THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

DSKE - Q3 2017 Daseke Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 09, 2017 / 4:00PM GMT

CORPORATE PARTICIPANTS

Don R. Daseke *Daseke, Inc. - Founder, Chairman, CEO and President*

Geralyn Maher DeBusk *Halliburton Investor Relations - President*

John Michell *Daseke, Inc. - Director of Finance*

Scott Wheeler *Daseke, Inc. - CFO, EVP and Director*

CONFERENCE CALL PARTICIPANTS

Barry George Haimes *Sage Asset Management, LLC - Managing Partner and Portfolio Manager*

Bruce Martin

David Schmookler *Kingsland Capital Management, LLC - Principal of Fixed Income*

Paul Richard Penney *Northland Capital Markets, Research Division - MD& Senior Research Analyst*

Steven Lee Dyer *Craig-Hallum Capital Group LLC, Research Division - Partner & Senior Research Analyst*

Steven Ralston *Zacks Investment Research, Inc. - Senior Special Situations Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to Daseke Incorporated Third Quarter 2017 Conference Call. (Operator Instructions) As a reminder today's conference call is being recorded and will be made available for replay.

I would now like to introduce your first speaker for today, Geralyn DeBusk of Halliburton Investor Relations. Please go ahead.

Geralyn Maher DeBusk - *Halliburton Investor Relations - President*

Good morning, everyone. Thank you for joining us today on Daseke's Third Quarter 2017 Earnings Conference Call.

On Slide 1. This presentation today includes forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include projected financial information. Forward-looking statements, including those with respect to revenues, earnings, performance, strategies, prospects and other aspects of Daseke's business are based on current expectations that are subject to risks and uncertainties that could cause actual results to differ materially from our expectations and projections. I encourage you to read our filings with the SEC for a discussion of the risks that can affect our business. We undertake no obligation to revise our forward-looking statements to reflect events or circumstances occurring after today. During the call, there will also be a discussion of some items that do not conform to U.S. Generally Accepted Accounting Principles, or GAAP, including adjusted EBITDA. Reconciliations for these non-GAAP measures to their most directly comparable GAAP measures are included in the appendix to the investor presentation and press release issued this morning, both of which are available in the Investors tab of the Daseke website, www.daseke.com. In addition to being in the flatbed specialized trucking business, Daseke is in the business of acquiring other flatbed specialized carrier's to join Daseke. Therefore, investors in Daseke's stock should assume Daseke is always evaluating, negotiating and performing due diligence on potential acquisitions. Furthermore, Daseke has never executed a binding contract for any acquisition until the closing date. This practice enables Daseke to perform due diligence until the closing date without any contractual obligation to ever close the acquisition transaction. Once the acquisition is closed, Daseke will issue a press release and may -- and any requisite filing with the SEC. On Slide 2. On this morning's conference call Don Daseke, President, Chief Executive Officer and Chairman of the company, will discuss the company's consolidation strategy and outlook. Scott Wheeler, Executive Vice President, Chief Financial Officer and Director, will discuss in more detail the company's third quarter financial results and recent acquisitions. Also on the call this morning are Angie Moss, Senior Vice President and Chief Accounting Officer; and John Michell, Vice President of Finance. After our prepared remarks, the management team will take your questions.

With that, I will now turn the call over to Daseke Inc.'s President, CEO and Chairman, Don Daseke.

Don R. Daseke - *Daseke, Inc. - Founder, Chairman, CEO and President*

Thank you, Geralyn. Good morning. I'm Don Daseke, President and CEO of Daseke. On behalf of all the people of Daseke, I welcome you to today's call. We appreciate your interest in our growth story. Turning to Slide 3. Today's call will be centered on 4 key areas: one, our very successful equity raise; two, continuing to execute on our consolidation strategy; three, the mix results from operations for the third quarter; and four, a reaffirmation of our expectation to reach $140 million in pro forma adjusted EBITDA by year-end 2017.

Moving to Slide 4. Daseke is the leading consolidator of the $133 billion flatbed specialized transportation and logistics market. Despite our being the largest owner of flatbed and specialized equipment, we represent less than 1% of this highly fragmented market. This is what we believe to be the massive opportunity for future growth. Our operations focus on the transportation and logistics of industrial output on behalf of major manufacturers across North America. Daseke has a highly diversified customer base, and many of our largest and longest standing relationships are with FORTUNE 500 companies for whom we transport heavy, cumbersome, high-value and time-sensitive cargo. In February of this year, we became a public company with a stated goal of having strong access to more efficient capital to continue our consolidation strategy of this very fragmented market.

Since going public, we have executed this focused strategy by closing on 4 acquisitions to date in 2017. Between 2009 and year-to-date 2017, Daseke has acquired and integrated 13 flatbed and specialized companies and has grown revenue from $30 million to pro forma adjusted revenue of $869 million, a compound annual growth rate of 62%. We are building Daseke upon 2 core principles: One, we invest in people; and two, scale matters. Top-tier flatbed and specialized companies who choose to join Daseke respect and understand these principles and recognize the benefit throughout their organizations. We invest in people. And we have a deep and talented management team who are able to be close to their customers and our employees, especially our drivers. They can take on challenges in real time and move quickly to solve issues. Scale matters, and together we are stronger. We attract top-tier operators who understand that scale is increasing in importance as we work to stave off costs, support customers with quality capacity and share practices that improve the organization from the ground up.

Of course, success is not without its challenges and headwinds. The #1 challenge we face is the same challenge faced industry-wide, attracting quality drivers. In simple terms, the freight demand is high, but the ability to serve our markets with an adequate supply of quality drivers is an ongoing test. Unseated tractors don't perform -- don't produce revenue. We are working diligently in creative and effective ways to attract and retain the best drivers in the industry. And that will continue to be our focus of our team into 2018. This past quarter also had very tangible challenge in the form of 2 weather events, as Hurricane Harvey resulted in costly disruption of our business along the coastline of Texas. And Hurricane Irma impacted our service across Florida and up the East Coast as far as Charleston, South Carolina. The impact of those hurricanes was felt beyond just the business aspects. Daseke employs individuals across North America. We have a number of folks who live in the affected areas. For them and their neighbors, the storms had a very major life impact. On a personal note, I'd like to say how very, very proud we are of the way our people responded in this time of need. Daseke employees who immediately went to the front lines, whether as National Guardsmen or volunteer first responders, plus those individuals thrust into action based on immediate circumstances. They made a difference, a real difference in saving lives and offering comfort to those in need. To them I say, you're all great neighbors and national heroes, and we thank you.

Turning to Slide 5. In September, we completed our first follow-on equity offering that raised roughly $65 million in new capital for Daseke. The offering was upsized and ultimately oversubscribed by 5x. Needless to say, we were very pleased by the market's reception, particularly noting that our stock price has risen by more than 5% since the offering. We welcome our new shareholders and thank those existing shareholders who took this opportunity to increase their position with Daseke.

Turning to Slide 7. We brought on 2 excellent specialized companies in the third quarter: the Steelman Companies on July 1 and R&R Trucking on September 1.

On Slide 8. The Steelman company joined the Daseke family on July 1, strategically adding to our geographic service areas, industry verticals and service offerings. The Steelman Companies are award-winning operators in the flatbed and specialized market, previously achieving the prestigious designation as one of the "Best Fleets To Drive" For by Carrier’s Edge. With primary service hubs based in Western Missouri, Steelman will fortify

Daseke's depth of service and geographic footprint in the Midwest. Their contributions will add to Daseke's scale of operations including asset light revenue, industrial warehousing operations and a stronger presence in the powersports and heavy haul markets. The Steelman Companies are led by Jim Towery, a prominent name in the transportation market given his past leadership roles in many respected organizations within our industry. We are very pleased to include Jim and his entire team as part of Daseke. We believe we are continuing to build the deepest, highest-quality management team in the flatbed and specialized market.

Now if you turn to Slide 9, you'll see some of the details regarding another successful step in this process. R&R Trucking is the leader in North America's transport of government and commercial arms, ammunition and explosive, or AA&E for short, plus radioactive cargo and hazardous materials, providing freight services to both the government and commercial AA&E markets. This represents a new high-end market category for Daseke that we have been working to enter: high-security cargo. R&R was founded in 1988 and is headquartered in Missouri, near Joplin. Their primary customers are the Department of Defense and commercial defense contractors. Fewer than 20 companies in the United States are approved to provide this kind of transportation for the Department of Defense. Led by industry veteran Phil Nelson, R&R is the second largest munitions carrier for the Department of Defense and is authorized to operate 2 of only 3 privately run, DOD-approved secured terminals for this type of freight in the United States. With our ability to serve this niche of the specialized freight industry, Daseke's already diverse customer base and list of end markets become even further diversified. In adding R&R, the Department of Defense will become a top 10 customer for Daseke.

On Slide 10. Since May 1, 2017, Daseke has acquired 4 operating companies that provide flatbed and specialized transportation and logistics services across the United States and Canada. Those integrated the companies are the Schilli Companies, Big Freight Systems, The Steelman Companies and R&R Trucking. The 4 acquisitions combine for a total estimated 2016 revenue of $218 million and $26 million of adjusted EBITDA, with 50% of revenue estimated as asset light or logistics related. The weighted average purchase multiple for the four 2017 acquisitions is 5.4x 2016 adjusted EBITDA, with the multiple calculation taking into account the sum of cash consideration, stock consideration and debt assumed for the acquired companies. Daseke now operates over 3,800 trucks, 8,200 flatbed and specialized trailers and more than 1.2 million square feet of warehouse space, which facilitates industrial, logistic and distribution services.

I now turn you over to our EVP and CFO, Scott Wheeler.

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

Thank you, Don. Please join me on Slide 11. Daseke reports in 2 segments, flatbed and specialized. As of year-to-date September 30, our revenue was split 43% flatbed and 57% specialized. That represents an increase in the percentage of specialized revenues from the second quarter of 2017, when we were 47% flatbed and 53% specialized. Our revenues for the quarter were 62% asset based and 38% asset light. This also differs from the prior quarter and represents a small shift in mix from 64% asset based and 36% asset light or logistics. In both of the above stated areas, we expect these percentages to ebb and flow with the rhythm of our newly acquired companies. As a general rule, you can expect us to continue to seek a balanced [mix]. Now let's try to get on Slide 12. Daseke continues to maintain a well-diversified revenue base, with an increasing variety of end-user customers and end markets served. Our newest end market, high-security cargo, both government and commercial, while small currently, represents a stable, noncyclical revenue stream that we found highly attractive. Also as mentioned earlier, the Department of Defense will become a top 10 customer for Daseke. We're also well positioned to continue to benefit from the anticipated outsized demand in the building materials market as it relates to the recent weather events and an improving domestic metals markets.

On Slide 13. We will now move forward to discuss our third quarter 2017 financial results.

On Slide 14. In a quarter where our EBITDA increased in both operating segments and also overall by $2 million over the same quarter and the prior year, we had 4 main impediments to reaching the total EBITDA we had anticipated. One, we are experiencing higher open driver positions compared to our historical averages, which equates to a 133 unfilled positions. To address this situation, driver wages were increased an average of 5% in the quarter. Also our incentive stock program for drivers was instituted in the last month of the second quarter. Our retention rates have improved since that time. Of course, we are unable to empirically tell if this is directly due to the wage increases, the stock program, both combined or other factors. While our retention of existing drivers is improving, our focus must be on the inflow of new well-qualified drivers. Two, approximately 95% of our business is through contracted rates with long-term customers. These contracted rates affect us in 2 main ways. First, while we continue to have high volumes of freight available to us, we are unable to mirror the types of rates being realized in the pure spot market. So contracts often collar us from reaching the highest highs of the spot market in an increasing rate environment, but this model also insulates us from hitting the lowest lows in a decreasing rate environment. Plus contracts afford us the security of long-term relationships in freight. Secondly, in our brokerage operation, which represents approximately 10% of our total revenues, the rates were -- that we are paying third-party carrier's is more dependent upon the spot rates, while the gross rates we receive are contracted, causing margin compression in this area of our business. In the third quarter, our flatbed rates were up 2.7%, and our specialized rates increased 3.1% over the prior quarter. We still continue to seek rate increases where and in amounts we deem appropriate. Three, we have experienced some very large health insurance claims during 2017, representing a significant disproportionate cost resulting from a small percentage of our employees, as we self-insure up to $250,000 per member. As a result, we are changing our programs and administrators on January 1, 2018, to better manage the rate of growth of our health care claims and to more closely control end patient care cost utilizing our scale to help mitigate these costs. Four, we experienced 2 significant hurricanes in 2 of our heaviest areas of operations during this quarter. The estimated impact to earnings is $3.3 million and stems from the lack of freight movement in the affected areas, disrupted freight balance, out of route miles, higher diesel prices, disrupted diesel availability, higher maintenance costs and higher cost to route drivers to their homes, terminals and National Guard obligations. While our company will always be affected by major weather events, we view these extraordinary in their severity and broad geographic reach and, therefore, onetime in nature.

On Slide 15, you will find a photo of one of our warehouses -- not in Houston, but in Savannah, Georgia, hit by Hurricane Irma. Fortunately, no one was injured, but it took a week to resume operations in this region, and a new space has been leased while rebuilding takes place. We experienced significant disruption from Corpus Christi, Texas, to Charleston, South Carolina, where in Charleston we lost power for 48 hours at our major facilities. During the 2 weeks the hurricanes occurred, load counts down 15% to 20% overall, and operations in specific regions experienced load counts down from 30% to 45% compared to previous weeks. Even after the events we operated at less than normal levels for several weeks.

On Slide 16. As an example of the impact on freight service in these reasons, you'll find a heat map of the loads in the South Texas region we delivered the week prior to Hurricane Harvey, and the week following Hurricane Harvey. You can see the significant slowdown in the region from Corpus Christi to Greater Houston and inland as far as San Antonio.

On Slide 17, you will see similar load destination effects in Florida on the east and west coast lines and inland to Orlando. We're back to normalized operations in the affected areas and anticipate a rate growth environment in the near future. However, we are unable to predict when that will occur. There will almost certainly be a significant demand for increase in building materials in the areas affected by the storms, which will mean an increased demand for transportation of those materials. But it's not possible to accurately forecast when insurance adjustments will be finalized, when the insurance proceeds will generally become available and when construction capability will become available. We anticipate that this will likely create a slow but steady stream of rebuilding materials moving to those areas over the next 9 to 12 months.

On Slide 18. Looking at the results by segments. Daseke's flatbed rate per mile has improved each sequential quarter from the fourth quarter of 2016 to the third quarter of 2017. This segment increased its rate per mile by $0.15 or 8.7% year-over-year compared to the third quarter of 2016 and 2% over sequential quarters from the second quarter of 2017. We continue to have constructive conversations with our shipper partners and having ongoing discussions on rates, as they need to be able to secure capacity for the long term. Revenue per truck declined in the third quarter from $42,900 to $42,000 due to the referenced increase in our open driver positions. In spite of a healthy rate increase quarter-over-quarter, revenue per truck decreased due to a consistent number of trucks but with fewer divers. We drove $1.6 million fewer miles but reported an increase in profitability, giving us comfort in the continuation of trends in this segment. It should be noted that none of Daseke's acquisitions year-to-date in 2017 were in the flatbed segment.

Moving to Slide 19. You can see that the specialized segments shows positive trends in both rate per mile and revenue per truck and also in line with seasonality but has been slower to rebound than the more robust flatbed segment. The data on this slide includes the 2 acquisitions closed in the third quarter of 2017. Specialized rate per mile declined from $2.98 in the third quarter of 2016 to $2.70 in the third quarter of this year, and revenue per truck declined from $53,800 in the third quarter of last year to $51,400 in the most recent quarter. However, this is our third straight quarter of rate per mile increases and the fourth quarter in a row of revenue per truck increases. Our lower rates per mile year-over-year are in part due to the impact of the 2017 acquisitions having different end markets and revenue profiles, but it is also due to the continued softness in our over-dimensional loads. We spoke on the last earnings call about some positive trends we were seeing in July in this market. However, we did not see those trends continue in August or September, as we saw a shift in freight away from our over-dimensional loads, which were related to larger CapEx projects and carry a higher margin profile. This segment drove approximately $7.6 million more miles in the third quarter of '17 than the prior quarter with 373 more trucks, with the increase in both attributable to the third quarter's acquisitions. It should be noted that the uniqueness of the end markets within the specialized segment will make these metrics more difficult to compare within quarters in which we've completed multiple acquisitions.

Looking to Slide 20. We reported an increase in revenues, adjusted EBITDA and net income. Adjusted EBITDA increased both year-over-year from the third quarter of 2016 to the third quarter of 2017 and sequentially from the second quarter of 2017. Overall, Daseke's adjusted EBITDA was $27 million in the third quarter of 2017 compared year-over-year to $25 million in the third quarter of 2016. Both the flatbed and specialized segments reported increased revenue and EBITDA in the third quarter of 2017 over the third quarter of 2016. Despite these positive increases, our margins were impacted by several factors, including, the higher percentage of asset-light operations in the 2017 acquisitions. We had increased expenses related to acquisitions including increased professional fees such as quarterly reviews, stub period audits and partial year tax returns as well as cost to onboard and integrate the recent acquisitions. We also had an increase in labor cost, as driver wages increased approximately 5% compared to the last year. As I mentioned in our discussion on Slide 14, we have been actively exploring ways to improve driver retention. Ultimately, we believe improvements in this area will carry long-term benefits that outweigh the immediate impact on our margins. And a reminder from a -- the previous call, we are a contract carrier. We've seen significant improvement in the rates, but we have 20-year-plus customer relationship with our largest customers in large part because we honor our commitments to those customers. The supply demand dynamics are trending in a positive direction, and we expect this trend to continue as we move through our ongoing contract renewals. And as stated above, our margins and EBITDA were negatively impacted by the effects of 2 major hurricanes.

Slide 21 demonstrates a highly summarized impact of the challenges we faced in the third quarter. We estimate that our open driver positions beyond the historical average had a $2.4 million impact, while the hurricanes had a $3.3 million impact over -- overall a $5.7 million negative effect. On our last call, we guided to the low end of our original organic adjusted EBITDA projections of $95 million to $104 million. Based upon these impacts, we expect organic EBITDA to be below the originally guided range. We are, however, reaffirming our overall 2017 pro forma adjusted EBITDA target of $140 million, as we continue to execute on our robust pipeline of quality companies looking to join Daseke.

On Slide 22, you will find that the EBITDA for both operating segments were up year-over-year regardless of the challenges we faced this quarter. The growth in flatbed is purely organic, as this segment continues to show strength and recovery. Specialized EBITDA increased $4 million on a GAAP basis but was flat in the third quarter of 2017 over the third quarter of 2016 after removing the effect of acquisition. We have consistently stated that we are in the early stage of building Daseke. As such, we continue to invest in building the team and the infrastructure to continue our growth trajectory and consolidate the market while building Daseke for the long run. These efforts are reflected in the increased costs in our corporate framework.

On Slide 23. From here, we'll look at our outlook for 2017.

Turning to Slide 24. As of September 30, Daseke had $113 million of cash on the balance sheet. The company also had a $70 million undrawn revolving line of credit. Later today, we will launch a planned increase in the amount of the senior debt facility to provide additional capital to support our growth. In review, Slide 25 summarizes some of the key takeaways of today's discussions. In this quarter, we successfully executed a $65 million equity raise that was 5x oversubscribed. We had 2 excellent companies join Daseke. We added a new end market of high-security cargo along with adding a new top 10 customer, the Department of Defense. Furthermore, we fortified our presence in the Midwest and powersports markets. However, we had mixed results in the third quarter from results of operations. EBITDA in each operating segment and overall was up over periods -- over prior periods but did not meet management expectations. While flatbed continues to be strong, specialized is slower to improve, seated truck counts are being addressed and the hurricanes were a challenge on multiple fronts. Importantly, we remain on track to achieve our 2017 pro forma adjusted EBITDA target of $140 million. In summary, the third quarter produced lower results in our internal expectations due to factors felt throughout the trucking industry this quarter. However, in conjunction with our high-growth consolidation strategy, Daseke is well positioned and moving forward to capture upside in a tight market.

With that, I'll turn the call back to Geralyn.

Geralyn Maher DeBusk - *Halliburton Investor Relations - President*

Thank you for your time today. We will now open the floor for questions from our guests.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question or comment comes from the line of Steve Dyer from Craig-Hallum.

Steven Lee Dyer - *Craig-Hallum Capital Group LLC, Research Division - Partner & Senior Research Analyst*

Scott, I think you touched on this. Could you just kind of go back through what revenue was in the quarter from the 2 newly acquired companies. Just trying, again, get at the organic piece from a revenue and an EBITDA perspective?

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

We don't disclose the results of individual operating companies, and we report by segment.

Steven Lee Dyer - *Craig-Hallum Capital Group LLC, Research Division - Partner & Senior Research Analyst*

Well, I think you said -- so flatbed is all organic on the EBITDA side and presumably the revenue side as well. So the specialized EBITDA, did you say it was -- was GAAP flat year-over-year? And so all the excess must be from the new companies. Is that a fair way to think about it?

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

Yes, that's accurate.

Steven Lee Dyer - *Craig-Hallum Capital Group LLC, Research Division - Partner & Senior Research Analyst*

Okay. You talked about the previous sort of organic range being towards the bottom end of that. Is there anymore sort of precision -- or below the bottom end of that? Is there anymore precision you can give around how to think about kind of Q4?

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

I think we would be talking closer to $90 million, Steve. The -- we -- as I alluded to in the comments, while we continue to see the same sort of robustness in flatbed that you would expect us to see, the specialized segment is still lagging, and we expected to see a pickup in the third quarter that just did not materialize. And we do not have a great deal of confidence that it will improve greatly in the fourth quarter either.

Steven Lee Dyer - *Craig-Hallum Capital Group LLC, Research Division - Partner & Senior Research Analyst*

Okay. Just as far as the driver shortage goes, will the institution of ELD, will that make that even harder kind of at the end of this year? Or how do you think about that?

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

I think the acquisition of drivers is undetermined as it relates to ELDs. I think you may see a shift on where they drive and whom they drive for. We would hope there is no -- and this is, just we would hope that, that might create an opportunity for some people who are driving on their own and might want to join Daseke with the greater security, either as an owner-operator or as a company driver.

Steven Lee Dyer - *Craig-Hallum Capital Group LLC, Research Division - Partner & Senior Research Analyst*

Okay. And then as far as your health insurance, you had kind of called that out. That was a big number. Can you remind me, do you guys self-insure?

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

We self-insure up to $250,000 per member, and then we have a stop loss above that. And we have seen a very large increase in inpatient claims, and so we instituted a program to focus on that, that we feel very strongly about that -- and we have very high hopes for.

Steven Lee Dyer - *Craig-Hallum Capital Group LLC, Research Division - Partner & Senior Research Analyst*

Okay. Lastly, from me, and I'll turn it over. Can you give us CapEx both for the quarter and the year? What I -- the 10-Q seems to differ a little bit from what you hand out in the supplement.

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

I'll let John take that question.

John Michell - *Daseke, Inc. - Director of Finance*

Yes, Steve. For the full year, we had originally guided to $49 million. We've updated that to reflect actual spending, and it will be $35 million for the full year. Keep in mind that does include the 4 additional companies.

Operator

Our next question or comment comes from the line of Paul Penney from Northland Security.

Paul Richard Penney - *Northland Capital Markets, Research Division - MD& Senior Research Analyst*

Building off your R&R acquisition, are there other AA&E-related companies out there on the horizon in terms of being acquired? And is that a proactive goal for you guys?

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

Well, we can't comment on any specific acquisition target in any industry vertical, but there are several companies in that space. But it's a smaller space than you would imagine, which is one of the reasons R&R was so attractive to us is that in the particular space around defense as the customer, there are probably less than 20 carriers that are of scale that are authorized to move those kinds of goods.

Paul Richard Penney - *Northland Capital Markets, Research Division - MD& Senior Research Analyst*

Okay, great. And when you look at your retention versus your peers, how do you think it compares? And is your stock plan viewed as a differentiated plus by the drivers at this point?

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

Well, I would say, yes, the stock plan has had a welcome reception with our drivers. And it has certainly had a positive effect, we believe, on retention. We don't know that it has given us an effect on recruitment as yet, but we certainly see it as a positive. There was a second part to his question. Paul, could you repeat the second part?

Paul Richard Penney - *Northland Capital Markets, Research Division - MD& Senior Research Analyst*

How does it relate to your peers? Compensation...

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

Yes, and frankly, we only know how we calculate it. We don't know how others calculate it, and we really don't have any empirical evidence or anything even in an article as it relates directly to our industry. All we know is kind of truckload at large. So we don't know. We suspect that we compare very well, but we really don't have any evidence.

Paul Richard Penney - *Northland Capital Markets, Research Division - MD& Senior Research Analyst*

Okay, great. Last one. When you look at the recent pricing trends in terms of spot pricing and flatbread and open deck. Can you give us some more detail on how much of a tailwind this is going to be at your back in terms of when you renegotiate new contracts with your customers?

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

Well, yes. I would say that we're not going to talk about what kind of rates that we achieved or are achieving with our customers because that's kind of competitive data. But I would point you to the fact that we -- our rates in flatbed were up 5.5% over the prior quarter, and the prior quarter was up 2.5% over that prior quarter and quarter 3 of 2017 over quarter 3 of 2016 is up almost 9% in flatbed alone. So we're seeing some pretty strong flatbed rate increases that have been offset a little bit by some increased cost, but the tone of conversations with our customers has clearly shifted. But, however, the specialized rates are not showing the same increases. We've had sequential increases in specialized but not back to the levels of the third quarter of the prior year. And it's really related to the freight mix. And so some of the best paying, most profitable work for us can be, as I alluded to in the prepared remarks, the over-dimensional loads, the stuff that's too high, too long, too wide, too heavy. And there has just been a lack of those kinds of movements in this -- in the last few months.

Paul Richard Penney - *Northland Capital Markets, Research Division - MD& Senior Research Analyst*

Okay, great. And just one last one. Will there be a tail to -- post the hurricanes in terms of related rebuilding efforts in storm-related areas? And do you think that that's an added tailwind to...

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

We believe it's a very strong tailwind that will sustain over a period of months. As I eluded to in the prepared remarks, it will dribble out as the -- perhaps even 9 to 12 months as the insurance claims get adjusted, the cash becomes available to the insurers to begin to develop, as the building materials are delivered and, frankly, as the construction crews are available. And there will be different effects. The East Coast, Florida, Georgia, Carolinas, parts of Alabama were mostly wind events. And so you could think largely about roofing and roofing materials and things related to that. But in the South Texas area, it was much, much more related to water. And so there's a lot more damage than you would typically expect to see in a hurricane besides just wind damage. There's a severe amount of water damage in the South Texas area. So we think that this will -- should have a really strong tailwind behind us for many months in all of those areas, in both types of materials and the geographic areas. And I think you would find that from any carrier in our segment would say the same thing.

Operator

Our next question or comment comes from the line of Bruce Martin from Still Lake Capital.

Bruce Martin

Quick question looking backwards and couple of questions looking forward. When you talk about the flatbed again versus the specialty, is there -- are there different end markets there? What do you attribute that weakness in specialty versus flatbed to?

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

Yes. They are different end markets. Flatbed is primarily 2 things for us. It does vary a little, but primarily it's building materials, things related to construction, and construction materials and steel. So steel comes in a wide variety of types. It could be finished steel, plate steel, steel coils, rebar, whatever, but -- so that's primarily what's happening on the flatbed. The specialized it's much more related to 2 things, large capital expenditures for perhaps heavy equipment, electricity production, projects, major construction projects. So we may be moving large construction recruitment; mining equipment; we could be moving agricultural equipment; or prestressed concrete panels for stadiums, parking garages, things like that. So yes, they are very different segments. And -- so I think one is more related to building materials and metals, and the other is more related to capital expenditures by our industrial consumer customers.

Bruce Martin

And just staying on that, do you have a rough idea of what's your market share at this point, pro forma, for the acquisitions you've done would be in each of those spaces?

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

I do not. What we have is we have a number supplied to us from FTR, which is an economic research house. We like their research. And they've estimated this market could be $133 billion in size for the flatbed and specialized markets. At our revenue, that would clearly give us less than 1% of the market. However, we're the largest owner and operator of this type of equipment in North America.

Bruce Martin

Okay. And then real quick, looking forward. I think if I heard you right you said $35 million of CapEx for this year. What do you see in '18? And when you talk about..

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

We think there -- I'm sorry, I interrupted you. I apologize.

Bruce Martin

No, go ahead. I'll ask (inaudible) the question (inaudible).

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

Now we expect '18 to be an outsized CapEx year, much like we had in '16 and '17, somewhat of a CapEx holiday. And the -- but we are in the budget process currently, and we will be presenting our finalized budget to the board next month, and we'll have a better feel for our official numbers. But we would expect 2018 to where -- while '16 and '17 were below normal, we would expect '18 to be above normal and then on average still get close to that. We guide typically to 7% of revenues as a really good ballpark for people to think about our expenditures for net capital expenditures.

Operator

Our next question or comment comes from the line of David Schmookler from Kingsland Capital.

David Schmookler - *Kingsland Capital Management, LLC - Principal of Fixed Income*

Can you remind me how long your contracts typically last?

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

Certainly. Our contracts are typically 1 year in length and would renew once a year. There is -- they renew throughout the year, and there is probably a greater percentage in the first 3 to 4 months of the year than 1/12 each month, but it is -- they are -- they renew at various times throughout the year. But they're typically 1 year in length. We will occasionally go longer for a really large special customer, but that's a rare instance.

David Schmookler - *Kingsland Capital Management, LLC - Principal of Fixed Income*

Great. I think you hit it on -- my follow-up on that one was that it sounds like you have kind of a bolus of contract renewals in the first quarter of the year. So do you expect the pricing improvement from flatbed to roll in as you renew those in the first half of year?

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

Yes.

David Schmookler - *Kingsland Capital Management, LLC - Principal of Fixed Income*

Okay. The other question I have is on the disclosure, or I haven't seen in it at least. I apologize if it's out there somewhere. The LTM pro forma adjusted EBITDA through the third quarter?

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

Yes, I have that number. LTM pro forma?

David Schmookler - *Kingsland Capital Management, LLC - Principal of Fixed Income*

Right.

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

Just under $100 million.

David Schmookler - *Kingsland Capital Management, LLC - Principal of Fixed Income*

Just under $100 million. Okay. So as you guys reiterated your guidance here for $140 million, I guess the implication is that there's kind of $140 million of EBITDA to go get the acquisitions, which I guess at a 5x multiples is something like $200 million. I appreciate you did the equity raise and the loan that you'll be adding on hence forth here. But just I guess, as it relates to bringing in that size of an acquisition, the risk that it might bring into the organization, I guess, as you're dealing with the driver shortage issues, the health care issues and stuff like that, can you just help me understand the -- how you guys are feeling about bringing on those kinds of acquisitions here, I'd imagine in the next couple of months?

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

Well, we believe that we have a very low-risk acquisition strategy that reduces the amount of risk in those things as much as can be achieved. Our focus on low-risk acquisition strategies is because we look for -- our primary focus is companies that are not for sale: great companies, great operations, great management teams that are willing to stay and help us to manage it. And so our focus on retention of the teams that build great companies, the focus on retention of the brand equity in those brands, we believe insulates us from those kinds of effects and, frankly, can help us diversify away even more and more from risk. One of the key tenets of our philosophy is diversification. It kind of stems from the very first company that was acquired and operated in 2009 had a huge customer concentration with 1 customer and 1 industry vertical. And since that time, we have systematically and programmatically diversified our revenue streams. And so we do that knowing that at any given time, one segment will be hot and another will be cold, and then conversely at another point in time another segment will be hot and another segment will be cold. And so we very much like the continued diversification of what we do and how we do it and where we do it and for whom we do it. And one of the things that we do when we -- the way we approach this is, we don't lose drivers, we don't lose management, we don't lose key team members due to our style of acquisition. And that is probably the greatest mitigant to the lack of qualified drivers is simply acquiring companies where we do not lose the drivers. But we do continue to believe that we have a very strong and bright future, and we believe in our strategy. We believe in the consolidation strategy and why it works and, as Don alluded to earlier, why the scale matters. And so we will continue to pursue that strategy.

Operator

(Operator Instructions) Our next question or comment comes from the line of Barry Haimes from Sage Asset Management.

Barry George Haimes - *Sage Asset Management, LLC - Managing Partner and Portfolio Manager*

I had 1 question. You mentioned the unseated trucks that you had and the driver pay increase that you put in. So since the end of the quarter, so October into early November, have you been able to bring that unseated count down? Just maybe an update on that?

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

Yes, we're not going to be able to discuss on the numbers mid quarter at this point. We would prefer to report on what actually happened as opposed to what we think is going to happen.

Barry George Haimes - *Sage Asset Management, LLC - Managing Partner and Portfolio Manager*

You can't even just say directionally if it's come down since the end of the quarter?

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

I would prefer to have actual empirical evidence to provide to you.

Operator

Our next question or comment comes from the line of Steven Ralston from Zacks.

Steven Ralston - *Zacks Investment Research, Inc. - Senior Special Situations Analyst*

Could you comment on the change in the business mix due to the recent acquisitions? You mentioned how the specialized and asset light have basically gone up 4 percentage points, but your goal is still to maintain a balanced mix. Are you going to try to move back to where you were and target near-term acquisitions in sort of asset-based flatbed companies? Or do you think you still have more flexibility in the range to add more specialized companies?

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

We have a lots of ability to flex here. We -- our view is it's 2/3, 1/3; 60, 40; 65, 45, we think it will continue to fluctuate depending upon the rhythm of acquisitions. As you -- as we continually talk about, we're focusing on companies that are not for sale. And the rhythm of acquisitions may have as much to do as when these high-quality companies and these terrific families have made the decision that now is a good time to make a move like this, much more than we have the precision to say we are going to target X percent of revenue streams and X percent of characteristics in this quarter. And that's more of the style of what we do, all knowing that we're sacrificing some of that precision in the freight balance but getting a much greater comfort in the lack of risk in the transaction because of the time -- ties and conditions of the companies that we're onboarding.

Steven Ralston - *Zacks Investment Research, Inc. - Senior Special Situations Analyst*

Are you seeing any -- well, you say you're being opportunistic. So as the acquisitions come truly available, you take advantage of them. But are you seeing some of the flatbed companies maybe pulling away because they're in a, let's say, a strong operating environment right now?

Don R. Daseke - *Daseke, Inc. - Founder, Chairman, CEO and President*

No, no. I think it more follows on what Scott said that it's a matter of timing for each individual company. Because typically we are buying these companies from a founding family. And so when that family is emotionally ready to be part of a larger public company, that's the time that we pounce. So it's -- and that timing varies with each family. And so some cases we're talking with the family for 5 years before they join us.

Operator

Our next question or comment is a follow-up from Mr. Bruce Martin from Still Lake Capital.

Bruce Martin

I know you said you guys are doing your budgeting process, but are you yet ready to say what you would anticipate your run rate at the end of '18 being when you're looking at the acquisition landscape and your capital plans?

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

Well, I would tell you that we feel comfortable in that we would meet the previously stated target of $170 million and adjusted EBITDA pro forma run rate. And that's really due to the acquisitive nature of the business. I think that's the best we can do at the moment is that when we became public in February we stated we thought we could do $140 million this year, $170 million in 2018 and $200 million in 2019. And we continue to believe we can achieve those numbers.

Bruce Martin

And would you need to issue more stock to get there?

Scott Wheeler - *Daseke, Inc. - CFO, EVP and Director*

Yes, most likely, sometime between now and then. But stock issuances can come in multiple ways. It could be part as a part of the consideration of the purchased price, or it could be a traditional equity raises, as we did in September. But those will also be somewhat case-by-case dependent.

Operator

I'm showing no additional questions in the queue at this time. I would like to turn the conference back over to Mr. Don Daseke for any closing remarks.

Don R. Daseke - *Daseke, Inc. - Founder, Chairman, CEO and President*

Well, we want to take all of you for participating in our call. We do appreciate your interest in us. If you have follow-on questions, please let us know. We're always available to try to be helpful to you. We're very proud of the progress we're making as a company, and we look forward to sharing more of what we do in the future with you. Thanks very much.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone, have a wonderful day.
