Covenant Logistics Group 1st Quarter 2021 Conference Call

Mr. Hogan – Welcome to the Covenant Logistics Group first 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 website at www.covenanttransport.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 the excitement around record first quarter results. From an adjusted EPS perspective, we've reported the best first quarter in our history, and the team was able to exceed our previous best first quarter result by 87% or $.26 per share (2015). The resolve and hard work of our team over the last year, transforming our company in to a multi service logistics company is bearing fruit and we're honored to serve and lead an exceptional team.

In summary, the key highlights of the quarter were:

- Operating revenue grew 6% to $201 million compared to the 2020 quarter, while our tractor fleet was 467 trucks smaller than the same period,
- 35% of consolidated revenue was in our more volatile Expedited division versus 41% in the first quarter of 2020,
- Our Managed Freight and Warehousing segments combined grew 56% compared to the first quarter of 2020,
- Despite rising casualty insurance premium cost, through reduced incidents (third best first quarter in history) and minimal prior period claims cost, we were able to reduce our insurance costs significantly compared to recent quarters,
- Our TEL leasing company investment has fully recovered from the soft equipment market and a large customer issue to increase earnings per share by approximately $.16,
- We received an indemnification call from Triumph Bancorp ("TBK") regarding the dispute resolution associated with the sale of our TFS segment in 2020 that resulted in us funding $36 million during the quarter, all of which was reserved during the fourth quarter of 2020. Additionally, TBK was able to collect some funds related to our fourth quarter 2020 accrual that allowed us the opportunity to reverse $3.4 million of our accrual.
- We were able to purchase approximately 460,000 shares of CVLG stock at $8 million.

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

- The **Expedited** division performed quite well for a first quarter. The freight market continues to be strong and offers rate and lane improvement opportunities, evidenced by a 35% 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 425 truck reduction in this unit. On a reported basis, revenue per mile for Expedited appeared flat. However, the mix changed materially with eliminating the solo fleet, thereby increasing the length of haul by 39% and increasing the miles per truck by 34%. The driver market continues to be a challenge, but the large pay increase put in place in early January contributed to a 7% increase in our team count and a reduction of 9% unseated trucks since the fourth quarter of 2020.
- The **Dedicated** division continues to be our segment of earnings opportunity. There was huge transition 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 will be complete in May. There was some nice improvement in revenue per truck and earnings in March, which we expect to continue into the second quarter. We know which accounts need attention and the strength of the overall enterprise gives us confidence to take a long-term approach to industry segments, customer downsize transitions and contract negotiations.
- Our **Managed Freight** division experienced huge revenue growth primarily driven by increases in brokerage freight. This unit works very closely with our Expedited and Dedicated divisions providing both committed and overflow 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 operating ratio in this unit as gross margins and volumes can be volatile. Nevertheless, even at lower margins the return on capital is high for this non-asset based business. For the time being the leadership team is doing a great job delivering expected service to its customers.
- The **Warehousing** division continues its solid, profitable growth. We had one huge new startup last year and the pipeline is robust for additional startups this 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. Overall, we are very pleased with the direction of this unit.

Regarding our outlook for the rest of this year:

No question that with this start to 2021 we are excited about our earnings range for the year, although we're not providing specific guidance. We feel the transformation we've been working through over the last few years is beginning to show in a more consistent earnings model, i.e. better earnings in the first quarter and less in the fourth quarter intra years, as well as year to year. Our short-term focus will be on improving the Dedicated division, while balancing the Managed Freight divisions margin for the long term. We feel the freight market will continue to provide opportunities for price and utilization improvement to help offset the challenging driver market and other cost headwinds, primarily casualty insurance.

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