<u>Transcript: First Quarter FY 2017 Earnings Conference Call</u>
November 3, 2016
10:00 a.m. ET

Welcome to our September 2017 quarter earnings conference call. I'm joined in Indianapolis by Eric Meek, our Chief Operating Officer, Bobby Peavler, our Chief Financial Officer, and Jon Russell, our President of our asset light businesses is joining us on the phone.

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.

We reported a loss of 10 cents per share in the quarter, compared with 41 cents of earnings per share in the September 2015 quarter, of which approximately 28 cents was a decrease of gain on sale of equipment. Revenue was $265.0 million, down by $1.1 million, or 0.4%. Revenue excluding fuel was $241.5 million, down by $3.6 million, or 1.5%. Although the rate is relatively flat year over year, we saw a significant increase in our revenue per loaded mile related to our growing dedicated business however, this increase was offset by a reduction in revenue per loaded mile from our more challenging one-way truckload business.

As we continue to face a challenging operating environment, we have several key areas of focus that we believe can make meaningful improvements to earnings in the future: growing our dedicated operations, creating more lane density in core operating lanes, increasing team count to improve utilization, and increasing asset light revenue including brokering freight outside of our core operating lanes, which should result in an increase in utilization and improved deadhead.

We continue to feel pricing pressures from customers pushing rate reductions in the one-way freight environment, so we have chosen to walk away from some contractual freight that we believe, long term, would not have sustainable rates once the market improves. This has resulted in imbalances in our network, which has resulted in lower utilization and higher deadhead. We are actively pursuing dedicated business to decrease the need to find freight for trucks in a more challenging one-way market. We successfully converted approximately 60 trucks to dedicated during the September quarter, and look for this trend to continue in subsequent quarters. Additionally, we are actively pursuing more freight within our core operating lanes to drive a denser network, to increase utilization and decrease deadhead. We believe significant progress can be made through the next bid cycle, to achieve this goal.

Asset light revenue increased in the September 2016 quarter to $31.7 million, from $30.6 million last year, or an increase of $1.1 million. As we work to densify our network, currently and through the next bid season, we are also working to increase the amount of business that allows brokerage capability, to continue to drive margin improvements, without impacting asset utilization.

We continue to see cost pressures on equipment, insurance, and wages. Although we have seen a significant increase on equipment costs, as we continue to right size the company fleet and supplement with independent contractors, we anticipate seeing a reduction in equipment costs. To help combat these increasing pressures, we have implemented several cost cutting measures that we believe will make positive impacts moving forward.

As indicated in the press release, on September 13, 2016, we signed a Memorandum of Understanding (the "MOU") with Quality's main third party financing provider, under which substantially all of Quality's tractors under management owned by such third party financing provider, 19th Capital, and Quality would be combined into 19th Capital as a joint venture. Upon closing of the joint venture, the existing agreements with the third party financing provider would be terminated and replaced with definitive agreements contemplated by the MOU.

This transaction would eliminate substantially all equipment held for resale and leased assets from our consolidated balance sheet, result in net cash to us of approximately $50.0 million, and effectively eliminate substantial capital needs related to the Quality business going forward. Our goal is to complete the joint venture in the December 2016 quarter. Although we believe the transaction is on schedule for this timeframe, it remains subject to various consents, definitive documentation, and other risks associated with changes in terms or failure to reach agreement.

In closing, we experienced a tough quarter in an even tougher operating environment, but we believe we have outlined a strategic road map to make improvements to our key operating metrics that will drive improved margins and to be well positioned as the market improves. In addition to improving these metrics, we expect the changing regulatory environment should further enhance our operating results.

I would now like to open the phone to questions.