

Daseke 2020 Annual Report


DASEKE®

A Letter from our Chairman and Senior Leadership Team

Dear Fellow Stockholders,

As we at Daseke reflect upon the past year, we have a lot to be proud of and thankful for, as 2020 was a truly "extraordinary" year in every sense of the word. Our organization delivered exceptional operational and financial performance in the face of a global health crisis. This execution reinforced the foundation of our Company and furthered the progress gained since our transformational work began in 2019. First and foremost, we want to thank our employees who not only adapted to the unprecedented challenges put in front of us, but who rose above those challenges to continue serving our customers safely, effectively, and efficiently.

As an organization, we had to take swift and proactive steps to ensure the safety of our people and our communities, while maintaining diligence in support of our transformation initiatives. We've always been intently focused on safety at Daseke, and never has that been more true than in 2020. Staying committed to this philosophy was critically important, as we continued to move the industrial economy forward through the pandemic.

Keeping the Momentum

As you recall, we began 2020 still very much in "execution mode." We entered the year with a renewed focus, committed to seamless execution of our operationally-focused strategy, as we sought to fundamentally shift our approach to equity value creation. We continued the process of judiciously rationalizing our operations and fixed asset profile, as well as right-sizing our cost structure, with a long-term goal to deliver best-in-class operational and financial performance.

We successfully completed Phase I and materially completed Phase II of our business improvement and operational integration plans, reshaping our footprint after integrating several lagging operating companies into similar, yet higher-performing operators. We have always had a strong portfolio of operating companies but knew there was a tremendous amount of untapped potential and value embedded within the platform. This operational integration effort was only the first step in capturing this meaningful synergistic value, while helping to further optimize our existing footprint.

Additionally, early in 2020, we made the decision to strategically divest assets of Aveda Transportation and Energy Services ("Aveda"), a non-core operating company, which further streamlined our operating footprint in the Specialized market. Perhaps more importantly, this strategic divestiture meaningfully decreased the Company's exposure to the volatility of the Oil & Gas market, which we concluded had limited long-term fit in our existing portfolio.

Building out Senior Leadership

One of the most important developments for our organization in 2020 was successfully advancing the build-out of our Executive leadership team, now including proven industry veterans. This began with bringing EVP, CFO, and Treasurer Jason Bates to the team, and with him over twenty years of public transportation sector experience. Next, we announced the appointment of Rick Williams to the EVP and COO position, after his previous tenure leading our Flatbed segment. The addition of Mr. Bates and Mr. Williams to the Executive leadership team, in conjunction with our deep talent at the operating company level, helped drive our tactical execution in 2020.

2020 Financial Results

In 2020, Daseke generated $1.45 billion of revenue. Excluding Aveda, we delivered $1.40 billion of revenue, which was down 8% from the prior year as the pandemic weighed on demand across the industrial economy. Despite the top-line pressure introduced by the global pandemic, Daseke delivered marked improvement in operating income, which was a first-order priority heading into the year. We delivered operating income, adjusted operating income and adjusted operating income excluding Aveda, of $35.4 million, $61.4 million and $89.4 million, respectively, each of which represented a significant improvement compared to the operating loss of $312.1 million, adjusted operating income of $55.0 million and adjusted operating income excluding Aveda of $55.7 million in the prior year. The transformative actions taken to shore up our business and maintain resilience in performance through all environments, as well as pockets of strength in select industrial verticals such as renewable energy and high-security cargo, allowed us to overcome the impacts of the softer freight market environment.

It's clear that the applied focus on operating performance has helped drop results to the bottom line. Better optimization of our assets and footprint, combined with targeted cost reductions also allowed us to deliver $137.3 million in cash from operations and $168.9 million in Free Cash Flow. These totals show healthy improvement compared to $114.4 million in cash from operations and $129.9 million in Free Cash Flow generated in the prior year, further demonstrating the highly cash flow generative nature of the Daseke business model, even through periods of market stress. Improved operating cash flow performance, combined with the strategic divestiture of the Aveda business, led improvements that helped further strengthen our balance sheet, reducing our net debt by nearly $105 million in 2020, and lowering the Company's leverage ratio, as defined by our term loan credit agreement, to 2.6x at year end, down from 3.25x in the prior year.

Our Operating Ratio, the key metric we use to evaluate how efficiently we are running our operations finished the year at 97.6%, or 94.3% on an adjusted basis. Ex-Aveda, our Operating Ratio and Adjusted Operating Ratio was 95.6% and 93.6%, respectively. While this was a marked improvement relative to the prior year and our best full-year performance as a public company, we still have a lot of work left to do.

During the year we stated the explicit long-term goal of achieving a sub-90% Operating Ratio, and while we will need to continue to execute and drive further opportunities for efficiency and optimization, we are confident we have the team and the strategy in place to achieve that over the coming years.

The operational work that has driven the improvements in financial performance are driving strategic benefits across the enterprise as well. The work concluded over the last year and a half was a significant driving force to Daseke's successful balance sheet improvements. As we write to you in early 2021, we have successfully completed our balance sheet restructuring. Our recent term loan refinancing resulted in a reduction in overall debt, a lower cost of capital, and a maturity extension, all while increasing financial flexibility through a covenant-lite structure. Our credit rating agencies have responded in kind by upgrading our credit ratings in recognition of our improved financial performance and improving balance sheet health.

2021 Priorities

Daseke has spent the last six quarters instilling discipline and a continuous improvement mindset, in order to effectuate the holistic improvement and profitability enhancement across our business. In 2021, maintaining and building upon the momentum generated over the last year and a half will be crucial for our continued success. We have outlined a set of key priorities that will help us as we execute against this overarching priority.

First, it's important to note that we are still facing the impacts of a global health crisis, and while the situation has improved in recent months, we will absolutely continue to prioritize the safety of our employees, contractors, and customers just like we have through 2020.

Second, we will make targeted investments in our workflows and our technology. Better leveraging of our current capabilities, combined with better cooperation and data-driven decision making, will help drive meaningful improvements in both our top and bottom lines.

Third, we will continue to take actions to strengthen our balance sheet. Improving our credit metrics and moderating our leverage profile will be of key importance, as it will help further establish resilience to our financial results irrespective of market cyclicality. A defensible balance sheet will also ensure that we can be opportunistic regarding our markets and maintain robust access to capital where necessary.

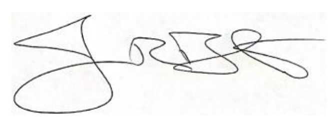
And finally, we will look to pursue selective growth opportunities, leveraging the scale embedded within our platform. Over the last year Daseke has demonstrated that we are adept at efficiently integrating operating units in order to capture synergistic value, while capitalizing on the substantial operating leverage that exists in our organization. Going forward, we will look for immediately accretive opportunities that we can "bolt on" to our platform. Once integrated, these opportunities will provide Daseke with increased depth in key industry verticals and geographies, allowing us to get closer to our key customers, which will ultimately enable us to use our capabilities, scale and cost structure as a competitive advantage to expand and retain market share.

2020 was a tremendously challenging year but one that not only demonstrated Daseke's mettle, but the unique value proposition we bring to the industrial economy, and we're only just getting started. We want to thank our employees, contractors, customers, and stockholders for their unwavering support during this pivotal time for our Company.

Sincerely,

Brian Bonner
Chairman

Jonathan Shepko
Interim Chief Executive Officer



Jason Bates
Chief Financial Officer

Board of Directors

Brian Bonner, Chairman

Daniel J. Hennessy, Vice Chairman

Don R. Daseke, Chairman Emeritus

Catharine D. Ellingsen, Independent Director

Grant Garber, Independent Director

Charles “Chuck” Serianni, Independent Director

Jonathan Shepko, Director and Interim CEO

Ena Williams, Independent Director

Management

Jonathan Shepko, Interim CEO and Director

Jason Bates, EVP, Chief Financial Officer, and Treasurer

Rick Williams, EVP and Chief Operating Officer

Soumit Roy, EVP, Chief Legal Officer, General Counsel, and Corporate Secretary

For biographies of our directors and executive officers, which include information regarding their principal occupation, see “Corporate Governance-The Board of Directors and Executive Officers” section of the proxy statement for the Company’s 2021 Annual Meeting of Stockholders.

Forward-Looking Statements

This Annual Report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations, plans, objectives, future performance and business of Daseke, Inc. ("Daseke" or the "Company"). Statements preceded by, followed by or that include words such as "may," "will," "expect," "anticipate," "continue," "estimate," "project," "believe," "plan," "should," "could," "would," "goals" or similar expressions are intended to identify some of the forward-looking statements. All statements, other than statements of historical fact, are forward-looking statements. Forward-looking statements may include statements about the Company's goals; the Company's business strategy; the Company's financial strategy, liquidity and capital required for its business strategy and plans; the Company's competition and government regulations; general economic conditions; and the Company's future operating results.

Forward-looking statements are based on the Company's management's current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events. As such, forward-looking statements involve risks and uncertainties, most of which are difficult to predict and many of which are beyond the Company's control. These risks include, but are not limited to, general economic and business risks, such as downturns in customers' business cycles and disruptions in capital and credit markets, the impact to the Company's business and operations resulting from the COVID-19 pandemic, the Company's ability to execute and realize all of the expected benefits of its integration, business improvement and comprehensive restructuring plans, the Company's ability to complete planned or future divestitures successfully, the Company's ability to adequately address downward pricing and other competitive pressures, driver shortages and increases in driver compensation or owner-operator contracted rates, loss of senior management or key operating personnel, the Company's ability to realize intended benefits from its recent or future acquisitions, seasonality and the impact of weather and other catastrophic events, fluctuations in the price or availability of diesel fuel, increased prices for, or decreases in the availability of, new revenue equipment and decreases in the value of used revenue equipment, the Company's ability to generate sufficient cash to service all of the Company's indebtedness, restrictions in its existing and future debt agreements, increases in interest rates, changes in existing laws or regulations, including environmental and worker health safety laws and regulations and those relating to tax rates or taxes in general, the impact of governmental regulations and other governmental actions related to the Company and its operations, litigation and governmental proceedings, and insurance and claims expenses. You should not place undue reliance on these forward-looking statements. For additional information regarding known material factors that could cause our actual results to differ from those expressed in forward-looking statements, please see Daseke's filings with the Securities and Exchange Commission, available at www.sec.gov, including Daseke's most recent annual report on Form 10-K, particularly the section titled "Risk Factors".

While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that the Company anticipates. Accordingly, forward-looking statements should not be relied upon as representing the Company's views as of any subsequent date, and the Company does not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws. Accordingly, readers are cautioned not to place undue reliance on the forward-looking statements.

Use of Non-GAAP Measures

This Annual Report includes non-GAAP financial measures for the Company, including Revenue excluding Aveda, Adjusted Operating Income excluding Aveda, Adjusted Operating Ratio excluding Aveda, Free Cash Flow and Net Debt. For definitions of these terms, see Exhibit 99.1 of Form 8-K, as filed with the SEC on January 29, 2021.

Please note that the non-GAAP measures described below are not a substitute for, or more meaningful than, net income (loss), cash flows from operating activities, operating income or any other measure prescribed by GAAP, and there are limitations to using non-GAAP measures. Certain items excluded from these non-GAAP measures are significant components in understanding and assessing a company's financial performance, such as a company's cost of capital, tax structure and the historic costs of depreciable assets. Also, other companies in Daseke's industry may define these non-GAAP measures differently than Daseke does, and as a result, it may be difficult to use these non-GAAP measures to compare the performance of those companies to Daseke's performance. Because of these limitations, these non-GAAP measures should not be considered a measure of the income generated by Daseke's business or discretionary cash available to it to invest in the growth of its business. Daseke's management compensates for these limitations by relying primarily on Daseke's GAAP results and using these non-GAAP measures supplementally.

You can find the reconciliation of these non-GAAP measures to the nearest comparable GAAP measures in the Reconciliation of Non-GAAP Measures tables below.

Adjusted Operating Income (Loss) and Adjusted Operating Ratio

The Company uses Adjusted Operating Income (Loss) ex-Aveda and Adjusted Operating Ratio ex-Aveda as a supplement to its GAAP results in evaluating certain aspects of its business, as described below. The Company defines Adjusted Operating Income (Loss) as (a) total revenue less (b) Adjusted Operating Expenses. The Company defines Adjusted Operating Expenses as (a) total operating expenses (i) less material items that management believes do not reflect our core operating performance. The Company defines Adjusted Operating Ratio as (a) Adjusted Operating Expenses, as a percentage of (b) total revenue. The Company defines previously defined terms appended with ex-Aveda as their previously defined term excluding the impact of the Aveda business, which we disposed of in 2020.

The Company's board of directors and executive management team view these non-GAAP measures, and their key drivers of revenue quality, growth, expense control and operating efficiency, as very important measures of the Company's performance. The Company believes excluding these items enhances the comparability of its performance between periods. The Company believes its presentation of these non-GAAP measures are useful because they provide investors and industry analysts the same information that it uses internally for purposes of assessing its core operating profitability.1

Free Cash Flow

Daseke defines Free Cash Flow as net cash provided by operating activities less purchases of property and equipment, plus proceeds from sale of property and equipment, as such amounts are shown on the face of the Statements of Cash Flows.

The Company's board of directors and executive management team use Free Cash Flow to assess the Company's liquidity and ability to repay maturing debt, fund operations and make additional investments. The Company believes Free Cash Flow provides useful information to investors because it is an important indicator of the Company's liquidity, including its ability to reduce net debt, make strategic investments, pay dividends to common shareholders and repurchase stock.

Net Debt

Daseke defines net debt as total debt less cash and cash equivalents. The Company's board of directors and executive management team use net debt to help assess the Company's liquidity and evaluate and plan for future liquidity needs. The Company believes that the presentation of net debt is useful to investors because it provides additional information regarding the Company's overall liquidity, financial flexibility, capital structure and leverage.

Management's View of Core Operating Performance

In the non-GAAP measures discussed above, management refers to certain material items that management believes do not reflect the Company's core operating performance, which management believes represent its performance in the ordinary, ongoing and customary course of its operations. Management views the Company's core operating performance as its operating results excluding the impact of items including, but not limited to, stock-based compensation, impairments, amortization of intangible assets, restructuring, business transformation costs, and severance. Management believes excluding these items enables investors to evaluate more clearly and consistently the Company's core operational performance in the same manner that management evaluates its core operational performance.

Daseke, Inc. and Subsidiaries

Reconciliation of Operating Ratio to Adjusted Operating Ratio ex-Aveda

Reconciliation of Operating Income (Loss) to Operating Income (Loss) ex-Aveda

Reconciliation of Revenue to Revenue ex-Aveda

(Unaudited)

(In millions)

(Dollars in millions)	Year Ended December 31, 2020	2019
	Consolidated	
Revenue	$ 1,454.1	$ 1,737.0
Less Aveda Revenue	(51.7)	(206.3)
Revenue ex-Aveda	$ 1,402.4	$ 1,530.7
Operating expenses	1,418.7	2,049.1
Less Aveda Operating Expenses	(77.7)	(252.2)
Operating expenses ex-Aveda	1,341.0	1,796.9
Operating income (loss)	$ 35.4	$ (312.1)
Operating income (loss) ex-Aveda	$ 61.4	$ (266.2)
Operating ratio	97.6%	118.0%
Operating ratio (ex-Aveda)	95.6%	117.4%
Stock based compensation	6.0	3.8
Impairment	15.4	312.8
Impaired lease termination	(2.5)	—
Amortization of intangible assets	7.2	14.3
Net impact of step-up in basis of acquired assets	—	18.1
Other (1)	22.0	18.1
Adjusted operating expenses	1,370.6	1,682.0
Less Aveda Operating Expense Adjustments	(20.1)	(45.2)
Adjusted operating expenses ex-Aveda	1,313.0	1,475.0
Adjusted operating income	$ 83.5	$ 55.0
Adjusted operating income ex-Aveda	$ 89.4	$ 55.7
Adjusted operating ratio	94.3%	96.8%
Adjusted operating ratio ex-Aveda	93.6%	96.4%

(1) Other includes business transformation costs, restructuring and severance.