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# EDITED TRANSCRIPT

DSKE - Daseke, Inc., Moore Freight Service, Inc., Roadmaster Group Inc., Tennessee Steel Haulers, Inc. - M&A Call

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## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to the Daseke, Inc. December 6, 2017, Acquisition Conference Call. (Operator Instructions) As a reminder, today's conference call is being recorded and will be made available for replay.

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

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**Geralyn Maher DeBusk** - *Halliburton Investor Relations - President*

Good morning, everyone. Thank you for joining us today on Daseke's December 6, 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, investors should assume the company is always evaluating, negotiating and performing diligence on potential acquisitions.

On Slide 2. On this morning's conference call, representing Daseke, Don Daseke, President, CEO and Chairman, along with Scott Wheeler, Executive Vice President, Chief Financial Officer and Director, will discuss the transformative additions of 3 strategic new companies on December 1, 2017.



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Also supporting the call this morning are the senior members of the management team, including Angie Moss, Senior Vice President and Chief Accounting Officer; John Michell, Vice President of Finance, Greg Hirsch, Senior Vice President; Derek Blount, Senior Vice President; and Soumit Roy, General Counsel. After our prepared remarks, the management team will take your questions.

And I'd like to point out that a particular member of Daseke's management team has received an extraordinary honor. As announced this morning, Don Daseke has been selected for membership in the prestigious Horatio Alger Association of Distinguished Americans. For more than 70 years, the Horatio Alger Award has been annually bestowed upon admired leaders, who have succeeded despite facing adversities, and who have remained committed to higher education and charitable efforts in their local communities. Past inductees include, U.S. Presidents Eisenhower, Ford and Reagan. Also great names of accomplishment known to all of us, such as Buzz Aldrin, Hank Aaron, Bob Hope, Oprah Winfrey, Waylon Jennings, Condoleezza Rice, Chuck Yeager, Roger Staubach, Michael Bloomberg, T. Boone Pickens, Roger Penske, H. Ross Perot, Ray Kroc, Mary Kay Ash, Tom Landry and a host of amazing people, who started from very humble beginnings, yet ultimately gave much to the world.

So it is now my pleasure to turn the call over to the newest member of this incredible group, Daseke Inc.'s President and CEO, Don Daseke.

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

Thank you, Geralyn. I'm humbled to be included in such a group of extraordinary Americans, and it is my great honor to join the Horatio Alger Association. I look forward to working through this platform to continue my efforts to fund scholarships and help deserving students achieve their dreams through higher education, a personal passion of mine since I was awarded a scholarship to DePauw University in my youth. Beyond this personal honor today, I'm also excited about the corporate developments we're able to talk about this morning.

Moving to Slide 3, today, we're extremely pleased to announce 3 new members to the Daseke family. All 3 are very strategic and attractive to Daseke for multiple reasons. And combined, they are a transformative group of additions. The 3 companies that have joined the Daseke family are: Tennessee Steel Haulers, the Roadmaster Group and Moore Freight Service. These 3 companies represent approximately $320 million of revenue for the trailing 12 months ending September 30, 2017, allowing us to reach a very significant milestone of crossing the $1 billion mark, with a run rate of 2017 revenues in excess of $1.2 billion. These additions should also allow us to reach our stated goal of pro forma adjusted EBITDA for 2017 of $140 million.

Turning to Slide 4. These 3 companies are very attractive to Daseke for the following highly significant reasons: our revenue, EBITDA and fleet size are now almost 40% higher. With Tennessee Steel Haulers, we've added one of the largest flatbed companies in the United States. In addition, they are one of the largest that only uses owner-operators. Since owner-operators own their own tractors, Tennessee Steel Haulers will make Daseke asset lighter, with lower capital expenditures required. We estimate now that approximately 50% of the revenue we produce will come from Daseke-owned equipment, with the other 50% from owner-operators, brokerage or logistics.

We've added 2 specialized carriers: Moore Freight and Roadmaster, focused on the highly unique niche sectors of glass hauling and high-security cargo respectively. Both of these represent what we anticipate to be solid growth organic opportunities. Approximately $53 million of the total consideration paid to these sellers was in the form of Daseke stock. We believe that shows the long-term confidence of these sellers in Daseke.

On Slide 5, I'll now discuss some specifics of the companies that joined Daseke on December 1.

Moving to Slide 6. Tennessee Steel Haulers based in Nashville, Tennessee and founded in 1976 by Sid Stanley. They are in the second generation of family leadership. The company provides transportation services through a 100% asset-light operating model with operations primarily throughout the eastern part of the United States. This asset-light model translates into significantly lower fixed costs and adds operational flexibility in different markets along with representing lower capital expenditures requirements compared to the traditional asset-heavy companies. Their 1,100 flatbed-only owner-operators will meaningfully impact Daseke's mix of both asset light to heavy asset ratios and flatbed to specialized ratios.

Tennessee Steel Haulers strengthen several of our top 25 customers in the metals, building, construction and agricultural markets. With their Southeastern-based network, we expect they will add significant synergies with our existing companies, as we continue to build up our density in these markets.



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Turning to Slide 7. Roadmaster is an elite high-security cargo carrier, which expands Daseke's strength in this niche market with a limited number of carriers. The Roadmaster Group is headquartered in Phoenix, Arizona, and their primary customers are the Department of Defense and commercial defense contractors. Fewer than 20 companies in the United States are approved to provide this type of transportation for the Department of Defense. Roadmaster is the largest munitions carrier for the Department of Defense and is authorized to operate 1 of the -- of only 3 privately run Department of Defense approved secured terminals in the United States. Fellow Daseke Company, R&R Trucking, operates the other 2. The Roadmaster Group is led by CEO John Wilbur, who's looking at the industry through an entrepreneurial perspective. John is a passionate, focused and aggressive CEO that we welcome in the Daseke family.

Roadmaster began as a company called Secured Land Transport, a smaller player in high-security cargo market. It was the final remaining company in a portfolio of a private equity fund run by John Wilbur. In 2010, as the company was being prepped for sale, they realized they had an under-managed company that was in no position to be sold. John ultimately took over as an interim CEO in order to turn that company around over the next 3 years. When John completed the initial turnaround, he realized he had a gem of a company and that the high-security cargo market was full of very specialized legacy companies that were not looking to grow. Since then, John has built out the executive team. They already had a strong sales leader with experience at Knight. He then added a strong operations and maintenance manager who came from a similar role at Swift. John then filled out a corporate support staff that would take this company into a higher level. With his team in place, John started to grow, both organically and through acquisitions. His next, his top 2 prospects to acquire were the largest carriers in the high-security cargo niche, Tri-State and R&R. In 2016, he purchased Tri-State in Joplin, Missouri. By May of this year, he and his team had renewed it to a vibrant new brand, complementing Tri-State's deep history in the market dating back to the '30s. The original SLT brand has now been merged into Tri-State. Following the Tri-State acquisition and turnaround, John now had a larger platform and the scale he needed to continue to pursue his job of consolidating the niche.

Earlier this year, R&R Trucking joined Daseke, with their expertise in the high-security cargo market. Our footprint in this end market has now grown even stronger with the addition of Roadmaster. The synergy between these 2 companies is exciting and with the top 2 players now in the same team, we will become a true force in both the commercial and government high-security and arms, ammunition and explosives cargo market.

Turning to Slide 8. Moore Freight is a major player and another unique niche end market, hauling sheets of commercial glass from the manufacturers to companies that cut the class to size for finished product. These glass sheets can be as large as 17 by 10 feet and more than 1-inch thick, and Moore Freight uses highly customized trailers with patented applications during transportation. Daseke has been intrigued by this market for several years, as there are only 3 primary carriers with scale. Daseke has previously made modest inroads into the industry, but we've learned it is very difficult to deal -- to build scale quickly in the commercial glass niche. With the addition of Moore Freight, Daseke now has become a significant participant in this market. Moore Freight was founded in 2001, and its headquarters is in Mascot, Tennessee near Knoxville. Their primary customers are some of the largest commercial glass manufacturers. The demand for commercial flatbed glass are from 3 primary end markets: first, the construction and architectural industry which represents approximately 80% of demand; the automotive industry, which represents about 10% of the demand; and the remaining demand coming from solar and telecom applications. Given this backdrop and the resources in support of Daseke, Moore Freight now has a major opportunity to grow. I now turn the presentation over to EVP, and CFO, Scott Wheeler to tell you more about these specific companies, and the transformative nature of these additions.

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

Thank you, Don. On Slide 9, we will now begin to discuss in more detail, why we find these 3 acquisitions to be strategic and transformational. The categories and verticals they serve are flatbed owner-operators, high-security freight and commercial glass.

Moving to Slide 10. Flatbed is a highly desirable market, given the current conditions of tightening capacity, a rising rate environment and outsized demand due to recent weather events. Within Daseke's current operations, flatbed has been the best performer recently. Adding a substantial number of drivers allows Daseke to achieve significant scale and creates an increased density in our greatest area of operations: the eastern half of the United States. This should allow us to strengthen and deepen relationship with important customers.

Flatbed transportation can be used in many end markets and create significant flexibility to couple along with that increased scale. Furthermore, we see immediate synergies with our existing flatbed operators in the east, Boyd Brothers, WTI and Hornady Transportation, on working shoulder to shoulder with Tennessee Steel Haulers. Equally important is the access to a significant number of owner-operators that makes Daseke immediately



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asset lighter. It is common that asset-light companies trade at a much higher multiple, in spite of their lower profit margins. This is due -- largely due to the reduced need for capital expenditures in the business and the owner-operator model is one characterized by lower driver turnover.

On Slide 11, as evidenced by our acquisition of R&R Trucking earlier this year, we view high-security cargo transportation as a highly desirable end market, characterized by stable earnings with lower seasonality, organic and M&A growth opportunities, attractive margin profiles, limited numbers of qualified carriers and high barriers to entry. These high barriers to entry include secured and government approved terminals, team drivers and security clearances for drivers.

While high-security will be reported in our specialized segment, a segment that has not been performing to the same level as our flatbed segment in 2017, high-security is not subject to the same market pressures as the other companies in our specialized segment. We see significant long-term synergies with Roadmaster and our existing company R&R Trucking. In fact, Roadmaster's largest operation, Tri-State Motor Carries, had its main operations headquartered less than 1.5 mile from R&R's main operations headquarters near Joplin, Missouri. When taking into account both R&R and Roadmaster, we believe this would make Daseke the largest mover of AA&E freight on behalf of the Department of Defense. However, high-security and most importantly, time-critical high-security freight is also in high demand outside of the government sectors.

On Slide 12. The movement of large sheets of commercial glass is also a highly attractive niche that Daseke has pursued for some time. The niche is characterized by attractive margin profiles, few large players of scale, highly specialized trailering equipment and loading expertise, low turnover and a highly defensible niche. Daseke will now be the third largest mover of commercial glass in North America. Daseke has been making modest organic inroads into this market via EW Wylie and Big Freight operating units, and we see many near-term synergies between the operations of Wylie and Moore Freight. Given our new presence in the market, we also believe there are organic growth opportunities as well.

On Slide 13, we will now turn to the impact of these additions.

On Slide 14. Overall, we believe that these 3 new additions to the team will make Daseke the largest provider of flatbed and specialized transportation services and the largest owner and operator of this type of equipment in North America, with run rate revenues of approximately $1.2 billion. It will also further diversify our customer base and further strengthen our existing strategic customer relationships.

Having asset-lighter revenue streams will typically be recognized in equity markets, where asset-light companies can trade at an EBITDA multiple greater than that of a traditional asset-heavy carrier. We continue to believe that a blend of both is an appropriate and important structure for Daseke.

Flatbed markets have been improving of -- as of late, and adding over 1,000 owner-operators to the mix through Tennessee Steel Haulers is certainly a positive for Daseke. We have gained market-niche leadership in high-security cargo and commercial glass, with highly defensible positions where few providers exist. We've added lower driver turnover profiles and improved profitability characteristics. All 3 of these acquisitions should be synergistic to our existing operations, and company-to-company discussions on how to achieve these results began taking place prior to the closing of those transactions. Two of the categories, in particular, represent what we believe to be growth opportunities. We have added 3 strong and capable management teams, including certain executives with backgrounds at Knight and Swift.

On Slide 15. Given the volume of additions, a natural question would be about the assimilation of these companies into Daseke, and we have, once again, focused on the low-risk acquisition strategy. We have retained all of the incumbent management teams, developed comprehension integration plans and paired these operating companies with other Daseke companies already operating in that particular space. We've also continued to invest in adding to the depth and capabilities of corporate team to be able to efficiently bring these companies on board. Our experience tells us that retention and continuity of management teams also leads to the retention of 2 key constituencies: customers and drivers, which also serves to lower the risk of companies joining Daseke.

Turning to Slide 16, we will discuss some of the financial characteristics of these transactions.

Turning to Slide 17. The 3 newly acquired companies had combined revenues of $320 million and adjusted EBITDA of $37 million on a trailing 12 months basis as of September 30, 2017. These combined companies are approximately 70% asset-light or logistics related, and the consideration



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for each of the transactions included cash, assumption of debt and issuance of stock in Daseke. Approximately $53 million of stock translating to 4.23 million shares was issued to the sellers in conjunction with these transactions. Now a total of 48.7 million common shares are outstanding. Please note, a more complete chart of our common stock and equivalents is included in the appendix to this presentation.

After giving pro forma effect of these transactions, Daseke will have approximately $85 million in cash remaining on the balance sheet and net leverage of approximately 3.85x.

On Slide 18. The aggregate adjusted purchase multiple for all 7 companies purchased in 2017 is approximately 5.9x of the trailing 12 months as of September 30, 2017. This would be up from our prior year-to-date average multiple of 5.4x of trailing 12 adjusted EBITDA. To calculate the adjusted multiple, we annualized the 6-month earnings of Roadmaster after the integration of Tri-State acquisition. As of May of this year, the legacy costs are behind them, and the results of the combined companies are being fully realized. The success of the business integration is clearly evident, and we feel that the 6 months since May represent the current status of the integrated company. Therefore, our acquisition valuation analysis of Roadmaster was based on the Roadmaster operations after May 1, 2017, and the merger cost had largely already been expensed and the operations fully integrated. We feel that this is the most appropriate measurement for valuation.

While adjusted trailing 12 months' multiple is 5.9x, it should be noted for the calculation of the EBITDA target incentive of $140 million of pro forma adjusted EBITDA, the actual 12 months' results will be applied and will not be adjusted for this business combination.

Turning to Slide 19. The higher average purchase multiple means that the most recent additions have held a higher multiple cost over what had been paid for the 4 previous acquisitions in 2017. We feel the elevated multiples are appropriate, given the much more asset-light profile, the reduced need for capital expenditures in the asset-light category, the addition of 2 higher profit margin niches, operating synergies with existing Daseke operating companies, organic and M&A growth opportunities, lower driver turnover, meaningful management capability and other factors.

On Slide 20. With the addition of 7 quality companies in 2017, Daseke now has an estimated pro forma run rate of $1.2 billion in revenues and $140 million of adjusted EBITDA. This will most likely mean that the full incentive shares of 5 million shares will be granted to the pre-public Daseke shareholders after the annual audit is completed. Daseke will now operate with approximately 5,200 tractors, 11,000 trailers and 1.2 million square feet of warehouse space for industrial logistics and distribution services to major customers.

As we are discussing 2017 year-to-date, I will take a brief moment to give some color on the current quarter. Once again, the flatbed segment continues to show moderate strength, and the specialized segment continues to lag. While open-deck operations around the holidays can be unpredictable, and the fourth quarter is typically our lowest-performing quarter, we anticipate that final results will show a small improvement over the prior year on a same-store basis.

On Slide 21, you will see that on a pro forma basis, our top 10 customers would now include in alphabetical order: AGC, Boeing, Caterpillar, Department of Defense, General Electric, Georgia-Pacific, Metromont, Nucor, USG and Vestas. These acquisitions have served to further diversify our customers' base with no single customer accounting for greater than 5% of Daseke's revenues. While we added to our end markets serves, these acquisitions also serve to further solidify key customer relationships and strengthen Daseke's presence in the metals vertical.

In closing with Slide 22. As we focus on long-term value creation, we are very excited to have these 3 outstanding companies join the Daseke team. They will make us better, asset-lighter, help improve profit margins and lower driver turnover, and provide synergies with existing Daseke operations with organic growth opportunities. Our new combined run rate will be $1.2 billion in revenues and $140 million of adjusted EBITDA. We believe that we will continue to see very attractive merger opportunities and feel confident that we can attain our stated goal of $170 million in pro forma adjusted EBITDA by the end of 2018.

I will now turn it back over to Geralyn.

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**Geralyn Maher DeBusk** - *Halliburton Investor Relations - President*

Thank you for joining us on today's conference call. We'll now open up the call for questions from the audience.



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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) And our first question comes from the line of Jason Seidl of Cowen.

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

Let me start off by congratulating Don. That's some very lofty company you're with. Congratulations. Couple of quick questions here. Scott, you mentioned that there's $70 million between -- in revenue between the asset-light and logistics revenues. Can you break that down and tell us how much is actually logistics versus asset-light?

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

It is a de minimis portion of the total. But I'm thinking off the top of my head, but it's in the $4 million range.

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

Okay. So it's small. All right, that's fine. Can you also talk about, once you get these companies integrated under the Daseke belt here, what's some of the low-hanging fruit in terms of some of the cost that you might be able to take away?

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

Well, the costs are, to me, come in 2 categories, and the low-hanging fruit is purchasing, and that's usually the easiest thing to do. Things such as tires -- consumable things, tires, diesel, all kinds of -- those kind of group purchasing things, we will be able to lower cost. The more meaningful, and takes a little bit longer time to integrate, would be the operating synergies. And on the cost side, they can just be -- being the most efficient routing of freight and utilizing -- maximizing the utilization of equipment would be a primary focus.

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

And this probably ties into this, in terms of the organic growth of the 3 companies. What can you guys do to expand that organic growth rate at Daseke?

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

Well, organic growth comes in a lot of flavors at Daseke, because we do a lot of different things, obviously. But organic, it can come from many ways. One of the easiest ways is increasing rate environments. So you move the same freight for the same number of miles, but for a higher rate, that's one way to do it. Another way to do it is to do more -- sell more of your services or get more volunteer from your existing customers. That's a focus for us. But we're also beginning to do more large national RFQ responses, and that's probably one of the primary things that's taking place in the actual Daseke prior to these 3 companies joining us today. But given the fact that there is -- we think there's a lot of opportunity in the high-security cargo space, particularly around the nongovernmental areas, and that is a real focus for, what we would call, the high time sensitivity, high-security freight market. There's a lot that -- there's a lot of demand there that we believe we can fill. And then glass, given that there's only 3 major players of scale, we think there's lots of organic opportunities in the glass side as well.



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

And in the nongovernmental high-security area, what's typically that end market look like?

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

You can imagine a retailer that has a significant new issuance of a significant new device that needs to make sure that it lands at a warehouse securely because of the value of that load and the corporate security requirements of the technology involved. Those are actual examples. I just don't want to use the actual brand names.

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

Right. That might have a fruit on it. I get it. I guess, the last thing, I heard you comment about the fourth quarter that you said that on a year-over-year basis, you would be up, I think, you used the word, I don't know if you used the word, "organically," or there was going to be some year-over-year growth, were you talking on an EBITDA basis, on a revenue basis, both?

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

Yes, I'm sorry, Jason. When we talk about those things, we really are only talking bottom line. And we are bottom line-focused people. And as you have seen us in the past, we will sacrifice revenue to grow the bottom line. And so when I said, we would expect some modest same-store growth quarter -- Q4 over Q4, we were speaking about EBITDA only.

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

EBITDA, okay, that's what I thought, I just wanted to confirm. All -- that's the questions I have. I will get back in queue. Thank you for the time gentleman, as always.

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**Operator**

And our next question comes from the line of Steven Dyer of Craig-Hallum.

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

And I'll add my congratulations, Don. That's some pretty rarefied air on that list. So congratulations. Just a couple of questions for me. First, just kind of going back into the year-over-year, I guess, I'm trying to figure out, on an EBITDA basis, if this acquisition or series of acquisitions was $37 million, and then the 4 you did earlier this year were $28 million, that, to me, implies an organic EBITDA more like $80 million than $90 million, is -- and I'm not sure, I guess, necessarily, where my math is off there, to kind of get to that low 140s on a pro forma basis.

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

Steve, I -- can you walk through that question again? I'm not sure if I follow the math.

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

So all in now after all of the acquisitions you're at a pro forma EBITDA run rate of, call it, $140 million. These 3 trailing 12 months was $37 million. The Schilli, Big Freight, Steelman, R&R acquisition was $28 million. So that, kind of, leaves, kind of, your organic or same-store EBITDA, year-over-year,



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to be somewhere more in that $80 million range. And if we need to take this offline, we certainly can. But I'm trying to figure out how that ties out with sort of the $90 million that you guided and talked about for the existing companies entering the year.

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

Yes. So $80 million would be the companies that started the year, but the $90 million we guided to was the GAAP, including the acquisitions that we had closed prior to December 1.

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

Okay, got it. That makes more sense. And then just as it relates to the acquisitions, I can appreciate the higher multiple for a less capital intensive business. Wondering, if you're able to, kind of quantify that capital intensity. I think you've said, historically, for more of the asset-heavy piece of the business, CapEx is somewhere more in that 7%, or maintenance CapEx is more in that 7% of sales. How would, kind of, the latest acquisitions compare to that 7%?

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

Well, I think, we're going to -- we're trying to sharpen our pencil on that currently. But what we've said in the past, is kind of net CapEx on the previous blend of Daseke kind of 1/3, 2/3 light to heavy was 7% net. Of that, generally, that would be about 6% maintenance and maybe, 1% growth on an average year, everyone knowing that there's no such thing as an -- average year doesn't actually exist, it's just an arithmetic average. We would expect, and we've also said that we expect 2018 to be a higher CapEx year, because we've had some kind of CapEx holidays in both '16 and '17. And so we believe the addition of these less CapEx-intensive business will bring that actual expenditure closer to our historical norms than being over it, as we had projected. So ...

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

Okay. And then, I guess, just trying to forecast free cash flow for 2018, if you're at -- as a total combined company, call it 14% EBITDA margins, and you're paying 17 -- or 7%, call it, on the debt, give or take, and you're paying, call it at least 7%, probably for CapEx, would you anticipate being free cash flow positive in '18 as you sort of see it right now?

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

Well, I mean, I would say no, because we would anticipate using free cash flow to continue to invest in acquisitions.

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**Operator**

Our next question comes from the line of Barry Haimes of Sage Asset Management.

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

Congratulations, Don, in particular on the award, and all you guys, for the successes this year. Had 2 questions, one related to the acquisitions and one related to the quarter. So the one related to the acquisitions. As you were doing your due diligence, are these carriers ELD compliant? And I'm actually, particularly interested in all the owner-operators within Tennessee Steel, if you have gotten any feel for their compliance. And then on the quarter, you talked about -- a little bit about the trends in the business, but wondering if you would care to comment on percent increases on recent contracts that have rolled over, and any progress on the unseated truck count that you ended the quarter with?



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

Barry, I would comment on the ELD compliant, I was just in Nashville yesterday, meaning, the Tennessee Steel Haulers. And yes, they are ELD compliant. It's been a process, and because a lot of owner-operators have not wanted to be ELD compliant till the last minute, but they have worked through that process with their folks, and they're very proud that they're ELD compliant now. In fact, I was, in the last 2 days, had been in Phoenix, Joplin, Nashville and Knoxville, and we have 3 highly motivated teams that are very excited to be part of the Daseke family, very excited. I mean, this -- these are long-established companies that have great teams; a lot of emotions. Sid Stanley started Tennessee Steel Haulers a long time ago, as you've heard. His sons and son-in-law are now running the business, and he's very proud of what they've done. Because they started from nothing and now have 1,100 trucks. And the team has been with him a long time there, so charged up to be able to take Tennessee Steel Haulers to a new level of success. I met, in Joplin, with not only Roadmaster, but the R&R folks. They're -- and they're located very close to one another. Many of the R&R people came from Tri-State in the past years, so they know each other well. And together, we can be a big force in this high-security cargo business. And high-security means that these trucks have 2 drivers. In order to higher -- haul for the Department of Defense, you have to have government clearance for both drivers. That's a big deal. Drive -- most drivers don't have government clearance, obviously. And the -- for to haul precious cargo for commercial customers, you don't need high -- you don't need government clearance, but you've got a very short time frame to move those goods across the country. And it's a niche. And very few companies do that, because it requires a team driver. So it's a niche opportunity for us to be a big force in that market. And I've already talked about the glass. There's really only 3 companies of scale in the whole United States that move glass, because it requires few manufacturers, it requires special trailers, and the manufacturers don't want to deal with an owner-operator that's just got 1 truck or 2 trucks. They want to deal with people that can do this in scale. Well, Moore is a company in scale. But Moore now has more resources back of it to support its service to this niche. And Roadmaster and Tri-State now has more resources back of it to really take advantage of this niche opportunity. So we've got companies that have got great management that now are part of our family that have resources back of them to take advantage of their position in each niche sector. And they know that, and they're all excited about that. Their people are very excited about it. I've had meetings in Phoenix, in Joplin, and Nashville and Knoxville with all of these people, and the companies are revved to go to really use the Daseke resources to take advantage of the opportunities that they have. And so these are really transformative acquisitions, as I said. And the future, the opportunity -- will show you the opportunity over the next few years, what we do with these opportunities. But we're very excited about them.

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

Barry, I think you had a couple of other questions. I would say, yes, we are seeing improvement in our seated trucks. I wouldn't -- we're not ready to throw a party, but we are seeing improvement clearly. And I'm not sure I'm going to tell my competitors exactly what's happening on rates. But I would say, the rates improvements, or lack thereof, that we have seen would be reflected in our 2 segments, where flatbed is showing -- it's a nice area, and things are doing really well there and not so much in [specialized].

**Operator**

Our next question comes from the line of Paul Penney of Northland Capital.

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

Tip my hat to you, Don, congrats.

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

Thanks, Paul.



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

That's fantastic. High-level question, a little historical context on the 3 acquisitions in terms of the time line from when you first initiated conversation to closing?

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

One of them, we've been talking to for 5 years. And it's a process, because it's like a marriage. Some discussions take longer, some shorter. Another one we've talked to only for 3 years and one earlier this year. So everyone is going to be different. These are huge emotional decisions on the part of families and owners, and we can't predict exactly the time sequence. If we'd had our (inaudible) they would not have been the same day, close. We would have spaced them out over the year. Our team kind of attests to the fact that they would have preferred not to have all of them on the same day. But when they are emotionally ready to pull the trigger, we close. And the -- and they were emotionally ready, and that's why it happened, that result, December 1. So it's normally, they'll be spaced out, because it makes is easier on our people and easier from a due diligence standpoint, but it just happened this way. But the time frame for discussions has been as long as 5 years.

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

Great. Switching over to the high-security AA&E sector. How does the demand differ from, maybe, the private sector versus the government's demand?

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

Government demand is pretty steady throughout the year, as the government seems always to have stuff that is top secret to move. And the -- so it's just -- we're talking to generals. We don't have security clearance at headquarters. The security clearance goes all the way up to the CEOs of these operating companies. So they cannot talk about the specific things that we're secretly moving for -- for the government. The -- and that's just the nature of the business. And the government periodically audits them to make certain that they're fulfilling their requirements under the security regulations. So it's...

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

And I know you're typical contract -- I'm sorry, go ahead.

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

What's the length of the specific contract? They can...

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

Yes, I was going to ask you, is there a difference in the DOD contracts versus your typical 1-year contracts?

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

I don't know.

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

Oh, yes, there is. This is much more of a -- once you become a qualified carrier, you become vetted and qualified and approved by the government -- we're talking about DOD only here -- approved by the government to move this. And then you, essentially, just bid on groups of loads or [certains] of loads, and it's -- it is a spot market essentially, very -- but very tight spot market, because only number -- limited number of players that can actually play in that market. Now they also, on the defense nongovernment side, it's -- it can be a very standard arrangement, much more of a standard arrangement with a particular shipper that is a defense contractor.

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**Greg Hirsch** - *Daseke, Inc. - VP*

Paul, this is Greg Hirsh, also on the commercial side is the high-security cargo. You're also going to see a wider range of diversification anywhere from arms and ammunitions that commercial manufacturers are making, you've got haz-waste, you've got nuclear, so -- you got the high-end retail. You just got a lot more diversification and more opportunity to move different freights, so the opportunity for growth is significant.

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

Great. Last question, is there a long-term goal in terms of the asset-light/asset-heavy mix?

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

No, I think, ballpark, 50-50, but it may vary quarter-to-quarter, year-to-year. So it may be 55-45 1 year and a little less the other year. Customers like the fact that we actually have assets. We're not just a brokerage firm. But we like the fact that and we've got more flexibility in the way we take care of customers. We obviously get our highest margins, if we move things on our own assets. We get the next highest margins if we move things on our operators that are committed to us. And the owner-operators have the name of our company on the side of their truck. So they are committed to us. But from a customer standpoint, we can't -- there's no force dispatch, so we have to have a little more flexibility in dispatching those people, because they are not technically employed. The -- so -- but owner-operators have lower cash -- lower capital expenditures, lower margins because we don't have to have capital expenditure. So they've got a higher percentage of net cash flow to us, even though their margins are less, because we just don't have the same capital expenditures for owner-operators. In brokerage you have no capital expenditure. So we just like the mix, and as you know, asset-heavy companies trade at totally different multiple than asset-light companies, so we kind of like the fact that we're going to be in the middle from an asset-heavy versus an asset-light standpoint.

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**Operator**

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

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

Congratulations first for achieving your adjusted EBITDA guidance of $140 million for 2017. Over time companies that achieve their guidance achieve higher multiples too. And also, especially to Don Daseke, yourself, for becoming a member of the Horatio Alger Association. I noticed that you significantly diversified your customer base with these acquisitions in high-security cargo and commercial glass now accounting for 15% of your revenue base, and you're also emphasizing that you're going to augment those areas. Are there any other end markets that you're particularly targeting?

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

There's always a few things are end markets, and they are, I think at some point they are almost subcategories within the industry verticals that are attracted to us that we don't particularly have a significant presence in today and the answer is, yes, there are. I'm not sure we're going to...



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

I don't expect you to divulge which ones, but I guess, more I am asking, are there -- like there 2 or 3 that you're especially excited about and you're pursuing those opportunities?

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

No, I think, right now, we're really happy about the 2 that we did in glass and high-security.

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

Let me just talk around this again. Are any of those areas, for example, higher-margin?

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

Well, I don't know. What we're really focusing on as opposed to that is -- perhaps, a better way to look at it, is there is a strategic customer that we would like to have part of; if they could be part of that; a strategic geography that we need to fill in; is there a certain capability that we don't have; is there a synergy that we can achieve. And while you're there, the answer to your question is, yes, there are certain subcategories that we're looking at, I would say 2 that we have coveted the most for the longest have been glass and high-security. We've achieved that, and now we're going to look at kind of items 3, 4 and 5 on the list. I hope I gave a good response.

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

Great. Yes. Thank you very much.

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

I would say glass and high-security we were wanting to. How is that?

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

That is excellent, thank you.

**Operator**

Our next question is from the line of Bruce Martin of Still Lake Capital.

**Bruce Martin**

Couple of questions, one [thought] (inaudible) someone asked you what you thought if you would be free cash flow positive next year, and you said, probably not, because we'll still be doing acquisitions. If you move the acquisitions to the side, what you think your free cash flow -- what is your outlook for next year that you will generate internally, and then we can kind of figure out on how much you're planning on acquiring. But (inaudible) .



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

You said a $140 million, and then kind of a run rate interest expense of $30 million, and then CapEx between $60 million and $70 million, which would be total CapEx for those companies we acquired as well, $20 million, $30 million in free cash flow.

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**Bruce Martin**

So that is assuming -- when you say the 140 is really '17, right? So when you look forward...

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

Exiting the year.

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**Bruce Martin**

What's that?

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

Yes, exiting the year at 140.

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**Bruce Martin**

Right, right, right, so when you look forward and you talk about the strength in flatbed, not so much in specialty, what is the company's visibility, when you go into planning and budgeting? I think you said somebody has done the spot, (inaudible), how much of your pricing is like, is it spot pricing versus again what kind of visibility that you have as you try to plan for next year?

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

Well, we have a lot of visibility on rates, because we have a negotiated rate, and we have a fair visibility on volumes. And that's where the variance will occur. It is around, even if we awarded a certain lane or certain rate, the volumes have to appear from our customers, and that would be the biggest variable. So while we get solid forecast and predictions from our customers, we are reliant on what our customers say that they believe they will ship all of us, all knowing that, that can and will change. So I would like to say we have a fair amount of visibility, but not as much as we would like, and we would hope that increased development of EDI capabilities in both directions would help facilitate greater visibility.

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**Bruce Martin**

So again, when you -- I don't know when you do your budgeting process, but when you think about it, and from a high level, you've got, your rate per miles, your miles and then your cost per miles, you have rough brushstrokes, are you looking for a low single-digit increase in rates per miles and in your miles, and then what is your outlook on your cost per miles next year?

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

I would say in general, we're not ready to talk about specifics as it relates to our 2018 forecast to our budget on an acquisition call. But I would say, we are -- have moderate expectations for those kinds of growth activities in 2018, both on the revenue, earnings and however side. But we also believe that there will be continued cost pressures. And just -- I'll just give you an example, on the West Coast alone, we just had a significant



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increase of about $0.04 cents a mile in the fuel tax in California, and $0.04 a mile weight tax in Oregon that has got to be accommodated in rate and it's got to be accommodated in rate almost immediately. So those kind of things have to be factored in. And so, it's fairly easy to talk about just pure rate, but you have to think about the entire equation that gets to the net earnings.

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**Bruce Martin**

Okay. Last question, I apologize. But have you put out a number for what you assume net next year, what you like to -- apples-to-apples sort of run rate next year, meaning, how many acquisitions you'd like to do next year? Or how much EBITDA you would like to acquire?

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

Well, yes, we exit the year. So at the end of the year, we anticipate having a run rate of a base of $140 million approximately of adjusted EBITDA. Our stated goal is by the end of the year to have a pro forma adjusted EBITDA run rate of $170 million. So incremental $30 million. And that can come from organic, or it come -- it could come from M&A activity.

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

Or more likely both.

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

Thank you for the clarification, Don. He's right, it's mostly a combination of both.

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**Operator**

And our last question comes from the line of Jason Seidl of Cowen.

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

I am slipping in, I have another one here guys. Scott, you talked a little bit about how you're seeing some minor improvements in your seated truck count. I noticed a couple of your carriers, significantly increased some of their bonuses that they're paying drivers, did this improvement come before or after you saw -- what you guys pushed up some of those bonus payments?

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

I would say, we saw an improvement in our turnover, our retention rates. Our retention rates were improving before that. The pickup and seated trucks came after then. So there -- we differentiate between keeping the drivers we've already got, and attracting drivers that we would like to have join us. So yes?

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

I'm sorry, go ahead finish.

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

Already doing well with the drivers that we had staying with us longer. That was something that was clearly visibly improving and we are working on improving the volume of quality drivers coming into the system.

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

Now have you guys been able to pinpoint in terms of that improvement on driver turnover, has that been related to the Daseke stock program that you started this year?

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

Somewhat, I think it is a combination of things, and while as much as we're a lot of quant -- quantification --- [what I'm going to say,] numbers-related people around here. We haven't been able to put a really pure scientific quantification on the effects of a variety of things that we believe combined to do that. Probably the biggest component of that was focusing on ways to create a more predictable income stream for our drivers. We've tried to accomplish that in a number of ways, minimum guaranteed pay for the first 90 days, minimum guaranteed pay period, level pay, average pay. And we have the tremendous beautiful luxury of being able to experiment with these different ways of approaching this in different elements of our organization, seeing what works and then trying to roll that across the system. And so, while we believe the stock program was a great statement to our drivers that we really truly appreciate them and their work and their contributions to our company, we also think that there are several other factors who are part of that improvement and my guesstimation is the biggest single piece of that was the leveling of their pay.

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**Operator**

Thank you. And this does conclude our Q&A session for today. I would like to turn the conference back over to Mr. Daseke for any closing remarks.

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

Well, thank you folks for being part of our call today. Hopefully, you could gather the fact that we're very, very excited about these three companies joining us. Transformative is an easy word to say, but it's really true in this case that these are 3 transformative acquisitions -- that there companies that are joining the Daseke family. And I can assure you that having visited each of these companies over the past 2 days that the folks there are very excited and proud to be to be part of us, just like they are proud to be as successful as they are. We explained to each of them that we are very picky about companies to join us. We will never grow for the sake of growth alone. We will only grow with the best companies in the country joining us and these are 3 of the best. So thank you again for being part of your interest in Daseke, and as always, let us know when you have questions. Thank you.

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**Operator**

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

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