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DSKE - Q2 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 Second Quarter Ended June 30, 2018. Delivering today's prepared remarks is Don Daseke, CEO; Scott Wheeler, President and Director; and Bharat Mahajan. 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 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*

Thanks, Shelby. 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 measures.

Reconciliations of 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 carriers to join Daseke. Therefore, investors in Daseke stock should assume Daseke is always evaluating, negotiating and performing due diligence on potential acquisitions.

Now I would like to turn the call over to Daseke's CEO, Mr. Don Daseke. Don?

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

Well, thank you, Cody, and good morning, everyone. It's a pleasure to be joining you. We look forward to addressing the 4 main topics presented on Slide 3. First, I'll provide an overview of our strong second quarter results and other operational highlights. This will set the stage for Bharat to discuss our second quarter results in more detail. From there, Scott will provide an update on our strategic priorities for the remainder of the year and walk-through our increased 2018 financial outlook.

We believe the information underlying these topics firmly supports our unchanged and compelling long-term vision to build a premier flatbed and specialized logistics carrier. Discussing on our highlights for the quarter, please follow me to Slide 4. The momentum in our business is continued in the second quarter, the strong growth in revenue and adjusted EBITDA. Excluding acquisitions, this is driven by year-over-year increases in rates and revenue per tractor in both the flatbed and specialized solutions segments. Our per cost on various organic growth initiatives was also evident in the 13% increase in our second quarter acquisition adjusted EBITDA to $48.1 million. We had a terrific quarter. And that organic growth is manifesting itself in our results. We're building on the momentum of the first quarter with a $6.5 million increase in adjusted EBITDA from operations in the quarter alone. So we were up $4.3 million after investing in the business to support our continued growth. We believe, we executed on all 3 of our strategic priorities that we laid out at the beginning of the year. Therefore, we are raising our outlook for the year. Our industry is seeing significant growth in demand and rates. Internally, we are focused on cost. And in May, we launched Daseke Fleet Services, which allows us to systematically address expenses and grow margins.

We've only just begun and lots of opportunities to uncover. And finally, we are well-positioned to strategically grow our business and accelerate our operating companies and build an organization of scale, all of which are why I'm extremely excited about our business. With that, I want to give Bharat a proper introduction. Bharat will officially become our CFO soon once the administrative paperwork is complete. Bharat previously served as CFO for Aveda Transportation and Energy Services. And he brings Daseke a wealth of knowledge and experience. As the leader of the team at Aveda, a formally publicly-traded transportation company. Bharat has a proven record of helping businesses grow while maximizing profitability. He is a perfect fit to help us achieve our vision of continued growth.

So welcome, Bharat. I'll turn it over to you.

Bharat M. Mahajan - *Daseke, Inc. - CFO*

Thank you for that introduction, Don. It's great to be here. I was consistently impressed with the team during the month leading up to Aveda's merger into Daseke and have been even more impressed with how Daseke quickly has integrated Aveda into the overall platform. It's a thrill to now be part of the team. With that, I will now move to our second quarter financial details, which are presented on Slide 7.

Revenues increased 91% to $376.9 million compared to $197.3 million in the year-ago quarter. The increase was largely driven by the acquisitions of 7 operating companies of scale during 2017. Adjusting for the inclusion of the acquisitions in the prior period as well as Aveda, revenues increased organically by 12% to $412 million compared to $367 million in the year-ago quarter. Operating income improved to $8.5 million compared to $4.5 million in the year-ago quarter, despite an increase in the step-up in basis of depreciation from acquisitions of $5.4 million, an increase in amortization of $4.8 million and an impairment charge of $2.8 million related to intangibles.

Net income for the second quarter improved significantly to $13.5 million or $0.20 per share compared to a net loss of $4.1 million or $0.15 per share in the year ago quarter. Adjusted EBITDA increased 91% to $46.3 million compared to $24.3 million in the second quarter of 2017.

Looking at results by segment. Our flatbed solutions revenue in the second quarter increased 87% to $162.2 million, primarily driven by the acquisition of Tennessee Steel Haulers last December, with adjusted EBITDA up 36% to $18.8 million. The addition of Tennessee Steel Haulers a 1,000 truck owner-operator fleet, caused asset-light revenues in our flatbed segment to increase from 40% in Q2 last year to 68% in Q2 2018, which is reflected in the change in EBITDA margins. Specialized solutions revenue increased 95% to $218.4 million, due largely to the 6 specialized acquisitions of scale we made following the first quarter of 2017. As such, specialized adjusted EBITDA was up 118% to $33.2 million.

Before providing further commentary by segment, as a reminder, there is seasonality in our business. We move open deck freight, so our freight is exposed to the elements and demand is higher in the warmer months. 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.

Moving on to a more detailed review of our segment results, on Slide 8, we have provided Q2 revenue and adjusted EBITDA on a GAAP basis and excluding acquisitions for our flatbed segment. On a GAAP basis, moving from 40% asset-light to 68% naturally moved our EBITDA margin down, ending the second quarter at 11.6%. The point here is that even though our asset-light operations have smaller EBITDA margins, they also have lower CapEx requirements. Excluding acquisitions, our asset-light mix still increased from 40% to 46%, and EBITDA margins only declined to 14.9%. Drivers continue to be the biggest challenge we are facing in this segment as we've experienced an increase of approximately 75 unfilled driver positions from Q1 2018 to Q2 2018. Scott will talk about some creative things we are doing to address this challenge in his prepared remarks.

Slide 9 zeros in on a few revenue metrics within flatbed. We continue to have strong increase in rates for the second quarter rate per mile up 13% to $2.03 compared to $1.80 in the second quarter of 2017. Excluding the Tennessee Steel Haulers acquisition, rate per mile was up organically by 14%. This shows the market improvement continuing to manifest itself in our contract rates as rate per mile was up 10% organically in the first quarter compared to the prior year quarter. Flatbed revenue per tractor increased 7% to $45,700 compared to $42,900 in the second quarter of 2017. This performance is despite continued headwinds in unseated tractors. Ultimately, our flatbed business continues to benefit from tight capacity leading to an increase in realized rates and revenue per tractor on a year-over-year basis. We continue to feel positive about the upward trends we're seeing in our flatbed segment.

Slide 10 provides Q2 revenue and adjusted EBITDA on a GAAP basis and excluding acquisitions for our specialized segment. The shift in the percentages of revenues from asset heavy to asset-light has been more moderate compared to our flatbed segment as specialized moved from 65% heavy in the year-ago quarter to 58% heavy in Q2 2018 on a GAAP basis. The margin improvement to 15.2% was a function of the higher-margin business in high-security cargo and glass as well as the operating leverage in the business as rates and freight mix improved.

On Slide 11, you can see, we realized 10% increase in rate per mile to $2.88 compared to $2.62 in the second quarter of 2017, driven by growth in high-security cargo, commercial glass and heavy equipment moves. Revenue per tractor increased 17% to $57,400 compared to $49,100 in the year-ago quarter, which is driven by the increase in rates but also a 2% improvement in unseated tractors. As was mentioned in our first quarter call, we experienced lower volumes related to the timing of wind projects, which we expected to carry into the second quarter but ramp-up in the final 2 quarters of the year. This remains the case, and we look forward to filling this demand in the back half of the year.

Speaking of our specialized business, Aveda is largely a project-based transportation company, and as such, has a much higher revenue per mile profile. To show this, and provide some additional color, on Slide 12, we are presenting a similar rate per mile and revenue per tractor slide but excluding Aveda. Looking at the figures this way, we realized a 5% increase in rate per mile and 16% increase in revenue per truck. On Slide 13, acquisition adjusted EBITDA for our flatbed segment, which takes into account the results of acquisitions as if they were part of Daseke for the entire period increased 10% to $18.8 million compared to $17 million in the year-ago quarter. The acquisition adjusted EBITDA in our specialized segment increased 16% to $35 million from $30.2 million in the year-ago quarter.

And finally, in the corporate adjustment line item, you will see the effects of our ongoing investment in building Daseke to support our future growth. As Don mentioned in his opening, the key takeaway in this slide is the 13% acquisition adjusted EBITDA we reported in the quarter, which tells us our organic growth initiatives are working.

Now turning to our balance sheet. As Slide 14 indicates, at June 30, 2018, we had cash of $78.7 million compared to $91 million at the end of 2017. Total debt was $632 million, with net debt of $553.3 million. Adjusted for the acquisition of Builders Transportation and 2 small tuck-in transactions, cash would have been $25 million, net debt would have been $635 million with $82 million of available capacity on our revolver. It is worth noting that we recently increased the committed capacity on our revolver to $100 million.

Slide 15 shows our leverage metrics as of June 30, GAAP leverage was 4.2x, but 3.6x on a pro forma basis, including Aveda, Builders and the recent tuck-ins. In accordance with our debt facility, leverage as defined would have been 3.4x. Our covenant is 4.25x (technical difficulty) 2018 and steps

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down to 4x beginning in Q1 2019. Now, I will turn the call over to our President and Director, Scott Wheeler, who will review our accomplishments within our 2018 strategic outlook and walk-through our increased financial guidance. Scott?

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

Thank you, Bharat, and good morning, everyone. On our fourth quarter 2017 call, we introduced our 2018 strategic priorities, and they are reiterated on Slide 17. Organic growth, organizational effectiveness and focused M&A. The 2 quarters behind us, I would like to inform you on our execution within each pillar. As you can see on Slide 18, we were very pleased with our organic growth from core operations in the second quarter. We focused on increasing rates, enhanced our focus on controlling costs and took advantage of [attractive] opportunities in specialized niches. EBIDTA on our flatbed segment increased 10%, and our specialized segment grew 16% for total acquisition-adjusted increase from operations of $6.5 million in this quarter alone. A large contributor to this success was achieved by increasing our rates in both segments and higher volumes in commercial glass, high-security cargo and heavy equipment. We anticipate a continued healthy rate environment and expected savings from our Daseke Fleet Services group will continue -- begin to reduce costs, which will contribute to our operating income, operating ratio and margins.

We're also investing in capacity in our commercial glass fleet to continue to take market share on investing and optimizing our trailer fleet in the newest consolidated high-security cargo division to maximize operational efficiency and flexibility. And finally, tightness in the availability of drivers has required us to look at innovative ways to attract and retain those drivers that we would like on our team. One main area of focus has been the simplified pay plans to reduce the uncertainty and the large fluctuations in drivers' take-home pay from week to week. We implemented a pilot program on the Northwest region that we believe will achieve those 2 goals moving to a more salary-like pay structure. 3 months into the pilot, the results have been extremely successful with driver hires up 85% compared to the first 5 months of the year in the same location. Applications were up over 1,000% compared to 2015 through 2017. This resulted in filling several empty trucks to quickly having a wait-list. This all -- so provided the opportunity to replace our lower driver performers and to improve overall quality and productivity. We have other pilot programs underway in different locations, and as we evaluate the results from these new pay structures, we may look to roll them up further across our operating companies.

These types of programs are designed and implemented very close to the drivers by our stellar teams at our operating divisions, and we applaud them on these early results. Next, on organizational and operational effectiveness, we would like to highlight our new Daseke Fleet Services group that we created in May and some details behind this can be found on Slide 19. Daseke Fleet Services was created as part of our effort to implement the structure to support our growing scale with an effort to assist our operating divisions in the management of all 3 phases of the life cycle of our revenue producing equipment. At the acquisition phase, the emphasis is on specifying equipment that optimizes fuel mileage, resale value, interchangeability of equipment, reliability, consolidation of subcomponent manufactures, and of course, pricing and delivery.

During the time we operate the equipment, this team will lead the efforts to maximize their processing for consumables such as diesel, tires, parts, outside maintenance services, and coordinate activities and performance at our in-house shop facilities. Finally, at the end of the economic life of an asset to Daseke this team will be engaging in direct sales and disposition of the equipment. This is a departure from our previous practice of trading-in equipment that will be typical in most entrepreneurial and family-owned trucking company that have joined Daseke.

Moving to Slide 20, we have presented several examples of the work Daseke Fleet Services has accomplished in a very short period of time since launching in May. In only 2 full months of activity as a team, we've negotiated with 2 of our smaller fuel suppliers and one of our tire manufacturers, and we expect $600,000 in annualized savings alone. They sold over $1 million worth of equipment producing $90,000 in gains. And the team made a preventative maintenance interval adjustment at one of our recent acquisitions that will save over $250,000 annually. All of these combined to around $1 million in savings we would expect to realize over the next 12 months. We expect great deal more to be realized as this program continues to develop.

Our third strategic priority is M&A. As we've stated, we have 3 focused acquisition types. First, our strategic niches, and we accomplished this with our acquisition of Aveda, which we have highlighted on Slide 21. The transaction closed in June and continues to perform as anticipated. Second, is tuck-ins. We announced in early July, the Kelsey Trail, an operator with 75 trucks will become a division of Big Freight, and we believe there are many synergies between the 2 companies cross-Canadian freight.

And third, is flatbed, and we announced last Thursday, we've acquired Builders Transportation. Slide 22 walks through the transaction highlights. Builders Transportation is a Memphis-based carrier of metals and building materials. It operates a fleet of more than 300 company trucks and 450 trailers. The company is solely focused on traditional flatbed operations, primarily in the eastern 2/3 of U.S. Builder significantly expands our relationship with blue-chip customers like Alcoa and U.S. Steel, and also adds to our existing business with customers at -- such as American Cast Iron Pipe, Tenaris, GERDAU and ArcelorMittal. The total consideration was $53.8 million, which included $3.4 million in Daseke stock. The balance was cash and $17.5 million in assumed debt.

For the trailing 12-month period ended June, 2018, Builders Transportation did $72.4 million in revenue and $9.7 million in EBITDA where our trailing multiple not including anticipated synergies of 5.5x. We are very pleased with this addition and believe it will be an excellent addition to the Daseke family as we look to expand our steel hauling and general flatbed capabilities.

We're also incredibly excited about the momentum in our business, which leads me to our increased 2018 financial outlook. We are in the midst of an industrial resurgence, continued rate growth represents a step up in the market and tight market conditions have allowed us to give capacities to shippers that yield the highest return. You can see the organic growth manifesting itself in our results.

Moving to Slide 23, given our strong performance in the first half of 2018, including growth from -- organic growth from acquisitions, we are raising our full year outlook. We now expect revenue to increase to $1.55 billion versus $860 million -- $846.3 million in 2017. Adjusted EBITDA is now expected to increase 86% to $170 million compared to $92 million in 2017. Net replacement capital expenditures in 2018 are now expected to be approximately $85 million or 5.5% of revenues. We should see organic growth opportunities that will now allow us to invest up to $40 million in growth capital expenditures that will yield results in 2019. These investments will primarily support the growth in our glass business and in our high-security cargo business. Based upon our adjusted EBITDA guidance of $170 million of replacement CapEx of $85 million, this would result in free cash flow before interest of $85 million. The remaining free cash flow after interest will be available to invest in our growth opportunities as discussed.

Slide 24 shows a bridge for our adjusted EBITDA guidance. We exited 2017 at $140 million. Given our great first and second quarters, we are updating our guidance to $155 million. Including the results of the 2018 acquisitions, which we expect to contribute $15 million in adjusted EBITDA, which is up from $10 million last year, our new 2018 full year guidance is $170 million. Looking at it on a run-rate basis, that would be approximately $185 million in acquisition adjusted EBITDA and $1.7 billion in revenues.

Now, to reiterate our key takeaways from today's discussion, please move to Slide 25. First, we produced another record quarter with continued expansion in revenue, profitability and adjusted EBITDA. Second, we experienced strong revenue per tractor growth in both our specialized and flatbed segments, and we are experiencing continued positive year-over-year rate increases. Third, the growth plan we initiated at the outset of 2018 is driving tangible results as demonstrated in the 13% increase in acquisition adjusted EBITDA in our second quarter.

Fourth, the implementation of Daseke Fleet Services is a major strategic asset to scaling our company and reducing costs. Fifth, we had the liquidity to execute on the addition of Builders Transportation, which is benefiting from a strong flatbed market. And finally, the strength of our first half along with the acquisition of Aveda were significant contributors in our decision to increase our 2018 outlook. This sets the stage for another a record year at Daseke, and we look forward to updating you as the year unfolds.

Before we conclude our remarks, please note that we are doing this live and not prerecorded, so we had a couple of moments where our words did not match the slide deck. From Don's section he mentioned we were up $4.3 million in adjusted EBITDA after investing in the business to support our growth, we were actually up $5.5 million as illustrated on Slide 13. And Bharat section on Slide 7, he said acquisition adjusted revenues increased organically by 12% compared to the year-ago quarter the percentage was 13% as correctly shown in the deck.

This concludes our remarks, now I'll turn this back over to the operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Jason Seidl from Cowen and Company.

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

Couple of questions from me. If I look at the specialized section, you guys said you had a 5% increase in your rate per mile but you had a 16% increase in your rate per truck. Can you walk through that difference. I'm assuming a lot of that was mix in miles.

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

It certainly was mix. We were up slightly in seated trucks as well. But the biggest component of that was freight mix so heavier component of heavy equipment, high-security cargo and commercial glass all contributed to that.

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

Okay. And that's something that we should expect to continue on into the second half of this year?

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

We anticipate strong markets in all 3 of those categories, yes.

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

Okay. And speaking of the second of the year, can you give us some color into how July has started for each of your 2 main divisions. Or excuse me, July and August, I'm already in the wrong month.

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

Well, we typically don't release those results until the quarter's end, but we continue to feel very positive and constructive about where Daseke's financial results will be in the remainder of the year.

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

Okay. Turning to your new guidance of $170 million. What out of that $170 million -- how much of is builder transport? Is it somewhere between like $4 million and $5 million?

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

Yes. This -- they're essentially on a say -- I would say it's about half of the number that they did previously. So we had them at $9.7 million, so let's call it $5 million, roughly.

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

Okay. All right, that's good. Final one before I turn it over to somebody else here. There's been a lot talked about the impacts of -- potential impacts of the tariffs on the supply chain. We really haven't seen a lot of people try to change their supply chain. What sort of exposure does Daseke have to the tariff marketplace?

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

Right now, we're not seeing much of an impact in the aggregate. There are some microcosms within us that you see some very small effects thereof. But freight demand remain so high and capacity is so tight, it's really very difficult to feel any of the -- in any of that, but the real diversity of Daseke is our strength and our -- the diversity is the strength of Daseke. And -- but we are beginning to see and have seen some very positive rates and volumes related to domestic steel, which is one of the big categories in the tariffs.

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

Right. And you guys are more exposed to the domestic side than the export side, correct?

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

Very much so. Yes, we're very much more of a domestic producer. And by domestic, we think North American primarily, but vast majority of the steel that we move is generated in the United States.

Operator

And our next question comes from David Ross from Stifel.

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

I'm going to actually start off with Bharat. How you found Daseke to be different from Aveda. And a follow-up to that would be, what did Aveda do better that you can bring to Daseke?

Bharat M. Mahajan - *Daseke, Inc. - CFO*

Great questions. Daseke has a lot of, I'll say, similarities to Aveda. We have got a really great team and a growing company and that's -- and if you look at kind of Aveda's history, we did a bunch of acquisitions through 2012 all the way through 2015 and Daseke has also been growing strongly through acquisitions. So I look at bringing all of that experience of things that we got through those acquisitions and integrating and bringing those companies together. I see all of that as part of the experience I bring to the Daseke team.

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

Is there something that you used to do at Aveda that you're not seeing done at Daseke that's going to be implemented going forward to improve the business or the operations or the integration?

Bharat M. Mahajan - *Daseke, Inc. - CFO*

It's still very early days for me. I'm still getting to know the Daseke team and all those sorts of thing. So it's really hard for me to comment on that at this early stage.

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

And David, he is a person who held the title CFO. I believe we are headed to a significant upgrade in the position.

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

Next question is just going to be on the guidance. With 13% acquisition adjusted EBITDA margins in the quarter. Guidance implies only a 10% incrementally EBIDTA margin from here and especially with builders having an EBIDTA margin over 13%. I'm struggling with why on $200 million of higher revenues that you'd only pull-through $20 million to the bottom line?

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

Well, some of it is the shift from heavy to light and some of that will also be the back half of 2017 was tougher than or was better than the first half of '17. So the comps will be tougher. But we also will -- that's one of the reasons that we pointed out the differences between our core operations EBITDA growth and total EBITDA growth because we continue to invest in the business. And so we will invest in things like Daseke Fleet Services before they really begin to payoff. We will invest in new equipment for high security cargo or commercial glass before it really begins to payoff. And so the net EBITDA would be resulted in that investment in the future.

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

Okay. So it sounds like you're increasing investments in the back half of the year?

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

Yes.

Operator

And our next question comes from Paul Penney from Northland Capital.

Greg Gibas

This is Greg on for Paul. First, what kind of trends are you seeing with repricing of contracts? And are you continuing to see strength and upper movement as you renegotiate contracts with customers?

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

We continue to see very strong rate growth. The rate of rate growth may be declining slightly but rates continue to increase upon renewals in almost all categories.

Greg Gibas

Okay. Perfect. And then second, we kind of understand a lot of the cost synergies that you're achieving from acquisitions but you've hinted at revenue synergies as well, and we were just wondering is there anything you can share here in terms of nationwide contracts that you would benefit from?

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

Could you repeat the last part of that sentence, please?

Greg Gibas

Just more color on like revenue synergies you can get, in particular, like maybe nationwide contracts that you can benefit from?

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

I would say, yes, clearly the larger Daseke becomes the more we are of interest to the largest shippers. There's a great deal of activity around that and it's still a very large undertaking underbuild. But revenue synergies on the national contracts are clear and discernable to us. But I would point you to Builders, for example, where we have somewhat adjacent operations between Builders, Boyd Brothers and some others inside our system. We believe that the active management of that freight movements can help us reduce debt head and that relates to efficiency and revenue synergies as well. So we try and seek out every revenue synergy we can with each opportunity. Sometimes when we buy businesses that are great deal of revenue synergies, for example, in the high-security cargo business. We had -- in the commercial glass business, we had some revenue synergies. Some are very, very specialized that we'll have limited revenue synergies. But still attractive targets for us. They can always take advantage of our cost structures and scale.

Greg Gibas

Okay, great. And then just given the stock price and the performance, would there be any consideration of a buy back?

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

We are continuing evaluating everything inside of our capital structure, both debt and equity on a regular basis. We would certainly discuss things that, that doesn't necessarily means that it rises to the level of possible execution. But our focus is really to continue to produce great results, building great company, and we believe that the market will reward us in the long run. But certainly, the last 2 quarters we hope -- begin to demonstrate our capability in that regard, and we are very focused on the execution.

Operator

And our next question comes from Steve Dyer from Craig-Hallum.

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

Just a couple of points of clarification as it relates to CapEx. The press release says, net CapEx of $90 million and you had indicated in the slide, $85 million of replacement and another $40 million of growth of $125 million, I'm wondering if I'm mixing those 2 up?

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

No, apparently we did. It should be $85 million, not $90 million.

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

So it's $85 million of total CapEx both growth and replacement.

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

No. It's $85 million of replacement, which is about 5.5% of revenues, which is the number that we have always guided to. The number looks a little bigger than in the past, but we -- with the additions of these new companies, we're a much bigger company. Some of that CapEx may have taken place prior to the acquisition but it's included in that total number. So you can calculate. But certainly, it's $85 million of replacement. And then we would have whatever available free cash flow after that to be able to invest in future where that's on potential mergers and acquisitions or growth CapEx.

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

Got it. And then just, I guess, as it relates to free cash flow, Bharat, do you have cash from operations in the quarter?

Bharat M. Mahajan - *Daseke, Inc. - CFO*

Cash from operations -- we look at about net CapEx, sorry -- of $29 million here. That's what we are showing right now.

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

What about cash from operations?

Bharat M. Mahajan - *Daseke, Inc. - CFO*

$29 million.

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

That's not CapEx, that's cash from operations.

Bharat M. Mahajan - *Daseke, Inc. - CFO*

Yes, correct.

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

Okay. And then I guess, obviously, there's a lag between spot rates and contract and is there still some room for improvement in terms of rolling over some old contracts in the new. I mean we're, obviously, a couple of quarters into the better spot rate environment but -- and that showing through really nicely in your results. Is there still some room to go in terms of repricing some old stuff?

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

Yes, as contracts renew, we will always evaluate current market conditions. As we alluded to earlier, the market continues to be very characterized by a great deal of tightness of capacity and supply and still creating a attractive rate and rate growth environment. The rate of rate growth, as I alluded to earlier, maybe slowing down but still rate growth.

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

Got it. And then, I guess, lastly from me, a nice sequential increase in rate per mile on both side of the business. Would you expect that sequentially to tick up again in Q3?

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

Yes.

Operator

And our next question comes from Matt Brooklier from Buckingham Research Group.

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

I was going to ask the repricing question a little bit differently. If we look at year-to-date and your contract freight. How much of that freight has been repriced at this point in time, just like rough percentage?

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

By August or as opposed to the end of the second quarter, probably 70%.

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

Okay. And you would anticipate the other 30% just going to get repriced and from September into the end of the year?

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

Yes, we would -- as those contractor renew or market conditions require, we will certainly continue to have those conversations with our customers. And they for well know why we need to have rate increases to continue to support them. And while they will refer cost to be as low as possible, they certainly understand market conditions.

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

Okay. That's helpful. And then did you put a number, like, on average how much your contract rates have increased on that 70% I think we did talk to some number even further...

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

No, I haven't. And I really don't like doing that. What I prefer to talk about -- because rate increases are one thing but it's not like we have absolute guaranteed volumes from them or we will supply guaranteed volumes to our customers, in most situations. In certain situations, yes, but in most situations, no. So I really prefer to look at what rate increases where we actual -- actually able to realize, what do we actually garner not what that we put in place in a contract. In the fourth quarter 2017, we realized rate increase of 4%. In the first quarter, we realized rate increases of 10%. In the second quarter, we realized rate increases of 12%. So really continued strong realized rate growth environment.

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

Okay. And I guess, what I'm getting at is given the market, given the continued tightness are these realized rates coming in line with your expectations or maybe they are a little bit better than you'd thought? I'm just trying to kind of get a relative framing of where you think the market is going to right now.

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

(technical difficulty) with our expectations. And the -- we, one thing the term that we use a lot that will -- but is about and someone alluded to it earlier was freight mix shifts. So some of it is, if one truck is hauling a load of one type of goods from one location A to location B, it may have one revenue profile, but it has been holding different type of goods with a differently level of sensitivity or timeliness, et cetera. It may have a very different revenue profile. So what we move will affect our realized rates often times as much or more as the actual negotiated rate increases.

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

Right, okay. That's helpful. And then, maybe if we could just talk about driver -- and the drivers and driver wage increases. I'm not sure if you want to put a number to how much your driver wages are up this year. But again, I'm trying to get a sense for -- it seems like the flatbed business is having a little bit more -- having incremental challenges in terms of keeping and recruiting drivers. But I guess, my question being if we look at driver wage increases, are they about in line with your expectations or are they maybe a little bit ahead, given the continued tightness, like where do we sit right now with respect to drivers?

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

Yes, driver wages are up 11%, which we can -- I always felt like we communicated to the market to expect, and we expected it. We need an environment where our employees and owner-operators can make a quality living. And we are happy to be able to provide that to them. The rate increases are somewhat I guess the biggest affected you may see that we've seen in a shift is in a higher rate environment, we have seen a higher appetite among drivers for owner-operator positions as opposed to company driver positions. And you will see a shift, particularly in the flatbed segment from the mix of our owner-operator -- our mix between company drivers and owner-operator drivers. It's approximately the same number. And so the net effect of that is that your margins will be compressed slightly as you move to an asset-lighter revenue stream but then your CapEx is lighter as well.

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

Okay. And then, maybe if you could just talk again specifically, to the flatbed division, maybe give a little bit more color in terms of which you've done with respect to pay? It sounds like you have a pilot program in one of the regions where you're trying to smooth out the pay and that's more kind of normalized salary base. But are there any other things that you're doing or thinking about to try to improve the unseated count in the flatbed division?

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

Yes, we are constantly trying to evaluate the earnings power of our drivers and trying to help maximize their earnings. The pilot program, I alluded to, was in our specialized segment and had great results. In a similar geography, we are starting a very similar program and a straight flatbed to see if it can have similar results. We hope that it does. If it does, we will continue to roll that out across the country. We had certainly tried minimum guaranteed pay in different places with -- you would get this regardless and then if you did x y or z, you could earn more. And that had a fairly strong effect but not nearly as strong as what we've gone to on the pay leveling programs. We would -- we've had great success in the salary product in the Northwest on specialized. We're engaging it on flatbed now. And certainly, hope to have similar results. And once we prove those experiments out, we'll be able to roll them out quickly across the company.

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

Okay. Good to hear. And then just my last question, quickly, you talked about the establishment of this Daseke Fleet Services group, and the company you're looking to save about $1 million all-in over the next 12 months. If we look out a couple years from now when we think about the company getting bigger from a top line perspective for scaling up, what are your thoughts at the given number but [kind of] talking about more meaningful savings on a go-forward basis. And are these savings incremental to the -- you talked about in the past realizing like a 20% improvement in terms of EBITDA and acquired companies over 24-ish month period. Is this incremental to that? That 20%, just wanted a little bit more color on what's the potential here with establishing this group and maybe squeezing out a lot more costs over the next couple of years?

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

Yes, sure Matt. You've put a lot of questions in there. But I'll try and remember them all. Number one is that, that $1 million in annualized savings is what they've actually accomplished in 2 months of work. That is far less than we anticipate they will be able to produce on an annualized basis. I would certainly have a goal for this group to be able to rank low on a cash basis, not necessarily on a GAAP earnings basis but a cash basis of tenfold of that. And with that, we have from -- perhaps a year of being established. And as they grow, hopefully, those numbers can grow as well. The -- and our purchasing scales increase. We do believe that, that -- this incremental savings that are going to be able to provide us would be addition to an incremental to our target of post-transaction EBITDA improvement.

Operator

(Operator Instructions) And our next question comes from Willard Milby from Seaport Global.

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

If I could start off, if we could get an update on initiatives regarding bringing more, I guess, the outsourced freight on Daseke-owned or Daseke-controlled trucks. I know that was a program started several quarters ago, just trying to see where you are all from a implementation point of view on that.

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

I'm not sure, exactly, which program you're alluding to. We had...

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

I think, it was the freight management system.

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

The freight management system continues to improve daily. Daseke, we have a culture of continuous improvement. We want to be better tomorrow than we are today. And we continue to see great abilities to do several things with that system. One is, which is management of overflowed freight and unplanned freight and unplanned trucks as an additional resource to the regions. It's more of a national look as opposed to a regional look, but it gets very site-specific for those people trying to plan loads and trucks. We have used that as a single source, almost 3PL with assets type function where producers put 100% of their freight into our system and then we manage it throughout Daseke, very successful. And we continue to use it as another analyst questioned us about us earlier as for national RFQ responses. It is a very strong tool for that as well. It also provides a great deal of analytics back to our partners and great ease of (inaudible). So that continues to grow and improve and we see a great deal of continued opportunity there.

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

All right. And as far as, I guess, keeping freight within Daseke-owned or controlled trucks as a part of that. Can you give us a look on how that's improved in the last quarter or last year?

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

Yes, I think it is -- it has improved. We believe there is much more room for even greater improvement. The biggest issue we have there is that most of our trucks are actively engaged on very high quality producing freight and have little capacity to take on incremental. So the key to that would be adding incremental Daseke company trucks. And we have not done that recently. We've been mostly just -- we increased companies (inaudible) trucks and specialized but lost a few on the flatbed side.

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

Got you. All right. And if I could shift over to Builders. When I kind of look at their footprint, obviously, I saw that overlap with Boyd Brothers there, as you mentioned. Also terminals, I believe, you have lease terminals in Houston and Memphis, is there any chance we could see another benefit from facility consolidation assuming builders owns their own facilities or has some facilities that would match well with the current established Daseke facilities.

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

I would say as Daseke continues to grow and mature and evolve and, frankly, existing leases burn off, you will see some consolidation of facilities. We have consolidation of facilities in Savana today, Houston is another location where we have done that. We worked on some of that in Southern California. So yes, you will continue to see greater cross utilization or and/or consolidation of facilities. Laredo was another example. So that is something that we will do to bring out cost out of the system, but many of -- many times as you bring on these new companies to our team, they have existing encumbrances on their relations real estate. It takes a while to burn off. We can attempt to sublease it or whatever, but certainly that would be a goal to take advantage of what we have. We really have also some opportunities in the utilization of maintenance that we think that the Daseke Fleet Services people can help us achieve greater cross utilization thereabout, just greater visibility, management, et cetera.

Operator

Our next question comes from Bruce Martin from Still Lake Capital.

Bruce Martin

A couple of high-level questions. I don't know, if these are for Don, but when you look at the multiple total enterprise value to EBITDA, I think Daseke looks like it's right around 7x when you used pro forma run rate. And I think the whole industry, it was like 10 different comp roles, 10x or higher. And I think most of those guys are more drive-in. Is there a fundamental difference that flatbeds should have a lower multiple as we're all still getting more familiar with flatbed as an industry, it's one question. Second question, just as we look forward in terms of white space, in terms of how big you could get or how big a piece of market share you could have as you look at acquisitions over next multiple years or even organically, what are your thoughts there? And the last question is on Bharat. Is there -- was there a specific region or skill set that Bharat brings to the table that maybe it's important to bring him in at this point that will either change the trajectory or just help hide that certain area of Daseke that you're looking to improve upon.

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

Well, Matt, first question, I don't think there's a fundamental reason why flatbed should trade in a different multiple than other public companies. I think that long-term, we'll be judged by our results. We'll be judged by our growth rate. We'll be judged by our execution. And I think we are relatively new public company, and so we've got a lot to prove to the market. And we're going to prove it. So that's why I'm so excited about where we are. As a historical perspective, we started 10 years ago with $30 million in revenue and now acquisition adjusted, we are in $1.7 billion range. We started with $6 million of EBITDA, acquisition adjusted, we're close to $200 million. And I think, we have just begun. So we've got an -- we've had an exciting last 10 years. We've got an exciting future. And we are long-term stockholders. And we believe that the market wants us to show that we are doing a good job in execution. And I'm confident we are going to do that.

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

There was a question on Bharat. Don and I can both speak to that. We felt for a position like this to have some background as a public company CFO and having hands-on experience in transportation style, public company, acquisitive growth companies all were very, very additive. We've got to know Bharat through the process of the acquisition of Aveda and as my role shifted, and I was wearing a lot of hats, and when you get someone to take the CFO hat, I think probably the first time I met Bharat, I looked at Don, and I said, "we could sure use a guy like that." And lo and behold, we were able to not only bring Aveda on board, but we were able to elevate Bharat to the CFO role, and think he can really help us have just more time spent on the CFO role than I was able to do when it was split. And I know I said it [consciously] earlier, but I honestly believe that you will see an upgrade in this position with the addition of Bharat over what I was achieving previously.

Operator

At this time, this concludes our question-and-answer session. I would now like to turn the call back over to Mr. Daseke for closing remarks.

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

So thanks, everyone. We really appreciate you listening on today's call, and we look forward to speaking with you individually. So if any of you have any questions -- further questions on anything about Daseke, please let us know. And we look forward to having another exciting report for you when we report our third quarter results. Thanks, again, for joining us.

Operator

Ladies and gentlemen, thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.
