Transcript: Second Quarter FY 2017 Earnings Conference Call
February 2nd, 2017
11:00 a.m. ET

Welcome to our December 2016 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.

Revenue for the quarter was $265.7 million, down by $9.7 million, or 3.5%. Revenue excluding fuel was $242.3 million, which decreased by $7.0 million compared to the December 2015 quarter. Revenue per loaded mile decreased 0.4% from prior year, but sequentially increased 2.5% from the September 2016 quarter, related to holiday surge business. We reported income of 5 cents per share in the quarter, compared with 24 cents of earnings per share in the December 2015 quarter. The decline in net income and earnings per share for the December 2016 quarter was attributable to several factors, which included a decline of approximately $5.0 million, or 12 cents per diluted share, in gain on disposition of equipment, cost pressures in fuel, insurance, and equipment expense, but these were partially offset by $1.8 million income from minority our prior ownership of 19th Capital.

Although we were disappointed with the results for the December quarter, we believe the quarter included several highlights, which were the following:

- The successful closing of the previously announced joint venture, 19th Capital Group.
- The sale and contribution of assets previously recorded in leased assets held for sale, revenue equipment held for sale, and leased assets.
- Exiting the asset intensive portion of the leasing business.
- Converted 45 trucks from the irregular route trucking operations to dedicated operations through new business. This builds off our conversion of 60 trucks during the September 2016 quarter and is one of our four primary objectives to improve operations and profitability.
- Paid down $64 million of balance sheet debt during the December quarter.

Now that we have accomplished our goals with closing the JV and converting the Quality leasing business, management is excited to refocus its attention to both setting and achieving goals to improve trucking operations and believe this coupled with impending regulations presents us with a unique opportunity to return value to shareholders. Our dedicated operations gained both through previous acquisitions and through organic growth continue to add positive contributions to operating income, and our goal is still to continue to convert as many irregular route trucks to dedicated going forward. The irregular route trucking business continues to create challenges to improve operating metrics. Because of this, through this year's bid season, we are executing a strategic operating plan for the asset based operation that is focused on acquiring additional dedicated business and bidding irregular route freight only within dense operating lanes. All other freight will be bid to drive margin through our asset light operation.

Average seated truck count declined 540 trucks from the December 2015 quarter and 97 trucks sequentially. We anticipate the March 2017 quarter to decline an additional 200 trucks as we right size trucks associated with the irregular route operations and intend to evaluate truck count on a quarterly basis going forward.

Net fuel expense, insurance and claims expense, and equipment ownership costs negatively impacted our operating margin compared to the December 2015 quarter. Although we reduced the number of operating company trucks and company miles, net fuel expense increased due to higher fuel prices and less fuel surcharge recovery. The quarter reflected higher insurance premium expense in addition to a higher amount of cargo and liability claims expense. This is an area we are combatting with increased focus on risk mitigation related to both volume and severity of claims.

We are confident that the actions we have taken over the past few months, as we re-optimize our freight network in a difficult environment, have set the stage for us to continue to better align our assets and resources to service our customers that provide business that best fits our network. Even though operational improvements are being made, we anticipate they will not make significant impacts to the bottom line until fiscal year 2018, but we believe we have positioned the balance sheet to enable us to support this timeline.