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DSKE - R&R Trucking, Daseke, Inc. - M&A Call

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the Daseke, Inc. September 5, 2017, Acquisition Conference Call. (Operator Instructions) As a reminder, today's conference is being recorded and will be made available for replay. I would now like to introduce your first speaker for today, Geralyn DeBusk from Halliburton Investor Relations. Please go ahead.

Geralyn Maher DeBusk - *Halliburton Investor Relations - President*

Good afternoon, everyone. Thank you for joining us today on Daseke's September 5, 2017, Acquisition Conference Call. On Slide 1, 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. 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. Please note that Daseke has a long history of, and intends to continue, acquiring strategic and complementary flatbed and specialized trucking companies. Negotiations and discussions with potential target companies are an integral part of the company's operations. These negotiations and discussions can be in varying stages from infancy to very mature.

Therefore, investor should assume the company is always evaluating, negotiating and performing diligence on potential acquisitions.

On Slide 2, on this morning's conference call, Scott Wheeler, Executive Vice President, Chief Financial Officer and Director of the company will discuss the execution of the company's consolidation strategy plus the recent acquisition and cumulative results of Daseke's 4 year-to-date executed acquisitions. Also attending the call this afternoon are Angie Moss, Senior Vice President and Chief Accounting Officer; and John Michell, Vice President of Finance.

After our prepared remarks, the management team will take your questions.

With that, I will now turn the call over to Daseke, Inc.'s Executive Vice President and CFO, Scott Wheeler.

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

Thank you, Geralyn. Good afternoon. I'm Scott Wheeler, Executive Vice President and CFO of Daseke Incorporated. Our President and CEO, Don Daseke, extends his regret that he is unable to be present on the call, but his previously scheduled travel precluded him from joining us. On behalf of Don and all the people of Daseke, I welcome you to today's call.

We appreciate your interest in our growth story. For the benefit of those who may be unfamiliar with Daseke, I'll take some time today to tell a bit of that story. Turning to Slide 3.

Today's call will be centered on 3 key areas. One, the Daseke opportunity; two, executing on our consolidation strategy; and three, information regarding our acquisition of R&R Trucking.

Moving to Slide 4. Daseke's proven ability to execute our strategy of consolidation represents a significant opportunity for growth. Daseke is the largest equipment owner and a leading consolidator within the highly fragmented $133 billion flatbed and specialized transportation and logistics market, yet interestingly, we represent less than 1% of market share.

As of September 1, 2017, we have acquired 13 flatbed and specialized companies throughout North America, creating a 51% adjusted EBITDA CAGR from 2009 to 2016 on a pro forma basis after giving effect to our 4 recent acquisitions, which we have completed since becoming public in February.

In terms of ownership, Daseke management owns roughly 60% of Daseke's shares and our President and CEO has evidenced his confidence in the company by signing a 3-year lockup on his shares. As such, we are proud to say that Daseke management's priorities are very much aligned with our fellow stockholders.

Turning to Slide 5. On September 1, we consolidated yet another top-tier specialized company into the Daseke family. We are proud to welcome R&R Trucking of Missouri. The R&R Trucking companies include R&R Trucking, NEI Transport and AATCO. After giving pro forma effects to the R&R merger and the 4 mergers completed year-to-date 2017, Daseke's 2016 revenues and adjusted EBITDA would have been an estimated $869 million and $115 million, a 33% increase and a 30% increase, respectively, as compared to actual 2016 results.

We remain confident in our ability to achieve 2017 pro forma adjusted EBITDA of $140 million.

After closing our fourth acquisition in 4 months, we are all proud that our clear message of consolidating the large and very fragmented flatbed and specialized market has been reinforced by our consistent actions.

Now turning to Slide 6, we'll continue with more detail on that strategy. Our vision, of course, is to attract top-tier flatbed and specialized carriers to join us since we built Daseke for the long term.

Now if you'll turn to Slide 7, you will see some of the details regarding another successful step in this process. Effective September 1, R&R Trucking has been added to the Daseke family, strategically adding to our industry verticals, geographic service areas and service offerings. R&R Trucking is a leader in the transport of government and commercial arms, ammunition, explosives known as AA&E, and also radioactive cargo and hazardous materials in North America, providing freight services to both the government and commercial AA&E markets. This represents a new service category for Daseke that we have been targeting for some time.

R&R was founded in 1988 and is headquartered in Duenweg, Missouri near Joplin. Their primary customers are the Department of Defense and commercial defense contractors. Fewer than 20 companies in the United States were approved to provide this type of transportation for the Department of Defense. R&R is the second-largest munitions carrier for the Department of Defense and is authorized to operate 2 of only 3 privately run DOD-approved secured terminals for this type of freight in the United States. With our ability to serve this new niche of the specialized freight industry, Daseke's already diverse customer base and list of end markets becomes even further diversified. Along this merger, the Department of Defense will become a top-10 customer for Daseke, overall.

In the spirit of Daseke's strategy to purchase not-for-sales companies -- not-for-sale companies, where we retain the emotional owners of the business, R&R Trucking was acquired through a long process of direct negotiation with a long-term equity sponsor. All senior management have signed long-term employment agreements.

R&R Trucking is led by CEO, Phil Nelson, a veteran of this industry niche with 2 decades of service at R&R. We are very pleased to now include Phil and his team on what we believe to be one of the deepest, highest quality management teams in the industry.

Turning to Slide 8. Since May 1, 2017, Daseke has acquired 4 operating companies that provide flatbed and specialized transportation and logistics services across the United States and Canada. Those acquired companies are The Schilli Companies, Big Freight Systems, the Steelman Companies and R&R Trucking. The 4 acquisitions combine for a total 2016 estimated revenue of $218 million and $26 million of adjusted EBITDA, and estimated 50% of revenue is asset-light or logistics related.

The average purchase multiple for the 4 2017 acquisitions is [5.4x] (corrected by company after the call) 2016 adjusted EBITDA with multiple calculation taking into account the sum of cash consideration, stock consideration and the debt assumed for the acquired companies.

For the most recent acquisition of R&R Trucking, cash consideration was funded from the delayed draw feature of our term loan. Daseke now operates over 3,800 trucks, 8,200 flatbed and specialized trailers and more than 1.2 million square feet of warehouse space, which should facilitate industrial logistics and distribution services.

Turning to Slide 9, large flatbed and specialized carriers of scale are rare, and therefore, can have a competitive advantage. As of 2016, this sector included fewer than 30 North American companies that operated over 1,000 tractors. As of September 1, 2017, Daseke operates over 3,800 tractors. And we believe this makes Daseke the largest pure-play flatbed and specialized carrier in the market. We believe we will continue to see significant synergies through our integration strategies that allow us to reduce cost on a per-unit basis, pursue incremental revenue opportunities and achieve increased operational improvements. In fact, following acquisition by Daseke, our operating companies track roughly 20% in organic growth of adjusted EBITDA within 24 months.

As to growth, as previously mentioned, we have a demonstrated proven record of acquisitions that have taken Daseke from $6 million of adjusted EBITDA in 2009, our first year of operations, to a pro forma adjusted EBITDA of $115 million in 2016 after giving effect to our 4 recent additions. This is a compound annual growth rate of approximately [51%] (corrected by company after the call).

Turning to Slide 10. A snapshot of Daseke's available capital is provided. Following the acquisition of R&R Trucking, Daseke has approximately $20 million in cash on the balance sheet; $70 million of undrawn on our revolving line of credit; and $23.7 million of undrawn capacity on the delayed draw feature of our term loan. Daseke is, of course, consistently and constantly evaluating our capital structure and resources we'll need to continue our strategy of acquiring more companies in the flatbed and specialized segments of the trucking industry.

On Slide 11, you'll find an executive summary of today's key points. We are executing on our consolidation strategy, closing 4 acquisitions in the last 4 months. After giving pro forma effect to these mergers, Daseke's 2016 revenues and adjusted EBITDA would have been an estimated $869 million and $115 million, 33% increase and a 30% increase, respectively, as compared to actual 2016 results.

I'll now turn the call back over to Geralyn.

Geralyn Maher DeBusk - *Halliburton Investor Relations - President*

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Steve Dyer of Craig-Hallum.

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

Just want to dig in, real quickly, to the DoD business here. Looks interesting. Wondering, if there's any sort of differences in the types of these contracts or economics that make them more attractive, just given that there does seem to be some value and not a lot of people certified to do this?

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

Well, there are clear differences. There is a great deal of, obviously, operational expertise that's required that not just anyone can do. The drivers have to obtain security clearances. The facilities have to be certified by the Department of Defense, et cetera. There are some differences in economics, but not largely -- particularly around the fuel surcharge. But one of the attractiveness of this particular niche for us was that it is not as prone to cycles or seasonality as the other elements of our business. And we felt that it would provide some level of consistency in earnings, coupled with a very high barriers to entry.

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

Great. Makes sense. And then just, I guess, lastly, would you anticipate any other synergies with other Daseke operating companies?

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

Well, largely, I think it will come in the cost side first. Obviously, that's true for almost all of our companies that join the family. That would be first. There will be some, but probably less than in other situations, just due to the specialized nature of what they do. But there maybe times when we could become more efficient or more -- higher utilization, where they could be hauling perhaps a non-DOD or AA&E-related freight to make them more -- have a higher utilization rate.

Operator

Our next question is from Jason Seidl of Cowen.

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

Getting back to the question on the contracts. Are these contracts -- do they differ in length because it's the government or are they still more like 1 year?

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

No, the contracts are different. And it's much more of a process. At least on the Department of the Defense side, the contracts are different and would be more of, you became a qualified carrier and you are qualified to carry this freight. And then as the freight is available, then you would put in your bid related to that freight, which is quite different than our commercial contracts.

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

And this bid process, does it come up annually? Or...

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

No, it's a constant flow of freight (inaudible).

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

Just a constant flow. Okay. And you mentioned the drivers need security clearance, I imagine that makes it more difficult to hire the drivers. However, does this company see a stickier driver-base than normal?

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

Yes. And this is about -- it is stickier than Daseke overall and much stickier than the industry overall. Interestingly, the company, because of the nature of the freight, is dominated by team drivers. Typically, they would have to have 2 people with a load at any given time. The loads would not be left alone. And so the attractiveness of -- the economics of team driving can be compelling. And then the level of skill and certification of the drivers to move this also makes this a very, how should I say, a very attractive place for the best drivers who want to drive.

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

That makes a lot of sense. And lastly, I noticed you guys filed a shelf recently. How should we read that? Should we read it as, there is a lot of good opportunities that could potentially be close and you guys are just sort of covering your bases? Or is this something that you kind of just regularly do from year-to-year as one expires?

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

Well no, you should just take that as -- we are constantly evaluating our capital structure options. We have a lot of options available to us, and we also believe we have a lot of opportunities available to us. And we are -- just want to make sure that we have all of the flexibility needed to work on whatever pieces of capital structure that we deem advisable, when it is time to do so, and really don't want any time impediments in between us and achieving that. But we are, as we have said on probably every call and we'll probably say on every call, that we're constantly evaluating our options as it relates to all up and down the capital side.

Operator

(Operator Instructions) Our next question is from David Schmookler of Kingsland Capital.

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

So just to follow-on on the discussion about the shelf and financing opportunities. Maybe you could just help me understand, of the revolver, the $70 million facility, it's undrawn, but there's some letters of credit against it. Just thinking about how much of that would you guys be willing to tap for acquisitions versus trying to keep some dry powder for operational needs in the future potentially?

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

Yes, David, that's a really good question. And certainly, we would not tap 100% of that. And there is a kind of a floor or ceiling dependent upon how you look at that, as to what we would be comfortable calling. I don't know that I have a specific number in mind, but it would certainly not get anywhere near the full $70 million.

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

Okay. All right. I'll just move on. And just on the cash that you have, $20 million of cash on hand. Is that kind of the cash floor that you need to operate this business? Just trying to understand the extent of excess cash you might have.

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

No, that's not really operational cash. That's excess cash that we would have available for acquisitions, capital expenditures, et cetera.

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

So you are saying you're going to run the business with a de minimis amount of cash on hand?

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

Yes.

Operator

And next question is from Barry Haimes with Sage Asset Management.

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

I had 1 nonrelated question, but while we got you, wondering if you could share any kind of some -- impact of Harvey? One, has it been at all disruptive to operations? But 2, how you're looking at the possible opportunity to help the rebuilding effort?

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

Yes, we have and as many people in our business do have significant operations in and out of the -- and around the port of Houston, and then just given the fact it's a major transportation and one of the major cities in the country, it has certainly had an effect on our business. We have -- none of our facilities -- our operating facilities were affected anyway. We recently -- we had acquired 2 companies that have operations in Houston. We consolidated the facility. So we had 1 unutilized facility that was impacted by the flooding, but none of our operations were there. And we certainly had a lot of our people pitching in to help others. And as much as National Guard drivers driving in, our own employees, our own (inaudible) trying to help people. We've been very, very proud of our -- what our employees have done to support what's going on there. But yes, there is a couple of things that will go on that will be impactful to everyone in the business, and this is not unique to Daseke. We just have more exposure to this than almost anyone else. And the issue will be, there will be a lot of freight that needs to go into this area, whether it's here or Southern Florida, depending on when that hurricane (inaudible) without a lot of freight that will come back out and -- if you call it a backhaul situation. So I believe there will need to be some freight adjustments related to that because of the nature of inbound and outbound freight. And also, I think you'll begin to see some of the suppliers of these materials begin to stage materials in close-in strategic locations so that the freight can get in quickly as needed. But I think everyone should be clear that we are up to about 75% operational in those areas. It is -- it will take a while to sort everything out, just because there is a lot of damage that still needs to be assessed and mitigated that's going to take place there for a long period of time.

Operator

I see no other questions in queue. I will turn it to Mr. Wheeler for closing remarks.

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

Thank you. I just want to thank everybody for joining us today on short notice. We realize that this is the first day after a long holiday. And we just put out a release this morning and didn't -- weren't able to give you much advance notice. So for those of you that were able to make the call, we greatly appreciate you joining. We greatly appreciate your interest in Daseke. And we hope to continue to provide solid returns on your investment into the future. Thank you. And welcome, R&R.

Operator

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