every week. I got to pay my fuel every week. It's not -- I'm not a bank, I'm a trucker.

---

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

Okay. Okay. That's a good point, Alain. And just in terms of share buyback, you've been quite active, obviously, evaluation was interesting. It seems that you still have room to complete your share buyback, although there's much less opportunity given your -- you've been very active. So -- and now if you look at the share count, it's below \$85 million. So any thoughts on the remaining share buyback opportunity? And whether you could enlarge the NCIB and try to be even more proactive on this side?

---

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

Well, I think that if the stock remains at the level it's at today, like the \$40, [mild] \$42, something like that. I mean, we'll be back. I mean, we still are allowed to buy back about 2 million shares and in our plan is we're buying back those 2 million shares. So we want to bring the share count down like maybe 83 million until October and then in October, we'll see. You guys, like I said earlier, there's no big transaction for TFI in 2019. Nothing big. Just the small deals that we've done so far. So with the kind of cash that we're going to be generating and when you trade at double-digit free cash flow on the stock price, I mean, come on, hey, so I got my guys saying, "Alain, buy more, buy more," and that's what we're doing.

**Operator**

Your next question comes from David Ross with Stifel.

---

**Matthew Jarrod Milask** - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

This is Matt Milask on for Dave. Congrats on the quarter and great start to the year. Just quick sort of housekeeping item here. On the step up in DNA and finance expenses in the quarters resulting from the change in lease accounting, we just wanted to sort of confirm that these expenses are expected to recur at similar levels going forward into the next year? Might there be a change in trajectory to think about?

---

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

A little bit, a little bit, okay? Because what we're looking at is, on the real estate side, I've talked about a little bit on the truck side. So truck, we'll keep on buying more instead versus leasing but slowly over the next 3, 4, 5 years. On the real estate side, for sure, the way this IFRS 16 works, I'm not really happy with the way it works, it doesn't make any sense. So for sure, there may be a little bit of change in terms of -- we've been working hard with our guys to say, "We can afford to have more space." We can, we can. So we've been doing a lot of that the last year and a half to 2 years. And now the pressure is going to be even more into reducing our footprint in Canada, okay? On our LTL, on our P&C. So you should see that, okay, asset or depreciation of that asset going down. There also may be some sites where we have the opportunity to buy them back, okay? And because of the way the accounting is done on IFRS, it doesn't reflect the reality. There may be some sites in Canada that we could take the opportunity to buy them back at a fair reasonable price.

But that being said, you should see the trend going down, okay, in terms of that depreciation or finance charge because of IFRS 16 over the next 2, 3, 4 years. Because we want to reduce debt as much as we can.

---

**Operator**

Your next question comes from Kevin Chiang with CIBC.

---

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

Just 2 for me. One, LTL margin in Q1 were extremely strong. And I noted that you talked about some opportunities you had with decreasing your subcontract in cost. Just wondering if you could elaborate what happened there? And does this create a new runway for margins, kind of as I think of the seasonality of LTL margins from Q1 into the rest of the year? It's about 300 to 400 basis points higher versus last year, backing out asset sales and stuff like that.

---

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

Yes. Yes. Well, the big story in LTL, besides the operation that we had last year. So what we've done is, as an example, we hand Overland -- TST Overland in Kingsway in Q1 of '18. In Q1 of '19, we have only Overland. So we've combined those 2, okay? And we got rid of lot of costs, okay? By combining those 2. We also got rid of some business that don't fit, low margin business. And the net effect of the combination of Kingsway and Overland in Q1, okay, its \$3 million, bottom line. That's just an example. Another example of the improvement that came in Q1 is the fact that we bought Normandin last year, we bought it in April. So in '18 Q1, Normandin was not there.

So now we've added the Normandin business, and Normandin is highly profitable, very well-managed company, right? So if you look at our top line, you say, "Well, Alien, you did that, but your top line is only up just a few million dollars." Yes, true. Because we added Normandin. But at the same time because of the combination of Kingsway and Overland, we got rid of a lot of freight that did not fit the network because TFI is all about bottom line. It's not about top [lineness]. And how can we get more bottom line while we have to shed this customer because we're losing money



with this guy. Now how come? No, we don't want that guy. So the same story happened with NFF. We bought NFF about 18 months ago, and we keep on cleaning NFF. So since we bought NFF, we got rid of \$20 million of business. But instead of losing 8 or 6 or 8 on 80, wow, we make money now, we make double-digit EBIT. So that's -- but we reduce our footprint, we reduce the rent, we reduce a lot of stuff.

So going back to your earlier -- to your question is, yes, we will keep improving our LTL. Now 300 basis point, can we do another 300 basis point in Q2, 3, 4, 5? We'll have to see. But for sure, can we improve Q2 '19 versus '18? Absolutely, I'm convinced, I mean, the guys are focused. The other thing also that change in our LTL is we have a lot of good guys that have been with the company for a long time that retired. 3 of our top executives in LTL retired: Vitran, Clarke and TST.

---

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

Right. No, that's super helpful. And maybe just lastly for me, I appreciate you being conservative on your EPS guidance. But you kind of laid out a lot of self-help levers where margins can go within your U.S. operations. You've made 4 acquisitions here, which, you brought math, could be another \$0.15 to \$0.20 of EPS. I think your \$3.80 to \$3.90 EPS did include -- didn't include any of these acquisitions. Just wondering why you wouldn't be able to lift that guy just on the acquisitions alone? Are you -- is there anything that you're seeing that's causing you any worry whether its noise around weather, issues around wage inflation? Just wondering if there's anything that maybe gives you a little bit more pause today than what we had our last -- when you had your last earnings call a few months ago.

---

**David Saperstein** - TFI International Inc. - CFO

This is David Saperstein. I think Mr. Bédard may have cut off. Kevin, can you hear me?

---

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

Yes. I can hear you, Dave.

---

**David Saperstein** - TFI International Inc. - CFO

Okay. No. No, it's just -- with the new accounting standards, IFRS 16, we wanted to put these numbers out there. Let them speak for themselves, let them be digested. And then, as Mr. Bédard said earlier in the call, we can evaluate as the year progresses.

---

**Operator**

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

---

**Unidentified Analyst**

This is James on for Walter here. I just have a question on the M&A strategy. I know you guys mentioned that there wouldn't be any outages in 2019. But if you look out to 2020, would your focus be more on the U.S. or Canadian markets? And with regards to strategy, are you guys looking to buy strong businesses and then grow them organically? Or more so buy companies that -- with poor operations and try to turn them around?

---

**David Saperstein** - TFI International Inc. - CFO

Yes. Good question. Listen, our focus is always on making acquisitions that make us money, right? Because we're always thinking about capital allocation just from the perspective of, hey, where's the best return. So we're thinking about share buybacks, we're thinking about investing in our existing operations, and we're thinking about M&A. So to your question, in Canada, we are the natural buyer for businesses across the scope of our

activities, and so we'll look at opportunities throughout our 4 segments. And when they make sense, when they fit, when we can get a good financial return before any improvements, then we'll do those deals. And then there's always improvement, right? There's always improvements around procurement costs by a lot cheaper than smaller independent businesses do as well as on the facility side. U.S., we've been active on both sides of the border, so far this year, that will continue. In the U.S., we're a little bit more focused from a sector perspective, and you can see that and what we've done so far this year. We've been saying for a while now that, in the U.S., we're really interested in specialized truckload. So we did 2 deals in the U.S. that specialize truckload, we need to digest those now. And we've also been saying for a while that we've been interested in parcel. We've now got BeavEX that's going to close shortly, and we'll continue to look in that space as well.

---

#### Unidentified Analyst

And onto the driver shortage, there was a question on the driver shortage in the American market. Are you guys seeing anything similar in Canada? And do you see any impact from [your deal's] being implemented? And do you guys think that you'll be able to transition us into any opportunities for the business?

---

#### David Saperstein - TFI International Inc. - CFO

Yes. It's a great question. So in Canada, the driver situation is more stable. It's more stable for a number of reasons. We were able to provide leadership in the market, we're able to -- the drivers are generally home more. We're able to provide kind of steady wage increases year-after-year. It's a different dynamic, and so our turnover is not as much a problem in Canada as it is in the U.S. ELDs is interesting, and this is one where -- you're right, ELDs are coming into play in Canada. And there's no question that ELDs in the U.S. had a very, very important impact on safety, which we're all very grateful for. It also had an impact on capacity because it leveled the playing field between all players, those that use formerly as paper logs and those that have been using ELDs all along. And we expect a similar sort of effect in Canada.

And certainly among the publically listed companies out there, we are the most exposed to ELDs and the impacts of that in Canada.

---

#### Operator

Your next question comes from Alanna Yontef with BMO Capital Markets.

---

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

So David, I'm back. I mean, you know what the technology is -- I'm back. I don't know if you guys can hear me now?

---

#### David Saperstein - TFI International Inc. - CFO

Absolutely.

---

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

So technology, I mean, I lost the line. So thank you, David. So if I may, I'll take over.

---

#### Alanna Yontef - BMO Capital Markets Equity Research - Associate

Okay, this is Alanna from BMO Capital Markets for Fadi Chamoun. I just had a question regarding the acquisitions that have been made so far this quarter. I believe someone mentioned earlier, but I just wanted to confirm that the guidance, is that -- that does not include the acquisitions, correct?

---

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

Well, that's normally what we do is we -- part of our plans is that we do early -- late in last year, we never include any acquisition in our plans. I said on the call that the guidance on EPS remains the same because we're very conservative. I didn't say that, that does not include the M&A. So what we're saying is that the guidance stays the same even with the acquisition that we just made. So you say, "Well, you just added \$20 million in EBITDA," okay, U.S. So it should change, okay? But that's being very conserve. We say [for now], let's see what happens and then we'll revise, okay, guidance if necessary in Q2.

---

**Alanna Yontef** - *BMO Capital Markets Equity Research - Associate*

Okay. Okay, that's great. And just one on the acquisitions. I'm just trying to understand the impact of the acquisitions on operating income. I'm just wondering if you could please comment on that.

---

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

When you say acquisition, are you talking all the 3 acquisition we've done so far? Is that what you say?

---

**Alanna Yontef** - *BMO Capital Markets Equity Research - Associate*

Yes. But I guess, is this the same story as the EPS if you're -- you expect no -- or how do you expect these acquisitions so far in Q1 to affect operating income?

---

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

Well, if you look at the 3 acquisition we've made, we've added about \$30 million in Canadian EBITDA.

So EPS, in terms of bottom line, this will add probably like maybe \$0.10, and this is why I said let's digest those acquisition, let's be conservative. We stay at \$3.80 to \$3.90 and then we'll review that probably in Q2. But what we're saying today is we revise the CapEx down from about \$20 million, \$25 million, and we're saying EPS stays the same for now. Like this BeavEx acquisition, for sure, it's going to improve the EPS. But we're [saying] guidance -- give us a quarter, and then we'll come back.

---

**Alanna Yontef** - *BMO Capital Markets Equity Research - Associate*

Okay. Okay. That's fair. And just one last question. I believe you mentioned earlier that the contract renewals for truckload pricing was up 3% to 6%, did I get that right?

---

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

Yes. Yes. Yes. Absolutely, we're still able to pass on -- excuse me, but we're still able to pass on pricing improvement in the U.S. today. Yes, absolutely.

---

**Alanna Yontef** - *BMO Capital Markets Equity Research - Associate*

Okay. And that 3% to 6%, that was for both the U.S. and Canadian truckload segments? Or was it just the U.S.?

---



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

No. It's just the -- I was just talking about the U.S.

---

**Operator**

Your next question comes from Jason Seidl with Cowen and Company.

---

**Adam Kramer** - *Cowen and Company, LLC, Research Division - Associate*

This is Adam on again. I just wanted to follow up a little bit on just recent trends in April. I know it's only been a few weeks, but is there anything that you guys are seeing in terms of your TL market that would give you guys a little bit of pause? Is that kind of part of the decision not to raise guidance? Just looking to see if there's anything that's been going on in last few weeks in terms of contract TL that may be giving you guys a little bit of hesitation with the guidance?

---

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

No. No. Not at all. It's just a matter that we're very conservative. And we just don't want to play the very optimistic game of saying, oh, everything's going to be nice. But the only thing I could say is that what we're seeing is that the seasonal is late, okay? So normally, seasonal in April should be ongoing. We're not seeing that in Canada yet, and this is, in our mind, is weather related. We know that the consumer confidence in February is up big time in the U.S., but seasonal, we're just starting seasonal now in the South. The North, we're still not doing it. So this is why I was being very conservative and say, "Listen guys, let's do the BeavEx deal, which is going to close by the end of April." We done those 2 deals within all at just April 1. So give us a quarter, okay, and then we'll probably be in the position to revise the guidance. And the only thing we're revising now is CapEx is down, okay? And we're still there to buy back the stock, that is clear. And we're not going to do anything major in terms of M&A. And let's see what happens with Q2.

---

**Operator**

And there are no further questions in queue at this time. I would turn the call back over to Alain Bédard for any closing remarks.

---

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

Okay. Well, thank you, operator, and thank you, once again, everyone for being part of today's call. You can rest assured that throughout 2019 and beyond, we, at TFI, will continue to seek opportunities to create value, unlock it for investors and whenever possible, return excess capital to our shareholders. So thank you again. I look forward to speaking with you soon, and have a good day. Thank you, all.

---

**Operator**

And ladies and gentlemen, this concludes today's conference call. You may now disconnect.

---



**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019, Thomson Reuters. All Rights Reserved.

