Covenant Logistics Group 2nd Quarter 2021 Conference Call

Mr. Hogan – Welcome to the Covenant Logistics Group second quarter 2021 conference call.

As a reminder:

This conference call will contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. Please review our disclosures in filings with the Securities Exchange Commission, including, without limitation, the Risk factors section in our most recent Form 10-K and our current year Form 10-Qs. We undertake no obligation to publicly update or revise any forward-looking statements to reflect subsequent events or circumstances.

A copy of the prepared comments and additional financial information is available on our new website at www.covenantlogistics.com\investors. I'm joined this morning by Chairman & CEO, David Parker, SEVP & COO Paul Bunn, and Chief Accounting Officer, Tripp Grant.

We'll start with an adjusted EPS perspective; we've reported our best quarter in our history, and the team was able to improve on our record first quarter results by 71% to $.96 per share and significantly versus the difficult second quarter of 2020. As we discussed in the first quarter, the multi-year transformation into a full service logistics provider that we began in 2015 is really starting to gain traction.

In summary, the key highlights of the quarter were:

- Operating freight revenue grew 29% to $232 million compared to the 2020 quarter,
- Our asset based truckload group revenue grew 9% versus the second quarter of 2020 with 369 less trucks,
- Our less asset intensive managed freight and warehouse segments combined grew 89% compared to the second quarter of 2020,
- On the safety side, despite rising casualty insurance premiums, we produced another solid quarter with our DOT accident rate per mile being 7% below the year ago period and our total cost down approximately $.03 per mile,
- After a strong first quarter, our TEL leasing company investment produced another good quarter contributing an additional $.12 per share versus the year ago period,
- We were able to continue to capitalize on strong cash flows by reducing net indebtedness by $35.2 million since the first quarter of this year.

Next, providing a little more color on the items affecting the business units:

- The Expedited division continued its strong performance in the second quarter. The freight market continues to be strong and offers rate and lane improvement opportunities, evidenced by a 43% improvement in revenue per truck per week. Please recall that last year we still had our solo division and the closure of that unit contributed to the 342 truck reduction in this unit. The resultant mix change is producing some big swings in comparisons but nevertheless and outstanding quarter with an 86 OR. Versus a very weak freight market last year during the second quarter, revenue per mile for Expedited increased 10%, despite the length of haul increasing by 31%, and miles per truck increased by 31%. The driver market continues to be a challenge, with us instituting a second large driver pay increase in late June of this year. Our overall team count has remained flat versus the first quarter of 2021. For the future we are working diligently to solidify long term capacity agreements with key Expedited customers which to date we are very pleased with the results.

- The Dedicated division made progress in the second quarter. We discussed at length during the first quarter call our improvement plan and we are slightly ahead of that schedule. There was huge growth in this division throughout 2020 as we merged three separate Dedicated fleets, under common leadership and operating system. The leadership structure has been resolved, and the system merger was complete in May. Revenue per truck is beginning to move nicely (10% sequentially versus the first quarter and 17% versus second quarter 2020), which is giving us great confidence toward reaching our mid to high 90's OR target for the third quarter. The third quarter includes the results of a lot of execution changes with key customers and we're extremely appreciative of the hard work of our Dedicated and equipment management teams as we work through this quarter. The new business pipeline growth with existing targeted accounts is very encouraging which further feeds our optimism regarding our improvement plan.

- Our Managed Freight division doubled its revenue base versus year ago primarily driven increases in some of the larger TMS customers and by significant growth in brokerage freight. This unit works very closely with our Expedited and Dedicated divisions providing both committed and overflow and project capacity. The robust freight market plus continuing to capitalize on the full enterprise sales and service capabilities excite us as we continue to drive this strategic growth unit. We are cautious about the long term sustainability of the top line revenue and operating ratio in this unit as gross margins and volumes can be volatile. The division leadership team is working diligently with current customers to satisfy their current needs and our long term stability. Nevertheless, even at lower margins the return on capital is high for this non-asset based business.

- The Warehousing division continues its solid, profitable growth. We had one large startup last year in the second half that is affecting the first half results with revenue up 33% versus the second quarter of last year. As a reminder, around the current revenue size, the growth in this unit can be choppy as we expect revenue growth versus year ago to level out in the second half unless we have additional startups in the second half. We do have a small startup planned early this fall. Overall, we are very pleased with the direction of this unit and may invest more in this unit in both sales and operations to facilitate faster growth in this high return on asset service.

Regarding our outlook for the rest of this year:

Although we are not providing specific earnings guidance, we expect to have a very strong second half of 2021 which should mean meaningful improvement over a good second half of 2020 and likely continued generation of discretionary cash flow that can be allocated across a broad range of growth, debt paydown, and stockholder return alternatives. We intend to remain acutely focused on three main areas; upgrade and improvement of our Dedicated division; stabilization and diversification within our Managed Freight division; and sustainability and long term capacity plans within our Expedited business unit. We believe all have good accountable plans with each leadership team focused on results. Achievement of each of these will greatly benefit our goal of driving a stronger, more profitable, and more predictable business with the opportunity of significant and sustained value creation.

Thank you for your time and we will now open the call for any questions.