

## **Covenant Logistics Group 3rd Quarter 2021 Conference Call**

**Mr. Hogan** – Welcome to the Covenant Logistics Group third 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](http://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 a summary for the third quarter; after a strong second quarter, we once again achieved record revenue and earnings per share. We are so proud and appreciative of our teammates efforts as we continue to transform our business into a full-service logistics provider. We still have more to do, we know what the issues are, have good plans and remain focused on our strategic direction. Additionally, during this time of supply chain disruption, we remain proud to be a part of an industry that has stayed behind the wheel consistently since the pandemic began. The industry has shown great resolve, leadership, and sacrifice to keep goods moving both on the road and within the warehouse communities. I'm certain, we will continue.

**In summary, the key highlights of the quarter were:**

- Freight revenue grew 28% to \$250 million compared to the 2020 quarter,
- Our asset-based truckload group freight revenue grew 7% versus the third quarter of 2020 with 157 less trucks,
- Our less asset intensive managed freight and warehouse segments combined grew 73% compared to the third quarter of 2020,
- On the safety side, we produced another solid quarter with our DOT accident rate per mile being 13% below the year ago period, the lowest third quarter rate in 10 years, although rising insurance premiums and inflation in claims costs across our industry offsets some of the benefit,
- Our TEL leasing company investment produced another strong quarter contributing an additional \$.09 per share versus the year ago period,
- We were able to continue to capitalize on strong cash flows by reducing net indebtedness by another \$25 million since the second quarter of this year, for a total of \$39 since the year began.

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

- Our **Managed Freight** division continued its strong performance for the year. Its revenue for the quarter grew 88% versus the year ago quarter and eclipsed the \$200 million mark on a year-to-date basis in the quarter. The results for the quarter were primarily attributable to the robust freight market, growing its own customer base, handling overflow freight from Expedited and Dedicated, plus capitalizing on our heritage of providing pop up capacity for various retail customers. This unit remains a strategic growth division for Covenant for both service capabilities for customers and its high return on investment dynamics. Even though we continue to be cautious about the long-term sustainability of the top line revenue and operating ratio within this unit, the leadership team is doing a great job staying focused on

not only providing services for our customers but also diligent on adding and developing sustainable relationships with the right customers in the right industries.

- The **Expedited** division continues to produce strong results. The supply demand imbalance in the marketplace continues to lead us to customers that really need and value team supply for the long term. We are focused on partnering with shippers that are looking past today's frothy freight market and lock in capacity that keeps our teams busy and productive even during the slow times. We are very excited about where this project and strategic direction is today. We have been able to improve our operating ratio by 730 basis points to 84.8 led by a 21% increase in revenue per truck. Both pricing and utilization are up nicely. On the negative side, we've lost some capacity as our average tractors are down 156 with the driver market being as bad as it's ever been. Driver wages in this segment are up 15% on a cents per mile basis versus year ago with this being the number one issue in this division.
- The **Dedicated** division fell slightly short of our goal of a high 90's OR in the third quarter. With the transition of mostly automotive but other businesses as well in July, July was a rough month with a lot of equipment movement, shut down expenses and driver wages. The months of August and September did hit our high 90's target, however, revenue per truck improvement is beginning to accelerate being up 5% sequentially versus the second quarter and up 13% versus the third quarter of 2020. Another positive in the quarter is that our open truck situation is the lowest we've seen in several quarters with only 7% of the fleet open at quarter end. Continued progress on rates and utilization, particularly among a handful of customers, remain necessary. Nevertheless, we believe we are on track for meaningful improvement in 2022.
- Despite the rare loss of one customer early in the quarter, the **Warehousing** division continued to grow from a revenue perspective but took a step back from a profitability perspective in the quarter. We added one new customer late in the quarter with a strong pipeline for the next several months. Operating income was negatively impacted due to additional contract labor costs as it relates to the pandemic and tight labor market and additional building rent for a relocated customer facility prior to the resumption of the revenue at the location. We remain very excited and committed to this strategic growth division.

#### **Regarding our outlook for the future:**

For the balance of 2021, our focus remains to improve the profitability of our Dedicated segment and continue running Expedited and Managed Freight for the long term, i.e., "don't get caught up in the spot market". Additionally, peak will be small for us relative to our past further allowing us to remain focused on the previous initiatives. We continue to anticipate cost headwinds in driver and non-driver compensation and benefits along with equipment and parts supply. Inflation is definitely affecting transportation and logistics! On the bright side, we expect to be able to pass through cost increases to customers that value our services as we expect the supply-demand imbalance to continue for the next few quarters. All things considered, we feel we are going to close out 2021 on a strong note with earnings approximating third quarter results.

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