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DSKE - Q1 2018 Daseke Inc Earnings Call

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PRESENTATION

Operator

Good morning, everyone, and thank you for participating in today's conference call to discuss Daseke's Financial Results for the First Quarter ended March 31, 2018. Delivering today's prepared remarks is Don Daseke, Chairman and CEO; and Scott Wheeler, President, Chief Financial Officer and Director. After their prepared remarks, the management team will take your questions. Before we go further, I would like to turn the call over to Cody Slach of Liolios Group, Daseke's IR Advisor, as he reads the company's Safe Harbor statement within the meaning of the Private Securities Litigation Reform Act of 1995 that provides important cautions regarding forward-looking statements. Cody, please go ahead.

Cody Slach - Liolios Group, Inc. - Director of IR

Thank you, Yuri. Today's presentation 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 and acquisition adjusted.

Reconciliations of these non-GAAP measures to the their most directly comparable GAAP measures are included in the Appendix of the Investor presentation and press release issued this morning, both of which are available in the Investors' tab of the Daseke website, daseke.com. In addition to being filed -- excuse me, in addition to being in the flatbed specialized trucking business, Daseke is in the business of acquiring other flatbed specialized carriers to join Daseke. Therefore, investors in Daseke stock should not -- should assume Daseke is always evaluating, negotiating and performing due diligence on potential acquisitions. Now I would like to run the call over to Daseke's Chairman and CEO, Mr. Don Daseke. Don?



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Don R. Daseke - *Daseke, Inc. - Founder, Chairman & CEO*

Well, thank you, Cody, and good morning, everyone. It's a real pleasure to be joining you. Scott and I look forward to addressing the 5 main topics presented on Slide 3. First, I'll provide an overview of our strong first quarter results and reiterate our compelling long-term opportunity. This will set the stage for Scott to review our financial results in more detail, provide an update on our strategic priorities for 2018 and discuss our financial outlook. The first quarter of 2018 marks our 1-year anniversary of being public. During this time, we have more than doubled our revenues, doubled our adjusted EBITDA and acquired 7 companies of scale. These results follow the strategy we laid out when we became public. As Slide 4 indicates, we began 2018 on a strong note. With year-over-year double-digit revenue growth in both our Specialized and Flatbed segments, this is driven by favorable rate increases in each segment, along with 10% growth in specialized revenue per truck due to increased revenue synergies in several key markets within the segment. Of equal importance, we translated the strong revenue growth into improvements in adjusted EBITDA and operating margins. These results set the stage for a strong 2018, and we remain as committed as ever to our long-term opportunity.

Slide 5 is a reminder of our mission, which is the same since we became public last year: Building North America's Premier flatbed and specialized logistics provider. Now on to Slide 6. This mission is strongly supported by 6 key highlights that shape our compelling investment opportunity. First, we're the largest owner of flatbed specialized equipment in North America, with \$1.3 billion in revenue, adjusted for the acquisitions in 2017, and we've delivered a 48% adjusted EBITDA CAGR from 2009 to acquisition adjusted 2017. At a current size, we've still only scratched the surface of our potential penetration. We have a very small fear of a very large open-deck transportation and logistics market. What more, the industrial freight and logistics market fundamentals are improving, which we're announcing in our contract rates. Our pipeline of companies to acquire remains robust, as seen by our April 16 announcement to acquire Aveda Transportation and Energy Services. Finally, we have a highly-aligned management team that owns more than 35% of the company. And speaking on behalf of them as the largest shareholder, our prospects have never been stronger. On that note, as the largest Daseke shareholder, I'm disappointed where the stock has been trading, and I've been impacted the most. The feedback from our shareholders has been loud and clear, and I want to acknowledge that here today. We accept the comments, concerns and insights that have been shared with us at points of learning. I am a huge believer that being a learner is a primary key to success. We've taken this feedback as lessons learned to shape the future. We are now -- we are going to focus on things we can control. This means executing our continued operational improvements, driving organic growth and taking advantage of the scale we are building to deliver and delivering great transactions. With that, I will now turn the call over to our President, Scott Wheeler. Scott?

R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

Thank you, Don. Good morning, everyone. Beginning with our financials on Slide 8, you will see there are highlights of our very strong record-setting quarter. Revenues increased 104% to \$328 million compared to \$160 million in the year-ago quarter. The increase was largely driven by the 7 acquisitions of scale we completed during 2017. Adjusting for the inclusion of the acquisitions in the prior period, revenues increased organically by 10% to \$328 million compared to \$298 million in the year-ago quarter. Flatbed solutions revenue in the first quarter increased 78% to \$145 million, primarily driven by the acquisition of Tennessee Steel Haulers and Company last December. Specialized solutions revenue increased 129% to \$185 million due largely to the 6 specialized acquisitions of scale we made following the first quarter of 2017. Net loss for the first quarter improved significantly to \$800,000 or \$0.04 per share compared to a net loss of \$7.7 million or \$0.32 per share in the year-ago quarter. Adjusted EBITDA increased 100% to \$35 million compared to \$17.6 million in the first quarter of 2017, and compares to the acquisition adjusted EBITDA of the first quarter of 2017 of \$31.4 million, a 12% organic increase. Before providing further commentary by segment, as a reminder, there is seasonality in our business. We move open deck freight, and as such, our freight is exposed to the elements and demand is higher in the warmer months. So typically, you will see higher levels of rates, revenues and earnings in the second and third quarters and typically lower levels in the first and fourth quarters. On Slide 9, flatbed continues to show an upward trend in rates, with the first quarter rate per mile of 6% to \$1.81 compared to \$1.71 in the first quarter of 2017. Excluding Tennessee Steel Haulers, which was a business we added just last December, our first quarter flatbed rate per mile increased organically 10% to \$1.88. This shows the market improvement manifesting itself in our contract rates. Flatbed revenue per tractor increased 3% to \$40,600 versus the first quarter of 2017. This slide demonstrates a continuing strong rate and rate growth environment, increasing revenue per tractor per year-over-year. We continue to feel positive about the upward trends we're seeing in our flatbed segment.

Moving to Slide 10 to discuss our specialized segment. We realized a 5% increase in rate per mile and a 10% increase in revenue per truck. Looking at rates on an acquisition adjusted basis, where we include the results of the acquisitions in the previous period, rates were up 7.5%. These results



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were primarily driven by increased revenue synergies in several key markets within the segment. With our Specialized business having strong margins and operating leverage, their first quarter performance was a material contributor to our consolidated profit and EBITDA improvement.

On Slide 11, you can see that acquisition-adjusted EBITDA for our flatbed segment was essentially flat compared to a year-ago quarter. We saw a very positive rate momentum and material increases in our contract rates but this was offset by increases in over-the-road maintenance costs, increased insurance claims as a result of weather events we experienced in the first quarter and also in driver wages that were instituted last year. We still have some work to do but feel very encouraged by the contract rate increases finally being realized in our revenues.

The acquisition-adjusted EBITDA for our Specialized segment increased 24% to \$24 million from \$20 million in the year-ago quarter. We saw the impact of revenue synergies realized in specific end markets and increased over-dimensional loads. We are encouraged by results in the specialized segment that showed the operational leverage in the business as the markets improve. And finally, you will see the effects of our ongoing investment in building Daseke as a platform for continued growth as the first quarter of last year included onetime cost related to becoming a public company. Now turning to our balance sheet. As Slide 12 indicates, at March 31, 2018, we had cash and cash equivalents of \$183 million compared to \$91 million at the end of 2017. This increase was due to our February closing of an oversubscribed public equity offering that generated net proceeds of \$84 million, and we have \$63 million in available under our \$70 million revolving line of credit. Total debt was \$628 million, with net debt of \$448 million, giving us a net leverage ratio of approximately 3.1x. We continue to evaluate the possible improvements to our debt structure to optimize the execution of our growth strategy. Now, I'd like to transition the call to our strategic initiatives in 2018 as well as our financial outlook. Slide 14 reiterates our strategic priorities for 2018, and I'd like to address several key updates. We are improving our systems and processes, and we are also adding the appropriate leadership, so we can continue to scale the company in an orderly fashion. As mentioned on the last call, we had a big win on our customized freight management system, and we are working hard to expand those efforts. We are taking steps to upgrade our corporate-level software to improve our data analytics, acquisition due diligence and the effectiveness of the integration process. Organic growth is being addressed in several ways, including continue to capture rate increases as contracts come due, particularly in the flatbed sector, where we continue to see outsized demand. We are implementing a stronger effort in controlling costs and developing programs that we believe will be best-in-class, total lifecycle management for our revenue-producing assets to lower-operating costs, increased fuel mileage and maximize valuations at [disposition]. We also expect to continue to grow through mergers and acquisitions, and we will continue our focused strategy of flatbed and specialized transactions in 3 main areas: First, we will look to continue to grow scale in the flatbed market; Second, we will look to add specific strategic niches, where we can either generate higher margins, become the market leader or do both; and finally, we will seek highly accretive tuck-ins to our existing operating companies.

On Slide 15, let me expand on some initiatives we have undertaken that highlight the improvement in our operations. And I will provide some examples. In the first quarter, we took 2 operations and combined facilities and their operating authority. We expect synergies over the next 12 months to be at least \$2 million and double that in 2019, as we begin to realize the benefits of consolidation. We have an operating unit with a year-over-year EBITDA increase of over \$1 million in the first quarter. This was the result of a turnaround that began in 2016, where we sent a team to fundamentally change that operation's cost structure and revenue profile. We focused on the leadership team, cut significant costs, we consolidated facilities in the key market with another operating division. We eliminated equipment that was too costly to maintain, and we concentrated on operating capacity on a higher-margin upper tier customers. There was also a dedicated focus on lane balance and driving miles per seated truck per day. We are seeing great success in controlling our health care cost. In spite of 400 more participants in the plan, we saved over \$1 million in the first quarter of 2018 versus the first quarter of 2017 and provided broader services to our employees. On the driver recruiting side, which is key to our company, we added a national-level recruiting program to augment regional efforts. In addition, we implemented recruiting software that allows us to naturally capture every qualified driver that comes into the system on a regional basis in an effort to find them an appropriate job within Daseke. We saw early returns on those efforts in the first quarter, as we were able to seat several trucks with drivers that would have previously been rejected since they were not a fit for a specific region. And finally, as announced at the beginning of the year, to increase our operational effectiveness, we have created a scalable leadership structure. This new structure will streamline communications, increase the speed of implementation of new initiatives and deliver a much higher level of accountability. Together, we will focus on leveraging our scale, controlling costs and growing and managing our business.

Moving to Slide 16, our announcement in April to acquire Aveda Transportation and Energy Systems is an example of our niche strategy, and we are excited about the prospects of welcoming their strong business and seasoned management team to Daseke. Aveda is one of the largest oil rig moving companies in North America. They provide specialized transportation services and equipment required for the exploration, development



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and production of petroleum resources in the United States, principally in and around the states of Texas, Oklahoma, Pennsylvania, Ohio and North Dakota as well as the Western Canadian sedimentary basin. Their services include specialized hauling of rigs and worksite equipment through safe and secure transportation of heavy and oversized commodities as well as time-sensitive delivery in an array of high-quality service rental equipment. We expect the acquisition to close in June, with a mutually beneficial earnout price structure add an attractive valuation to both sides. To reiterate, some of the key points we highlighted in the acquisition call, follow me to Slide 17. Aveda is one of the market leaders in a strategic niche of oil and gas exploration and production. Similar to other specialized niches we serve like commercial glass and high security cargo, we believe oil and gas is a market where we can use our scale to generate higher margins once integrated. Given their recent financial performance, Aveda has demonstrated the ability to outpace market growth, and we believe joining Daseke will enable them to fuel their continued outperformance. Aveda regularly outsources a material amount of flatbed freight associated with both local and long distance rate moves to other carriers, and we would now anticipate capturing a large part of that business. We have also identified other significant cost savings in the way of purchasing, fuel, insurance and the elimination of Aveda's public company cost. Finally, Aveda further diversifies our revenue stream. Postacquisition, we estimate that oil and gas end market will represent approximately 10% of our revenue. With our strength in renewable energy transportation, we believe the oil and gas niche is appropriate to diversify our energy end markets. Given the strategic rationale, we're quite happy to be discussing Aveda as our first quarter acquisition in 2018 and pleased that the February equity raise allowed us to be opportunistic in acquiring an industry leader that can benefit from the shared resources that Daseke uniquely provides. That leads me to our financial expectations in 2018. Moving to Slide 18. On our fourth quarter 2017 Earnings Call, we introduced our 2018 outlook, expecting to grow revenue to approximately \$1.35 billion compared to \$846.3 million in 2017, and adjusted EBITDA to approximately \$150 million compared to \$91.6 million in 2017. Replacement capital expenditures in 2018 are expected to be approximately \$65 million, reflecting revenue-producing equipment that needs to be replaced in 2018 and we see organic growth opportunities with -- that will allow us to invest \$20 million to \$40 million in growth capital expenditures that will yield results for years to come. While we reported a strong first quarter, we plan to update our full year outlook on the second quarter call, which will reflect the anticipated June closing of Aveda. Now to reiterate the key takeaways of today's discussion, please move to Slide 19. While our first quarter was a record year to start the year and -- was a record start to the year, excuse me, with significant revenue, profitability and adjusted EBITDA expansion. Two, we had strong growth trends in both our Specialized and Flatbed segments. Three, we delivered strong organic growth, and our Specialized business drove operating leverage that was a material contributor to our consolidated profit and EBITDA improvement. Four, our well-capitalized balance sheet enabled us to reach an agreement to acquire a highly attractive asset with significant synergies in Aveda. Five, we are focusing on improving operating efficiencies and growing organically, as we build scale and are experiencing tangible results. And six, our strong first quarter 2018 results, coupled with an improving industry environment with infrastructure improvement high on our current administration's agenda has us well positioned to deliver a record 2018. This concludes our remarks. And I will turn the call back over to the operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question in queue will come from the line of Jason Seidl with Cowen.

Jason H. Seidl - Cowen and Company, LLC, Research Division - MD and Senior Research Analyst

A couple of questions about the quarter. One, Scott, just to clear up, you mentioned on your Specialized business that your rates were up 7.5%. You said that was including them in the prior years and that's how you calculated that. For your flatbed division, you said that rates were up 10%, excluding acquisitions. Was that calculated the same way? You didn't provide the same explanation for that.

R. Scott Wheeler - Daseke, Inc. - President, CFO & Director

Yes, so they were calculated the same way.



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Jason H. Seidl - Cowen and Company, LLC, Research Division - MD and Senior Research Analyst

The same way, okay. Perfect, that's what I thought. You just explained for one and not the other, and I wasn't sure if you were calculating them a different way.

R. Scott Wheeler - Daseke, Inc. - President, CFO & Director

And let me clear that up. Overall, our freight rates were up to \$2.20 in the first quarter compared to like \$2.02 the prior year. Flatbed is up 6% at \$1.81 compared to \$1.71 and then that's GAAP. Then the apples-to-apples same kind of same-store look would be 10%. And Specialized was up 4.5% that \$2.67 compared to \$2.56, and then once again, up at 7.5% on apples-to-apples or same-store basis.

Jason H. Seidl - Cowen and Company, LLC, Research Division - MD and Senior Research Analyst

Yes, and that's sort of in line with what we are hearing in the general marketplace. Could you remind us the pace in terms of what percentage of your business rolls over in the year, sort of, how much maybe rolled over in 1Q, how much is rolling over in 2Q?

R. Scott Wheeler - Daseke, Inc. - President, CFO & Director

Well I can tell you, historically, these numbers do move around, so this is merely an approximation. That approximately 60% of our contracts would renew in a typical year between December and April. I don't know that 2018 will be a typical year, as we see a very strong rate growth environment.

Jason H. Seidl - Cowen and Company, LLC, Research Division - MD and Senior Research Analyst

Great. When You said won't be typical, you mean there might be a more renewing between December, April or less?

R. Scott Wheeler - Daseke, Inc. - President, CFO & Director

Oh, I mean, there may be continued looks at rates throughout the year.

Jason H. Seidl - Cowen and Company, LLC, Research Division - MD and Senior Research Analyst

Okay, right. So you might revisit them. Fair enough. A little bit of questions on some of -- on the flatbed side. You mentioned driver wages, weather and some maintenance costs. I'm assuming weather goes away after 1Q. How much of the driver wage cost was in onetime bonuses and how much is going to be recurring? And on the maintenance side, what steps are you taking to get that number down?

R. Scott Wheeler - Daseke, Inc. - President, CFO & Director

Yes, as of the driver cost will be recurring, and we think that that's not unique to Daseke. Obviously, that's clear throughout the industry. Over the road maintenance cost were outsized for this period, just not sure why it was particularly so this time around, but clearly that kind of thing can be brought down by the replacement CapEx that we are discussing and -- but we have some very, very good things in the works related to controlling the cost of our equipment. As I alluded to earlier, we believe we'll be able to build a best-in-class operation to help us focus on those maintenance and equipment cost.

Jason H. Seidl - Cowen and Company, LLC, Research Division - MD and Senior Research Analyst

So going forward, you don't think you're going to have the same level of maintenance costs in 2Q and 3Q or even in 1Q?



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R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

Oversized quarter, for whatever reason, and over the road maintenance.

Jason H. Seidl - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Okay. I guess, one other -- two other questions actually. One, in terms of end market strength, I don't know if you can give us a little more color what was looking particularly strong in the quarter. And the second thing, you alluded to you're going to give us an update on the full year outlook but with a strong first quarter, does it go without saying you guys are a lot more confident than your previous guidance than you were when you gave it?

R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

I would say we are very positive and confident in our ability to meet or to exceed our guidance but we issued that guidance just a short period of time ago and we're only one quarter into 2018, we thought it would be most prudent to officially update guidance after the closing of Aveda and the -- having us -- have a good look at our second quarter results, but we are very positive and constructive in our ability to meet or exceed our original guidance. And back to your question, we are seeing some really positive trends in some places that we haven't seen them in the past. Heavy machinery and equipment showed significant pickup this quarter, which really, leads to a lot of improved revenue per truck. You saw that in our core unit. We are also beginning to see what we think is our win business getting firmed up in the last two quarters of the year. You won't see that in the second quarter, but we're beginning to see a lot of activity in wind again, in the last 2 quarters. So there are some segments that are trending very positively, and flatbed overall, just anything that goes on a flatbed is very, very strong.

Operator

Our next question in queue will come from the line of David Ross with Stifel.

David Griffith Ross - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD of Global Transportation and Logistics*

I guess, first, trying to sift through the acquisitions to get to organic capacity growth a little bit. Given that it is a strong market and the rate environment is favorable, can you comment on if any of the operating companies have been able to add drivers and trucks in this market?

R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

We're relatively flat in the realm of drivers and trucks in this first quarter compared to the end of the year.

David Griffith Ross - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD of Global Transportation and Logistics*

And then, with flatbed rates being up roughly 10% and Specialized up about 8% in the first quarter, where would you say they are now, as you're into May, heading into really a very strong market for open deck? Are you seeing further acceleration in those rates, say, flatbed going from 10% to 12%, and Specialized maybe from 8% to 10%? Or are you see the rates stable?

R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

We're setting up for a really strong Spring with what we are seeing. We continue to be very confident and not just the revenue side but on the operating side as well. And there's a lot of as we've continue to say that everyone can read the headlines on spot rates, but we are a contract rate



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player and contract rates lag behind spot rates and you're seeing those contract rates come into play with our customers, and you're seeing the evidence of that in our revenue. And we continue to be very positive and constructive in our ability to show those revenues in our numbers.

David Griffith Ross - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD of Global Transportation and Logistics*

Would you be disappointed if you ended the year and rates were not up higher than they were in the first quarter on a year-over-year basis?

R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

Yes.

David Griffith Ross - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD of Global Transportation and Logistics*

Okay. And then another question just going to the Daseke, I guess, strategy and scale, the idea putting all of these companies together to provide a large flatbed solution, specifically tailored I would think to national account business. Have you seen a significant increase in national account business recently, with the growth of the company? And if not, is there a tipping point or a scale you need to reach to really start attracting the national account type business?

R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

I would put it this way, that we are beginning to see a significant amount of very national account interest and pickup in doing business with Daseke. We have, as you can imagine, most of our trucks are quite active and to take on a very large chunk of business, which takes either new investment, repositioning, et cetera. So we're having some very long-term discussions to see if we can achieve those significant national account results. Very, very interested.

David Griffith Ross - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD of Global Transportation and Logistics*

And then just related question to that is, and maybe it's not there yet because of these long-term discussions. But if I am a national customer, can I get one price and one bill from Daseke, even if Daseke uses a handful of different operating companies to service the business? Or is it still that, that would have to somehow be individually negotiated and not yet (inaudible).

R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

Well, it depends, David. It depends upon the size. If it's really a national customer but a very small amount of business they're going to have to -- that's a very local type operation. On the national scale using our freight management system, we can deliver those attributes that you discussed.

Operator

Our next question will come from the line of Paul Penney with Northland Capital.

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

Given your single-digit stock price, would you consider a buyback? And secondarily, when you look at acquisitions, is it fair to say that you'll be looking for more cash-centric acquisitions versus cash in stock?



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R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

Well, 2 things on that. The company has and the insiders have had material nonpublic information that would preclude a stock buyback. That window has just simply been closed and not available to us. But we have a great deal of interest from members of our board and our management team to personally purchase stock when the available window opens legally to them. The -- yes, if we are -- if our stock is trading where it has been in the last month, it is not a very attractive option to issue equity as [kind of the] -- of the consideration of an acquisition.

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

Okay, great. And switching gears and just diving down a little deeper on the organic contract side. For Boeing, one of your latest consumers, could you remind us when that multi-year contract comes due and your general expectation for better pricing with Boeing?

Don R. Daseke - *Daseke, Inc. - Founder, Chairman & CEO*

That contract expires in the first quarter of next year.

R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

And that contract would be very reflective of current market prices.

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

Okay, great. And last question, in terms of just touching again on the national sales presence, can you give us just more color on how your operationally attacking opportunities in terms of a personnel standpoint? And internally is it a task to help build that business and build a more national presence?

R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

On the national side, it is a -- it's very much a team effort. It's -- Don will certainly be out visiting with some very large customers on a regular basis. I visit fairly frequently with potential new national customers that come up throughout the system. And so, it's a wide variety of people. But usually, it would involve Don or myself for very, very large accounts.

Operator

Our next question in queue will come from the line of Steve Dyer with Craig-Hallum.

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

Question on the flatbed segment. Your rates were up nicely year-over-year but they were down sequentially. And I know you're not, sort of, levered as much to the spot rates, but spot rates have been moving up pretty steadily for a year now. I'm just kind of wondering if there is seasonality in your contract rates or, sort of, what would cause that to decrease year-over-year when we sort of seen this steady increase in spot?



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R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

Really, it was simply the acquisition, we did in the first quarter this in the flatbed, which is -- Tennessee Steel Haulers was a 100% owner-operator model, had a different revenue profile, which is why we tried to break out the peer GAAP number from the organic number, so that you could see the change. And really, it's just about the company we bought and its revenue profile and being a 100% owner-operator model changes that.

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

Got it, okay. And then driver shortage has been an issue across the industry for a long time now. Are you seeing any easing of that one way or the other, or any color there would be great?

R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

No. I think, Don said it this way, if I can steal a phrase from his, it's issue #1, issue #2 and issue #3. And we are certainly doing everything we can to attract and retain great drivers. We continue to be very encouraged by our retention rates, and we continue to believe that based upon the data that we can see in the marketplace, we believe we are performing at a better pace than the market and continue to do so. So we -- but drivers and how to address drivers is very important, and we continue to try some creative ways to attract drivers. And given the structure of Daseke, we have a lot of different operations in a lot of different markets and regions. And we, frankly, will try things in different places and then try and roll them out as things that really work, we're going to try and then roll them out across the company.

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

Okay. And then lastly, for me, just housekeeping note, do you happen to have your GAAP cash flow from operations in front of you?

R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

We will grab that for you.

Don R. Daseke - *Daseke, Inc. - Founder, Chairman & CEO*

It's like \$14 million but I can follow up with the exact number.

Operator

Our next question in queue will come from the line of Matt Brooklier with Buckingham Research.

Matthew Stevenson Brooklier - *The Buckingham Research Group Incorporated - Analyst*

So just want to follow up on the last question regarding the driver market. Are you able to talk to how much your driver wages are trending right now above a year ago and, kind of, what are your expectations for the remainder of the year?

R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

Yes. Certainly, our line haul wages were up 7% compared to 2017's quarter ago. So we would expect that number to be reflective of the remainder of 2018.



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Matthew Stevenson Brooklier - *The Buckingham Research Group Incorporated - Analyst*

Okay. And then, are -- probably if it was a bigger number, you've would have broken it out in the press release, but weather was a headwind and obviously, we all realize that trucking is an outdoor sport. But are you able to put a number to how much weather was a headwind all in for Daseke during first quarter?

R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

Yes, Matt. We just didn't go to that exercise. I apologize. We will see if we can find that number of that for you on the call, but we did not break that out.

Matthew Stevenson Brooklier - *The Buckingham Research Group Incorporated - Analyst*

Okay.

R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

Just to (inaudible) hurricanes in the third quarter of '17.

Matthew Stevenson Brooklier - *The Buckingham Research Group Incorporated - Analyst*

Right, I'm just thinking sequentially, it would be helpful, as we're modeling out. I realize there's always some weather in first quarter, but yes, just trying to get a feel for what's the potential move into 2Q. And then just finally, if maybe give us an update in terms of M&A, obviously, you're going through the process of acquiring Aveda. You gave us a timeframe for when you think that deal is going to close. But in the meanwhile, what does the M&A pipeline for this year look like? Should we expect potential deal before Aveda closes? Do you wait till after? Maybe just some general color on the opportunity for other acquisitions, as we move through the year here.

Don R. Daseke - *Daseke, Inc. - Founder, Chairman & CEO*

Well, we are aggressively talking to, evaluating, negotiating other acquisitions literally all the time. We will have nothing to close before Aveda. Aveda is an unusual situation that we had to announce it first and then close it. The other typical acquisitions, we will not announce until we close them. So Aveda, because it was a public company, we had to announce it first for their shareholders to vote on the transaction. And the offering circular for -- to their shareholders literally went out this last weekend. So that -- we expect to have a very active year with acquisitions.

Operator

Our next question in queue will come from the line of Willard Milby with Seaport Global.

Willard Phaup Milby - *Seaport Global Securities LLC, Research Division - Associate Analyst*

Want to kind of focusing on the I guess the operational affect in the slide. Consolidation of option of maybe closing several facilities. Do you view as the -- do you view the consolidation of the -- this facility as maybe a onetime thing, or maybe there's some opportunities in the remainder of the year for more facility consolidation or rightsizing however you want to term it?



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R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

You know, on the facility side, currently, I don't anticipate that we would consolidate any other facilities that are on the radar. But we would hope to instead, maximize the utilization of those so that we wouldn't have to add additional facilities and get more cost utilization. So -- but certainly, when it make sense, we will absolutely do so, as we have done.

Willard Phaup Milby - *Seaport Global Securities LLC, Research Division - Associate Analyst*

All right. And can you talk a little about the -- or give us an update on the freight management system how that's being used today. And are we seeing more crossover between the companies, where were we a year ago, where were we 6 months ago, where are we now? Kind of, just your view on how that's developed?

R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

Yes, we're still using that effectively but it is -- and the numbers are up but there are -- there is just more activity going into it. We have operating companies being integrated into the system. So on a per rate per based I don't know they were seeing a great deal more of acceleration of just kind of cross selling freight. But we have expectations that we will be able to do so this year and it continues to be our national -- it is the framework for our national or, kind of, broadly North American delivery and sales capabilities. And so, we see a great deal of interest in the utilization of that system and it is very effective.

Willard Phaup Milby - *Seaport Global Securities LLC, Research Division - Associate Analyst*

All right. And then last one from me, just a housekeeping item. Do you all have a good D&A target for 2018 and, I guess, future acquisitions now withstanding?

R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

We will strive to get that for you. I don't have that at the top of my head.

Operator

(Operator Instructions) Our next question in queue will come from the line of Barry Haimes with Sage Asset Management.

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

Had couple of questions. One, I want to just talk a little about the asset light business, since it's really not broken out separately the way you do the segment reporting, and get a little feel for how that did in the quarter. And maybe just a little color around contract rates resetting versus buying spot and those still going up a lot. How often do those contract rates reset? And then secondly, on the unseated truck count. I wonder if you could give us an updated percentage of seated this quarter compared to either last quarter-end or a year ago.

R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

Sure. Unseated truck of counts improved a little, not to our satisfaction, but as compared to the prior quarter it did improve a percentage point. The contract rates would typically renew once a year in this environment. That may happen more frequently. And so we will have to stay on top of that just to stay current with the market. There was one another question in there, Barry, and I lost it.



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Don R. Daseke - Daseke, Inc. - Founder, Chairman & CEO

Asset light.

R. Scott Wheeler - Daseke, Inc. - President, CFO & Director

Oh asset light. The [asset-light parts] in our business we continue to find very attractive. And if you think about what we were able to accomplish asset light has a much lower profitability profile typically, but we were able to maintain our EBITDA margins even though we shifted from 2/3 assets heavy to 50-50. So really strong performance in my view related to the asset-light portion of our business.

Operator

Our next question in queue will come from Bruce Martin with Still Lake Capital.

Bruce Martin

It's possible I've missed this because it was a big number and I know people are asking around it, but maybe I just missed it. The purchase freight number looks to be monstrously higher than last year as a percent of sales, not just dollars. And I'm curious, what that's supposed to look like as a percent of sales, as we go through this year?

R. Scott Wheeler - Daseke, Inc. - President, CFO & Director

Yes, it directly relates to -- here, there are 2 things in purchased freight that are important. One is the revenue share that we have with our owner-operator partners. And two is what we paid to our third-party broker carrier partners. As we have become asset lighter, that purchase freight will clearly become a bigger percentage of our spend. And if you think about the addition of Tennessee Steel Haulers in December, they added 1,000 owner-operator drivers alone in that one period of time, so that would clearly drive purchase freight as a line item up.

Bruce Martin

So that -- so the -- it's interesting, because the salaries and benefits and the maintenance and operations as a percent of sales both dropped almost 500 basis points, and purchase freight was up almost a little over 1000. So the overall margin isn't massively changed year-over-year. And again, is that about the expectations as we go through the year, that margins won't be materially different, although you expect revenues obviously to grow?

R. Scott Wheeler - Daseke, Inc. - President, CFO & Director

I'm not sure I heard all of that. Could you repeat that?

Bruce Martin

Sure the overall margins, even though the salaries, benefits and the operations maintenance as a percent of sales, both those line items were down a lot, but they were offset by the purchase rate. So the overall margin -- the overall EBIT margin EBITDA margin...



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R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

That would be the anticipated kind of operating leverage. As your rates go up and your fixed cost stay fixed, you would expect to see that.

Bruce Martin

So you expect to see the margin grow as the year goes on, the operating margin?

R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

Yes, we had a very strong operating margin this quarter alone. I think we improved our OR about 2.5%. So a very strong performance in the quarter-over-quarter, and we would hope to see that continued throughout the year.

Bruce Martin

Okay. And one other quickie on the cash flow statement. CapEx for the quarter was what?

R. Scott Wheeler - *Daseke, Inc. - President, CFO & Director*

CapEx for the quarter was fairly low. And we will get you that number. It was about \$7 million, approximately.

Operator

And this will conclude our time for questions. And I like to turn the call back over to Mr. Daseke for closing remarks.

Don R. Daseke - *Daseke, Inc. - Founder, Chairman & CEO*

Well, thank you, everyone. We are very enthusiastic about the quarter that just finished and we're really excited about our outlook going forward. We remain very focused on our objectives, which Scott and I went over with you. And we appreciate all of you spending time with us this morning. And as you have more questions on anything, please let us know. We really want to work with you in understanding -- helping you understand our very unique company. Thanks, everyone.

Operator

Thank you, presenters. And ladies and gentlemen, this will conclude today's teleconference. You may now disconnect your lines at this time. Thank you for your participation and have a wonderful day.



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