THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

DSKE - Q4 2018 Daseke Inc Earnings Call

EVENT DATE/TIME: MARCH 08, 2019 / 4:00PM GMT

CORPORATE PARTICIPANTS

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

Christopher R. Easter *Daseke, Inc. - COO*

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

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

CONFERENCE CALL PARTICIPANTS

Adam Kramer *Cowen and Company, LLC, Research Division - Associate*

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

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

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 fourth quarter and full year ended December 31, 2018. Delivering today's prepared remarks is Don Daseke, CEO and Chairman; Scott Wheeler, President and Director; Bharat Mahajan, CFO; and Chris Easter, COO.

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, Nicole. Today's presentation includes forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include projected financial information, forward-looking statements, including those with respect to revenues, earnings, performance, strategies, prospects and other aspects of Daseke's business, are based on current expectations that are subject to risks and uncertainties that could cause actual results to differ materially from our expectations and projections. I encourage you to read our filings with the SEC for a discussion of the risks that can affect our business. We undertake no obligation to revise our forward-looking statements to reflect events or circumstances occurring after today. During the call, there will also be a discussion of some items that do not conform to U.S. generally accepted accounting principles, or GAAP, including adjusted EBITDA and acquisition adjusted measures. Reconciliations of these non-GAAP measures to their most directly comparable GAAP measures are included in the Appendix to the investor presentation and press release issued this morning, both of which are available in the Investors tab of the Daseke website, daseke.com.

In addition to being in the flatbed specialized trucking business, Daseke is in the business of acquiring other flatbed specialized carriers to join Daseke. Therefore, investors in Daseke stock should assume Daseke is always evaluating, negotiating and performing due diligence on potential acquisitions.

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

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

Well, thank you, Cody, and good morning, everyone. I am excited to be here today to share the results of another record year.

Starting on Slide 3. Today, we will cover several topics. First, I will provide a high-level review of our full year 2018 results. I will then revisit Daseke's compelling market opportunity and address where we're headed as an organization. As we reported in our preannouncement last month, our strategic focus for 2019 will be on driving organic growth, operational effectiveness, generating free cash flow and delevering our balance sheet. I will then introduce our new Chief Operating Officer, Chris Easter. And then Bharat will take you through our financial results in detail and provide our 2019 financial outlook. Finally, Scott will close the call with a review of our 2018 strategic priorities as well as present our priorities for 2019.

Turning to Slide 4. 2018 was another record year of revenue and adjusted EBITDA for our organization. Revenue for the year increased 91% to $1.6 billion and was above our outlook of $1.55 billion, driven by solid organic growth, as well as revenue on an acquisition adjusted basis was up 14%. Adjusted EBITDA in 2018 was up 90% to a record $174.3 million and above our outlook of $170 million. On an acquisition adjusted basis, EBITDA was up 14%. The fact that our adjusted EBITDA has grown at a pace consistent with revenue is proof that our consolidation strategy is working, and that the company we've built can produce solid long-term organic growth.

In 2018, along with nearly doubling revenue, we drastically grew the scope and scale of our business and diversified our revenue mix. We ended 2018 with a mix of 51% asset light, up from 41% in 2017. This asset light shift is meaningful, as it allows us to operate a nimbler organization with lower capital expenditure and capital investment requirements, yielding higher free cash flow.

Turning to Slide 5. That tells us the story of our unique growth company and shows the solid record in our building North America's largest mover of industrial goods. The business has grown significantly over the first decade with a 10-year revenue CAGR of 56% and an adjusted EBITDA CAGR of 45%. Our objective over the next 10 years is to accelerate returns on our capital.

On Slide 6, over the course of our first decade, we executed on our strategy of building scale. We have built a great company. And today, we are the market leader with plenty of runway for growth and consistently produced results in line with our outlook. Even with these strong results, I truly believe that we've only scratched the surface, and I'm excited what the next decade will bring. Looking at our strategy for 2019, we've taken a pause on M&A, and our focus will be centered around organic growth, free cash flow generation and delevering our balance sheet, all which we believe will drive shareholder value over the long-term.

Turning to Slide 7. I am very excited about our team, and one that has evolved and strengthened throughout the year. In terms of our roles, I will continue to focus on the big picture strategy, while Scott will focus on developing and implementing strategic initiatives, Bharat will focus on capital markets and financial strategy, and Chris will be tasked with trucking operations. Speaking of Chris. I'd like to formally introduce him on this call. Chris is a West Point graduate, a recipient of the Bronze star in Desert Storm and brings with him more than 30 years of industry experience in key transportation and logistics roles, including the U.S. Army, Walmart, Schneider. His in-depth knowledge of flatbed and specialized transportation, broad background in large-scale logistics and proven ability to build and lead teams gives us great confidence in his ability to make a meaningful impact on our organization. Chris' leadership style, experience in organizational skills will be instrumental in driving organic growth, maximizing free cash flow and optimizing our scale. I am confident he will be an excellent condition for our management team.

So with that, I'd like to turn the call over to Chris, so he can speak about his new role and the opportunities he sees in the business. Chris?

Christopher R. Easter - *Daseke, Inc. - COO*

Thank you, Don, and good morning, everyone. It's great to be joining you today. I'd like to say how honored I am to have been selected to lead our fantastic operating team. I have watched Don and the Daseke team build an exceptional company, focused on flatbeds, specialized transportation and logistics.

THOMSON REUTERS

As I look across Daseke, I see an unmatched breadth and depth of technical know-how, coupled with an equally impressive legacy of success, a success spanning over many decades and across many different customers and industry verticals. We are uniquely positioned in the marketplace, and I see tremendous opportunities ahead for both growth and operational effectiveness across the entire Daseke organization.

With that, I'll pass the call over to Bharat.

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

Thank you, Chris. Before I discuss our results, turning to Slide 9, I'd like to talk about a term that we reference on a regular basis, acquisition adjusted. Our financial statement results only includes a period post the transaction date. And acquisition adjusted includes the results both pre and post the transaction date. Therefore, we believe our results on an acquisition adjusted basis are a better prophecy of our size and organic growth and provide some helpful data points.

I will now move to our fourth quarter financial details, which are presented on Slide 10. Revenues increased 74% to $447 million compared to $257.2 million, which in an year ago -- in the year ago quarter. On an acquisition adjusted basis, revenues were up 13%, which again is how we internally view organic growth. Operating loss was $8.3 million compared to a loss of $2.3 million in the year ago quarter. Daseke was highly acquisitive throughout 2017 and 2018. As a result, when we acquired companies, we stepped up the book value of assets for each acquisition to fair market value and recorded the value of intangible assets, such as customer relationships and noncompete agreements. The depreciation impact of the step-up of assets to fair market value as well as the amortization of intangible impacts our operating income and net income, which makes comparability to other trucking companies, that are not as inquisitive, less meaningful. For the fourth quarter of 2018, $7.7 million of depreciation was related to the net impact of the step up in basis of acquired assets and amortization was $4.5 million for a total impact of $12.2 million. Further, Q4 2018 operating costs were impacted by $11.1 million related to goodwill impairment. The combined impact of the increase depreciation due to the step-up in basis intangible amortization and goodwill write-down had a noncash impact of $23.3 million. Net loss for the fourth quarter was $20.1 million or $0.31 per share compared to net income of $38.8 million or $0.84 per share in the year ago quarter. Adjusted net income, where we adjust for acquisition or business combination related expenses, noncash impairment, amortization of intangible assets, the net impact of step-up in basis of acquired assets and the impact of the revaluation of deferred taxes due to the tax rate change in the Tax Cuts and Jobs Act, was $3.4 million compared to an adjusted net loss of $2.4 million in the fourth quarter of 2017. Adjusted EBITDA increased 73% to $39.9 million compared to $23.1 million in the fourth quarter of 2017, and this represents the fifth consecutive quarter that year-over-year adjusted EBITDA growth has exceeded 50%. Acquisition adjusted EBITDA increased to 7% -- increased 7% to $39.9 million compared to $37.2 million in the fourth quarter of 2017.

Looking at our results by segment. Flatbed revenue in the fourth quarter increased 73% to $173.3 million with adjusted EBITDA up 38% to $15.2 million. Specialized Solutions revenue increased 75% to $277.9 million and adjusted EBITDA was up 95% to $36.6 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 element and demand is higher in the warmer months. Typically, you will see higher levels of rates, revenue 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. Slide 11 provides a view of our Q4 revenue and adjusted EBITDA on an actual and acquisition adjusted basis 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 50% in 2017 to 62% in 2018. Please recall, asset light revenues generate lower EBITDA margins, however, have substantially lower long-term capital expenditure requirements resulting in higher free cash flow. Given our strategic decision to move to a more asset light mix, we experienced a lower EBITDA margin, but our actual dollar amount of adjusted EBITDA grew by 38%. During the quarter, we experienced some headwinds in our Flatbed segment. Wages for both drivers and nondriving personnel have continued to rise with tight labor markets. While freight rates are up significantly year-over-year, the market is still adjusting to the current environment. In 2018, there was a significant dislocation in the market that caused pricing to increase substantially. This led to incremental trucking capacity coming into the market to provide shippers with some temporary relief towards the end of the year, which is typically a time of lower demand because of the winter weather and holidays. Long-term capacity constraints still exist, but we are seeing some short-term loosening in the market. Conversations with shippers around demand, leading indicators like the ISM Manufacturing Index and Industrial Production Index all provide encouraging data points, but we will continue to monitor this as we head into the spring season.

Slide 12 highlights a few revenue metrics within Flatbed. Fourth quarter rate per mile was up 5% to $1.96. For contacts, rates were up 14% in Q4 of 2017 compared to Q4 of 2016, meaning that we still have rate growth against the tough comp. Flatbed revenue per tractor increased 5% to $41,800 compared to $39,400 in the fourth quarter of 2017.

Slide 13 provides a more detailed review of Q4 2018 revenue and adjusted EBITDA for our Specialized segment. The shift in the percent of revenues from asset heavy to asset light decreased slightly to 41%. The adjusted EBITDA margins in our Specialized business improved 100 basis points due to operating leverage driven by higher rates and improved freight mix, namely the over demand for loads associated with major capital improvement projects undertaken by our customers and strengthen in energy, commercial glass and our defense business.

On Slide 14, you can see we realized a 38% increase in rate per mile to $3.60 compared to $2.62 in the fourth quarter of 2017, driven by wind volumes up from Q4 of 2017 and the addition of Aveda's high rate per mile project business. Revenue per tractor increased 31% to $63,000 compared to $47,600 in the year ago quarter.

Turning to Slide 15 and transitioning to full year 2018 results. Revenue in 2018 increased 91% to $1.6 billion. The strong revenue growth was driven by the benefit of the acquisitions we completed in 2017, 4 acquisitions made in 2018 and solid organic growth with revenue on an acquisition adjusted basis up 14%. Operating income increased significantly in 2018 to $21.9 million, up 212% from $7 million in 2017. Included in operating expense is $24.1 million of depreciation expense related to the net impact of the step-up in basis of acquired assets, $16.6 million for the amortization of intangibles and the write-down of goodwills, and intangibles added another $13.9 million for a total noncash impact of $54.6 million. Net loss for 2018 was $5.2 million or $0.08 per share compared to net income of $27 million or $0.72 per share in 2017. Adjusted net income for 2018 was $39.5 million compared to $1.4 million in 2017. Adjusted EBITDA increased 90% to $174.3 million compared to $91.9 million in 2017. Acquisition adjusted EBITDA increased 14% to $190.4 million compared to $166.3 million in 2017.

Turning to our 2018 results by segment. Flatbed revenue increased 87% to $662 million, primarily driven by 2 flatbed acquisitions since December 2017 with adjusted EBITDA up 45% to $70.2 million. Specialized Solutions revenue increased 93% to $965.1 million, due largely to 2 specialized acquisitions we made since December 2017. Specialized adjusted EBITDA was up 110% to $134.6 million.

Slide 16 measures EBITDA by segment on an acquisition adjusted basis. Looking at our results this way, on the Flatbed side, we had an increase in our acquisition adjusted EBITDA by 7% to $78.8 million compared to $73.9 million in 2017. Acquisition adjusted EBITDA in our specialized segment increased 26% to $142 million from $112.8 million in 2017 due to higher volumes in our wind business and investments made in 2018, particularly in support of our commercial glass business.

Finally, in the corporate adjustment line item, you will see we had an increase in cost primarily driven by revenues nearly doubling in 2018. While overhead costs increased in 2018 on an absolute dollar basis, as a percentage of revenue, corporate overhead declined 50 basis points to 1.9% compared to 2.4% in 2017. Despite our growth, we are driving down our corporate overhead as a percentage of revenue. The key takeaway on this slide is the 14% acquisition adjusted EBITDA growth we reported for the year, which demonstrates that our organic growth initiatives are working.

Now turning to our balance sheet. As Slide 17 indicates, at December 31, 2018, we had cash of $46 million, $87.8 million available under our asset-backed loans, net debt was $656.4 million and total available liquidity was $133.8 million. Additionally, at the end of 2018, working capital, excluding cash and earn-out liabilities, totaled $89.4 million, which was up 32% or $21.4 million versus the end of 2017. This compares to total revenue growth of 91% during the year, which shows our efficient use of capital during the period of significant business expansion.

Moving onto our leverage metrics on Slide 18. If one were to use a common financial reporting platform to calculate leverage using historical reported results without taking the full impact of acquisitions into account, one could calculate a leverage ratio of approximately 4.4x EBITDA. However, it is very important to note that in accordance with our debt facility, leverage as defined was 3.3x at December 31. Note that this is lower than what a simple calculation is based of our reported financial statements equate to and what commonly used financial platforms show because these calculations reflect the debt from acquisitions right after closing, but do not reflect the full year of corresponding acquired earnings. Our debt agreements make pro forma adjustments for this.

On Slide 19, we reiterate our 2019 outlook. For 2019, we expect revenue to be in the range of $1.8 billion to $1.9 billion, an increase of approximately 12% to 18% over 2018. Adjusted EBITDA is anticipated to be in in the range of $200 million to $210 million, an increase of approximately 15% to 20% over 2018. This represents approximately 8% growth over our acquisition adjusted EBITDA of $190.4 million in 2018. Net capital expenditures are expected to be in the range of $65 million to $70 million compared to $121 million in 2018. We anticipate that approximately 70% of our total capital expenditures in 2019 will be invested in the first 2 quarters of the year. We expect to delever the balance sheet by the end of the year, and our end of the year net leverage ratio, as defined in our debt agreement, is expected to be approximately 2.9x at December 31, 2019. For a more detailed view of our 2019 outlook, please reference the table at the end of the press release we issued today.

Now, I'll the turn the call over to Scott.

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

Thank you, Bharat. Good morning, everyone. First, I would like to highlight the many accomplishments that the organization achieved under our 2018 strategic priorities. Second, I will show the benefits of joining that Daseke platform by sharing the results of our recent acquisition. And finally, I will introduce our priorities for 2019.

Now please turn to Slide 21 and review our 2000 (sic) [2018] strategic priorities and the major accomplishment we achieved under each priority. As I laid out in prior calls, our 3 main strategic priorities in 2018 were organic growth, operational effectiveness and focused M&A. In 2018, we made significant strides on all 3 fronts. First, driving organic growth throughout the organization was and will always be a primary initiative for our company, and you clearly saw that with the results we are discussing today. Second, we have numerous achievements under our operational effectiveness initiatives. These produced significant programs that allowed us to take advantage of our consolidated purchasing power, manage our overall fleet more effectively through Daseke Fleet Services, invest in new equipment and facilities to reduce our operating costs in 2019 and maintain corporate overhead in a desired range as a percentage of revenues. Finally, our third strategic priority for 2018 was focused M&A. During the year, we made 2 acquisitions of scale and 2 acquisitions that became subsidiaries of our existing platform companies. We found great business that fit well within our existing operations that will benefit from our scale and platform.

On Slide 22, we highlight our largest acquisition during the year, Aveda. The transaction closed on June 6, 2018. And in the 7th month ended December 31, 2018, as compared to the same year ago period, revenue increased 26% to $124.3 million, adjusted EBITDA increased 87% to $13.6 million and adjusted EBITDA margin increased 350 basis points to 10.9%. These amazing results would not have been achieved if it wasn't for the extremely talented Aveda team and the synergies available to us due to the platform we built at Daseke. We often discuss the 20% average uplift in adjusted EBITDA that we generate 2 years after company has joined Daseke. This is an average and not all achieved results Aveda has produced in such a short period of time. But combined with a solid acquisition adjusted growth we produced in 2018, you can clearly see the value that is created when company has joined Daseke. We don't expect to breakout each acquisition going forward. But given the public profile of Aveda, the size of the acquisition, we hope you will appreciate the additional color we have provided these past 2 quarters.

Overall, we made significant achievements on the initiatives we attach the business with since the beginning of 2018. I believe that the scale we have built, combined with the operational excellence we're driving, will allow us to continue to produce outstanding results and set this up nicely to tackle our strategic priorities for 2019. Speaking of which, let's turn to Slide 23. The objectives we are focused on in 2019 will center around organizational and operational effectiveness. At a high level, we will prioritize operations and operational effectiveness over acquisitions in an effort to drive free cash flow generation and then deleveraging of our balance sheet. There are several areas we plan to focus on to accomplish our 2019 objectives starting with organic growth. Our efforts to drive organic growth will be led by operational efficiency, sales maximization, new customer growth, appropriate rate increases and expanding our overall capacity by growing our brokerage business, which can drive revenue growth with low overhead and low capital mix.

Next, we will be building on our shared services platform in several key areas. We will gain greater efficiency through taking advantage of our purchasing power and optimizing our fleet via Daseke Fleet Services. This will allow us to maintain the optimal fleet mix, manage maintenance and operations of our revenue-generating assets and help maximize the efficiency of our capital expenditures. We will build out our business development efforts and build the infrastructure systems, capacity and the people to maximize the efforts of our sales teams across the country. Finally, we anticipate that we will end the year with an appropriate amount of financial leverage. Our focus on producing free cash flow to naturally reduce net leverage will also position us for agility in any market condition. The strategic priorities we have set for the business in 2019 will required hard work and dedication from the entire organization, but I am confident that we're developing the right people, processes and structures to drive the business forward and accomplish the goals we have set for the year.

Before turning the call back to the operator for questions and answers, let's turn to Slide 24 to review the key takeaways. In 2018, we exceeded expectations, delivered exceptional organic growth and executed on several great acquisitions. We have laid out our strategic plan for 2019 and we will be focused on free cash flow generation and reducing net financial leverage. Additionally, we will continue to grow this organization organically through maximizing the existing business operations of the business that we had built, controlling cost, taking advantage of our scale and ensuring that we have the people, processes, systems and structures to succeed. The team is excited about all the opportunities ahead of us in 2019, and we look forward to updating you on our progress as we execute on our plan.

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

QUESTIONS AND ANSWERS

Operator

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

Adam Kramer - *Cowen and Company, LLC, Research Division - Associate*

This is Adam, on for Jason. I guess my question was, the impairment charge this quarter was a little higher than usual. And just wondering, is there something you anticipate happening again where you'll -- you may have to write-down other businesses? Or was this just simply a one-time thing and won't be occurring, again?

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

This is Bharat here. The impairment charge, we kind of view that as a one-time event. It was related to a particular business unit and just looking at kind of -- when we look at impairments, we have to do it at a Daseke level, Daseke past, when we look at it from a flatbed specialized standpoint, those business unit past as well and then we go down to an operating company level, and this particular operating company had some operational challenges, and we've gone past that, and we feel that the results from this operating company are going to be strong in 2019. So just a one-time event.

Adam Kramer - *Cowen and Company, LLC, Research Division - Associate*

Got it. And then a quick follow-up. I guess, trying to think a little bit about revenue synergies and cost synergies from your acquisitions. And maybe directing this one to Chris. What kind of are your initial focuses or initial projects that you're working on? How can you guys drive more synergies off of some of the acquisitions from last year?

Christopher R. Easter - *Daseke, Inc. - COO*

Yes. Thank you for that. My initial focus really is what I'd describe as operational emergent focused deeply on listening, assessing and then prioritizing. Just finishing my 5th week on the job, I have been able to visit just over half of our operating units and the leadership teams. I'm going to complete the balance of those visits over the next 4 weeks. So by that 1st week of April, I'll have completed a kind of a national tour and hit all the operating units. I think at that point I'll be able to better than prioritize existing current initiatives and/or any new initiatives we feel could be put in place to help drive that, both the organic growth and the operational effectiveness. I am not at a point yet where I'm ready to get into any detail from that as I am still deep into that assessment.

Operator

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

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

Just digging into the 2 different segments, you seem to be getting really good operating leverage on the specialized side of the business year-over-year organically and less so there seems to be more struggle around flatbed. And I'm just wondering if there's something inherently different about those 2 sides of the business or the companies that you acquired and the ability to extract synergies on that over the last year and how you think about that going forward?

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

Well, there are -- this is Scott. There are significant differences between the 2 segments. Clearly, flatbed is a more traditional platform trailering equipment that will move more traditional, building material specialized, and specialized will take a lot more different equipment, different rates per mile and different market cycles and market fluctuations. So we are being able to achieve a lot in a lot of areas. And I think you will see us to be able to continue to do so. But I think what you're seeing is that it's a rate-based or market-based environment, we're specialized with picking up pretty significantly in the back half of the year.

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

Yes. I mean, I understand the differences in the 2 businesses, but revenue growth exceeded EBITDA growth on an acquisition adjusted basis on flatbed by a decent amount. So I am just wondering why on an operating basis that side is deleveraging?

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

Yes, absolutely. Sorry, I didn't understand your question. That segment of our business became dramatically asset lighter. And Bharat showed the slides on the mix pre and post. We have much greater concentration of owner operators as opposed to company drivers over the prior year. And in fact, our brokerage, which has even lower margins, was up over 100% quarter-over-quarter -- year-over-year, I mean. So that combination of dramatically shift to an asset lighter delivery platform and flatbed really focused on -- it may show up in less margin expansion, but it would be anticipated to be lower because of the nature of the delivery mechanism.

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

Okay. I can take the rest offline. Just a question around CapEx. Since you've gone public, I think you've wrestled with what's a sustainable or maintenance CapEx level as a percentage of revenue, and I've heard everything, I guess, from 4.5 or 5 to 7. And I'm just trying to think about, is this year -- is the level that you're guiding for this year sustainable? And I don't know how to think about that in terms of average age of your equipment. Do you view this as a maintenance year? Do you view it as a little bit leaner year to generate some free cash flow? Or going forward, I guess, what rule of thumb should we think about there?

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

Steve, it's Bharat. So we've gone through and run several different models and looked at maintenance CapEx from various perspectives. And where we've generally landed, given where our fleet is right now, that we're generally going to land somewhere in that $65 million to $75 million range depending on how we look at maintenance CapEx. And one of the other things that we've also started to do, and this is already reflected in our 2019 guidance, is that we've also started to supplement some of the fleet with some operating leases as well. And then that gives us some flexibility with respect to being able to better manage through business cycles and things like that as well. So the level that we've kind of put out for 2019, we feel very comfortable with those levels.

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

And then, I guess, if I look at the different assumptions, including CapEx, I start to get to a GAAP free cash flow as defined by cash from operations, less CapEx, I kind of get to a free cash flow number of around $50 million to $70 million for 2019. Am I in the ballpark there?

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

Yes. Depending on kind of how we looked at it and we kind of take from an EBITDA standpoint and backup all the items, we come out to somewhere between $65 million to $75 million in that range generally.

Operator

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

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

On the debt side, credit spreads have come down a little bit this year. And it was mentioned before, Bharat, in terms of maybe a focus on (technical Difficulty] tied with your receivables?

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

Paul, could you repeat that question? You broke up a little bit.

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

Question about ability to refinance the debt, ability just -- is that -- that was touched upon earlier a couple of quarters ago. And then just your thoughts on, is there ability to get a new banking relationship of some sort to lower the cost of debt?

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

Yes, happy to answer that, Paul. So certainly something that we always look at is our capital structure, and we're visiting that on a constant basis. We do have, as you know, a pretty substantial amount, over $200 million of AR against an ABL that is only $100 million. So we see that there is opportunity there. We've also kind of looked at what's happening with respect to the debt markets. As you know, they were pretty difficult at the end of 2018. The good news for Daseke is that we're in a very strong position this year, and we're going to be naturally delevering ourselves down to 2.9x by the end of this year. So we can be opportunistic. And when we feel the timing is right and market conditions are right, where we can get a favorable transaction done, we'll look to do something.

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

Okay. Great. And I totally applaud your efforts to delever and focus on free cash. Is there any covenants in the debt side that will prevent you from buying back stock, given the cheapness of your stock on an absolute and relative basis?

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

There are certain restrictions within the debt agreements with respect to how much stock we could buy back. But our decision right now is that we just want to focus predominantly on delevering the business. And then after we've done that, we can decide what is the best use of that cash.

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

Okay. Great. And then just one quick question on the CapEx side again. Why is it front-end loaded this year? Can you just give more color on why it's front-end loaded versus back-end loaded this year?

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

It's just last year the timing of what we did with respect to our build slots and things like that in terms of how we manage them. It was really related to that more than anything else, so that's the main reason that is front-end loaded.

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

Okay, great. And Scott, we do truly appreciate the extra disclosure on Aveda and your acquisition, so compliments there.

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

Thank you, Paul.

Operator

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

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

So just a question on your pricing expectations. You talked to 2.5% rate growth on a consolidated basis. Are you able to provide a little bit of color in terms of what you're expecting for your flatbed division? And then what you're expecting on the specialized side of things?

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

Well, we would expect something along this line. We continue to believe the specialized will be very tight and there will be a very strong pricing environment in specialized. There is a lot of activity in specialized that makes us feel that, that will continue to be strong. We think there will be looser capacity and, therefore, a little bit looser pricing in transactional flatbed business. Weather events would effect all of those things. But we still -- regardless of that combination, we still feel confident in our ability to achieve our guidance.

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

Okay. So it sounds like you're getting more rate growth contribution from the specialized side of the business versus flatbed for '19 and I guess -- okay. And if you could just talk to -- I know we're kind of a little bit early in the bid season, but talk about your experience in terms of trying to get incremental rate on your contract business across the board? How have those negotiations, how have those conversations gone? Are they in line with your expectations, have they gone better or worse? Just looking for a little bit more color in terms of kind of the initial progress through bid season?

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

I won't say our initial progress is very analogous to what I outlined. There still is a great deal of tightness of capacity and of heightened demand in the specialized side. On the flatbed side, in 2018, we had a lot of exposure to what we call premium rate, not largely going into hurricane affected areas and things like that. But the -- that caused almost like a spike. It's not -- while we don't have a large area -- exposure to spot. When we do, it can be quite profitable. We don't expect those premium rates to be in place in 2019. But generally, pricing discussions have been positive and upticking, and -- but we -- at the end of the day, it will depend upon volumes. But the pricing environment is very good, but stronger in specialized than flat.

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

Okay. And then you highlighted that your corporate cost, Bharat, were up in '18. Is there a good way to think about what '19 should look like from a corporate cost perspective?

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

Yes. I kind of look at, we did about $30 million in 2018, and probably look at somewhere in that $30 million to $35 million for 2019.

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

Okay. That's helpful. And then my last question, and I'll pass it along. How should we think about costs? And specifically driver wages saw a big increase in terms of market driver wages. In '18, what are your thoughts on driver wage increases? In '19, do you think the key pace with this 2.5% increase in rates, could it be a little bit more than that, could it be a little bit less? How are you thinking about driver cost side of things?

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

Well, as you know, we've been on a rising driver wage environment in all of 2018. We believe that will continue in 2019. In the Q4 '18 over Q4 '17, driver wages were up 10%. We do believe that 2019 will also be a year of increasing wages, probably in the mid-single digits, something like that. But once again, that rising wage environment is one of the major drivers for rising rate environment. And shippers know that we all need drivers to be able to fulfill our goals, and so rates are going to be a part of that.

Operator

And our next question comes from David Ross from Stifel.

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

Just a follow-up on that last question on rates. It sounds like the 2.5% pricing guidance is artificially low because there is some year-over-year spot comp that is challenging that. I guess if you had -- just talk about on an apples-to-apples basis, what kind of contract renewals are you getting from customers when you're sitting down with them now?

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

We don't release that data.

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

Okay. And in what percentage is spot versus contract in the flatbed side? Because you talked about that being transactional, but more than not being contracted?

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

I am not sure I understand the question, David, but I'm going to answer it anyway. What I will...

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

Is it 90% contract or -- and 10% spot on the loads for flatbed?

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

Yes, something like that. It's probably -- well, we've probably gotten a little more spot, it's probably 85-15, 80-20, something like that on contract versus spot -- of contract versus spot.

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

Is that similar to a year ago or has it come back more to the contract side?

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

It's more spot than it was at this point in time a year ago. But some of that is couple of acquisitions that we made in 2018 just had more exposure to spot than we hadn't had historically. And then whereas the premium rates were going into effect, kind of, [space], if you will, that was taking place a lot in flatbed as well.

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

I know we talked a lot about 4Q, but it's only 3 weeks less than the first quarter. So I guess, how was it and how is March specifically in the first week?

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

We don't normally, David, discuss quarters before they come to an end. What I can tell you is that, overall for 2019, we feel very comfortable with our guidance of $1.8 billion to $1.9 billion in revenue and $200 million to $210 million in EBITDA.

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

Okay. And, Bharat, what's the average lead age right now as it stands? You look across and you could either do it for flatbed and specialized separately or overall with aggregate fleets?

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

Here what I'll say, David, is, generally, our linehaul is going to be from 2.4 to 2.8, 2.9 years. We're going to see an older fleet age in our heavy haul, like the Aveda side of the business. Those trucks last longer, 10 to 15 years, trailers will last between 15 and 30 years. So that side of the business has a longer fleet age than the linehaul side of the business.

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

Yes. It's understandable because it puts fewer miles per year on them and aren't as tired after a few years.

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

Absolutely,.

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

And I'm not sure if you answered this already or not. But flatbed adjusted, I guess, acquisition adjusted EBITDA was down year-over-year in the fourth quarter. What was the reason for that?

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

Well, it was mix. We had mixed results. But it was largely bit of a tough comp over Q4 '17. We were getting those bonus rates I talked about related to hurricanes Harvey and Irma, the time when capacity was already tightening. Our miles were down about just almost 3%, kind of 2.8%. But probably one of the biggest things is the shift in the mix of revenues from mostly company to heavy owner operator percentage and brokerage. So our asset light mix grew significantly. There was -- and our brokerage grew significantly as well. And there was -- the first time we've really noticed any effects for that whole tariff discussion in our business. We think there was some acceleration of steeled inventories forward in the third quarter, and then took a pause in the fourth quarter as people were waiting and seeing in anticipation of what would happen when tariffs kicked in or if they would kick in. And so there was kind of wait-and-see in steel to some degree in the fourth quarter we believe affected those numbers.

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

And both in the flatbed and specialized segments, you've got brokerage. Is there a thought to combine the brokerage? You basically just have brokerage separately that handles both flat and specialized, or is there a reason that brokerage is housed separately in those 2 segments?

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

Yes, there's a very clear and compelling business reason to do so. Well, number one, they are not the same thing, but primarily this brokerage has handled focused on our key customers, key freight today. And -- so a major customer would entrust us typically to move that on own company equipment. If we don't the availability of equipment or drivers at the right time at the right place, then we will go head and execute that order through our brokerage arms. So there's more focus directly at customers close to the customer, and with a high degree of knowledge of that customer, their needs requirements, et cetera, as opposed to just kind of a general broad brokerage. We do some general broad brokerage, and that is an objective of ours to grow that in 2019. But right now, the vast majority of our brokerage is focused on executing on behalf of key customers.

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

And then last question. Bharat, I don't know if you touched on this yet or not either, but there's been a lot of numbers flying around, so I apologize. Leverage covenants on the debt to EBITDA, you got this 3.3x at the end of the year. What's, I guess, the leverage covenants as we look out through '19?

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

Yes. So the covenant at the end of 2018 was at 4.25x and 3.3x is kind of the rounded up number. It was really 3.26x. So we were almost a full turn below the coverage -- the covenants at the end of 2018. We expect to be at 2.9x by the end of '19, and the covenant at that time will be 4x. So we expect to be a full turn below the covenant.

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

Okay, that's good. You're making -- you are outrunning the covenants in that sense. That's it for me.

Operator

And our next question comes from Willard Milby from Seaport Global.

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

If I could start out, I guess, talking about the pockets of your business. The government DoD being a top 10 customer, what was the impact of the government shutdown to close Q4? And any impact here in Q1?

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

We saw no effect of the government shutdowns in our business. No real discernable effect. Our largest exposure to government freight is the Department of Defense and they were not subject to the shutdown.

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

Okay. And Bharat, you talked about -- and Scott as well, there seemed some short-term losing in the market. I am presuming that was mostly tied to flatbed, just kind of given your comments on the capacity tightness of specialized. But as you kind of look at the overall revenue mix pie, that is Daseke, what slices would you say are probably getting the most attention when you look at, I guess, broader economic indicators? Where do you think -- which slices maybe have particular strength? Or which one's may be a little bit more concerning if you kind of look out through 2019?

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

I'll take that one. Where we continue to see strength is in large, heavy, cumbersome time-sensitive, high-value cargo. That's where the strength that we're seeing in 2019. And where we have seen some softening, that's what I've described earlier as transactional flatbed as opposed to core supplier to a core shipper, we think those volumes will continue to be there. It's the transactional, the one-offs that we think there will be a little loosening or softening in the flatbed side.

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

Is there any particular end market that is maybe subject to more transactional business?

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

No. I don't think so in particular. I mean, we -- on the flatbed side, the vast majority of what we're moving there is building materials of all types and steel of all types. Those will be our biggest categories in flatbed. So this is kind of broadly down.

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

Okay. As far as the shift in more -- it appears the year-over-year shift in the exposure to spot loads, is that tied to overall business levels just allowing you to have available equipment to be in the spot market? Or is that a more conscious business shifts, saying we want this more transactional exposure as we kind of look at how 2019 is shaping up?

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

Well, we looked at one company in 2018, we did want a little more exposure to spot, and that was one of the reasons that we liked that. But really I think the shift to, what I would call, the premium pricing or the spot pricing was more market conditions, frankly. There was just a huge amount of demand and not enough capacity to cover, which caused some spot activity in the contract market play.

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

Okay. All right. I got some other housekeeping questions, but I'll follow-up with those offline.

Operator

And our next question comes from Barry Haimes from Sage Asset Management.

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

One question, maybe just on drivers to get a feel for the unseated truck count in the quarter compared to maybe a year ago or earlier in the year. And just a sense with the market loosening a little bit, are you seeing any difference on retention and recruitment efforts?

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

I would say, Barry, retention continues to be a really strong tooth for us. We have -- still this quarter, have about 62% turnover, which in the real world sounds crazy, but in trucking and transportation is a -- it's a pretty good number and significant improvement in our own internal results over the last 18 months. So we feel really good there. And then drivers will continue to be in tight supply. And we're going to have to do everything we can to attract them. The biggest shift that we've seen, that's kind of a shift, if you will, or some think that's probably what you're looking for is that we have seen a greater -- as rates have risen, there has been a greater increase in drivers being owner operators or at least purchase owner operators as supposed to being a company driver. And the reason is generally how they are paid. Owner operators typically get paid a percentage of revenue as opposed to by the mile.

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*

Thank you. I am very excited about the results we produced in 2018. We consistently met or exceeded our targets. For 2019, we've laid out a clear strategy centered around organic growth, free cash flow and reducing our net leverage. I believe we are in a great position to achieve these results and especially with the additions to our management team. I like to thank everyone for listening to our call. We appreciate your interest in us, and we look forward to talking with you again in the future. Thanks, everyone.

Operator

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