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CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

Bruce Martin

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

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

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

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

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

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

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

PRESENTATION

Operator

Good morning, everyone, and thank you for participating in today's conference call to discuss Daseke's Financial Results for the Third Quarter Ended September 30, 2018. Delivering today's prepared remarks is Don Daseke, CEO and Chairman; Scott Wheeler, President and Director; and Bharat Mahajan, CFO.

After the 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 Adviser, as he reads the company's safe harbor statement within the meaning of the Private Securities Litigation Reform Act of 1995 that provides important cautions regarding forward-looking statements. Cody, please go ahead.

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

Thanks, GG. 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 the 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, 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*

Thank you, Cody, and good morning, everyone. It's just fantastic to be joining you to speak about our terrific third quarter results. We look forward to addressing the 3 main topics presented on Slide 3.

First, I'll provide an overview of the exceptional third quarter, and this will set the stage for Bharat to speak in more detail about our financial results. From there, Scott will close our prepared remarks by providing an update on our strategic priorities. I believe the information underlying this agenda continues to firmly support our unchanged and compelling long-term vision to build a premier, flatbed and specialized logistics carrier.

Discussing our highlights for the quarter, please follow me to Slide 4. We reported another record quarter with triple-digit growth in revenue and profitability and a 96% increase in adjusted EBITDA. Our operating companies continue to perform well in a robust rate and high-demand market environment that we expect to continue based on -- upon strong demand from our blue-chip customer base.

As important, the strategic growth plan we laid out at the beginning of the year is producing better-than-expected results, as evidenced by 17% revenue growth and an 18% increase in adjusted EBITDA, both on an acquisition-adjusted basis, which assumes the acquisitions we made within the last 12 months were in our third quarter 2017 numbers. In fact, this was our third consecutive quarter of double-digit revenue growth and adjusted EBITDA expansion on this basis. These are fantastic results, and I want to thank our entire organization for executing to our plan.

Now I'd like to turn to Slide 5, which tells the story of our unique growth company and shows the solid trajectory of our progress in building North America's premier specialized and flatbed logistics provider. As I mentioned, the industry continues to experience significant growth in demand and rates, which underlies our strong third quarter results and year-to-date performance.

Speaking of rates, we remind our investors to pay attention to the contractual market, not the spot market. We are a contract rate carrier, and we believe the rate environment will remain healthy into 2019 based on current strong industrial demand.

Finally, I would like to take a moment to address the current price of Daseke stock, which, in our opinion, is dramatically undervalued. The value of our stock is, of course, of great importance to me and the entire Daseke management team. Remember that 100% of our senior management and Board of Directors are investors and they personally have many friends and family invested in Daseke. Beyond that, almost all of our CEOs of our operating companies have chosen to invest significantly in this company. All of those groups have invested in Daseke because we're all believers in the long-term value of the company. That value is not reflected in today's price. We understand and appreciate how important this is. Scott will speak more about this in his remarks, but I also wanted to highlight this point and assure you that we are aligned and focused on improving the equity value of this company.

Our focus is on executing on our organic growth initiatives and targeting other appropriate operational efficiencies. We continue to find success in attracting and recruiting drivers, given the fact that our turnover rates are stable, while the industry continues to get worse, which shows the power of Daseke. Although we are committed to an opportunistic M&A strategy and our pipeline remains robust, we do not anticipate any further transactions until at least the second quarter of next year.

Given our performance to date as well as our outlook, we believe Daseke is very well positioned to accelerate the organic growth of our operating companies and leverage our scale in 2019 and beyond.

With that, I want to pass the call to Bharat to walk through our third quarter financial results in more detail. Bharat?

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

Thank you, Don. I will now move to our third quarter financial details, which are presented on Slide 7. Revenues increased 99% to $461.6 million compared to $231.3 million in the year-ago quarter. The increase was largely driven by the acquisition of 7 operating companies of scale this July 2017.

Organic revenue growth, excluding the impact of these acquisitions, was 18%. Excluded acquisition is simply where we exclude the acquisitions for the period except for smaller tuck-ins, where we consolidate operations. Revenues were up 17% on what we call an acquisition-adjusted basis, which presents the figures as though the acquisitions completed within that period were actually part of Daseke for the entire period. Either way, you measure it, growth was around 17% to 18%.

Operating income improved 144% to $13.9 million compared to $5.7 million in the year-ago quarter. It is important to note that Daseke has been highly acquisitive throughout 2017 and 2018. As a result, when we acquire companies, we step up the book value of assets for each acquisition to fair market value and must also record the value of intangible assets such as customer relationships, trade names and non-compete agreements.

The depreciation impact of the step-up of assets to fair market value as well as the amortization of the intangibles has a negative impact on operating income and net income, which is not comparable to other trucking companies that are not as acquisitive.

I encourage you to review this information in our management discussion and analysis as part of our 10-Q. Net income for the third quarter improved significantly to $2.2 million or $0.01 per share compared to $50,000 or a loss of $0.03 per share when you factor in dividends on preferred stock.

Adjusted EBITDA increased 96% to $52.8 million compared to $27 million in the third quarter of 2017, and this represents the fourth consecutive quarter that year-over-year adjusted EBITDA growth has exceeded 50%. Both the significant improvements in net income and adjusted EBITDA were primarily driven by rate improvements in Daseke's growth strategy.

Looking at our results by segment. Flatbed revenues in the third quarter increased 112% to $181.5 million, primarily driven by 2 flatbed acquisitions of scale since December 2017, with adjusted EBITDA up 78% to $21.7 million. Specialized Solutions revenue increased 92% to $283.9 million, due largely to 5 specialized acquisitions of scale we made since July 2017. Accordingly, specialized adjusted EBITDA was up 101% to $40.5 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 onto a more detailed view of our segment results. On Slide 8, we have provided Q3 revenue and adjusted EBITDA on an actual basis and excluding acquisitions completed since September 30, 2017, for our flatbed segment. The addition of Tennessee Steel Haulers last December, a 1,000 truck owner-operator fleet, caused asset-light revenues in our flatbed segment to increase from 41% in Q3 last year to 65% in Q3 2018.

Please recall, asset-light revenues generate lower EBITDA margins, however, do not require the company to own equipment, and thereby, have substantially lower long-term CapEx requirements. So given the strategic decision to move to more asset-light, we experienced a lower EBITDA margin, but our actual dollar amount of EBITDA grew by 78%.

Slide 9 highlights the few revenue metrics within flatbed. Third quarter rate per mile was up 10% to $2.04, and excluding acquisitions, rate per mile was up organically by 9%. Flatbed revenue per tractor increased 9% to $45,800 compared to $42,000 in the third quarter of 2017. 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 are seeing in our flatbed segment.

Slide 10 provides Q3 revenue and adjusted EBITDA on an actual basis and excluding acquisitions for our specialized segment. This shift in the percentage of revenues from asset-heavy to asset-light was relatively flat in Q3 2018. Adjusted EBITDA margins in our specialized business improved due to a healthy quarter for our high margin win business as well as operating leverage driven by higher rates and improved freight mix.

On Slide 11, you can see we realized a 31% increase in rate per mile to $3.53 compared to $2.70 in the third quarter of 2017, driven by strong contribution from Aveda and various wind-related projects.

Revenue per tractor increased 24% to $63,800 compared to $51,400 in the year-ago quarter, which was driven by an increase in over-dimensional freight. As was mentioned on our first quarter call, strength in wind-related projects was expected to ramp in the second half of 2018 and we certainly saw that in the third quarter.

Aveda is largely a project-based transportation company, and as such, has a much higher revenue per mile profile. If we were to exclude its project freight revenue, we'll realize a 12% increase in rate per mile and a 14% increase in revenue per truck. Excluding all of the specialized acquisitions, rate per mile was up 10%.

Slide 12 measures EBITDA by segment on an acquisition-adjusted basis. To reiterate, this presents the figures as though any acquisitions completed within the past 12 months were actually part of Daseke for the prior period. It's our way of providing our investors an apples-to-apples view of our company on a year-over-year basis given the past 12 months of significant M&A.

Looking at our results this way, flatbed acquisition-adjusted EBITDA increased 27% to $22.8 million compared to $18 million in the year-ago quarter. This was driven by the strong flatbed rate environment, higher utilization and higher net revenue per mile as our contract rates are outpacing cost increases as well as improved fleet efficiency, as we benefit from our capital investments.

The acquisition-adjusted EBITDA in our specialized segment increased 23% to $40.5 million from $32.9 million in the year-ago quarter due to a favorable freight mix with growth in our higher-margin, over-dimensional business.

And finally, in the corporate adjustment line item, you will see we had an increase in cost, primarily driven by approximately $2.3 million in higher-than-normal insurance costs. We are partially self-insured in our base layers, and because of that, you will see some variability from quarter-to-quarter based on realized incidents.

During the third quarter, we had several claims of prior adverse reserve adjustments as well as a few higher-than-normal claims. While this adds a bit of volatility, it allows us to most appropriately manage risk and reduce the cost of our risk-management programs.

While costs were elevated in the third quarter, it is important to note that on a year-to-date basis, the EBITDA impact of our corporate expenses was only 1.6% of revenue as compared to 2.3% in 2017. So despite our growth, we are driving down our corporate overhead as a percentage of revenue.

As Don mentioned in his opening, the key takeaway on this slide is the 18% acquisition-adjusted EBITDA growth we reported in the quarter, which demonstrates that our organic growth initiatives are working.

Now turning to our balance sheet. As Slide 13 indicates, at September 30, 2018, we had cash of $18 million compared to the $25 million we reported during our call last quarter, which reflected our Q2 cash balance adjusted for Q3 acquisitions. Net debt was $667 million.

Moving onto our leverage metrics. If one were to calculate leverage using historical reported results without taking the full impact of acquisitions into account, as of September 30, you would calculate a leverage ratio of 4.2x adjusted EBITDA. However, it is very important to note that in accordance with our debt facility, leverage, as defined, was 3.4x, which includes the results of our acquisitions for the full 12-month period.

As a reminder, our covenant is 4.25x through the balance of 2018 and steps down to 4x on March 31, 2019. It is also important to note that our total accounts receivable, which are used as collateral for our ABL revolver, were $234 million compared to our facility size of $100 million. We are over-collateralized in that facility and believe we have significant opportunity to further optimize this component of our debt structure.

In fact, given our significantly increased scale, since going public in early 2017, we are highly focused on various initiatives that we believe will improve our debt structure.

Now, I will turn the call over to our President and Director, Scott Wheeler, who will review our accomplishments within our 2018 strategic outlook. Scott?

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

Thank you, Bharat, and good morning, everyone. As you can see on Slide 15, and to reiterate again the earlier slide, we grew flatbed and specialized acquisition-adjusted EBITDA by 27% and 23%, respectively. This represents a $12.4 million increase in core operations EBITDA in the third quarter of 2018 over the third quarter of 2017. As both Don and Bharat mentioned, we are very pleased with these results.

Just a reminder that our acquisition adjusted presents the figures as though the acquisitions completed within the last 12 months were actually part of Daseke for the entire period. This is to show the results on an apples-to-apples basis to provide the comparison.

To provide you with some color and context on how we achieved this, we turn to Slide 16. I will update you, utilizing the 3 elements of our 2018 strategic priorities: Organic growth, operational effectiveness and focused M&A. With 3 quarters behind us, I would like to inform you on our execution within each pillar.

Starting with revenue growth and operational effectiveness, follow me to Slide 17. There are 3 main drivers to our organic growth: Revenue and rate increases, cost control and investing in the people and processes to drive the business. We achieved a 10% increase in realized overall rates per mile, which was on top of a strong rate environment during the third quarter of last year. We believe that the contracted rate base will serve us well going into 2019. Certain sectors we serve were particularly strong, and when excluding acquisitions, general manufacturing revenue was up $14.8 million year-over-year. Steel was up $6.3 million, energy was up $6.3 million, construction was up $6.3 million and aerospace was up $3.3 million. In total, revenues in all sectors were up $40.7 million in the third quarter of 2017 over the third quarter of 2017, excluding acquisitions.

Also, while occurring in a variety of the sectors mentioned above, our brokerage revenues increased $48 million on a GAAP basis in the third quarter of 2018 over the third quarter of 2017. We also had another single source win. This will allow us to handle 100% of the output of a certain key customer's plant, displacing other competitive offerings. Via our Daseke link tool, we are providing our shippers a transportation management system, which gives them the tools to manage their freight spend and grab access to the largest capacity in open deck. Key national accounts are noticing. Prior to Daseke building it, that large-scale nationwide option wasn't even available to these shippers and now, we are putting the organizations and systems in place to drive this business.

As it relates to cost-effectiveness, we would like to point out a few specific instances. First, in the first quarter, we consolidated 2 operating divisions and projected approximately $2 million in synergies in 2018. We now expect to realize $3 million in 2018 and are on our way to a $4 million savings run rate. In the first quarter call, we discussed a second operating unit with a year-over-year EBITDA increase of over $1 million in the first quarter. That same unit was up $2 million in the second quarter and now, up $1.7 million in the third quarter or a total of $4.7 million year-over-year.

We're often asked how results like this are achieved? In this case, it was the result of a focused effort and an underperforming unit on that operation's cost structure and revenue profile, led by one of our best-performing operating company's management team. They focused on leadership team development, cut significant cost, consolidated facilities in the key market with another operating division, focused on lane balanced work to improve miles per seated truck per day, eliminated equipment that was costly to maintain and concentrated on operating capacity for our higher margin upper-tier customers. It takes all of these things in coordination with one another to achieve these types of results.

Another initiative is Daseke Fleet Services, which continues to -- our focus on taking advantage of our scale, and in this case, to reduce the operating cost of our revenue-producing fleet. There has been a focus on disposing of underutilized and underperforming equipment during the third quarter, we sold $1.4 million worth of equipment. Assisted more than 100 asset moves between operating divisions and negotiated approximately $3.5 million in cash purchasing savings, expected to be realized over the next 12 months on fuel, tires, capital equipment, batteries, lubricants and other categories. This group also works with our operating divisions on coordinating our overall replacement capital expenditures, and in addition to purchase cost savings, it is focused on reducing our overall operating cost in succeeding periods.

And finally, we continue to focus on the EBITDA impact of our corporate overhead, which is 1.6% of revenues year-to-date, improving from 2.3% of revenues in the same 3 quarters of 2017. We are providing greater and more effective corporate services to our operating companies while doing so at a responsible cost.

We also continue to invest in our people. Drivers will always be at the core of our operations' focus. We continue to have a very stable turnover ratio of approximately 62%, and while quite respectable by industry standards, it is a number that we continue to focus on improving. While the driver shortage headwinds can be challenging for all in the industry, we're returning the safety and security of a larger company and our national offering and combining it with a small company field that drivers prefer and using it as a competitive advantage in the acquisition of drivers.

We talked about some of the innovative ways we were adding and retaining drivers on our last call, so let me give you an update. One of our operating divisions in the Northwest region implemented a pilot program that we believe will achieve the goals of reducing uncertainty and fluctuation in pay by moving to a salary-like pay structure that also compensates our drivers additionally for every mile above the salary requirement in the form of an annual bonus.

We currently have drivers projected to reach $20,000 to $25,000 in annual performance bonuses at their anniversary date, which demonstrates that the program is effective and the bonus money is obtainable and is incentivizing and rewarding our drivers that are running additional miles. We want everybody to hit the target since it means we are retaining drivers and filling our seats at a very high production level. About 6 months into the pilot, we are at 97% seated there. Since starting the program in April 2018, the hiring trend line has not only improved year-over-year but the seated percentage has stabilized month-to-month. They are also growing the fleet size by showing the highest-seated truck count they have seen in the past 12 months, which is driving more miles and stronger asset utilization. Pending further analysis, we may seek to implement this and other examples of innovative pay structures to other parts of the country.

As we continue to build our organization and leverage our scale and national presence, we added a VP of Business Development that is tasked with laying the foundation for significant organic revenue growth, particularly our brokerage capability and trucking capacity as well as our national account coordination, with the background of EDS, AT&T and most importantly and most recently, one of our largest customers. His background in supply chain, logistics, sales, operations and the IT systems needed to support these efforts makes him uniquely qualified for the role.

Along the same lines, we bolstered our technology capability adding, a new SVP of Business Systems. He is the former Chief Operating Officer of one of our operating divisions. The former Chief Operating Officer of McLeod Software, one of the leading trucking software platforms and also spent several years at U.S. Xpress prior to McLeod. He will be tasked with improving the effectiveness and the speed and quality of execution of all of our companywide IT systems. And of course, you all know about adding to our financial bandwidth and strength here with the addition of Bharat as our CFO this past quarter. Also in the quarter, we announced in August, the acquisition of our flatbed operator, Builders Transportation of Memphis, Tennessee. Builders is continuing to take advantage of the healthy steel market, working synergistically with our other flatbed operations in the Southeast and has already contributed positively to our third quarter EBITDA results. In the third quarter, we added strategic tuck-ins, including a 75-truck operator the joined our Canadian operations and another 120-truck fleet that joined our operations in the Northwest.

Turning now to integration on Slide 18. To provide you with more insight on this process, we would like to give you some specifics related to 1 particular acquisition. Because Aveda was a public company with public financials, we can provide a more accurate and detailed case study on the success of this transaction compared to what we can do with privately held companies.

We closed the acquisition on June 6, and within 4 months, ended September 30, the team at Aveda has grown revenues versus the prior period by 23% and EBITDA by $2.6 million or 54%. Aveda's revenue mix has also improved by replacing overflow work previously subbed out to third parties at extremely low margins with owner operators. Aveda has been able to increase the pace of owner-operator hires to perform this work and is on track to replace more than $12 million that had previously been subbed out to third parties.

Cost synergies are also significant, with fuel on a run rate for $1 million in savings and consolidating their insurance, which will save approximately $800,000 per year going forward. These are exactly the type of synergies that we get excited about and all of this combined to drive EBITDA improvement of $2.6 million or 210 basis points improvement in EBITDA margins.

And finally, as Don mentioned, we find our stock price to be well below the company's true intrinsic value. To this end, we stopped the council of several Wall Street investment banks, including bulge bracket firms on the options available to the company.

Our board and management team continue to evaluate these options, and it should be noted that we will continue to focus on improving our debt structures, have taken a pause in M&A since August and are not planning any new acquisitions for a minimum of several months. We also have no plans to issue any equity at current market pricing levels. We look to magnify our focus on improving our existing business, integration of new operating divisions and organic growth. We feel the best thing we can do is to continue to produce solid financial results, improve our debt structure and continue building an outstanding business. We will continue to evaluate the options for our actions on improving our shareholder value and will certainly update our shareholders as appropriate in this process.

Now to reiterate the key takeaways from today's discussion, please move to Slide 19. First, we've produced another record quarter with continued growth in revenue, profitability and adjusted EBITDA; second, we continue to experience strong revenue per tractor growth in both our specialized and flatbed segments, and we are experiencing continued positive year-over-year rate increases, signaling we are performing well in a strong industry environment, which we expect to continue; third, the strategic plan we initiated at the outset of 2018 is driving tangible results, as demonstrated in the 17% increase in acquisition-adjusted revenue and the 18% improvement in acquisition-adjusted EBITDA; fourth, various operational initiatives, such as acquisition integration and driver retention, are on track and are supporting our organic growth trends and/or reducing cost; and fifth, our strong financial performance to date, taken with our robust full year outlook, has Daseke well positioned to drive further scale, which is creating a national option for a market that has had national shippers that had historically only regional solutions.

We are becoming invaluable to our shippers, driving down cost, improving operational effectiveness, and we are just getting started.

This concludes our remarks. And now, I will turn the call back over to the operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Jason Seidl from Cowen.

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

Scott, I wanted to just tag on to something you mentioned about how you're evaluating options for improving shareholder value. I'm assuming one of those options could be potentially a share repurchase program as the stock gets cheaper. So what's management's view on if and when to implement that, would it be if the share price fell more, is just a timing issue? Would just love some color on that.

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

I don't know that I'm going to provide a whole lot more color at this time, Jason, other than to say that we are very focused on our shareholder value as an active topic of discussion with our Board of Directors, and we seek the best advice possible that we can find to make sure that we're making appropriate decisions at the appropriate specific moments in time.

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

Okay. A couple of specific questions here. When you're looking at your positions, can you -- because there's been, obviously, a lot of changes with acquisitions, can you tell us a little bit of guidance for what to expect on the OR sequentially from third quarter to fourth in each division? And also, on a rate per mile basis.

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

Certainly, when we look at the OR, we expect that the fourth quarter should be relatively consistent with respect to the third quarter. And rate per mile, when we look at -- generally, there is some seasonality in our business, and you'll see that in the first and fourth quarters, rates will be a little bit lower than what we would see in the second and third quarter. So we would see -- expect to see a small downtick in rates going into the fourth quarter.

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

And that's going to go for the specialized segment as even with the wind business?

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

You'll see that across the board, I believe, in both business segments.

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

Okay. And you guys seem to be having some early success, obviously, with this new driver pay approach. Is this something that is possible to implement in all your carriers, if it's been -- if it's so successful? And if so, how would that look on a profitability basis? Is this more costly upfront and then, obviously, when you get to the tractor seated and the turnover improving, it helps you in the future? How would that look?

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

Well, to answer your first part of your question, Jason, it is something that we think we could roll out to many, if not most, of our operating divisions but not all due to the specificity of those operations and locations and styles. But it is something, as it continues to improve, it would be something that we would look to spread out. We also have other pilot programs in other parts of the country trying to determine which really works the best. And while we're having really great short-term results, we want to actually have some empirical data and make sure that it's not merely just a short-term result and can have long-term sustainability. As it relates to profitability, one thing that I did not mention in my remarks, it's fairly interesting, and this is why we really want to understand it a little bit longer before we jump into this, is that when we implemented this program, I think the natural inclination was that productivity would decrease and actually, the inverse happened, the productivity increased. And so if this thing's like something that can be sustainable, it would be this and programs very much like this regionally adjusted or adjusted to the specific mission of a specific operating division. It would be something we would look to do. We realize that our drivers are the people who are the primary generators of our revenue, and we want to take care of them as team members and treat them with respect and earnings that they deserve. I think it also could long term give us a big competitive advantage, and given the fact that the entire market is dealing with driver shortages, and if we can maintain a stable turnover ratio, if not improve that, then this gives us more and more tools with which to attract drivers. So while we could do it universally across the entire system, I think we're going to want to use a variety of tools to maximize our number of seated drivers.

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

Okay. No, that's a good color. And lastly, can you talk a little bit about the current market? I mean, most companies have talked that they've seen a little bit of a slowdown here in 4Q, and you guys are extremely...

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

You broke up a little bit on our end, could you repeat the first part of your question again?

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

Yes, no. When I look across the board of the companies I cover on the transportation side, most have noted that they've seen a little bit of a slowdown into the fourth quarter. I was curious as to what Daseke is seeing out there, especially since you're so heavy industrial?

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

Sure. As Bharat mentioned, obviously, in the fourth quarter we expected to be slower than the third quarter, just in general because of seasonality in our business. As you know, 2018 was characterized by very -- certain rates increases, the rate per mile increases. And we continue to be in a rising-rate environment still but just not at the pace of the rate of increases that we saw in the first 3 quarters.

Operator

Our next question will come from Paul Penney from Northland Capital.

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

Scott, you guys mentioned that you guys are really focused on the integration and execution part of the business today. Given that current stance, is there anything just -- maybe just give us a feel for the acquisition pipeline in terms of the cadence going forward and just, how maybe you're going to be sidelining acquisitions over the -- over what period of time?

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

Well, I would say that, and Don may want to tag on to this when I finish, but our acquisition pipeline continues to be extremely robust with very attractive candidates. We really haven't seen any diminution in appetites for that from very high-quality companies. We just felt now isn't appropriate time to focus a little bit more on the simulation, integration, digestion, if you will, or maximization is really the word I would prefer to use. And at the appropriate time, we would full -- will expect to be back in the M&A. Now, we have had gone out and focused on building specific footprints and specific capabilities. And then, whether we then bolster those capabilities as opposed to trying to find other footprints would be -- to be determined in the future.

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

Okay, great. And just switching over gears, in 2018, it definitely was an above-average year in terms of CapEx. Can you probably discuss the free cash flow characteristics you'd expect in '19 and '20 with a more normalized CapEx level?

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

Paul, it's Bharat here. We are still going through our budget cycle with respect to '19 and '20, so don't want to be providing any guidance with respect to those numbers. We've had a good solid net capital from operations in the first 9 months of $47 million here. Generally, we'll see a decrease in working capital in the fourth quarter. So we expect that number to be a little bit more robust when we move forward through the year, and we will be in a better position to provide our CapEx and other plans when we finish the budget cycle.

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

Okay, great. And last one, could you give us some more quantitive impacts from your Daseke Fleet Services segment in terms of thus far and just how should we think about potential contributions into next year?

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

Yes. Obviously, at this point, we are spending money on the team to go out and work on building the infrastructure, the pricing, the reporting, the software, the measurement, the metrics, the relationships to eventually achieve significant savings. We believe that in 5 or 6 months that they have been with us, they have achieved approximately a run rate going forward on a cash-purchasing basis of about $3.5 million a year. My long-term goal would be somewhere around 3x that, once they've had a full, say, year or 1.5 years under their belt. One thing to note, I did use the word very specifically, for a specific region, which is cash savings. If we purchased a tractor, and we saved a significant amount of money on the purchase of that tractor or a group of tractors, the cash savings will not show up in year 1 on our financial statement, it will show up in the depreciation schedule over a period of 5 years. So -- and continue to focus on the cash savings they can produce and can we continue to maximize the utilization of their services throughout the Daseke system.

Operator

Our next question will come from Steve Dyer from Craig-Hallum.

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

You guys are, obviously, making some good progress in some of these serve initiatives, I guess, to optimize the businesses and yet, EBITDA is growing at the same rate as revenue. So I'm just wondering what are some of the upward pressures you're seeing that might not -- that might keep a lid on operating leverage, whether it be wage inflation, et cetera?

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

I think cost, in general, are things to take a look at but number 1 is driver wages. We -- there continues to be a fairly fierce battle for driving talent, and we intend to outperform in that battle but that would be the number one that came in my mind with the drivers. One other thing, Steve, I might mention there is, there is -- there are more and more owner operators in certain segments of our business, we are seeing a shift to owner operators, and I think that's a function of how owner operators are paid versus company drivers. And so I think that will be a trend that you will see going into the future.

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

Okay. Just going back a little bit to the question on CapEx. I appreciate you don't want to talk too much about next year or beyond, are you still on track for, kind of, $105 million number this year? I think the last thing you said publicly was $85 million in maintenance CapEx and then, kind of, $20-ish million for growth, is that still the plan?

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

Steve, the plan for maintenance certainly is the same, $85 million. What we have previously guided to was $40 million with respect to growth. So we are on target for the $125 million that we previously guided on the last call.

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

And generally speaking, without giving numbers for next year, is that an above-average year for you guys or is that the kind of thing that you'd expect going forward, sort of in that ballpark, whether it be as a percentage of revenue or just trying to gauge if this is an above-average year or below-average year or an average year, I guess?

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

Generally, when we look at replacement CapEx, we're generally going to come in, in that 5%, 5.5% range is where we expect to come in. And then, growth CapEx is really going to be very dependent on the opportunities that we see in the business. If there's great opportunities to invest in the business, we're going to invest in the business. And you certainly see that coming across with respect to how we're performing in our EBITDA numbers. And as I mentioned, we will be in a good position to provide guidance with respect to 2019, what I can certainly say right now, from what we're seeing is that we expect 2019 to be a very robust year.

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

Okay, that's helpful. And then, I guess, you gave briefly the cash flow -- cash from operations number year-to-date as $47 million so if I back out the first 2 quarters, that puts us at about $18 million for GAAP cash from operations in Q3, is that calculation right?

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

That is correct.

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

Okay. And then, I guess lastly, the other sort of, I guess, impediment at the moment to free cash flow being interest expense, is there a scenario where you feel like you could restructure or bring down the interest expense or the interest rate on that debt going forward in a way that freed up some cash? Or is that unlikely given sort of the movement of rates of late?

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

That's a great question, Steve, and as I mentioned in my comments, our debt structure is certainly something that we're looking at. And most recently, our TLB has been trading at a premium. We believe that there may be some opportunity there, as I mentioned, with respect to our ABL, we see that there's opportunity there, and we're seeing quite attractive proposals with respect to the ABL as well. So we do see opportunities for improvement. We have to kind of take that in the backdrop of the interest rate environment itself as well. So certainly, on a phase basis, we think there's opportunity.

Operator

Our next question is from Matt Brooklier from Buckingham Research.

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

So I was just curious to hear your thoughts on contract rates for '19. Obviously, '18 was a big year for pricing, both on the flatbed and the specialized side of things. I think high-single digits is a maybe a fair number to describe. The contract rate increases you got in your 2 respective businesses. But I was just curious to hear your thoughts on what contract rates could look like in '19 and if you're expecting to increase rates?

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

We're in the middle of our budget cycle now, as Bharat alluded to, but we anticipate mid- to high single digit rate increases across the board in the aggregate in 2019. Not all of our contracts renew on January 1, they revenue at a variety of times throughout the year. So how much we actually realize would be conservative in the mid-single digits, certainly mid- to high single digits is achievable.

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

Okay. So it sounds like even despite -- we understand that the majority of your freight is on the contractual side but even despite maybe some softness in the spot market, which is typically, it does provide some lead into contract rates, where we are right here now with respect to supply and demand, you do feel pretty confident that you're going to be able to get contract rate increases in '19?

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

Yes, we feel really strong from where we sit today, and we see today and what we hear from our customers. We have some early macro themes about a positive environment. We've got good indications from our customers. We continue to see tightness or more demand than there is supply. I believe the driver shortage continues to exist, we -- and we intend to have several strategies to try and deal with that. The biggest issue that customers like ours have, and we are differentiated from other trucking companies, but our customers are primarily, at this moment in time, while they are appropriately focused on containing their cost but they also have to make sure they have a certain amount of shared capacity, and we have the largest capacity in open deck. And so many of the largest customers are working with us to assure that capacity.

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

Okay, that's good color. And then, I just wanted to turn back to the implied guidance for fourth quarter and maybe, we just look at revenue specifically. If I look at the implied number for fourth quarter and I look at the sequential move down, it looks like it's a little bit more than we've seen in prior years. And understanding that maybe, it's not an apples-to-apples comparison, given you guys have been pretty active in terms of acquiring and adding revenue to the topline. But maybe, when I look at '15 and '16 years, where you didn't see much impact from acquisitions. Again, it looks like the guide down in terms of sequential revenues a little bit more than those 2 years, and we also have to consider that you have full quarters of revenue contribution from the acquisitions that you did in mid-quarter of 3Q so that, I would think, would be a sequential benefit. But, I guess, this is just a long-winded way of me asking, should we expect normal seasonality in fourth quarter or is there something else that's going on that may be drives a little bit more seasonality and potentially is contributing to the guide, maybe looking a little bit below where you usually kind of fall from a quarter-over-quarter perspective?

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

Yes, I think there's -- it's a bit of a process issue. For the first time ever, we issued guidance with the first quarter results this year. So we issued guidance, and for the first time 6 months later, we updated our guidance. And we would not intend to update our guidance officially to the market until 6 months past that time. So in essence, twice a year. Where we are today, as you can see, we had an exceptionally good quarter that makes us feel very confident and very strong that we can achieve, and hopefully, exceed the guidance provided for the fourth quarter. As it relates to your question on seasonality, if you -- because of the spectacular results in the third quarter, you would think fourth quarter seems a little slim. But we will see some downturn just because of fourth quarter. It may appear to be a little bit more of a downturn but in open-deck environments, the fourth quarter can be unpredictable and there are weather events and we've -- but we still remain quite confident that we can make our numbers in the fourth quarter.

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

Okay. So it sounds like tough comp in 3Q, combined with maybe some conservatism baked in there as maybe why the guidance looks like just little softer than maybe in prior years, is that a fair assessment?

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

I do like your phraseology, but I'm going to use their phraseology. We just didn't take the opportunity to update our guidance at this time.

Operator

Our next question will come from David Ross from Stifel.

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

Love the acquisition freeze, also, like keeping the bar low with guidance, both good things in my opinion. Bharat, I wanted to talk a little about the debt structure. You touched on earlier about looking at areas to improve but with little under $700 million of debt, can you remind of what the breakdown is of fixed versus floating?

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

Yes. So generally, our equipment debt is fixed and we've got about $175 million of equipment debt. And generally, our TLB is floating as well as the ABL.

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

Okay. And I guess, the likelihood of a portion or a significant amount of that being fixed over the next 6 months?

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

Where we are right now, the TLB continues to be a floating rate and so does the ABL, and we are looking at the entire debt structure, and until we've gone through and properly analyzed it and have provided an update to the market, I'm going to reserve comments on that. But that is something that we are actively working on with our professional advisers.

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

And given, I guess, your commodity business and also the Canadian business that was acquired, was there any impact from the U.S., Mexico, Canada Trade Agreement and any changes there?

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

David, we haven't seen anything significant related to that. However, we are very encouraged that we appear to have a very solid trade agreement. What we've seen, the pieces of the agreement are going to have minimal impact on our business. And so we don't -- we haven't seen a material impact, except the fact that it appears that the uncertainty has been removed from this and as a company does business in the US, Mexico and Canada, it's quite encouraging.

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

And just a follow-up on that, with trade, any further comments on tariffs?

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

Certainly. Obviously, earlier in the year, was -- and by the way, Steel is a very big category that we carry earlier in the year. A very positive effect, and we believe it will continue -- the tariff structure around steel will continue to have a positive effect on our customers who are primarily the domestic producers. And so if you look at our top 10 customers, you can see -- our top 20 customers, you can see that there's a lot of steel movements in there, and we continue to feel very positive about steel and steel movements of the domestic producers, given the more level playing field for steel that we would see in 2019 and going forward.

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

And earlier in the call, Scott, you talked about broad-based strength across a lot of your different industry verticals that Daseke serves. If you had to cite a couple of areas of weakness or where you felt it's softest, what would you point to in terms of either sectors or regions?

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

We don't really have anything that we would say softness so much, as it is just a level to flat as opposed to softening. We might have been concerned about residential but with the recent weather events, we think that, that will sustain the residential sectors. We move a lot in the Southeastern and Atlantic, mid-Atlantic regions, so a lot of what we do will be very applicable there after major weather events. And so we feel very good there. We're also encouraged about an uptick in heavy equipment, as we feel very good about its time for many of the equipment to go through a cycle here. So heavy equipment is also picking up.

Operator

Our next question will come from Willard Milby from Seaport Global.

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

Bharat, just wanted to do one quick clarification what I think I heard about OR comments for the fourth quarter, did you say that they would remain similar to the 97-ish percent that we saw in 3Q?

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

OR is expected to be, kind of, generally what we have seen in the third quarter. There might be a little bit downward pressure, probably about 1% is what we expect to see.

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

Okay, okay. And kind of, as you take the M&A policy here, with the cash generated in the next couple of quarters until any potential, future M&A activity, what's the highest and best use of that, as you look out on the business right now?

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

As Scott has talked about, there's a lot of opportunities within the business itself to invest and grow, and we see that, that's kind of the best use of the cash right now. Again, we're going through our 2019 budget cycle. Once we've completed that cycle, we'll be in the best position to be able to talk about kind of where we think is the best use of the cash flow, whether it's to pay down debt or whether it is to continue to invest in growth opportunities.

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

Okay. And as you think about the fleet, I believe you mentioned some $1.4 million in dispositions this quarter. I think gains on that were around $600,000, which is a little bit of a step-down sequentially. What's a good number to think about for gains, as we look out 4Q or beyond, if you have got that kind of visibility?

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

I would look at, kind of, what we've been averaging across the board for the first 9 months of the year and use that as a reasonable gauge for -- on a quarterly basis.

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

Okay. And as kind of look at the additions to the business lines here, with all the acquisitions over the last year and more, can you talk about where maybe the stronger pockets of the business are versus maybe, some of the business lines that maybe aren't as performing as planned? I'm just trying to get a sense of, are these acquisitions meeting or exceeding expectations and why or why not on your side of the coin there?

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

Well, some do better than others, and we highlighted one, it's very short. We tried to give you a very specific case study that we saw with Aveda. We continue to feel very constructive about our acquisitions. And -- but yes, certainly some outperform others and ones that don't perform as well will get more management attention, care and love.

Operator

(Operator Instructions) And our next question will come from Bruce Martin from Still Lake Capital.

Bruce Martin

Just a quick question. Just trying to understand the EBITDA run rate on a trailing basis. I think you said $197 million for the debt covenant but then I think, on Page 23, it looks like it's $182 million. So what's the right number to use in terms of pre-fourth quarter. What is our run rate EBITDA for all the acquisitions at the moment?

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

So on a trailing 12-month basis, using acquisition adjusted EBITDA, it is $182 million. However, for debt covenant purposes, we get a number of add backs that don't go into our EBITDA calculation, as we've defined it into the MD&A. So that's why the calculation for the debt covenant is showing a much higher EBITDA number than it -- than we are showing on a TTM basis.

Bruce Martin

And are those add backs useful for us to understand, does it lead us to conclude that they were closer to the $200 million or no, is it -- how does that work, can you put any disclosure on that?

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

Yes, I mean, those add backs are very specific to the loan documents, and when we're looking at EBITDA and especially if you're comparing across to other companies and other industries, the number that we have provided with respect to the $182 million is more akin to what would be the more appropriate number to use.

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*

Well, thank you, everyone, for listening to today's call. As I hope you can see, we have an exceptional company, producing exceptional results that has, in my opinion, an exceptional future. We are very proud of our company, and more specifically, we are very proud of the people that make -- that are part of the Daseke team. We are very excited about where we are today. We have just begun, and we've got an exciting journey ahead for all of us. We thank you for being part of this journey. Thank you very much.

Operator

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