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Market Intelligence

Daseke, Inc. NasdaqCM:DSKE

FQ1 2019 Earnings Call Transcripts

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Chief Financial Officer

Christopher R. Easter
Chief Operating Officer

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Founder, Chairman & CEO

Ronald Scott Wheeler
President & Director

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Matthew Stevenson Brooklier
The Buckingham Research Group Incorporated

Steven Lee Dyer
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ATTENDEES

Cody Slach
Gateway Investor Relations

Presentation

Operator

Good morning, everyone, and thank you for participating in today's conference call to discuss Daseke's financial results for the first quarter ended March 31, 2019. Delivering today's prepared remarks is Don Daseke, CEO and Chairman; Scott Wheeler, President and Director; Bharat Mahajan, CFO; and Chris Easter, COO.

After their prepared remarks, the management team will take your questions. Before we go further, I would like to turn the call over to Cody Slach of Gateway IR 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
Gateway Investor Relations

Thanks, Skyler. 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 acquisition-adjusted measures, adjusted EBITDA, adjusted operating ratio, adjusted net income and free cash flow.

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's 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
Founder, Chairman & CEO

Well, thank you, Cody, and good morning, everyone. Starting on Slide 3, today, we will cover several topics. First, I will provide a high-level review of our first quarter 2019 results. I will discuss our compelling market opportunity, our value proposition and how we expect to drive shareholder value. Bharat will provide a detailed review of our first quarter results and our expectations for the remainder of 2019. Chris will detail his first few months on the job, what he has learned and his go-forward strategy. Finally, Scott will provide color on our growing brokerage operations and how we plan to continue to expand that aspect of our business. We'll then turn the call over for your questions.

Turning to Slide 4. First quarter saw continued growth as revenues increased 32% to $433 million. Revenue on an acquisition-adjusted basis, which is how we view organic growth, was up 7%. The net loss in the quarter was $9.3 million compared to a net loss of $0.8 million in the year ago quarter. Adjusted net income was $1.8 million compared to $5.6 million in quarter 1 2018. The decline was largely due to investments made at the corporate level, including Daseke Fleet Services in May of last year, the recent launch of Daseke Logistics, the sheer fact that our size of our operations has grown substantially in the last 3 quarters compared to the prior year and our new management hires. These investments are integral to our growth strategy, and I'm confident they will continue to provide significant benefits to our company's future growth and success.

Adjusted EBITDA in first quarter was up 24% to $43.8 million, which was the same as acquisition-adjusted EBITDA given that there were no acquisitions in the quarter. This compares to $41.8 million in acquisition-adjusted EBITDA last year. Note that excluding our corporate segment, which includes investments made to support our growth initiatives, our operating segments increased acquisition-adjusted EBITDA by 18%, outpacing acquisition-adjusted revenue growth of 7%. This is an important figure we look at internally as we aim to drive leverage across our operating companies.

Slide 5 shows Daseke's compelling value proposition, both to our customers and our shareholders. According to the Commercial Carrier Journal, we're the #1 flatbed and specialized provider in terms of capacity. We are in the top 10 of all truckload carriers. And out of the top 25 carriers, we were the fastest-growing last year. These statistics are proof that the growth strategy we have implemented is working. And the operation that we have built has created the leading flatbed and specialized trucking company in North America.

On to Slide 6. We went public in February of 2017. And during the year 2016 through the year ending 2018, we grew revenue at a compound annual growth rate of 57%. During this time, we also drastically grew the scope and scale of our business, diversified our revenue mix and ended 2018 with over 50% asset-light, up from 34% in 2016.

When analyzing our transition from asset-heavy to asset-light, I believe investors have put too much emphasis on the resulting margin profile rather than increased cash flow, generation potential and the lower capital intensity this shift has on our business. With our mix more heavily weighted to asset-light, we will generate lower EBITDA margins. However, this comes with higher cash flow. This is evident in the outlook we've provided for 2019, which calls for significantly higher free cash flow and lower CapEx compared to historical periods.

Finally, we are very encouraged to hear the President and key Congressional Democrats are in agreement on a big, bold vision to invest as much as $2 trillion on our nation's deteriorating infrastructure. This expands our runway for growth over the next several years and makes me even more excited about our future prospects. Looking to the remainder of 2019, I am very confident that our strategy to focus on organic growth, maximize free cash flow and delever our balance sheet will drive long-term shareholder value.

I will now turn the call over to Bharat. Bharat?

Bharat M. Mahajan
Chief Financial Officer

Thank you, Don. Before I discuss our results and turning to Slide 8, I'd like to discuss the term that we reference on a regular basis, acquisition-adjusted. Our financial statement results only include the 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 proxy of our size and organic growth and provides some helpful data points.

I will now move to our Q1 financial details, which are presented on Slide 9. Revenue increased 32% to $433 million compared to $327.6 million in the year ago quarter. On an acquisition-adjusted basis, revenues were up 7% which, again, is how we internally view organic growth. Operating income was $0.7 million compared to $7.7 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 non-compete agreements. The depreciation impact of the step-up of assets to fair market value as well as the amortization of intangibles impacts our operating income and net income, which makes comparability to other trucking companies that are not as acquisitive less meaningful.

For the first quarter of 2019, $6.8 million of depreciation was related to the net impact of the step-up in basis of acquired assets and amortization was $4.3 million for a total noncash impact of $11.1 million. Net loss for Q1 was $9.3 million or $0.14 per share compared to a net loss of $0.8 million or $0.01 per share in the year ago quarter. Adjusted net income, where we adjust for acquisition or business combination-related expenses, amortization of intangible assets and the net impact of the step-up in basis of acquired assets, was $1.8 million compared to $5.6 million in the first quarter of 2018.

Adjusted EBITDA increased 24% to $43.8 million compared to $35.2 million in Q1 2018. Acquisition-adjusted EBITDA was also $43.8 million compared to $41.8 million last year, up 5%. As Don mentioned, EBITDA in Q1 of 2019 included the increased investment in our corporate segment with the addition of Daseke Fleet Services, Daseke Logistics, costs reflecting our larger size and scale and the new management positions. When comparing corporate costs to the year ago quarter, timing differences caused certain accruals to be lower than normal in Q1 of 2018. Excluding these investments and corporate costs, our operating segments grew acquisition-adjusted EBITDA by 18%.

Looking at our results by segment, Specialized revenue in Q1 increased 46% to $269.7 million and adjusted EBITDA was up 45% to $35.4 million. Flatbed revenue in Q1 increased 16% to $167.9 million, and adjusted EBITDA increased to $18.3 million. 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, revenue and earnings in the second and third quarters and typically lower levels in the first and fourth quarters.

Moving on to a more detailed view of our segment results, Slide 10 provides a view of our Specialized segment. Adjusted operating ratio improved to 93.8% from 94.4% in Q1 2018 as we benefited from increased operating leverage in the business. Acquisition-adjusted revenue and acquisition-adjusted EBITDA were up 13% and 25%, respectively. Specialized rate per mile increased 35% to $3.61 compared to $2.67 in the first quarter of 2018 driven by higher rate per mile project business. Revenue per tractor increased 13% to $60,000 compared to $53,200 in the year ago quarter.

Slide 11 shows our Flatbed segment. Flatbed adjusted operating ratio in Q1 was 96.7% compared to 94.6% in the year ago quarter. We had several factors that led to the higher adjusted operating ratio, including the impact of the polar vortex and others that Chris will discuss later. Acquisition-adjusted revenue was $167.9 million compared to $168.4 million in the year ago quarter. Acquisition-adjusted EBITDA was up in Q1 to $18.3 million from $17.2 million in the year ago quarter. Flatbed revenue -- sorry, Flatbed rate per mile in Q1 increased 8% to $1.96, and Flatbed revenue per tractor increased 2% to $41,600. Contract rates are holding up well and show the quality of our revenues.

Slide 12 shows the breakdown of our Q1 acquisition-adjusted EBITDA. Our operating segments grew acquisition-adjusted EBITDA 18%. The current run rate of around $10 million at corporate is consistent with the last several quarters and our guidance for the year. Overall, Q1 acquisition-adjusted EBITDA was up 5% showing strong results, including recent investments in future growth. Next, Slide 13 highlights our last 12-months performance as of March 31, 2019. Revenues increased 70% to $1.7 billion, while acquisition-adjusted revenue increased 12% to nearly $1.8 billion. Adjusted EBITDA increased 67% over this period to $182.9 million and was up 12% on an acquisition-adjusted basis to $192.4 million.

Now turning to our balance sheet and free cash flow. As Slide 14 indicates, at March 31, 2019, we had cash of $62.4 million, nothing outstanding and $87.8 million available under our revolving credit facility for total available liquidity of $150.2 million. Net debt was $648.4 million. Cash from operating activities was $36.4 million. Cash CapEx was $3.9 million. Cash proceeds from the sale of excess capital assets was $4.6 million resulting in free cash flow of $37.1 million for the quarter. This compares to free cash flow of $12.5 million in the first quarter of 2018.

Moving on to our leverage metrics. On Slide 15 and as we discussed on our last call, if one were to use the 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 as of 12/31/18. However, it is very important to note that in accordance with our debt facility, leverage as defined was 3.2x at March 31. Note that this is lower than 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.

Finally, we still expect to delever the balance sheet by the end of the year. And our end of year net leverage ratio as defined in our debt agreements is expected to be approximately 2.9x at December 31, 2019.

I will now turn the call over to Chris, so he can speak about operations. Chris?

Christopher R. Easter
Chief Operating Officer

Thank you, Bharat, and good morning, everyone. Turning to Slide 17. During the first 3 months on the job, I embarked on a listening, assessing and prioritization mission. I dedicated the majority of my time and focus on gaining an understanding of each Daseke operating company and how we execute across the platform.

During this time, I visited many operations and facilities, where I was able to observe the diversity of our customer base and the equipment we use to services those customers. I took time to listen to our teams, the drivers, support staff and senior management. This allowed me to gain a better understanding of how we serve and provide value to our customers, what opportunities our teams see for growth and the business challenges we face and can improve upon.

Although listening and assessing never stop, I have now shifted my focus to prioritization and execution. As I prioritize my work, I will be investing my time in the coming months in 3 distinct areas. First, I'll be working with our team to develop a framework for sustainable execution across our operations. This includes refining our KPIs to those that are the most meaningful indicators of performance and provide actionable insights as well as prioritizing our initiatives to those that provide the most value potential, can result in quick wins and will be an efficient use of our resources.

My second area of focus will be the allocation of resources to our operating companies whose markets and capabilities allow for immediate organic growth and incremental margin gains. This may come in the form of deploying additional assets to support growth or, in some cases, ensuring we are not taking the operational leaders focus away from the execution of their business plans.

My third area of focus is embracing our operating companies who are facing market headwinds or need additional support and resources to better optimize their operations. We have extremely knowledgeable and experienced managers across the business. But we need to improve upon our collaboration efforts and sharing of best practices. One of the key benefits of our diverse operating experience is that our leaders have managed through cycles. They have successfully navigated and performed through cycles of both strong growth as well as headwinds.

We've experienced some recent headwinds in this segment of our business, the flatbed, and see opportunities to improve our operating ratio. Very early in my career, I learned a valuable lesson while working at Walmart. When we voice reasons that market dynamics or weather were impacting our business, the question we immediately asked ourselves was so what. So what are you doing about it? That mindset is valid in my role today more than ever. Let me give you a specific example.

We have room to improve our operating ratio in flatbed. The density we have built gives us the opportunity to really drive asset utilization in this segment. We have some of the most efficient flatbed operators in the business. These are data-driven, efficient operators with ORs consistently in the low 90s. Key leaders from these low OR operations are now parachuting into the higher OR operations to mentor and help establish similar operating procedures and expectations for performance.

The team is looking at both the cost structure and revenue profiles to establish more standard operating procedures across our flatbed operations. It is about taking our collective knowledge of the market and using that to our advantage. And this is not a future project for development, but an action underway right now.

I would be remiss if I did not comment on the solid execution within our Specialized segment. Despite the negative impacts associated with weather, we had a very strong growth in many -- with many large-scale capital projects, including wind energy, which is expected to carry forward through the balance of 2019. In fact, the strength of wind energy projects is forecasted to continue to at least 2020.

With that, I will turn the call over to Scott for a discussion on our growth strategy for the brokerage business.

Ronald Scott Wheeler
President & Director

Thank you, Chris. A significant priority for Daseke in 2019 and beyond is the continued growth of our brokerage business. Turning to Slide 19, this is not a new revenue-generating aspect of our business. And in 2018, we grew brokerage revenues to approximately $265 (sic) [$270] million.

Let's talk about why we view this as a profitable growth driver for Daseke. First, this is a core competency for us. Our value proposition over the competition is that we focus on the flatbed and specialized trucking market where we have deep and long-standing customer relationships and expertise. We understand the customer needs and requirements and have the expertise in the freight being moved. Brokerage is a way to further optimize our asset utilization rates in a much less capital-intensive business leading to potentially higher free cash flow generation.

Brokerage provides flexibility in different market cycles and gets us the ability to take on new customer opportunities that we do not serve today, allowing us to continue to grow our market share. To drive this initiative, we launched Daseke Logistics in April 2019. Daseke Logistics is a standalone operation that works with our owned fleet, owner-operators and the third-party providers and is a complement to what we've already been doing. This team is led by a former CEO from one of our operating companies with the strongest brokerage history.

Daseke Logistics is one of the only asset-backed third-party logistics providers solely focused on the flatbed and specialized trucking space. With scale across North America, this is a natural extension of our capabilities. The team's 3 main priorities will be to: one, capture demand to optimize our owned asset utilization rates; two, locate capacity to support downturned business; and three, define and execute on greenfield customer, regional or volume opportunities. Finally, as you look at the history of our company, this is a natural and intentional evolution for us. It will allow us to continue to organically grow the business, take market share by expanding our customer base and strengthen our relationships with our current customers.

Before turning the call back over to the operator for Q&A, let's turn to Slide 20. We'll review of the key takeaways. First, we delivered strong Q1 results. We grew acquisition-adjusted revenue by 7%. And excluding investments made in our corporate function, our operating segments grew acquisition-adjusted EBITDA by 18%. Second, Chris, our new COO, is developing an operational framework to drive efficiencies across the business. These initiatives will aid in creating further value from the diverse and resilient company we have built over the last decade. And lastly, I recently launched the Daseke Logistics operation as brokerage overall is a primary growth driver focus for us. We have extensive

expertise and customer relationships within the flatbed and specialized market, and our position is one of the only asset-based third-party logistic providers solely focused on industrial freight is a powerful offering to the market.
This concludes our remarks. Now, we'll turn the call back over to the operator for Q&A.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Jason Seidl with Cowen and Company.

Adam Kramer
Cowen and Company, LLC, Research Division

This is Adam on for Jason. First, I just wanted to ask about recent contract renewals. What percent increase have these been at? And what are your expectations for rate increases in 2Q and then for the remainder of 2019?

Christopher R. Easter
Chief Operating Officer

Yes. This is Chris. Yes. I would just say we're comfortable and confident with a 2.5% blended rate we have forecasted for 2019. At this point, we're not seeing anything indicating, in other words, as indicated by our strong increases on our rate per mile.

Adam Kramer
Cowen and Company, LLC, Research Division

Got it. Great. Appreciate that. And then I also wanted to ask a little bit about M&A. I know you guys have kind of taken a step back from that. But wanted to ask if you're kind of maybe easing back into looking at potential deals. And, in particular, there was a flatbed carrier that announced their bankruptcy over the weekend. I'm wondering if kind of a unique opportunity like this one or like something similar to this were to arise, would you guys consider kind of stepping back into the M&A world?

Ronald Scott Wheeler
President & Director

This is Scott. I'll take a first shot at that, and then we'll see if Don has anything he would like to append. The answer is we are focused on what we said we were going to focus on for 2019. Our primary focus is on free cash flow generation, deleverage of the business and dialing in the operations with our new COO. That does not mean that if something opportunistic came along, we would certainly take a look at it and consider it, but that is not our primary focus for the current period.

Don R. Daseke
Founder, Chairman & CEO

And Scott, I would totally agree with that. I have nothing to add.

Operator

[Operator Instructions] Our next question comes from Steve Dyer with Craig-Hallum.

Steven Lee Dyer
Craig-Hallum Capital Group LLC, Research Division

Just a question on weather in the quarter. A lot of the carriers who have reported so far indicated some difficulty with it. Did you see any impact? And if so, any ability to quantify?

Christopher R. Easter
Chief Operating Officer

Yes. This is Chris. I'll take that. Thank you for the question. I think the weather did affect us more so in the flatbed than the specialized. But I would say it wasn't -- it may not have been as significant for some given the diversity of our business, but it did have some impact on us.

Steven Lee Dyer
Craig-Hallum Capital Group LLC, Research Division

Got it. Okay. And then specific to the Specialized segment. You've now sort of seen rates in that $3.50 to $3.60 per mile range for several quarters in a row. Is that a good run rate in your view going forward? Or anything that would swing that one way or the other for the balance of the year?

Christopher R. Easter
Chief Operating Officer

Given the diversification of our business, I'd say, there's things that could swing that at points just because of our revenue mix. I'd say, right now, that I feel fairly good about that, but I feel even better about our ability to drive improved operating ratios off whatever that rate per mile percent as we're moving forward.

Ronald Scott Wheeler
President & Director

I would add one more thing to that, Steve. This is Scott. The thing that we see shifts in specialized is the percentage of our revenues that come from project freight -- big projects where, say, an installation of a wind power generation farm or something like that would be a different rate than perhaps moving heavy agricultural equipment.

Christopher R. Easter
Chief Operating Officer

Yes. And also an aside to that would be just the average length of haul, Some of these projects are very short haul, and your rate per mile really does boost. But right now, I think we feel fairly comfortable with where we're at on that rate. And again, the driving of OR improvement is going to be a real key as we're moving forward.

Steven Lee Dyer
Craig-Hallum Capital Group LLC, Research Division

Okay. Great. And then, Bharat, could you help me sort of on the free cash flow walk. It looked like $37 million of free cash flow for the quarter, actually net negative CapEx in the quarter. Looks like debt came down or net debt came down by $7 million. Where is the other $30 million in the quarter? What am I missing?

Bharat M. Mahajan
Chief Financial Officer

Great question, Steve. So when we look at how we've defined free cash flow, we very much adopted the -- what we've heard from industry peers of what they're using, which is cash flow from operations as well as CapEx from the face of the cash flow statement. We did, you'll see in the supplementary information, invest about $25 million in CapEx that was financed. So if you kind of look at that $37 million out of free cash flow minus the $25 million that was financed as well as the dividends that we paid out of about $1.2 million, it kind of gets you into that $8 million decrease on a net debt basis.

Steven Lee Dyer
Craig-Hallum Capital Group LLC, Research Division

Okay. Got you. I didn't see the finance portion. And then, I guess, just as it relates to CapEx going forward, you'd indicated the first half will be sort of CapEx heavy. A, does that still sort of hold relative to the second half of the year? And then sort of overall -- sticking by sort of your overall similar amounts, and I think you said -- I forgot what you said specifically about CapEx this year. But everything hold there?

Bharat M. Mahajan
Chief Financial Officer

Absolutely. So we had guided, Steve, in that $65 million to $70 million from a CapEx standpoint. And we did say that we were going to spend about 70% of it in the first half of the year. And where we kind of landed is about 35% in the first quarter. So we're on track to the guidance that we've issued.

Steven Lee Dyer
Craig-Hallum Capital Group LLC, Research Division

And then how much above the $65 million to $75 million would you say is going to be financed or not sort of traditional CapEx?

Bharat M. Mahajan
Chief Financial Officer

We've included -- in that $65 million to $70 million CapEx, we've included the financed CapEx in that number, Steve. So that is a fully baked number.

Operator

[Operator Instructions] Our next question comes from Matt Brooklier with Buckingham Research.

Matthew Stevenson Brooklier
The Buckingham Research Group Incorporated

So with respect to your prior '19 guidance, I didn't see any update in the release or the slides. But just wanted to ask if the $200 million to $210 million of adjusted EBITDA, if that's still a number that you're comfortable with? And same question on the revenue side of things.

Bharat M. Mahajan
Chief Financial Officer

Matt, and I'll take that. It's Bharat here. We are very comfortable with the guidance that we've issued. We historically have kind of updated guidance on a semiannual basis, and we expect to just continue to follow that pattern going forward. So in terms of the numbers we issued, yes, absolutely comfortable what we've got up there.

Matthew Stevenson Brooklier
The Buckingham Research Group Incorporated

Okay. That's helpful. I just wanted to clarify. And then from a corporate expense perspective, it sounds like that number you guys are investing and doing some things, hopefully getting some payback down the road. But the number in the quarter suggests a run rate that's maybe closer to $40 million, which I think is either at the high end of a previous guidance range that you provided. So I'm just trying to get a sense if that's kind of a good number from a run rate perspective, if the number is going to be closer to $40 million? Or if you think there is some step down as we move through the next 3 quarters of the year?

Bharat M. Mahajan
Chief Financial Officer

Matt, if you look at the last few quarters, we've been kind of averaging around $10 million a quarter, and I expect that's the right run rate for us going forward. And that was factored into the guidance that we issued for EBITDA this year.

Matthew Stevenson Brooklier
The Buckingham Research Group Incorporated

Okay. And then just a last question and I'll pass it along. But it looks like the fleet count from what we were expecting was kind of in line. It looks like you guys are doing a very good job of retaining drivers. Maybe if you could talk about the driver market, if that's improved at all? And if there is any commentary you can provide on the driver wage side of things, I think, that would be appreciated.

Christopher R. Easter
Chief Operating Officer

Yes. This is Chris. I'll take that, Matt. Yes, I'd say -- yes, we're comfortable with where the drivers count is at now. It certainly is a challenge. I mean, that's -- I don't know that there's been a year in the past 30 in the business that I've had that drivers weren't, if not the #1, the #2 challenge you faced on retention and recruiting. I think it's kind of settled down some this year. We're seeing some -- a slight like decrease in turnover. And it's -- I think it's indicative of just the fact that there's not as much chasing after drivers right now. We're all looking, but the retention is more solid. And I'm sorry, what was the other part of your question? I don't know, on driver pay.

Matthew Stevenson Brooklier
The Buckingham Research Group Incorporated

Yes. Color on like directionally on driver pay. It, obviously, was up a bunch last year. I'm assuming that the rate of change is going to be less this year just given the rate environment has been moderating.

Christopher R. Easter
Chief Operating Officer

Absolutely, right. There was -- as the year progressed, it certainly did boost and long-overdue and well received by the drivers. And of course, I'm sure that's, in part, helping with the retention as well. But yes, I don't expect any kind of acceleration of that this year.

Operator

Our next question comes from David Ross with Stifel.

David Griffith Ross
Stifel, Nicolaus & Company, Incorporated, Research Division

I guess to start off, Chris, you talked about your listening tour. When you were going around and meeting with the different operating companies, what surprised you? I guess what was better than you thought? And what was worse than you thought?

Christopher R. Easter
Chief Operating Officer

I don't know that anything at all really surprised me. I could say there are several things that really excited me, the diversity of our business. Maybe if I was going to say anything was a little bit of a surprise as I was introduced into the business was that how well diversified our customer base is with the largest customer is just over 4% of our business. It's extremely diversified, not only across customers but in the various industrial sectors. And obviously, I think, otherwise, I really didn't see any big surprises. I see huge opportunity, of course, in our OR rate. And actually, as we all know, that's where my focus is.

David Griffith Ross
Stifel, Nicolaus & Company, Incorporated, Research Division

And on that OR, you talked about taking the better OR operators and bringing them into some of the struggling companies to help them make improvements. Is that the main strategy? Or is there anything else you saw as it relates to the OR that you could easily help bring that down?

Christopher R. Easter
Chief Operating Officer

That's just one piece. As I mentioned earlier also just kind of more enabling the high-performing operating companies. What can we do to better resource and -- or allocate resources across our portfolio to support them? Lessen any distractions. At times we -- companies can distract, sometimes, operators from execution, and I want to make sure that we are not in any way doing that as we're moving forward as well through prioritizing various initiatives. I think things like we're doing, as Scott mentioned, with our brokerage initiative, that certainly is going to help us as we're moving forward as well. There are many other things, though, we can dust off from various playbooks I've had in the past as well as our operators, who have as much -- some of these -- our are oldest company, I think, is over 90 years in the business. So we have decades of experience to tap on and share across the business.

David Griffith Ross
Stifel, Nicolaus & Company, Incorporated, Research Division

And then given the well diversified customer mix, Daseke has a pretty good window into the industrial economy where growth seems to be slowing. What's the outlook from your customers? You talk about the remainder of 2019 in terms of business volumes. Are they still planning on shipping more stuff than they did a year ago?

Christopher R. Easter
Chief Operating Officer

Yes. Maybe I'll start with that and maybe Scott could add some color as he would -- if he sees fit, relative to the last year. But I'd say, right now, we're seeing some softness that has been more related to weather and some ancillary impacts to that than anything else. So a little lighter volumes in Q1, but we're seeing no signs systemically or in any major way of any type of a recession. I know there's all this chatter in the market, but we're not seeing signs or hearing from our customers anything that would indicate that. So our -- and our focus again is on driving OR performance and capitalize on organic growth opportunities with areas like brokerage. Scott, did you want to add anything relative to last year?

Ronald Scott Wheeler
President & Director

No. With a portfolio as diversified as we have, you're always going to see pockets, we think, the really strong pockets where things may not be as strong. And I think we're seeing that in the recent months. But we're really encouraged in certain sectors that overweigh any concerns we have, anything else, which allows us to remain confident in the guidance we've given for the year.

Christopher R. Easter
Chief Operating Officer

Yes. Then maybe -- I think, one other thing to add maybe is just some of our -- a fair chunk of our business, maybe 15% to 20% dependent upon the various periods and years, is related to more atypical, cyclical business that falls outside the norm. When you're looking at things like aerospace and energy, high-security type business, those areas we're seeing good strength and have good confidence of where they're headed as well as we're moving forward.

David Griffith Ross
Stifel, Nicolaus & Company, Incorporated, Research Division

And then lastly, on brokerage, Scott, you talked about Daseke Logistics. I guess a little bit more color on how brokerage is organized. Is it still sitting in specialized and in flatbed? Is Daseke Logistics the attempt to pull them out of the 2 divisions and have it be a stand-alone for specialized and flatbed? I guess, just a little bit color about how that's organized and how you're looking to grow the brokerage piece.

Ronald Scott Wheeler
President & Director

Sure. I would say that we have -- the vast majority of our operations are extensions of our existing operating companies serving our major customers. So almost like a subcontractor to an overall contract where their performance metrics go directly to our overall performance metrics. So it's a very high-touch brokerage, and we really don't intend to shift away from that at Daseke Logistics at all. Daseke Logistics is more of the generic brand, the house brand. It's just more traditional third-party brokerage -- transactional brokerage as opposed to what we're doing with some of our largest customers with our existing opcos. So today, about, I'm going to say, roughly 80% of our brokerage is extensions of our overflow freight from our existing customers. And then the remaining 20% is the more transactional. And that's where we will focus Daseke Logistics. So it's just -- think of it as a separate operation and not an over -- operation over all brokerage.

David Griffith Ross
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. For example, if company ABC has the customer that wants 8 trucks and you have 5, that operating company will take it upon themselves to find the capacity for the other 3 loads. How...

Ronald Scott Wheeler
President & Director

Yes. Typically. They may look -- they would probably look to their existing third-party carriers that they use today, and they may look to Daseke Logistics for supplemental power as well.

David Griffith Ross
Stifel, Nicolaus & Company, Incorporated, Research Division

I wasn't sure if Daseke Logistics was going to potentially pull all of that third-party capacity. So if all the opcos say I use these guys, you can kind of have them all in one centralized location...

Ronald Scott Wheeler
President & Director

I mean, we will share the best across the company, but that's not the point. We really need -- as you know, we like to focus on really great execution really close to the customer with people that really understand that customer and that freight. And so that group of broker carriers that are -- broker carrier partners that are carrying for our core customers today is a fairly small group. And so the Daseke Logistics would be focused on the great broader market where there's thousands and thousands of carriers that can carry a wide variety of stuff but primarily focused on the flatbed market.

Operator

Our next question comes from Greg Gibas with Northland Capital Markets.

Gregory Thomas Gibas
Northland Capital Markets, Research Division

First, I was just wondering if you could provide some details on where additional cost and revenue synergies can be realized with the current business going forward.

Christopher R. Easter
Chief Operating Officer

Yes. This is Chris. I'll take that. I mentioned the sharing of expertise that's taking place today and areas where we're facing headwinds like in some of the flatbed operating companies. There are many things we will be tackling in the coming months. And I guess, I would say, I'm dusting off some of my plays from various playbooks, my experience both with large-scale, highly-synergized operations as well as smaller scale operations, more similar to our operating companies and really trying -- making sure we're going to strike a balance as we move forward. But there are opportunities. But at this point, those are still -- I'm developing the framework and identifying and prioritizing those as we're moving forward.

Gregory Thomas Gibas
Northland Capital Markets, Research Division

Got it. That's helpful. Second, were there any large contracts or contracts with major customers that were recently renewed maybe in the quarter?

Ronald Scott Wheeler
President & Director

The only one that was recently that -- would be the Boeing contract, which renewed for another 3 years.

Gregory Thomas Gibas
Northland Capital Markets, Research Division

Okay. Sure. And then the last one from me. I appreciate the color that you provided earlier on CapEx expectations in 2019. Was just wondering, with the strong first quarter in terms of free cash flow, is it safe to say your free cash flow expectations from before have improved?

Bharat M. Mahajan
Chief Financial Officer

I would say that, if you looked at it from the standpoint of how a lot of the industry defines free cash flow, which is essentially looking at cash flow from operations minus cash flow off the face of the cash flow statement, we will do substantially better than what we have previously guided to. But if you look at kind of the way we look at CapEx with -- or sorry, look at cash flow from the standpoint of EBITDA and looking at all the different components of it, we will be within the target range that we've kind of put out there. So we're comfortable with the guidance that we've issued and feel that we will be in a strong position to meet it.

Operator

And our next question comes from Adam Kramer with Cowen.

Jason H. Seidl
Cowen and Company, LLC, Research Division

This is Jason. Adam and I are switching phones, except mine happens to be in London right now. I wanted to target on the logistics piece. Scott, I believe you mentioned the brokerage is now sort of 80% overflow, and then you're looking to grow sort of that other 20%. Is there an optimal mix going forward between overflow and more normalized brokers that you guys are [investing] in?

Ronald Scott Wheeler
President & Director

Well, I would say that we expect to grow all segments of that business, both with essentially the support of our existing major customers and then the more transactional. But I think the percentage growth is probably more likely to be in the more transactional piece, where we're actually putting a brand-new effort to that with new teams, experienced people, a new -- just a new effort there. So I would think, on a percentage basis, you would see more there. And frankly, that's where the -- that's the fattest part of the open deck market to speak of anyway. There are literally tens of thousands of carriers out there in the flatbed space and lots of freight. And that we're only focused on the very highest end of that market. There may be some other opportunities for us that we're going to address through our expertise, networks, et cetera.

Jason H. Seidl
Cowen and Company, LLC, Research Division

And you're just strictly sticking to flatbed, right? You're not looking to go into traditional truckload movers?

Ronald Scott Wheeler
President & Director

No. What it may mean is that we may move some non-flatbed business for a traditional industrial customer of ours. Somebody may need some van freight moved, and we would try and take that on. But it would certainly not be the core focus of what we're trying to do.

Jason H. Seidl
Cowen and Company, LLC, Research Division

Understood. And what type of technology are you guys employing right now going forward? Is this just an off-the-shelf system that you're purchasing?

Ronald Scott Wheeler
President & Director

Yes. It's industry standard software that we're using. I guess, I can give them an endorsement. We're using McLeod

PowerBroker for that, but we also use MercuryGate and Daseke Link that we use to effectively optimize our network and freight throughout Daseke. We also use Daseke Link for a lot of other things as well. But those 2 things -- so MercuryGate is the backbone of Daseke Link, and the backbone of Daseke Logistics is McLeod PowerBroker.

Operator

At this time, I'm showing no further questions. I'd like to turn the call back to Mr. Daseke for closing remarks.

Don R. Daseke
Founder, Chairman & CEO

Well, thanks, everyone, for joining us today. We're very excited about the first quarter. We're excited about our company today, and we feel very good about our future. And we appreciate all of your time and interest in us. And if you have any follow-on questions, please let us know. We look forward to talking to you. Thanks, again, for being with us today.

OperatorLadies and gentlemen, thank you for your participation in today's conference. We'll look forward to updating you on our second quarter in a few months.