Schneider National, Inc.

First Quarter Earnings Conference Call

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PRESENTATION

Operator:

Greetings, and welcome to the Schneider National First Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Pat Costello, Senior Vice President, Investor Relations. Thank you. You may begin.

Patrick C. Costello:
Thank you, Operator. Good morning, everyone. By now you should have received a copy of the earnings release for the Company's first quarter 2017 results. If you do not have one, one is available at our website at schneider.com. Joining me today on the call are Chris Lofgren, our Chief Executive Officer, Mark Rourke, our Chief Operating Officer, and Lori Lutey, our Chief Financial Officer.

Before we begin, I would like to remind you that some of the comments on today's call, including our financial guidance, are forward-looking statements. These statements are subject to risks and uncertainties, including those described in the Company's filings with the SEC. Our actual results may differ materially from those described during the call. In addition, any and all forward-looking statements are made as of today and the Company does not undertake to update any forward-looking statements based upon new circumstances or revised expectations. Also, our non-GAAP financial measures discussed during this call are reconciled to the most directly comparable GAAP measures in the table attached to our press release.

With that, I'd like to turn you over to our CEO, Chris Lofgren. Chris?

**Christopher B. Lofgren:**

Thank you, Pat, and thank all of you joining us for our first earnings call as a publicly traded company. We appreciate your patience in getting to this call while we stayed in compliance with the quiet period required after our IPO. Going forward, we will schedule this call in a more traditional timeframe.

Given this is our first call and some investors may not have had the benefit of hearing our Road Show, this morning I'm going to recap some key messages from that event. In addition, I will provide some overarching comments about our results for Q1 and the industry environment we see currently. Then I will turn it over to Mark who will take you into a segment-level view of our performance. Mark will be followed by Lori who will provide an overview of the financial numbers and give our full-year guidance.

Schneider is truly one of the great American success stories. Al Schneider, with a third grade education, coming out of the Great Depression, sells the family car and buys a truck. One man, a big dream, followed by lots of hard work, risk-taking, and a number of great people who join along the way, and today we're a $4 billion Company serving customers and employing associates all across North America and China.

We go to market serving customers in three principal business segments, all of scale and all with competitive financial performance. This is the tenant of our strategy: a highly diverse but related set of service offerings to a diverse set of customers across diverse industry sectors. Our largest segment is our Truckload business, which we refer to as our Aircraft Carrier. We view that business through four quadrants defined by how we contract with our customers and the type of trailing equipment deployed. We are the second largest truckload carrier with the highest diversity of service offerings and competitive margins.

Our next segment, Intermodal, utilizes privately owned containers, tractors, and at the end of this year, chassis, to provide a high service model offered in combination with our rail partners. We are the third largest domestic intermodal provider and the second most profitable.

Finally, our third and fastest growing segment is Logistics. At $0.75 billion, it has significant scale and highly competitive margins. This non-asset-based business operates separately, but collaboratively with our other businesses to reach a growing list of new customers and provide differentiated solutions to the complex needs of our largest shippers.

A key differentiator and a key factor in our historical improvement in margins across each business segment is our Quest Technology. This platform enables the organization to execute with one version of the truth related to our drivers’ equipment, customer demand, micro-market behaviors, and then predictably directs decision-making on a dynamic basis, focused on operating contribution per truck,
trailing equipment, and order. This is our version of money ball. We believe process, enabled by technology, wrapped around our exceptional associates and based on a culture focused on our core values, is a long-term competitive advantage.

The dynamics of the industry in the first quarter were set up by the rebidding of contract rates with shippers in the third quarter, and in some cases, fourth quarter of 2016. As our customers’ corporate procurement organization saw excess capacity available in the marketplace, this put downward pressure on contract rates, which we have carried into the first half of 2017. With capacity and surplus, it had a similar impact on spot rates. Going hand-in-hand with capacity, we also saw weaker used equipment market for disposing of our replaced rolling stock.

Finally, and in some cases, historically at odds with the levels of freight demand, the industry has experienced greater challenge in hiring drivers. We also have not been immune to this challenge. As in 2016, we saw the investments made in our Quest Technology platform, along with the business transformation centered around dynamically managing operating contribution that has helped us to minimize the downside impacts of a difficult 2017 Q1.

Looking forward, we’re starting to see some hardening in the contract and spot rates as the concerns of what lies ahead for shippers with the enforcement of the ELD mandate is looming larger. While potential implications of this regulation could be highly impactful, our approach will be to remain disciplined in adding capacity until we are adequately performing with the rolling stock and drivers we have. Only then will we systematically grow the capacity as both the driver market and the freight market allows us opportunities.

Again, we believe the Quest transformation we have in place will be instrumental through the upturn. We continue to be slightly bearish with respect to the second quarter and growing bullish throughout the second half of the year.

With that, I will turn it over to Mark to provide another level of detail into our first quarter.

**Mark Rourke:**

Great. Thank you, Chris. I’ll offer a few macro comments as well, and then transition into our various business segments.

First, from a demand standpoint, our services across our three segments of Truckload, Intermodal, and Logistics had demand increases each month throughout the quarter. While not robust, the market did exhibit its typical seasonality trends. We now think we have enough of a size of sample of both RFP and rate review results to assess the pricing environment as one of stabilization to slightly improving and we measure this based upon a basket of retained incumbent lanes by customer events, simply comparing the before and the after while recognizing that in most of those events you’re getting a mix of different lanes and existing incumbent ones. But, by comparing the incumbent lanes, we think we have a good benchmark to make that assessment.

So, with that as context, Intermodal remains our most challenging from a competitive standpoint with just below 50% of those events resulting in our basket of incumbency having a lean increase. The Truckload segment, though, has a bit more positive with 65% to 70% of those events, resulting in our basket of incumbency being improved year-over-year.

My final macro comment centers around the inflationary cost pressures that are more pronounced this quarter than they were a year ago, particularly in the areas of net fuel expense, driver-related expenses, and as Chris mentioned, less gain on sale of our rolling stock disposals. So, let me transition into the various segments, starting with Truckload.
Our Truckload revenue per truck per week, executing fuel surcharge, improved slightly over 3% when compared to Q1 of ’16. Through the freight selection process, focused on contribution with our Quest Technology platform, combined with a slight improvement in price and more so in productivity were the key contributors to that 3% improvement. Our standard equipment offerings in both For-Hire and Dedicated experienced a reduction in truck count year-over-year.

First, the For-Hire standard; first quarter of last year was our peak truck count, as we began the process of optimizing our fleet to match the quality demand contribution levels available in the market, and as you advance now to Q1 of ’17 and compare it to a year ago, our revenue per truck, again, excluding fuel surcharge revenue, improved 3.1% year-over-year.

Our Dedicated Standard business experienced two large account losses in the first part of the quarter, fairly non Typical for us, as we chose not to match the lowest bidder at less-than-desirable contribution levels. This was partially offset by several contract renewals where our customer supported the need to address inflationary pressures; for that we are appreciative. We added several new business wins at the appropriate contribution levels which enabled a 5.1% improvement year-over-year in our Dedicated Standard segment of revenue, excluding fuel surcharge on a truck per week basis.

However, overall, the margin in Truckload eroded 120 basis points year-over-year to a 92.6 OR from a 91.4 for 90% — or excuse me, 90 basis points of that reduction was due to forward investments in our First-to-Final Mile business from which we capture that data in our For-Hire specialty quadrant. It was the only quadrant of our four that had contraction in revenue per truck per week year-over-year.

Key contributors to that is that we rolled out an extensive, and for Schneider, unprecedented trade, print, and digital marketing campaign, targeting those producers of specialty products and retailers focused on difficult-to-handle product categories. But, more importantly, we opened up several Company final mile locations that brought current expense forward with non-mature operating metrics across our assets and our buildings associated with that because of startup. While we expect to continue to invest in ’17 in this area, Q1 will be the most concentrated quarter of activity.

Overall, we remain highly encouraged by the customer buying behavior and their interest in our differentiated First-to-Final Mile offering, both in the B2B space but also the emerging E-com B2C space, again, focused on those difficult-to-handle product categories.

Moving on to our Intermodal segment, we are very pleased that our Intermodal order count grew 6% year-over-year; actually almost 7% if you account for the adjusted work days. Over 100% of that growth was in the East and intra-West geographies as we saw additional shrinkage in the ultracompetitive transcon lanes in business. Those mix changes, as well as the annualized contract renewals from 2016 resulted in an 8% reduction in revenue per order, but most of that impact was on the mix.

We had a highly productive dray operations execution, which helped us stabilize our margin performance, resulting only in a 10 basis point contraction year-over-year. As Chris mentioned, we’re on a chassis conversion program, moving from leased pools to a Schneider-owned chassis. That plan is on schedule in terms of both timing and the operating reduction of friction costs associated with this new high-quality asset. In fact, if you consider the $1.3 million of duplicate costs associated with this program in the first quarter, we actually improved our operating margin 60 basis points year-over-year.

Finally, our final segment, Logistics, and our brokerage component from within, continued its year-over-year double-digit revenue growth trajectory. Brokerage orders per day grew a healthy 13.2%. That benefit was offset by net revenue per order compression as customer pricing, particularly in brokerage, has remained muted, resulting in a 10 basis point OR reduction year-over-year.

Now, I’ll turn it over to Lori so she can cover the enterprise financial results.

Lori Lutey:
Thank you, Mark. The first quarter enterprise operating revenue increased 8.4% year-over-year to $1 billion while adjusted enterprise revenue, excluding fuel surcharge, increased 5.1% to $916.2 million. Enterprise operating revenue increased 5.1% year-over-year to $1 billion while adjusted enterprise revenue, excluding fuel surcharge, increased 5.1% to $916.2 million. 

Enterprising billion

We are currently in the process of converting our Intermodal business to an owned chassis model as both Chris and Mark referred to, which requires the replacement of over 10,000 rented units. However, the lease requirements of these rented units do not expire until December 31, 2017. As a result, we are also reporting an adjusted income from operations number for the first quarter of 2017 of $44.9 million. The $1.3 million adjustment accounts for the duplicate charge as the owned units are brought into operations and are used in lieu of the rented units.

Net income for the quarter was $22.6 million or $0.14 per diluted share as compared to $28.1 million and $0.18 a year ago. On an adjusted basis, earnings per share of $0.15 was down from $0.18 last year. Adjusted EBITDA for the quarter was $112.7 million, a decrease of 2.8% compared to the prior period. The increased depreciation resulted from a larger fleet and the acquisition of Watkins & Shepard and Lodeso, which was more than offset by lower earnings.

Adjusted EBITDA as a percent of adjusted enterprise revenue, excluding fuel surcharge, was 12.3% for the first quarter of ’17 compared to 13.3% for first quarter of 2016. Our operating ratio in the first quarter increased 130 basis points to 95.7% and was up 110 basis points year-over-year on an adjusted basis to 95.1%.

Now turning to review our results from a segment perspective, in our Truckload segment, revenue excluding fuel surcharge was $522.1 million. Operating income was $38.5 million. In the Intermodal segment, revenue excluding fuel surcharge was $181 million and operating income was $6.6 million. Turning now to the Logistics segment, revenue was $183.9 million, operating income was $5.2 million.

As of March 31, 2017, Schneider had a total of $604 million outstanding on various debt instruments compared to $699.4 million as of the end of December of 2016. At March 31, 2017, our cash and cash equivalents totaled $79.3 million compared to $130.8 million at the end of December of 2016. Our free cash flow increased $31.1 million compared to the first quarter of 2016.

I would also like to highlight that in the first quarter we paid a quarterly dividend of $0.05 to shareholders. During the IPO process, we communicated our intention of paying a regular quarterly dividend as a public company. On April 5 we priced our initial public offering and we used $100 million of the proceeds to pay down a 4.8% senior note that was due in May of 2017 and we also paid off of our outstanding variable debt balances. We anticipate using the remaining proceeds for general corporate purposes, including further debt reductions and capital expenditures, including the Chassis investment.

Operating conditions thus far in 2017 have been challenging and we expect them to remain so through the first half of 2017. However, based on our initial read related to the impending ELD mandate and an improving freight market, we are trending bullish on the second half of the year. Based on these expectations, we expect full-year 2017 net cap ex expenditures to be in the range of $325 million to $350 million, which includes approximately $100 million for the Chassis program. Proceeds from the sale of used equipment is expected to be $60 million to $70 million. Additionally, we anticipate 2017 adjusted diluted earnings per share to be in the range of $0.92 to $1.02 per share, which includes the impact of increased share count from the recent IPO estimated at $0.10 per share.

With that, Operator, I’d like to now open up the call for questions.

Operator:
Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad at this same. A confirmation tone will indicate your line is in the question queue. You may remove your question by pressing star, two. We do ask that you please keep yourself to one question and one follow-up before rejoining the queue for any additional questions.

Our first question today is coming from Ken Hoexter of Merrill Lynch. Please proceed.

Ken Hoexter:

Great. Good morning and congratulations on the IPO and the first call here. Lori, maybe just talk a little bit about—maybe, Mark—on the startup costs. You mentioned a new dedicated business versus the loss business. Are they going to offset each other in terms of increased costs as you go chase new business in that dedicated segment?

Mark Rourke:

Really, we consider maybe those two separate approaches to that. The mentioning on the E-commerce was just more of the startup relative to building out and finishing our network, which we anticipate to do in 2017, and the first quarter had the heaviest concentration of that activity. We are already replacing the other more standard dedicated business that I referenced where we had some of the churn business. Yes. We would expect by the time we get to the full year, that we'll have that plus more of that replaced.

Ken Hoexter:

Then maybe more generally, can you talk about the business environment since the IPO? I appreciate the thoughts on the pricing on the contract renewals there, but you also talked a bit about maybe more aggressive pricing on the Intermodal side. Can you just talk about the environment as you finish up bid season here in terms of how the environment is now, because, Lori, you talked about the inflection you anticipate in the second half? Have you begun to see that in terms of the contract bids, or is it still remaining as aggressive as you highlighted on the Intermodal side?

Christopher B. Lofgren:

Ken, this is Chris. I'm not sure I would use the term aggressive. I think what we see is it firming and turning a little bit and that gives us some bullish outlook going forward. It was kind of the things that we were looking to start to see as the year would go forward, but this is not aggressive price change yet. The capacity has tightened enough, but I think in the discussions we've been involved in, there's a growing concern and awareness that the mandated self, and in some cases, if you think about it, the threat of terrorism is terrorism and you might think about the ELD through that lens as that just the uncertainty around that, I think, is causing a lot of shippers who were pretty thoughtful—as we've always, I think we said on the Road Show, our customer probably gets reprimanded if their budget is a little bit over, they get fired if the freight doesn't move, and I think there's just an assessment happening about what that market will look like. As a result, I think there's also with the people who are pretty enlightened, to understand that the driver market is tight, that costs are moving up, and that the disciplined carriers in the industry are going to have to find a way to get that covered.

So, I think that is the environment that we're starting to see right now. It's the one we were hoping to see and it's the first step in this process. So, that's positive from our perspective and the first step along the way.

Ken Hoexter:

Appreciate the time and insights. Again, congrats on the IPO.
Christopher B. Lofgren:

Thanks again.

Operator:

Thank you. Our next question is coming from Ravi Shanker of Morgan Stanley. Please go ahead.

Ravi Shanker:

Thanks. Morning, everyone. Congrats on my side as well. You guys sound like you have been doing this for years, so well done, first one. First question is on Quest. Can you just talk about how Quest performed in the first quarter versus your expectations? Just how do we think about how the system works; does it work better in tough times or good times, and kind of how do we see kind of the benefits of that flow through the P&L?

Christopher B. Lofgren:

Ravi, this is Chris. Thanks and thanks for the coverage and participation. I'm going to let Mark take that question.

Mark Rourke:

Yes. Our Quest platform really does give us the ability to have the insights that are necessary to make a proper choice. What we're seeing in the first quarter and increasingly now into the second quarter is the ability in certain markets to exert more choice. So that's, as we've always talked about, is not always just price taking from the customer, it's also how do you take the best basket of available freight in a given market based upon your network and the ability to maximize and assess contribution. So, we're feeling that that continues to be an advantage for us and it showed in our results, and we would expect that that's, again, one of our advantages not only in a difficult market, but increasingly, what we expect to take advantage of our ability there is in an improving marketplace.

Ravi Shanker:

Got it. Just as a follow-up, your full-year cap ex guidance came in quite a bit below where you were expecting. Can you talk about whether something's changed with your capital plans for the year? Kind of now that you're past the IPO, what are your kind of thought priorities strategically here? Are you kind of looking to get back into the M&A well or any other uses of cash?

Christopher B. Lofgren:

Okay. I think you got a couple of questions in there, but I think I can take them quickly. Let's start. We were a lot more disciplined, I think, in getting ourselves sized appropriately for the first quarter market. We've just found over the years that if you have excess trucks and you keep trying to fill them at higher expenses, and then the choices you make, the miles you run, you're just—it sets out a whole set of derivative cost implications. I give Mark and the organization a lot of credit for really thinking through how to size the different pieces of our business. So, we certainly purchased less and disposed of more. I think we did a good job in a difficult used equipment market, getting equipment moved out, and so that's part of the benefit that you're seeing on a full-year basis.

I think we're going to just be very, very thoughtful and disciplined. We could come back in a quarter or two and tell you that the market's moving faster and we're going to up our cap ex, but as I said on the Road Show, the two easiest things to add in this business are people and capital and the two most difficult things to rip out are people and capital. So, we're going to be disciplined throughout the year on that.
Then on M&A, we said we would look for opportunities in the more specialty markets. We don't have anything that's imminent. We'll let you guys know when we do something and not a whole lot before. But that's where things stand. Lori, I don't know if you have any comments that you want to make relative to the Chassis or some of the other things looking out into the year.

Lori Lutey:

Yes. I guess the only thing I would add—I think you had a pretty complete answer there, Chris—the only think I would add is we are anticipating about $100 million for the Chassis program and our schedule of equipment, if you look specifically at Quarter 1, we have year-over-year less of our replacement equipment coming in, in Quarter 1 than in prior year. But other than that, I think you covered that very well.

Ravi Shanker:

Understood. Thank you.

Christopher B. Lofgren:

Thank you.

Operator:

Thank you. Our next question is coming from Alex Johnson from UBS. Please go ahead.

Alex Johnson:

Good morning. It's Alex here and I'm on for Tom Wadewitz.

Christopher B. Lofgren:

Good morning, Alex.

Alex Johnson:

Congratulations on the IPO from us as well. Just a housekeeping item first, if I may. What's the right share count to use for second quarter?

Lori Lutey:

So, when you see our Q coming out, you'll see the current share count will be updated to show with the shoe (phon) and the full IPO, we will have outstanding about 176.8 million shares. So, that'll be the correct share count. So, if you look at the average share count for the year, you'll see our first quarter obviously is in the earnings release, but then that will be the share count for the remaining year—of the year.

Alex Johnson:

Okay. Great. Thank you for that. Then the commentary here around the increased driver costs, is that something that Quest can help you with or are there other actions that you might take to perhaps get ahead of a tightly over-market, tight market for drivers and so forth; any thoughts around that?

Christopher B. Lofgren:
Sure. This is Chris. Let me start and then turn it over to Mark. There are capabilities that got put in place as part of that Quest platform, which certainly allowed us more capabilities to integrate social and mobile kinds of applications into the process of recruiting. I would say, though, that where Quest helps us is that ultimately our drivers get paid by the miles that they can run and the miles they can be paid for, and so our ability to execute with that platform certainly helps them as part of the Company to maximize that, their W-2 income. Clearly, one of the challenges is to hire them, but you also want to use their time very, very effectively and the platform has given us a number of mechanisms to do that.

So, it's not a—so, that would be the lens through which I would say it helps us in this marketplace, but let me turn it over to Mark and have him give some more color to that.

Mark Rourke:

Yes. Maybe just to build on the concept there a bit, certainly through our contribution focus and assessing freight quality, the driver experience is increasingly important, obviously, in that equation, and so one of the elements that was really a positive in the mix change and what we're able to do and in Intermodal is we had slightly less Intermodal dray drivers on the street. We grew our order count 6% to 7%, meaning that we had 10% more work or productivity across our dray drivers, which is, again, as an assessment of the freight characteristics and how do we best bring throughput through the network, and our drivers certainly benefit from that. So, absolutely, it's the focus and enabler of improving the condition, whether it's compensation or experience in our driver community.

Alex Johnson:

Terrific. That's very helpful. Thanks for the time this morning.

Christopher B. Lofgren:

Thank you.

Lori Lutey:

Thank you.

Operator:

Thank you. Our next question is coming from Scott Group from Wolfe Research. Please go ahead.

Scott Group:

Thanks. Morning, everyone.

Christopher B. Lofgren:

Good morning.

Lori Lutey:

Morning.

Scott Group:

So, you mentioned kind of fair second quarter, bullish second half. Just because we don't have a whole lot of history in the model, is there any way you can help us think about the seasonality or quarterly
Christopher B. Lofgren:

Okay. Scott, this is Chris. Then I guess I'll walk around the table with both Mark and Lori on your question. Traditionally we start to see in the first quarter things used to start real slow in January. That's changed a lot, frankly, driven by the retail sector and gift cards, and those kinds of things. So, kind of the turnaround in the first quarter has moved out a little bit from what it would've been a decade ago. But the first quarter is clearly always the most challenging. Then the second quarter you start to see some pickup as you get kind of past April because as the weather warms, people get outside more, you've got the start of some holidays and so the second quarter starts to pick up a little bit more. Then the third quarter there's a lot happening in preparation for the fourth quarter. So, our earnings tend to follow that progression.

We get a little bit of benefit in the first quarter from our bulk businesses. Manufacturing tends to kick in and I'll kind of peak off a little bit sooner. So, again, we try to align these different aspects of our business up to get a little less variance in it, but they're never—it's never going to be flat and it's always going to have a trend towards the fourth quarter.

So, Mark, let me—if you want to—Mark says that is complete.

Lori Lutey:

Okay. That's complete from a seasonality standpoint. The way I'd look at other—as you know, Scott, that includes our Leasing Company, our captive insurance, as well as some corporate expenses. The quarter performance in Other really is related to—we had a little bit more of a focus in our Leasing Company on leasing used equipment, which also indicated or included some higher receding costs as we bring in the tractors and refresh them to be re-leased. So, that drove a little bit less profitability than we normally experience. There's also—some of the longer-term incentive programs are accrued at the corporate level and so there was a little bit higher expense there year-over-year.

How to think about that going forward, the way I would think about that is it will be—I think this is probably a lower performance quarter than I would expect going forward, not by a lot but I would—if I were modeling it, I would look at that performance being a little bit better in the following quarters.

Scott Group:

Okay; very helpful. Then just one more for Mark. What is the plan for the Truckload and dedicated fleet kind of the rest of the year? Then when you talk about same-store pricing flat, up slightly, what percent of the book is same-store, and kind of on a realized basis, including lanes you're winning/losing, how would you—would pricing still be flat or is it up, is it down?

Mark Rourke:

If you put it in total, Scott?

Scott Group:

Yes.

Mark Rourke:

Including incumbency and new?
Scott Group:

Yes.

Mark Rourke:

I would say across our businesses, with the exception of Intermodal, still we're up slightly across the board when you consider both incumbent and new.

Scott Group:

Okay. Good. Then just the thoughts on the fleets from here?

Mark Rourke:

We would like—personally, I'd like to have a couple hundred more trucks if the market would allow and the driver community efforts that we're taking in our standard For-Hire network business between now and the end of the year. We don't really see that occurring in the second quarter. That would be more the bullish element that Chris had mentioned helped in the second half of the year. Then, yes, Dedicated we don't really have any hampering on them at all, just based upon opportunity. We have a very good pipeline, so we have growth built into the remainder of the year, but as Chris mentioned, if we have quality opportunities, we would potentially come back and up that cap ex plan to take advantage.

Scott Group:

Okay. Thanks a lot for the time and good to have you guys on a call.

Christopher B. Lofgren:

Thank you, Scott.

Lori Lutey:

Thanks, Scott.

Operator:

Thank you. Our next question is coming from Chris Wetherbee of Citi. Please go ahead.

Chris Wetherbee:

Good. Thanks. Good morning, everybody.

Christopher B. Lofgren:

Good morning, Chris.

Chris Wetherbee:

Wanted to ask a question on the Intermodal side. So, certainly getting the sense about your confidence in the direction of the truck market, but wanted to get a sense sort of the competitive nature in Intermodal. We've heard from other players in this space that there was sort of a higher degree of competition for new business wins as we went through the first quarter of the year. So, when you think about that solid load growth relative to the revenue per load, maybe how do we think about that trending over the course of the
next couple of quarters? Does it get a little bit more challenging before it starts to improve? Maybe just give us some cadence that might be helpful.

**Christopher B. Lofgren:**

I'm going to turn that over to Mark, Chris.

**Mark Rourke:**

Yes. Chris, certainly our Intermodal business does serve—has a catalyst element when truck pricing and truck availability become the firm (phon) and more difficult in addition to the fuel markets. So, I think there will be, at the second half of the year progresses, I think our Intermodal business will have some benefit associated with that. But, our focus is to compete in the areas where we bring some differentiation, which is in the inter-West market and the Eastern half of the U.S., and that is where we had our success in the first quarter and that's continuing in the second quarter here. So, the alter-competitive trends, kind of where we don't have as much advantage as some of the others, is where we saw the shrinkage and that's why the revenue per order element that we report has a heavy mix component to that just because of the difference in length of haul associated with the trans-com business versus the shorter-haul East and West.

Again, combine that, you really have three components. You have your rail components, you have your price component from the customer, and then you have your ability to effectively operate on the street. So, putting all that together to have a 10 basis point reduction in margin year-over-year, I think is pretty decent performance considering those constraints. Then especially when you consider the duplicate costs and the Chassis, we actually had an improvement. So, again, I think we'll be able to continue that.

**Chris Wetherbee:**

Okay. That's extremely helpful. I appreciate that. Then when we think about the back half improvement in the broader business, but maybe specifically in Truckload—and I think the comments have been pretty consistent about firming from a contract perspective—if you could maybe give us a little bit of help of sort of what's imbedded in sort of the back half guidance from a Truckload pricing standpoint? Maybe just give us some rough ranges about what you think the sort of growth might look like in the back half. That would be helpful.

**Christopher B. Lofgren:**

Well, again—this is Chris and then I'll have Mark kind of tuck in behind me here—is that what we think what's in our heads and what's in our plans related to the guidance that's out there is that seeing some firming in pricing and starting to change price moving back the other direction is consistent with what we both wanted to see and had planned to see. Again, this is where the investment that we've made in our Quest Technology, which allows us to look at the choices that we have relative to the contracts that we have in place, taking into account some spot opportunities, and make choice. So, in some cases—we know everyone likes to hear about pricing and we think of pricing relative to contract rates—there is an element of price that comes to us through choice and we think that's every bit as important to us as a Company as just absolute price, and so our belief is that as things firm, as capacity tightens both because of seasonality but also we think some people will choose not to play in the emerging world of the ELDs, that that will help us relative to freight selection opportunities and driving contribution within the system. Then as you start to see capacity tighten, then you start to see the overall pricing and we would think about it through a lens of static contribution for that to tighten and to rise. So, that's really behind it.

The other side of it is, again, how we move into the marketplace with these three segments. As you see capacity tighten in the truck market, it creates opportunities for growth and tightening in the intermodal market, and frankly, both of those give—start to create some volatility that allows us to both create value but also become more effective within our logistics business. So, these things play together and we
expect that concert, if you will, to improve kind of at a slow drumbeat throughout the remainder of the year.

Mark? He said I guess I said it all. All right.

**Chris Wetherbee:**

Yes. Thank you very much. That was a very comprehensive answer, Chris. I appreciate the time and congratulations on the first quarter out of the gate.

**Christopher B. Lofgren:**

Thank you.

**Operator:**

Thank you. Our next question is coming from Brian Ossenbeck of JP Morgan. Please go ahead.

**Brian Ossenbeck:**

Hey, good morning. Thanks for taking my question.

**Christopher B. Lofgren:**

Of course. How are you this morning?

**Brian Ossenbeck:**

Good thanks. So, I just kind of wanted to go to a little bit different route and talk about Watkins & Shepard and Lodeso coming up, I think, the one year anniversary of that acquisition before too long here. So, just wanted to get a sense of how that acquisition has progressed and integrated, and maybe if you could give us some details on what that actually contributed into the quarter, because it does seem like it was one of the growth factors when you look at the Truckload segment? Then if you can just step back and give us like a three- or five-year view of how you think Final Mile delivery white-glove service is going to progress here throughout the next couple of years.

**Christopher B. Lofgren:**

This is Chris. Why don't I start with the back end of your question and then I'll turn over the front part of it to Mark. There's just no doubt that all of us, in terms of our buying behavior, whether it's our busy lifestyles or just a matter of convenience, more and more things are being purchased through an e-commerce website and it goes even to things like exercise equipment, gun safes, furniture, flooring, carpet. All of these kinds of things we're seeing a lot of growth and those type of goods don't flow as easily through the traditional mechanisms where e-commerce has moved.

That was behind the strategy. We see that continuing, building out a pipeline of opportunities. So, we're very, very positive about what we've done. These things are always interesting to do when you combine two companies. There's just—you can't foresee everything, but from our standpoint, we couldn't be more pleased with the reception that we've gotten from the customers. We have a great group of people that have become part of our Company now and we're very excited about the long-term benefits that can be brought to customers and to our shareholders by us now having a very, very strong position in that niche of that market.
So, Mark, maybe I'll turn it over to you and you can talk about some of the flavor of the integration, the things that we're doing and things that we want to maybe even improve on as we start to get to the anniversary of this event.

Mark Rourke:

Yes. You bet. Where the investments and the focus has been over the last couple of quarters is what we believe is a differentiated piece of this, which is the first mile combined in a seamless way all the way through either the B2B or the B2C, the consumer delivery, in one seamless approach with one company handling that, which is being received extremely positively from the customer standpoint. But it's required us, then, from a tech standpoint, to do some things from our technology to integrate that to change some of our business processes to do that. Then because at the time of the acquisition there really wasn't much—they had just started to do a company final-mile delivery network—certainly we can leverage the break ball (phon) buildings and all the other investments that they've already made, but we still have to go through the process and the hiring and the bringing the capital to bear against that.

So, that's where our inefficiencies are presently and that was what had a bit of drag on our performance overall and Truckload from a margin standpoint in the first quarter. Again, every week we get by, then we have improved operating metrics associated with that. So, but we'll still be investing in those locations between now and the end of the year, but we just—really the fourth and first quarter was our heaviest period of bringing those locations online.

Secondarily, we're getting involved in a whole different set of customers that are straight e-tailers, that have no brick-and-mortar, that don't have a distribution network that's traditional that would normally serve in other retail channels, so it's brought a whole series of new relationships to bear. That also has benefits that we're seeing in other parts of our offerings. So, highly encouraged, but it's very hard work and we're not through that and we're not done, but it offers great promise to the market and great promise to the organization.

Brian Ossenbeck:

Okay. Great. Thanks for all the information there. Last one, just a quick follow-up to the other comments on used vehicle market. It sounded like you were putting some into the lease fleets and paying a little bit more to get those up and running and out the door so to speak. So, just wanted to get a broad sense of how you expect that market to progress throughout the rest of this year, kind of what's embedded in your guidance, and if we've seen any sort of the stabilization or uptick here after the quarter's ended through the middle of May.

Christopher B. Lofgren:

Brian, this is Chris. Let me take one piece of it and then I will turn it over to Lori. I think what we're seeing is, again, like in the pricing area, that we're seeing things stabilize, harden. I'm not sure in the used equipment market that we're seeing any big upturn, but it's probably reached the bottom hopefully, hopefully. I think that from our standpoint, people did a really good job of executing in that market in the first quarter for the disposals that we got.

I'm going to—I think Lori wants to make sure that you understand when we talk about our Leasing company, what's going on there. It has not to do with the equipment that's part of our fleet, it has to do with equipment that we may end up through the Leasing business, and we kind of look at those reasonably separate. So, Lori, go ahead.

Brian Ossenbeck:

Okay.
Lori Lutey:

Yes. So just to clarify, obviously in our normal Schneider fleet, we've got equipment that we end up selling as we replace it in the used equipment market. Separately from that, we have a Leasing business and sometimes the equipment that we've put out on lease is returned to us for whatever reason by the owner operator, and so we will take that equipment back and we will refresh it and re-lease it. So when you do that, there are additional expenses which impacted our Other segment as we had more leasing of used equipment versus leasing of new equipment. But, that's separate and distinct from the used equipment for the normal Schneider fleet. Does that help clarify that?

Brian Ossenbeck:

Yes. It does. Thanks for making that distinction and for taking the time this morning. I appreciate it.

Christopher B. Lofgren:

Have a good day.

Lori Lutey:

Thank you.

Operator:

Once again, that is star, one to register any questions at this time. Our next question is coming from Ben Hartford of Baird. Please go ahead.

Benjamin Hartford:

Good morning. Thanks for fitting me in. On the brokerage side, strong volume growth, specifically in brokerage and logistics generally; I'm interested in the sources of that growth, share gains or otherwise, and the components of it, Truckload versus LTL. Then, I guess in that same vein, how do you think about the cadence of that volume growth in particular through the balance of the year and the underlying yield dynamic as you do expect the back half of the year to harden as you say, Chris?

Christopher B. Lofgren:

Ben, I'm going to hand that ball over to Mark and let him kind of get down into the detail of that.

Mark Rourke:

Sure, Ben. Our brokerage offering has a heavy component of Truckload and LTL, more so than the other modes, and both of those are experiencing the growth trajectory that's representative of that number. What we've had more issue with in the short-term—really this a multi-quarter effort now here—is in the net revenue per order as truck expectations that we just talked about affirming, we're seeing some of that certainly in the brokerage PT space, Purchase Transportation space, and we're not getting at the same rate or haven't gotten (phon) the same rate from the customer in the brokerage market as there is more choice there. So, it's stable. It hasn't really gotten down, but we haven't seen enough volatility in that market for us to be able to improve the net revenue per quarter.

So, that's why the revenue growth is coming on an order count basis, but we're not extending the margin on a per order, at least at this juncture. But certainly, that's the business that moves the fastest and we would expect that as we go out to the rest of the year, that we'll start to see some return to volatility that will allow us to do that. But, from a growth standpoint, we feel both in the spot and the contract space where on that same trajectory.
Benjamin Hartford:

I guess to follow on that, Mark, absent any sort of volatility took to the market, you have the Quest platform, there's obviously increased interest from new entrants in the brokerage space generally. When you think of the opportunity on the brokerage side with regard to growth, where does it come from? Does it come from share gains, does it come from just expanding the overall addressable domestic brokerage market? How do you think about and assess the credibility of some of the threads of new entrants in technology and potential spread compression?

Mark Rourke:

I think our view to that is that we have both share gain opportunity and growth gain just because of—and just brokerage growth just because we expect to see a tightening. Our investments with Quest really do center around advanced decision science as it relates to both the buy/sell of the equation so that we can give more real-time information in front of our sellers and brokers that's ultimately focused on expanding net revenue per order is really our objective or our contribution per order focus there. So, those investments have been made we're seeing some benefit of that and got the group excited about that potential.

Ultimately, we expect that there's going to be, as always in this space, lots of new entrants. Ultimately, when a customer puts an order in to brokerage, they expect it to move, not just to have it sit there and be exchanged. I think what we and others do well is ensure that once it gets there, it moves, and that's an important component that sometimes I don't think gets talked about enough because to get liquidity, the customer has to have their proper experience on both the coverage and the price point.

Benjamin Hartford:

Okay. That's helpful. Thank you.

Operator:

Thank you. Our next question is coming from Matt Troy of Wells Fargo Securities. Please go ahead.

Matthew Troy:

Yes. Thanks. You mentioned using about $100 million in proceeds for debt reduction. A lot of carriers in your sector run without debt on a consistent carried basis, anyway. I was wondering, in terms of priorities for capital, how should we think about deployment going forward in terms of your prioritization of debt reduction, dividend, the gain of purchases and truck purchases. Just help us understand how you prioritize that.

Christopher B. Lofgren:

Well, let me start with that and then see if Lori wants to come in behind on that. Matt, we are willing to put capital into this business when we can generate reasonable returns. Now, we do that thinking about where are we in the cycle, but also through a cycle and sizing the organization appropriately. We do think the Quest capabilities have given us maybe a little bit more opportunity to stretch on the upside, recognizing that there's going to be a downside in every cycle. So, when we can find opportunities to purchase equipment and to put quality, safe drivers into them, we're going to do that. We're not going to relax our standards in terms of what we insist on having in terms of capabilities of our drivers that are out there. They have to face a challenging motoring public in terms of operating an 80,000-pound vehicle around those, and sometimes in high congestion, and so we're not going to compromise safety for growth, but we've been able to successfully do that over 80-plus years and we're going to continue. So, we want to grow the business when we can do it appropriately, but we want to do that with discipline.
We plan to be a dividend-paying Company and the Board will get the opportunity to vote on a second quarter dividend. We paid one in the first quarter, so we're committed to that program. We're obviously, with not a significant amount of float of the Company, we're not looking to repurchase shares, and when we can buy down debt, we'll do it if we don't have better uses of the capital, and position ourselves to be able to do some things with acquisitions.

But, Lori probably has a better view of sort of the tone and tenure of our debt and how that will play out. Maybe you can talk about the structure of the debt coming out of this event and kind of the horizon for which we have some and that may help Matt figure out how to model that.

Lori Lutey:

Sure. So, the $100 million repayment that we made here in May was our highest cost debt, and really, the most significant tranche of debt that we have coming due anytime soon. Not as of the quarter but as of the IPO, we've paid off all our variable debt. We do have some fixed debt that comes due in various tranches through, I believe, 2024 and there are significant repayment penalties that we'll have to weigh before considering using cash to pay down any of that debt on an early basis. So, I guess our prioritization would be making sure we adhere to our level by strategy in our replacement equipment. We think that's an important item to do; then use, as Chris said, any additional cap ex for growth when it's responsible, and we'll provide the right return; then, finally, making sure we're a dividend-paying Company and have cash available for M&A, should we see the opportunity.

Matthew Troy:

Okay. Thank you for the detailed answer. My follow-up would be simply: I know that the brokerage business, Logistics business, has been a rapid grower and has reached critical mass in the last several years. One area where you might look to supplement potentially would be more internationally. I'm wondering if you're weighing or should we really think about the growth focus and potential acquisition opportunities as being primarily domestic?

Christopher B. Lofgren:

Let me—this Chris, Matt. If you think about the business that we have, the small business that we have in China, it's principally driven really from a logistics standpoint, and a lot of that is a little bit different, but if you think about that, it's mostly a brokerage business with some consolidation centers to help facilitate that. From an international standpoint, our focus isn't to jump into forwarding or anything like that. Then we do have the business that crosses border with Canada and Mexico, and maybe I can turn that over to Mark and just let him talk a little bit about how those aspects of our business play.

Mark Rourke:

Hey, Matt, I don't know if you were thinking Mexico or Canada would be more domestic, but we're predominantly a cross-border. All of our service offerings play from intermodal to brokerage to our truck assets. So, important markets for us and big trade partners with the U.S., but I wouldn't see us doing anything beyond. I guess that would be the extent, I think, of our international thought process.

Matthew Troy:

Okay. So, sticking to your knitting. Appreciate it. Thank you very much.

Christopher B. Lofgren:

One more. I think we've got time for one more.
Operator:

Thank you. Our next question is coming from Allison Landry of Credit Suisse. Please go ahead.

Allison Landry:

Good morning. Thanks for getting my question in. So, I wanted to follow up on the focus on contribution and how it’s helping you weather the current environment, specifically in the Truckload segment. I would assume that fuel had a sizable negative impact there, so if we were to isolate that impact from op ex, would segment operating income have increased year-over-year or would the decremental margins be lower than what your peers are seeing or maybe relative to your own historicals? Just trying to think through the quantitative impact of Quest. Thank you.

Christopher B. Lofgren:

Quest or fuel, Allison? What…?

Allison Landry:

Well, if we were able to isolate the impact of fuel from the segment operating expenses, how would operating income look, whether it's increasing year-over-year or thinking about it from a decremental margin standpoint?

Christopher B. Lofgren:

Yes. I think if you look at the Truck business with the exception of the Ford (phon) investments, the 120 basis points back from a year ago and 90 basis points or so that was associated with our Ford investments in our new acquisition, I would contend that that's a fairly solid performance considering the environment. As you mentioned, fuel surcharge recovery, all of that is contemplated in how we assess freight, and our system allows us to take all those components from price to throughput to fuel surcharge recovery, all of those things go into the calculation so that we have an all-in look and an all-in value as it associates with our decisions that—and, again, the decisions that we can make. We're not making dynamic decisions on 100% of our freight, but where we have those opportunities and on the edges. That's where we take great advantage of the investments that we've made.

So, I think putting all that together, Allison, looking at the performance, considering the environment and some of the other competitive pressures, I think it's a good demonstration of what Quest does for us.

Allison Landry:

Okay. Thank you.

Christopher B. Lofgren:

Thank you.

Operator:

Thank you. At this time, I'd like to turn the floor back over to Management for closing comments.

Christopher B. Lofgren:

Well, we appreciate everybody coming on the call today. It's good to get this one underneath our belt. We're now, I think—we have to go to a conference or two and we'll start to build our muscle as a public Company, but we appreciate everybody's time. For those of you who have chosen to come along and
invest with this, we appreciate that and we’re looking forward to the journey. So, wish everybody a good day. Thank you.

Operator:

Ladies and gentlemen, thank you for your participation. Today’s conference has concluded. You may disconnect your lines at this time and have a wonderful day.