Superior Plus Corp(2024 Q2 Results)
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Corporate Speakers:

- Adam Kurnik; Superior Plus Corp; Manager, Corporate Finance & Investor Relations
- Allan MacDonald; Superior Plus Corp; President, Chief Executive Officer
- Grier Colter; Superior Plus Corp; Chief Financial Officer

Participants:

- Gary Ho; Desjardins; Analyst
- Daryl Young; Stifel; Analyst
- Robert Catellier; CIBC Capital Markets; Analyst
- Patrick Kenny; NBF; Analyst
- Aaron MacNeil; TD Cowen; Analyst
- Nelson Ng; RBC Capital Markets; Analyst
- Steven Hansen; Raymond James; Analyst
- Ben Isaacson; Scotiabank; Analyst

PRESENTATION

Operator^ Good day and thank you for standing by. Welcome to Superior Plus 2024 Second Quarter Results Conference Call. (Operator Instructions)

Please be advised that today's conference is being recorded.

Now I will pass the call over to Adam Kurnik, Director of Corporate Finance and Investor Relations.

Please go ahead.

Adam Kurnik^ Thank you, Carmen. Good morning, everyone. And welcome to Superior Plus conference call and webcast to review our 2024 second quarter results.

On the call today are Allan MacDonald, President and CEO, and Grier Colter, EVP and CFO.

For this morning's call Allan and Grier will begin with their prepared remarks. And then we will open up the call for questions.

Listeners are reminded that some of the comments made today may be forward-looking in nature and are based on Superior's current expectations, estimates, judgments, projections and risks.

Further, some of the information provided refers to non-GAAP measures.

Please refer to Superior's continuous disclosure documents available on SEDAR+ and Superior's website for further details.

Dollar amounts discussed on today's call are expressed in U.S. dollars unless otherwise noted.

I'll now turn the call over to Allan.

Allan MacDonald^ Thanks, Adam. Good morning, everyone. And thank you for joining our second quarter results call.

We made encouraging progress in our propane divisions across Canada and the U.S. this quarter, despite the challenges brought on by unseasonably warm weather, our team successfully mitigated most of those impacts.

In Canada, we achieved growth compared to Q2 2023, driven by our focus on expanding our customer base and maintaining disciplined cost and margin management.

In the U.S., we countered the weather impact with a similar focus on adding new customers, managing our pricing effectively, and capitalizing on cost reduction and productivity opportunities.

While Q2 is a smaller quarter, I'm pleased to see that our early-stage initiatives to grow the propane business and optimize our cost base are already showing positive results.

Certarus faced some regional pricing pressure, particularly in West Texas, where the oil and gas sector is a significant part of our business in the quarter. Despite this, the Certarus team maintained strong margins and delivered a 15% increase in volumes, reinforcing its market-leading position.

Now this is an emerging sector, and one that's still in its infancy, and we have long anticipated some volatility as it expands.

Smaller regional investors, with potentially different longer-term aspirations in Superior, have been aggressive in the region, impacting the quarter's results.

However, we remain confident in the long-term prospects of this business.

Few sectors in the energy space today generate as much excitement and interest as CNG and RNG. When we acquired Certarus, we knew that market verticals would not necessarily evolve evenly quarter-over-quarter.

However, our acquisition of Certarus wasn't about the short term or any one quarter.

It was about the long-term value and potential of this business.

In just one short year, Certarus has enabled Superior to become the largest player in the over-the-road C&D distribution, commanding nearly half of the industry's fleet.

It's allowed us to become the biggest distributor of over-the-road renewable natural gas, with over 65 MSUs dedicated to delivering RNG full-time, 24 hours a day, 365 days a year.

This acquisition has positioned Superior at the forefront of low-carbon energy solutions to new segments like power generation and backup power support.

So as I reflect on the quarter, I'm very encouraged.

Our efforts to operate the propane business with a new leadership team, improved effectiveness, and delivering organic growth are showing meaningful results.

As we move forward, we will continue driving growth and incremental profitability within the propane segment.

While growing Certarus and expanding into new segments and geographies as opportunities arise, all while ensuring we continue to operate our business safely and effectively as we have in the past.

So now with that, let me hand the call over to Grier to give you some comments on the quarter's financial results. Grier.

Grier Colter^ Thank you, Allan. And good morning, everyone.

Before I get into the results, I'll remind everyone that all dollar figures are in U.S. dollars as we completed our transition on reporting currency, beginning in Q1.

Overall, the business generated $43.3 million of EBITDA in the quarter, which represents an increase of $14 million over Q2 2023. The majority of this increase is a result of the Certarus acquisition, which we closed on May 31st, 2023

Adjusted EBITDA per share for the second quarter increased by $0.04 compared to Q2 2023, to $0.16.

Our second quarter net loss of $45.3 million compares to a net loss of $29.2 million in the prior year quarter. The decrease is primarily due to an unrealized gain on derivatives in the prior year that didn't repeat this quarter.

Now turning to the businesses. And I'll start with Propane, which generated solid results, particularly in light of generally warmer weather.

In aggregate, these businesses landed in line with our expectations in Q1. The U.S. Propane business produced adjusted EBITDA of $9.8 million, which represents a decrease of $3.9 million, or 28%, compared to the prior year quarter.

This decrease was driven by lower sales volumes from the warmer weather, higher tank levels coming out of Q1, and the divestiture of non-core heating oil assets in the prior year. The Canadian Propane business produced $10.5 million of adjusted EBITDA in the second quarter, which was an increase of $400,000 compared to the prior year.

You'll recall from our 2024 guidance expectations related to our acquisition of Certarus that we divested of our Northern Ontario Propane business in Q4 2023. Those assets contributed about a $1.5 million of adjusted EBITDA in the prior year quarter.

So we were especially pleased with the result, given that the business grew 4%, despite lapping a quarter with that contribution in the comparative figures. The business also saw the benefits of several operational initiatives related to workforce optimization and reduced customer attrition.

The wholesale business generated adjusted EBITDA of $2.8 million in the second quarter, a decrease of $1.2 million compared to the prior year quarter, primarily due to lower sales volumes from the warmer weather.

Moving to Certarus, the business produced adjusted EBITDA in the second quarter of $27.2 million, which represents a $2.6 million decrease compared to Q2 2023, which this accounts, of course, for the full quarter comparative number.

Overall, the business did not meet our EBITDA expectations for the quarter.

While we were pleased with the growth in volumes, which were 15% higher than Q2 2023, and this was driven primarily by the growth and increased efficiency of our MSUs, the business faced pressure on pricing as we moved out of the winter quarters and experienced an increase in competition, primarily in the oil and gas sector.

Similar to Q1, we also faced approximately 10% headwind to our growth again in Q2 as our pricing evolves towards neutrality to natural gas pricing.

In Q2 2023, we generated an additional $3.4 million in EBITDA from the movement in natural gas prices that didn't recur this quarter. And lastly, we experienced elevated operating costs that were unexpected and temporary in nature.

So overall, we expect some pricing pressure to continue into Q3, but we don't expect to see the same headwinds from our change in contract pricing or elevated operating costs, and we expect to see a better Q3. And as we return to Q4 and Q1, where overall market demand is historically stronger, we expect to have our MSU fleet deployed at excellent economics.

For the full year, we were expecting Certarus to come in slightly below the low end of our assumed 15% to 20% growth range.

We continue to focus on diversifying the business and customer base over the longer term, and we are fully confident that we can continue to grow the business and produce excellent returns from Capital Invested.

Now turning to corporate results and leverage. Corporate operating costs for the second quarter were $7 million, a decrease of $800,000 compared to the prior year quarter, primarily due to onboarding costs related to the change in management and an insurance provision in the prior year quarter. Beginning in Q1 2024, we adopted hedge accounting for the majority of our long-term incentive hedges to minimize P&L fluctuation.

Our leverage ratio for the trailing 12 months ended June 30, 2024 was 3.8 times and improvement from 3.9 times that year end, which was driven by an improvement in working capital due to the seasonality of the business and currency conversion on our CAD denominated debt.

Our leverage will move around somewhat from quarter-to-quarter due to the seasonal nature of the business, but our objective is to improve the metric to 3.7 times by the end of 2024 with a longer term objective of 3.0 times.

We are confirming our adjusted EBITDA guidance of approximately $500 million for 2024.

While we expect that Certarus will be slightly lower than the original assumed growth rate, we expect that the propane businesses and corporate costs will compensate to offset this. And lastly, the board has approved a quarterly dividend of $0.18 Canadian per share.

And with that, I will turn the call over for Q&A.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) One moment for our first question that comes from Gary Ho with Desjardins.

Please go ahead.

Gary Ho^ Thanks and good morning. Maybe just start off with your guidance. You mentioned you're maintaining your 5% growth, $500 million, and you're suggesting a very strong second half. Maybe just walk us through maybe a bit more detailed in terms of segments, Canada propane, U.S. propane, and Certarus, and are there any bigger operational initiatives kind of driving the second half strength worth highlighting?

Allan MacDonald^ Hi, Gary, it's Allan. Let me start and then Grier will finish. Yes. We're maintaining guidance.

I mean the short answer is yes.

We've been working really hard, as you know on looking at opportunities in the propane business, and we are very optimistic.

We continue to add new customers and to improve the efficiency of the business. And it's less about cost reduction, quite frankly, and more about the effectiveness of how we're operating the business and really working at managing retention better, managing pricing, and working really hard at acquiring new customers.

So short answer is we see more opportunities coming into the latter half of the year, but I want to let Grier talk about sort of a little bit of a ladder on how we get from here to there.

Grier Colter^ Yes. Sure.

So if we -- our target of 500, obviously we'll see a little bit of headwind on the Certarus result.

So say, I think if we look at the second quarter, this business missed by kind of 7 million-ish, right? We don't think Q2 will be that large a miss, but we're going to see some of the same pressures, as I said, some of the things temporary, some of the things a little bit more longer term for us to manage once we get into Q4. The winter work returns and the economics and the utilization, it's a much different picture.

So overall for the year, we think Certarus is probably going to end up kind of $10 million or so off where we thought.

But we think through a couple of corporate cost initiatives and some of the stuff that Allan was talking about in the propane business, just initiatives that we see really primarily into 2025, that we might be able to nip out a little bit in 2024 and get a little bit of benefit. And when you kind of bake that all together, we see us getting very close to the 500 and that's why we've kept with that number.

Gary Ho^ Okay. Great. No. Thanks for those. And then maybe second question specifically on Certarus, you mentioned the increased competition dynamics.

I see the per MSU economics is down year-over-year and also versus 1Q.

Can you parse out, how much of your, let's call it 760 average MSUs were underutilized in the quarter? I'm trying to get a sense, if we exclude those, how much better with the unit economics look year-over-year?

Allan MacDonald^ Yes. I think, Gary, it's less of an underutilized MSU situation.

I think, the team did a great job to be flowing gas. And if you look at the metrics, the flow actually was as high or higher.

We actually had more flow per MSU than we would have in the prior year.

So this was not aboutidle capacity and having MSUs not in service. This was a question of being competitive and looking at the market dynamics and making sure that these MSUs were in use.

So of the MIS [ph], as I say, there are different components and some is temporary.

But if we're talking about the competition part of this, it's a very high percentage of this impact was the pricing dynamic versus utilization.

So they were highly utilized.

Gary Ho^ Got it.

Okay. And Grier, while I have you the quick numbers question. You guys used to disclose and adjust the operating cash flow figure, which backs up some of the noise in cash flow. Maybe share some of your views internally when you look at free cash flow, what do you look at and what's the current annualized run rate, free cash flow in the business today and payout ratio against your current dividends?

Grier Colter^ Yes, like for sure, Gary, I mean when you look at the EBITDA and you look at our growth and maintenance capital, the interest, the dividend, you can see, it's relatively neutral right now. And as we continue to talk about our plans for the business, whether we're talking propane or Certarus, I think it will become clearer to the market what our plan is.

But we see growth.

We see our ability to improve the cash flow picture and make it more of a positive scenario, which is how we get our head around the fact that these are all supportable.

We've got in our plans, we see sufficient cash flows to support the growth of the business through CapEx, support our delivering plan, as I said in my remarks, it's super important for us to get to a more sensible leverage target by the end of 2026 and obviously support the dividend.

So we see the cash flow picture that supports that, but as I say, like as we continue to unveil our plans for the future and our confidence in growth for the businesses, I think it will become clearer to the market.

Gary Ho^ Okay. Great. Those were my question. Thank you.

Grier Colter^ Thanks, Gary.

Operator^ Thank you.

Our next question comes from the line of Daryl Young with Stifel.

Please proceed.

Daryl Young^ Hi. Good morning everyone.

First question is just around the competitive pressures.

Is it possible to speak to how much is the function of all the new MSUs in the market versus the downturn in oil and gas? And I guess what I'm really trying to get at is just what gives you the confidence that you're not going to have significant competitive pressure in the winter heating season as well because there does seem to be a lot of new MSUs in the marketplace?

Allan MacDonald^ Well it's really, I mean that's a really tough one, but what I'd say, hey, Daryl, by the way, sorry, it's Allan. When you think about the MSUs in the market, a lot of our competition is based in West Texas, and that's really their home market and their focus area.

So number one, you've got a higher concentration, and a lot of these companies, the MSU business is an adjacency for them, or a smaller investment.

So if you think about their size relative to us, a lot of these competitors are quite small and very, very focused in this market.

So the downturn in terms of activity, especially in Texas this time maybe coupled with the proximity of a lot of the competition has put some downward pressure on pricing.

But I think it's very difficult to extrapolate that to the rest of our segments and the other, and especially in the busy winter seasons.

So I wouldn't necessarily make that leap.

Daryl Young^ Okay.

So when you look out -- I know it's pretty early still to be talking 2025, but when you look at that period, does this cause you to reassess the growth rates for Certarus, or do you see enough, with time, enough end market development outside of oil and gas that you could still sort of continue the growth rates at a high return metrics?

Allan MacDonald^ Yes. I think that's more it. You know predicting the oil and gas segment is something that I don't think I'm ever going to be capable of doing, but we've long had a strategy, it's Certarus, beyond the well site strategy, which has continued to reduce our reliance on our home market, if you go over the origin of the company. The RNG business doubled over last year.

Some of the new hubs we've opened have been Greenfield.

We're looking at emerging segments like backup power and power generation. And those opportunities are going to be continued at the forefront, so the business development function at Certarus is incredibly important.

And you always want to have that imbalance with opportunities that exist in the traditional segment, whether it be Texas or other oil and gas markets, because historically, as you can see from the results, it's been incredibly lucrative.

So it's a continuous balancing game to say, well we don't want to walk away from opportunities that present the chance to generate a maximum return for these investments, but you also don't want to be exposed.

So year-over-year, you're seeing a little bit of that normalization. And like I said, in my opening remarks, we expect volatility in this segment.

I mean it's emerging, it's growing. And unfortunately, it's not going to grow at the rate that we happen to predict.

We're going to add MSU sort of 18 months in advance. That's it.

We're okay with that.

But we're going to be very, very mindful in terms of our business development plans for Q2 and Q3 next year, that we're continuing to build the business for the long term, developing new segments, participating in high growth segments and capitalizing on opportunities to generate the most return we can. Constant balancing act, but the team's really working hard on it.

And so far, you know with a little bit of a bump in Q2, I think they've done an incredible job of really maximizing every opportunity that's been presented to them. And we have a bigger presence in those emerging segments than anyone. And I give the team full credit for the work they did and the foresight they had to make that a reality.

Daryl Young^ Okay. That's good, color.

I'll get back in the queue. Thanks very much.

Allan MacDonald^ Thanks so much.

Operator^ Thank you.

Our next question comes from the line of Robert Catellier with CIBC Capital Markets.

Please proceed.

Robert Catellier^ Hi. Good morning, everybody. Just wanted to continue addressing the competitive situation. Maybe you can just describe to us what your competitive response has been in West Texas.

It seems like, given the utilization rate, there were some response on price, but I'm curious if you've actually moved some of the MSUs to more profitable regions?

Allan MacDonald^ Hi, Rob.

It's Allan. The volume in West Texas is really, continues to be really attractive. And when you see sort of a pricing fluctuation, which is not uncommon in that part of the world, there's always going to be a reaction to the team. And I think we've seen a couple of things.

One, some of that price-related competition is being challenged with operational and safety issues. And in more than one instance, we've had contract opportunities that were a little lower than what would work for us and the customer return. And so people are recognizing that Certarus, because this is our core business, our reliability and safety record is very, very strong. And that does command a small premium in the market.

So we're seeing some of that.

The other potential is, okay. Well diversifying into greenfield opportunities or opportunities outside of West Texas, we're working equally with the team on.

We were talking to them just this morning in terms of some opportunities in other parts of North America that are actually performing really well.

Our ability to repurchase the fleet in a 30-day period and generate new contracts is, obviously that presents a bit of a challenge.

But we're looking at every opportunity to say, okay. Where's the best place for us to have the fleet and continue to maintain relationships with customers that are very, very important to us in these periods.

This isn't all dollars and cents in a 30-day period.

We have customers that have relied on us for a long time that have been with us from the beginning and we need to be there for them, because we're thinking about it in terms of the long haul. And the reality is in September, October, November, the world's going to be changed and the capacity is going to be much smaller than it is today.

We know the activity's going to heat up and we want to maintain those customer relationships.

So it's always a balance, but yes, we're looking at every opportunity that's on the table right now.

Grier Colter^ Maybe I'll just add, Rob, it's Grier. The economics in West Texas are still really good, right? So if you look at where these MSUs are in the kind of stacking order of where all the MSUs are, so if we say roughly a third of them or something like this are sitting in West Texas right now they're generating average or above average returns for the portfolio.

So it's still a really good space. There is more competition in that space, right? But for us to move it there's certainly there are markets where we can move some of these MSUs to generate higher returns but not all markets would generate higher returns.

It's not like these are the lowest and it's an issue.

It's still a great area. This is a great spot for us to generate some of our income and we do have very good returns.

I just wanted to add that point.

Allan MacDonald^ Yes. That's a good point.

Robert Catellier^ Thanks, that's a helpful response. Just looking at the MSU outlook, though, looks like it was tweaked slightly, nothing serious, less than a percent.

Can you describe the situation in the supply chain in providing MSUs on schedule and on budget?

Allan MacDonald^ Rob, you're just asking about the number of MSUs?

Robert Catellier^ Yes. The actual number of MSUs, yes.

I think you took the full year number down by five units, which is less than a percent.

Grier Colter^ I think maybe it's the average that we're talking about.

So here's what I would say, and if I don't ask you a question, just ask me again.

But we're obviously like we originally said, we would buy roughly 140 of these.

I think we're about 41 or something year to-date. And we kind of thought they would occur relatively evenly.

So we're a little bit behind.

I mean we kind of thought they would be slightly back-end weighted but not this back-end weighted.

So we're still wanting to take these MSUs.

Obviously that's a lot to get delivered in the second half of the year.

If they get delivered, we'll certainly take them. There's probably a chance that some of them maybe slip into next year, come right near the end of the year.

If you recall last year, we had about 50 that came in the last week of December.

But yes, as I say, we're still counting on the 140.

We've still got them ordered, and to the extent that they come, just be more back-end weighted.

So that's the number you're talking about, just having that, if they came later in the year, the average for the year would be lower, but you might end up with the same number. That's what it is.

But yes, certainly we're a little bit behind.

We would love to have those MSUs.

We can put them to work and generate great returns.

So that is still our goal, and we're just, we are a little bit behind on that, though.

So yes, hopefully that clarifies it.

Robert Catellier^ Yes. Thank you for that. And then the last question, I just wanted to revisit the capital allocation question.

We've talked about this in the past, but what are your current thoughts on how you're weighing the merits of maintaining your current capital allocation strategy as opposed to an alternative like reducing the dividend to accelerate the deleveraging and sort of bring back dividend growth over time? Has anything changed in your outlook there?

Allan MacDonald^ No. I mean hey, Rob, no, nothing's changed.

I mean as Grier was saying, we're very comfortable where we're at from a cash position.

We've got line of sight within the business for incremental opportunities.

We're able to fund the growth that we foresee in the business.

I think there's opportunity to reduce the requirement for capital within the propane business, increase its contribution to the bottom line.

So our long-term vision hasn't changed in terms of our ability to reach our goals around the leverage to fund the growth of the business. And certainly that enables us to support the dividend.

Robert Catellier^ Okay. Thanks, everyone.

Operator^ Thank you.

Our next question comes from the line of Patrick Kenny with NBF.

Please proceed.

Patrick Kenny^ Thank you, good morning, everyone. Maybe starting with Canadian propane, just curious what regions across the country you're experiencing the greatest success on the customer acquisition front, maybe just in color on the main drivers of this growth. And as well where you might be seeing the biggest opportunities in terms of further cost savings and margin expansion?

Allan MacDonald^ Hi, Patrick, it's Allan. With regard to Canadian propane specifically, you mean or generally speaking?

Patrick Kenny^ Yes, Canadian propane.

Allan MacDonald^ Well Canadian propane, the difference between Canada and the U.S. is largely Canada's more commercial and industrial.

We're focusing our sales efforts and in that vein, although there's some consumer component to that too.

I would say our biggest successes have come with working with the sales organization to better understand costs.

So we're working on profitability, understanding where we're investing our capital. There's been some collaboration between the Canadian propane business and Certarus around industrial customers, which has helped.

So it's -- this is a really boring answer and I apologize, but it's very much blocking and tackling to say, okay. Are we managing the interface for their customers well?

So recently we've just made some adjustments with our internal sales support so that we're able to give more ballet service or concierge type service to our industrial accounts.

It's about managing our profitability to make sure that we're not in a losing position when it comes to generating return on our capital. And it's about, where we're prepared to look for opportunities and where we're investing to grow that business and supporting our sales organization.

So it's less about organic segment growth like we're not adding new segments or looking at different geographies.

I'd say more, we're looking to improve our density.

So really capitalizing on where we have existing assets so that disproportionately able to contribute a return.

It's about where we have pricing flexibility by really understanding our costs and then being smart about where we're targeting.

So like I said, that was going to be a boring answer.

It's really basic stuff, but I think I got to give the team credit. They've made a lot of effort in the last couple of quarters to really manage our customer base better and it's starting to pay dividends.

Patrick Kenny^ Okay.

I appreciate that. And then maybe on the U.S. side for propane, and there's a bit of a follow-up on the capital allocation question, but any updated thoughts around perhaps high grading your focus in the U.S., any non-core sale opportunities that could help accelerate your path towards reaching your leverage target?

Allan MacDonald^ No. I mean sorry, I know it was a bad answer.

So our plans right now are not -- we're not looking at any dispositions in the U.S.

We're really pleased with our footprint.

We've got some opportunities to rationalize some assets which you'd normally expect when you're grown by M&A.

I think we're in the right markets.

I think we're very under-penetrated. There's an opportunity to take share from a competition set that I think we're very, very well poised to go up against.

We've got great opportunities in terms of right-sizing our pricing to be more aggressive on the acquisition front. And we've got great opportunities to retain our customers better than we have in the past.

So I think, the asset base in the U.S. is really attractive to me, and it's underutilized.

So we've got full designs on growing that business aggressively, and we think there's a lot of unrealized value there.

Patrick Kenny^ Okay. Thanks for that. And then last one for me, just on Certarus, and perhaps, a bit of an offset to the higher competition.

I know that the cost of natural gas is a flow through in general, but I'm just curious, if from a timing perspective, if the current weakness in NYMEX and ACO pricing might be a bit of a short-term tailwind for margins, at least through Q3 and perhaps into Q4.

Grier Colter^ And Patrick, are you asking this from a competitive standpoint and like a market positioning and pricing, or are you talking about like the way that contracts work and having either completely flow through or having kind of fixed price nature contracts?

Patrick Kenny^ Yes, more on the contracting front. And I know that on the propane side of the business, there's a little bit of a lag in terms of flowing through the pricing.

So just wondering if it's a similar dynamic within Certarus?

Grier Colter^ Okay. Yes. So on the Certarus side, the vast majority of these are true flow through.

So other than your market position and the competitiveness relative to diesel, certainly as the price is lower on the NACA side, it makes the proposition better.

But the contracts themselves, a very high percentage of them are complete flow through where you're taking -- you're not going to take any risk on it. There are some legacy contracts, and this was to -- in my remarks, and it's a declining thing, but some of the contracts that Certarus has negotiated and some still exist have a construct where there's a surcharge if the price of the commodity goes up.

So they're protected to the extent that the commodity goes down, they actually participate on that.

So it's fixed price to the customer with the potential to surcharge.

But obviously if the commodity price is going down, they're selling into a fixed price with a lower cost.

So there has been some benefit over time to this, but these contracts are becoming fewer and fewer.

As I said, that was kind of part of the headwind in Q1 and Q2 is that there's less of these contracts that have this potential benefit.

It's almost like you have an embedded long put in the contract, but as customers kind of see the way these work, obviously fewer and fewer of them are interested in having that.

So it's a very small number. The exposure, if I said this benefit in looking into Q3, last year would have been like 3 million or something like that.

So it's not a big number.

So if you had zero, that would be the kind of headwind, but we'll have a million or two or something like that will be the benefit, but we're talking pretty small numbers here.

Patrick Kenny^ Got it.

Okay. That's great.

I'll leave it there. Thanks.

Allan MacDonald^ Thanks Pat.

Operator^ Thank you.

Our next question comes from the line of Aaron MacNeil with TD Cowen.

Please proceed.

Aaron MacNeil^ Hi, morning guys. You've obviously got some MSUs, quite a few to still be delivered, presumably your competitors do as well.

I can appreciate that winter seasonality sort of saves you in the near term, but do you have any sense of what overall supply additions are going to be over the next six to 12 months? Do you get the sense that next summer, like the competitive dynamic may be worse than this summer? And as you talk to your suppliers, like our lead times increasing or decreasing, like, can you just give us a bit of a flavor for that?

Allan MacDonald^ Let me offer a comment and then maybe Grier has some thoughts. To assume that there's going to be an increased fleet that's going to go back to West Texas next Q2 and have the same situation, I think, it's way too early to think that way. To Grier's point, our volume was up and our productivity was up.

So it's not necessarily that the volume has dropped off.

So I think there's still capacity and opportunity in that segment.

But more to the point, the other verticals, so, if you think about the CNG and RNG market, it's expanding and there's so much excitement around it right now. There's all the talk of the consumption of CNG around data centers. There's all the RNG projects that are coming on board.

There's backup power that's coming on board. And all of that's going to consume some of the capacity that's being put in the market.

It's foreseeable over the next several years that the demand for the energy will far outpace the availability of MSUs.

Now it's too early to predict that, but that's certainly potentially the case.

So I want to be really careful about saying, look, there's going to be overcapacity -- that this signal is overcapacity and that it's going to be exasperated, because that's not necessarily what we're seeing right now. Grier, I don't know if you'd add anything to that.

Grier Colter^ No. I agree.

I think for this, very hard to predict, but I think for us to foresee that in the summer quarters next year to see more MSUs there, I think that's a reasonable assumption.

I think what we are very focused on is continuing to diversify the business geographically and from a product standpoint and to try to continue to make the business more resilient to individual markets, whether it's good or whether it's bad, but that's something we're talking quite a lot about and we're very focused on.

So I think to the extent that you have similar dynamics when we get back to the summer quarters next year, that we're in a position that it would have less of an impact.

So that's our goal.

Allan MacDonald^ That's right.

Aaron MacNeil^ Yes. I get all that.

I guess, obviously if demand is up, your volumes are up, that means that supply is growing at a faster pace than demand. And as you've mentioned, your competitors are more regional focused and mostly focused on that West Texas market. And so, I guess the question is really geared towards what are your suppliers telling you of what your competitors are adding? Do you think that the supply ads from your competitors will continue at the current pace or do you think that those supply ads will decrease?

Allan MacDonald^ Look, that's a tough one.

I can't speak on behalf of the manufacturer.

What I tell you is there's a finite amount of supply.

We're grabbing about 50% of it.

So if the demand were to increase, there's just limitations put on the market by the supply capacity. And the fact that we're behind in our deliveries would imply that there's some natural bottlenecks just in production.

So I'm not seeing an excess capacity of MSUs in the market that are up for grabs, certainly.

Grier Colter^ No, same thing.

I think the other thing I'd maybe add, Aaron is, I mean there's the lens of economics here, right? And we've got the largest fleet by a long shot in the industry.

We've been doing this for a long time.

Our team is very strong.

It's very difficult to get insight into the economics that, particularly those that are integrated kind of oil and gas companies, but even the smaller competitors, it's very difficult to know what their economics are.

But yes, we should be positioned as well or better than most in the industry. And so economics, as they compress, at some point it'll be less interesting for those to buy MSUs, you would think.

So that is going to be a factor at some point. And our key is to be positioned better than most so we maintain what have been and what we think will continue to be exceptional economics.

Allan MacDonald^ Yes. I mean if you think of a small example, and I'm making this up, but if you had 50 MSUs and your origin was in West Texas, to diversify outside the oil and gas sector would be incredibly expensive to start setting up hubs in other parts of the country is just creating the sales organization you would need. That's what makes Certarus unique.

We're one of the few companies that has national coverage.

So because of our size, we're able to maintain a business development and sales function that not only covers North Continental, North America, but also emerging segments like hydrogen and RNG.

So it gives us a competitive advantage, frankly, just based on our scale and the fact that we have spent the last three years diversifying outside of traditional oil and gas markets. That's really hard for a small regional competitor to do profitably.

Aaron MacNeil^ Okay.

I appreciate the response.

I'm happy to turn it back, thanks.

Allan MacDonald^ Thanks, Aaron.

Operator^ Thank you.

Our next question comes from the line of Nelson Ng with RBC Capital Markets.

Please proceed.

Nelson Ng^ Great. Thanks. And good morning, everyone.

So I had a few questions on Certarus and I think you guys talked about diversification.

So from a MSU allocation perspective, can you talk about the portion of MSUs allocated to the oil and gas services sector in Q2? And how that changes seasonally over the year? I think, Grier, you mentioned that potentially one-third of your MSUs were in Western Texas in Q2.

Is that right?

Grier Colter^ Yes, about a third of the fleet in Q2, that's right.

But West Texas is not the only oil and gas work we're doing. Certainly the concentration of oil and gas in the summer months is higher than in the winter months. The winter months you have the backup power, as an example, heating for mining customers.

So there's more diversification of the portfolio in the winter months than there is in the summer.

But yes, it's not just West Texas.

Overall, on average for the year, what's coming from oil and gas, if I had to guess, I would say it's probably in the 70% territory.

But as I say, in the summer it's going to be higher and in the winter it's going to be lower.

Allan MacDonald^ Yes. And there's a distinction between number of MSUs and volume too, because the nice economic component of the oil and gas sector is very geographically dense. And if you think about that comparing to backup power, and backup power, you have the MSUs on standby, you may not be flowing.

So if you look at volume, it may be different then number of MSUs that are dedicated.

But to Grier's point, it's in the two-thirds range.

Nelson Ng^ Okay. And then I think I heard that the oil and gas sector is a bit more profitable than some of the other sectors.

So the EBITDA contribution would be a bit higher than that. Am I right to make that assumption?

Grier Colter^ Yes. I'd say -- I was talking more particularly about West Texas, which is somewhat representative.

But I would say, West Texas is a really good market.

I would say that the economics are as good or better than our average returns.

But there are other regions that are oil and gas in nature.

Some would have better economics than that.

Some would have not as good economics.

So there is a bit of a range.

Nelson Ng^ Okay.

So from a big picture perspective, and from a diversification perspective, is there a level of, I guess, business mix you want to see from oil and gas over the next few years? I presume you want it to gradually decline, but is there a level that you're looking to target?

Allan MacDonald^ Well it's funny.

In one way I want it to decline, but in another way I don't, because it's been incredibly profitable historically, because it's such a big segment, and it's so urgent and dense.

So we don't want to cut our nose off despite our face.

Strategically speaking, more than 50% of our capital has been allocated to be on the well site, so diversification outside the oil and gas sector.

As we go on the journey, because you sort of said in the next two years, well other sectors, other oil and gas geographies are embracing more CNG consumption, and those are going to present great opportunities for us in the next couple of years, and we're going to capitalize on them.

But we're also building new markets too, and we're building new verticals, so it's a constant balance.

So if you look at power generation, if you look at new geographies, where we're going to put hubs, we always have a mind to the majority of our capital going to outside the oil and gas sector.

But at the same time, we don't want to walk away from very profitable volumes either.

So we're keeping sort of both options in motion there.

Nelson Ng^ I see. And then just one last question.

So you guys sound pretty positive about Q4 for Certarus in terms of pricing and demand. How much of the pricing for the MSU has been -- has already been locked in for Q4 and Q1?

Allan MacDonald^ That's a really difficult question to answer.

Some of -- let me answer it this way.

We have a mix that's very intentional of long-term contracts and short-term contracts. You never want to be too much of one or the other, and if you're too short-term, you get more volatility than you perhaps want. Too long-term, it makes it difficult to be opportunistic in terms of where demand's growing, especially in a market, like I said, this one is in its infancy and really just evolving.

So if you think about contracts like our backup power generation contract with National Grid or our RNG contracts tend to be more long-term, so pricing and the economics are fixed.

We know that, we've applied capital very specifically for projects like that.

If you think of some of the work we're doing in oil and gas, the last thing you'd want is fixed pricing because there's volatility and there's opportunistic reasons to make sure that you're not tied in.

So we're happy with our mix right now.

We think it's where it should be. And we're going to continue to be mindful of both having flexibility and longer-term commitments.

Nelson Ng^ Okay. Thanks. Just one last question.

On your CapEx plan of about $230 million, like that still assumes the 140 MSU deliveries. And if the deliveries slip into next year, then we should assume that the CapEx spend is going to be lower this year, right?

Allan MacDonald^ That's right.

Grier Colter^ Yes, for sure. Yes. So 230 is still the number, but I would say, it's definitely not going to be more than 230.

I think if anything, things will slip and you could see -- that would probably be in the tens of millions the other way if we're going to be lower.

But the capital still there for the business and we're still on the list and trying to get the product, but to the extent that we can't, it would definitely, it would drift downward.

It's definitely not drifting outward.

Allan MacDonald^ Yes, and let me add one qualifier on that, because Certarus isn't our only capital investment.

In the propane business, as we've said to you all before, we're looking at opportunities to get better utilization from our assets and to rationalize sort of the surplus assets we have from the M&A legacy.

So yes, I mentioned we're growing the business in propane, but we're trying to do so with a view that the capital requirements that the business had in the past are going to be different going forward, so, not all of the reduction that Grier mentioning is simply a factor of MSU's. There'll be some opportunities in propane, but I want everyone to be very -- like I want to be very clear that this isn't deferring capital.

We're still continuing to acquire customers.

We're continuing to grow the business.

We're just doing it more efficiently.

Nelson Ng^ Got it.

Okay. Thank you very much.

Allan MacDonald^ Thanks, Nelson.

Operator^ Thank you.

Our next question comes from the line of Steven Hansen with Raymond James.

Please proceed.

Steven Hansen^ Yes, good morning guys, thanks for the time.

I think we've beat the Certarus issue pretty hard here, but I just have a couple of quick follow-ups if I may.

We've seen a number of strategic partnerships emerge across the CNG space here in the last year or two.

We're coming into partnering with some of their largest customers. Just curious if you contemplated any relationships like that, whether it be in the traditional oil and gas space or even in some of the newer, faster growing verticals like data centers?

Allan MacDonald^ Hi, Steve, it's Allan. Thanks for joining us today.

We, yes, absolutely we have.

I mean we have a very coveted relationship with BP on RNG that's virtually exclusive that we're really proud of and probably don't talk about as much as we should. There's been so much on the go here in the past year, but I'm actually in Houston next week. And for that reason, we're meeting with a number of folks. And there's a lot of talk about opportunities in the market on the renewable side, on emerging verticals, power generation data centers. And we're right in at the forefront of those discussions.

I've been very conscious of not getting out ahead of the business in terms of creating a buzz before we see real, meaningful financial, either investment or profit generation from them.

So in terms of things like the data center business, yes, that's going to be an emerging addressable market. And if you think about that in the context of Certarus, I continue to remind people of this.

We own virtually 50% of the MSUs in North America.

As verticals emerge that are either CNG or RNG centric in terms of over the road distribution, we are absolutely going to be the leader in that segment.

Right now there's a lot of buzz about the potential and I think some of that's real and some of it is probably optimistic.

But as those opportunities come online, make no mistakes, Certarus will be a significant player. There is no question in my mind.

But simply a virtue of our scale and our presence in these markets.

So yes, we're in continuous dialogue with partners, whether it be companies that see energy -- the assurance of energy being able to be provided as key to their business and whether or not a partnership makes sense with Certarus or new verticals that are emerging.

So we're absolutely going to be involved in those discussions, but expect like you have in the past that they won't be public until they're real and in financial impact.

Steven Hansen^ I appreciate the color there. Maybe it's a derivative follow-up.

It might be too early perhaps, but we have seen one of your competitors invest in downstream integration opportunity where they're seemingly become more of a microgrid power producer as opposed to just providing backup power. That kind of relationship comes with 10 plus year off-take rates or contracts, which can be attractive, but the capital intensity is also much higher.

I mean have you thought about that specific area at all?

Allan MacDonald^ We have, and I mean the million dollar question for us is you can bifurcate this a little bit and say, look, the total addressable market for over-the-road CNG, RNG is going to continue to increase. There's going to be opportunities in renewables that perhaps have an upstream or downstream potential for us. And then there are either partnerships or direct investment in energy provision in terms of power gen, very capital intensive. And we have yet to be convinced that that's the best next logical step for Certarus and for Superior.

We think there are a lot of opportunities in this business that are on the table and they all need to be vetted.

So I'm reluctant right now to say, look, going aggressively at a really capital intensive power gen business is the right next step.

It may be, but we're not at that stage just yet.

Steven Hansen^ Fair enough. Appreciate the color. Thank you.

Allan MacDonald^ Thanks Steve.

Operator^ Thank you, one moment for our last question. And it comes from the line of Ben Isaacson with Scotiabank.

Please proceed.

Ben Isaacson^ Good morning, everyone. Thank you for taking my questions. They've actually all been asked.

I only have one or two left. The first question is back to the dividend. Why do you feel the need to continue paying one at all? I mean the stock is, I think, a 9.5% yield, and so the market doesn't seem to be paying you at all for giving them a dividend.

So why not pull it and use that to buy back shares or as someone else said, accelerate the leverage reduction.

I guess I'm approaching this from a different way.

Some are asking whether the dividend is safe, but I'm asking whether it just makes sense to kill it entirely?

Allan MacDonald^ Hi Ben, it's Allan. Yes. I mean it's a great question.

I think I could say that about a number of things. When I look at the value of Certarus versus some of its competitors in our -- some of the parts, I think it's tremendously undervalued. And the answer to that isn't to sell Certarus.

It's to work within the business to get it better understood and for us to continue to stay on the path.

So what we're not doing right now with our share valuation is challenging the fundamentals of this company.

Superior has, I think, stellar assets when it comes to the propane business that frankly have an opportunity to be optimized in a meaningful way.

I think Certarus has positioned us incredibly well. And right now our capital structure may not be getting the value that we think it deserves, but we're not under any pressure to have to change that in order to capitalize on the opportunities in the business.

So in the fullness of time, of course, you're always looking at, are you getting the right value and is the business being seen the way that we see it? But I think over the course of the next coming months, we're going to continue to focus on what we do best. That's drive the business hard, continue to generate growth. And I don't think our capital structure necessarily, certainly for our ability to support the dividend doesn't require any augmentation at this point.

Ben Isaacson^ Thank you for that. And then just kind of maybe a half question. Natasha, is she available to share her vision for Certarus at some point and just give her perspective on the market?

Allan MacDonald^ Yes.

I mean Natasha is just joined us here in the last -- well it's not just joined us, but I mean just took on the role in the last number of weeks. And going from COO to President is, in some cases a really easy transition.

In some cases, it's a tricky one.

Because now you're moving beyond the operations of the business, which were running incredibly well and really putting, casting your eye to, what are you going to do next in terms of your vision? We're working with Natasha on that. And I think it'd be great if you want to meet her in the interim, we can certainly make that happen.

But she's also taking the time that she should take to make sure that the vision for the organization going forward reflects where we are today. And it's her vision, not the one that necessarily we would have had.

Ben Isaacson^ Great.

I mean just very last -- sorry.

I mean just very last question on my part is, Allan, I think you mentioned earlier that Certarus is looking at developing new segments.

Is there -- can you shed some kind of color on that in terms of what those verticals look like, size, timing, or is it still PBD?

Allan MacDonald^ Well it's a little bit of both. Yes. I mean we're looking at -- understand -- so let me give you an example. The industrial segment, so either industrial power gen or things like brick factories and mines.

If you overlay that with geography, we've identified some markets, and I'm going to be a little coy here for competitive reasons, but some markets that we think have potential.

But then you start a journey, because now we have to get a hub.

Some are easier than others. There's, as you can imagine, putting a natural gas hub in a geography is not without its regulatory and compliance constraints.

So these aren't processes that happen necessarily quickly.

If we have adjacencies to our existing infrastructure, they can happen a little faster.

But we're developing markets with a mind of, how do we create both a vertical presence and a geographic presence. The RNG segment is a really interesting one because it emerged quite quickly over the last sort of 10 years.

But it's also off the pipeline infrastructure because it tends to be largely agricultural, and it's not in very densely populated areas. Conversely, there are some northern U.S., northeastern U.S. opportunities that we think could be real and meaningful, but the density of the population provides some challenges when it comes to getting the infrastructure in place.

So we're always balancing those two things, and they take time.

I know that's not a super crisp answer, but I want to stop short of giving the world our competitive strategy here.

Ben Isaacson^ Yes, fair enough. Thanks so much. Appreciate it.

Allan MacDonald^ Thanks, Ben.

Operator^ Thank you. And this concludes our Q&A session. Thank you.

I will turn the call back to the President and CEO, Allan MacDonald, for closing remarks.

Allan MacDonald^ Thanks, everyone.

Look, just let me wrap up by just expressing our gratitude internally for the interest that you take in the company.

I know you all put a tremendous amount of work in this, and the effort that you put into it and all your thoughtful comments and questions are much appreciated on our end.

So thank you.

And look forward to talking to you all again in the coming months. Take care.

Operator^ And thank you for everyone that participated in today's conference.

You may now disconnect.