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PRESENTATION

Operator

Good morning, everyone. Welcome to the Boyd Group Services Inc. First Quarter 2020 Results Conference Call.

Listeners are reminded that certain matters discussed in today's conference call or answers that may be given to questions asked could constitute forward-looking statements that are subject to risks and uncertainties relating to the Boyd's future financial or business performance. Actual results could differ materially from those anticipated in these forward-looking statements. The risk factors that may affect results are detailed in Boyd's annual information form and other periodic filings and registration statements, and you can access these documents at SEDAR's database found at sedar.com.

I would like to remind everyone that this conference call is being recorded today, Wednesday, May 13, 2020.

I would now like to introduce Mr. Tim O'Day, President and Chief Executive Officer of the Boyd Group Services Inc. Please go ahead, Mr. O'Day.

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

Thank you, operator. Good morning, everyone, and thank you for joining us for today's call. On the call with me today are Pat Pathipati, our Executive Vice President and Chief Financial Officer; and Brock Bulbuck, our Executive Chair.

We released our 2020 first quarter results before markets opened today. You can access our news release as well as our complete financial statements and management discussion and analysis on our website at www.boydgroup.com. Our news release, financial statements and MD&A have also been filed on SEDAR this morning.

On today's call, we'll comment on the impact of COVID-19 on our business and the mitigating actions we've taken. We will discuss the financial results for the 3 months ended March 31, 2020, and then provide a general business update. We will then open the call for questions.

During the last 2 to 3 weeks of the first quarter, the COVID-19 pandemic brought significant disruption to the worldwide economy, almost immediately causing demand for collision repair services to decline by 40% to 50% of normal levels. Facing the significant decline in demand, along with the uncertainty as to the full extent or duration of the pandemic impact, Boyd took immediate action, focused on enhancing financial flexibility and liquidity and reducing costs to both sustain the business through this pandemic and to ensure that we will be prepared for the opportunities that lie ahead. The actions including drawing down on our credit facility to increase cash liquidity, engaging in discussion with our bank syndicate on covenant modifications, implementing restrictions on capital expenditures, pausing on funding and closing on acquisitions, implementing various cost savings initiatives, including staffing reductions, salary and other compensation adjustments, lease payment concessions and reductions to other variable expenses, and most recently, issuing common shares in a bought deal offering.

Looking at our results for the first quarter of 2020, Q1 sales, profitability and cash flow were all negatively impacted by the business slowdown caused by the COVID-19 pandemic, and that began in the last 2 to 3 weeks of March. Our sales were $628.4 million, a 12.6% increase when compared to the same period of 2019. This reflects a $75.4 million contribution from 119 new locations. Our same-store sales, excluding foreign exchange, decreased by 1.5% in the first quarter of 2020. Foreign exchange increased sales by $4.9 million due to the translation of same-store sales at a higher U.S. dollar exchange rate. Same-store sales, excluding foreign exchange, decreased by 3.1% on a days adjusted basis, recognizing an additional selling and production day in the U.S. and Canada in 2020 compared to the same period of 2019. The decrease in same-store sales percentage was negatively impacted by an estimated 4 percentage points or $21 million due to the reduced demand caused by the COVID-19 pandemic.

Gross margin was 44.8% in the first quarter of 2020 compared to 45.3% achieved in the same period of '19. The gross margin percentage decrease is primarily due to fluctuations in DRP pricing as well as lower parts and labor margins, partially offset by a favorable mix of labor sales in relation to parts.

Operating expenses for the first quarter of 2020 were $200 million or 31.8% of sales compared to 31.3% of sales in 2019. The increase as a percentage of sales was primarily due to the impact of negative same-store sales levels on the fixed component of operating expenses.

Adjusted EBITDA or EBITDA adjusted for fair value adjustments to financial instruments and costs related to acquisitions and transactions was $81.4 million, an increase of 4% over the same period of 2019. Adjusted EBITDA growth was primarily due to new contributions from new locations. Adjusted EBITDA was negatively impacted by an estimated $8 million due to the reduced demand caused by the COVID-19 pandemic.

Net earnings for the first quarter of 2020 were $22.7 million compared to $21.4 million in the same period of 2019. The impacting net earnings in both the current and prior year was a recording of fair value adjustments as well as the recording of acquisition and transaction costs. Excluding these impacts, adjusted net earnings for the first quarter of 2020 was $20.2 million or $1 per share compared to adjusted net earnings of $28.1 million or $1.42 per share in the same period of the prior year. The decrease in adjusted net earnings is a result of negative same-store sales growth and the resulting negative leverage on the fixed cost component of operating expenses, along with increased finance, depreciation and amortization costs. Adjusted net earnings was also negatively impacted by an estimated $6 million due to the reduced demand caused by the COVID-19 pandemic.

At the end of the period, we had total debt net of cash of $949.9 million compared to $893.2 million at the end of 2019. Total debt increased as a result of acquisition activity. As a result of the adoption of IFRS 16 total debt, net of cash, included lease liabilities of $550.5 million as of March 31, 2020, and $513.4 million as of March 31, 2019. We continue to have a very strong balance sheet with conservative leverage at the end of the first quarter of 2020 of approximately 1.9x adjusted EBITDA on a pre-IFRS 16 basis.

During the first quarter of 2020, we increased and extended our existing revolving credit facility to USD 550 million, with an accordion feature which can increase the facility to a maximum of USD 825 million, accompanied by the addition of a new 7-year fixed-rate term loan A, in the amount of USD 125 million, maturing on March 2025 and March 2027, respectively. With these facilities, we now have over $1 billion of dry powder available in cash and existing credit for financial flexibility and growth. As previously noted, out of an abundance of caution during the uncertainty created by the COVID-19 pandemic, in late March, we drew down on all of our available credit facilities other than the swing line credit facilities and the accordion feature, providing us with significant cash balances of approximately $576 million at the end of the first quarter.

Additionally, subsequent to the end of the first quarter, we announced the issuance on a bought-deal basis of 1.1 million common shares at a price of $183 per share. And on May 11, the underwriters exercised their overallotment option, committing to purchase an additional 165,000 shares at a price of $183, bringing total gross proceeds to $231.5 million. We have also amended certain financial covenants under our credit facility to provide additional covenant headroom, and the amendment includes a suspension to Boyd's requirement to comply with its leverage and interest coverage covenants from July 1, 2020 to December 30, 2020, as well as to provide more flexibility in the calculation of such covenants, beginning with the second quarter of 2020 and through the second quarter of 2021. During the suspension period, the company is required to meet minimum liquidity covenant calculations, which given the company's cash position and undrawn revolver is not expected to be burdensome.

We continue to adjust and adapt to the ongoing changes as a result of the COVID-19 pandemic, rapidly flexing Boyd's operating expenses and effectively managing working capital, capital expenditures and investments in growth has enabled us to navigate this challenging environment, while preserving our ability to scale our business lower, if necessary, and higher as demand increases. Our solid balance sheet and tremendous financial flexibility, combined with our scalable reopening plan, will allow us to take advantage of market opportunities as they present themselves.

As previously noted, in the weeks just prior to the end of Q1, COVID-19 began to significantly impact Boyd's business, with reductions in demand ranging from 40% to 50% of normal levels. However, despite the decrease in demand, our April sales were down less than 40% as we drew down a month opening work in process. And very recently, we are seeing new demand that have continued supports a similar level of sales thus far in May. As a result, in select markets, we've begun to recall some of our laid-off team members. We continue to be very careful about near-term capital expenditures. Prior to the COVID-19 pandemic for 2020, the company had plan to make cash capital expenditures, including those related to acquisition and development of new -- excluding those related to acquisition and development of new locations within the range of 1.6% to 1.8% of sales. In addition to normal capital expenditures, the company planned to invest in LED lighting and corporate applications and process improvement efficiency projects. However, we paused on these planned investments due to the impact of COVID-19. As the impacts of COVID-19 become clearer, the pause will be reevaluated and critical and high-value investments may be funded.

Growth in the 12 months to the end of the first quarter of 2020 brought Boyd to within 97% of achieving its 2015 5-year goal of doubling the size of the business based on a trailing 12-month revenue basis on a constant currency basis. However, in annualizing the most recent quarter, Boyd has effectively achieved its long-term goal. As a result, we are closing out this goal as accomplished at the end of Q1. Our current plan is to articulate our next level growth and operational goals in the second half of 2020 once we have greater visibility into the extent, duration and longer-term opportunities and challenges of COVID-19.

As has been our practice, I would now like to comment on some potential for insider selling. As we have previously disclosed, Brock Bulbuck moved into the role of Executive Chair, with my appointment to President and CEO on January 2, 2020. As he is no longer CEO, he may reduce his share ownership to a more appropriate level to reflect his new role and for general estate planning purposes.

In summary and in closing, I'm incredibly proud of the steps we've taken, including the recent bought deal offering, the amendments to the credit facility covenants and the expense and capital spending reductions we've put in place. Along with these -- along with the recent increase to our credit agreement, these steps position us well for the future. Our team has adapted in the current environment and allowed us to maintain our strong financial position. We've been able to adjust our business to manage through this challenging situation, while also preparing to ramp back up as demand for our services begins to rise and growth opportunities emerge. Boyd team members have demonstrated exceptional perseverance and entrepreneurial experience to adapt our operating excellence strategy by developing and executing revised operating procedures to provide a safe and helpful work environment, while maximizing the business opportunities that exist. We believe that there will be many opportunities that come from this crisis, both internal and external, and we are preparing to put ourselves in the best possible position to come out of this crisis as a stronger company.

I'm humbled by the sacrifices our team members have made and look forward to being in a position to reinstate many of those who are laid off when the time is right. Our priorities remain taking care of the health and safety of our team members and customers, while scaling our business appropriately during this pandemic as well as preserving financial flexibility and preparing for the opportunities that lie ahead.

With that, I would now like to open the call to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from David Newman with Desjardins.

David Francis Newman - *Desjardins Securities Inc., Research Division - Analyst*

I probably thought your first quarter might be a little bit easier, Tim, but instead of the world hasn't flipped on its head, one for the history books, I would imagine. First question, not sure if you're going to bite on this, but I'm going to ask anyways. It does look like if I look at your swing lines, accordion and equity raise that you could have over CAD 1.2 billion. Is that correct?

Narendra M. Pathipati - *Boyd Group Services Inc. - Executive VP, CFO, Secretary & Treasurer*

That's correct.

David Francis Newman - *Desjardins Securities Inc., Research Division - Analyst*

Okay. And then if I look at the suspension of easing and covenants, it seems that in terms of M&A, single shops, regional MSOs, but are you looking at anything that might be larger and maybe perhaps enter into states where you want to grow your market share?

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

David, I would say we don't have anything specific yet. We just want to prepare ourselves to take advantage of opportunities when the time is right, both from the market perspective and certainly, we've put ourselves in a good position for that.

Narendra M. Pathipati - *Boyd Group Services Inc. - Executive VP, CFO, Secretary & Treasurer*

So this financing, David -- this financing is going to provide a tremendous opportunity for us and as markets recover, we'll have a substantial competitive advantage compared to other major players in the industry. So we are well positioned to take advantage of those opportunities.

David Francis Newman - *Desjardins Securities Inc., Research Division - Analyst*

Okay. And if you look at sort of the M&A -- sort of due diligence that you have to do and things like that, I would assume that you're still burning up with telephone lines and talking into potential party, other parties, counterparties, but I mean you have to do your due diligence. What do you guys look for in terms of reopening the economy? What criteria makes sense to resume the due diligence and kind of getting on there kicking the tires?

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

Well, I think, David, the biggest concern probably is not on how we conduct due diligence. I mean there will be challenges in that. We really need to be in a position where we're comfortable that our team members that are executing on the integration of businesses can do so safely, which means they have to be able to travel. We have to make sure that we've got the right operating practices in place so that when they're in training new team members, they can do it safely. So really, I'd say those are probably the things that we're considering more than how do we complete the due diligence. Much of the due diligence can be done remotely. Obviously, there are some on-site things, but much can be done remotely. But it's really more a matter of getting comfortable that team members can travel and be in the markets again.

David Francis Newman - *Desjardins Securities Inc., Research Division - Analyst*

Got it. Okay. And then from a demand perspective, I mean as I look at the situation in China, what's evolved there and distracted driving more accidents near home on average and more families may be taking staycations. And in fact, people in China and elsewhere, where they're opening up those economies rather than take public trends that are staying in their cars, and it's not only reached pre pandemic levels but exceeded it. Do you think there's a real opportunity that you might see a real increase here in demand for your services coming out of this?

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

I think it's too early to know that would any certainty. I do think, and we've all read a lot of the same articles, I'm sure that there are -- there's plenty of speculation that people are going to be concerned about using public transportation. And that they're not going to want to use air service, at least not the same -- at the same level that we were at for quite some time, and that could -- that combined with low gas prices, could allow for greater expansion of miles driven. That would be great for us, but it's difficult to predict that.

Narendra M. Pathipati - *Boyd Group Services Inc. - Executive VP, CFO, Secretary & Treasurer*

We'll be speculating -- David will be speculating. I think there are going to be puts and takes in addition to what has been commented. I Think people could even look at -- people might be working from home more. So that could reduce the commute to work. So I think it's difficult to comment at this point in time. So there are going to be pros and cons.

Brock W. Bulbuck - *Boyd Group Services Inc. - Executive Chair*

And -- sorry, and if I just might add as well, it's Brock. We also have the potential for the economic implications of this across our markets. So there are both potential positive outcomes as well as some significant negative outcomes that may influence ultimately miles driven in demand in the future.

David Francis Newman - *Desjardins Securities Inc., Research Division - Analyst*

Okay. And last one for me guys. I noticed you reclassified some of your centers as intake centers. How many of those? And do you -- have you closed any facilities or reduced operating hours? Maybe just a sense of what your network is doing right now in terms of physical locations?

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

We've consolidated production. We haven't closed facilities, but we've consolidated production to concentrate work to take advantage of the opportunity to reduce our cost by doing so. So that's really been the primary tactic from that standpoint.

Operator

Your next question is from Furaz Ahmad with Laurentian Bank Securities.

Furaz Ahmad - *Laurentian Bank Securities, Inc., Research Division - VP of Research and Special Situations Analyst*

Just a -- I had a question, have you guys seen any impact in -- I know you mentioned a little bit, but in the DRP pricing since the pandemic began. And have you had any conversations with some of your insurance partners?

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

We've been in constant contact with our insurance partners, but really no comments at all on pricing. I think the insurers have been incredibly gracious and supportive of the collision repair industry. They know that their claim counts are way down. And I would say that they're treating repairs very fairly in this.

Furaz Ahmad - *Laurentian Bank Securities, Inc., Research Division - VP of Research and Special Situations Analyst*

Okay. Understandable. And just another one, you mentioned that you were looking to recall many of the laid off workers in some jurisdictions. Of those that you're looking to recall, have most of them agreed to return or have a lot of them found work elsewhere?

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

Yes. I don't have -- I haven't studied that. We have not had a problem with the very limited number of recalls that we've done. But given the employment situation, I'm hopeful that it won't be an issue.

Operator

Your next question is from Jonathan Lamers with BMO Capital Markets.

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

Tim and Pat, on the fixed costs and the adjustments that you've made, are you in a position, this morning, to walk us through the categories of fixed costs that have been adjusted to help us with our estimates?

Narendra M. Pathipati - *Boyd Group Services Inc. - Executive VP, CFO, Secretary & Treasurer*

No. Beyond what we have disclosed, Jonathan, yes, we don't want to get into more granular details at this point in time.

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

Understandable. Maybe to ask the question in a different way. In the MD&A, there was a comment...

Narendra M. Pathipati - *Boyd Group Services Inc. - Executive VP, CFO, Secretary & Treasurer*

Jonathan, are you there?

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

Sorry, can you hear me now?

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

No, we can. Yes.

Narendra M. Pathipati - *Boyd Group Services Inc. - Executive VP, CFO, Secretary & Treasurer*

No, we can hear you, yes.

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

Sorry about that. In the MD&A there was a comment that the current level of sales will make it challenging to consistently achieve more than modest levels of EBITDA. Could you just explain the need for the word consistently? And is that just referring to employee compensation arrangements? Or is there anything else that would cause the EBITDA to not continue to be modest at this level of sales?

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

I'd say it's really just the reality of the fixed cost structure of the business. And if sales vary significantly, we can make adjustments to fixed costs, but we can't adjust fixed costs adequately to eliminate the impact of the sales reductions. And that risk then could make it difficult to consistently deliver positive EBITDA.

Narendra M. Pathipati - *Boyd Group Services Inc. - Executive VP, CFO, Secretary & Treasurer*

So Jonathan, as you know, our cost of sales is variable, but in the OpEx, we have fixed costs like occupancy and also like a part of the store management support is a step function. So we might be able to reduce those things beyond a range, but within the range, it is fixed. So that's what we were trying to say that you have to absorb those fixed costs, so you can't directly reduce the cost in proportion to the sales.

Brock W. Bulbuck - *Boyd Group Services Inc. - Executive Chair*

The other thing, Jonathan, I might add is that when you are dealing with a modest level of EBITDA, any variability in the expenses that are difficult to control, and there is variability quarter-to-quarter, could put you on the other side of the breakeven ledger. So it's really just to caution readers to say, look, at the current level of sales, there could be an expectation for modest levels of EBITDA, but because when you're dealing with a modest level, it doesn't take much expense variation which is normal quarter-to-quarter to tip the scales and go the other way.

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

One more topic. Are the collision repair operations experiencing any disruption to parts supply at this stage?

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

We haven't seen any meaningful disruption on the parts supply side.

Operator

Your next question is with Steve Hansen from Raymond James.

Steven P. Hansen - *Raymond James Ltd., Research Division - MD & Equity Research Analyst*

Your amount of dry powder at this point, I think, is barely suggestive of a strong M&A plan. But I'd like to focus, if I could, just on some of the other elements of offense you might -- are taking here. Is there anything that you've been doing to take advantage of the crisis, whether it's in terms of mission recruitment? Are you seeing other smaller shops show signs of distress or the competitive environment broadly speaking? In other words, do you expect to see some capacity close in the system? And does that allow you to be more aggressive on the other side of this? I'm just trying to understand, outside of just strictly M&A, what other elements you might be contemplating in terms of being more offensive here?

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

Yes. I would say that on the recruitment side, right now, we don't -- I know it's very unusual for me to say this, but we don't have a recruitment need right now. We've got plenty of people available to do the work that's available. Hopefully, that will change in the not-too-distant future.

In terms of the other impacts, I would expect that there will be some players that may drop out as a result of this downturn. It probably depends on the length of this, the depth and the length of it. But I think there could be some opportunities available for properties, as a result of this downturn that could be attractive and accretive to us.

Steven P. Hansen - *Raymond James Ltd., Research Division - MD & Equity Research Analyst*

Helpful. And just one follow-up, if I may. Tim, you've mentioned in the past the concept of greenfield as being a new part of the strategy. Is that something in the current environment that still lies the fairways out? I'm just thinking again of your amount of dry powder and the M&A focus relative to building out your sites? Do you want to speak to that and how that might play into the new 3- or 5-year plan you lay that out?

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

Yes. We haven't really solidified our next 3- to 5-year plan. I think Greenfield will be a part of it. But I think in the nearer term, there are likely to be, what we refer to really is, brownfield opportunities or existing properties that could be retrofitted and maybe even existing former collision repair businesses that could be reopened under our brand.

Operator

Your next question is from Bret Jordan with Jefferies.

Bret David Jordan - *Jefferies LLC, Research Division - MD & Equity Analyst*

Are you seeing any change in insurer behavior on the DRP programs? Are they pushing volume away from repairers they see as having liquidity crisis or maybe less able to withstand the shock?

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

I have not seen that, Brett. I think that the insurers -- my perception is that they're trying to be fair in the marketplace and keep the system going. I don't have any specific information that would suggest otherwise.

Bret David Jordan - *Jefferies LLC, Research Division - MD & Equity Analyst*

Okay. And then I guess, within the mix, it sounds like maybe we've seen a little bit of a pickup in crash volumes. Are you seeing any meaningful switch where you are totaling more cars? I mean, CCC was talking about higher-speed crashes with less congested roads, creating greater severity? Are you seeing any real change in your mix?

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

I would say it's too early for us to be able to tell that. Those are things that will come out over a period of months, and we're really just weeks into this. So I would say at this point, we've not seen that.

Bret David Jordan - *Jefferies LLC, Research Division - MD & Equity Analyst*

Okay. And then a final question, I think it sounded as if maybe you were seeing some sequential pickup. I think you'd said May was kind of flat with April, but obviously, it's some mix shift. April was pulling forward some demand and May maybe more natural demand. But are you seeing sequential improvement in May?

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

We have seen some improvement in demand. And I think in the comments that I made we talked about April being off less than 40% measured in revenue. And that thus far in May, based on some improvement in demand, we think despite the fact that we didn't come into May with a strong level of work in process that thus far in May, we've been able to produce at a level similar than April.

Operator

Your next question is with Maggie MacDougall from Stifel.

Maggie Anne MacDougall - *Stifel Nicolaus Canada Inc., Research Division - Head of Research*

So wondering if you could help us understand how you have adopted in terms of your actual operations within the shops to protect employees and create an environment that needs that you can continue working despite some of the health precautions that people are having to take? And then secondly, as demand recovers, how should we be thinking about any such precautions with regards to shop efficiency, both for yourselves and just industry-wide?

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

Well, on the adapting of the operations, I think our operating team, really combined with HR, has done an outstanding job of changing our operating practices to maintain a safe environment. Some examples would be shortly after the pandemic hit, we shifted to, what we call, a drop-and-go model, which allows our customers to literally leave their car in the front parking lot, drop their keys in a box, have no face-to-face contact with our team member. We then would clean the vehicle so that it's safe for our employee to enter to -- prepare the estimate or the repair plan and put it into work. So we've really set it up, so customers really do not need to come into our offices for their service. We also implemented technology that allows us to write estimates by photo with a tool that consumers can use to take the photos and submit them to us, and we can return their estimate to them electronically and then schedule their repair for drop off. We've done some of the things that -- basic things, I think, that you would expect. We've got the right safety and cleaning supplies into our shops, which was not easy early on, but we've got the right supplies in the shops, protective equipment, cleaning supplies, hand sanitizer sanitization products for the vehicles, and we've trained our staff on those. We put and communicated very consistently social distancing guidelines. Fortunately, our shops are not high traffic, and it's not difficult to have people stay at least 6 feet apart. So we've done a number of things like that. We're also evaluating as we scale back to more normal business levels what additional processes and equipment we'll need to put in place to maintain a safe work environment.

In terms of shop efficiency, the approach that we've taken is to concentrate production which has provided for reasonable levels of shop efficiency. We've done that in a way that's scalable up and scalable down. So as demand begins to return, we would evaluate when to turn a current intake center into a production facility. And then we would begin to load that with work appropriately so that we could get reasonable scale out of it. So any efficiency losses that we might experience, I would expect to cover up over a period of weeks. Does that answer your question, Maggie?

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Maggie Anne MacDougall - *Stifel Nicolaus Canada Inc., Research Division - Head of Research*

Yes, that's really helpful. And then if we're to think about a new breakeven level for sales if -- with regards to EBITDA margin, just trying to think about where we're at with revenue down about 40%. It sounds like maybe high 30s, mid-30s, give or take. And as we see demand recover, where would you anticipate the business sort of meets that breakeven point or better?

Narendra M. Pathipati - *Boyd Group Services Inc. - Executive VP, CFO, Secretary & Treasurer*

Yes, we don't want to get into the specifics, Maggie. You can you make your own assumptions. We talked about the variability of the cost of sales, and we've talked about within the 36% of OpEx, what is fixed and what is variable. So you can do your own modeling. And we don't want to offer guidance about a breakeven point.

Maggie Anne MacDougall - *Stifel Nicolaus Canada Inc., Research Division - Head of Research*

Okay. And then just one final question, which I think was touched on by another person, but maybe trying to ask it in different ways. How do we square the guidance or sort of a pause on M&A near term with the significant amount of dry powder that you now have? Is it primarily sort of an insurance policy in the interim and preparing you for eventual return to growth? Or is there something else that we should read into that?

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

I think your first characterization of it was fair. I mean we are well prepared with a strong balance sheet to take advantage of opportunities when it's appropriate to do so. And we don't yet know when that will be, but we will be well prepared for it when it occurs.

Operator

(Operator Instructions) Your next question is from Chris Murray with AltaCorp Capital.

Christopher Allan Murray - *AltaCorp Capital Inc., Research Division - MD of Institutional Equity Research for Diversified Industries & Senior Analyst*

Thinking about maybe restarting or how we get going. I mean different states have different shelter-in-place rules. I mean California is a little bit different than Texas or say, other areas where you may have some operations. So I guess a couple of things. One, it feels like you'll burn down a lot of the work in process by the time that, I guess, we start getting to a turn, but how should we be thinking about your ability to essentially restart the business when we get to whatever that point might be?

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

Yes. Chris, when you talk about burn down work in process, I know we've talked about this on past calls, but we generally don't have massive amounts of work in process stacked up anyway. I mean there could be times a hail storm or something like that, that causes that in the local market area. But our work in process inventory or backlog isn't measured in months, it's measured in weeks or even days. So I think in terms of restarting the business, though, we believe we've rightsized the business right now to the appropriate level for the work that we have available in the market. And as things pick up, we would reopen production facilities, convert intake centers back into production facilities kind of as needed. We're monitoring the business very closely. So we know every single day where the activity variations are, whether it's up or down. So given the current environment, we're prepared to scale up appropriately. We can do so quickly. We believe if we need to, but it's likely to be gradual, and we still have the ability to scale down if markets slow down.

Brock W. Bulbuck - *Boyd Group Services Inc. - Executive Chair*

So Chris...

Narendra M. Pathipati - *Boyd Group Services Inc. - Executive VP, CFO, Secretary & Treasurer*

Unlike manufacturing, where they shut down, they have to have a comprehensive plan to reopen. Ours is relatively easy. We have to recall people. And as we've commented, our supply chain has not been disrupted. So it's a very scalable model.

Brock W. Bulbuck - *Boyd Group Services Inc. - Executive Chair*

And I might further add that it's scalable on a market-by-market basis. So Chris, you commented on different recovery plans in different states and different markets, well, our recovery plan can be adopted to what's happening in specific markets. So we could be contracting in a particular market if things are bad there, but expanding in another market.

Christopher Allan Murray - *AltaCorp Capital Inc., Research Division - MD of Institutional Equity Research for Diversified Industries & Senior Analyst*

All right. Fair enough. And then maybe -- this is maybe a little theoretical, but it also goes to -- having to think about the crisis. So first part of this question, first of all, are you taking any -- or anything like a rent deferral or anything like that? I know you lease a fair number of your properties. Are you able to take advantage of that? Or do you have any agreements that will let you, from a cash flow perspective, kind of take some of the haircut out of Q2, maybe moving that to future periods?

And then the second part of the question, and I think you kind of alluded to it, does this accelerate the use of intake centers and maybe going to larger facilities that may be more efficient on a fixed cost basis in certain areas?

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

I would say on your first question, Chris, on the rent side, I would view the actions we've taken more generally as working hard to manage our expenses and working capital. So we've really looked at expenses across every part of our business and then made efforts to reduce or defer whenever we can. I wouldn't talk specifically about rent. We've really looked in every quarter for every opportunity that we can identify to reduce our cost today and preserve our cash. In terms of -- and Pat, do you have anything, or Brock, anything that you wanted to add to that?

Narendra M. Pathipati - *Boyd Group Services Inc. - Executive VP, CFO, Secretary & Treasurer*

No, I think that you characterized it well, Tim.

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

Okay. And then on the intake center, I think that's a good question. As most of the people on this call know, we have been increasing our use of intake centers over the past couple of years. We think it's a model that's good for customers and good for our insurance clients. I would say the event that we've gone through now may provide further validation of that, but we'll have to see what the -- how the market reacts to it once we come out of this.

Operator

You have a follow-up question from Jonathan Lamers with BMO Capital Markets.

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

Tim, could you just expand on your earlier comments about signpost that you're looking for? I know that you said that the integration teams need to be able to travel safely on airplanes? Are you being guided by interstate travel guidance there? Is the team based within the U.S. already? Can you just expand on what you're looking for and what we should be monitoring for on that side?

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

Yes. I would say that our acquisition integration team is generally -- the majority of the resources are in the U.S. So we wouldn't -- if travel was safe in markets in the U.S., then we could deploy people from the U.S. into markets to do that. I think our current assessment is we're not there yet. We're not at a point yet where we're -- we'd be comfortable that the environment or the practice is available to us make sense to do that. But it would not require generally people to cross between Canada and the U.S.

Narendra M. Pathipati - *Boyd Group Services Inc. - Executive VP, CFO, Secretary & Treasurer*

So Jonathan, I think it's not like we have an extremely objective criteria, 1, 2, 3 and 4, a check box and then go and do. It's going to be a judgment call. So we need to be comfortable that it's the right thing to do. And it's a matter of time, whether we are going to do this in October or December, it doesn't matter. So we are in a long game, and we're well positioned to take advantage of that. That's how we look at it.

Operator

And we have a question from Steve Hansen with Raymond James.

Steven P. Hansen - *Raymond James Ltd., Research Division - MD & Equity Research Analyst*

Just a quick follow-up, if I may, on the M&A environment. It might be too early to tell, but with the discussions you've been having thus far through the last month or so, how do you feel about multiple expectations on a go-forward basis here? Do you perceive there to be any changes at all, whether it be downwards or upwards? And just how do you think that influences your willingness to pay going forward?

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

I don't think we have a perspective on that yet because the market really hasn't been reengaged. I do think that there will be more of the brownfield opportunities that I mentioned earlier. That could be very attractive. So that may shift our focus in the near-term to those types of accretive opportunities.

Steven P. Hansen - *Raymond James Ltd., Research Division - MD & Equity Research Analyst*

And when you say brownfield, Tim, just to clarify on how that would be deployed. Is that really a backfill strategy where you would be looking to backfill's density in an existing geographic footprint? Or would that be punching into new markets? I presume it's the former, not the latter.

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

It's likely the former. I mean we would -- if there was a compelling opportunity, we would consider it the easiest, compelling opportunity for that type of growth is in a market where we already have existing leadership in operations.

Narendra M. Pathipati - *Boyd Group Services Inc. - Executive VP, CFO, Secretary & Treasurer*

I just -- sorry, Steve, I just might add to the comment on multiples, and Tim is -- Tim said, we really can't tell yet, but I mean intuitively, the longer that the businesses within our industry are hurt by current situation, intuitively, one would think that the more stress and distress some businesses space, the more eager they may be to look at strategic alternatives for their business. So that's an intuitive answer. It's not a fact-based validated answer. But I think directionally, we would expect that there will be more motivated sellers.

Steven P. Hansen - *Raymond James Ltd., Research Division - MD & Equity Research Analyst*

No. Understood. And actually, just as a relation to that, do you think you'll need to scale up your corp dev team then as you sort of contemplate the number of opportunities that might be available and in combination with your dry powder?

Narendra M. Pathipati - *Boyd Group Services Inc. - Executive VP, CFO, Secretary & Treasurer*

We have suction capacity, Steve, and if need be, we can scale it up easily.

Operator

You have a question from the line of Maggie MacDougall with Stifel.

Maggie Anne MacDougall - *Stifel Nicolaus Canada Inc., Research Division - Head of Research*

Just one follow-up for me. Can you comment, in your opinion, what you believe the relationship between miles driven and collisions will be? I don't think we've ever really seen this big of a drop in terms of traffic volumes. It's quite an unusual event. And so just trying to think through the relationship between those 2 variables? And I mean I'm assuming they're not linear, but in your experience, if you could just comment on what you think that might -- how that might work out?

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

Yes. I think they are pretty closely length, Maggie. The miles driven at a high level, it's often broken out into 2 components, kind of the commercial or longer-haul truck component versus the balance of the market. And in a recession, the long-haul driving does tend to reduce more significantly than the more local or neighborhood driving, which is probably better for the collision repair industry. But there's a pretty close link between miles driven and accident frequency.

Operator

And we do have a question from the line of David Newman with Desjardins.

David Francis Newman - *Desjardins Securities Inc., Research Division - Analyst*

Just a quick follow-up, probably more for Pat. If you look at your fixed costs, I mean the definition of variable, semi-variable or fixed or semi-fixed or whatever, is the vast majority of what you would consider to be fixed cost pertain to the leases? Or is there something else out there? So if we're doing -- we're looking at the negative operating leverage that might occur in this environment. Just trying to get a sense in the OpEx, if it's just really, you're thinking about the leases.

Narendra M. Pathipati - *Boyd Group Services Inc. - Executive VP, CFO, Secretary & Treasurer*

No, I think if you look at, David, the OpEx, we have approximately -- depending upon the pre-IFRS or post-IFRS, how you want to measure. But on a pre-IFRS basis, if you measure, it's around 36%. So the occupancy is around 8% to 10%, and the store management is 12% to 14%, and then all other is the rest. So the first 2 components, occupancy that includes the rent, utilities, maintenance, taxes, so that's pretty much fixed. And obviously, you may have a little bit of attitude there, but it's pretty much fixed. And the store management and support is a step function. So within a range of volume, it is fixed. And the third component compresses us on a corporate, the IT and advertising and things like that. So you can make your judgment calls about what is fixed and what is available in those elements.

Operator

There are currently no further audio questions at this time. I'll turn the call back over to the presenters.

Timothy O'Day - *Boyd Group Services Inc. - CEO, President & Director*

Very good. Thank you, operator, and thank you all once again for joining our call today. We look forward to reporting our second quarter results in August. Thanks, and have a great day. Bye-bye.

Narendra M. Pathipati - *Boyd Group Services Inc. - Executive VP, CFO, Secretary & Treasurer*

Thanks, everyone.

Operator

This concludes today's conference call. You may now disconnect.