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PRESENTATION

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Good morning, everyone. Why don't we get started? We have folks on webcast, and let's get started right at 9, if we could. So welcome to Badger Daylighting's 2019 Investor Day. The team -- the Badger team is very pleased to be again having an Investor Day, and we appreciate the opportunity to spend time with our investors and analysts. We're very proud of the Badger team and what's been accomplished in the last year. We focused on servicing Badger's customers and positioning your company for the long term. It's great to see a number of folks who are with us in past years and also some new faces.

And as I mentioned, we welcome all of those who are joining us via webcast this morning. The format we have is to present in 2 segments with a 15-minute break in between, and we'll have a Q&A session at the end of the presentation. At the end of the Q&A, we have a light lunch, and the team will be here to spend more time with those folks who would like to do so. And also, a copy of today's presentation is posted on Badger's website.

So some introductions. With us today are members of the Badgers management team, our operating partners in Ontario and our Board. So we'll start out by introducing those who are presenting. First, John Kelly, our Chief Operating Officer. John, could you raise your hand, so folks can see who you are? Thanks. After John will be Tim Reiber, our Vice President of our Central Operating Region. Thanks, Tim. Next up will be Tracey Wallace, our VP of HR, and I guess everyone sat in the right order in the front row here. And after Tracey will be Wade Wilson, the Vice President of Business Process Improvement, who will talk to us about our ERP update. And finally, Darren Yaworsky, our CFO. Darren, thanks. So other Badger team members here today are Glen Roane, our Board Chair. Glenn got here early. He got a seat in the back. Liz Peterson, our VP of Operations for the Eastern Region. Thanks, Liz. Jay Bachman, our Vice President of Investor Relations and Financial Operations. Jay, he's in the back. He's staying near the coffee. And Tom Ellis, our Regional Manager for the Northeast Region, which includes Ontario. So Tom, he's in the back.

I'm also very pleased that several of our operating partners in Ontario are here today. Greg Potter from Sarnia. Greg, could you -- there's Greg. Welcome, Greg. Pete Seguin and Todd Chayka from Ottawa-Gatineau, back there, next to Greg. And has anyone seen Frank? Is Frank here? Okay. [Frank Hurdle] is our operating partner from Kitchener-Waterloo, and he might be on a truck today, hard to say. But our Ontario operating partners run about half of Badger's business here in Ontario. The longevity, I think Greg, Todd, Pete, [Frank], are all over 20 years, and these individuals really, really know the Hydrovac business. So I would encourage you to get to know them and talk to them about their business and the success that they've had over a long period of time. But before we get into the presentation, we'd like to take a minute for a safety share. And Liz, are you going to lead us in a safety share?

Elizabeth Peterson - *Badger Daylighting Ltd. - Badger Daylighting Ltd.*

Okay. Good morning, everybody. I just wanted to give some logistics. If there is a need for us to evacuate, we'll go out this door in the back, and please take a right and go to the first exit sign on your left. It's just right on the other side of the sign-in table, and we'll walk down 2 flights of stairs, and we will go out to a loading dock, and it is on Melinda St., and that's where we will rally. Lisa has a sign-in sheet, so Lisa will take the sign-in sheet. So if we have to evacuate, Lisa will then take roll calls to make sure everyone is out safely. Wade will be responsible for dialing 911 if there's a medical emergency, and Tim has got CPR if it's needed. So hopefully, it won't be needed. And the bathrooms are down the hallway to the left which is important. That's it. Have a great morning.

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Thanks, Liz. Safety is a really important part of everything we do at Badger, and we start all meetings with a safety share. So before we begin, I'm required to remind everyone that the statements made during today's presentation regarding the management expectations or predictions for the future are considered forward-looking statements. In fact, all statements made today that are not a recitation of historical fact should be considered forward-looking statements. We make these statements based on assumptions we consider to be reasonable. However, forward-looking statements are always subject to certain risks and uncertainties, and undue reliance should not be placed upon them because actual results could differ materially from anything expressed or implied.

For more information about material assumptions, risks and uncertainties we believe are relevant to forward-looking statements, please refer to Badger's MD&A for the period ended September 30 of this year, which is available on our website and on SEDAR. Further, such statements speak only to today's date, and we do not undertake to update any such forward-looking statements.

So before we get into the formal presentation, we would like to thank our shareholders, employees, customers and other stakeholders for all of your support over the past year. Badger's focus is building and operating the best North American Hydrovac business. This model we have is a strong one and has delivered excellent growth and excellent returns over a very long period of time. Badger has a significant runway of growth, and we have key strategic initiatives underway to profitably capture that growth. Our objective for today is to provide an update on our initiatives, put some perspective around 2019 activities and provide background on our successful track record and the market opportunities that we see out there.

So let's first review our strategic milestones. We're pleased with the operational and financial progress we've made since we met here a year ago and especially since we first established these milestones back in 2017. The numbers speak for themselves. We've made excellent progress on doubling our U.S. revenue with growth of 32% in 2017, 30% growth in '18 and year-to-date growth for 2019 of 15%. The U.S. revenue now comprises 80% of Badger's business. This is a significant change from where we were 5 years ago, and your company is in a very strong position in the U.S. market.

In 2017, we established a target to double our U.S. business from a base of 2016, and I'm very pleased to announce that last month in October, we actually hit that doubling, even below the 3- to 5-year target that we've initially indicated. And this growth was achieved by building Badgers, hiring operators and putting them to work one step at a time. We've also grown adjusted EBITDA, which was up 20% last year, 25% in '17 and is up 8% so far in 2019. On a compound basis, Badger has grown adjusted EBITDA by 16% since we established our target back in 2017. Our 2019 EBITDA margin is 120 basis points lower than we were last year, and we'll talk a little bit about the reasons behind that, but we have had some very significant projects underway with our ERP system and a lot of organizational focus on that, which has created some distractions, but the projects are also going very, very well. So we're very pleased about that.

Our strategic milestone for our long-term adjusted EBITDA target remains at 28% to 29%, and we are confident that we're going to get there as we get the ERP system behind us and continue to focus back on driving growth and profitability in the business. And lastly, we have a target for our revenue per truck per month, we call it RPT, to keep that number above $30,000 for our overall fleet. Utilization is really key to profitability. Those 2 are directly linked, and it helps us with higher utilization, drive effectiveness of operating costs from the top of the income statement right down to the bottom, from gross margin right through to G&A. And we've had very good luck with that over the years.

Our second biggest operating cost is our fleet, and we're in the process of looking at new strategies and ways to better manage repair and maintenance on the trucks and also ways to extend the economic life of our trucks. And we'll be talking more about that as we go through 2020. There are some good opportunities for us to go after there. Let me just take a break from the comments just for a minute. We've had a number of folks come in. There are some more chairs. I think down on the front, we could maybe squeeze in. So for folks that would like to squeeze, please don't be shy.

So some comments on 2019. As you know, Badger has always managed for the long term. 2019 is a year where we're implementing a new ERP system. This is a huge investment for us and a big commitment for the organization in all parts of the organization, and we're really replacing a collection of legacy systems. And we'll talk more about that later. The important thing about this ERP business initiative is that the initiative has been led by the operations and functional staff teams. This has not been an IT department and consultant-led initiative. The folks that are using the system and using those tools are the ones that were involved in the strategy and design to put it all together. A lot of our managers have taken significant time away from the day-to-day responsibilities, and this has really been important to ensure the system was -- it had the functionality that's required. And also that we're going to have the right tools to drive efficiencies and support growth.

But there's a distraction that comes with this, and it gets really unavoidable, but I can't think of a better way to do it. That's some short-term pain for long-term gain.

This year, we've had a temporary increase in general and administrative expenses related to system implementation, and this is due to the timing of the work and the resources required to get the work done and to bring the system online right and bring it online on time. And so far, this rollout has gone extremely well. We could not be more pleased. But this is really due, in large, part to the extensive management involvement every step of the way. So Wade Wilson will be providing some more background on the ERP implementation and the expected benefits that we've seen and we see coming from that.

At the same time, in 2019, as we rolled out this ERP project, we've continued to grow. We've added 116 net units to the fleet in the year ended September 30 and of course have hired and trained operators to go into those units. Pretty exciting to have that growth opportunity. Our human resources processes, including training, onboarding and all the factors that go into successfully putting operators in the trucks, have really been strengthened over the last several years. And Tracey Wallace, will be providing an update on that in more detail today.

So Badger's business model is proven and has performed very well over the long term and performed very well over all stages of the economic cycle. As Badger's grown, the advantages of our scale have grown. We talked a lot here last year about scale. And what we're doing with the ERP platform is really setting Badger up to further drive scale advantages as we continue to grow.

Over the past 10 years, our revenue has grown at a compound annual growth rate of 17%. The opportunity for growth is there, and the rest of my teammates will describe the areas where we believe the operation -- the opportunity lies. John Kelly and Tim Reiber, in particular, will provide more information about how we view our market segments from an end-use segment perspective and also from a geographic opportunity perspective.

The benefits of scale really show when we look at return on invested capital over time with Badger's 10-year average ROIC at 16%. As I mentioned already, scale goes hand in hand with utilization of the fleet and hand in hand with operating cost management, both of which support margins and return on capital.

Numbers tell the story. Badger has been very successful in building and putting Badgers to work in service very profitably for a long period of time, and these significant investments that we're making this year will be the underpinning that will support another decade of growth. We're excited about this.

We often get the question, how do you continue to grow in the Hydrovac business? Hydrovacs have been around 25, 30 years. Isn't this a mature market? While Hydrovac have been around that long, starting in Western Canada, Hydrovac is really a relatively new technology across the wide swath of the large U.S. market. Our future growth will be driven from 2 areas: First, by additional penetration in our existing markets; and second, by entering new geographic markets. Although Hydro Excavation has been around a long time, and we've been around in our markets almost that long, we continue to see opportunities in markets that could be considered mature. Over the last several years, many of our best-performing locations have been in areas where Badger has operated for decades. Hydrovac is an underutilized part of the excavation value chain, particularly in a majority of our U.S. operations and also in certain pockets in Canada. When you combine this opportunity with the initiatives that our sales and marketing team are pursuing, you can understand, while we're still in the early stages of executing on the growth opportunities that are out there and why we think we're going to have solid growth for many years to come.

In addition to excavation, there are a lot of other uses for the Badger equipment. Badgers do a lot more than just dig. There's a wide range of cleaning, vacuuming and washing that can be performed with our Badger equipment, and we've been the leader over the years in discovering and introducing these new uses to different customers. And if you get John Kelly wound up on this, I think he's got a list of over 300 other uses for Badgers. I don't know how much time you have, but it's pretty exciting.

So really, we're in the early innings of end-use customer understanding, and we're in the early innings of market development with our Hydrovac technology. There's a video that illustrates some of the new uses. I don't know if you saw it. It was playing when you came into the room. That was on the screen upfront and also in the hallway here. I'd encourage you to view it. There's some great footage there of actual work and excavations. And this video will also be posted on Badger's website after we finish up this presentation today.

So the second area of growth for Badger is entering new markets, geographic expansion. This opportunity is there, particularly in the U.S. and it's there as the Hydrovac technology continues to evolve. As we introduce new customers to the benefits and the value of Hydrovac technology nondestructive excavation, and they understand the value of that. We continue to have good success in penetrating new markets and penetrating new customer segments. The runway for growth in the U.S. is very exciting, and John and Tim will, as I mentioned, we'll talk more about that in a few minutes.

So with that said, I'll now turn the presentation over to John Kelly, our Chief Operating Officer. John?

John G. Kelly - *Badger Daylighting Ltd. - COO*

Thank you. Good morning, everyone. Just so -- a little stuffy in here. I wore this tie the last time I was here at the investor, and it was the last time I wore a tie, so 365 days. We're typically in shirts and boots and jeans, and I think that's where the owners want us to be. So thank you, Paul.

As Paul noted, I'm John Kelly, Badger Daylighting Chief Operating Officer. I'm very happy to be here and provide an update on Badger's operations. Throughout the next session, I'm going to walk through what Badger does, why it benefits our customers and why and how Badger operates.

I want to spend a minute, though, to explain Badger, what Badger does for any participants that might not know what Hydrovac is. The Badger Daylighting process is called Hydro Excavation. Daylighting is simply the term that describes the process exposing underground infrastructure to daylight. In essence, it's a fancy way that we dig holes for a living. Hydro Excavation, or commonly known, Hydrovac, is a unique form of excavation that is nondestructive. Hydrovac use a combination of pressurized water and vacuum to excavate the ground. So basically, to put it in layman's terms, if you have a shop vac at home and a power washer, which I don't advise you to do this, it's basically the same concept but just on a much larger scale, okay? So if you took your power washer and hit it in the ground and took your shop vac, same concept.

A large number of our jobs are emergency or last-minute call-out service. There is a certain level of unpredictability in what and when our customers need us. It is this unpredictability which drives the importance of being the first call for customers. When they need us, they need us often ASAP.

Having trucks and operators available next week when customers need you tomorrow is unacceptable. Availabilities of units to service our customers is a critical part of Badger's DNA.

I want to mention that Badger builds its Hydrovacs for the last 25 years in Red Deer, Alberta, and we are proud of our Red Deer team's talent and effort they put into designing and building the Hydrovac units we call Badgers.

For those of you not familiar with Hydro Excavation, we want to highlight the benefits we provide to our customers and where Hydro Excavation benefits traditional excavation. Paul mentioned a video a minute ago, and a picture really helps understand the wide range of applications that we service.

First, safety is first and foremost in everything we do. Safety is a key part of Badger's DNA. Not only do we provide our customers with an option to improve the safety of traditional excavation, but everything we do from our operational perspective is done with safety in mind. Providing our employees with training and tools to do their job, safe manner, is truly job #1. It is vital that each and every operator is able to perform their duty safely so that they can return to their families at night, and that's goal #1.

For the initial hiring to training to our motto of Best Operator, Best Truck, safety is the center of Badger's culture. Hydro Excavation provides real benefits to our customers. Our customers are most often owners of infrastructure and/or the contractors who do the work for them. Improving efficiency for our customers, reduce damage to sensitive infrastructure and improved safety are generally viewed as the primary benefits of our service.

We work in a wide range of end markets, in range that's expanding all the time. Regulations also continue to expand from the life safety to protection of key infrastructure needs. Hydro Excavation is all about providing our customers with value-related -- value related to their excavation requirements. Badger truly is a productivity partner with our customers for their excavation requirements. Time is money in all types of construction, and improved productivity is a key customer benefit to Hydro Excavation.

Conventional excavation is the majority of excavation that goes on in North America. So I'll just point to the picture down in the left-hand corner with the Yellow Iron there, that's traditional excavation. You see the Badger right in the middle of it, that's the quarterback. Conventional excavation is the majority of the excavation that goes on in North America. This will always be the case due to the efficiency cubic yards of material that can be moved. However, conventional excavation performed by a large range of equipment types is responsible for a significant amount of damaged underground infrastructure. We hear about it, unfortunately, incidents almost every day. Even hand-digging techniques with tools as simple as shovels are the cause of many strikes or incidents with damaged underground systems.

The pipeline emergency response and damage prevention organization estimates that there's a critical strike every 6 minutes in the U.S. alone. As we sit here today, the next couple of hours, there'll be 20 utility strikes documented and many, many more that are undocumented. We are not just suggesting replacing all forms of traditional hydro -- or excavation with Hydrovac. Mechanical excavators, otherwise known as Yellow Iron, move a lot more material per hour than Hydrovacs. However, Hydrovacs often helps make the traditional excavation techniques safer and more efficient by locating or daylighting underground systems so Yellow Iron can go work faster, quicker and safer.

So to understand that and put it in a little bit more perspective, we go in front of the Yellow Iron. We identify the utilities or hazards, and then they can dig a lot faster. So if you're ever out there driving around and you see an excavator, small or big, and they look like they're just crawling along, you might want to roll your window down and tell them to hire Badger because what they're doing is they're creeping, and they don't want to hit anything. But that's exactly what we do. We get in front of them. We point it out to them. We identify it, and then they can go like wild.

It is very interesting with the fleet of over 1,300 units operating across North America, we continue to see new applications through Badger that utilize the pressurized water, along with vacuum, to perform a wide range of useful services. As Paul pointed out, our primary is excavation, but there's over 300 applications that we use the Badger for that we never even pull out the wand sometimes or the vacuum to provide services to our customer. The tool that I call the Badger system, okay, has many, many uses outside of just traditional excavation.

Badger has historically placed safety as job #1. Safety is our core, and I'm going to give you 3 indicators and 3 definitions to our core. First, it's our moral obligation. Second, it's our business and why people hire us. And third, it's the law. So many might say, "John, why has Badger placed the law number 3?" We have over 2,500 employees, 1,500 operators every day that go out on the street, okay? 1,500 of them are out there working alongside other contractors in dangerous environments, and it's our moral obligation to make sure that we train them correctly. We give them the right tools, okay, and we provide them with good working environment so that they can go home every night. And that's why the law is #3.

In 2009, Badger rolled out its rules to live by which focus on all safety efforts. We focus training and weekly safety meetings around these themes, which address the most important areas of operations. We have also introduced a progressive discipline program, which ensures all Badger employees know the rules, and there's a consistent, transparent action to any type of unsafe act that goes on. We have also introduced -- we continue with Badger's highly successful mentor training program, which uses the buddy system of 1 on 1 training in the field. Our mentors sign off when they believe that the trainees are ready to go out independently. With over 1,700 vehicles, 1,300 Hydrovacs, 400 support trucks on the road every day, we have a strong focus on defensive driving and have partnered with a third-party company to deliver defensive driving training for all Badger employees who are behind the wheel.

I can tell you from a personal experience that this training has changed the way I drive and the way I've communicated to my family. I've got 2 daughters, 21 and 18, both of them drive F-150 pickup trucks. The key thing is the Smith System. There's 5 keys that I've taught them, and I challenge all of you to write them down and keep them. Key one: aim high in steering, always be looking out by driving -- flying a plane or driving a boat. Key two, get the big picture, always understand your surroundings. Key three, keep every -- keep your eyes moving at all times. As I like to say, I played linebacker in college and high school and defense in hockey, always keep your head on a swivel. Key four, leave yourself an out, always know where to go. And key five, make sure they see you. Those are 5 keys that I've taught my daughters. Hopefully, they listened. And finally, we partner with various industry associations, such as Gold Shovel, to achieve certification that Badger's safety program meets third-party standards.

Badger. Badger is the largest provider of Hydrovac service in North America. The size of Badger's fleet and the number of operation locations result in unparalleled operating scale relative to our competition. Scale facilitates customer service and our ability organically to grow by leveraging our existing fleet network in adjacent markets, maximizing fleet utilization rates and allows us to manage our operating costs. The efficiencies are significant. And as we continue to grow, the scale benefits expand. We're excited about the potential of our new ERP system, which will provide visibility to operations that we have never had before. I'm going into my ninth year here. And for 9 years now, I've been living off spreadsheets and Outlook to run this business. So we're really excited about the new future for Badger. Wade Wilson will discuss in more detail later in the presentation.

Some recent examples. Badger has responded to 7 emergency -- to expand upon our ability to grow by scale, we've responded to 7 emergency relief situations over the past several years. Scale allows us to pull trucks and operators from our fleet of 1,300 units to provide emergency response for our customers in need. Customers operate critical infrastructure networks and need quick response done safely, correctly and fast. In a large-scale relief effort, we have mobilized over 100 units from across branch network to respond to our customers' needs. This is impressive performance, and it starts with Badger's attitude that our customers are top of the organization chart.

Badger's business model is entrepreneurial, local branch, run by area managers. Area managers are the key to our success. Our area managers have full P&L responsibility. So every month, our area managers review their P&Ls, profit and loss, with their regionals and district managers to see how they're doing from a health of the business standpoint.

Badger has a decentralized business model where we rely on our local branches as most of our customers are local, locally based. What separates Badger is our ability to deliver a local branch-based relationship, but we'll also to offer our customers the benefit that come with a national support network.

We hire local, we buy local, and we service local customers, but we have a huge organization behind us to support each and every one of those locations.

We maintain a target approach to establishing our branch building out a broad customer base in each market. The branches are led by area managers, as I said, who are key in our service model. Area managers run -- efficiently run their own business. They're responsible for 5 fundamentals of business: safety, fleet, operations, business development and administration. Those are the 5 key pillars of Badger's success. The area manager is a key role within Badger as they are responsible for the hiring and training and safety. In many of these cases, there is a national support function to help facilitate these areas but often day-to-day responsibility is that of the area manager.

I'll just give some insight to where Badger has evolved from. When I first started on September 28, 2011, there was no HR. There was no IT. There was a little finance. There was a little fleet. There were 2 safety, and there was 2.5 BD people, and one of them I couldn't find. Now today, we have a professional organization and that's what we mean by a national support effort, okay, where Tracey Wallace has come onboard and built out our recruiting organization. I was is in a room today, talking about how I've never seen our operator recruiting as successful as it has been in the last 6 months. So we're making -- it's a different company, folks. It's a different -- if you were in 8 years ago, it's a much different company today, not making excuses for it then. We were wonderful, but it's evolved to today.

We maintain a targeted approach to establishing our branches, building out our broad customer base in each of our markets. Most importantly, our area manager is the main point of the contact to our customer service which also allows being responsible for driving safety, scheduling trucks, general day-to-day operations. They are responsible for the fleet management, repairs, maintenance with the help of our regional fleet advisers. So again, we have support for them. They are also responsible for meeting regulatory requirements, including driver hours, service and state and provincial transportation department regulations. Finally, our area managers are entrepreneurs who manage their P&Ls. They get a P&L scorecard every month and review them with the regional managers. And soon, with the new ERP system, we'll have daily dashboards, weekly and monthly. In Badger, area managers' bonuses are tied to the safety, profitability and the number of operational KPIs with a pool -- bonus-pool-based on a pretax income which is after the charge for capital employed. So each and every quarter, our area managers, and Paul and I just finished reviewing them 2 weeks ago, are bonus and compensated on their performance, particularly in safety, in key operational KPIs.

This slide outlines the major components of our business model and highlights the uniqueness of Badger's model that very, very few, if any, competitors have been able to replicate. Badger has the most significant operating scale in Hydrovac market in North America, period. Scale is critical to many of our aspects of Badger's business. How and why has Badger created this scale? First, our extensive and growing branch network is a big differentiator versus small competitor. It is key to customer service, managing fleet utilization and manage operating costs. People who look at this industry through the lenses of small operating partners miss the benefits of strong branch network. So in other words, if I'm running 4 Hydrovacs and 5 customers calling me and I have no other resources to call upon, somebody is not getting service tomorrow. At Badger, we don't allow that to happen because we'll call in other trucks from our close network of branches across North America and ensure that we service our customers.

The second reason is due to the broad range of end-use markets and geographies that we service. This is all about diversification of demand for Badger's service. In Q3, Badger's business, as Paul stated, was driven 80% from the U.S., up from 77% last year. We continue to expand our geographic and end-use markets exposure. As you can see on the slide, okay, the operating scale, those 4 key components, are what drives Badger's business.

Thirdly, Badger has created an extensive sales and marketing function, which Tim will expand upon. Focused sales and marketing targets customers big and small across a wide variety of geographies and end-use markets. No other competitor invested time nor resources in developing the sales function like Badger.

Fourth, key components to a business model is Badger's design and manufacturing. We have 25 years of experience and a highly skilled, knowledgeable staff who lead our efforts. Manufacturing our Badgers allows us to focus on the long-term respect to our fleet. And not only do we look to the consistency to improve the safety and operational aspect of our trucks, but we are able to make design decisions with total life cycle cost in mind. The Red Deer fleet management team are the best in class and are key to Badger's DNA.

With our branch network, we have established market and geographic diversification with a lot more to come. The network also provides us with significant service and operating advantages which ultimately drive 3 important components of Badger's business: customer service, fleet utilization and operating leverage. Why are each important? As we discussed earlier, customer service is top focus at Badger. Hydro Excavation is largely an on-call emergency call-out business. We have to meet short-term, frequently changing customer needs is paramount to Badger's success. Customer service is key for Badger. Everything we do is our customer in mind. We continue to look for ways to do business -- we continue to look for our customers and to do business easier with them. At Badger, we take pride in our ability to say yes to our customers. Our extensive operating network provides us with opportunities that other smaller competitors cannot match. Being able to say yes to our customers on a first call mean will prevent our customers from calling our competitors.

With over 1,300 Hydrovacs in our fleet, keeping them busy and profitable is a daily priority and focus. With our extensive network, we are able to move trucks in areas with excess capacity and areas with high customer demand. Not only does this allow us to better service our customers, but it also drives high RPT and financial performance. And I'll give you a little example of that with the gentleman sitting right here in front of me, Tim Reiber. Back in the downturn of the oil and gas in 2015, Tim and I were on the phone daily, moving units out of areas that were O&G into new markets, urban markets. And that was the catalyst that drove our movement into the utility and infrastructure market and probably one of the best things we did at Badger because it brought us into a whole new area outside of the oil and gas, which we were predominant, if you remember back then. So it was catalyst, and that's how we're able to capture market share as we move.

Badger's extensive branch network has created operating leverage that our smaller competitors simply cannot match. This includes fleet utilization and maintenance of our -- maintenance or other areas such as procurement programs to drive down our operating costs. Badger's operating network is key in driving organic growth. Badger has historically grown adjacent to existing locations by leveraging the branch network currently in place. So let me just put that in a little more terms. I have a terminology I call bridge too far. It's a great movie, by the way, too. But it's one of those things, where if you're in Indianapolis, Indiana, and you're servicing Cincinnati, it's a jump-off point, where you can -- if Cincinnati gets more calls than they can handle, you can call upon Indianapolis to go service them. And that's how we expanded out across North America. It's the same thing here in the GTA. We have 5 locations in the GTA area and the support of our operating partners to help us make sure we service our customers. So that secret, along with our manufacturing, to Badger's success.

We take Hydro Excavation technology into new markets where Hydro Excavation is relatively unknown. So let me give you another little example of that. Alan Richter, one of our Directors of Finance in Calgary, called me on Friday, and we were talking about some things. He wanted to explain to me -- he's very into the operations, and he and I talk often. He explained to me he was driving his son to indoor soccer in Calgary. He was going about 11.3 clicks, and he said he saw 5 Hydrovacs in that amount of time. And I paused on the phone and I said, "Alan, let me explain something to you. I drive home twice a year from Indianapolis, Indiana to Connecticut, Norwalk, Connecticut. That's 988 miles across the 7 states through major cities." I said, "Alan, there's numerous times I don't see one Hydrovac, let alone 5 at 11 clicks. And I said, "If I do see a Hydrovac, it's usually somewhere around Columbus, Ohio, and it's usually a Badger." And that's the truth. And I've been doing that for 25 years now. I've only been looking for Hydrovacs for 8 years, but I've been doing it. So when I look at the market, and I say, "Is there opportunity?" There is tremendous opportunity. We educate our customers as to features and benefits of Badger. But most importantly, adjacent market growth ensures that the neighboring branches have the equipment available to service demand, as I explained. Very important because, as I just discussed, we always want to say yes.

I would like to share with you several examples that hydro helped demonstrate the benefits of what I just discussed. The other thing is that prior to this life at Badger, I was in the waste industry for 25 years, predominantly in the New York and Chicago markets. And when Badger called in August of 2011 to talk about this opportunity at Badger, I said, "I've been in the trucking industry for years. No one digs with water and vacuum, okay? And by the way, I've never seen a Hydrovac in my life." So it was a very interesting experience to come to Badger and really watch this thing grow and just see the continuous opportunity within the markets and the continuous opportunity in the markets that already have established Hydrovacs because that means the customers know what the machine and the tool can do. We have to go out and get the work.

At Badger, we love large jobs, but unfortunately, they always come to an end. We work very hard to build a broad customer base in each local branch. But sometimes, we need to mobilize equipment to scale up for large shops, and then scale back down again when jobs end. Our extensive network of operating locations and fleet allows us to efficiently respond to short-term customer needs while still effectively managing our day-to-day business. We also respond to emergency requirements related to natural disasters. Recent Hurricanes Florence and Michael and the unfortunate series of explosions and fires that impacted a natural gas distribution network in the U.S. Northeast are recent examples where Badger has mobilized trucks to respond to customer requirements. And as we speak today, we still have some trucks in the Northeast responding to those issues.

While these projects may not always move the needle with respect to short-term financial performance, we believe that they go a long way in building and solidifying our relationship as to first-call provider for these large customers. There is no doubt that Badger is really unique in being able to respond with equipment needed to those types of situations. To me, this is a prime example of wanting and being able to say yes when a customer needs us. The desire to service our customers, particularly in time of extreme circumstances, is part of Badger's marketing and operating approach. Our operations staff has focused on this over the past several years and why we have been successful in providing these services. We continue to look for ways to improve our emergency response. And just to give you a little example of that. Every time we've had a large emergency response, we've taken away things we've learned. And usually, the process is we get together at the end of that, and download and enhance our response and what are we going to do better next time to our customer needs.

As it relates to growth in our footprint in the U.S. market, Badger has only really scratched the surface. As the map highlights, Badger has been very successful in growing our U.S. business with exceptional growth being realized, particularly in the last 18 months. But we see much more opportunities to continue growing our business in the U.S. Simply put, geographic expansion is a significant opportunity for Badger. Included on this slide is a map of where Badger currently has operating locations and where service areas overlaid with metropolitan statistical areas, or MSAs, based on U.S. Census Bureau data with population centers greater than 100 people -- 100,000 people. Badger operates in only 80 of the 350 MSAs on the map. I know it's a little confusing, but you can see there's a lot more red than there is green. The dark green pins on the map here are where Badger has existing services. And with the red pins representing the MSAs, although there are no hard and fast rules related to where and when the market can support a Hydrovac operations, historically, we have found that an MSA should be able to support a successful branch with large metropolitan areas supporting much larger operations. Based on our experience, there are opportunities in just about every MSA.

There's something to note here. I won't be specific locations. But with 100,000 people, we've got 3 trucks running in Gillette, Wyoming. I can tell you, there isn't 100,000 people in Gillette, Wyoming. And there's many other markets that we operate with less than 100,000 people, and there's many more opportunities with locations with more than 100,000 people we need to go to.

The question we often get is why not just set up our operations everywhere you aren't. This is a great question, and we would love to be able to simply flip a switch and set up shops overnight in every possible location, but we know that this approach is not likely to be successful. Here's why. There are a handful of key factors to running a successful Hydrovac operation. One of the most important aspects and something we deal with daily is maintaining our ability to say yes to all our customers. Badger's approach of growing geographically is done in a well-thought-out and deliberate manner. By expanding carefully into neighboring markets, we are able to leverage the benefit of Badger's broad branch network and leverage the scale that we have talked about today. Generally, a new operation starts with one truck, one operator, one area manager. If all goes well, we may get a request for more than one truck for a project that could range from one day to multiple weeks. You can imagine how difficult it would be to service our customer needs if the new truck was several hours away or, as many of our competitors experienced, no trucks at all.

This morning, I was telling a little story about an opportunity back in -- late 2015 in Central Alberta, which was a tough time for the oil and gas market. And one of the things we -- Christmas eve 2015, we received a call about 5:30 at night in response, and one of the things we always tell all our people at Badger is answer your phone no matter what. That example of answering that phone now -- that night led to 18 trucks for 6 months because we serviced the customer, and we answered the phone. And quite honestly, it saved our bacon in Central Alberta for the next couple of months because we pulled from all the other areas in Central Alberta. It was a tough time, and we were able to service that. So that's the key. That's the secret sauce to what Badger can do.

We have operations within a reasonable proximity to each other. We are able to quickly and efficiently allocate our fleet, giving ourselves every chance we can for a successful meeting our customers' needs. We have and will continue to look to expand our footprint as quickly as possible, but we'll need to do so by putting our customer service -- will not do it by putting our customer service at risk. Badger has been successful in sticking to our playbook of capturing growth opportunities in a well-thought-out, thorough manner and will continue to do so in 2020.

Badger's process links closely to the environment and safety, and the company is operating under principles that we'll consider to be proper and profitable in the long term. From the environmental side, Hydrovac is a nondestructive excavation. And when used properly, it can avoid damage to infrastructure that results in issues ranging from disruption of essential services, pollution and life safety. That is why owners from infrastructure continue to adopt Hydrovac as the preferred excavation method.

Badger's safety culture is strong. Everything starts with safety at Badger, and our motto is make safety personal. Personal means safety for ourselves, our fellow employees, our customers, the other workers that are on the job site along with us at Badger, the general population in the areas where we work and especially our families. Safety is core to our value.

Badger has adopted a code of business conduct that governs how all of us work. We take our code of conduct seriously, and it covers a wide range of business processes, policies, such as employment equity, diversification, environment, progressive discipline that treats all of us the same and ensures transparency and fairness. It is posted on our website, and I encourage everyone in the room to view.

Our governance. Badger is a public company with the highest standards to governance process and an experienced Board of Directors that assets development of our strategy -- the system development of our strategy ensures that management and resources are in place to execute on the strategy and that the company operates ethically and transparent. The government process also includes oversight of controls to managing the risks that are part of our business like Badger. And I can tell you, I'll give you a little example of that.

Every board meeting I go to and participate in for the last 4 years, I have an operations section. Paul and I typically talk several weeks prior to, and it typically goes for about an hour. And the feedback I get from the Board on the health of the operation is tremendous and typically always take 2 things away from that meeting that we execute on or implement or work on and then report back at the next board meeting. So it's a very interactive session.

The next session -- next section of our review today is our report on Badger's 4 major business initiatives. We introduced these initiatives in January of 2017 and have made significant progress on them with successful -- with the success of common business platform rollout underway as we speak. So we have the West OC, the Central OC, and then Liz in the East OC is going to go live December 1. Today, I will cover the fleet and technology. Tim Reiber will cover the sales and marketing, Tracey will cover human resource, and Wade Wilson will cover the ERP, then on to Darren for our financial review.

Just 2 more slides, folks. We're getting there. The Badger design and engineering and in-house manufacturing is what separates us from Badger's competition. We have put a lot of time and effort into design and manufacturing our #2 most important asset at Badger behind our employees. It's all about minimizing truck downtime, optimizing life cycle costs and reducing initial capital costs.

All of these factors drive high return to our investors. One of the areas that sets the design of our Badger units apart from our competitors is the fact that we design our units to meet regulatory requirements and transportation department requirements across all operating geographies. Our trucks are designed to operate efficiently throughout all areas of North America, whether that be in pipeline, industrial or the urban market. We design our units with safety and efficiency foremost of mind. The senior team reviews every incident that occurs. So every Badger incident in safety that occurs, whether it be a hangnail to a serious incident, every incident is reviewed by myself, Paul and the senior management. So it's very important.

We also design for manufacturing efficiencies. The new generation units have been designed with electronic technology which facilitates linkage with supply chain partners for manufacturing through to spare parts. The supply chain team now has spare parts ordering available as part of the new CB team system. We transitioned to automatic transmissions in Q1 2019. This raised the cost approximately $9,000 per unit but widened the potential for operating pool dramatically.

So basically, we've gone from the 16-speed manual to an automatic, which, today, nobody drives manuals anymore. It's unbelievable, but we have to deal with it. And we've been able to move to automatic transmission which significantly helped our recruiting for operators. It's been a very, very big change. Another aspect of engineering design that differentiates our Hydrovac is the consistent feedback from our operators in the field. We get feedback from over 1,300 units every day. Actually, as of today, it's 1,325 with another one being shipped tomorrow. Our electronics includes GPS tracking on our unit locations on- and off-road usage of fuel tax management, excavation locations and transportation of customer material.

I mentioned supply chain a minute ago, our integrated supply chain and spare parts optimize utilization by minimizing downtown -- downtime for our need -- our repair needs. We know what components fail. We maintain significant stock to ensure parts are available we need, so we can keep our trucks up and always say yes to our customers.

In addition to design and engineering, we are also very focused on managing the life cycle cost of our Hydrovac. We put a large emphasis on active management of repairs and maintenance for our Badgers as it is the second-largest direct cost behind direct labor. We ended 2018 with an average age fleet of about 4.5 years, which is where we would like to maintain that average over the time to optimize repair and maintenance costs. In overall fleet management, we plan on a 10-year average life cycle for our Hydrovacs. We continue to improve our parts supply chain to minimize downtime related to repairs as downtime can often be expensive than actual repairs.

Think about this. Several week delay for parts at a revenue per truck of $35,000 creates a real issue. So being able to supply and have the supplier parts on hand to repair our trucks quickly minimizes that loss of revenue. With the new ERP system, we now have preventive maintenance notifications in the fleet module, and all repairs and maintenance have work orders attached to them, something we've never had in the past. All RPM systems, not happy to say, but it is what it is, was done on a whiteboard or a spreadsheet. Historically, this has been done locally and manually. It will take time, but we are now building a maintenance and repair record recording by unit, which will provide valuable information on each Badger and help us identify proactive repairs.

I just want to step back for previous and just discuss one of the key successes of our Badgers, which, we believe, are the best units in the market, is the feedback from the field in the actual operators. There are several, and I mean several key functions on the Badger that have been -- actually came right from the field to manufacturing and engineering and then implemented on the truck.

So operators that are operating can get feedback to engineering, which then can implement and put them on the truck so we are better. And also, it's a very, very good employee engagement. We believe that the most intense life cycle cost management is an opportunity to extend the life as well as manage M&R costs during the economic life of our units. It is early days, real early. But historically, it was difficult to manage what we are unable to measure.

This is a change with the new CBP system, and we'll be review -- and we will be reviewing all aspects of maintenance and repair to optimize life cycle and related returns on capital.

So one of the things we'll be able to do, which we are currently doing and about 2 months into it, is really managing our PM system going forward. So trucks, 400, 800, 1,200, 1,600 hours, getting accurate and efficient PMs done on them a timely manner is something that we're going to have a lot more visibility to with our new system.

I'd like to thank you today. I will now turn it over to Tim Reiber to review Badger's sales and marketing.

I'm going to get a glass of water.

Timothy Hammond Reiber - *Badger Daylighting Ltd. - VP of North American Operations - Central*

Thank you, John. Hello, I am Tim Reiber, the Vice President of the Central Operating Center. Paul asked me to lead the sales and marketing update today as I started Badger sales and marketing organization in 2017.

In 2019, we continue to build our matrix sales and marketing team. It's organized key sales leadership roles into 3 main categories: geographic, vertical end-use markets and business analytics. We have 3 regional sales manager roles that lead our sales and marketing function and align them with our 3 North American regional operating centers, the east, the central and the west.

The Sales Managers work directly with our Operational Vice Presidents, Regional and District Managers to drive sales processes at the local level. As you've heard here today, the local Badger branch with local relationships enables Badger to provide superior service and maintain growth in our existing markets. We also have a role called the Market Segment Manager. This position was developed to put key focus in design sales and marketing programs in 3 of our key vertical end-use markets and the Badger applications to support that. As John mentioned, we have over 300 applications that the Badger truck can use.

Those market segments are utilities, pipeline, plant, refinery and transportation. In these sales leadership roles, we promoted key leaders with Badger experience to drive sales strategy and lead our sales organization. We coordinate closely with Darren's analytics team to identify areas of opportunity via data mining and analysis.

Initially, we have focused on pricing, utilization and incremental and revenue growth within our current customer base. We've had great initial success in pricing as it's been reflected in our 2018 and 2019 financial results. I cannot go into specifics for competitive reasons, but simple items like making sure we bill for all the services we perform, track hours worked properly and bill our customers appropriately and timely. So Darren can collect for us.

Focusing on service offerings has been a significant impact to the bottom line. Our ERP has been a huge benefit with visibility into regional and local pricing and how our quotes are structured that we've never had before. We're still in rollout mode, but visibility into every quote and every invoice has already identified significant opportunities to enhance revenue and inconsistencies that we could just not see in our legacy system that was based on e-mail quotes. Let me tell you, we're going after it.

Our customer relationship management tool. Information is power, and Badger is designing tools to enable our sales team to provide the best value to our customers. Our new CRM tool and standardized quote-to-cash process captures information on every quote that was not previously readily accessible. We can identify opportunities with existing customers, former customers and potential new customers. Badger's pricing and invoicing initiatives are designed around our best operator, best truck philosophy. We are using this data to drive strategic value-based pricing that will maximize revenue and utilization of the Badger fleet and ensure we have availability to meet customer demand.

Our new CRM tool is exciting and will be more effective as the team gets used to be using the process. But the power is already evident in the 6 weeks we've had it operational, the power to support profitable, ongoing growth and improve margins. Furthermore, we have centralized database now to capture potential opportunities and users within an organization.

Our sales and marketing process. In 2017, we developed a Strategic Account Manager position and used that role as a key driver to manage specific customer accounts in key vertical and geographic markets that are heavy users of Hydrovac services. Our strategic accounts comprise of over 30% of Badger's revenue, and we grew that revenue base by 16% this year. We have a total customer base of 21,000 customers that we now have access to that's not on a spreadsheet or maybe a napkin on this -- in the back of a pickup truck, which is part of our strong revenue growth. And I might mention that those are billing customers. There are multiple users within each one of those customers that we can mine for potential service opportunities. And we've grown our customer count by 12%. That's 12% more customers this year than we had last year, and we could not have done that without the Badger team behind us.

And the remainder of our growth, where is that going to come from? Penetration from our existing customer base. We continue to develop our sales force effectiveness measurements with reporting tools that track rolling revenue by customer, strategic account growth and, as I mentioned earlier, our team of nearly 80 dedicated sales professionals who sell Badger.

The CRM is going to take us to the next level with the signed accounts and new sales KPIs, which are quotes, customer contacts, new customer growth and revenue. That's what we're going to measure our sales force on, those 4 things.

As you heard John talk about managing what we measure, this also applies to our sales team, which could identify opportunities to strengthen our sales team. We've come a long way from when I started with Badger in 2012, where we had just a few more than 2.5 sales reps when I started. This commitment to adding people to capture opportunity is the key driver to growth and a key factor in Badger's differentiation.

Next steps, develop sales, training modules for all of our 120-plus area managers as well as a second level sales training for our sales professionals. Badger now has a Director of Training, and we are expanding training across all functional areas, not just sales.

Our end-use markets. Badger's end-use market diversification and geographic footprint is the key differentiator and a source of growth. John talked about our scale, and I can tell you, from our customers, scale matters.

The broad range of applications for Badger hydrovacs and our geographic footprint enables Badger to be a key partner in our clients' infrastructure projects. The American Society of Civil Engineers estimates that there will be $4 trillion of infrastructure needs over the next 10 years in the U.S. alone. Badger has now 80% revenue in the U.S., and the U.S. is where a large opportunity is, but I can tell you, Canada still has market share opportunities for Badger.

Hydrovac usage is growing as a safe alternative and productive partner to mechanical excavation and more utilities are engineered to be underground. John had a couple of stories about it. And I remember on my first trip to Phoenix when I started with Badger, go down there, and we're talking to a customer, and they look at me. This is the desert. You're wasting water. We have about 25 trucks in Arizona today. So it tells you how the technology has evolved and our customers appreciate the service that we provide.

As you can see by the chart, Badger continues to diversify our customer base in key end-use market segments, and we're designing our sales and marketing team to maximize efficiencies in both geographic and vertical segments to drive growth and profitability.

Our geographic expansion continues. In 2019, year-to-date, we have added 16 new locations. Historically, we have opened about 10 to 12 locations per year, and we expect that pace to expand. Paul has given us a challenge for next year.

Our customers tell us that the value in Badger is service availability, answering the phone, can you be there when we need you. Our branch network and scale of operations allows us to be that partner in their needs. We continue to expand the fleet at existing locations and open new markets to meet the needs of our customers.

And with that, we'll take a 15-minute break. And when we return, Tracy will discuss how her team is helping us facilitate that growth. Thank you.

(Break)

Tracey Lynn Wallace - *Badger Daylighting Ltd. - VP of Human Resource*

Everybody is just settling in, and we'll get started in 30 seconds. How's that? Okay. Everybody is settling in. A couple of more coffees to be grabbed, okay.

Well, I'll get started. So good morning, and hi. It's really nice to see some familiar faces in the group today. And on the people side of Badger, we've had a very busy year this year. And today, I'm going to be touching on 4 key pillars of our HR strategy at Badger, talent acquisition, retention, training and Badger culture.

One of the things at Badger is that finding great operators is really critical to our success. And because of the volume of operators that we hire, it requires the talent acquisition engine that can source and screen and interview and onboard new hires in a very quick and efficient manner.

And since 2018, we've partnered with an external third party for our operator recruiting, and this model continues to work really well for us. In July of this year, as part of the ERP implementation, we implemented what we call an applicant tracking system. And this has had numerous benefits for us, including things like speeding up the recruitment process, lowering our recruitment costs, improving the quality of our hires and really elevating the candidate experience by developing stronger relationships with our candidates.

We've also looked at how we source operators, and we've expanded our approach to include more diverse populations of candidates.

So we have a very robust pipeline of veteran talent for various roles within Badger. And this is a fairly new area for us, but we found that veterans have the proven ability to learn new skills and concepts, and they come into our workforce with identifiable and transferable skills. And veterans understand things like genuine teamwork grows out of responsibility to one's colleagues, and they've learned to work side by side with individuals regardless of the diverse race, gender, geographic origin, ethnic background, religion or economic status. And veterans know what it means to do an honest day's work. And thanks to the military's extensive training, they're aware of health and safety protocols, not only for themselves but the welfare of others.

And at Badger, we support and participate in military career fairs and networking events, Troops in Transportation, which is a CDL-licensed program for veterans, along with sponsoring things like military appreciation and community events and partnering with military and veteran organizations.

At Badger, we recognize the strong business case for improving the level of diversity and inclusion in our workplace, and we really believe that diversity is important to encourage creative and innovative thinking at Badger. And so we ensure that our recruitment strategies reach candidates regardless of their gender, their sexual orientation, their ethnic background, their socioeconomic background, and we have a number of initiatives underway to support diversity within Badger. We're now in our second year of sponsoring a program called Women Building Futures, which is a driver and operator training program. And it's a 6-week program that provides women the essential safety awareness and certification, industry exposure, theory and driver training needed to obtain their Class 3 licenses. And as we move forward, we are going to be looking at getting more involved in these types of programs because they are really a great source of talent for us. We have 3 women-owned franchises and OPs across the Badger network, and this has opened up more opportunities for us to gain access to things like government contracts and other marketing opportunities.

Over the past year, Badger has worked to continue to build our relationships with First Nations and indigenous communities. And we've established things like several career center partnerships and relationships with indigenous groups across Canada. We post our jobs on indigenous niche job boards, and we work with a number of indigenous outreach programs and hold indigenous job fairs.

And so lastly, within Badger, we have a strong women's networking group with over 100 women strong that -- members that meet on a regular basis for both professional and personal development opportunities. So you can see on the table presented here, we've made some modest improvements from last year in recruiting women into Badger.

I'd like to shift our focus to the second pillar, and that is of retention. And this is a topic that comes up year-over-year at these investor presentations, no surprise. But our overall retention is modestly improving from 2018. And it really takes a very concentrated effort to move the needle on retention, especially in light of when you look at things like unemployment rate in the U.S. being less than 3.8%.

So 4 key initiatives that we've undertaken this year to look at retention are things called job leveling and employee pulse survey, a referral bonus program and our benefits program. And job leveling is a program that we've rolled out through select parts of our organization this year, and it's a tool that we developed to recognize and drive the development of our operators. And the program allows us to provide structured feedback to our operators about their skills and their performance, while providing rewards for their success. And it gives a clear path on how to develop while providing them with the tools and the feedback on how to achieve their goals. While it is still in the early days, it appears to be having a very positive impact on operator retention.

And then Badger conducted a pulse survey in July of this year. And the overall goal was to assess the health of the culture and the workplace environment, and that was from the employee's perspective so that we could focus on improvements that would have the greatest impact. And I'll speak to this a little bit later in my presentation. But suffice to say that the Badger leadership gained an excellent snapshot of our current organizational challenges.

So we know that current employees are uniquely qualified to identify the best candidates since they know Badger's culture best, and that's why we implemented an employee referral program this year. And we've had some great uptake on the program, and it's had a very positive impact on the quality of hires that we bring into Badger and our employee retention.

So Badger is the leader in our industry in providing competitive benefits programs to our employees. Our programs are aligned with our organizational strategy, our values and our culture, and they help foster employee commitment and engagement, and we offer excellent health benefits, including things like medical, dental, vision, short- and long-term disability, safety, well-being offerings such as an employee assistance program, safety, PPE, prescription safety glasses. We also have an RFP 401(k) matching program that we offer to our employees.

So the third pillar of the HR strategy is training. And last year, we announced the launch of Badger University School of Operations. And since April of this year, we've had close to 100 operators graduating our program. And because of the success of the program, we're looking at increasing the capacity next year and putting more operators through the program every month. So we're anticipating approximately 400 operators will go through the program in 2020. This program is still in its infancy, but initial metrics have been very, very encouraging. And we're seeing things like lower incident rates and increased operator retention and quicker times to productivity.

Another successful initiative for Badger now in its third year is our Badger management trainee program. And since its inception, we've had 27 graduates. And this year, we have 19 candidates enrolled in the program. And this program is a great pipeline for leadership talent within Badger. And just some of the roles are graduates transition into things like area managers, supervisors, project managers, training facilitators and district managers. And typically, the program duration is about 6 to 12 months, depending on the experience they have when they come into Badger, how well they do in their job assignments, the needs of the business, et cetera, et cetera.

So the program has a definite impact on employee retention, and we're seeing retention rate of 83% of our graduates. So a program that we'll be launching in Q1 of 2020 is our Frontline Leaders Program. And this goal -- the goal of this program is to equip our frontline leaders with the necessary skills to help them succeed and develop further in their role as frontline supervisors. Topics such as how do you problem solve on the fly, how do you handle conflicts with staff, suppliers, contractors or others, or how do you coach direct reports who used to be your peers. Whether they're a supervisor working in a unionized environment or a team lead working in technology, the challenges remain the same. So few roles are as inherently stressful in our organization or is important as our team lead or frontline supervisor. And Badger will equip our frontline supervisors with the necessary training, tools and direction to be successful. So we look forward to speaking more on this on future Investor Day. So stay tuned.

The last pillar I'd like to speak about to this morning is about Badger culture. And many of you know, the management expert, Peter Drucker. And he coined the phrase "Culture eats strategy for breakfast." And what this means is that many business leaders have underestimated the power of culture. And no matter how well thought out Badger's strategy is, if we don't consider our culture, our strategy won't come to fruition.

So the ERP has been a massive change for our organization and how we do business at Badger. And it's very different from the previous mode of operation, and it's required a lot of change in not only the thought processes, but the behaviors of our employees to make it happen. And so we continue to evolve our company culture to reflect the new business environment, while retaining Badger's unique identity and core values.

At Badger, we're a culture that is flexible and innovative and where individuals take responsibility for results. So this past July, we went out to parts of the organization and conducted a pulse survey. We had an 86% participation rate. For those of you who know anything about engagement surveys, that is incredibly high. It's a very, very good participation rate. We had an overall high favorable rating of 72%. And we asked employees to rate Badger on 6 key dimensions. We asked them to rate us on change, communication, culture, trust, their leader and pay and benefits. And overall, our employees are feeling very positive about the changes that are being made. And they feel that their leaders notify them in a timely manner. They feel positive that leadership effectively communicates with them and that Badger is a great place to work. They feel free to do what's right, and they have a sense of family and team.

Over 90% of respondents say that they trust and have great respect for their leaders and that they're treated with dignity and respect, and they feel that their pay expectations are being met and are competitive.

But having said all this, I mean, there's always room for improvement, right? So we need to continue to work on these things. And with all the change that's occurred in Badger over the last year, we need to continue to work on things like our level of communication across the organization and recognizing our employees for their contribution to our success. So with that, I'd like to thank you for your time, and I'm going to hand it over now to Wade.

Wade Mark Wilson - *Badger Daylighting Ltd. - VP of Business Process Improvement*

Thank you, Tracey, and good morning. One of Badger's strategic initiatives is to implement a common business platform. We wanted to give you an update today on the common business platform activities and progress over the last year. We'll discuss our implementation and approach, project progress and expected benefits.

Last year, we reviewed the steps that we plan to follow on the road to building a system to support Badger's long-term strategy of growth. We've been on that journey since then. With the initial steps completed, we're now on the go-live phase, rolling the system out in stages.

October 1 marked the rollout of the majority of the system functionality as we went live with all back-office modules, which included finance, human capital management, fleet and health and safety, along with our customer relationship management module and field operations in the Western operating center.

Previously, we completed a go-live of limited functionality in the human capital management module that Tracey had mentioned. Until now, most areas of the business did not have support to run Badger. For many, this is totally new. We know the system will be a tremendous support for our current business while supporting future growth in a more cost-efficient manner.

Those already in the system have management tools like we've never had before. With the western operating center live, this brought on approximately 20% of Badger's corporate business. All back-office modules were not only live for those in the back office, but in use across the operating centers. Some examples of that would be the fleet module and expense module.

We have just completed bringing on the central operating center, which is approximately another 40% of Badger's corporate business. Next up, as mentioned earlier, December 1 is the east operating center.

In January 2020, we will complete the rollout by bringing on our franchises and operating partners. The last stages will be to continue post go-live support through Q1. As we reach the steady state, we'll then begin realizing the benefits of the common business platform. At last year's Investor Day presentation, we shared the following areas from which we expected benefits from the implementation of a common business platform. They are revenue growth, operating leverage and intangible benefits. Let's break the benefits down a bit further.

Tickets are now prepopulated with the most common service items that are normally associated with job types that are chosen as part of the ticket setup. The operator only needs to enter the amount of hours for Hydrovac service or a number of linear feet of remote hose as examples. The system, the way it's set up, is set to remind us to capture things like overtime and disposition.

Through the dispatch module, we've improved the area manager and dispatcher's line of sight to the operators in the field. We can see when travel time is complete, when work has begun on site, when we've completed the work and are now available to move on to the next job. The time line of each job is tracked on screen and changes color as tasks are completed. This allows the dispatcher to plan where they can stack jobs and service an additional customer within that same day.

We didn't have a system before. We just had cell phones. That's how we communicated to the field, and we were pretty well blind coming back at us. Immediate visibility to tickets provides feedback against customer purchase orders and credit limits, which allows for action where follow-up is required. This will ensure we're able to continue working for our customers when the required adjustments are made in advance. This also reduces Badger's risks. Real-time reporting will assist with managing our credit receivable portfolio and give the collections team, management and field groups' account status on a live basis.

Credit limits are updated for each ticket versus a manual recalculation that was required previously. Customers and job-level pricing is managed through price books that are set up by a pricing administrator. This allows for a higher level of review of pricing and system-controlled adjustments. Now the one thing we did, though, is we set it up so you can always adjust price up. You can't always adjust it down. So that's a definite positive.

Pricing changes can be managed much more efficiently. Our District, Regional Managers and Vice Presidents can view all levels of the business activity, including pricing in real time. The system is designed to manage an opportunity from quote to cash. And pricing is up front, not an afterthought.

Get the quote done right, signed off by the customer and pricing of service flows through from quote to the ticket to invoice creation. Quoted and priced right upfront will reduce errors and improve the full quote-to-cash cycle.

The dispatch capabilities made for improved -- make for improved efficiencies in dispatching our operators and trucks. We will have all locations on the same system with improved visibility to people and truck movement from the start of the day, on-site time through to the end of the day. Along with our GPS tracking system, we have full visibility to our daily activities.

With the implementation of our time capture system, we have to the minute accuracy on start and end times for jobs and most importantly, for the operators and the crew members.

With an increased visibility to crews and equipment, the dispatchers have a view to the work being done on site and can plan the next job assignment. Tracking our assets closer allows us to manage our units and working capital. If we track it, we can measure it.

Through the system's work order process that John mentioned, we're tracking all maintenance and repairs of our units, which allows for tighter cost control. We spend -- sorry, we expect we should not only extend the life cycle of each unit, but when we have important and improved analysis of equipment when we have to determine when the unit is closing in on end of life.

In the future, the decision will be made with a complete repair and maintenance history. As we track spend, we can leverage our spend and improve our costs. Areas include consumables used across the business, safety equipment, travel and branch operation expenses.

With the human capital management module, we have the employee self-serve module, which allows employees to stay connected to their Badger account and have visibility to details specific to them. It allows them to make changes to their personal information, and keeping employees engaged and connected is an important benefit.

Connecting employees to the daily dispatch has made easier for the employee as the information is sent to their device detailing when and where they will be tomorrow along with details of what type of work it is. They can plan ahead, and we can all be reminded if certain supplies are required for various job types. We should be able to eliminate the need for supplies being ferried to job sites because something was forgotten. We now utilize system-generated documents such as field-level risk assessments, pretrips and incident forms, which makes completing, tracking and reporting more consistent.

With the system-generated bill of lading, the information from the job is pre populated for ease of use and ensures we can track the customers' material throughout the excavation and transportation process. Accuracy upfront and throughout the process on customer-facing activities is enhanced by system-generated quotes, tickets and invoices that are populated with system pricing, job information, customer requirements and mandatory fields.

Badger's legacy systems were not linked, and we have spent countless time and resources appending an invoice after the work was done. This process has historically taken up to several weeks at times and involves a lot of area manager time.

With the new process, tickets can be closed out the same-day and invoicing is done each day unless there's a contract in place that calls for weekly or monthly billing. The process I just described leads to improved accuracy and timely submission of invoices with any required tickets and other related documents. Best operator, best truck has always been Badger's model. You've heard it many times. And now we have a system every employee can be proud of.

What I just went through may seem like a lot of details on opportunities and maybe even it's a bit boring. But I can tell you, we all find this pretty exciting. I mean just look at Paul smiling at the idea of the opportunities we have. And as I said, we've been on a journey, and the journey is interesting, but we think the destination is pretty important here and with some real benefits.

So with that, I'll now turn it over to Darren.

Darren Julian Yaworsky - *Badger Daylighting Ltd. - VP of Finance & CFO*

Thanks, Wade, and good morning, everybody. As many of you know, I joined Badger in June of this year. And since that time, we've been pretty darn busy in building the financial strategy for the company as well as reshaping the finance group's operating model, both of those with the intention to align the financial strategy with the long-term vision of the team for the company as well as aligning the financial operations, policies and procedures with the standards that Wade just talked about in CBP as well as the larger Oracle implementation.

I'll spend some time this morning highlighting the changes we made to the company's financial strategy as well as provide some examples how the changes to the finance group operating model will change -- will result in G&A cost reductions as well as better balance sheet management, both aimed at enhancing shareholder value.

Before I get into it, I want to take a few minutes to introduce myself. So before joining Badger, I held senior finance leadership roles with several companies, Wajax, CP Rail and Enbridge, all of those roles largely had a finance change management bend from VP of Finance, tax, treasury, pension, corporate finance, shared services center and CFO.

Prior to my industry time, I spent a decade in banking from commercial, corporate to investment banking, and then leadership roles in risk management, credit adjudication and private equity. And I have to tell you, I'm pretty darn excited to be part of this company at this point in time in this juncture. First of all, I get to do a lot of things that I really enjoy with a bunch of really great people.

Well, let's get started. Similar to Tracey's pillars that she has in HR, there is 4 pillars that I see that we have in our financial strategy. One is liquidity, second is capital structure, third is capital allocation and shareholder return philosophy and the third -- sorry, the fourth pillar intertwines the 3 previous, that's risk management and risk management philosophy. I suspect that many of you saw our press release on September 30, where we announced some changes to our credit facilities, and the credit facilities forms the cornerstone of our liquidity strategy. And there's 3 focus areas that I want to address. Number one is that we doubled the size of the credit facility as well as increase the accordion feature. The reason behind that was to align our credit capacity with our leverage target, and I'll get to that in a minute.

But our debt-to-EBITDA leverage target remains at 1 to 1.5x, and we sized the facility appropriately, especially based upon the 2020 EBITDA guidance, high end of the guidance of $195 million.

Additionally, the increased limit will derisk the refinancing associated with the $175 million prudential notes that we have maturing in January of 2020, '21 and 2022.

Said differently, we've essentially built a mechanism in which we can refinance those facilities or prefinance those facilities. We also extended the terms of facility from 4 years to 5 years with Tier 1 Canadian banks. For those who lived through the credit crisis in 2008 and 2009, which I did, I'm sure you can appreciate having certainty of funding is incredibly important. And what we've done with extending the term is give us a better certainty of funding over a longer planning horizon.

We've also added 2 Canadian banks, BMO and CIBC. And I see representatives of both of those banks here today and added to TD, Scotiabank and HSBC. So we're pretty comfortable in having a diversified Canadian strong funding base from those banks. Additionally, we've already began conversations with 2 U.S. banks to help support in our expansion and additional liquidity needs over the planning horizon.

The third item and which I think is probably the most important item is our covenant structure. So we've released our debt-to-EBITDA or relaxed our debt-to-EBITDA covenant from 2.75x to 4x. Simply put, it's more reflective of the credit quality of the company and also provides us with a lot more financial flexibility and optionality for the future.

With the enhancements to our liquidity strategy, we're confident that we have ample liquidity capacity to fund our organic growth and CapEx requirements as well as meeting our future debt refinancing obligations. Let's move on to the capital structure.

As I mentioned, the second pillar of our financial strategy is our target capital structure. We still believe the prudent leverage range for our company is 1 to 1.5x as measured by debt to EBITDA. And at the end of the third quarter, we remained at the lower end of this range. With the truck build CapEx planned at approximately $80 million to $100 million in 2020 and our EBITDA guidance in $175 million to $195 million range, we anticipate remaining cash flow positive in 2020 after CapEx, dividends and interest obligations.

As a result, we anticipate remaining in the lower end of our leverage target for 2020. One other element, which ties back to our credit facilities, is we've also negotiated a carve-out in the covenant package for our senior notes. Simply said, we only have to be concerned with the 4x debt-to-EBITDA covenant as opposed to any covenants that are sitting in those senior notes, allowing us to refinance that debt with that cost-effective bank debt.

Finally, we negotiated an option in the covenant -- or sorry, the credit facilities to convert up to $100 million of the credit facility to a term loan. With the initial 5 years and with annual extension options, essentially, what we've built is a 5-year perpetual synthetic bond that will prevent us from having to go to the high-yield capital markets, a market that I really don't like to go to because of the fleeting nature of that market until we are more of an investment-grade quality.

Let's move on to capital allocation and shareholder return philosophy. The third pillar of our financial strategy, as I mentioned, is capital allocation, shareholder return philosophy. And I think it's purposeful that we put it in a waterfall because it lays out the priorities of how our cash flow should be deployed in the most cost-effective way or value-enhancing way for shareholders.

As I mentioned previously, we anticipate generating EBITDA of $175 million to $195 million range for 2020. With cash flow generations further augmented by additional borrowing and covenant capacity, we're really confident that we'll have a fair amount of cash to be able to support our organic growth.

As in the past, we continue to prioritize organic growth as the first priority of our capital allocation waterfall, after CapEx, dividends and interest obligations, we're forecasted to still have positive cash flow in 2020. At this point in time, we continue to focus on efforts of growing the business organically largely based on substantial growth opportunity in the U.S. However, we do see -- have sufficient financial capacity to look at acquisitions in the future should or could those acquisitions accelerate or enhance our U.S. expansion.

Finally, we anticipate having surplus cash flow to return to shareholders directly in 2020. As part of our financial strategy work I spoke to you earlier, we've built a comprehensive, intrinsic value model, which will inform our shareholder return choices. Based on our current trading volume, or sorry, trading price versus intrinsic value, we anticipate a bias to share repurchases as the most effective way to return capital and share gains in 2020. That being said, we still see the value maintaining potential growing dividends modestly in 2020.

Overall, our approach to capital allocation is largely unchanged, and we'll continue to deploy capital in the most accretive manner for shareholders over the long term. As I mentioned in my opening comments, we had a number of opportunities to enhance shareholder value through cost reductions in the P&L as well as working capital efficiencies in the balance sheet. Let's start with the P&L.

As Wade mentioned earlier, the discrete CBP costs were well planned, well thought out and are coming in within the target range of $20 million to $25 million. It was more challenging to forecast the additional G&A costs to support both the growth in the business as well as the foundational investments in the ERP.

The additional G&A costs were forecasted -- are forecasted to be approximately $10 million higher than we guided to in the full year 2020 -- sorry, 2019 financial outlook, and quite frankly, money well spent given the go-live that we've experienced.

As of the end of Q3, we incurred approximately 60% of that additional $10 million and anticipate the remaining 40% to be spent in Q4. There's one thing that we can point -- there's not one thing that we can point to that can explain the variance, but a series of items. We bucketed them into 4 categories, and I'll provide a brief explanation to each.

So network upgrades. Badger's network was largely made up of a series of personal Wi-Fi stitched together to support e-mail and minimum networking. Most of our work was manual, as evident by having paper tickets to track the work as well as paper timesheets to track time. We didn't know the extent of network upgrade investments required until we started testing the abilities to support Oracle. Needless to say, we made substantial and accelerated network investments in 2019, which we don't anticipate repeating again in 2020. Now let's move on to IT.

Badger previously ran an IT department, and I think both Tim and John didn't even mention an IT when they talked about at the time when they started with the company, but we manage the IT department with just a handful of individuals doing hardware and some software support. We added over 20 people, primarily consultants, to support software, hardware, network and security requirements as well as to support the configuration, documentation, training and implementation of the ERP. We have plans to rightsize IT and the staff for steady-state post-ERP implementation, and we're rolling that out in the new year.

That being said, we're still in the middle of the go-live for the ERP, and we don't anticipate those costs being taken out until midyear of 2020.

HR and payroll. As Wade mentioned, we set up a new HCM and time and attendance system in Q2 to automate time sheets and manual timekeeping. At the same time, Tracey has implemented a number of initiatives to support the strategic focus to acquire, train and retain operators to support our near- and long-term growth. Similar to IT, we added HR resources, primarily consultants, to address the ERP implementation with many of the consultants staying on longer than we anticipated to support the October 1 go-live. Tracey has implemented it and continues to implementing her rightsizing plan for Q4 and Q1 of next year.

The final bucket is finance. Similar to themes in finance, some of our top finance people were permanently [moved] to the CBP project and backfilled with more costly consultants. Additionally, we had increased internal auditor cost to test financial controls from blueprinting stage to configuration and ultimately implementation. Additionally, we increased -- we anticipate having higher external auditor costs to do the same thing at year-end.

Despite the higher cost in 2019, we're confident that these costs will be removed in the first half of 2020 with additional efficiencies achieved in the second half of 2020 through the implementation of a shared services center.

Overall, we have developed specific plans to remove the $10 million in G&A costs from the business in 2020. And the costs will be phased in over the year, and we anticipate to achieve 40% to 50% of these savings in our full year numbers. We continue to work towards returning our target 4 -- returning to our target 4% G&A run rate by the end of 2021.

Many of you might be asking, all of these costs to G&A, will they inhibit our ability to grow the business? The simple answer is no. So we've actually sized our human resource levels to support our revenue growth up to $1 billion.

Let's move on to the balance sheet efficiency opportunities. If we use December '17 as the base year for DSOs, our DSOs have outgrown the pace and the growth of our business. The 20-day DSO increase has resulted in over $30 million in capital being tied up in AR as opposed to being otherwise deployed into the business to increase shareholder value or simply to return directly to shareholders, and we just need to get better at that.

As part of the changes in the finance group operating model, we're changing the standardized credit and collection policies. So we have about 5,000 customers in Canada that we grant credit to and about 16 customers in the U.S. that we grant credit to. Of that, about 45% of the portfolio on either side of the border are credits that we grant a limit of less than $10,000. The other 45% fall within the $20,000 to $30,000 credit limit. The final 10% is largely higher than that. I just want to make one point that, that is not a distribution of our revenue. That's just simply a distribution of our credit granting.

The other item that's really important is 77% of our credit losses fall within that $10,000 or less credit limit. So how do we build something to be able to kill multiple birds with one stone? The simple answer is reconfiguring the system to accept credit card transactions for anything for a transaction that's less than $10,000. This approach will significantly reduce credit volumes, account setup times, cash conversion cycles, credit losses and DSOs. We anticipate meaningful reductions in DSO and capital release as part of these efforts. We're targeting to have this solution in place by late Q1 or early Q2 2020. The added benefit is we're using the surplus programming resources that aren't being used to support the successful go live for the ERP system.

The acceptance of the credit card is the -- is one of only a number of initiatives that we're implementing to be more capital efficient. With the new ERP system, we're leveraging more technologies to automate credit, purchase order limit management, master service agreement management and strategic account management. Said simply, we can do more with less.

I probably want to finish where I started. The culture at Badger has been incredibly supportive of the changes that we're making in finance, and the changes that we've made in finance have actually happened quite quickly. And I continue to be really excited to be a part of the team and part of the future for Badger.

With that, Paul, will turn it back over to you for closing remarks.

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Thanks, Darren, and thanks to everyone, a great review today. So I'll close up with a few comments, short comments.

Firstly, a bit of a review on our updated 2019 outlook, where our adjusted EBITDA range is now $155 million to $170 million. And our 2020 outlook, as Darren had mentioned in his analysis, is $175 million to $195 million for adjusted EBITDA.

Our 2019 Hydrovac build range remains the same at a range of 190 to 220 units with retirements between 40 and 60, with our 2020 Hydrovac build range at 200 to 230 units with associated retirements at a range of 50 to 70.

So key themes. You've heard them already today, but the ones we're pursuing for 2020, focused on continued growth. I think John and Tim both mentioned that we've got some more aggressive targets on new branch openings next year. That's the real deal, okay. The opportunity is there. We have a history of capturing it at Badger. There's additional utilization and demand for nondestructive excavation and Badger's there to go after it.

Number two, managing our margins. We're very focused on both the revenue and the expense side of margin management. We have plans. And now as you heard today, we have a whole suite of better tools to go after this.

A real big focus for 2020 is to really squeeze all the benefits that are there for us to go after out of the ERP system. There's an opportunity to leverage this system across the business. You heard it from the team here, safety, growth, margin, fleet, operating expenses and general business processes, not only for our employees, but most importantly, for our customers.

And I really like these type of opportunities. They are internal improvement opportunities. They're there for a Badger to leverage, and they're there for us to execute on. It doesn't depend on where the outside market is, where the economy is, what's happening with the competitors. This is a chance for us to pull up our own socks and improve our operating statistics across the board. That's why people say I'm sitting here smiling when I listen to the update, Wade, on what we're bringing for tools in the ERP.

So really the short version. 2019, this is a year of investment in Badger. And 2019 is going to be a year in making your investments pay, pretty short and sweet.

So to summarize that the teams articulated it today, we are very excited about the Badger business and the opportunity to provide you, our shareholders, with more Badger, bigger and more profitable. Our strategy of organic growth, one operator, one truck at a time. And because of our scale, we're going to be flexible and not only on how we grow the business and expand, but also how we manage the business. Scale really matters.

John talked about first-mover advantage. This is earned over time. It's also earned each and every day. In the Hydrovac business, you're only as good as your last job. And we're really, really focused on that. As John said, you got to answer the phone, okay?

Darren talked about our cash flow and our consistent margins over long-term time, a real advantage of Badger. And as Darren also articulated, because of our low leverage, we have a lot of flexibility to execute on our strategic plan and also to provide good options for capital allocation for our shareholders. We're really excited about the market opportunity. We have attractive markets. And as I mentioned just a minute ago, adoption of Hydrovac and nondestructive excavation is a trend that's here to stay, and we see it continuing. I can't really emphasize the opportunities in the U.S. as much as we -- as my associates have done here, but there's a long runway of growth ahead of Badger in the U.S.

And with Badger, you have a company and you have a team that's very focused on executing on our organic growth strategy. It's a focused strategy. It's a focused execution effort. And with Badger, what you see us doing is managing this enterprise for the long term.

So to summarize our strategic milestones for the next 3 to 5 years. At the beginning, I talked about our track record on the last several years. But they're, number one, to double the U.S. business again. As I mentioned at the beginning, we doubled the U.S. business from our base in 2016. Our initial target was to do it within 3 to 5 years from a base of 2016. We hit that in October. So give us a chance to take a little victory lap, but now it's time to do it again. So our milestone is now to double it again from our base, our new base of 2019, and Tom Ellis is smiling in the back of the room here. And I'd like to see that smile.

Number two, to achieve our adjusted average EBITDA growth of 15% a year over the next 3 to 5 years. No change in that. We're also continuing to target our adjusted EBITDA margin in the 28% to 29% range. And I think you got some insight today into why we're so excited about the improvement opportunities, the revenue opportunities, the cost management opportunities that all go into driving margins higher.

And finally, our fourth objective continues to be managing utilization as measured by revenue per truck per month and keeping that above the 30,000 level. And as you know, that level over the economic life of the truck improves actually results in excellent return on invested capital for the shareholders.

So with that, why don't we move on to the Q&A section. And for the benefit of those that are on the webcast, I think we have some microphones here. So if you'd wait and use the microphone so the folks on the webcast can stay in touch, we'd appreciate it.

I think there's a microphone here.

QUESTIONS AND ANSWERS

Yuri Lynk - *Canaccord Genuity Corp., Research Division - Director and Senior Engineering & Construction Equity Analyst*

Yuri at Canaccord. Obviously, looking to double again in the next 3 to 5 years in the U.S. that's going to require a lot of trucks, Paul, a lot of manufacturing capacity that I don't think you have right now. What is the plan on expansion or new builds in terms of your manufacturing capacity?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Okay. A couple of comments there. Great question. We have been very successful over the last several years of tweaking the Red Deer plant. And our record build was 2014, which was 211 units. And with our 2020 guidance of 200 to 230, we should maybe be there or maybe beat that all-time record in 2020. But we've actually tweaked the plant. Back in '15 there was an expansion put on it after the last peak in 2014. And with our new-generation Badger, we've done a lot of computer-aided design, and we've actually designed the Badger to really facilitate assembly process. And the team there has identified some really good streamlining opportunities for throughput. So we think there's a significantly higher manufacturing capacity at our current facility than was illustrated in the last peak back in 2011. We'd love the chance to test it, okay?

So that's the first piece. And then the second piece is we're actually taking on another -- really the next step in our big strategy evolution. 2019 is ERP. 2020, we're actually going to take a look at what our longer-term manufacturing strategy is. And activities are underway as we speak. Can't say too much about it now, but we'll be looking at everything. Do you have 1 facility versus 2? Do you have one big one? If you have one big one, where would it be? And with lead times on activities like this of up to 2 to 3 years, that's why we're really starting it now. And as you appropriately comment on, when you get to the peak of retirements, which we anticipate in 2022, '23 and '24, you need to start planning now in 2019, if you're going to do anything with facility moves.

So it's actually a 2-step approach. We are tweaking at the current Red Deer facility, and then we're also looking at the long-term strategy.

Yuri Lynk - *Canaccord Genuity Corp., Research Division - Director and Senior Engineering & Construction Equity Analyst*

Okay. I'll sneak a second in before I pass it on. Just maybe beat you up a little bit on the 2020 guidance, it's essentially your original '19 guide, tweaked up a little bit, but your fleet is up. You're going to have, hopefully, lower SG&A. Just what level of conservatism is built into that forecast, if any? And what are kind of the downside risks that you might be allowing for in that pretty -- in that forecast?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Okay. Well, consider us beat up. Okay. Thanks for that, Yuri. You're not the first one this quarter. Okay. But when you look at it, 2019 is a year of investment, and it's really tough. I mean Badger, was sitting here a year ago with an ERP system integration ahead of us, and you try to figure out what direction the wind is going to go on how successful that's been. And once you get in the middle of those things, you do everything it takes to get there successfully, right?

So we've had some higher costs, and I'm not sure I'd do it differently, involvement of the management team to the extent we have and everything. So there's a lot that goes along with having to adjust the guidance. And there could be a factor of conservatism in 2020. We wouldn't want to have to adjust it downward again. So you could factor that in. If you look at the midpoints of our '19 and '20 guidance, it's about a 13.8% delta there year-over-year. And I think a lot of people look at that. And that's, I think, pretty reflective of the opportunity that's out there. And we have not only revenue opportunity, but also business improvement and margin opportunity. So I think there's opportunities on both sides there. So you may call us a little bit conservative, but we'll see how it goes.

As far as the second part of your question, factors that could cause potential concerns about 2020. We have a lot of great internal-driven initiatives. We're very confident about our ability to execute on those. And as I mentioned earlier, those are controllable by the team. But there could be a change in the general economy. I mean there are always factors like that. And if that occurs, I think Badger will be in the same boat with every other company in North America.

And we'll manage our way through it. We've been very good at managing cycles. Our business model is very flexible, but if there is a general economic downturn, it's -- that tide is going to lower all ships, right? So -- but we don't see that now. We're not seeing that in the opportunity that's out there across our regions right now. But we all know those things can happen. But that would be the most significant thing that I would put my finger on that would be a general concern, but we're not seeing that right now. Great questions.

Roland Keiper - *Clearwater Capital Management Inc. - President*

Paul, how would you respond to your shareholders who might be disappointed with the dollars you're spending on your NCIB at this time? You've got $2 million that you had authorized to buy shares last year. You've reauthorized another $2 million this May ending, May of '20. You've bought 1 million -- just over 1.3 million year-to-date at 39 average and just under $600,000 at a 43 average in the third quarter. So some folks would say, "Well, why not take advantage of this opportunity?" As Yuri said, the life has been pushed out a year. The business in better shape. You've achieved a bunch of strategic heavy lifting things that weren't in place before. You had an unsolicited proposal some time ago that -- from a competitor, presumably. And a lot of folks would say, "Let's get on it and make that $2 million a much bigger number, take advantage of the current price."

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Okay. I think there were a number of opportunities to comment on that question, Roland. Thank you for that. But we put the NCIB in Badger's toolkit as a Board in late 2018. Badger over its entire life, it never had an NCIB, and we were pretty excited about having that new tool out there.

As we put that process in place, it was after the unsolicited proposal that you referred to a minute ago. And the Board had a very good chance to take a look at our view of intrinsic value. And all of our capital allocation decisions as a Board are informed by our view of intrinsic value. So whether we're buying shares back in the low 30s or something in the 40s, all those decisions are taken with the view of what Badger's Board considers to be Badger's long-term intrinsic value and that we consider those -- that use of capital to be in the best interest of Badger and the shareholders long term. So intrinsic value is really what the decision is based on.

Your math is good on the average pricing. And we've been in the market pretty consistently since late 2018 at higher and lower prices, again, driven by intrinsic value. I think the average I saw the other day is -- since we started our NCIBs in late 2018, our average price has been $36.50, plus or minus what we bought in. And I can tell you, the Board is very comfortable with that average pricing and the use of shareholder capital at that level.

Robert F. Richards - *Heathbridge Capital Management Ltd. - Chairman*

My name is Rob Richards, Heathbridge Capital Management. We're comparatively recent long-term shareholders. I'm interested in the competitive landscape, particularly with respect to super products out of Wisconsin and how they fit into it. Even more particularly, why we see their Vactor 2100 trucks on the streets of Toronto and not yours.

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes. Well, there's lots of competitors that are out there, okay? Toronto is a very mature market and a large one. And we've had excellent success with our own business here in Ontario, not only corporate but within our franchise operating partners, especially this last year. But it's a big industry, and there's lots of competitors out there. There's 10 or 12 other manufacturers who build hydrovacs, and Vactors are one of those. So competitors use those. And it's a competitive business out there. And that's why we really focus on our Badger culture of answering the phone and servicing customers in first call.

Hydrovac, I found in my 4 years at Badger, is an easy business to get into. Any of us could go out and lease a hydrovac this afternoon. Not sure we'd all be able to drive it, but we'd certainly be able to go out and lease one. And it's easy to get into the business, but we find it's very difficult to be successful long term in the business over the long term. And it's really -- if you don't keep control of your direct labor and your operating costs and direct labor on the trucks, margins can very easily be half of what you see Badger's margins at. And the returns on capital could be very similar based on that. So we look at smaller acquisitions. We look at regional companies. We see the numbers and margins half of Badger's are pretty common out there.

Regarding Super Products in the Midwest, they're a good competitor. They have some ties into minority ownership, so they get to access the government contracts. It's a good mousetrap they have, and they're a good competitor on a regional basis. We see competitors like that across a lot of our markets.

James Gillespie;Morgan Stanley;Financial Advisor

Jim Gillespie, Morgan Stanley. The fires in California, obviously, increasing, more stuffs going underground all over United States and Canada. Is this going to help you? Have you seen any impact yet?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes. Thanks for that, Jim. We have seen some modest activity this year with the most recent fires, and there's really 2 parts to your question. The first is what's happening short term, but longer term, the owners of infrastructure and utilities. When you see things like fires, you see other regional activities like hurricanes. What we've seen in the Southeast utilities go through hardening programs, where they go through stronger aboveground networks. And we see other utilities that are looking at underground networks, and that's an individual decision that companies look at on a case-by-case basis.

There's been discussion in California of more underground networks and that whole decision-making process will play out. But the neat thing about it is that hydrovac has opportunities both with aboveground and below-ground networks. And digging power pole holes -- I mean hydrovac, they dig power pole holes is an absolutely ideal way to dig power poles -- pole holes. It's always in a right-of-way. Poles are always in it right-of-way. There's always other gas lines, traffic control lines, fiber optics, there's all sorts of conflicts in right-of-ways. And hydrovacs, of course, avoid damage to any of those. If you hit something, you move over a few feet and you continue. So we're going to have good opportunities whether people stay aboveground or go below ground. Great question.

Unidentified Participant

I wanted to ask about this slide where you talked about the area managers having full P&L responsibility. Is there a significant degree of variability among the various branches and locations? Or is there not a degree of variability? And is there a return on capital component to that at the branch level? And what are the incentives that are -- like the word you use is responsibility, but what are the incentives that are built in? And then, generally speaking, is there -- are you building a culture of decentralization? Or is it not -- the opposite?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Okay. Let me start with the last comment first. I mean Badger has been extremely decentralized over its life cycle. So with the ERP program, we're not really centralizing things. We're actually providing tools for the folks that are running the business, as John described, in each and every branch to really perform their job more efficiently.

And when Wade and Liz Peterson started the strategy work on the ERP initiative in early 2017, we identified the different sections of benefits that Wade reviewed today. But one that was very important, we estimated that 1 day to 2 days a week of our local branch managers' time was tied up in our legacy admin processes a day to 2 days a week. So when you think about having systems that free them up from that admin process, it's processing tickets. It's making sure the payroll's right. It's making sure payables are on your purchases are getting done properly. That is found time. I mean that is really the gift of time.

So we're pretty excited about that, like a day a week, okay, that's a lot. I mean how much could all of us in this room do with an extra day a week, probably get in trouble. But there's a lot of other things we can do. So we're pretty excited about that.

Back to the incentive system...

Unidentified Participant

(inaudible)

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Okay. So the way the incentive system works, pretty simple. 5% of pretax earnings goes into a pool, an area manager bonus pool. And we define pretax earnings after a charge for trucks so there's actually a charge for capital before you get to the pretax calculation of mine, okay? So it's like they have their own business. They're entrepreneurs, capital employed. There's a charge -- there's a corporate charge for computers and phone lines and SG&A. So it's like they have their own business. And that 5% pool has no cap.

So back to the variabilities, if you're starting out with 1 truck, growing to 3 to 5 trucks or if you have some of our largest branches, they have up to 50 trucks. There's no cap on that. But the way it works, if -- say, if I start up a branch with 1 truck and I get to 6 and then I need help, maybe I'll need to have a salesperson or maybe I'll need to have an operation supervisor to help with scheduling, I would make that decision. Their bonus would now be part of that 5% pool. So it's a bootstrap approach. So you have to think about it as an area manager when you add that expense, and there has to be a real cost benefit of being able to take the business from maybe 5 or 6 trucks up to 10 or 12 by adding that next person. But there's no cap to the pool. So it's a really eat what you kill type of approach.

And we celebrate our manager that has 50 trucks. I mean he'll make a $300,000 bonus this year. Okay? And we love everyone else to know about it. So that opportunity is there. It's a good question. Yes, sir? Sorry, [Doug]? We have 2 microphones.

Unidentified Participant

Related to the incremental costs that you're spending to support the ERP initiative, what confidence do you have that $10 million will be the amount given that you're not yet through that? And separately, the guidance, I'm not sure I understand when you say 60% has been spent, and the remaining will be spent in Q4. But then you talk about weaning your way off of the spend by mid-2020. So the $10 million incremental cost this year, and then there will be an incremental spend in 2020?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Okay. No, thanks for that, [Doug]. The way Darren described it, we are in the middle of this. We're still rolling out and going live. So these are our best estimates for this year and next. And again, this is a process that's underway. But we're very confident that we're going to be able to eliminate this additional G&A. This was in the G&A category that Darren specifically referred to as we get into 2020. And we expect to have the consultants, the reboot of the IT team and the folks that are on the project doing training and rollout now back in the projects as we go into 2020.

Not all of those are in the G&A category. There's some other ones that would be in upgrading costs also. But Darren was just talking about G&A there. So I don't know if that really...

Unidentified Participant

So $10 million is not the absolute level. There will be spending in 2020 associated with the continued support of the implementation?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

That's right. We're going to continue to have post-rollout hypercare through Q1. And -- but all of the 2020 expenses are figured into our view on 2020 guidance as part of our budget for 2020.

Unidentified Participant

Separately but related, there's still a bridge in between your guidance offered for '19 and the $10 million spend I don't understand. Your guidance came down by $15 million to $20 million, but you've only identified $10 million of incremental costs. Where is the remaining difference between your guidance and the cost?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes. Well, the other delta in the guidance would have been our Q3 performance. So we didn't have the sales growth. Our direct operating and labor expenses were a little bit higher than we originally guided for. And so some of it would have been just the delta from the operations, not all related to ERP in Q3.

Unidentified Participant

My question was directed more at the assembly process of the trucks. Your CapEx seems to -- the trend seem to be going up on a per-truck basis and wondering why that is, where you expect it to go in the future, to what extent there's proprietary or IP aspects to your truck. And you -- there's been some comparison to competitors. How is your truck different than the competitors? And is it in that equipment that accounts for why you have, you say, twice the margins as some of these guys? Where do we get that big delta between your operation and your competitors' operation on a margin level? How much of that is for the equipment? And how much of that is for the scale and the various components of your business?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Okay. Some great discussion areas there. As far as the IP side of our truck design, we don't have any patents. It's design and manufacturing art and the experience of our learning. As John mentioned, we get feedback every day from 1,300 operators.

And the performance is not only in digging. It's also in the ability to operate across all regulatory jurisdictions and not be overweight, when you're full of water or whether you're full of debris. There's opportunities there that figure into the daily economics, how long can you dig before you have to take material to a disposition site. An extra hour here and there means a lot, okay? And that's truck design.

So I can't comment a whole lot more, but our trucks are generally lighter and quieter. And they dig very, very well. They're designed to be operated by one person safely and efficiently. There are a number of competitive units, especially some bigger oilfield-type units that require 2 folks on the trucks. And in our business, direct labor is between 35% and 40% of revenue, our single biggest operating expense.

And to link that to your final comment on what's the delta in profitability, the management of labor on the trucks is the biggest differential we see between Badger with our scale and smaller competitors that we see when we look at smaller competitor financial statements. It's all on the direct labor side. Our scale and our efficiency and the way we manage our labor expenses is a big difference.

Unidentified Participant

And the CapEx trends per truck?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes. Well, we've had modest increases the last few years in the low single digits, the biggest increase that we've seen, and John mentioned it earlier 2019 versus '18 is we actually went to all automatic transmissions on the Badger's beginning in January of 2019. And that was about $9,000 per unit. Money well spent because it dramatically opened up the operator pool, the candidate that we have to potentially recruit as operators on the trucks.

And as Tracey mentioned, we've really seen really benefits from that. So that's $9,000 well spent. And that's been the biggest increment we've had. Other increments have been basic general inflation and -- which is -- it could be 3% to 5% pretty easily. And on a $400,000 base, 3% to 5%, you're looking at $10,000 to $15,000 a year. And that's been our experience in the last 3, 4 years.

Roland Keiper - *Clearwater Capital Management Inc. - President*

Paul, a question on sales within a region. How do you at corporately or regionally inform yourself what the revenue potential is within an area -- an existing area where an operator who's got the P&L payout -- comp payout. Motivation talent so uneven across organizations, and you may have someone just as really underachieving, given that the geographic footprint he's been awarded -- he or she has been awarded. And how do you inform yourself of what the lost opportunity is, particularly when you've got a P&L for an area where the guy says -- he or she may say, "I don't want to give up a truck to my neighbor and give up that opportunity or give up some of my geography to my neighbor who's more talented, and I've got a P&L here. And a comp deal doesn't reflect the best interest of the organization." Those type of issues. So like how much time do you fight with internal competition and fighting over geography and accounts that typically results in many sales organization?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes. Well, our culture and the way we operate and the way we share trucks and we share operators, Roland, we almost have none of that. And the idea is to always service the customer when they call. So John gave an example about a new branch that calls the neighbors in for help. It's the best way to build your business. So if you're a new branch with 2 trucks and you have work for a week for 4, and you bring in trucks with operators from your neighbor, you're building your branch so you can take that next truck. Yeah, right. And the way our system works, back to the incentive system we talked about earlier, the sales credit in that scenario goes to the truck that's sent -- the branch that sends the truck. So everyone benefits. And it is amazing how much communication goes across our network and how effectively that works because there's something in it for everybody.

And I don't know, John, how many trucks do you think are working outside their branch today out of 1,300. 10% of their fleet, maybe more?

John G. Kelly - *Badger Daylighting Ltd. - COO*

Oh, yes. Exactly.

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes. So -- but this is just part of our DNA, and that's the advantage of our scale. I mean Badger can always get a customer a truck. Knock on wood. And it really works. You'd think that there'd be conflict and what's mine is mine and what yours is yours, but the phone calls go fast and furious and we see trucks all over the place. And it's really good for the customer, and it's really a great way for us to continue to build the business because it's all about that organic growth and where that next truck comes. So it's actually counterintuitive, but it really, really works. Great question.

David Taylor - *BMO Asset Management Inc. - VP & Portfolio Manager of Canadian Equities*

Paul, Dave Taylor with BMO GAM. There's a long history of companies having challenges rolling out in the ERP system. I don't -- what gives you the confidence that this will go off without a hitch?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

The confidence that what?

David Taylor - *BMO Asset Management Inc. - VP & Portfolio Manager of Canadian Equities*

Just the rollout will go smoothly within the budget.

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Okay. Well, I mean, we talked about the extra cost to get it rolled out. We're going to spend basically $35 million versus $25 million. And I don't want to be cavalier, but the fact that the rollout and the go live has been so good that we started October 1. And as we sit here today, we've rolled out 60% of the company, and it's working really well, okay?

And that's unprecedented. I mean in my past business career, I spent time trying to collect money from folks who were doing ERP implementations. They had no clue what they were buying, what they were selling. And we -- John called me -- we went live October 1 with the West region, and John called me about 3 Calgary time that afternoon. And he was all excited because he had the actual first invoice that came out of Oracle that day on his desk and the fact that it was done in the same day, okay, with our legacy systems. The work was done on October 1, the invoice at October 1. And it was going to the customer, okay, on 1 day, as opposed to -- it could be several weeks with our legacy systems, okay? So there's that shadow receivable. You have capital tied up in expenses before you even get the build-out. Right?

And then there were some pricing opportunities identified on that that were visible same day that with our legacy systems, as Tim talked about, with tens of thousands of e-mails that we've never had visibility to before. It's visible instantly. And that's why you hear the word visibility here today, and that's why Wade says I've been smiling a lot because these opportunities are significant.

But I don't want to jinx this, but we're 60% rolled out and it's going really well. So it's -- we comment a month ago -- 2 months ago, I couldn't have told you that. I would have been hoping for that, but it is going well.

Hey, Jonathan?

Jonathan Lamers - *BMO Capital Markets Equity Research - Analyst*

Picking up on that last comment, recognizing the system was just rolled out. But when you say the rollout has gone very well, can you tell how the performance of the area managers that have -- are now live on the ERP system are comparing to their peers? Has it been disruptive for them?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes. I mean it's really too early to tell. And if we would have been handicapping our area managers with -- like a Vegas bookie, 3 months ago, there would been some real surprises. I mean some of the folks that we would have figured would be fast adapters have required more handholding. And some folks, we thought might be a little bit more like Luddites, they've been rock stars on this. So it means it's a mixed bag. But the neat thing about this is we've really taken a lot of time, and we've done a lot of training. I mean we've trained -- I don't know. How many hundred people, Wade, have we trained since...

Wade Mark Wilson - *Badger Daylighting Ltd. - VP of Business Process Improvement*

(inaudible)

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

20? Yes. Well, including operators, but yes.

Wade Mark Wilson - *Badger Daylighting Ltd. - VP of Business Process Improvement*

(inaudible)

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes. And so we've really had good luck. And the really gratifying part of this is the operators in the trucks have found this to be seamless. They were on iPads before with the old -- the ticketing system. They're on iPads with a new look, but it actually makes their job a lot easier. As Wade said, a lot of the tickets were pre-populated with the items that are required for each and every job.

So it's early days to tell, but we have very few, what I would consider to be hypercare cases out there, like very few. So -- and we're 60% rolled out. So it's like I said, I could not be more pleased. But we'll track that and you look at who's using the tools versus not using the tools and -- but now we have the visibility to see who's using the new tools and who's not using the tools, too. So we can do coaching and follow-up in that regard.

Jonathan Lamers - *BMO Capital Markets Equity Research - Analyst*

And recognizing that 3 to 5 years is a long time, have you reviewed your strategic milestones ahead of setting them out. I noticed you retained 28% to 29% margin target. It's well above where the business has been since the transition from an oil and gas service firm. Could you just describe your thinking in retaining that target going forward?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes. And we think the opportunity is there to get there. We were approaching that in 2018 and we know it's very achievable. And we know what the internal improvement opportunities are coming out of the system, and a lot of these are internal and they're controllable. So we see that opportunity to get there, and we're very confident we're going to be there over that time frame.

Jonathan Lamers - *BMO Capital Markets Equity Research - Analyst*

Yes. If I could ask one more for Tim's Group. How large is the national account group now as a portion of revenue?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Tim, you want to -- you use those statistics earlier. Would you like to repeat that?

Timothy Hammond Reiber - *Badger Daylighting Ltd. - VP of North American Operations - Central*

It's over 30%

Jonathan Lamers - *BMO Capital Markets Equity Research - Analyst*

And what kind of growth are you targeting for next year?

Timothy Hammond Reiber - *Badger Daylighting Ltd. - VP of North American Operations - Central*

We target growth in that market consistent with our organic growth.

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

15%. Yes.

Jonathan Lamers - *BMO Capital Markets Equity Research - Analyst*

If I could ask one more on that. Tim, you laid out 3 segment managers. I believe was pipeline, utilities and transportation. What is it about those 3 market verticals that makes them compelling growth -- areas of growth for national account customers?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Go ahead. Use the microphone.

Timothy Hammond Reiber - *Badger Daylighting Ltd. - VP of North American Operations - Central*

Those segments typically cross over our geographic boundaries. So from a national account standpoint, a lot of the major road contractors are working throughout our footprint. A lot of the pipeline plant refinery customers have facilities throughout our entire network as well as the utility providers are seeing some consolidation with the ownership with multiple owner groups within certain geographic regions. So we're focusing there with strategic account management to capture the multiple ownership groups within those utility segments.

For example, Southern companies have multiple utility owners that run different sectors like Alabama Gas, Georgia Power, some folks in Florida as well as if you go out west to Sempra Energies with SoCalGas, SoCal Edison, San Diego Gas & Electric, et cetera. So -- and based on the predictability of the distribution networks and the repairs and maintenance programs, there's some opportunities for consistent anchor-type work within those networks, too.

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Thanks, Tim.

Stephen C.A. Harris - *GMP Securities L.P., Research Division - Head of Research*

Paul, it's Steve Harris, GMP at the back here. Just wondering if we could talk about the industries that you serve. And you could see that the oil and gas percentage has ticked down to 24%. Utilities, I think, has ticked up to 41%. What do you think the outlook for that is over the next 3 to 5 years? What do you think your composition looks like? And what does it mean for the overall cyclicality of the business?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes. No, great questions, Steve. We really started tracking our end-use markets back in 2017, and we'll have a lot better methods to track them going forward in the new system. So we built all that tracking into the new system. So I'm hoping to have a better quality pie chart for all you guys next year, okay.

So utility segment is our biggest. It includes the utilities that Tim talked about. But also municipalities, that's really an important one and municipalities are a big customer segment for us. We've seen the change in the growth there. And we've seen the change in growth in transportation, in telecom, in industrial, general construction. I think you're going to see our pies -- our relative size of our pie slices evolve over time. And the real good news about that is that Badger has been successful in finding new end-use segments to -- that can use hydrovac and that value hydrovac. Back when oil and gas crashed in 2015 and '16, we would have been well over 50% oil and gas as a company in 2014. And now as you just said, we're 24% this year. Not that our oil and gas business is shrunk dramatically, but the other segments have had really good growth. And I think you're going to see us with bigger pie slices in transportation, telecom, general construction going forward. And I think you'll see oil and gas probably stabilize.

It's a great segment for us. And pipeline is about half of the oil and gas segment, so you figure about half's pipeline. And a lot of that is maintenance and integrity work, which is required. And Badger has done a great job working with these big owners of pipelines over the last 20 years. So it's a really important segment. We'll continue to focus there. Great, great question.

Stephen C.A. Harris - *GMP Securities L.P., Research Division - Head of Research*

A little earlier, it was said that John had 300 alternate uses that the hydrovacing could be applied to. Is this something that could be approached with the existing fleet? Do trucks have to be modified? And how close are you to actually thinking about approaching some of those markets?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Well, we're doing them all today. So some of them are illustrated in the video that we had playing when we come in -- came in here today. And -- but the 300 is all things that we're doing now.

So okay, here's one of the backup slides, but this is in your package in the appendix. And this is just scratching the surface. But we come up with new usages that our folks come up within the field all the time. And it's back to that power washer and shop vac -- and what you can do with those equipment -- that type of equipment, which is supersized. So it's pretty exciting. But by and large, though, our core usage is excavation and nondestructive excavation. So ...

Hey, Jeff?

Jeffrey Eric Fetterly - *Peters & Co. Limited, Research Division - Principal and Oilfield Services Analyst*

Paul, first question, your comment about accelerating for more aggressive branch opening targets for 2020. What do you mean by that? And can you give us a range?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes. Well, we're not guiding to a range. Those numbers would be included in our numerical guidance for 2020. But we will open 16, year-to-date through September 30, expect a couple more between year-end. And as John indicated, over the last 5 years, we've opened, on average, about plus or minus 1 a month. And I think it's pretty safe that we're going to push harder to do a lot more than 16, 18 next year. And it's all about execution, and it's all about having the people and the managers to run those.

But Tim, Liz, Kevin Carnahan on the west just like they did in 2019, have a detailed plan for 2020, with expected dates and expected locations. So that process continues going forward. But we're not really guiding as to when or locations, but it's something we've proven we can do successfully, and we've done for many, many years. And -- but it's all going to be driven by people. You got to have the right managers to lead those operations.

Jeffrey Eric Fetterly - *Peters & Co. Limited, Research Division - Principal and Oilfield Services Analyst*

Can you just help us understand the growth in market penetration in the U.S.? So 2 years ago, at the Investor Day, you talked about operating in 78 of the MSAs. Last year, you were 80. This year, you talked approximately 80. So you put several hundred trucks in the U.S. market. You've opened north of 35 branches, on average, let's call it, based on that run rate. But you only penetrated maybe 2 MSAs. So where are those trucks going? Or are you just being conservative in your market penetration of MSAs?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes. Most of the trucks the last several years have gone into existing locations. And we've also have opportunities to set up satellite locations around core locations too. So you take a major metro market with traffic and congestion. As you grow the business, maybe you're on the east side of town that, for logistic purposes, you need to also be on the west side of town. We've done a lot of that. And there's nothing new with an MSA, but it's a new service location.

So the neat thing about it is there's lots and lots of growth. And there's lots of internal growth from our existing branches, and a lot of that leverages our existing cost network, too. So I mean the low-hanging fruit is to really add more trucks to existing branches, and we've had great success with that in the last couple of years.

Jeffrey Eric Fetterly - *Peters & Co. Limited, Research Division - Principal and Oilfield Services Analyst*

And sorry, just last question. From the HR standpoint, can you update us in terms of turnover at both the operator and the manager level?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes. Well, we've had great success in the last few years on manager turnover. When I started with Badger, it was a concern. It has not been a concern at all of mine in the last 2 years, so we're really in good shape on area managers.

We don't specifically disclose turnover on operators. But as Tracey indicated, in this year, we've had a continued modest improvement in our retention. And the comments I would have made last year would have been single-digit improvement in retention '18 over '17, and we've seen that again this year. Yes, [Doug]?

Unidentified Participant

Can you elaborate a little bit more on the labor inefficiencies that you've alluded to in Q3? With the RPT at the level it is consistent with last year and what seems to be a very healthy level, especially in the context of what you're saying from a strategic level you would like it to be at, why are you facing these labor-related inefficiencies?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Well, when you look at our business, it's very regional. So we operate in 11 regions, and the labor circumstances are not the same across all regions. It's really -- you can't really generalize. So we've had a couple of our larger branches or larger regions in the U.S. that have had weather challenges in Q2 and Q3, and demand swings up and down based on project timing and things like that. We've also been very focused on trying to drive our retention higher. And as Tracey mentioned, we've also done job leveling, which involves taking multiple pay levels, where people can progress as operators as they gain more experience.

And we've also had to make some moves in some markets and bump wages just based on how tight the job, the market is in the U.S. So those are really the factors that have driven the labor costs and -- of our plus or minus 2% delta in gross margin that we've been tracking this year quarter-over-quarter with less, probably 2/3, 3/4 of that has been direct labor on the trucks.

And this is something you manage your way through. If you have to bump salaries, you do that because of the job market. And then your pricing has to catch up, but our pricing will catch up. And sometimes, you can tie those together. That's the ideal scenario, but we've had to respond in some areas where the wage costs have gone up before we were able to catch up with pricing. But we've identified what they are. We have specific plans, and we'll get those back in line. Great question.

Roland Keiper - *Clearwater Capital Management Inc. - President*

Emergency response in second half of '18 work was about $23 million of revenue. Presumably, it was larger for the full year. How did you -- what did you bake in when you put your EBITDA guidance range, your prior and your current in revenue for emergency response year-over-year change? Full year '18 against full year '19, you put something in. How did you manage that in putting together your numbers? And has it changed now because we haven't had the activity of last year so far?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes. Well, it's been a quiet year this year. In fact, it's actually been negative, Roland, because we had Hurricane Dorian go up the coast and never came ashore. And you started in Florida and everyone battened down the hatches and stopped working for a week. And then it never came ashore, and it just worked its way all the way up to the Northeast. So it was almost the worst of all worlds with Dorian this year, and that was the Q3 event. But we really don't bake in emergency response into our budgets or our guidance. You can't.

Roland Keiper - *Clearwater Capital Management Inc. - President*

And what do you think it was for full year in '18? You've given it to us now in the third quarter for the second half of $23 million revenue impact. Do you have any sense what is for the full year in '18?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Well, it's about the same. There wasn't a whole lot of that...

Roland Keiper - *Clearwater Capital Management Inc. - President*

Yes. Okay, the whole...

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes. It was really a Q4 event. I mean the $22.5 million that you've mentioned, that was really our Q4 identified emergency response last year. And it really hit mostly in October, but it did continue with the wildfires through December into January.

Roland Keiper - *Clearwater Capital Management Inc. - President*

And that's the way you've got it $22 million nothing baked in for emergency response in those?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

No.

Unidentified Participant

What percentage or what portion would you say of your regions or branches lend themselves to like a natural monopoly or oligopoly, where the pricing and the activity is really -- I know, yes, maybe not the best choice of words. But I think you get the...

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

I'm going to smile again.

Unidentified Participant

The essence of my question is, like in what portion are -- lend themselves to rational competition. Or just like -- you've got strong barriers to entry. What percentage of your markets would you characterize like that?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes. That's a great question. I -- those are words I hadn't anticipated using today, but it's great to hear them. But generally, this is a generalization, markets that are newer to hydrovac where Badger is the first mover, and we're going in and selling and marketing the advantages and features and benefits of hydrovac and nondestructive excavation is where we have our best margins, okay? Mature markets, where you have a lot of competitors, I mean ground zero for a really challenging market right now would be Edmonton and Northern Alberta because oil and gas is soft. And every small operator that used to have 2 customers and now has either 1 or 0 comes to town, right? So they want the utility and the municipal work and that's sort of the opposite end of the spectrum. But generally, newer is better.

In some markets, you have competitors show up. I mean every location we have is on our website. And anyone that wants to check out Badger can drive by at 4:00 on Sunday morning and count trucks, okay. There's no secrets out there. So the opportunity to do market research is there, and people do that. Some markets attract more competitors than others and some are great markets, okay, with very few competitors.

But we operate very, very successfully across all those ranges of markets, and people make a difference. Our management and leadership make a difference. Our scale makes a difference. If we have good times, we can bring in trucks and we can cycle up. If we have slower times, we can move trucks. John and the team look at daily utilization reports, so we know what trucks don't have revenue. And we're on the phone, "Hey, do you want to offload the truck? We got a use for it somewhere else." And we can cycle our cost base up and down. And so we can operate through good times, bad times.

And the fact we make our own trucks, there's probably a 25% manufacturing margin in there that goes into the life cycle economics of our contracting business. Competitors are buying trucks for 25% more, have to amortize that truck over their economic life cycle. And so their breakevens are higher. You can look at it however you want to look at it, better ROIC or lower breakevens. But that benefits Badger's business model. And it's real, and it shows up on the income statement. So great question. Yes, Jim?

James Gillespie;Morgan Stanley;Financial Advisor

Jim Gillespie. You talked about the crawling yellow iron versus the budget Badger leading the parade. Can you give me like an example of when a contractor improved its efficiency by converting to the -- like a Badger scout system?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes. No, great question. We don't really look to compete against excavators, mechanical excavators or yellow iron. We really consider ourselves to be a productivity partner for the mechanical excavators. And what I mean by that is that we can come out ahead of time. We can identify where the potential conflicts are underground. We expose them. As John said, we daylight them, expose them to daylight. And then they're marked. And the backhaul can come in and work quickly and safely and efficiently. And that's why we're really a productivity partner there.

We're never going to move with an 8-inch wide dig tube as many cubic feet or cubic meters as an excavator, but we can ensure that the excavator works safely without damaging any infrastructure, and that really speeds up construction. And as you know, time in construction is money, right? And turning that cash, getting the project done, getting paid for everyone in the value chain is what it's all about in construction? Great question.

Unidentified Participant

My question is around acquisitions. So historically, I think you've always said that you shy away from having -- or you prefer to have a homogeneous fleets that you're not buying competitors or others. Has that changed at all? Or are you now looking potentially at joining adjacent industries in construction?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes. When Darren talks about acquisitions, it's vis-à-vis capital allocation. And we have historically not done a lot of acquisitions. We look at a lot, and I shared some information about the type of margins we see.

Acquisitions are tough, integrating a competitor that has a very different culture and different views about safety and things like that is really tough. I mean we've had great success in building and putting Badgers to work organically. So that's the core business. But when you look at acquisition opportunity, it could be an opportunity to accelerate our growth. There may be an existing player in a geography that doesn't have a lot of hydrovac, but instead, they have sewer flushers and camera inspections for sewers and things like that. Could be a way to get into the market sooner. We actually did that here in Ontario a dozen years ago.

There's other related services like paving and backfill, traffic management, things like that, that could be alternatives that are part of a potential broader mix that could accelerate our expansion in different geographies and could be other services that customers would value.

So I think that's the type of thing you'd see us looking at. But it would also have to have robust returns. It's really hard to find things that have as good a returns as hydrovac, but those are the type of things you might see us looking at.

Unidentified Participant

Okay. And just the likelihood of any of that happening in the near term. Given the U.S. opportunity, I would assume would be relatively low.

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes. Well, we've not historically looked at it as much. Over the last year, we started looking at things more aggressively. But the other thing we wanted to do strategically is we wanted to get our ERP system in place. And we really didn't have time from the team to spend on integrating acquisitions. Getting the ERP system in place is job #1. Once that's in place, then we'll have a platform. And it will really facilitate us being able to at least consider things like that, where you have a good platform to integrate into with a good solid process.

So there's some timing things there, too. But we haven't slowed down our growth during ERP. We've added 116 net units year-to-year, September 30. So we continue to go hard with our organic growth strategy. But once you get the platform in place, we at least have that optionality. Great question.

Unidentified Participant

With the build-out of your fleet over the next couple of years, a lot of the North American waste management companies are working on converting their fleets away from gas to compressed natural gas or eventually electric. When does that discussion come into the equation and the potential issues around the build rates and efficiencies and logistics for you guys?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes. Well, we're staying in very close touch with the chassis suppliers on all those technologies. And it's nice to not be first, so it's nice to see the big local fleet operators figure that out first. And the buses, the solid waste fleets, it's an interesting dynamic because they all go home to the barn at the end of the day, right? They go out and do their job, and they all come back to the shop. And you can have CNG facilities there. So we're a little different. We tend to move around. And so we're really watching those technologies.

And the other thing that we're watching is the way that California legislation goes, okay? So that will be something we're watching. But the good news is we're hand-in-hand with our chassis suppliers. And the other good news is we design our own trucks, so we'll be able to make any design changes required if the chassis layout is different to accommodate our Badger equipment.

And that's an active discussion item. I don't see anything imminent. But the factors I mentioned, the success of the new technologies and legislation will be the 2 things that drive it. But I have total confidence that Badger will be at the head of the pack when we get to that.

Unidentified Participant

And there has been some recent regulation changes about heavy trucks on the roads. And in past presentations, you talked about how some of your smaller competitors might suffer because of this and disappear. Are we seeing any of those benefits come across? I know the last 2 quarters have been hindered by some weather issues, but are we starting to see the effects on these smaller players with regards to the costs associated with these new regulations?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes. Well, the regulations we specifically would have talked about historically would have been the Ontario legislation specific to the province of Ontario. And historically, hydrovacs were not considered to be commercial trucks. They were actually not licensed because they were considered road-building equipment, like a bulldozer. And those regs have been in place since the end of 2017.

And to your question, we have seen a number of competitors with big heavy oilfield equipment they bought at auction when things crashed out west, find that their trucks are not economic. And then we've seen a lot of changes competitively. And we've seen 4 of our smaller competitors go out of business here in Ontario.

Unidentified Participant

(inaudible)

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes, it's regional issue.

Unidentified Participant

Can you talk a little bit about how much of the cost base is fuel? And to what extent you're along that path of getting the pass-through on fuel.

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Yes. No, great question. If you look at our top operating expenses, direct labor on the trucks, number one, 35% to 40% of revenue, second one is repair and maintenance on the trucks, 6% to 7% of revenue; fuel would be number three, 5%, 6% of revenue, plus or minus.

We've had really great success in what we call fuel surcharge and passing fuel costs along. It was an initiative we started in 2018, and we're very pleased with that. I can't give specific percentages, but we're well north of 50% of our opportunities. And we track it on an invoice-by-invoice basis, so what percentage of invoices include a fuel charge. Yes, had great success from that area.

Unidentified Participant

Two very different questions, over here in the middle. One is I'm not sure you fully touched on it, but it looks like the revenue per truck seems to be lower in the forward guidance than what it's been. So are you hitting a ceiling? Or is it actually coming down? Or are you being conservative? And the second one was on Tracey's culture questions to the staff. You scored well on the 6 criteria. Which one was the one that was the weakest?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Okay. I'll let Tracey answer the second one. But as far as revenue per truck, I have to actually go back and look at what our numbers are in the budget for next year because we didn't give public disclosure on revenue per truck in our guidance. You may be looking to back-in to some numbers there, but we're not assuming any significant change in revenue per truck year-over-year of any major significance there.

Unidentified Participant

The 3- to 5-year number, anything you can on $30,000?

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Oh, the 3- to 5-year number. Okay, I was thinking of 2020. Yes, that's a long-term number. And we want revenue to truck to be, on a long-term basis, over $30,000. It could be $36,000, which is what it is this year. But at the level over $30,000 over the economic life of a truck, the returns on capital are very strong, pretax IRRs in the high teens, close to 20% range. That's why we want to maintain it over 30%. And on a 3- to 5-year basis, you probably go through a business cycle, things like that. We want to really focus on utilization and manage the utilization of the fleet. So I don't know if that's helpful.

It is a long-term guidance. I mean we would have been at $25,000 in 2015, early '16, coming out of the oil and gas downturn. And we want to -- we'd love to be well above 30, but that's -- we want to be above 30 at all points, that's the key.

Unidentified Participant

And Tracey...

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

Oh and Tracey, second part of the question. But use the microphone, Tracey.

Tracey Lynn Wallace - *Badger Daylighting Ltd. - VP of Human Resource*

Yes. So no real surprise. I think the lowest scoring of the 6 factors was on communication. And so while the organization -- the respondents said that there is great communication from the leaders to their business units to their organization, that communication got a little broken as it went further down into the organization. So that was one of the opportunities we identified to what are some strategies going forward that we can get the communication down further into the organization, especially on big initiatives like the ERP.

And so Wade and his team and the training team have done a really, I think, a yeoman's effort in trying to get that communication through employee newsletters, through town halls, through training, to get that communication down to the lowest level in the organization. So that was the one area that came through.

Paul J. Vanderberg - *Badger Daylighting Ltd. - President, CEO & Director*

So just to comment, I see Frank Ertl, who has joined us. Frank's in the back of the room. He's our operating partner for Kitchener-Waterloo. And when you didn't show up, Frank, I thought maybe you jumped on a truck this morning. I didn't know. So I'd encourage you to say hi to Frank, along with Greg and Pete and Todd. So our entire complement of operating partners in Ontario is here, and we're delighted that they're with us.

So well, I don't see any other -- have I missed anybody? I don't see any other questions. So we're going to be here. We have a light lunch, and the team will be here for further conversation. We very much appreciate the participation today. We really appreciate the interest in Badger, and we appreciate your support. We're pretty excited about the future and glad you're part of it. So thank you.
