



Transcript: Third Quarter FY 2015 Earnings Conference Call

April 28, 2015

11:00 a.m. ET

Welcome to our March 2015 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.

We were pleased with the results of the March 2015 quarter. Earnings per share were 36 cents, compared with 15 cents for the March 2014 quarter. Key operating metrics showed nice improvements, and I believe the company is positioned well for future growth.

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 and revenue composition for the quarter and some clarity on expenses pertaining to the March 2015 quarter and expectations on future quarters.

The operating statistics evidenced in the March 2015 quarter continued to improve from year over year levels. As indicated in the press release, from the March 2014 quarter, revenue was \$231.7 million, up by \$38.4 million, or 20%. Revenue excluding fuel was \$201.7 million, up by \$46.1 million, or 30%. Revenue per loaded mile improved from \$1.60 in the March 2014 quarter to \$1.80, or an increase of approximately 13% 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 \$1.68, or an increase of 5.4%. Asset light revenue increased in the March 2015 quarter to \$24.9 million, from \$14.4 million last year, or an increase of \$10.5 million which includes \$6.4 million from asset light of A&S Kinard.

The average company tractor count increased by 336 trucks, from 2,803 last year to 3,139 this March 2015 quarter. Company miles increased by 5.7 million from 72.3 million miles last year to 78.0 million this March 2015 quarter. Owner operators increased by 395 tractors, from 637 last year to 1,032 this March 2015 quarter, and increased by 203 sequentially, from 829 in the December 2014 quarter. Owner operator miles increased by 8.4 million from 15.5 million last year to 23.8 million this March 2015 quarter.

Next, I'd like to address some expenses incurred in the March 2015 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, which should be completed by the end of the calendar year. The \$0.04 EPS improvement, year over year, in fuel expense net of fuel surcharge was due to a decrease in fuel price and more fuel efficient equipment.

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 of approximately \$1.9 million and medical insurance benefits of \$800,000 over the prior year. The expense associated with recruiting experienced drivers has continued to increase 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 March and has continued into the month of April.

We continue to experience positive benefits from our driving school. The opening of several driving school locations has allowed us to grow our seated count with 559 graduated students current in our fleet, up from 515 in the December quarter. We expect this to help us continue to organically grow our fleet count over time.

Purchased transportation increased approximately \$21 million year over year. This is attributable to the rise in our owner operator seated count and the growth of our asset light business. Of the \$21 million, \$14 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 for the remainder of the calendar year.

In addition to acquisitions, we believe the combination of our driving schools and increased owner operator seated count are two internal levers that will allow us to provide capacity solutions for our customers in the future.

Our acquisition of both A&S Kinard and Taylor Express had positive results in the March quarter. A&S represented approximately \$38.4 million of revenue and Taylor Express represented \$9.2 million of revenue. The A&S Kinard results for the quarter were on the high end of our previous guidance and more importantly, March revenue is trending at a \$160 million annualized run rate. We anticipate this run rate will continue to allow us to grow our dedicated service offering to our customers. We believe the integration efforts of both acquisitions have been very successful and are pleased with the results in the quarter. We expect to continue to see sales and operational synergies in the future.

Finally, I would like to touch on our recent organizational structure changes of the four new divisional presidents. These changes should allow us to better operationally focus on our diverse service offerings. We believe this will allow us to better manage the profitability of each business segment with continued focus on servicing the customer and driver retention.

I would now like to open the phone to questions.