

# Chemtrade Logistics Income Fund Q1 2025

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## **OPERATOR**

Good morning ladies and gentlemen, and welcome to the Chemtrade Logistics Income Fund First Quarter 2025 Conference Call. I would now like to turn the conference call over to Rohit Bhardwaj, Chief Financial Officer. Please go ahead.

## **ROHIT BHARDWAJ**

Good morning and thank you for joining Chemtrade Logistics Income Funds Earnings Conference Call and webcast for the first quarter of 2025. With me on this morning's call is Scott Rook, Chemtrade's President and Chief Executive Officer. Please note this call has an accompanying slide deck, which we'll refer to throughout the call and is available on our website, [chemtradelogistics.com](https://chemtradelogistics.com).

On today's conference call, we will first give a brief recap on our strong Q1 2025 results, including our business unit performance, capital allocation, and balance sheet. I will then touch upon the updates to our 2025 guidance. Following this first quarter recap, Scott will highlight the new financial targets and strategy that we announced yesterday evening, which we refer to as Chemtrade Vision 2030. These targets build upon the strong track record of performance that we have established in recent years and offer insight into how we think about the longer term growth, unitholder value creation and unitholder returns. Scott will then provide some commentary around the nearer term outlook, after which we'll open up the call for analysts Q&A.

Before I continue, note that this call will contain certain forward-looking statements that are based on current expectations and are subject to a number of risks and uncertainties. Actual results may differ materially from expectations. Further information identifying risks, uncertainties and assumptions and additional information on certain non-IFRS and other financial measures referred to today can be found in the disclosure documents filed by Chemtrade with the Securities Regulatory Authority available on [sedarplus.com](https://www.sedarplus.com).

One of the measures that we'll refer to in this call is Adjusted EBITDA, which is EBITDA modified to exclude non-cash items such as unrealized foreign exchange gains and losses. While our slide deck and other disclosure documents refer to Adjusted EBITDA, we'll simply refer to it as EBITDA in our prepared remarks.

Beginning now with our consolidated results, the first quarter of 2025 represented a strong start to the new year. Revenue increased 11.5% year over year with EBITDA up 9.3%, reflecting strong underlying business performance and favorable foreign exchange from a weaker Canadian dollar relative to the US dollar on a year over year basis.

Excluding the foreign exchange impact, revenue and EBITDA increased by 6.5% and 3.3% respectively.

Chemtrade's continued operational and financial strength drove solid cash flow in Q1, supporting both an attractive return of capital to unitholders and continued balance sheet stability.

Looking in more detail at the segment performances, the SWC segment was the largest driver of the year over year growth. Excluding the impact of foreign exchange, SWC revenue grew by 11.9% and EBITDA increased by 12.5% year over year. This increase was driven by higher pricing and volumes across merchant acid, Regen acid and water chemicals, all of which were key contributors to the segment's strong results.

Although several of our key SWC products, including water chemicals and sulphuric acid, faced higher input costs in Q1, we effectively managed these challenges. In water chemicals, improved volumes and pricing more than offset the higher costs. Meanwhile, in merchant acid, higher pricing helped to mitigate the impact. This is a testament to the resilience of these product lines and the overall SWC segment.

In the EC segment, excluding foreign exchange impacts, our revenue and EBITDA were relatively flat compared to the prior year. Our MECU netbacks in Q1 2025 were up by approximately \$165 per unit year over year, mainly due to higher caustic soda pricing. Lower netbacks for chlorine were offset by higher netbacks for HCl. Caustic soda is continuing to build momentum positively contributing to growth in early 2025 following its recent low point in 2024.

EC results also benefited from higher selling prices for sodium chlorate on a year over year basis. Offsets to underlying growth in EC included the previously mentioned lower selling prices for chlorine as well as lower volume of chlorine, in addition to lower sales volumes of caustic soda and lower revenue from our Brazil operation. Despite the

various puts and takes, we are pleased with the overall performance of the EC segment in Q1.

Corporate costs in Q1 were \$27.7 million and were broadly in line with our expectations. When looking at our corporate costs, it is important to note that results in the SWC and EC segments are presented on an unhedged basis and the realized gains and losses on foreign exchange hedges flow through our corporate costs. Higher realized foreign exchange losses on a year over year basis were the primary factor contributing to higher corporate costs in Q1 compared to the prior year period.

Moving to our capital allocation, Chemtrade generated \$62.1 million of distributable cash in Q1 or \$0.53 on a per unit basis. We continue to prudently manage the allocation of this cash flow across our three pillars of investing in growth, returning capital to our unitholders and maintaining balance sheet strength and flexibility.

In Q1, we invested \$7.2 million on growth capital projects of a planned \$40 to \$60 million for the full year in 2025. This capital was primarily directed to our two key growth areas of water chemicals and UltraPure sulfuric acid. As a reminder, our growth strategy is fully funded through our internally generated cash flow and availability under our revolver.

We also remained active on returning capital to unitholders during Q1. In January, we raised our monthly distribution by an additional 5% to 5.75 cents per month, reflecting the sustained growth in our earnings and cash flow over the last few years. Since the start of 2024, we have increased our distribution by 15%. The implied payout ratio

based on our 2025 guidance is 45%, reflecting the sustainability of the returned unitholders.

We also continued to return capital to unitholders in the form of unit purchases. During the first quarter of 2025, we purchased an additional 3.9 million units under the NCIB that we initiated in 2024. As of May 9th, we have purchased 10.4 million units under the maximum allowable under the NCIB of approximately 11.7 million units.

Chemtrade's units have continued to trade at a historically low multiple of earnings. So we maintain our view that the NCIB is an attractive use of capital to drive incremental long term unitholder value and we are targeting to reduce units by a minimum of 5% in 2025. We intend to renew our NCIB subject to regulatory approval. In January 2025, we issued an additional \$125 million aggregate principal amount of the 6.75 notes due August 28th, 2029. We initially issued \$250 million of senior unsecured notes in August of 2024. Following this latest issuance in January, the resulting aggregate principal amount of these notes is \$375 million. This is consistent with our continued optimization of our capital structure by reducing our reliance on and potentially dilutive instruments such as convertible debentures.

At the end of the first quarter, Chemtrade had a Net Debt to EBITDA ratio of approximately 2 times and \$780 million of available liquidity. This provides us with ample financial flexibility to continue capitalizing on the strategic opportunities ahead.

As we look ahead to the balance of 2025, uncertain macroeconomic conditions make it particularly challenging to forecast results. We have taken this uncertainty into account

and given our strong start to 2025 and our visibility on the balance of the year, we are raising our Adjusted EBITDA guidance to the higher end of the previously communicated range of \$430 to \$460 million.

As a reminder, achieving our guidance, 2025 will be Chemtrade's third highest ever for EBITDA, just slightly below the second highest year. Based on the guidance and our updated assumptions, we expect a 2025 payout ratio of approximately 45%.

I will now like to turn the call over to Scott to discuss the outlook ahead for Chemtrade. Scott.

## **SCOTT ROOK**

Thank you Rohit, and thank you to everyone listening in this morning for your continued interest in Chemtrade. As Rohit highlighted, we had another strong quarter to start the year. I want to take a moment to thank Chemtrade employees for their hard work and determination. Our results are a reflection of that effort, and I would like to acknowledge the efforts of our 1400 employees and say thank you.

I want to start by talking about our performance over the last three years and then shift to our vision for Chemtrade for the next 5 years, taking us to the year 2030.

Since I was appointed President and CEO of the company in 2021, our team is focused on creating a culture of safety, reliability and commercial excellence. As we look back, our EBITDA has grown \$190 million, reflecting a 19% compounding annual growth rate. This growth has come from a number of our businesses, highlighting the strength and

our diversity of our portfolio and allowing us to make strategic investments in the business, improve our balance sheet and return capital to our unitholders. These improvements are also reflected in the Total Unitholder Return of over 50% since 2021.

When we compare our unit performance to the broader market, we feel confident that our unitholders are benefiting from our strong results. In fact, we have significantly outperformed the pure average in several benchmark indices. Despite our significant improvements, Chemtrade's valuation remains low when compared to both our historical valuation and relative to our peers. This is important to note as we feel our company is positioned for long-term success. We wanted to provide this framework for how we're thinking about growth and unitholder returns over the coming years. We call this framework Chemtrade Vision 2030.

We are targeting strong average annual Total Unitholder Returns from 2025 through 2030. We're focused on three main components to drive these returns. First, we intend to continue increasing our distributable cash by growing our EBITDA by an average of 5 to 10% annually. This growth is expected to come from organic growth as well as strategic small to moderate sized acquisitions.

Second, we intend to supplement this growth on a per unit basis by further reducing the number of units Chemtrade has outstanding through additional buybacks. As Rohit stated, we view unit purchases as an attractive use of our capital, particularly given where our units currently trade. In 2025 alone, we are targeting to reduce Chemtrade's units outstanding by a minimum of 5%



And 3rd unitholders will continue to benefit from our monthly distribution, which we recently increased in January by 5%. As both earnings and cash flow continue to grow, the opportunity exists to further increase this already attractive monthly distribution.

Looking in more detail at our targeted EBITDA growth, a 5 to 10% average growth in our annual earnings would translate to between 550 and 600 million of annual EBITDA by 2030.

There are numerous levers we can pull to drive this growth. Our earnings deck provides a waterfall chart of a potential bridge to get from our 2025 EBITDA guidance to the 2030 target. However, this is certainly subject to change. Should we see new high return organic growth opportunities, we may allocate more capital to organic growth and less towards external growth. Suffice to say, we will prioritize the highest value opportunities for long term business performance and unitholder value creation.

In short, we continue to see ample opportunities for growth. Within our existing business operations we are committed to continuous improvement and have identified ways for improving profitability. We will continue investing in attractive organic growth projects primarily in our water chemicals and Ultrapure acid businesses given our market leadership position and the strong growth outlooks for these products moving forward.

And finally, we will continue to evaluate strategic external growth opportunities, primarily targeting acquisitions with annual EBITDA of 10 to \$50 million. I would again like to stress that we will only execute on opportunities that we view as strategically

beneficial to Chemtrade and that we can complete on favourable terms. Any acquisitions are expected to be debt financed and we target keeping our leverage below 2.5x.

We may tactically increase leverage modestly above this level for a short period of time. This will allow us to capitalize on strategic opportunities where we have good visibility towards rapidly deleveraging back within targeted levels.

On previous calls, we have discussed most of these topics in detail, so for anyone who has been following Chemtrade, this will not be new information. However, we wanted to present it in a cohesive package to help investors and analysts connect the dots on how we expect to see Chemtrade's EBITDA grow in the coming years and how this relates to driving unitholder returns.

Turning now to the near term outlook for our business and the potential impact of tariffs in the global trade environment. While there have been some shifts in trade policy and tariff structures already this year, the direct financial impact to Chemtrade to date has been limited. That being said, we remain mindful of potential volatility in the coming months. We continue to take proactive steps where appropriate to mitigate potential risks such as new pricing strategies and forward inventory planning.

It's also worth noting that Chemtrade's US customers are largely served by plants located in the US. Meanwhile, the products manufactured by Chemtrade in Canada that are exported to the US, namely sodium chlorate, chlorine and merchant acid, are either essential to their various end markets or otherwise have mechanisms in place that will

help mitigate potential volatility. As a result, we're optimistic that should any new or increased tariffs on exports from Canada to the US come into effect, we'll be able to mitigate the impact.

Additionally, the US dollar has weakened relative to the Canadian dollar in recent months. It remains higher on a year-over-year basis. As is evident in our Q1 result, this is beneficial to our business as our Canadian-produced products become less expensive for US customers and creates a positive impact on the financial results from our US based operations. As always, regardless of the broader macroeconomic backdrop, we remain committed to maintaining service levels for our customers while protecting our margins in a disciplined manner.

In the SWC segment, we anticipate that higher input costs will remain a factor for the remainder of this year. We expect to be able to mitigate the impact of our water chemical business over time as contracts are renewed or renegotiated. In our merchant acid business, we plan to continue to mitigate the impact of higher input costs through risk sharing agreements.

Meanwhile, overall demand for SWC product portfolio remains solid, including notably strong continued demand for our water chemicals. Even in a potential economic downturn, SWC is expected to remain a strong and resilient segment for Chemtrade. This can be attributed to the non-discretionary nature of water chemicals and Regen acid, the growth outlooks for both water chemicals and Ultrapure acid and the risk sharing agreements in place for merchant acid. I would also again highlight that several

of our sulfuric acid plants will undertake maintenance turnarounds this year and we anticipate these will have a collective EBITDA impact of roughly \$5 million.

For our EC segment in April, we announced that Chemtrade in the Vancouver Fraser Port Authority have entered into a non binding letter of intent. The letter extends our land lease in North Vancouver until December 31st, 2044 and includes similar terms to the existing lease including the restriction on liquid chlorine production past 2030. This represents an important step in securing long term business certainty for our facility in North Vancouver, which provides liquid chlorine critical for the treatment of safe drinking water to hundreds of municipalities across Canada. As the next step, we are preparing a rezoning application to be submitted to the District of North Vancouver. If approved, Chemtrade will then be able to move forward with planned capital safety improvement projects, which will increase safety and reliability while reducing potential risk from the facility as well as producing liquid chlorine on our own land while we cease producing liquid chlorine on the land leased from the port. We will continue to update you on developments related to this lease extension and rezoning application as warranted.

Looking at the EC segment at a product level in 2024, we saw consistent strength in both demand and pricing for chlorine and hydrochloric acid, while we saw weaker pricing for caustic soda, particularly in the first half of the year. During the first quarter of this year, we saw strengthening caustic soda pricing, but some moderation in chlorine pricing. Market forecasts indicate that chlorine pricing could potentially continue to soften over

the remainder of this year. At the same time, given a recent pullback in energy prices and lower North American rig counts when compared to this time last year, we could also see some near term softening of HCl demand.

In sodium chlorate, we continue to expect lower volumes this year as compared to last year given the customer production curtailments that took place. To help mitigate, we successfully implemented price increases for sodium chlorate earlier this year, which are helping to combat the impact of lower volumes. Overall in the EC segment, these various measures are largely offsetting each other and we remain positive on the broader outlook for the EC segment moving forward.

Finally, on our growth investments this year, we continue to budget for between 40 and \$60 million of growth capital expenditures during this year. These investments will primarily be made in our water chemicals and Ultrapure acid projects. The projects that we have previously discussed for both of these products remain on budget and on schedule and continue to forge ahead. Our Cairo Ultrapure expansion and upgrade project continues to progress through startup process. Our new specialty water chemical line in Augusta, GA remains on track to complete construction in the first half of this year.

As these and other projects continue to progress and as Chemtrade undertakes additional notable organic growth projects, we will continue to keep you updated on our progress.

In line with our growth investments, we are also pleased to announce our first small acquisition in many years. On May 5th, we entered into an agreement with Thatcher Group to purchase their aluminum sulphate water treatment chemicals businesses in Florida, New York and California, for sum of US \$30 million, which is roughly 5x the expected annual EBITDA. This business is a great fit for Chemtrade as it's strategic and synergistic with our existing water business.

To conclude, I would first like to say thank you again for your time this morning and for your continued interest in Chemtrade. As you've heard this morning, we remain confident in both the strength of our current operations and the opportunities that lie ahead. Our efforts over the past several years to strengthen our foundation and improve the reliability and efficiency of our operations have already yielded strong results and position us to continue capitalizing on growth opportunities across our portfolio. Irrespective of global economic conditions and changing geopolitical landscapes, we are building on our momentum with a clear vision and disciplined strategy. Our goal is to drive continued EBITDA and cash flow growth while also delivering meaningful sustainable returns to our unitholders.

We are proud of the progress we've made, but we also know that there is more to do. The entire Chemtrade team remains focused on executing with discipline, investing wisely and continuing to drive incremental long term value creation. We began this year on strong footing and look forward to continuing to deliver for our unitholders.

Before I conclude, I would just like to remind you that we'll be hosting our Annual General Meeting shortly after this call concludes at 10:00 AM Eastern Time at the TMX Market Center in Toronto. You're all welcome to attend and we look forward to seeing many of you there. With that, we would now like to open up the line for your questions. Thank you.

## **OPERATOR**

Thank you. Ladies and gentlemen, we will now begin the question and answer session. Should you have a question, please press the star followed by the one on the touch tone phone. Should you wish to cancel your request, please press the star followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys. Once again, that is star one should you wish to ask a question. And your first question is from Joel Jackson from BMO Capital Markets. Your line is now open.

## **JOEL JACKSON**

Hi, good morning everyone. I'll ask my question one by one. I have a few. Can you characterize, you know if we look at around 460,000,000 EBITDA this year, can you characterize breaking down between SWC engine, Electrochem, where we are in the cycle for each of those two businesses? And overall I'm trying to figure out do you think that overall it's kind of a mid cycle earnings like for Chemtrade right now and again, can you break it down by division? Thanks.

## SCOTT ROOK

Yeah, yeah, Joel, good morning. So sure. I would say in the SWC segment, our view is that we are kind of in, in mid cycle right now, but we have what's coming in the future is our organic growth opportunity with UltraPure because that sits in that business. So that would be just as we're beginning to ramp up Cairo, but with our Regen and merchant I'd say probably mid, mid cycle and then water would be mid. But again, in water we'll be adding to that basically the organic growth projects in the future as well as the acquisition that we just made, so plenty of upside there.

On the EC segment, so if we talk chlor-alkali, it's different by product and I would say caustic right now, my view would be more in the in the in the middle, but with upside. So middle, maybe even slightly below mid cycle, on caustic. So you know, so the outlook, our outlook as well as the experts in the market would say caustic can and should go higher over the next couple of years. Chlorine we're probably closer to the top of the cycle and hydrochloric hard to say, could be mid. Hydrochloric is very much tied to fracking activity for us in Western Canada too. So I'll just leave it at that. That's a little harder to say.

## ROHIT BHARDWAJ

I think Joel, if I can add, our SWC segment doesn't cycle, the cycle is not as wide. But keeping in mind merchant acid, we have risk shared contracts with our byproduct suppliers. So they take the bulk of price movements up and down. Regen business tends to be quite defensive. In a recession, you actually have, you know, with the oil going



down and air travel getting expensive, people in the US drive more. So you don't see that much of a down in a down cycle. And the water is counter cyclical. So typically in a down market, raw materials come down and we expand margins. So I would, I think the comments are probably relevant for the EC segment and less so for the SWC because that doesn't cycle as much.

## **JOEL JACKSON**

OK. And then we look at the organic growth and M&A buckets in your vision 2030, that's shown on slide 13. Would you say organic growth, the vast majority of that would be Casa Grande, AZ if that project goes through? And then on the M&A, would you say the vast majority of that is going to be, you know, some water chemical, some ALUM, the water chemicals, tuck in here?

## **SCOTT ROOK**

So Joel, let me I'll start and say that, with that outlook that we shared it was roughly 50/50, so on the growth side, but 50/50 to 60/40 between organic split and M&A, with maybe slightly more on the M&A side. So on the organic growth side we did not include in our Vision 2030 the new facility in Casa Grande, that project is on hold. And as far as we can see, as we look out in the next 5 years, we don't see that. It's possible that, that could happen. But right now we don't see that and we did not include that in the 2030 outlook.

So the organic growth that we have will be will come from filling out our Cairo, OH the new UltraPure plant as well as continued pick up at our other two UltraPure acid locations. It'll come from continued organic growth projects within our water business and those are those are coming along very nicely and we have we have several other organic growth projects in our portfolio and together that would be about the half of that. And then in terms of acquisitions, you know, we would see roughly that similar amount of growth coming in small to moderate size acquisitions. And those acquisitions, I think we, we would say right now we're targeting water primarily, although it could be others but primarily in water.

## **JOEL JACKSON**

OK. My final question would be talk about, you know, why is it a better use of your capital to buy, spend 30 million US on a five times business when you can spend the \$30 million US on buying back your own stock four times? Are there some synergies? Are there some things we don't know about, you haven't talked about that you know, or just talk about that decision? Thanks.

## **ROHIT BHARDWAJ**

Yeah. So I think from capital allocation, there are only three pillars to our capital allocation. You know, one is growing the business, second is returning capital to unitholders and third is an overarching kind of balance sheet protection and strength. So we don't think they're mutually exclusive. I think we actually said that we intend to

renew our NCIB subject to approval, regulatory approval. So we think we can do both. We think it's important to not just keep shrinking the share count, but to also grow the earnings. And so we think we can do both and still keep, maintain our balance sheet strength. And so I think especially on the water business, we think is strategic. This is a very, it's a small, small acquisition, but it's very synergistic and strategic and makes our water business even stronger.

### **SCOTT ROOK**

So you know, obviously with the NCIB, we're capped by law at reducing our share count by 10% a year. And so to the extent that we have cash available to do more than that, we're putting that to work to grow the company as well as we'll continue to look at our distributions.

### **JOEL JACKSON**

Thank you very much.

### **OPERATOR**

Thank you. Your next question is from Gary Ho from Desjardins Capital Markets. Your line is now open.

## **GARY HO**

Thanks and good morning. First question, can you talk a bit about the water treatment chemical tuck in, five times sounds pretty attractive, multiple maybe just comment on that. And has the deal closed and is that baked into the upper end of your guidance forecast now or will this be additive to that?

## **SCOTT ROOK**

So Gary, I'll start with that, Rohit may add a couple of comments. First question, the acquisition has not closed. It's forecasted to close later this month and so I believe May 20, well, we'll just say later this month. Because it is not closed, it was not factored into the upper end of the guidance that we just shared with you. You know, this is a small acquisition, so it really wouldn't have that much of an impact on our guidance number.

## **ROHIT BHARDWAJ**

I think in terms of the multiple, I think the precedent transaction that's the most relevant is USALCO, because you know, which is a larger size, similar to our water business, maybe a little bigger than our water business, but that went for over 10 times last year and the Jordon Company bought them. This is a very small divestment that Thatcher was making. We were the logical buyer and it was too small to attract, you know the kind of attention and essentially we were buying customer lists and, and basically we have excess capacity in our plants and we can, you know service that

business. So we get a real advantage here in terms of applying our costs, a cost advantage to this business and hence the multiple is lower than you would expect in the water business.

## **SCOTT ROOK**

So reiterating about that, we did not with this acquisition, pick up new sites, new assets. So we're in in a sense we bought the customer list, and again, small, 3 Locations, but it fit with our existing operations and we had capacity and so this was a small tuck in. We thought it made sense.

## **GARY HO**

OK, great. Thanks for that. And then you've been talking about these tuck in for some time now, especially on the water treatment side. Just curious to hear, is your Corp Dev team kind of building up a list internally the sense whether there's, you know, there's more to be had, maybe one or two a year? Or was this more of a unique scenario? You talked about this was a smaller deal and you guys are the logical buyer and, it's just any comments on that would be great. I did see kind of roughly half of that of that 2030 goal being M&A related.

## **SCOTT ROOK**

Yeah. So Gary, we do have a corporate development team and yes, we have a pipeline of projects that we're looking at and we're working our way through. So I wouldn't say,

I'm not going to say that we're going to target one to two a year, that would be a little aggressive. But we you know, we're looking obviously at our multiple, we are cautiously looking at the pipeline and any acquisition that we would make, we think it would need to be accretive just like Thatcher. We think Thatcher is going to be very accretive. So we're being cautious and in weighing again, you know, our priority is number one, the NCIB by our units, number two, organic growth and then number 3, we'll look at small to modest acquisitions.

## **ROHIT BHARDWAJ**

The key is we will not be raising any equity to do any of these growth initiatives. We believe we can do that within the target we set for our leverage and our cash flow that we're generating. Because at these multiples clearly we are buyers of our units and not sellers of our units. So that does put some constraint on how much M&A, how much we we'll do and so we'll be as Scott said, you know cautiously and modestly pursuing that plan.

## **SCOTT ROOK**

And as we do that, obviously we laid this out. We mentioned that this morning. But the path that we have laid out suggests that we can grow our earnings 5 to 10% per year between now and 2030 on average. Not saying that's going to be every single year, but on average that would be the amount. And then right along with that, we would continue to reduce our units. And then we'll also continue to look at distribution. So you

put all of the those, those three things together, we think should add up to a strong total unitholder return.

## **ROHIT BHARDWAJ**

And just to clarify, when we say we are looking at distributions, no one should imply think that we are looking at reducing them. We think there's like a room for them to grow given our payout ratio just below 40, below 50.

## **GARY HO**

Yeah. OK, great. And then thanks for the color. And just my last question, just follow on your comments on the North Van land lease process. Wondering if you can elaborate and provide a bit of an update where you stand with the district and when is the expected voting of the counselors that we should keep an eye on?

## **SCOTT ROOK**

So the plan that the current plan right now is that the district or that this case, this project, if you will, will go in front of the district in the second, let's say late Q3 or early Q4. That's the current plan. And we're, there's obviously lots of pieces to put together in this application process. They're all coming together. All of the district members are very aware of this project, as is the mayor. We have a letter of support from the premier of BC, a very strong letter of support. We think that is valuable. All of the district members are aware of that. So there will be public hearings, you know, late Q3, early Q4 and we

hope that there will be a vote before the end of the year.

## **GARY HO**

OK, great. Thanks for the update. Those are my questions.

## **OPERATOR**

Thank you. Once again, please press star one should you wish to ask a question. Your next question is from Nelson Ng from RBC Capital Markets. Your line is now open.

## **NELSON NG**

Great. Thanks and congrats on a strong quarter. So first question is just to clarify on the water acquisition, did you say that you bought a customer list but didn't buy facilities, so you'll be servicing the customers from your existing facilities?

## **SCOTT ROOK**

That is correct. Yeah, exactly.

## **NELSON NG**

OK. So does that mean Thatcher would be decommissioning some facilities then?



## **SCOTT ROOK**

We will not, we're not in a position to comment on what Thatcher is going to do with their assets. So that's something that they would have to comment on, not us.

## **NELSON NG**

OK. I'm just wondering if somebody buys those facilities, they wouldn't be able to compete with this.

## **ROHIT BHARDWAJ**

No, no, no. I understand you, sorry to interrupt, you understand your point, but I think let's leave it at that. It's a small tuck in and we obviously would, you know, we would be responsible with allocating our capital and so we would take all the right precautions that we'd expect us to take for such scenarios.

## **NELSON NG**

OK, got it. And then just one other thing. So Scott, you mentioned that in terms of growing or acquisitions versus organic growth, it'll be 50/50. From a growth CapEx perspective, should we expect roughly about 50 million per year of growth CapEx? Is this a normal year or is there some being allocated to Cairo and should it be kind of in the lower end of the range going forward?

**SCOTT ROOK**

No, for right now. I think 50 would be a good estimate as we go forward.

**ROHIT BHARDWAJ**

Yeah. Last year we were at 80 and that was a lot of it was to the Cairo facility. So this year is more of a normal, what we hope is a normal growth year.

**NELSON NG**

OK. So 50 of growth CapEx per year and then-

**SCOTT ROOK**

Roughly.

**NELSON NG**

And then roughly in the M&A, given that the growth should be the same, it would be about that level or maybe a little higher if you're if you need to pay a premium.

**SCOTT ROOK**

Yeah. But let's just say we would not plan on, you know, on doing something every year, so I'll just leave it at that, but I think you're looking at it from the right way.

## **ROHIT BHARDWAJ**

And I think that the constraint you should think is we're not going to raise equity and we said that our target leverage is two and a half or less. In the short term for something really strategic, we may allow it to creep up into the higher twos, so long as we have a clear visibility into quick deleveraging after doing something strategic. So that I think puts the right perspective on how much capital we can allocate to all three of those initiatives.

## **NELSON NG**

OK. So, so just on that. So I'm just thinking about if you hit like for this year, if you hit the high end of your guidance after dividends, I think you'll have roughly 100 million of excess cash. But for this year specifically, you're doing, call it 50 million of growth CapEx. I think to date you've done slightly more than 50 million of repurchases and you'll probably do more later in the year. And then you have 30 million US of M&A. So you'll be like obviously you'll be taking on some more debt, but going forward you'll be, I guess you have flexibility to spend more than your excess cash as long as your debt levels remain below two and half times is that high?

## **SCOTT ROOK**

That's right. Yeah, yeah.

## **NELSON NG**

OK, OK, perfect. I'll leave it there.

## **OPERATOR**

Thank you. There are no further questions at this time. I will now hand the call back over to Scott Rook for the closing remarks.

## **SCOTT ROOK**

Well, I'd just like to say thanks everyone for your time this morning, time in your participation and have a great rest of the day. If you can, join us in about 30 minutes for our annual General meeting at the Toronto TMX. Thank you. Have a good day.

## **OPERATOR**

Thank you. Ladies and gentlemen, the conference has now ended. Thank you all for joining. You may all disconnect your lines.