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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to TFI International Second Quarter 2019 Results Conference Call. (Operator Instructions)

Before turning the meeting over to management, please be advised that this conference will contain statements that are forward-looking in subject matter -- subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated. I'd like to remind everyone that this conference is being recorded on Friday, July 26, 2019.

I will now turn the conference call over to Alain Bédard, Chairman, President and CEO. Please go ahead.

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

Well, thank you, operator. And thank you, everyone, for joining us this morning. So yesterday, after the close of trading, we released our second quarter results. And if you need a copy of the release, please visit our website.

So we continue to have a record year due to our steadfast commitment to executing on the fundamentals of the business regardless of the economic cycle. This remains the case at TFI International, despite the recently declining freight trends. This focus of the fundamentals allow us to drive strong and consistent free cash flow and earnings per share that we know our shareholders appreciate and that allows us the flexibility to optimize our approach to the business.

As a reminder of what this strong focus entails, during the second quarter, our team constantly drove operating efficiencies, we pursue an asset-light business model. We maintain our strong balance sheet, and we sought accretive business acquisition in a highly disciplined manner, completing 3 during the quarter. I assure you, this focus will not change giving our aim of generating not just growth, but profitable growth, all in the interest of creating and unlocking shareholder value, and whenever possible, returning excess capital to our shareholders.



Taking a look at our second quarter results, our overall revenue grew 2% year-over-year to \$1.34 billion, the highest quarterly revenue in our company history. More important to us, given our focus on profitability, not just the top line growth, operating income from continuing operation was up 21% to \$149 million and our adjusted EPS from continuing operation on a diluted basis was up 19% to \$1.18.

We had 2 largely offsetting one-time items in this quarter: first, we recognized a gain on acquisition of \$11 million related to the BeavEX transaction in April, that you will see in intangible items; second, we took a \$12 million legal charge net of tax recovery related to an accident in 2012 in our legacy rig-moving business, that you'll see in discontinued operation this quarter.

Our strong operating result this quarter stemmed from the continued growth and profitability of our business. Let's have a look at each segment now. Our P&C represents 13% of total segment revenue and revenue before fuel surcharge was flat at \$159 million. Operating income held constant at \$30 million, and the operating margin was 18.9% versus 19% in the corresponding period a year before.

This stable performance came despite a general slowing in the freight environment, which we believe reflects our commitment to deploying cutting-edge technology, optimizing the business mix and asset utilization and leveraging our strong network to capitalize on e-commerce growth opportunities.

LTL represents 19% of total segment revenue and generated before -- revenue before fuel surcharge of \$219 million relative to \$239 million in the prior year. Most importantly, our operating income climbed significantly to \$30 million, up 22% and our operating margin jumped 340 basis points to 13.8%. This strong performance reflects a 14.6% increase in our revenue per hundredweight, excluding fuel surcharge, as we continue to focus on the quality of our freight.

Our Truckload segment represents 49% of total revenue and generated revenue before fuel surcharge of \$570 million, up a solid 9% over the prior year period. Truckload operating income expense significantly up 21% to \$67 million as our operating margin increased 120 basis points to 11.8%. Our adjusted operating ratio were 87.1% for the Canadian Truckload, 87% for the Specialized Truckload and 90.2% for our U.S. Truckload. The U.S. Truckload figure represents a significant improvement of 430 basis points compared to our year earlier performance.

Logistics and Last Mile represents 19% of total revenue and generated revenue before fuel surcharge of \$245 million relative to \$247 million in the prior year second quarter. Our operating income benefited from a one-time gain with the BeavEX acquisition was \$29 million or \$18 million net of this gain.

Our Canadian Last Mile operation led by Kal Atwal, over time produced a significantly higher margin than in the U.S. And we're pleased to have announced earlier this month that Kal will now be responsible for our U.S. Last Mile operation in addition to Canada. Now let's turn to our capital allocation.

We've invested \$78 million in business acquisitions during the quarter, and we returned \$85 million to our shareholders, including \$20 million in -- of dividend and \$65 million of share buybacks. As of now, we've executed on the entire buyback authorization for the 6 million shares that was first granted in September last year. Earlier this week, our Board approved management's request to increase the maximum number of common shares available for repurchase under our current NCIB by 1 million shares, and we have approval from the Toronto Stock Exchange. Going forward, our capital allocation plan remains consistent, as we intend to buy back shares and extend our track record of identifying attractive acquisition opportunity, executing on them in a highly disciplined manner.

In terms of our full year outlook, we're pleased to increase our guidance for full year adjusted and diluted EPS from continuing operation to \$3.90 to \$4, up from previously stated range of \$3.80 to \$3.90.

So with that, operator, I would be pleased to take investors' questions. If you could please open the lines.



QUESTIONS AND ANSWERS

Operator

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

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

I wanted to focus a little bit on your Trucking segment in the U.S. Clearly, an excellent job by you guys in an extremely tough environment when we look at some of the other results. Can you go over some of the aspects of the 430 basis point improvement and what really drove that?

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

Well, as we said, Jason, I mean we have a fantastic team now running our U.S. Truckload operation under the leadership of Greg Orr. And like all the discussion we're having with Greg, it's always been turning around -- we get to be lean and mean and, as we always say, the tiger is always the last one to survive in the jungle. And we know that the freight environment in '19 is not the same environment as it was in '18. And that being said, we've also said that with Greg and his team, so guys, we've got to work on the cost because this is something that we can control. We cannot control the market. So market, you got up and down and all that. But if you are lean and mean and you control your cost and you're doing a better job on that, you would bring the results like the guys are doing now.

So what have we been working on is the same stories, let's get the miles to the driver. Let's get quality miles to our driver. Let's make sure that we use our -- the asset to the outmost limit that we can use them, the trucks and the trailers. Let's make sure that we don't have equipment sitting at the fence like it used to be the situation a few years ago. Let's work on our fuel economy on our trucks. Let's make sure the maintenance cost is in line, and if I look at history, and I could say today that our CFI team, on the maintenance cost, is as good as our Canadian operation now. We still have some works to do with TCA. But basically, the MPG, the usage of the equipment, the miles and all that, these are all things that we've been working on, okay, with Greg. Also we are investing in some technologies because right now TCA financial system is not the same as CFI. So by the end of this year, okay, our TCA management team will be running in the Lawson financial software that our CFI team.

So now Greg, it is easier for him to oversee both operation. We're also looking at our TMS to run because we still run in a very old platform, both TCA and CFI. So this is going to be a major investment of ours into 2020. Once we're done with Lawson, we're going to be working on the new TMS that we -- the CFI, TCA, TMS for the U.S.

So the focus there has always been, guys, okay, let's take advantage of the market. Market is up, okay, fine. But let's never forget about cost. We got to be very cost conscious, efficient, improve operation and this is what we've been doing. I mean if you look at that now we're combined operation OR is about 90-point-something, 90.2%, I think. So it's quite an accomplishment. If you just compare it to a year ago and if you compare it to 2 years ago, I mean this is just magic. I mean how is that possible? So our team -- we're very proud of our team now in the U.S. that are running our Truckload operation, very proud. And like we are proud of our Canadian team because if you look at our Specialty TL and our van division in Canada, I mean we're running an 87% OR in also a difficult environment there.

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

No, no. That was a clearly a good job in the quarter but you guys. How should we think about that OR sequentially in that Truckload position moving forward? I mean are there still costs to take out when we look at the back half of this year? Or is there something out there -- it's a difficult market, if we can maintain this, that's great?



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

Well, the way we see it, Jason, is that our plan remains basically the same. We see the rest of the year being soft, okay, in the U.S., and the same in Canada. I mean the freight environment is still going to be soft, in our mind. Hopefully, I'm wrong, and it's going to be stronger. But -- so this is why our guys like Greg Orr and Steve Brookshaw and Ken Tourangeau, those guys are really focused on, let's make our operation even more efficient that they are today.

Now, like I said earlier, we cannot control the market, but what we can control is our cost. So our focus is going to be, guys, let's get cost even better than what we have today. And it's an ongoing always try to do better. Now based on our plan and based on our guidance, okay, we're improving our guidance on an EPS by \$0.10 only, okay, which is not a lot because we're conservative. But in this plan, I mean it's based on the fact that our Truckload will perform, okay, about the same way as they are performing now. So hopefully, I mean the market does not create too much of an issue for us.

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

I'm not going to look for you here. The next question, just want to jump to the LTL before I turn over to somebody else. Obviously, you said you improved the freight quality a lot. But I know you guys before, you were really focused on the cost before streamlining that network, taking some [good sandies] out. Wanted to know how much of it was freight cost? How much of it was the cost turnout? And then also with your freight quality, how much customer turnover did you have and what is your mix now versus before?

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

Yes. That's a good question, Jason. So in terms of our focus on quality of freight, our philosophy over last 2 years has changed tremendously because Canada, it's a big country, and you need density because serving a customer with LTL costs a lot of money versus, let's say, a P&C shipment. So you've got to make sure that you got some density. So what we've been doing over last 2, 3 years is that, our network has been focused on dense areas of Canada, okay, which we've accomplished. Also at the same time, we've introduced tools, okay, like freight snap and all these tools to make sure that there's no cheaters in our system because all the pricing -- most of all the pricing is done on a per weight basis, and somebody tells you it's 1,500 and you're in a rush -- 1,500 lb and it's actually 2,000 lb. So now we're doing a better job on that, making sure that all the accessorials, all the different stuff is invoiced to the customer like it should be. And also what we've said to our guys is that, you cannot be in the business of hauling minimums at, let's say, \$50 for a pallet between, let's say, Toronto and Montréal. This is not for us. I mean this is a loser. So we've cleaned all the shipments that don't fit the network and that don't fit the philosophy of the company. So we're not in the business of practicing delivery. Us, we're in the business of making money, serving customers on behalf of our shareholders. That's the vision of TFI. So this is the cleanup.

So if you look at our revenue, our revenue is down, okay, for 2 reasons: one is, some freight that doesn't fit the network or doesn't fit the philosophy of the company, and also the fact that LTL in Canada is shrinking because my customer of LTL are being affected by the e-commerce, the brick-and-mortar guys, the mall guys are being affected. So the revenue has to come down in the LTL. So this is why we've always been active on the M&A side. So we should be announcing a small transaction in this segment very soon in Canada. At the same time, our focus has been on the intermodal because this is a cheaper solution for shipping across Canada from east to west, and this is what we've built with Vitran, with NFF, and with Clarke over the last few years. And this is really an asset-light operation for us because Lionel has been done by the rail guys and most of our P&D operation, I would say, 99% is done through an older operator or an agent. So again, this is the focus of -- listen, let's propose to our customer a cheaper option, if they want, which is the intermodal. And if the guys want to be over the rope, well, they got to pay a fair price because us, we need the fair return.

In terms of customer return, Jason, not so much. I mean yes, for sure, I mean we have a huge U.S. shipper that went on an RFP and the guy says, we're not making a lot of money, we need a cheap carrier, well, I said, listen, I mean thanks, but no thanks. I mean deal with somebody else and let's see what happens because some customers that have left, okay, because of rates issue, some of them are coming back because they need the service.



Operator

Our next question comes from the line of Konark Gupta with Scotiabank.

Konark Gupta - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Just have a few questions here. One, so you have beaten expectations on EPS, Alain, in the first half. And the industry is calling out for a normal peak season in the second half, obviously. It looks like you're obviously not done on the margin improvement. So any thoughts on the room for further upside in your revised guidance? And what would be the key puts and takes in that, that could influence your guidance?

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

Well, you see, that's a very good question because you know us, we're very conservative. So yes, if I listen to our model, okay, we could say, maybe \$4, \$4.20 or something like that. But there are so many plays that are uncertain, okay, right now, in the U.S., for example, this China thing there with the trade and this. So there's a lot of things that -- everything looks good when you look at it, but then the freight environment in the U.S. is still soft. So us, we're very careful because we don't control the market. We don't control the activity on the market. So this is why we're careful, okay, with our forecast, and we say, listen, yes, sure, I mean \$3.90 to \$4 is doable, can we do better than that? Probably, we'll see. But us, we like to understate the fact and overdeliver. I don't remember exactly the right phrase, but -- under promise and overdeliver. That's the phrase I was looking for. And so we're not in the business to create mirage and we're saying, okay, this is what we think that is attainable, doable, hopefully, we do better than that, right?

Konark Gupta - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Yes. That make sense obviously and clearly, we have seen that. So please continue to do that. Second on the margin. So they were quite strong across-the-board and especially, LTL. So looks like the pricing was very, very good there. So my question is really, is -- first, the pricing that you have seen on Q2 on the LTL side, especially, is that sustainable in the second half of this year? And are you intentionally letting volumes go elsewhere if pricing does not make sense?

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

Absolutely. You're absolutely right. The reason that our pricing has improved so much is because we let go a business that didn't make any sense, that low margin. When I say low margin is, when we talk to our customer and at the end of the day, our bottom line is 3%. We say, listen Mr. Customer, with these rates, our profit is 3%. I mean I cannot invest a truck or a trailer or an employee to service you for 3% because I would be stupid to do that because the best thing would be to buy, let's say, Scotiabank's stock, and I would get more than 3% in dividend, right?

Konark Gupta - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Yes. That one makes sense.

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

So that's our thinking, that's our thinking. So we say to -- and things change, there's always an evolution in the business. So for instance, if the shippers' average weight 2 years ago was 1,100 lb per shipment, now it's down to 850, okay, because his business has slowed. Well, for me, I'm getting less money and my cost is as much or maybe even more than it was like 2 years ago. So we have to address that. So we're talking to some customers and we say, guys, we need to improve the rates or have somebody else do the work. And if these guys are in business just to break even, okay, good for you. But us, we're going to do something else.

Konark Gupta - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Yes. That make sense. That's great, Alain. Then lastly on TL. So your U.S. TL business obviously showed -- continued to show improvement on OR side, which you were kind of expecting, I guess. But what caused weakness in Canada and Specialized in the second quarter? And then would you expect the U.S. to hit the mid-80% OR at some point this year or maybe next year?

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

Okay. So let's talk to Canada first. Well, what has affected us really badly in Canada is our flatbed division, okay? So our flatbed division in Ontario -- mostly Ontario, is really suffering right now because of -- well, we have first the story of the steel tariff, okay? So steel tariffs created a mess in our flatbed because we're the largest hauler of steel in Ontario flatbed. So that was not good news for us. Now those tariffs have been removed now, but you can't turn a big ship on a dime. So it will take months and months before we go back to normal. So probably we're going to be still suffering in Q2 -- Q3 and probably in Q4. So our flatbed has been affected badly. So this is one of the reasons why we're running just an 87% OR, which is the same as our van division. Normally, we should be running in Q2 an 83% to an 85% OR in our Specialty Truckload. So that is what's part of the business that was affected badly.

Also we've invested in a great company in the U.S., which is highly seasonal. Aulick, okay, is really highly seasonal, so it's a beets hauler. So these guys are not really busy, we're busy, but not that much busy because really crazy busy, okay, starting, let's say, August -- the end of August into early in 2020, like January and February. So this, again, is something that's not showing up. That should improve in 3 and 4. But the flatbed has been a little bit of a rock in our shoe in Canada because of the steel tariff because the rest of the business -- our tank division is doing very well. Our steel -- stainless steel division is doing very well. Our ball division is doing very well. So it's really the flatbed has affected us.

Now in terms of where do we see Q3 and Q4 on the U.S. side? I mean I've always said, over an average of 10 years, you have to be running a 90% OR because you're going to have some great years at 85%, and you're going to have some more difficult years at 93%, or maybe 94%. I think that right now we're in the middle of this not great, not bad, so it's average. So for me, if we can be steady at around 90% or maybe 88% to 90%, for the rest of the year, I would be a very happy camper.

Operator

Our next question comes from the line of Fadi Chamoun with BMO.

Fadi Chamoun - *BMO Capital Markets Equity Research - MD & Analyst*

So first question, can you kind of talk a little bit about the dynamic of the Last Mile in U.S.? What do you think the issues are? And how do you go about fixing that?

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

Yes. Absolutely. So if you look at the way we run Canada. I mean there's a huge difference into the EBIT of our Canadian operation and the EBIT of our U.S. operation. There's many reasons for that. Reason number 1 is that the U.S. market, we have way more competition from companies that are not doing well. So BeavEX is one of them, okay? So we took on BeavEX just a few weeks ago. East Connection was also one of them. East Connection has been closed 2, 3 months ago. There is another one that will probably fold within the next month or 2. So the market environment in U.S., we -- there's a lot of companies that are owned by people that probably don't like to make money or don't know how to make money in the sector. So that's reason number 1.

Reason number 2, and this is why we ask, Kal, our Canadian guy, to help Scott, which is a great -- Scott Leveridge runs our U.S. operation, and with the acquisition of BeavEX, which is a -- BeavEX was not making any money. So we said, "Kal, could you help our friend Scott there, okay?" Because

the market is starting to clean up, I mean it's going to be a little bit better, but we have to shed cost. We have to improve our technology. We have to do a lot of stuff. So let's build a stronger team with the Canadian supporting and helping the U.S. team and vice versa.

So in my mind, okay, we have to improve the U.S. operation by at least 400 to 500 basis points, which means bottom line \$20 billion to \$30 billion improvement over the next 2 years. And this is with the help of the market getting improved in terms of competitors that don't like to make money or don't know how to make money. And I think that the crazies there are in charge of the asylum. I mean nobody is running to show. And the fact also that we, us, have to work on our cost and be more efficient. So as an example, our real estate cost in the U.S. is growing at about 5% of 6% of revenue. In Canada, we're running at 2% to 3%. So you cannot run a Last Mile operation at 5% to 6%.

Now as we now, cost of industrial space is just going through the roof with increase of 20% to 30% to 40% more because the demand is there. So us, we have to operate in a more efficient way. So this is what the team effort is going to be to reduce our operating cost and at the same time, hopefully, that some competitors smarten up and start building a team so that they are focused on making money, just -- not just growing volume because we could grow the company 20% in the U.S. easily, more than 2%. And us, we're not in the business of 2%.

Fadi Chamoun - *BMO Capital Markets Equity Research - MD & Analyst*

Okay. It looks like there is a plan to go after this. So I'm guessing the benefit of all these actions that you're taking are probably more a 2020 story?

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

Well, it's now, okay, but it's going to take us at least a year to 18 months to bring the U.S. operation to -- at least closer to Canada. I mean Canada, it's always the same story, we try to always do better, okay. But let's say, Canada, we're running at 90% efficiency. U.S., we're running at 50% efficiency. So we got a lot of work to do on the U.S., at the same time, we have to digest BeavEX.

Fadi Chamoun - *BMO Capital Markets Equity Research - MD & Analyst*

Okay. My second question is on the pricing. Like, can you kind of talk a little bit about how the pricing environment is in Truckload, the conventional truck load driver in the U.S. and Canada? And how it's going to play it out in the last few months and how you see that in the back half of the year?

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

Pricing is steady, Fadi. I mean it's -- we got a little bit of pressure, but globally, it's about steady. The problem we have is that the freight environment is soft, okay? So for sure, guys with lots of trucks and no freight, they get nervous and they call the world to get freight. So for now, it's still okay because us, what we're trying to do is to fill, okay, the demand, the empty trucks that we have every morning, okay, with customers that we already deal with. So we're not on the web trying to find loads here and there. So that's our focus right now. And we believe that this market environment is probably -- now some guys are saying it should improve Q3, Q4. Our plan obviously is that there's no improvement. Hopefully, there is. So pricing environment in Canada is okay. It's not great, but it's okay. We feel a little bit of softness in -- on the East Coast like Ontario, Quebec, because we have a situation in Canada with -- what they call the Driver Inc. syndrome, where we have unfair competition from some companies in Canada. So that creates a little bit of pressure on rates.

But besides that, we feel good. We have our cost really under control. We're still working on them on the Canadian side. For sure, where we have some opportunity is with our Specialty Truckload because we took on the lot of M&A in our Specialty TL boarding in Quebec and in Ontario. So for sure, when we're buying a company, those guys are not running a 97% OR, okay? So if they're good, they're running a 92% or 93% OR, some of them are running a 95% OR. So this is why our guys, like Steve Brookshaw's team are really busy in shedding cost in all the M&A that we've done over the last 12 to 18 months. So yes, we could see some improvement in our cost base in our Specialty Truckload within the next 6 to 12 months, right?



Operator

Our next question comes from the line of Walter Spracklin with RBC Capital Markets.

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

So focusing in on your outlook, you've changed your toad quite a bit here. I think you're noting -- you mentioned a mixed tech economy, the potential for more challenging trucking conditions. And wondering, just looking at the volume, I know a lot of the volume that went away, you sent away on purpose and getting rid of bad volume is always a good thing. How much of the volume decline that you saw across your divisions was actually economically driven, that is, wasn't demarketed volume, it was just lower same-store volume because of a weaker demand environment among your good customers?

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

Well, let's talk about P&C. So what we're facing now in the P&C is, our customer in the mall, in the brick-and-mortar are slowing down, okay, and our e-commerce customers are growing up. So you look at my revenue, my revenue is flat, but I'm trading mall for e-commerce right now. This is what's happening. My LTL, okay, what we've done is, like I said earlier, we shed the business of all these guys that could not afford a carrier that wants to make money. So this is -- has been the focus and we're \$12 million less in revenue in the quarter. A lot of that had to come from the Kingsway, TST Overland combination a year ago, okay. So that's still, as a comparison, we're comparing that. And the NFF acquisition that we did about 1.5 years ago, okay, with where -- we bought a company at \$80 million and today, the -- and losing -- \$80 million losing \$8 million to \$10 million, and today, it's a \$50 million making \$5 million to \$6 million. So we -- this is ongoing and, at the same time, like I said earlier, the LTL because of the e-commerce, my customers are suffering.

So to have a 4% -- 3%, 4% negative growth in the LTL, to me, it seems like normal because business is changing. On the Truckload side, we don't shed really customers there. We did that in the U.S. until probably like late '17, early '18, but right now in the U.S., I mean it's just business as usual. We're happy with the customers we have. We're trying to improve our mix of customers. But there's no real major change in our customer base, and the same thing with our Canadian Truckload, I mean we're -- now we've got some good customer. The only area where we see a little bit of change is in our Specialty TL, where we have an issue in the cement hauling business with some Driver Inc there, they spend them in them that we have mostly in Ontario that is really unfair. We have that. But basically, the rest of our steel or lumber or chemical or food-grade business, it's really steady. So it's really trying to improve our cost on a day-to-day because if you look at my improvement and my LTL, this is not the market. This market raise did not improve 13%, 14%. No. It's just that we got rid of all these guys that are cheap, that wants you to be a 2% guy. We said thanks, but call somebody else because us, we manage our capital and we can't invest capital for a guy that wants us to be a 2% guy.

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

Makes sense. And you continue to be a good free cash flow grower. Do you have an updated guidance on that for 2019 in terms of your free cash flow?

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

Yes, yes, yes. So it's going to be -- well, this year, we have -- we're buying back a terminal in Toronto. That's going to cost me \$38 million, okay. The Vitran terminal in Toronto. We're also investing \$10 million -- a little bit more than \$10 million to \$12 million exceptionally in Calgary for our Canpar, Loomis hub in Calgary, that's going to open up late in the year. But that being said, and that being in our free cash flow for this year, the net will be about \$400 million. After paying for those \$50 million of special one-time major investment. Now in 2020, we're building also in Calgary a new

intermodal hub for our Vitran, Clarke, Quik X, NFF operation in Calgary. So that's going to be -- we own the land, but the building is going to cost us between \$15 million to \$20 million. So this going to be 2020 though.

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

So when we look at your net CapEx for 2020, we should at least see it holed in given some of the one times you did this year. You'll do a few more one times next year. So not a big change in your CapEx for next year is what you're saying?

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

No, no. So this year, the onetime because of a building in Toronto, okay, and the equipment in Calgary is about \$50 million. Next year, we're buying back another terminal in Montréal. And we're building a new one in Calgary which is going to cost us about \$50 million. So it's \$50 million this year, \$50 million next year, which is exceptional, which is building. But that being said, even with that, okay, investing the cash, we're still left with about \$400 million of free cash flow after paying for those \$50 million investments.

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

Right, right. And when you look at your free cash flow then after that CapEx, let's say, after dividends are paid, you've got \$1 of free cash flow left. What are you earmarking in terms of buyback versus acquisitions? How would you expect to divide up that dollar after, whether it's through more dividend growth? Is it -- what kind of mixture of that dividend growth buyback and acquisitions are you targeting?

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

Well, first of all, I think that we will change our dividend for 2020. So right now we are at \$0.24 a quarter. I think my recommendation to the Board will be in October around \$0.27, \$0.03 more, okay, because our policy has always been to get at least 20% free cash flow back to our shareholders in terms of dividend. Now after the dividend, okay, our philosophy has been -- okay, there's no big whale, okay, there's nothing major happening in '19. There may be something more of size in 2020. So this is why we've asked the Board to approve that million share, which we're going to do right now until the end of September. And we've also asked for \$7 million, okay, for '19 to '20. And so that will come within the next few weeks as soon as the TSX approve it and all that.

So real -- unless there is a big, big whale for us in 2020, which we're working on, but you never know, that could be '21. Unless we have that, for sure, the focus is going to be reduce the share count. I mean we love to buy our stock at more than 10% free cash flow yield. We love that. So this is what we're doing now. We love to do that. So for sure, if things remain the same and there's no big whale in 2020, we're going to buy back another 7 million shares to bring the share count down to 75 million shares. And then okay, we'll for sure do, probably like \$200 million to \$225 million of small tuck-in. We've got so many opportunities for growth, okay, based on the recommendation of our great operations team that we could easily spend next year at least \$200 million on good tuck-in M&A.

Operator

Our next question comes from the line of Cameron Doerksen with National Bank.

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

Maybe just a follow up on the M&A, you just discussed the potential for tuck-in? Given that maybe the freight environment in North America has gotten a little softer here. Are you seeing some, I guess, more favorable valuations in the things that you're looking at?



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

Absolutely, Cameron, you're absolutely right. I guess there's 2 things that helps us. First of all, the valuation, let's say, the 4x to 5x or whatever it is, okay, should come down for sure. Your valuation factor is on an EBITDA that's lower than, let's say, 2018. So it's a double whammy for us as a buyer of companies. So it helps us, big time. So this is why, like I was saying to Walter, for sure, we're going to be investing at least \$200 million on M&A in 2020.

You should see us between now and the end of the year with maybe just a few deals, okay, because we did about that this year. And we have to digest, okay, what we bought. So probably 3 and 4 this year is going to be much quieter than 1 and 2. But we're getting ready for at least -- a good M&A year for 2020 -- excuse me, of about \$200 million and maybe a big whale that's going to change like a CFI changed the company in 2016, late '17, maybe. I mean we're working on that, but you got to be patient and you got to be focused on what you're trying to do.

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

Right, absolutely. So maybe second question just on the P&C segments, the margins there continue to be very good. But I'm wondering, if you could just talk a bit about the competition. If I look at one of your big competitors there, Purolator, they made a big announcement not too long ago about significant investment in their network including an expansion of capacity. I'm just wondering, what that means do you think for competitive market? And also what does it mean for your requirement to invest more in that business?

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

Yes. You see Cameron, the competitor that you talked about. I mean they made a choice, okay. They made a choice that they're piggyback on the largest e-tailer in North America. Us, we made the choice of not investing for those guys, like FedEx. Okay, FedEx said, we're not going to invest for those guys. We're seeing the same thing. I mean we're servicing that guy in small market like Victoria, Regina and all that. But we're not investing for that guy for, let's say, Toronto, Montréal, or Vancouver. So us, we're investing for other customers. So this is why we're investing in Calgary, okay, right now for our new hub for Canpar, Loomis.

In 2020, we're going to be working on Edmonton because Edmonton has to be done after Calgary and where -- we have always started for Toronto because we have to do Toronto in 2023. So we are investing in customers where you can make money. So if I have a guide that says to me, I don't make money in my distribution and so I think that you should not. Or if the guy tells me, "well, your margin is my opportunity," I don't really like that kind of statement. So I'm not going to work for you, right? So this is why us, we're way more conservative than the other guy and we're investing with the knowledge of we don't want a 50-year payback on the investment, it's a little bit long. So it's got to make sense. So if you think about Calgary, what we're doing is we have a payback of about 3 years on the Calgary -- 3, 4 years depending on who you listen to. Makes sense, better technology, more efficient. Like Toronto, it's going to be the same thing because our JCC Center is very close to capacity right now. So the first step is that, we're going to do a move with one of our satellite and then we're going to do the JCC Center Phase II, probably like 2022, 2023.

So we are investing, Cameron, to answer your question, but in a smart way for customer, where we can get a fair return.

Operator

Our next question comes from the line of Benoit Poirier with Desjardins.

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

Congratulations for the good quarter. Just to come back on the M&A, I understand that your -- you don't expect a lot of -- some modest M&A for the back half of the year. But just looking at big whale, are there any particular segment where you believe a big whale could be catch, eventually in 2020, 2021?

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

Well, if we look at the Last Mile operation, we did, our friend, BeavEX, which added about \$100 million to our revenue in the U.S. There -- we're looking for sure to beef up our last mile operation. It's tough for us to do in Canada, but I think we can do more in the U.S., okay? And we're working on that. Because we believe that the last mile operation that we have is the most efficient way to service e-commerce, okay? We have a next day operation in Canada, okay, that's service e-commerce. But this is based on customer's demand and all that, it's a great way to service the e-commerce. But is it the most lean and mean way? We don't think so. If the customer has some distribution center in the major cities, Last Mile is the way to go, in our mind.

Now that being said, so this is why -- this is one of our focus in the U.S. One thing is for sure, LTL, like I said earlier, is shrinking every year because of the e-commerce. So that's also an area for us to keep an eye open, if we could catch something of size in that sector.

Now on the specialty truckload side, we've started slowly in the U.S., we bought 2 good companies Schilli and Aulick. Very happy with what's going on there. As you know our mix in Canada between regular van and specialties is about 50-50, in the U.S., is about 90-10. So -- or 80-20. So we want closer to a 50-50 mix in the U.S. So that's also an area that we're really looking at. There are some good companies there that could be interesting for us, so we keep an eye on that. And the only P&C, it's tough for us to do something in Canada because there's not a lot that we could put our hands on because there's not a lot. I mean if you exclude the big guys, there's not a lot of guys left to do something on the M&A side. So this is why P&C is probably a little bit more difficult, but LTL, Last Mile and Specialty TL is really where our focus is. And we're working on a few things and like I said earlier, patience is the name of the game in our world of M&A. And so you got to take your time.

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

Okay. And LTL, would it be fair to say that it would be only Canada or you could maybe look at the LTL in the U.S. as well, Alain?

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

Well, like I said, for sure, Canada, I mean we're looking on the Canadian side because we're the largest player in the LTL. If a nice opportunity comes up in the U.S., absolutely, we'll look at that. I mean it's -- we have a great partner, that's the way we service the U.S. today. But maybe, one day, if you could buy the partner, I don't know. But it could be an opportunity on the U.S. side, absolutely. I mean we like the LTL world, okay? In the U.S., it's a market that is way more, how would I say it? Less players, more disciplined than the Canadian market. But more disciplined, I mean the U.S. is more disciplined than the Canadian market because there is less players.

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

Okay. Okay. And just on BeavEX, could you talk a little bit about the integration of BeavEX versus your initial expectation? How does it go on this side?



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

It's still early, Benoit, it's still early. What the guys are saying is that, right now we're addressing a lot of issues. Those guys didn't make any money for 2 reasons. Reason number 1 is they had too many -- too much real estate, too many staff, too many of too many. So their costs went through the roof, number 1. Number 2 is, as normal when you have a weak management team, you also have shitty rates with customers. So that's the other issue that we have to address. Slowly we are in discussion with some customers that took advantage of BeavEX because it's just normal. If the guy doesn't know what he is talking about, then you can take advantage of the guy, I mean. The shippers are smart, right? So we're working on that now as we speak. So this is why with Kal and the support of all the team there, it's still early because we bought the company just a few weeks ago. But we're busy, we're busy fixing situation and everybody knows in the U.S. that when we were running 5 to 8 points behind the Canadian division, there is something wrong. So there is something wrong because in Canada, we don't have a BeavEX that is -- that was not doing the right thing. In the U.S., we had BeavEX, we had Velocity, we had this guy, and this guy and [East Connection] and this. So but we have to work better on the cost. But the integration of BeavEX to what I know so far, it's going well, and it's according to plan.

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

Okay. And Alain, when you look at the overall valuation of your stock currently trading close to a 5-year low obviously valuation is much lower than it used to be. You've been disciplined in the past looking to make some potential divestiture, you've done it on the wayside. Do you see any opportunities right now to create value for shareholders? Or you prefer to grab some M&A opportunities, given that the valuation is more attractive? How do you look at some potential divestiture given your current valuation?

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

Well, there is 2 ways to answer that. Number 1 is, I'm happy, okay, because it creates an opportunity for us to buyback our stock. And like I said earlier, we should probably reduce the share count by \$8 million between now and the end of 2020, which is about 10% of our shares. Now that being said, you're absolutely right in the sense that, if people don't see the value of TFI, then what you do is, you buy back the stock or at the same time, you could divest off an asset like the Waste, like you said that was sold for about 11x EBITDA when the company was traded at maybe 6 or 7 at that time.

So for sure, if you look at the way, these are being done, okay, I will just say an example of when Dicom Canada was bought by GLS, which is owned by Royal Mail. I mean you look at this transaction and you say wow and then you put the same valuation to one of TFI's business and you say, this doesn't make any sense. This doesn't make any sense. So yes, it's something. My job is to make sure that we allocate capital properly and then we're on plan and also when I see an asset like the Waste and we may have some other assets within TFI, that are so undervalued based on market evaluation today, that yes, maybe it's something that we're working on. I mean time will tell.

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

Okay. Perfect. And just a quick one for me. You mentioned an update on the free cash. What about your CapEx, Alain, is it still \$200 million to \$225 million is kind of the good number for this year and next year?

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

Yes. Absolutely.

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

Okay. And would it be the same in 2020, Alain, in terms of CapEx?

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

If there is no huge transaction, I mean it will be in the same ballpark, we don't anticipate to reduce our CapEx because some of the truckload guys in the U.S. are saying, oh, we're going to reduce our CapEx. No, no, no. We're not reducing our CapEx. The only way we will reduce our CapEx is because the business does not warrant investing in a truck because of the profitability of this account does not make any sense.

Operator

The next question comes from the line of Nav Malik with Industrial Alliance.

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

I just wanted to follow up on the capital allocation, and I know you're being aggressive with the share buybacks but what about in terms of debt repayments? Is that -- what are your thoughts on paying down debt versus the share buybacks?

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

Well, you see, our approach to leverage has always been the same, I mean we like to play between 3 -- 2 and 2.5, and right now, we're at about 2.25. So with all the buying back that we've done, I mean we bought back about 6 million shares so far trailing 4 months, so we feel good about that. And as long as we play between the 2.5 and 2, we feel really good. Now maybe, what can happen is and the same thing in the past, if there is a big whale and a transaction, that could push the, let's see, the leverage to 3 or maybe 3.25, then, okay, what we do is, then we have to be careful with the buyback. Because then we have to spend more of our capital repaying our debt.

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

Yes, I mean I guess that's kind of my question in terms of the balance between share buybacks and debt. I mean certainly it seems like you're being very aggressive on the share repurchases, but I'm just wondering why not allocate some more capital, some more of that free cash flow towards debt repayment, rather than share repurchasing?

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

Well, because the costs -- see, my shares cost me a fortune right now in terms of the dividend and the yield versus very low interest rates. So that's why our decision is. Let's focus more on buying back the share versus reducing the debt. We're working on something right now, that again, is going to lower the cost of our debt. So we feel good, I mean if you go back in history because this -- we always look at history and you go back into the 2008 major recession. Our revenue went down 20%, our EBITDA went down 20%, our debt at the end of 8 -- '08, was \$800 million. Our debt at the end of 9 -- '09 was \$675 million, if I remember, and we went through all this storm, okay? So we feel very good.

Now let's say, that's the same thing happened now. So excluding IFRS thing there, TFI's EBITDA would be what, let's say, \$800 million, goes down 20%, goes down to \$650 million. Our debt is \$1.7 billion today. So \$650 million times 3. So our leverage would go up to very close to 3 and so -- and then if there is a 20% drop in revenue, then there is a 20% drop in CapEx, which is just normal. So your debt comes down. So we feel good, I mean we do all these scenarios now. Because now we were not in the business of not knowing where we're going. I've done that for 40 years. So we have a vision. We can make mistake, yes, but right now, when I look at the stock price at \$38, I'm so happy of buying it back. I mean it's -- we



trade at less than 10x earning. The average, the normal average would take years between fifteen and seventeen for a high-quality company. So to me, wow, and I've got some shareholders in the U.S. that says, stay in Canada, don't come to the U.S. market because, we're buying your stock and we're just laughing all the way to the bank. Don't get it to the New York Stock Exchange, don't do that. Stay, stay in Toronto. And we're buying the stock and we're making -- we're just laughing.

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

Okay. Fair enough. Okay. I just want to move to the truckload, the U.S. truckload side. So very impressive results in the quarter, certainly in terms of your improvement in the operating ratio. And I'm just wondering if you could comment, I mean some of the U.S. truckload carriers were talking about an oversupply of capacity potentially correcting itself or potentially correcting by year-end. Are you of the same view? Like are you seeing -- maybe you could comment on how you're seeing that market unfold?

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

Yes. So if you look at the Class 8 trucks that are being sold and the cancellation order and all that, this is the stupidity of our industry. In the good times, like 2018 on the right side, we buy more trucks, we had capacity and then we end up with the 2019 market okay, being soft for a few reasons. One, because of Chinese tariff that was pre-buying in Q3 and Q4 last year. So if you pre-buy Q3 and Q4 of '18, then you got too much inventory, well, you got a lot of inventory in Q1 and Q2. So that affects the trucker, soft environment, some small truckers panic, okay. They say, ooh, I've got new trucks coming and it's the stupidity. Now what the truckload guys in the U.S. are saying is that this should resolve, okay, early into next year or maybe late into this year. I'm not a magician, I cannot say that. I don't know. The only thing I can say is my team, under Greg Orr, those guys are focused on cost and becoming the [AA team] in terms of being lean and mean. And this is the focus. And if those guys are right that the market will start to improve late in 2019, we'll take advantage of that. But we're not hoping for that. Our focus is let's work on something that we control, which is us, our cost. That's how we manage our business. But if these guys are right and the market starts to tighten up and the rates trying to get better, for sure, I mean we'll adjust ourselves to the market.

Operator

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

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

Just one for me. You talked a lot about, I mean growth of acquisitions here as a way to maybe offset some of the potential softness and that could be coming down the pipeline. When I think back to the freight recession a few years ago, there was some difficulty in integrating some of the assets you had acquired there, you had to put in a little more capital to kind of get it to work, and we're obviously seeing the benefits of that today. Just wondering, when you're looking at your due diligence process today, given the outlook is a little bit more uncertain, is there anything you're doing differently to make sure that this -- the earnings that you're buying are stickier or that the assets you're buying are of the quality that you think that they should be so that there isn't some sort of unforeseen negative surprise what we start folding these in. Has anything changed over the past few years post the freight recession we had back in '15 and '16?

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

You see, Kevin, when you do M&A, there's always risk. You could do due dil for 2 years, okay, and you think that you're safe 100%, but you are never safe a 100%. Because there's always something that may happen that was unforeseen, right? So what you have to look at is what is your average over 10, 20 years of -- what's your batting average? Because nobody bats for a 1000. So if you bat for 400, you're great, right? So if you look at TFI's history, when we bought TFI -- CFI, okay, sure, we were disappointed. We were disappointed. And our due dil, we use all kind of people to help us with the due dil. But there is some information in M&A, the seller is always very cautious because you're competing with them, which is customer information.

So if you look at the CFI acquisition, the big draw we have there. Number one problem is we had about \$60 million of freight that did not fit the network with terrible rates and it took us close to a year to get rid of that, right? And that's something that we could have done another 3 years of due dil, and this is information that is never available. Because you're buying and you're competing with the guy, he's not going to show you his customer list, right? So there is always things that may happen, but us, we have an experienced team and I think that the proof is in the pudding. I mean we have done a lot of acquisition, and if you look at some roll-up in the U.S., some are good, some are still looking good and some don't look too good. But if you look at TFI over 20 years, we took this company from \$100 million, losing 10 in 1996 to \$5.5 billion today and making, what, 400 and something.

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

Right.

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

And this was done through smart M&A. Because this is my job. This is what I've done when I was with my previous employer, and this is what we've done at TFI. But there is no certainty on M&A that you could do whatever you want, there may be some surprises, but I mean we got the [A team], right? So our team are looking at that and say, hey, I think, we're going to fix it. CFI was more difficult because we didn't have a lot of bench strength in the U.S. Now I could say that we have a hell of a team. We have a great team in our van division in U.S. No question about that, so we could take on more. And on the Canadian side, we are second to none.

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

That's fair enough. And great color there as well. If I could just ask one last question here on the EPS guidance range. I know there's been some moving parts and you acknowledge that in your opening remarks about the market being softer that you're folding in some M&A. If I were to look at the buckets from the \$3.54 of adjusted EPS you had last year moving up about, let's say, the midpoint of your guidance about \$0.40. How would I break that up? When I do the quick math, is it like \$0.20 plus from M&A, maybe I'm wrong there, let me know, about \$0.10 on IFRS maybe and the rest is organic...

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

IFRS is out of there, I mean we don't talk about IFRS. IFRS for us is like stupid accounting, we don't talk about that. With our banking deal, it's completely excluded IFRS. We don't even talk about that, okay? So for us, when we talk about the \$0.40 improvement, a lot of it comes from our U.S. TL.

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

Right. Okay. Considering about half the benefit would be about U.S. -- half the benefit is organic. Yes.

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

Yes, yes, yes. And our U.S., I mean our Canadian M&A is not as profitable. It's profitable, but is not as profitable as our existing business. Because like I said earlier, we buy a company that's a 92 OR or 95 OR, they're doing good, but us, globally, our specialty is 87. So if we buy 95, we've got an opportunity to bring those guys at least to 87, but that takes time. So this is why Steve and his team there are really busy, okay, bringing all these acquisition closer to 87. So this is the beauty of having such a strong team in Ontario on our Specialty TL. But that takes time. It does not happen overnight. The only problem we had so far with our specialty, I said it earlier, is our flatbed division that was affected by the political environment

between U.S. and Canada on the steel. So the tariffs are gone, but okay, tariffs have been gone for 1.5 months, but that will take us 6 months to get back on our feet with the customers.

Operator

Our next question comes from the line of David Ross with Stifel.

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

Wanted to touch on the Last Mile segment. You talked about having a differentiated strategy there, thinking that, I guess, you're taking a more efficient approach and some of the other big guys that have taken more of an asset-based approach. Could you, I guess, flush out a little bit more what you're thinking bigger picture from Last Mile strategy in the U.S.?

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

Yes, good question, David. So our approach is, number 1 is, if you could take on like a BeavEX or something like another BeavEX. I mean this is step number 1. Step number 2 is we're beefing up our U.S. team with the Canadian leadership to work more towards our cost, and number 3 part of our strategy is we need more of a sales team, okay, that's going to be in the position to really work closer to customer so that they can understand that our proposal is the same as the proposal of the largest e-tailer in North America. Because we do the same thing as these guys are doing for their own product, okay? We run with the known operating model, okay. We service more than 65 different markets in the U.S. So we have a huge coverage. But we're probably one of the best-kept secret in the U.S. because our sales team's effort was probably not focused in the right direction.

So this is why we brought Kal, the Canadian guy, that's done a great job in Canada, okay, in helping Scott, and Scott is an experienced guy, company man. And Scott's focus is going to be, okay, let's lead the sales team in the right direction. So organically we can get more, organically, than what we're getting now. And let's have Kal focus on the M&A side, working with the ops guy, working with Scott and our ops team there to be leaner, more efficient, and also working with our CFO to make sure that we have better tools, okay, to manage cash and to manage costs on the admin site.

So it's a huge effort because, if I look at TFI today and you say, where you see more potential of improving? I would say, Last Mile, U.S. is number 1, and this is why we're beefing up the team, and then number 2 would be specialty truckload because we bought a lot of 95 OR company. So Steve has got a lot of work to do between, let's say, 6 months ago and another 12 months to bring these guys into the 85 OR, 83 to 85 OR where we should be. Now we're not there, okay, because of two reasons; M&A is one and the flatbed is hurting us a little bit. Hopefully, our flatbed, we have a good plan there and we'll get the results back on track. And the M&A, that we know, it's just a matter time.

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

And for the sales force that you mentioned, do you think you need a separate Last Mile sales force or the salespeople capable or the right people to sell Last Mile logistics, truckload, other services that TFI might offer?

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

No. Us, we believe in really trying to sell something that you understand well, okay? And our sales team, okay, is got to be focused in selling the Last Mile, within our Last Mile Group. Because having our truckload guys selling Last Mile, [the saint under the sun] -- we don't believe in that, okay? I know that some guys are talking about -- the guy sells, he sells food, he sells brick, and he sells mortar and he sells everything for the house. I mean us, we're really focused sales team of Last Mile, focused on e-commerce, growing that and also having the market and the customer understand that our proposal is the same as the largest e-tailer. And our costs are even better, okay, because we're lean and mean. Well, we're going to get leaner in the U.S., but we're really lean and mean in Canada.



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

Okay. And last question on the Last Mile. Are there any holes in your network or areas that you're looking to beef up as you look to have a National U.S. product?

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

Yes, that's a good question. I mean I'm looking at -- there's some areas, okay, that we could be a little bit more present. We're really strong on the West Coast on the High 5 all the way from, let's say, the Canadian border down to California, strong there. If you look at the East Coast, I mean we're really strong in Florida and New England. We could be a little bit stronger, Boston, maybe, but we're really strong in New York, going all the way. Carolinas, we could be a little bit stronger. Florida, we're good. And then you look at Texas, we're solid there. And then the Midwest, Illinois and Pennsylvania and all these areas, we could be a little bit stronger in that Great Lakes kind of operation there like Detroit, we're there, but we're not really a big player there. So there's some pockets that we still need to do better.

But basically, I would say that, we're probably like 75% to 80% of where we should be in terms of market coverage. Now the focus is really, Dave, to really be leaner and meaner in the years of where we are going, try to grow organically with a stronger sales force, more focus on trying to explain to customers, potential customers that our recipe is great. We're the largest e-commerce, okay, Last Mile guy, e-commerce, I mean we're not hauling fridge and stoves with our Last Mile. Yes, we have a small division called PPM, that does that for a few states out West. But us, we're not hauling fridge. Our Last Mile is parcel like what the largest e-tailer is doing.

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

Excellent. Well, that's all, very helpful color. Congratulation for the CFI team on the terrific operating results.

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

Oh, they did a great job. Thank you. Thank you, Dave.

Operator

Our next question comes from the line of Nauman Satti with Laurentian Bank.

Nauman Waqar Satti - *Laurentian Bank Securities, Inc., Research Division - Associate of Research*

It's Nauman here for Mona. And then Alain, if you could comment on the e-commerce revenues that are still growing at 15% and 16%?

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

Yes, yes. Our e-commerce is still growing. I don't remember. I don't have that next to me the last number that we came out with but, for sure, our e-commerce is still growing, but growing profitably. Because we could grow 40% our e-commerce, if we want. But grow at 2%, like I said, many, many times, it's not us, I mean we're not going to do that. So our focus for us is yes, grow, fine, it's okay, we're going to make money.



Nauman Waqar Satti - *Laurentian Bank Securities, Inc., Research Division - Associate of Research*

Fair enough. And just one more from my end. Could you speak to the driver wages, of the cost on that side on the U.S. side as compared to what it was last year?

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

Yes, well, last year was a year of correction. I mean there was a lot of catching up to do for the drivers' salary, okay, and at the same time, the freight environment was booming and there was lots of freight. Because, don't forget, early in '18, you got the ELDs implementation. So that had an effect for, let's see, the first 3, 6 months and then there was this tariff with China so there was this overbuying of product because of the tariff, that everybody knew that was supposed to come on which they did. So '18 was really a great freight environment year and also it was also great year for the driver because we were able to improve the salary of those guys. '19 is a different world, it's a different environment, I mean the market is way softer. So what you see is that you got more stability in the driver's wages. On the Canadian side, it's different world. We increase salary every year by 2% to 3% on our driver. It's got nothing to do with the market, it's just that, this is -- this brings us stability in Canada. This is why our turnover in Canada for our truckload division is next to nothing, it's about 10%. Whereas in the U.S., our turnover is about 80% to 90%, which is about the same as the environment. But this is the U.S., this is the way it's been done there.

Operator

No further questions at this time. I'll turn it back over to you.

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

Well, thank you, operator, and thank you, everyone, for joining our call this morning. We greatly appreciate your interest in TFI International. Hopefully, you gather from my remarks today that we -- as we continue to move through 2019, we will remain focused on seeking opportunities to create value, unlocking it for our investors and whenever possible, returning excess capital to our shareholder. So I look forward to updating you as the year progresses. And thank you, again, for being with us this morning, and have a great day. Thank you.

Operator

This concludes today's conference call. And you may now disconnect.

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