Superior Plus Corporation (2025 Q3 Results)
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Corporate Speakers:

- Chris Lichtenheldt; Superior Plus Corporation; Vice President of Investor Relations
- Allan MacDonald; Superior Plus Corporation; President and Chief Executive Officer
- Grier Colter; Superior Plus Corporation; Executive Vice President and Chief Financial Officer
- Dale Winger; Certarus; President

Participants:

- Gary Ho; DesJardins Capital Markets; Analyst
- Daryl Young; Stifel; Analyst
- Nelson Ng; RBC Capital Markets; Analyst
- Robert Catellier; CIBC Capital Markets; Analyst
- Patrick Kenny; NBCM; Analyst
- Ben Isaacson; Scotiabank; Analyst
- Aaron MacNeil; TD Cowen; Analyst

PRESENTATION

Operator^ Good day. Thank you for standing by. Welcome to the Superior Plus 2025 Third Quarter Results Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to turn the conference over to your first speaker today, Chris Lichtenheldt, Vice President of Investor Relations. Please go ahead.

Chris Lichtenheldt^ Thank you. Good morning, everyone. Welcome to Superior Plus' conference call and webcast to review our 2025 third quarter results. On the call today we have Allan MacDonald, President and CEO, Grier Colter, Executive Vice President and Chief Financial Officer, and Dale Wenger, President of Certarus. For this morning's call Allan and Grier will begin with their prepared remarks. Then we'll open the call for questions.

Listeners are reminded that some of the comments made today may be forward-looking in nature and information provided may refer to non-GAAP measures. Please refer to our continuous disclosure documents available on SEDAR+ and our website. The 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, Chris. Good morning, everyone. Welcome to our Q3 call. Now my opening comments may surprise some of you, but let me start by saying I'm incredibly pleased with how far Superior has come in just two quarters. Changing an organization, in fact, reinventing an organization is very difficult. I'm pleased to say at Superior, our reinvention is very much in progress. We've made permanent moves and abandoned old operating models, structures and tactics, which had us focused on surviving instead of thriving.

Now transformation isn't linear, and it's regrettable that our impressive progress isn't apparent in our Q3 results, but that has not dissuaded us in any way or tempted us to change course. Superior Delivers is a generational reinvention of our company, and I couldn't be more proud of what the team has accomplished so far. At our Investor Day in April, we shared a plan to transform Superior's propane business through 2027. We outlined our goal to serve our customers better by operating safely, never running people out of gas, delivering fuel at competitive prices in every market we serve, acquiring more customers and keeping them longer and using modern technology such as AI to better manage our business, predict trends and deliver more efficiently to our customers.

As we discussed at that time this transformation would impact all areas of operations from our assets and locations to our distribution capabilities, pricing and organizational structure. An ambitious effort, yes, but the team here at Superior has remained committed to our goal, and as a result, we've changed the way we operate more in the past two quarters than the past two decades.

As of Q3, I can proudly tell you that we've changed how we deliver fuel, manage churn, set our prices, and we've restructured the organization. We've centralized functions and introduced advanced tools that allow us to operate more efficiently. We've restructured our teams and reduced headcount to remove duplication in the U.S. and Canada, and created key centers of excellence in pricing, marketing, distribution and service, to name just a few.

In keeping with our recognition that leadership is a key enabler of our future, we announced our new Chief Commercial Officer, Dina Lamark (inaudible), who joined on November 3. Dina most recently served as Chief Growth and Disruption Officer at Xerox. With more than 20 years of global leadership experience in marketing and operations, she shares our bold vision and recognizes the potential at Superior. I'd like to formally welcome Dina, who is here with us today as she takes on the challenge of advancing our commercial strategy and growth initiatives.

One of our biggest initiatives over the past two quarters was the introduction of a completely new distribution model, which moved us from local ad hoc scheduling using rudimentary tools to a single, optimized distribution approach based on AI-driven algorithms. We're now employing a company-wide tool, which has the ability to create tens of millions of potential routing combinations per day allowing us to plan better routes, avoid low-fill volumes predict customer consumption and ultimately deliver more fuel with fewer trucks and fewer miles driven. No small feat, especially in such a short period of time and such change inevitably comes with some challenges, especially when we were restructuring the company at the same time. But our team saw the bigger picture and took on this challenge, determined to build a new superior, and I'm incredibly proud of their efforts. But as you'd expect, with change initiatives of this magnitude, not everything goes perfectly.

We've had our share of missteps and have learned some valuable lessons along the way. For example, as we sought to optimize propane deliveries, we had a period of several weeks where we avoided inefficient fills while still working through the rationalization of our fleet. This meant some underutilized capacity and deferred volumes. While not ideal, as it would impact our quarterly results, we stayed the course because it was the right thing to do for the long-term success of the organization. These changes aren't about chasing short-term wins, they're about building a resilient, data-driven and customer-centric business that delivers sustainable shareholder value. It's a foundational shift. While complex, we're confident the benefits will be enduring.

Before we dive into the numbers for Q3, I'll connect our transformation story to our current performance in propane. The changes we've made are starting to show up in how we operate. As I've stated, a key focus within Superior Deliveries has been improving delivery efficiency, specifically, increasing volume per delivery and decrease in reducing frequency. To achieve this, we deferred many deliveries that would typically occur in Q2 and Q3 to optimize efficiency for our upcoming peak season. Now part way through Q4, volumes are increasing in line with expectations. While our business is well positioned to benefit from improved efficiency going forward, we likely won't recoup all of these deferred profits during 2025. We appreciate that it's difficult to see these operational achievements based solely on our financial disclosures.

So I'd like to share a few key performance indicators that demonstrate our progress. First, within our customer growth initiatives, so far in the fourth quarter, we are seeing more than a 300-basis-point improvement in the percentage of sales leads that we convert to new customers as our improved engagement and competitive pricing are gaining traction. Second, within our cost to serve initiatives, we're also seeing a 5% improvement in the number of labor hours incurred per 1,000 gallons of propane delivered. Third, as I mentioned, we're seeing improvements in our fill rates as our new approach to scheduling deliveries is increasing the number of gallons delivered per stop, setting us up to benefit from a more efficient and cost-effective structure in the future, which will ultimately benefit the customers and the markets we serve.

Of course there's still more work ahead of us. For example, in customer growth, we're now working to increase our total sales leads to capitalize on this improved conversion. With churn, our prediction tools are gaining traction, but customer attrition is inherently lagged. So it will take some time until the benefits of our new programs are fully realized. For cost to serve, while efficiency is improving, we continue to refine our models across our single North American delivery platform.

Finally, as noted in our press release, we reduced our non-field workforce by 12% during the quarter as part of Superior Delivers, realigning to one North American propane business. These changes resulted in some onetime costs, but will drive further benefit to our organization in the long run. While the impact of transformative change takes time to become visible in financial results, especially with a seasonal weather-dependent business, we are on track.

I am incredibly proud of this team. We're staying the course and not reverting to the sins of the past, pulling forward deliveries or raising margins to meet short-term pressures at the expense of the future. Turning now to Certarus, our CNG business. Q3 reflected a challenging pricing environment with EBITDA declining relative to last year. Wellsite business activity remains subdued, and we recognize that the timing of a recovery remains uncertain. But Dale and the Certarus team have done an incredible job managing some very significant headwinds. Rather than speculate on market shifts, our focus is firmly on what we can control, driving cost efficiency, maintaining our market share, advancing opportunities in new markets and allocating capital with discipline.

Despite these pricing challenges, we've maintained EBITDA margins over 25%. We've reduced operating costs per MMBtu by approximately 5%, and we've increased free cash flow with our disciplined capital investments. Certarus remains very profitable, and we're using this period of diversity to push ourselves so we exit the cycle stronger and more competitive. In September, we mobilized equipment for a data center project with a major hyperscale operator. Early commissioning of power generation equipment began on schedule, typically at a rate of one or two trailers per day.

We are now ready and expect regular flows to commence later in Q4. This project highlights the unique capabilities of our team including end-to-end project management and the flexibility of our equipment platform, notably, our ability to deploy dozens of mobile compression trailers with just a few weeks' notice. In addition, we were awarded a standby supply for a second data center in a separate region and successfully mobilized in October. We also continue to expand our network. This quarter, we executed site and gas supply agreements for a new hub location in Florida, which is expected to be fully operational before year-end. Deliveries to our first customer have already begun, and we have opportunities with utility, pipeline and other industrial applications in the region.

In Houston, we've executed a letter of intent for a new hub site and are completing diligence and expect to have that location up and running in the first half of 2026. Our commercial strategy for Certarus is delivering results. We remain disciplined in our capital allocation and confident in our ability to deliver sustainable value regardless of the pace of recovery in well site activity. Industrial revenues were up 24% year-over-year, and renewable revenues grew 42%, reflecting the strength of our value proposition and Certarus' strategy to drive growth in these markets.

Now despite the progress we've made this year, the pricing headwinds we faced within CNG, combined with additional costs associated with our new delivery technology and a wholesale supply disruption related to a refinery fire in California have caused us to lower our expectations for 2025. However nothing fundamental has changed in our business, and we remain well positioned to deliver our long-term goals for the company. As I've said, transformation isn't linear.

In closing, I want to leave you with a few thoughts. Success depends on having the right people in the right roles, engaged, focused and energized. Our teams are embracing this challenge and leaning into change with a commitment to excellence. We're undertaking something truly complex at Superior. Transforming a business model that's been in place for decades is no small task. It requires bold decisions and disciplined execution. The changes we've made are permanent. They're impacting our business positively and they will benefit us for years to come.

And finally, I'd like to thank our teams across North America who are helping us get there. Your resilience and dedication are the foundation of our progress and the reason we're so confident about the road ahead. Thanks very much.

With that, I'll pass things over to Grier.

Grier Colter^ Thanks, Allan. And good morning. I'll start by recapping our consolidated financial results for the first nine months and the third quarter specifically. Year-to-date adjusted EBITDA was up 2% due to modestly higher adjusted EBITDA from U.S. and Canadian propane, partially offset by a small decline in CNG. Q3 adjusted EBITDA of $7.6 million decreased $9.8 million compared to Q3 2024, driven by lower volumes in U.S. propane and pricing pressure in CNG, partially offset by a $1.2 million reduction in corporate operating costs. Year-to-date adjusted EBITDA per share of $0.91 increased by 15% due mainly to higher adjusted EBITDA, lower interest costs and a 7% decline in the diluted weighted average shares outstanding.

Adjusted net earnings per share of $0.04 increased by $0.11, and free cash flow per share of $0.51 tripled for the same reasons, with lower capital expenditures also contributing to free cash flow growth. For Q3, adjusted EBITDA per share of negative $0.05 decreased $0.02 because of lower adjusted EBITDA from our propane and CNG operations, partially offset by lower interest costs. Adjusted net loss per share of $0.41 was down $0.05 from last year due primarily to lower adjusted EBITDA. Free cash flow per share of negative $0.32 decreased by $0.03, driven by lower adjusted EBITDA and partially offset by reductions in CapEx and interest expense. Third quarter is typically the lowest free cash flow quarter of the year due to seasonality in propane and in CNG.

Turning now to the businesses. For the first three quarters of the year, adjusted EBITDA in our overall propane business increased 3% to $213.8 million, driven by strong volumes and favorable weather in Q1, followed by EBITDA declines in second and third quarters, as we had expected and we discussed on our last call. Looking at the regions, in the first three quarters, adjusted EBITDA in our U.S. propane division increased by $4.0 million or 3% from higher volumes in Q1. In the third quarter, U.S. propane adjusted EBITDA was down $6.1 million from last year. The decline was driven by lower retail sales volumes as customer in-tank inventory levels continue to decline.

We anticipate replenishing these volumes during the fourth quarter. However, doing so will bring added costs, which have been reflected in our revised guidance for Superior Delivers. The U.S. propane business also continued to be affected by an outage at the Martinez Refinery in California, which also negatively impacted our margins. Canadian propane generated adjusted EBITDA of $64.2 million in the first three quarters, representing approximately 4% growth, primarily due to higher sales volumes benefiting from colder weather in Q1.

In the third quarter, Canadian propane produced adjusted EBITDA of $2.5 million, a decrease of $0.3 million versus Q3 2024, primarily due to weaker economic activity and more competitive pricing within industrial and commercial sectors, particularly in Western Canada. Like the second quarter, weather trends are not a factor in the third quarter as heating demand is essentially absent until colder weather returns in Q4. Our propane transformation, Superior Delivers, contributed $5 million to results in the first nine months and is on track with our longer-term goals. However Superior Delivers' contribution to results in the third quarter was nominal after netting out the impact of declining customer and tank inventory levels.

As I indicated, the reduction in inventory levels is temporary in nature and will normalize over time. This has caused us to lower our in-year forecast for Superior Deliveries from $20 million to between $10 million to $15 million. During the quarter, we incurred approximately $20 million of restructuring and other costs related to Superior Delivers. The largest portion of this expense related to the 12% reduction in our non-field workforce that Allan had mentioned, resulting in onetime severance costs of approximately $11 million, and the balance of the costs are related to executing Superior Delivers including third-party consulting costs.

This workforce restructuring was not incorporated within our original Superior Delivers targets, and therefore, is incremental to the $10 million to $15 million of per year onetime cost we originally had expected. Furthermore, we have increased our 2027 run rate Superior Delivers target from $70 million to $75 million to reflect the incremental savings associated with this restructuring. Certarus adjusted EBITDA of approximately $108 million over the first nine months was roughly in line with last year as increased activity in industrials and renewables, along with reduced operating costs were offset by lower prices in the well site business.

Notwithstanding these challenges, Certarus is making significant progress in several areas including a 5% reduction in operating cost per MMBtu in the quarter and continued execution on its growth strategy in new markets. These achievements, coupled with our continued discipline on capital, drove significant free cash flow during the first nine months of the year as EBITDA was stable while CapEx was down by more than $50 million compared with the same period last year. We remain very focused on maximizing returns on our capital and positioning the business for long-term success. Third quarter adjusted EBITDA in CNG was down $4.6 million to $25.7 million, again mainly driven by pricing pressure in the well site business.

Moving to guidance. As Allan mentioned, we are revising our 2025 expected adjusted EBITDA growth target from 8% down to 2%, driven primarily by lower well site pricing in CNG, the unexpected onetime costs associated with the implementation of our new delivery tools in propane and the temporary wholesale supply disruption. Consolidated capital expenditures for the first three quarters were $76.7 million or approximately half of our full year CapEx guidance, largely due to the timing of receiving equipment in the propane business, but we continue to expect our CapEx to be approximately $150 million for the full year.

For the quarter and year-to-date, corporate operating costs were $6.6 million and $20.4 million, respectively, and were relatively in line with our expectations. Our leverage at the end of the third quarter was 3.9x, down slightly compared with the year ago quarter. We expect to finish the year with leverage around 4.0x, up from our initial target of 3.6% due to the downward revision of adjusted EBITDA as well as a stronger Canadian dollar, which has impacted our Canadian dollar debt. We remain focused on reducing leverage and expect to achieve 3.0x by the end of 2027. We continue to believe that share repurchases are an excellent use of capital.

During the quarter, we repurchased 1.8 million shares or approximately 1% of the outstanding common shares, below our run rate for the year as we ran through our NCIB. We have now repurchased over 10% of the company's equity plan to renew our NCIB in the coming days, and plan to resume our repurchases in line with previously indicated plans of approximately CAD 135 million per year. Despite some of the challenges we faced this year, we remain on track to deliver value to our shareholders through substantial growth in our per share metrics.

While EBITDA growth forecasts for the year have moderated, we have maintained sharp focus on capital efficiency and have continued to benefit from what we believe is an exceptionally attractive share price by executing our repurchase program and maxing out our NCIB. When factoring in our reduced share count, lower interest costs and growth in adjusted EBITDA, we expect 2025 EBITDA per share to grow by 15%.

When adding this to our CapEx reductions, we expect free cash flow per share to grow by approximately 70% with 2024 -- compared with 2024. We continue to make progress in the transformation of our business and positioning the company for continued growth in the years ahead.

With that, I will turn it back for Q&A.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And our first question would be coming from Gary Ho of DesJardins Capital Markets.

Gary Ho^ Maybe just on the guidance change here. So I get the Certarus please, which is due to softer pricing. But other reasons were kind of the onetime costs related to unexpected implementation of the new delivery technology. Then I think we already just mentioned the temporary wholesale supply disruption. Can you maybe elaborate on these two specifically? I would have thought kind of the onetime would be backed out of unusual costs. And also, are you able to kind of quantify each of these different components?

Grier Colter^ Gary, it's Grier. Let me take a shot at this, and maybe Allan will have some additional comments. So yes, we're looking at roughly a $30 million type adjustment. The vast majority of this or at least half of this is the Certarus. I think that's probably relatively clear. So just to be a little bit more helpful on the delivery tool technology. So if you think about this tool that we're implementing, it's obviously -- it's pretty sophisticated. It's got a lot of inputs like things we're trying to optimize and things we're trying to prioritize. So if you think of fill percentage on a tank, for example, it's a lot more efficient to go out and fill the tank 70% of the way versus 30% of the way. If you have more miles per 1,000 gallons, that's a bad thing. And so that's an input. There's capacity utilization, which is a circular thing, it's input.

So I could go through this. There's a huge list of things that would impact your efficiency. And as we fine-tune or calibrate the tool, what you're doing ultimately is kind of prioritizing or having what trumps what. It's very complicated. So what we found in the third quarter is we didn't have it perfectly calibrated. As a result, some of the things that you might have prioritized were kind of not in the right priority and got more of a waiting.

So we are really efficient in some categories and less efficient in other. Ultimately, what we did is we didn't utilize that we had, which probably should have had more weighting. And as a result, kind of had a lower in-tank inventory and lower margin. You could see it in the volumes as well in Q3, and that was largely due to the delivery tool calibration we are doing.

So you recalibrated in fourth quarter, we think we'll get the majority, if not all of this back in fourth quarter. So that's great. You get the margin back. The reason why the cost increase is because you're utilizing a much higher percentage of your labor capacity at that point. Obviously demand for colder weather is also peaking up. And so you dip into overtime in some of the other categories of utilization of your labor force and that has a cost versus the capacity that you didn't use in Q3.

So that's -- so you'll kind of get back to the same inventory level, let's say by the end of Q4. You'll get all that margin back. But as I say the increase in the kind of cost per hour of labor is kind of where you lose that. We're not sure exactly what that will be. We've kind of said, hey, like maybe that will be $5 million, $6 million. So that is the change in the estimate for Superior Delivers. So that's the second component.

Then the third component, this is really in the base propane business is largely the Martinez issue, which so far this year has kind of cost us better part of $3 million, and we kind of think for the full year, it will be a $4-ish million type thing. So if you kind of -- and then there's maybe some other routes and mice there, but those are the main components. So hopefully, that helps you a little bit.

Allan MacDonald^ Yes. Can I -- Gary, it's Allan. This inventory question is a complicated one for sure. If I were to say it really plainly, as we went through Q3, we had -- we came out of Q3 with lower in-tank inventories at our customer premise. Now that meant fewer deliveries. We didn't lose those customers. We didn't lose that volume. We just didn't deliver it in Q3. We'll regain that volume in Q4 and Q1. What we did do though is we incurred the cost of some latent capacity in our distribution network in Q3.

So when we talk about the cost, I mean if you think about the volume, we'll recover the volume, we'll recover the gross margin that goes along with it. But we can't go back into Q3 and recoup the cost that we incurred for that excess capacity that we carried. When you're making changes of this magnitude, as I said in my comments, while you're restructuring the organization, you're going to have lessons learned. We're making changes to an organization -- and because of the seasonality of our business, our window, our sort of our go period to make changes in the company is actually really small. You can't make changes and you got to basically black out in Q4 and Q1.

So that gives you two quarters to make changes. We -- a 3, 4-week delay in these kind of initiatives is not unusual, but for us, it has an impact. That's really all you're seeing here is just the variation of those tank levels. And -- but rest assured, we did not lose those customers. We did not lose that volume, and we'll recover it.

Gary Ho^ Okay. Got it. That's really helpful. Allen, while I have you, you mentioned words like reinvention, transformation, et cetera, in your prepared remarks, hired a new CCO. Can you maybe talk about high level the culture change, what's been some of the challenges you've faced and early successes you see internally? And I have noticed that several of these hires are outside the propane industry. So what's the trade-off between bringing perhaps a new perspective versus industry experience?

Allan MacDonald^ That's a really insightful question, Gary. The pre-work that we did for Superior Delivers really started with challenging convention. At its core, this is a business that's operated kind of in isolation. It hasn't really had a lot of external disruption. I can tell you that we have -- the fundamental things you already know we have low market share when you compare us to the entire addressable market, and our customers are incredibly profitable. Yet, we were working in a pretty dated operating model that was very local and very manual.

You think where the benefit of scale was never really capitalized on. When you have a generation of employees that have worked in the propane business for 20, 25 years, trying to rally them to embrace the potential within this business is really hard because they know what they know and they're really good at what they do.

So I think the biggest first piece of the culture change was saying, look, if we start to look at the business a little bit differently, and we allow our colleagues to do complicated things like pricing once, do complicated things like route optimization once on behalf of the whole company, we can employ some really impressive tools that will get us some efficiency. That was a journey because that's like not dissimilar to all of you, that's a show-me story. I can tell you that as we move through that, the shift that I've seen from anecdotes and legacy thinking to data-driven decision-making is pretty astonishing, really astonishing actually.

I can't give our team enough credit. We've asked them to do all of these Superior Delivers initiatives when we were restructuring the organization and bringing all of these groups together to a single propane company. So in the disruption of having a new boss and having new responsibilities, we're also using new tools, and we're working in new geographies. So I wasn't being in any way disingenuous when I said I'm incredibly impressed with the progress that we've made.

In terms of strengthening the leadership team, there's a couple of things at play there. We're -- in the greater scheme of things, we're not the largest company. So we have to always balance talent that we're promoting from within, which is about 70% or 80% of the changes that we've made in the organization with introducing people from outside who have different experiences and skill sets. Within the propane sector, you're unlikely to find someone who has a sophistication in AI-driven algorithms around customer engagement, or someone who's -- there's not a lot of people who've worked on optimizing customer experience with call centers and sort of other digital engagement technologies.

So what we're trying to do is not only bring in fresh points of view and leadership talent that's got a fresh perspective, but also acquiring skills that aren't resident within the industry. That married to people with great depth of experience in the industry like Tommy and others, has really had a big -- very positive impact on the organization. So I hope I answered your question. I'm not -- it's probably a longer answer than you're looking for, but everything begins with culture, and we wouldn't be where we are if we hadn't seen a marked change in terms of our cultural engagement here.

Operator^ And our next question will be coming from Daryl Young of Stifel.

Daryl Young^ I wanted to switch gears a little bit to Certarus and just get a sense of how you're thinking about the oil and gas exposure into 2026, maybe shifting of the fleet or maybe what you're seeing from a potential rationalization of the competitive landscape currently just given the oil and gas market seems like it's going to be weaker for a while?

Allan MacDonald^ Daryl, it's Allan. Let me offer a couple of strategic comments, and then I'll let the people that run the business to actually talk. Dale is sitting here right next to me. The one thing I'll tell you about tariffs that I'm incredibly pleased with is Dale and his team are running this business so that they exit the cycle stronger and more competitive than they ever have before. And Dale and I were just talking before the call started.

And sometimes, through periods of adversity, afterwards, you reflect on them and say they might have been blessing in disguise. The success that Dale and his team are having in expanding this business into new markets, into adjacent categories, I don't think would have happened if it weren't for the challenges in the oil sector. They've restructured the business, so it's much more competitive at lower price points, and that's opened up the opportunity to explore other markets and have them be really attractive. So I can't say enough good things. This company is getting stronger and stronger through this last 12 months, and they're just -- they're on a great trajectory. I couldn't be more pleased. Having said that, obviously there's a lot of questions about the oil sector and Dale, I'm sure we want to share.

Dale Winger^ Daryl, as Allan said, we're extremely proud of the way the team is working to deliver for our customers safely and reliably while also improving our efficiencies and driving down our cost structure. So as you probably know just from an overall oil macro, which drives a lot of the North America activity, we were enjoying oil prices north of $70 in the first quarter of the year. I think recently, those have dipped below 60%. A lot of our customers have not provided a kind of spending forecast into 2026 yet.

So it's difficult for us to say exactly what to expect in that space. What we are -- many have talked about maintaining production or maintaining spending. So we know that the blue chip folks are going to be in the best position to provide work. So we have a very account-focused strategy where we're using our capabilities, our experience, our fleet size, our hub network, our digital tools to be the best provider, to be the most reliable provider at a cost-effective price point.

Of course they're all interested in reducing their operating costs, and we're in a great position to help them do that. And so as Allan mentioned, we've focused on our own procurement, and we focused on our own efficiencies to take advantage of the market circumstances to improve our competitive position. There hasn't been a lot of change in the sort of the competitive environment. We're still -- as you can see from the margin pressure, it still remains intense, and we're very focused on kind of building the capabilities and strengthening competitive advantage to maintain market share and be the best able to serve and whatever the competitive environment unfolds.

Daryl Young^ Okay. Got it. Then in terms of just the ERP route optimization tool, effectively, I guess if I were to summarize it, has it led to an under or an incorrect fill rate that you're now playing catch up and effectively paying overtime wages to execute? And I guess is there a risk that customers are underfilled coming into the winter heating season that could result in more customer churn in the future?

Allan MacDonald^ Daryl, it's Allan. No. I wouldn't describe it as playing catch-up. We have some capacity, some sort of in-tank level that's slightly lower than it was last year.

But the catch-up, and Grier's comments were how fast you sort of return to normal or more historical tank levels will be a factor of the winter that we face. If we're going to do everything in our power, obviously to make sure we don't run customers out of gas and put people in any kind of jeopardy and that's our first priority. And very much conversations we're having as a matter of fact, as soon as this meeting ends to make sure that's not the case.

The speed of recovery that we have will depend on the winter that presents. If we have a fairly normal winter, we'll recover the lion's share of it. If we have a heavy winter like we did in Q1 of last year, some of that volume will get deferred till later in 2026. But make no mistake that making sure that customers' tank levels are sufficient to get them through their season of demand is really important.

The one thing I would sort of add to that is we've made a big shift away from -- we monitor customer tank levels, of course. But no two customers are the same. So in our vernacular, it's -- while that's an important metric, we've added to it days to empty because you can have two customers at 30%. One has five days to empty and one has five months to empty.

So this is kind of a little bit of insight into the complexity of just how far we've come. There will be customers that -- we're calculating every customer stays dampen there'll be customers we're reacting to with a lot of urgency, and there are other customers that we know that we can fill on a regular basis when the routes -- when the capacity allows and when the routes are in their vicinity. So we're trying to be very, very calculating and mindful of how we sort of recover this volume gap.

Operator^ And our next question will be coming from Nelson Ng of RBC Capital Markets.

Nelson Ng^ So I think in some of the commentary, you talked about mitigating customer attrition by with price management. Can you just give a bit more color on that initiative given that, I think it's one of the headwinds. Like are a lot of customers like well a lot of customers require like a lower propane price or margin to retain them. Is it more on the retail side or in industrial side?

Allan MacDonald^ Nelson, good to talk to you. Well there's a few things going on there. Number one, the biggest contribution that we've made to improving retention is not raising our prices, which we've historically done year-over-year, which our competition continues to do. So we haven't had any price increases sort of categorically in the last, what, 12, 18 months. So that's step number one. The impact that has on churn is it doesn't necessarily price increases agitate churn, so we've removed that, but it doesn't necessarily improve churn.

So what we've done following up from that is, in centralizing our call center and customer experience group, we've now got a group that are completely dedicated to customers who are at risk of churn. We've got some predictive models that were -- that are in place now that we continue to refine that predicts customers that are at risk, and we have interventions where we reach out to those customers and discuss issues, whether they be pricing-related issues or service-related issues, and we have some remedies in place to make sure we retain those customers.

We've implemented, in some instances, price match guarantees, where when customers are calling in and having been offered at a better price, depending on our new pricing models, which allow us on a per customer basis to be able to calculate our optimal return and our optimal pricing based on their distance, their volume, their density of the community they live in, we're able to be much more aggressive. All of these things are sort of single instance tools that you apply to each customer. And so we're getting much better at remediation. Where I think the next stage in our evolution is doing that at scale and really tackling the churn opportunity that we have.

I don't want -- what I said in my remarks was that these changes churn lags these changes. Often, customers are considering moving suppliers because of a price increase that happened maybe 12 months ago or a service incidence that happened 12 months ago because bear in mind that when we fill a tank, customers don't anticipate a change until they, for the most part, empty the tank. If you're a seasonal customer, that could be 12 to 24 months. So that was really the comment about the lag between these changes and the impact we have on churn. But I don't want to leave you with the impression that churn has in any way changed materially in the negative over the last year because that isn't the case.

Nelson Ng^ Okay. And do you have any KPIs on churn and attrition? Or is that something more for -- given the lag, is that something you'll look to disclose at a later date?

Allan MacDonald^ Yes. It's something we'll look to disclose at a later date because I think one of the things we talked about historically was around the work that we've done, rationalizing our tank inventory in field, cleaning up old data sources that have inactive customers that, for all intents and purposes, haven't been a customer for years, but were still included in our customer accounts, normal things you have when you grow through acquisitions. So getting that data up and getting reliable trending data and year-over-year comparative data is still a work in progress. We're getting there, but it's not completed yet. So it will be a while yet before we're able to share reliable churn data.

Nelson Ng^ Then just switching gears to Certarus. Can you just talk about the market dynamics in the sector? I think previous commentary mentioned that there was like an ample supply of MSUs in the market, particularly for like Q2 and Q3. Can you just talk about how we'll utilize the fleet was in Q3? And was the reduction in EBITDA partly due to losing some market share? Or it's mainly reducing price to maintain market share?

Dale Winger^ Nelson, it's Dale. It would be the latter. So price reductions required to maintain a consistent market share. The utilization of trailers was very similar to second quarter. So the fleet was not fully utilized in the third quarter. So we have trailers we can put to work. And as you know the seasonal demand as it relates to winter type work and applications picks up for us in the fourth quarter and first quarter. We will be in a sold-out position as we head into the heavier season.

Nelson Ng^ Okay. Then just one other one on Certarus. So I think Allan mentioned that you guys are serving or will soon be serving two data center sites. Can you just talk about how long the expected contract term would be? Are we talking about a few months or a few quarters?

Dale Winger^ That's -- yes, we're really excited about the data center and had a press release in the quarter getting one under our belt and demonstrating to the industry that this is a viable option to deal with pain points that they're experiencing in terms of getting power and fuel to get the data center up and running, you're probably seeing a bunch of things about that.

In terms of your question, months to quarters is the right way to think about it. I mean everyone is going to be a little different. Of course there -- the first that we talked about, there is a plan to have pipeline supply fuel there sometime in 2026, but they're ready to go sooner than that. So as Allan mentioned, we've got a unique set of capabilities to be able to go after an opportunity that requires that much fuel, requires a fleet of trailers, it requires mobile compression, it requires end-to-end project management. So we're really excited about how we're positioned in that space.

As you know there's a lot of capital flowing into the construction of data centers. There are discontinuities in fuel supply and energy supply that we're well positioned. So these will, in many cases, not be permanent supplies. They'll be looking for permanent infrastructure. But we have a really unique solution that we can kind of step in and be able to alleviate some pain points and at a cost-effective way that really kind of brings an end-to-end solution all the way from experience and having sort of the fleet of gear that can be mobilized on a time schedule that provides value for the customers. And so we're -- our focus right now is doing a great job in sort of building a strong reference case and sort of becoming better known in that ecosystem and further developing that pipeline.

Nelson Ng^ Great. That's great color. Then just one last question, and maybe it's for Grier. So it looks like you're a little bit behind on deleveraging this year. I know deleveraging is a combination of like outright debt reduction and EBITDA growth. But in terms of capital allocation, like does it make sense to allocate some capital from buybacks to debt reduction? Or how do you prioritize the two?

Grier Colter^ Yes, Nelson, no, I think no change, right? I think we're still very committed to share repurchases. But it is a balanced plan. We -- as I said in my remarks, we are still very committed to the leverage. Our plan is to get to 3.0 by the end of 2027. As you know, that was previously kind of mid-2027, and with the cash -- the reduction in cash flow from kind of the lower EBITDA this year is a factor. It will take a little bit longer. But that is still a very important goal for us. But I mean look, the share repurchases so far have been very good, and we'll continue to do that. We think it's an important part of the overall strategy. So I don't know obviously no change. We're still committed, but debt reduction and the overall leverage reduction is still very much a priority. So we believe that we can balance both these. There's really -- there's no change in that regard.

Operator^ And our next question will be coming from Robert Catellier of CIBC Capital Markets.

Robert Catellier^ I wanted to ask that capital allocation that Nelson just asked, but maybe I'll ask the other part of it, and I don't want this to sound any more dramatic than it is. But in terms of capital allocation, do you see any further risk to the dividend? Or you're just looking at the other levers and trying to balance repurchases and leverage?

Grier Colter^ Rob, it's Grier again. Look, I think the dividend is not something that we're discussing here at all. It's part of the overall return to our shareholders. We think that's an important part of the overall mix here. So yes, no, that's just not a topic that we're discussing right now. So you can assume that that's part of the go-forward plan. And as I said to Nelson earlier, I think the strategy here is the same as what we would have said at Investor Day.

I mean the allocation, the percentages, the things that we're focused on, there is no change whatsoever. If you think of what we're talking about today we're talking about things that are temporary in nature, some well within our control, some less so. But in the longer run, we still are very much on the same path here. And all the things that we've been saying all along, we're very much along those paths. So yes, no change.

Robert Catellier^ Yes. No. I'm surprised to hear it. Then just on the MSUs and specifically in 2026, what is the outlook really for adding more MOCs to the fleet given the amount of pricing or margin pressure?

Dale Winger^ We haven't taken a decision on adding MSUs, as we mentioned, like we'll be in a sold-out position as we go through the winter season. If there's opportunities to make high -- make good returns on capital adding to our fleet, we may need to do that as we open up additional hub locations.

As Allan mentioned, we signed agreements for a piece of real estate and a gas supply in Florida. We're in process of moving gear to that location. We have a customer there already, a few others that will be coming online over the course of the next 90 to 120 days. And so as we -- and we anticipate opening additional hubs in early 2026. But too early to say specific plans for MSU adds for '26.

Robert Catellier^ Okay. That's understandable. And last one for me. As you guys look forward, obviously the plan you're executing on Superior Delivers is not measured in months or quarters. But as you look through the fullness of that plan and you achieve your objectives, is there a permanent reduction in working capital to the business?

Grier Colter^ Yes. Maybe I'll start, and Allan may have some comments as well. It's being completely honest, I think it's probably a little too early tell. But what we've baked in our plans is that any working capital changes would be insignificant. I mean look, this is obviously something we'll continue to look at if there are great opportunities to be better there. And I think they probably are. But we're focused on the bigger prizes at this point. There's a lot here, right? I think like this -- when you look at the list of initiatives that we're focused on, one of the battles here is to try to not take on too much. There's a lot there that can go on for a while. I think when you get further down the list, are there some working capital things in there? I would say that's highly likely. Are they bigger than the things we're working on today? I think you could confidently say probably not. But yes, maybe at the margin, there are some things, but I don't have anything more intelligent than that to say at this point.

Operator^ Our next question will be coming from Patrick Kenny of NBCM.

Patrick Kenny^ Just back on the leverage discussion. I know we've talked in the past about asset sales as a potential plan B to help shore up the balance sheet. Just wondering if given some of the challenges being experienced in California on the propane side, or obviously in the Permian within Certarus, if you're maybe reconsidering high-grading the portfolio at all, not only put the rightsized leverage over the near term, but also just to set these businesses up for perhaps less volatility down the road?

Grier Colter^ Pat, it's Grier. Yes. No, look, we feel really comfortable with the capital allocation plan. We think it's a great use of capital to continue buying back shares at this level. But keep in mind, it was always a balanced approach we are very focused on also bring the leverage down. The switch in the dividend, which basically went kind of straight to share repurchases almost for kind of dollar for dollar. But keep in mind, we're also driving more cash flow through the business, particularly in the case of Certarus where we brought the CapEx down significantly. That business will produce a bunch of cash flow.

So there are a bunch of things we're doing here. Like in the next six months, we're going to see quite a lift the EBITDA and cash flow from the propane business. And so, no, I mean we're very much along the same path. I hear what you're asking for sure. We discussed it regularly. The reduction in leverage is really important to us as well. But there are other priorities here, and we're still on the same path here and committed to that.

Patrick Kenny^ Okay. Then I guess on Certarus specifically, and we've all seen the oil and gas customers pullback in terms of Permian drilling activity and overall CapEx. But just wondering on the Canadian side of the border, if you might be seeing any signs of customers accelerating activity, just given the added egress across the basin as well as LNG projects being declared in the national interest now? So just wondering how your team might be able to I guess capitalize on this Canadian growth story over, say the next three to five years?

Dale Winger^ We -- thank you, Patrick. This is Dale. No, great observation. We have the leading market position in the Canadian well site business, have multiple hubs that serve that market, have very good relationships with some of the folks that you're talking about that are involved in those. While a smaller market, of course in relative size to the Permian, an important one for us. Of course the business was established in Alberta. We feel really good about our position there and are continuing to invest in competitive advantage to grow with those opportunities.

Operator^ And our next question will be coming from Ben Isaacson of Scotiabank.

Ben Isaacson^ Just one question for me and about the bigger prize that you mentioned. You talked a lot today about everything being on track and confidence in delivering value. As you reflect on some of the setbacks though, to balance sheet leverage or Superior Delivers, can you talk about your confidence level in achieving 2027 free cash flow at USD one to $1.10? Then what is the cadence or the path to get there? Because presumably, it seems that the slope is a little bit higher to meet that target, but that's also in the face of headwinds that you mentioned. So I was just hoping you could connect the dots.

Allan MacDonald^ Ben, it's Allan. I'm going to just offer a comment on the trajectory of Superior Delivers, and then I'll let Grier take the hard part of the question. I said in my opening comments that transformation isn't linear. It's always super frustrating when you can't see what I see, and I know it's frustrating for you guys, too. The fact that we were able to change wholesale, our distribution model here at Superior in two quarters, for me, it's an incredible accomplishment. People said we'd never be able to do it.

You're all smart people. You know these things aren't like a light switch where you're flipping on everything works perfectly, and we'd be misrepresenting ourselves as we said it was. But it's in place, it's working. We're continuing to refine it, and we're starting to see the results. So in terms of, honestly, I think some of the biggest challenges that Superior Deliveries represented, we've tackled in 2025. culture shift, bringing the organization together as a single was much more complex than the average person would appreciate. Then really tackling our distribution model, being able to get our hands around pricing, bringing on new Chief Commercial Officer is a huge win for us.

So I don't see the overall program being in jeopardy. In fact, we're all having to operate with a lot of discipline to not be distracted by some of the short-term challenges that invariably come with the transformation of this size and then the headwinds that we -- that are created that we don't control and remaining enthusiastic and determined about what the ultimate price is. And I'm as comfortable now as I'm probably more comfortable now than I wasn't able to be perfectly honest. But you had a specific question that Grier is going to answer for you.

Grier Colter^ Yes. So Ben, I would agree with everything that Allan said. So if we look at kind of what's changed between Investor Day and today it's really kind of three things, right? And the CNG business obviously hasn't performed to our expectations. And largely, that's been the oil markets and completion activity, which has had an impact. And so in our model, in the long run, to get to 2027, if I look at what needs to happen, assuming it gets back to the same oil prices and the same level of activity that was happening at the start of this year, certainly it would help, but we don't need to have that.

If you listen to what Dale has said, we're trying to make this business better. The team has done an incredible job trying to make things more efficient, be better at what we do and diversify. Then there's a couple of pretty good examples verification, and we'll continue to do that. So the business will be better. And I think -- so to get to 2027, I'd say we've made this business better since when we talked at Investor Day.

So in a stable environment, if the -- all this activity in the oil prices were the same, I would actually say that would probably be performing even better than what we said for 2027. But a lot of it is dependent on what happens in markets that are very difficult for us to control. But what we can control is making this business better. So that's the first thing I would say.

On Superior Delivers, this is a onetime thing. We will get -- as I said, we'll get this volume back most likely in (inaudible) quarter. There's a onetime cost there. But if you look at the exit rate leaving this year, it's very much intact with what we original. So if you look at the health of the program, the size of the prize at the end, the inventory, the sale -- like the funnel that we use, like this stuff is all very healthy. And I would say we feel as good today as we did back at Investor Day. So I'd say that's the same number. I mean we brought the number up slightly, it's not that big. But I think hopefully, that will show the level of confidence that we have in the program and what we think will be achieved in 2027. So I'd say no change on that.

The third item, Martinas, this has been a pain for us this year. Latest I've heard is that this will come back online start of next year, and so that should go away. Look, would there be potentially other refinery things that may come along? I mean we'll always have to continue to evolve this business and assess things that are kind of coming at us and do the best things. But no, I think we're not going to get into like the fine tooth comb of like pluses and minuses here or there. We have, I would say largely, no, the 2027 stuff is very much intact, but with that, I would say it is somewhat dependent on what happens in oil and gas markets. That will have an impact and maybe...

Ben Isaacson^ That's helpful.

Allan MacDonald^ And those are market pressures that blow below both directions. Do you think it just as easily because of the same eventuality and the positive being overachievement. But to Grier's point, we're just focused on running the best business we can and thinking about the future. Sorry, Ben, did you have another question?

Ben Isaacson^ No. That's it. Appreciate it.

Operator^ And our final question will be coming from Aaron MacNeil of TD Cowen.

Aaron MacNeil^ I can appreciate the comments in the prepared remarks including the clarity on the miss on the guide this year, but Superior is now missed two years in a row. So just in that context, can we expect that Superior will employ more conservative guidance assumptions in 2026? An obvious one for me is just the assumption of 5-year average temperatures, which historically over states heating degree days. Again I know you can't get into specifics, but -- maybe you could highlight the broader approach and your appetite for potentially starting the year with a lower growth rate that you can increase as the year progresses if things play out as you expect?

Allan MacDonald^ Aaron, it's Allan. Nice surprise. I'm going to jump in on this one before we like Grier talk. First of all, thanks for joining us, and we wouldn't end the call of course we look at everybody. One of the -- you're absolutely right. Guidance has been real tricky for us. But our guidance is tied to our budget, and that's been really tricky for us. And part of the genesis of Superior Delivers was sophistication with which we ran the business.

So if you start with how easy is this business to predict, right out of the gate, you've got the cyclicality in the propane business and the weather factor. I hate 5-year average, by the way. So I'm with you on that one. Then about cyclicality in the oil and gas sector, which is incredibly difficult to predict. So those two things are not a great starting point. Historically, our capability to predict the performance of the business, I think has been really challenged by understanding the relationship between price, margin, customer acquisition and your cost fluctuations.

So a lot of the work we've been doing, and Grier and his team have done a great job at this over the past 1.5 years is understanding our business better. And when you understand it, you can predict -- it becomes more predictable. So I think what you've seen over the last year is a combination of a business that's tough to predict, but also one that didn't have very sophisticated tools at its disposal. We're not in the ninth inning on that yet, but we're much better than we were historically. So I think you'll start to see that our ability to forecast our own performance is markedly improved. Our ability to predict what happens in the external market, of course is always going to be an x factor, but Grier and I both are much more leading on the conservative side than the ambitious side in that regard.

Grier Colter^ For sure. I would agree with everything that Allan said, look, at the end of the day we're trying to create realistic internal budgets that are that are not super easy and sandbagged type things, but at the same time things that are realistic and achievable. We save for these things, it's very hard to see some of these external factors happen, right, to be fair. So we put this thing together with the best information that we had, and we'll continue to do that. It is somewhat difficult to see things that are, say kind of from the outside. The Superior Delivers one is one that really I would kind of focus on that was more on us, right? And that's a big program. There's a lot of stuff in it, and we didn't see that.

And so yes, do we maybe had a reserve for things like that, we'll certainly have more sightline though. Like if you think of where we are today versus where we were back in February when we announced our guidance, we didn't know nearly as much about Superior Delivers we know today. So that will be quite helpful. But the base business is actually -- we've been quite close so far. If you look at where we are kind of year-to-date, the base business estimate has been very close to right on.

Now having said that, we had a good idea what the weather looked like in first quarter and second and third quarter, the weather is not as much of an impact. So we'll see what kind of happens in the fourth quarter. But yes. Look, we did our best. I think that's -- I would say we'll do our best again and trying to give our people here a shot at realistic targets and letting the market kind of see what we see, but it is difficult to anticipate all these things.

I kind of look at the three major factors here. The two external ones were pretty tough for us to see. The internal one, it's a big program, it's complicated. Should we may be seen that, I guess maybe say that. But we'll know a lot more for sure, as I say going into next year. And I think the budget will be (inaudible). But from my perspective, it's not -- I wouldn't say yes, we're going to set a way easier budget next year numbers that are easier to hit. I think we'll continue to try to set what we think are realistic targets and try to have our people motivated to do great stuff and also give the market the best idea of what we think the business is going to do.

Allan MacDonald^ Yes. It's funny because Q2 and Q3, they are so unforgiving, they're so small. That anything -- in a lot of companies, your margin of error would be negligible in a quarter, but because of the way our business comes in, it's really unforgiving to the smallest of miscalculations or external factors that you don't control, which it's just frustrating. But I mean it's a business we're in, so we have to live.

Aaron MacNeil^ Okay. Fair enough. All very good points. Dale, maybe just another one for you on Certarus. I just want to confirm that the current data center opportunities today contemplate gas delivery only. And if the answer is yes, what's your appetite to sort of branch out to electric power and sort of just given the several other competitors are starting to do that with the quarter?

Dale Winger^ Yes, Aaron, confirming that it is for gas supply only. I mean really the full system to provide fuel to whatever their power generation of choice is. And as you know providing -- actually providing the power is a different capital profile than what Certarus has right now. There are a number of people that are doing that already. So our approach has been to build relationships with those people, the people that have the power generation assets, and be able to provide a complementary service that helps them operate reliably when pipeline supply is not available.

Operator^ I'm showing no further questions at this time. I'd like to hand the call to Allan MacDonald, President and CEO, for closing remarks.

Allan MacDonald^ Thanks, Operator, and thanks all of you for your time and attention. You've all been on this journey with us, and we're continuing to persevere. Something that Grier and I talked about earlier this week that's not lost on me is, it's always easy to focus on the challenges in front of us, and sometimes we forget to reflect on how far we've come. Our results so far in 2025 certainly aren't as -- they didn't meet our expectations. Having said that, year-to-date, this company is growing and is growing despite the challenges that existed in the business.

And when I joined 2.5 years ago, this was about, hi, how do we transform Superior into an organic growth story? So this company is growing without acquisitions, without raising margins, without pulling deliveries forward. I'm incredibly proud of the team. For us, that is -- that was a really big milestone to pass through. Now we still have another quarter to go, and that's okay but we're well on our way in this journey. I think when we reflect on it, we'll say it wasn't easy, and there were difficult times through it, but perseverance was what made the difference. So you can rest assure that you have a management team that is incredibly focused on the long-term health of this company. So with all that, thank you all very, very much. And look forward to talking to you in our next quarterly call. In between, take care.

Operator^ And this concludes today's program. Thank you for participating. You may now disconnect.