



Transcript: First Quarter FY 2016 Earnings Conference Call

October 29, 2015

11:00 a.m. ET

Welcome to our September 2015 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.

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 are pleased with our results in an operating environment that included a competitive market for qualified professional drivers and lackluster freight demand. Earnings per share were 41 cents, compared with 34 cents during the September 2014 quarter, on a 16.8% increase in weighted average diluted shares resulting primarily from the Company's public offering of 3,500,000 common shares completed in May 2015. We showed improvements in certain key operating metrics like the increase in both the average revenue per loaded mile and the average seated line-haul tractors, which we believe will position the company well for future growth.

I would like to give some detail on fleet and revenue composition for the quarter and some clarity on expenses pertaining to the September 2015 quarter and expectations on future quarters.

The following key operating statistics continued to improve from year over year levels. As indicated in the press release, from the September 2014 quarter, revenue was \$266.1 million, up by \$72.7 million, or 38%. Revenue excluding fuel was \$215.5 million, up by \$53.8 million, or 33%. Revenue per loaded mile improved from \$1.63 in the September 2014 quarter to \$1.87, or an increase of approximately 14% compared to the prior year quarter. Excluding our recent acquisitions of A&S Kinard, Taylor Express, and Buckler, our revenue per loaded mile improved to \$1.70, or an increase of 4.2%. Asset light revenue increased in the September 2015 quarter to \$30.6 million, from \$16.5 million last year, or an increase of \$14.0 million which includes \$7.3 million from asset light of both A&S Kinard and Buckler.

The average company tractor count increased by 1,730 trucks, from 3,255 last year to 4,985 this September 2015 quarter. Company miles increased to 76.1 million, or an increase of 4.7 million, in the current 2015 September quarter, from 71.4 miles last year. Owner operators increased by 1,136 tractors, from 591 last year to 1,727 this September 2015 quarter, and increased by 429 sequentially, from 1,298 in the June 2015 quarter. Owner operator miles increased by 24.2 million from 15.8 million last year to 40.0 million this September 2015 quarter.

Our revenue growth was a result of both rate increases and fleet growth during the quarter. The sequential fleet growth of 489 trucks was a combination of the addition of the acquisition of Buckler and organic growth. Of the 489 trucks, Buckler represented 72 trucks. The increase in purchased transportation of approximately \$45 million over prior year is a direct result of this increase. Of the \$89 million, \$32 million was the result of increased owner operators, and included in the remaining balance was a combination of asset light and intermodal

purchased transportation expense. We plan for the purchased transportation expense to continue to grow in future quarters as we expect our owner operator seated count to increase by approximately 100 trucks a quarter and the purchased transportation expense to represent approximately 36-38% of revenue for the remainder of the calendar year.

We continue to experience positive benefits from our driving school which has resulted in 738 graduated students currently in our fleet, up from 646 in the June quarter. We expect this to help us continue to organically grow our fleet count over time.

Utilization for the quarter as reported was down approximately 272 miles per truck per week for the entire company. Excluding the acquisitions of A&S Kinard and Taylor Express, which have lower utilization and higher margin freight, the Celadon legacy fleet is down approximately 180 miles per truck per week. The majority of this decrease was attributable to a combination of our diverse service offerings which includes a higher percentage of independent contractor and a live load live unload environment and a soft freight environment. We are continuing to add additional customer freight to cover the rapid growth we have seen in our seated tractor capacity. We believe we will be able to maximize our operating leverage with the added business we are bringing on to marry up with our current capacity available to our customers. We plan to focus on yield improvement over the next six months as we continue to on board the additional customer business.

We have continued to see positive results from the growth of our sales and leasing division. In addition to the equipment sales and leasing aspect of the business, we are beginning to see nice traction in our other business service offerings, which includes tax services, insurance, parts, and maintenance. The \$13.2 million in gain

on sale of equipment, which is net of any trade expenses, was primarily from the sale of third party equipment. With the growth of this division, the current operating expenses associated with running this entity was approximately \$4.5 million for the quarter. Therefore, the operating income related to our sales and leasing division was approximately \$8.7 million for the quarter. As Celadon has completed its tractor refresh cycle, we expect all gains going forward to be related to third party sales and leasing.

I would like to address our current leverage position. Due to the significant growth of our Quality division, approximately \$175 million of our current balance sheet debt reflects assets held for sale. This amount represents \$25 million of equipment inventory and \$150 million of assets that are under lease to third parties. In addition, there is approximately \$40 million of equipment on the balance sheet related primarily to trailers that will be disposed of out of the fleet as we complete our expedited trailer equipment refresh, which we expect to come out over the next six months. This reduction of approximately 2,000 trailers will bring our trailer to tractor ratio down to approximately 2.5 to 1 from the current level of approximately 3.0 to 1. The remaining over the road trailer fleet will be 2012 model year and newer which will allow us to have minimal required capital expenditures for the next 12 to 18 months.

Finally, I would like to briefly discuss our strategic vision for the next 12 months. We have successfully grown our seated tractor count, diversified and grown our customer service offering, increased our rate per loaded mile and are in the process of adding additional customer business that will help drive increased utilization and better lane density on our exiting book of business. We believe we have positioned our business to grow through improved operating efficiencies, cost reductions and increased freight volumes on our existing infrastructure.

I would now like to open the phone to questions.