Transcript: Second Quarter FY 2015 Earnings Conference Call

January 28, 2015

11:00 a.m. ET

Welcome to our December 2014 quarter earnings conference call. I'm joined in Indianapolis by Paul Will, our President and Chief Executive Officer, Eric Meek, our Chief Operating Officer, Jon Russell, our President of our asset light businesses, Leslie Tarble, our Principal Financial Officer, and Bobby Peavler, our Principal Accounting Officer.

I'd like to remind you that my comments and those of others representing Celadon may contain forward looking statements which are subject to risks and uncertainties. Our SEC filings contain additional information about factors that could cause actual results to differ from management expectations.

I would like to provide an overview to the quarter before I turn the floor over to Paul Will, who will give further insight into the results of the December 2014 quarter end results and then proceed to open the floor up to questions.

We were pleased with the results for the December 2014 quarter. Earnings per share were 36 cents, compared with 22 cents for the December 2013 quarter.

Key operating metrics showed nice improvements. Our average seated count increased to 3,621 in the December 2014 quarter, up by 6% from the 3,418 in the December 2013 quarter.

I would like to now turn it over to Paul for additional comments on the quarter.

Thanks Steve.

I would like to give some detail on fleet composition, miles and intermodal revenue for the quarter and some clarity on expenses pertaining to the December 2014 quarter and expectations on future quarters.

The Operating Stats evidenced in the December 2014 quarter continued to improve from year over year levels. As indicated in the press release, compared with the December 2013 quarter, revenue was $222.4 million, up by $28.8 million, or 15%. Revenue per loaded mile improved from $1.63 in December 2013 quarter to $1.80, or an increase of approximately 10% compared to the year earlier quarter. Excluding our recent acquisition of A&S Kinard, which was included for a portion of the quarter, our revenue per loaded mile improved to $1.72, or an increase of 5%, from $1.63.

The average company tractor count increased by 93 trucks, from 2,699, last year to 2,792 this December 2014 quarter. Company miles increased by 715,000 from 70.6 million miles last year to 71.3 million this December 2014 quarter. Owner operators increased by 110 tractors, from 719 last year to 829 this December 2014 quarter, and increased by 238 sequentially, from 591 in the September 2014 quarter. Owner operator miles increased by 2.5 million from 18.9 million last year to 21.5 million this December 2014 quarter. Intermodal revenue decreased by $1.1 million from $9.7 million last year to $8.6 million in the December 2014 quarter. The decrease was attributable to customer service offering changes, but we expect this to trend back up in the coming quarters. Asset light revenue increased in the December 2014 quarter to $21.8 million, from $14.4 million last year, or an increase of $7.7 million, including $5.0 million from operations of A&S Kinard.

Next, I'd like to address some expenses incurred in the December 2014 quarter.

Fuel expense declined in the quarter due in part to the price reductions at the pump as well as fuel efficient equipment that has been brought into the fleet from our equipment refresh that started last year. The $0.08 EPS improvement, year over year, in fuel expense was split approximately half between decreased price and half improved fuel economy.

Salaries, wages, and employee benefits increased year-over-year, but are comparable on a percentage of revenue basis both sequentially and compared to prior year. The primary drivers of the increase were a result of higher recruiting costs and medical insurance benefits, both increasing by approximately $1 million over the prior year. The increased expense associated with recruiting experienced drivers has continued due to the challenging driver market. Our efforts on this front are beginning to show benefits in the current March quarter as our seated count increased organically during the month of January. As everyone is aware, medical benefits continue to be a challenge with all the changes we have been experiencing, however, we believe our efforts on the employee wellness front should help curb further increases in the future.

We continue to experience positive benefits from our driving school. Through our driving school rollout, it has allowed us to grow our seated count from graduating students to 515 currently in the fleet from 470 in the September quarter. We currently have four schools operating, and we are in the process of adding three additional locations. We expect this to help us continue to organically grow our fleet count over time.

Insurance and claims was negatively impacted by some unusual workers compensation expense activity which impacted earnings per share in the quarter by approximately $0.02. We believe this will trend back down to the $0.06-$0.065 cost per mile range.

I would like to give a brief update on the acquisition of A&S Kinard. The transition has gone smoothly and has generated positive results in the current quarter. Revenue for the quarter is approximately $27 million, pre-tax income was approximately $1.8 million and the fuel adjusted operating ratio for the division as 91.4%. We believe there will continue to be sales and operational synergies between Celadon and A&S Kinard.

I would also like to give a brief update on our most recent acquisition of Taylor Express ("Taylor"). As we stated in an earlier press release, we plan to have the present management team remain in place and continue to operate independently under the Taylor name and personnel. Taylor operates approximately 190 trucks, 840 trailers and generates approximately $38 million in revenue. Included in the 840 trailers are approximately 240 specialized dry bulk trailers, in addition to the 600 dry van trailers. This acquisition should bring cost savings and sales synergies between the two companies, but we are most excited about the acquisition due to the growth opportunities in its dedicated dry bulk business. We expect the transaction to be accretive beginning in the first quarter of calendar year 2015 and an annual accretion of $0.10-$0.15.

I would now like to open the phone to questions.