Transcript: Fourth Quarter FY 2015 Earnings Conference Call
July 30, 2015
11:00 a.m. ET

Welcome to our June 2015 quarter earnings conference call. I'm joined in Indianapolis by Steve Russell, 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 were pleased with the results of the June 2015 quarter. Earnings per share were 47 cents, compared with 28 cents during the June 2014 quarter, excluding the gain from the sale of B2B of 37 cents. Key operating metrics showed nice improvements, and I believe the company is positioned 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 June 2015 quarter and expectations on future quarters.

The operating statistics evidenced in the June 2015 quarter continued to improve from year over year levels. As indicated in the press release, from the June 2014 quarter, revenue was $253.3 million, up by $55.9 million, or 28%. Revenue excluding fuel was $223.3 million, up by $62.7 million, or 40%. Revenue per loaded mile improved from $1.62 in the June 2014 quarter to $1.81, or an increase of approximately 11% compared to the prior year quarter. Excluding our recent acquisitions of A&S Kinard and Taylor Express, which was included for the full quarter, our revenue per loaded mile improved to $1.71, or an increase of 5.1%. Asset light revenue increased in the June 2015 quarter to $27.5 million, from $16.8 million last year, or an increase of $10.7 million which includes $5.7 million from asset light of A&S Kinard.

The average company tractor count increased by 536 trucks, from 2,662 last year to 3,198 this June 2015 quarter. Company miles increased by 7.2 million from 71.9 million miles last year to 79.1 million this June 2015 quarter. Owner operators increased by 769 tractors, from 529 last year to 1,298 this June 2015 quarter, and increased by 267 sequentially, from 1,031 in the March 2015 quarter. Owner operator miles increased by 17.1 million from 14.7 million last year to 31.8 million this June 2015 quarter.

Revenue growth is a combination of rate increases and fleet growth. The sequential fleet growth of 325 trucks was entirely organic and attributable primarily to the expansion of our independent contractor fleet. The increase in purchased transportation of approximately $36 million over prior year is a direct result of this increase, which we expect to continue to grow in future periods. Of the $36 million, $27 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 35-37% of revenue for the remainder of the calendar year.

We continue to experience positive benefits from our driving school which has resulted in 646 graduated students currently in our fleet, up from 565 in the March 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 190 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 100 miles per truck per week. The majority of this decrease was attributable to our diverse service offerings which includes a higher percentage of independent contractor and a live load live unload environment. During the quarter we have continued to focus on yield improvement, which has resulted in more transactional customer freight that yields higher margin, but lower utilization.

We have continued to see positive results from the growth of our Quality Equipment 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. Approximately 15% of the equipment sold during the quarter was equipment disposed of from the Celadon fleet. The $9.5 million in gain on sale of equipment, which is net of any trade expenses, was entirely 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 million for the quarter. Therefore, the operating income related to our sales and leasing division was approximately $5.5 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 and amounting to around $10-12 million for the September quarter.

I would like to address our current leverage position. Due to the significant growth of our Quality division, approximately $100 million of our current balance sheet debt reflects assets held for sale. This amount represents approximately 45 days of equipment inventory based on the current sales and leasing levels, which we expect to increase in subsequent quarters. In addition, there is approximately $50 million of equipment on the balance sheet related to the expedited refresh of the Celadon fleet, which we expect to come out over the next six months.

Finally, I would like to announce the recently completed acquisition of Buckler Transport headquartered in Roulette, PA. They operate approximately 100 trucks and have $30 million of annual revenue. This includes a 150,000 square foot dedicated warehouse, and they specialize in dedicated dry van, liquid and pneumatic tanker services. We believe this will be a great complement to our northeast A&S Kinard acquisition. We are excited that David Buckler, the founder and CEO, has agreed to stay on and continue running the day to day operations.

I would now like to open the phone to questions.