Proficient Auto Logistics Inc (Q2)
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Corporate Speakers
- Richard O'Dell; Proficient Auto Logistics Inc.; Chief Executive Officer
- Brad Wright; Proficient Auto Logistics Inc.; Chief Financial Officer

Participants
- Bruce Chan; Stifel; Analyst
- Ryan Merkel; William Blair; Analyst
- Tyler Brown; Raymond James; Analyst
- Alex Paris; Barrington Research; Analyst

PRESENTATION

Operator^ Good day, and thank you for standing by. Welcome to the Proficient Auto Logistics Second Quarter 2024 Earnings Conference Call. (Operator Instructions). Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Brad Wright, Chief Financial Officer. Please go ahead.

Brad Wright^ Good morning, everybody. I'm Brad Wright, Chief Financial Officer of Proficient Auto Logistics. Thank you for joining us on our second quarter 2024 earnings call.

Under SEC rules, our Form 10-Q, which we expect to file early next week, covering three and six-month periods ending June 30, 2024, include financial statements from both the predecessor accounting entity, Proficient Auto Transport, and the successor entity, Proficient Auto Logistics, Inc.

We are not required to provide, and the Form 10-Q will not contain, proforma financial data for the second quarter. However, our earnings release provides comparative summary, unaudited, combined financial information for the second quarter for the five founding companies.

Our earnings release can be found under the Investor Relations section of our website at proficientautologistics.com. Our 10-Q, when filed, can also be found under the Investor Relations section of our website.

During this call, we will be discussing certain forward-looking information. This information is based on our current expectations and is not a guarantee of future performance. I encourage you to review the cautionary statement in our earnings release describing factors that could cause actual results to differ from those expressed in our forward-looking statements.

Further information can be found in our SEC filings. During this call, we also may be referring to measures that include adjusted operating income, EBITDA, and adjusted EBITDA. Please refer to the portions of our earnings release that provide reconciliations of those profitability measures to GAAP measures such as operating earnings and earnings before income taxes or net income.

Joining me on today's call are Rick O'Dell, Proficient's Chairman and Chief Executive Officer; and Randy Beggs, our President and Chief Operating Officer. We will provide a company update as well as an overview of the company's combined results for the first quarter. After our prepared remarks, we'll open the call to questions.

During the Q&A, please limit yourself to one question, plus one follow-up. You may then get back into the queue if you have additional questions.

Now, I would like to introduce Rick O'Dell, who will provide the company update.

Richard O'Dell^ Thank you, Brad, and good morning, everyone. I'll start out with an overview of our operations during the second quarter and some trends that provide insight into our expectations for the back half of 2024. I'll follow that with some exciting news about a strategic addition to Proficient that we expect to close as early as next week.

We believe that this is exactly the type of addition described to our investors during the IPO process. It is large enough to meaningfully increase our scale. It is geographically well placed to increase our density in the western United States and brings along best in class management and operating profitability.

First, as it relates to the second quarter, as we discussed in our last earnings call, second quarter unit volumes and related revenues started off very strong in April and May with year-over-year revenue up approximately 11% for that two month period.

June however slowed considerably with unit volumes slightly negative versus the same month of 2023 down less than 1% and revenue for the month was down approximately 8% versus the prior year.

That trend has continued in July with flat unit volumes versus the same month of 2023 and total revenue of approximately 11%. There is a seasonal aspect to July as many OEMs select to close plants for the week of July the 4th and depending on the environment some even take the opportunity to shutter the plants for a two-week period. This year you can add to that the CDK Global software outage at the end of June that slows sales volumes during a typically strong holiday week.

In keeping with the trend, we're observing many of the major auto manufacturers have used their second quarter earnings reports to temper second half volume guidance in the face of a weaker than expected volumes last quarter.

References to high inventory that dealership lots declining profitability metrics and planned cost cutting measures were common theme. We're mindful of guidance from our primary customers as we assess our projections for the remainder of the year and Brad will provide some additional detail in that regard with his comments.

Our primary means of countering some current industry headwinds will come in the form of increasing market share. We noted in our previous earnings call the addition of nine net new contracts in '24 through the end of May, an additional five new contracts were acquired during June and July.

In addition there were three contracts renewed with significant expansion of allocated lanes. The precise impact on the revenue of these additions is dependent on the volume ultimately generated by the respective OEMs. But our coverage network and quality service is clearly being well received in the marketplace.

Now, a little color on our strategic acquisition. We're very excited to announce this morning the anticipated closing of our acquisition of Auto Transport Group. We've been extremely impressed with the team at ATG and the high quality business they've built over the last 25 years, and we're enthusiastic about the prospect of adding them to the existing foundation of proficient auto logistics.

Just to give you an idea of the scale they'll add to our platform, ATG controls a fleet of over 100 vehicles with approximately 80% of those being company owned. The equipment has an average age of about 5.5 years which is consistent with the existing fleet at Proficient.

Employee base is approximately 80 personnel with roughly 75% being drivers. ATG has delivered approximately 200,000 autos annually in recent years and is expected to add about 8% to our revenue growth over the next year.

They operate at margins consistent with the best of our founding companies and are expected to be immediately accreted to earnings per share. We'll be hearing more about this addition next quarter following the official closing of the transaction.

I'll now turn it back over to Brad to cover some key financial highlights.

Brad Wright^ Thank you, Rick. I'll start by reiterating a few of the highlights that we called out in the earnings press release earlier this morning. All financial references are for the combined founding companies. Operating revenue of $106.6 million in the quarter was an increase of 5.8%. Adjusted operating ratio improved from 92.7% in the second quarter of 2023 to 91.8% in 2024. This was also an improvement from 93.2% in the first quarter of this year.

Adjusted operating income was $8.7 million in the most recent quarter, up 19.4% from $7.3 million in the second quarter last year. The adjusted profitability measures add back the impact of stock compensation expense resulting from RSU Grants made concurrent with our IPO, which are expensed over the vesting period, in most cases three years.

The other expense added back in these measures is amortization of intangible assets resulting from the acquisitions of the founding companies. Amortizable intangibles consist primarily of trade names and customer relationships which you can expect to add approximately $2 million per quarter to operating expenses. These are both non-cash expense items that are removed from our operating metrics to provide a clearer picture of the progress that we're achieving in our integration and synergy initiatives.

Following up to Rick's comments about the environment, we came into the current year modeling approximately 8% revenue growth for the full year, with about equal parts coming from volume and price. The recent trends experienced in June and July have prompted us to reassess the outlook for the second half of 2024. We're now expecting sequential quarter revenue growth in the mid-single digits for the third quarter, with adjusted operating ratio that is consistent with last quarter.

The fourth quarter typically exhibits seasonal strength. That, along with a full quarter of including ATG in our results, we are expecting sequential quarter revenue growth of low double digits in the fourth quarter. The adjusted operating ratio is expected to improve by 50 to 100 basis points sequentially in the fourth quarter.

As relates to the balance sheet, the company had approximately $36 million of cash in equivalents on June 30, 2024. Aggregate debt balances a quarter end were approximately $55 million for net debt of $19 million.

Our fleet plan calls for approximately $20 million of growth CapEx during the remainder of 2024, the vast majority of which will be financed at market rates through existing lender relationships.

Finally, the ATG acquisition will be done at a multiple and a mix of stock and cash, roughly in line with the acquisitions of the five founding companies. Our approach to financing equipment CapEx and a portion of the ATG purchase will leave plenty of liquidity available for other opportunities, whether operational or strategic, and leverage will remain below 2 times EBITDA.

Total common shares outstanding are currently $26.1 million. As disclosed in a Form 8-K filed earlier this morning, we expect to issue approximately 1 million shares in connection with the acquisition of ATG.

Operator, we will now take questions.

QUESTIONS AND ANSWERS

Operator^ Thank you. (Operator Instructions). Our first question comes from the line of Bruce Chan with Stifel. Your line is now open.

Bruce Chan^ Thank you, operator. And good morning, guys. Some exciting results here. Certainly appreciate the time. Maybe just to start, I wanted to follow up on your comments about the monthly revenue trends. Certainly understand some of the puts and takes here with regard to the lower, auto volumes and OEM activates. But it looks like maybe there was some associated and more pronounced yield impact there too.

Can you maybe just, walk us through what those headwinds were to the yield that kind of came on top of those volume pressures?

Richard O'Dell^ So it's kind of a combination with the volume. In our industry, spot moves tend to be when people have backlogs and they come at premium rates. So when you have a softer volume environment, we have less of those kind of spot moves that are at a premium. So that was really the impact.

We have our numbers on, if you exclude some of our dedicated fleet, the revenue per unit was actually up about 3% on our contractual business, so.

Bruce Chan^ Okay. That's super helpful. And then just, turning to the operating ratio, certainly a much faster OR improvement than we'd been modeling. And just maybe you want to dive into that a little bit.

What are you seeing there as far as levers? I know you talked about some of the synergies. But, can you maybe just give us some color on what opportunities you have on the efficiency side, especially as you start to think about a little bit of the top line pressure for the next, few months here?

Richard O'Dell^ Yes, we still have a high degree of confidence in our key synergy and operating improvement initiatives. To be honest with you, those really, weren't in place during this quarter. We have a little bit of benefit from purchasing synergies on fuel, but we've only had that for about one month in the quarter. It was about $300,000.

Then it's really more from implementing best practices and seeing a good cooperation between our operating companies, in terms of sharing freight and minimizing backhaul opportunities, which were the ones we anticipated being able to move most quickly on.

Bruce Chan^ Okay. That's great. And then maybe, sorry.

Richard O'Dell^ I was just going to say the major operating improvements are still ahead of us.

Bruce Chan^ Got it. And then just one more quick one, and I'll hop back in queue. But as far as that IT process is concerned, are we now fully integrated at this point with all the OPCOs?

Richard O'Dell^ So we have four of the five implemented, and we've actually intentionally delayed the fifth of the companies to kind of simplify the integration with the implementation of the new accounting system. But we're very much on track.

Bruce Chan^ Okay. Perfect, thank you.

Richard O'Dell^ With all the implementations.

Brad Wright^ Bruce, the accounting system and the fifth company on the TMS are scheduled to happen on October 1st.

Bruce Chan^ Okay. Great. Appreciate that, color.

Operator^ Thank you. Our next question comes from the line of Ryan Merkel with William Blair. Your line is now open.

Ryan Merkel^ Hey, good morning. And thanks for taking the question. My first question is just on the revenue guide for 3Q. I think you said up mid-single digits sequentially. Can you, give us the assumptions you're making about what you'll see in August and September? Did you sort of extrapolate what you saw in July, or are you thinking there might be a bit of improvement?

Brad Wright^ I think there's going to be improvement in the last two months of the quarter, Ryan, because as Rick mentioned in his comments, you had some plant closures in July. We got off to a slow start with some of the issues around the CDK outage.

I just think there were a couple of unique factors that probably exacerbated lower volumes in July and so we are expecting a little bit of an uptick which is how we get to still an up quarter over quarter. But the bigger increases are to come in Q4 I believe.

Ryan Merkel^ And then to follow up on that, the Q4 increase sequentially you mentioned seasonality is that the only assumption or is there any assumptions on better volumes or better pricing?

Brad Wright^ It's a combination of seasonality and I mentioned that we also expect that we'll have a full quarter of ATG revenue in there and that's part of the increase as well.

Ryan Merkel^ Got it, good point okay. And then you mentioned that CDK issue did can you quantify that. Was that an impact in the quarter and is it better now just a little color on that would be helpful?

Brad Wright^ I think, short answer is no. We can't really quantify that, but in kind of reading between the lines when you listen to the OEMs earnings releases there were multiple references to kind of excess inventory or high inventory anyway on dealership lots and I think that's part of the -- that was part of the issue, and that just kind of backs everything up.

Ryan Merkel^ Yes makes sense. All right thanks for the time. Pass it on.

Operator^ Thank you. (Operator Instructions). Our next question comes from the line of Tyler Brown with Raymond James. Your line is now open.

Tyler Brown^ Hey good morning guys. Can you hear me?

Richard O'Dell^ Yes.

Tyler Brown^ Oh sorry. Hey just, Brad, I just want to before we get into the Q&A just want to level set. So just given the timing of the IPO you guys are only providing kind of high-level metrics here in Q2 because the Q's details will be really on the predecessor is that right?

But by the time we report Q3 we should be getting a full P&L cash flow balance sheet operating metrics with the release is that correct?

Brad Wright^ That's right Tyler. What you're going to see in the Q we filed probably Tuesday next week is you're going to get the combined quarter and balance sheet. You'll have a full GAAP balance sheet.

What you won't have is a full quarter of operating results because it will be a combination of the predecessor company up until the IPO and then everybody from the IPO to the end of the quarter.

So it's a little bit of a confusing presentation frankly.

Tyler Brown^ Right but by Q3 things should kind of level out for everybody out there.

Brad Wright^ Correct. That's right.

Tyler Brown^ Very helpful. Okay. And then Rick, so can you talk a little bit more about the ATG transaction? How did that deal come together? Had you guys been working on that one for a while or was it did it actually spawn given all of the interest around the IPO?

Richard O'Dell^ Yes I mean they were kind of one of the funnel opportunities and then they were actually marketing the company. So caused us to want to move quickly because it was such a great fit.

Tyler Brown^ Okay that's so…

Richard O'Dell^ We have -- we obviously have a pipeline of opportunities, but again this one was such a good fit and such a great management team operating very well. So, as you know, one of my key priorities when you make an acquisition is first priority is don't mess it up. They are operating well. Kind of leave them alone.

So it's not going to require a lot for us to absorb them into our network. We'll continue to advance our key priorities and it just enhances our coverage area and the quality of our group.

Tyler Brown^ Okay. Okay, perfect. Yes, and I would assume this one will also move on to the TMS?

Richard O'Dell^ Yes, they will.

Tyler Brown^ Okay. And then Randy, just…

Richard O'Dell^ They have a very robust technology platform, but we'd like to have them on the same platform that we're using for visibility, so -- and that they are clearly capable of managing the implementation without a lot on our side too, so that's a plus.

Tyler Brown^ Okay. And then maybe kind of to this whole point about visibility in the TMS and just Randy, any update on backhaul? Just maybe where were you guys in the quarter from an empty mile perspective? Just how quickly do you think you can make some improvements on filling up some of those backhauls?

Richard O'Dell^ Yes, so just the last four weeks we were able to do 352 backhauls that reduced empty miles. I don't have the miles in front of me to give you the exact miles on it, but it was 352 backhauls that aided in creating density and reducing empty miles and enhancing obviously the revenue on those trucks.

Brad Wright^ We have the targeted lanes, but quite frankly, we're just doing -- we're managing it manually right now. We're still working on putting our framework around it, so we can better tie in sales incentives and achieve some of our objectives and be dynamic. Whereas if we win new business that creates new empty lanes, then we'll be looking to fill those as opposed to kind of a more static targeted target that we have now that we're doing manually.

Tyler Brown^ Okay. Okay. So, more on to come there.

Brad Wright^ Correct. Absolutely.

Tyler Brown^ Okay. Just my last one here. I'm kind of curious what the OEM's response has been to the combination. I mean, you guys mentioned some contract wins, but has the combination led to actual business wins or losses or just what the OEM response has been? Thanks.

Richard O'Dell^ So, the overall OEM response has been very positive. We actually have several of the OEMs that are approaching us to discuss opportunities as opposed to us even approaching them. So, I would say yes, it has led to some of the opportunities or at least enhanced our chances to win some of those opportunities that we maybe would not have had the same opportunity prior to the five companies coming together.

Tyler Brown^ Okay, all right. Thanks guys. I appreciate it.

Richard O'Dell^ Thanks Tyler.

Operator^ Thank you. Our next question comes from the line of Alex Paris with Barrington Research. Your line is now open.

Alex Paris^ Hi guys. Thanks for letting me sneak one in here at the end. Most of the relevant questions have been asked and answered. I just wanted to get maybe a point of clarification and talk a little bit about the dedicated fleet business. Since obviously that is more impacted in slower volume sort of periods, can you maybe just give us an overview of what the dedicated fleet business is and just orders of magnitude. How big it was on a pro forma basis in the most recently completed year?

Brad Wright^ You can talk to what it is? I can do the numbers.

Richard O'Dell^ Yes, so what it is, is we have a contract for a specific number of trucks in the dedicated fleet that guarantees that that number of trucks will be revenue producing during the terms of that contract, regardless of the volumes or the impact on the economics.

It ebbs up and down as the OEM's volumes increase. In that they will ask us to add additional trucks as the volumes and the ground counts gain. And then those additional trucks will ebb back down when volumes and ground counts decrease.

So for July, with ground counts decreasing, that overflow number of trucks goes down to the contractual level. And then as volumes come back up and the ground counts increase and pressures begin, then they will ask us to add more trucks into that fleet. So it ebbs up and down based on volume and pressures created by ground counts.

Brad Wright^ To your point on the, or your question on the numbers, Alex, I mean, in 2023, in the second quarter, the dedicated fleet business was about 16.5% of total revenue. In 2024, it's only 7% of total revenue, and that was pretty consistent with the first quarter of the year as well. So even while we've had a pretty sizable, almost 6% increase in total revenue in Q2, the dedicated fleet business is literally down by half.

Alex Paris^ That's very helpful. Thank you for that additional color. And then just maybe another similar sort of summary question, and this will be my final question. Since the acquisition closed on May 13th, you've done a number of things on the integration of the five founding companies. Software, you've done the fuel contract. Can you just kind of give us a soup to nuts sort of overview on what you've done on integration of the five founding companies, specifically since, you know, in terms of what systems have been -- where we are in that process, essentially. Thank you.

Richard O'Dell^ Sure. I'll give you a high level, because I could talk an hour about it. But first of all, system integration for the five companies are now on the TMS. Fifth one is scheduled to go live October 1st.

We could have done that earlier, but we are turning on October 1st also the finance system, so that all five companies will be on the finance system. It made sense to hold the last operating system rather than have to do the integration with their old finance software and then three and a half weeks later flip it over to the new software. So we made the decision just to hold the TMS transition, that three and a half weeks to ease the finance system transition.

We made the decision to hold their TMS transition at three and a half weeks to ease the finance system transition. We have fully integrated the brokerage group and tasked them on not only creating business, but also focusing on backhaul. The two New Jersey companies are operating as several of the departments we've merged together already.

On the West Coast, we've actually consolidated a couple of the locations down to one. We've also done some additional software integration with the five companies, 10th Street, Supervision, just to name a couple of them. So multiple mergers of software. We're beginning to merge some of the locations, and we've begun to consolidate some of the departments within certain companies and certain locations.

Brad Wright^ Collaboration has been very good and is producing some results. So, we're happy to see it.

Alex Paris^ Absolutely. It sounds like you've got a lot of work under your belt already. And then, from a cost synergies perspective, we have the fuel contract renegotiated. But as you said, most of this stuff is going to come over the next year or so, year to 18 months, I think you said in the press release.

Richard O'Dell^ Correct.

Alex Paris^ Thanks, guys.

Richard O'Dell^ (Multiple Speakers) to kind of gather the data on parts and maintenance providers, etcetera, and get the coordination in place as opposed to fuel process was kind of the first one we'd identified. And again, we're progressing that, but it's not fully implemented yet, so we'll see that in future results as well.

Alex Paris^ Great. Well, thank you very much, guys.

Richard O'Dell^ Thank you.

Operator^ Thank you. Our next question is a follow-up from Bruce Chan with Stifel. Your line is now open.

Bruce Chan^ Great. Thanks for the double dip here. Just a couple of follow-ups. I wanted to first pick up on Ryan's question about the assumptions behind the guide. We've been hearing a little bit more about some upcoming ILA negotiations and the potential impact there, especially on the East Coast. Is there anything baked into the guidance on that front? And maybe you could just speak to any conversations you've had about positioning with your customers ahead of a potential labor disruption and what that could mean for your operations, whether that's positive or negative.

Richard O'Dell^ Bruce, I wouldn't say there was anything specific to that, that goes into the assumptions, but I mean, anything in conversation?

Brad Wright^ No.

Richard O'Dell^ No? I mean, if there were a major labor disruption, that would be unfavorable for us.

Bruce Chan^ Okay. But you wouldn't see any associated benefit to pricing, for example, as customers need to divert maybe to different geographies?

Brad Wright^ Yes. There could be an opportunity there for the creation of overflow with the necessity for them to divert to different locations.

Richard O'Dell^ Yes, and pay at spot rates.

Brad Wright^ Pay spot rates on it, yes.

Bruce Chan^ Got it. Okay, that's really helpful. And then just the last follow-up here. Rick, I wanted to clarify some of your comments around the fuel savings. The plan that you're talking about now, that's the kind of original $3 million in annualized savings that you talked about last quarter, and that's on the company fleet. Does that include any opportunity there to roll out that fuel program to the sub-hauler fleet? And if so, you know, what could the timeline or the impact look like there?

Richard O'Dell^ Yes, we're exploring that, but we don't -- that would require some incremental technology and process implementations for us to do that, but the savings are potentially material, it would probably go up by at least 50%.

Bruce Chan^ Okay, got it. So that's completely incremental to the current program that you've been talking about?

Richard O'Dell^ It would be.

Bruce Chan^ Great. Okay, super helpful. Thank you for the follow-up.

Richard O'Dell^ Okay.

Operator^ Thank you. This concludes the question-and-answer session. Thank you for your participation. This does conclude today's conference call. You may now disconnect.

Richard O'Dell^ I have one more comment if you don't mind.

Operator^ Sure.

Richard O'Dell^ So just in terms of commenting on the accretion from the ATG acquisition, I guess the way to look at it, because we really talk about it on an annualized basis is, you know, the midpoint of the consensus estimates for next year are $1.30, and on an annualized basis we would expect the ATG acquisition to be accreted by about $0.25. So just to give you some scale of what the impact of the accretion would be.

That's all I have. Thank you very much for your interest.

Operator^ Thank you. This does conclude today's conference call. Thank you for your participation. You may now disconnect.