Proficient Auto Logistics, Inc(Q4)

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Corporate Speakers:
- Bradley Wright; Proficient Auto Logistics, Inc.; Chief Financial Officer
- Richard O'Dell; Proficient Auto Logistics, Inc.; Chairman and Chief Executive Officer
- Amy Rice; Proficient Auto Logistics, Inc.; President and Chief Operating Officer

Participants:
- Matthew Milask; Stifel; Analyst
- Tyler Brown; Raymond James; Analyst
- Ryan Merkel; William Blair; Analyst
- Alexander Paris; Barrington Research; Analyst

PRESENTATION

Operator^ Good day and thank you for standing by. Welcome to the Proficient Auto Logistics Fourth Quarter Financial Information Conference Call. (Operator Instructions) Please be advised that today's conference is recorded. I would now like to hand the conference over to your speaker today, Brad Wright, Chief Financial Officer. Please go ahead.

Bradley Wright^ Good afternoon, everyone. I'm Brad Wright, Chief Financial Officer of Proficient Auto Logistics. Thanks for joining us on Proficient's Fourth Quarter 2024 Earnings Call.

Under SEC rules, our Form 10-K covering the 3- and 12-month periods ending December 31, 2024, will include financial statements for 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-K will not contain pro forma financial data for the combined companies.

However, our earnings release provides comparative summary combined financial information for the fourth quarter and the 12 months ended December 31st for the combined companies.

Note that these results are preliminary as our financial audit for 2024 is not yet complete. Our earnings release can be found under the Investor Relations section of our website at proficientautologistics.com. Our 10-K, 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 by the forward-looking statements.

Further information can be found in our SEC filings. During this call we may also refer to measures that include adjusted operating income, adjusted operating ratio, 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. Joining me on today's call are Rick O'Dell, Proficient's Chairman and Chief Executive Officer; and Amy Rice, 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 fourth quarter. After our prepared remarks, we will open the call for questions. (Operator Instructions) Now I would like to introduce Rick O'Dell, who will provide the company update.

Richard O'Dell^ Thank you, Brad. And good afternoon, everyone. I'll start out with an overview of our operations during the fourth quarter and some trends that provide insight into our expectations as we enter 2025. The macro auto industry environment in the fourth quarter was largely a continuation of the weakness we described in the third quarter.

October unit volumes were relatively strong, up approximately 6% versus the same month in 2023. But by mid-November, the pace of volumes slowed ending down 4% for the quarter versus the fourth quarter of 2023.

As in the third quarter, the larger issue was unit prices at slack transportation capacity and relatively high dealer inventory resulted in ongoing limited spot opportunities. Persistent downward pressure on spot pricing when opportunities present and a weak demand for dedicated fleet services.

Our dedicated fleet service generated revenue of $3.7 million during the fourth quarter compared to $14.2 million in the fourth quarter of 2023.

Our revenue from spot buy opportunities during the quarter comprised 5% total revenue versus 14% a year ago. The revenue per unit from spot buys fell by 57% year-over-year and the spot premium over contract pricing was 16% in the fourth quarter compared to over 100% during the first quarter of this year -- this past year.

While we believe the current spot market to be unusually weak, we also do not expect to return to the levels to go, as post-COVID through early 2024 time period was marked by a unique industry supply chain dislocation that drove transportation premiums well above a typical market.

Seasonally adjusted annual sales rates were starting to increase over the course of the fourth quarter, with industry estimates for all three months above 16 million units, peaking at $16.8 million in December. The increased sales, particularly in the second half of the quarter, however, came through a combination of reduction in dealer inventories and new shipments into dealer lots.

Average day sales and dealer inventory ended 2024 at approximately 46 days, down from 58 days at the end of November and between 60 and 90 days throughout the third quarter. While the lower level of year-end inventory would be more promising for replenishment, demand with sustained sales momentum in January saw a decline to 15.6 million units.

In spite of these various industry headwinds, Proficient achieved approximately 4% growth in both units delivered and total revenue during the fourth quarter versus the third quarter of 2024.

We also continue to strengthen the foundations that at the stage for future growth and profitability at Proficient, improving adjusted operating ratio by 50 basis points during a period of persistent weak revenues.

There has recently been a significant amount of media attention regarding disruption in the auto hauling landscape speculation about the impact to Proficient and others in our industry. A matter of policy and adhere to confidentiality around OEM carrier relationships, Proficient will not comment about specific competitors or customers.

That being said, the weak external environment has been challenging for our industry segment. The reported closure of a top five carrier will reduce near-term capacity and likely have widespread impact in the industry.

We remain confident that with our service capabilities and the related value proposition, we'll be able to do more for our OEM customers and expect to benefit over time through market share gains.

Also we should note that in addition to some of the reported Autohaul disruption in the media, there are several OEMs in the midst of scheduled regional or national bid processes, that set a meaningful amount of new vehicle volume transportation is being decisioned across the OEM landscape this year.

Proficient is positioning itself and competing for incremental market share that should be sustainable and accretive to our portfolio over the long term. With regard to major integration and strategic initiatives, we continue to progress nicely.

On the technology front, all of our operating companies are now using Magnus Technologies transportation management system. The data captured in this common system is providing key insights into our customer base, operational efficiency, and profitability metrics.

We continue to advance integration efforts to back office systems and tools including a common accounting platform, cohesive HRF platform, and cost accounting methodology.

For example, particularly in a weaker market, though consistent with our strategic objective, we've prioritized company driver efficiency and mix have a pipeline of backhaul target pursuits identified and being worked in both new vehicle and the secondary market to capture these opportunities.

National procurement efforts continue with signed contracts being fully implemented and a broader set of smaller target areas identified to drive ongoing incremental cost savings. That said, we have some inflationary and structural headwinds to offset this as well with items such as insurance costs and expanded coverage, driving some unfavorable near-term variance in that cost line. I'll now turn it back to Brad to cover some key financial highlights.

Bradley Wright^ Thank you, Rick. I'll start with a few summary statistics. All prior year comparisons are for the combined companies.

Operating revenue of $95.1 million in the quarter was up 4% from last quarter but down 15.9% in the prior year. Units delivered of 521,476 represents a 4% increase over the third quarter, but a 4% decline from the fourth quarter of 2023.

Revenue per unit excluding fuel surcharge, was approximately $169, unchanged from the third quarter, but down approximately 14% from $197 in the fourth quarter of last year. Company deliveries were 37% of revenue in Q4 versus 39% in the third quarter.

Sub haul deliveries, therefore, were 63% of revenue in Q4 versus 61% in the prior quarter. The company had approximately $15.8 million of cash and equivalents on December 31, 2024. Aggregate debt balances at quarter end were approximately $82.4 million or net debt of $66.6 million.

The increase in net debt from last quarter reflects our financing and fleet growth during the quarter. Total common shares outstanding ended the quarter at 27 million, which is unchanged from that disclosed in our third quarter Form 10-Q.

Looking ahead to the first quarter of 2025, January was challenged by not only a weak start [ph] month and the typical to-year end seasonal volume weakness, but also significant weather events in many areas of the country, such as the Northeast, Mexico and Oklahoma, Texas and the Gulf Coast that shut down local operations for days at a time.

Walls in Southern California also delayed loading and over a period of a few weeks. As a result, quarter-to-date unit volumes and revenue are lower by 17.5% versus the comparable period of last year.

However, we expect to recover much of the shortfall through the end of the quarter, a visibility to the near-term pipeline, such that full quarter revenue and profitability are likely to be similar to the fourth quarter of 2024.

Full year outlook for 2025 remains marked by some large uncertainty macro environment, though we do expect sequential momentum as we move into the second quarter and the second half of the year with expectation of improved full year 2025 results over 2024. Operator, we'll now take questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from the line of Bruce Chan with Stifel.

Matthew Milask^ This is Matt Milask on for Bruce Chan. Just to start off, I know there's likely limited information that you'd like to share or can share at this time.

But we're looking to get a better sense of the market share that might be at stake here. During the IPO roadshow, you discussed that both you and Jack Cooper had about low teens market share. However, it seems Jack Hooper might have north of $1 billion of top line.

Is there any way without maybe going to deep to help us put a finer point on those numbers at a minimum, maybe from a volume or revenue perspective, how much opportunity could be headed to the market?

Richard O'Dell^ We really don't have visibility into their revenue levels. So I don't know that we could be very helpful with that. We know fleet wise, they are larger than us. So...

Matthew Milask^ Okay. Is that low teen market share figure something that you're comfortable communicating?

Amy Rice^ We don't have any updated view of the market relative to what we shared at the investor road show. So, that would be a reasonable estimate of our (inaudible) at the time.

Matthew Milask^ Fair enough. And then just on network density. How should we think about prioritization of volume and share here versus density? Is your approach going to be to take as much high-quality share as possible and then sort of optimize for density after the fact? Or are we planning to take a more measured to what volumes that you guys take on board?

Amy Rice^ Yes. I can speak to that a little bit. So volume -- existing network is very attractive to us, and we're bidding on all of those opportunities. Adjacent volume that ties into an existing base of driver assets terminal is a good growth is we are very calculating before we enter an entirely new market and pursuing new dose traffic, we'd be looking for a concentrated, sustainable level of volume to go into new markets and then we build around that, both organically and through acquisitions.

So to answer your question, it's a bit of both, right? Driving density, particularly with that opportunity in the existing network is the most attractive price to us, building in adjacent territory.

It also suits that we have in line, and they're really not one or the other. We have the bandwidth is both or more thoughtful, I would say, around new market build. If that's helpful?

Operator^ Our next question comes from the line of Tyler Brown with Raymond James.

Tyler Brown^ So obviously there's a lot going on, lots of dynamic things. I get that you're not going to address it all head on. Let me come at it a little bit differently. If I looked at it in real time, are you guys seeing incremental spot opportunities in the market today? And is that spot at premium firming up basically in real time?

Amy Rice^ We are seeing what I would describe as episodic opportunities and not so basic [ph] spot opportunities in general.

Tyler Brown^ Okay. Okay. So episodic. Okay. If I go back to Pro Fleet, so I think Pro Fleet is running at around $4 million a quarter, let's call it, in revenue.

Number one, is that basically at a minimum? And two, how would Pro Fleet react in a capacity challenged market? Could we see that number jump quite a bit if there's a lot of market disruption?

Amy Rice^ So to answer your first question, yes. What you're seeing is kind of at that minimum level and we guided last quarter that at minimum levels, we see roughly $4 million, $5 million a quarter depending upon volume and length of haul where we have those drivers running.

If you had dislocation and higher demand for those services, you could see some increase there but our conservative outlook continues to be that they're going to be at or near contracted minimums as we look to the near term.

Tyler Brown^ Okay. So to be clear, that's kind of implied in the Q1 guidance?

Amy Rice^ Yes.

Tyler Brown^ Okay. Rick, you mentioned that spot market premium, I think, was 16% of contract, and that was versus, say, 100%. You also said that 100% was effectively unusually high. So what would be kind of a normal -- as we try to learn the auto haul in industry more, what would be kind of a normal spot premium to contract?

Amy Rice^ So you know Tyler, I think we're also trying to learn what a normal auto market looks like for time into this at a time that was pretty atypical for the market. So to Rick's comment, the spot premium in the 2022, 2023 time period, I think, was elevated in a manner that we're not likely to see again in the current environment. But we think we're on the low side of that continuing that.

So what we think we typical is the fact premium that just a little more like maybe 25% to 40%. I don't take me at exact numbers there. But directionally, that would feel a little more like where capacity is in shorter supply [ph].

Tyler Brown^ Okay. That's helpful. Even just a range, very helpful. And then any just -- I know that you have this heavy subcontractor capacity pool. But how much slack capacity do you have in the company-owned fleet?

And -- maybe even to that, how much do you have -- it's -- I know it would be harder to say in the subcontractor piece, but how much slack capacity do you feel like you have ready at your fingertips?

Amy Rice^ Yes. So on the company fleet side of things, recall that we invested roughly $30 million of capital in new equipment through the second half of last year. So -- we have one of the newer fleets in the industry. Some of that was replenishment. Out of that was investment for future growth.

And those orders were placed in a market that was relatively stronger than the time at which those orders were delivered. So we do have open assets available. We will be hiring for those assets and deploying those assets into the market where we see growth come online.

We will continue to invest in truck capacity with growth and have a capital plan to do so again this year. That, of course, is commensurate with every opportunity that we see and we'll measure that accordingly. On the subhaul side of things, I would say there is a safe deal of capacity available in the marketplace.

We have call it, 2,500 subhaul carriers or more across our network that are embedded by us that are able to do work on behalf of our various operating companies and had a very little broker fee in the current environment all our team on work and providing services. So I would say there's a lot of slack (inaudible) currently.

Tyler Brown^ Okay. Lots of slot capacity. So last one, just any thoughts on CapEx in '25? And what would be a reasonable number for '24 actually?

Richard O'Dell^ So Amy alluded to that somewhat. I mean I think we -- from the time of the IPO through the end of the year, Tyler, we probably had right around just over $30 million of fleet CapEx. And we're expecting for the current year to be in the $25 million to $35 million range as well. And that's just -- and that will evolve as we see opportunities, but that's our expectation today.

Operator^ Our next question comes from the line of Ryan Merkel with William Blair.

Ryan Merkel^ I wanted to ask on 1Q a little bit more. I think you said January is kind of trending down or at least quarter-to-date trending down 17.5%. Again, you said you thought you'd make up some of that shortfall and you had some visibility. Could you just talk about what that visibility is? And why you think you'll make it up?

Amy Rice^ Sure. This is Amy. So we get -- depending on the OEM and the mode by which the cars are dispositions to us, we get the ability of anywhere from one to three weeks for example, import car on the water, we get somewhat longer visibility.

So we do have an idea of what is coming in the near-term pipeline as well as the customer conversations. And generally, what we're hearing is a cautious outlook, but some reassurance that volume should continue or should begin to ramp up here, particularly as we go through March and into April.

So OEMs are at least guiding up that they think volumes will turn up a bit more. March into April and then looking in the back half of the year. So as we look at the quarter, weakness today near-term pipeline in the locations where we participate we expect to see some stronger (inaudible) coming.

Ryan Merkel^ Got it. Okay. And then just a clarification. I think you said you think 1Q will look like 4Q, so should that -- should we take that to mean revenue and EBITDA will look like 4Q?

Bradley Wright^ Revenue and OR, I would say, yes.

Ryan Merkel^ Okay. And then I know you're not giving full guidance here, but should we just assume that the spot business and the premium of spot over contract, should we assume that really doesn't change for the next couple of quarters? Any reason that it would improve?

Amy Rice^ There are reasons that it could improve, but I think you're on the right track there. We don't have a crystal ball here, and we are coming into the practice of reporting both the portion of our portfolio and what we are seeing in price premium there.

So sequentially, I think we will be able to give you additional information as the market for 2025 becomes clearer. But conservatively, I think I would say it as you suggested.

Richard O'Dell^ And I would add to that, just that we're not anticipating a rebound in the spot market. But given current market dynamics, I said there's probably more opportunities for dislocations where people are taking on new business, and they may struggle with that, and some of that may come back to the spot market.

Ryan Merkel^ Yes. That makes sense, Rick. Okay. Last one for me. You mentioned in the press release strength of our balance sheet will be a differentiating factor in the marketplace.

Can you just talk about -- does 2025 feel like there's a lot of new business to win, just broadly, how are you thinking about that? And am I thinking about that the right way? Just given the challenges that the industry is facing and you're probably in a pretty good position relative?

Amy Rice^ Yes. I would think about it in two ways. One is, over the last couple of quarters, we've shared with you our figures on net new contract wins and actually to give an update there since the last earnings call we have had three net new contract wins, two of which are larger than average size.

But the point on bringing that up is each quarter, we have had net new contract wins, but we have been in a big market. If the market starts to improve, the benefit of those market share gains should become more visible in our results.

And we've talked quite a bit, particularly in the last quarter call contract business is stable, profitable business for us. And we want to partner our customers in a way where we show up for them day after day with a high level and were complex with their needs and volatility.

So we want to win in the contract space. We want to participate in the stock market when opportunities present and to put capacity up against it. But our main focus is sustainable and accretive market share growth in the contracts business.

The other way I would think about that, your question is Rick mentioned in his opening comments, there are still open bids that are material to scale. A handful or so of OEMs have done either (inaudible) regional bid or national bid that become affected anywhere from May of this year to as late as January of 2026.

But we have gone and positioned ourselves to gain incremental business with those key customers with the strength of our solar network and offering, and we feel pretty good about how we are positioned to grow coming out of those bids.

So as we look at market share through the year, as those are dispositioned and those new contract terms take effect, we would look to some additional opportunity in the back part of the year from that.

Operator^ Our next question comes from the line of Alex Paris with Barrington Research.

Alexander Paris^ Rick, I want to come at that big question another way. Given your experience in the LTL space, CEO of Saia for 14 -- or finished as CEO that was there for 14 years, I think, 14 years as CEO, and you're still the non-Executive Chairman today.

So you lived through the bankruptcy of Yellow Roadways. And I'm wondering if you could maybe create a parallel and even a timeline -- what should we expect first? I would think if the number two player in the auto hauling business exits the business that volume needs to find a new way to the dealerships.

So does it start with brokers? Does it include bids, whatever parallel you can make to the LTL business, if there is a parallel to make would be helpful, I think.

Richard O'Dell^ Yes. I think if you look at the cycle and how customers would generally react to a situation like that is they may have a backup contracted carrier, and that business would potentially move to that backup carrier right out the gate and then they would probably put it out to bid over a period of time.

So there's probably -- there's some immediate impact depending on how you're positioned with the OEMs with pricing in place because this business is -- it's a little different than LTL, where you may have a business that's under contract, but you're not getting any shipments and then they can just begin shipping with you.

Our -- this business is a little different than that just because we don't have -- it's not as much of a network capacity business where you could just pick up more business, you have to have the -- you have to have the tractor and trailer and the driver in the right location to be able to service the requirements.

So our solution to that, obviously, is to near term would be to source with subcontractor capacity and then optimized with in-source your own drivers there over some period of time. And we're positioned to react to that -- those opportunities quickly. And then as you probably would expect, as the industry goes through a transition of the incremental business, some carriers handle it better than others. And so a lot of times to customers, again, we'll try to re-optimize over a period of time.

So I'd imagine there's kind of a two-leg impact to the closure would be some immediate sourcing of the business and then there's probably going to be a second round of opportunities coming at us.

Alexander Paris^ Has Proficient seen any impact from that first round yet?

Amy Rice^ We are seeing some impact. The other thing I would share, Alex, is from our conversations with the OEMs, this situation is broader than just the transportation of cars.

It really is a risk management exercise for the OEMs from their production to the dealer supply chain. So it goes a bit upstream. They are looking to be sure they don't see same shutdown as a result of disruption in transportation carriers.

And so there's a puzzle with a lot of pieces here that our customers are trying to solve and some of those things have to be solved in multiple sequences and rounds. And to Rick's point, I think that will sometimes play out over time.

Richard O'Dell^ (Inaudible) I would just comment there is some near -- nearly immediate short-term impact that we feel will offset some of the current market weakness that we're experiencing, and that would be indicative of a kind of a recovery volumes, particularly in March from the softness that we've seen year-to-date.

Alexander Paris^ So is that part of that Q1 forecast? Is there some sort of assumption for some volume pickup from that event?

Richard O'Dell^ Yes. It is.

Alexander Paris^ Got you. And then as you both said, there's that second opportunity once they go through the risk management exercise to take on more volume down the road?

Richard O'Dell^ Right.

Alexander Paris^ And is there any reason that Proficient shouldn't get its fair share of this incremental volume that's coming on to the market for the other players, these market share opportunities?

Amy Rice^ The only caveat I would place on that is geographic. Again, the earlier comments of where our network is strong and where we have existing density there has not necessarily been a high overlap with certain competitors.

So there's a component there, but all else equal, Proficient is well positioned to participate in sort of reallocation amongst industry players should that occur.

Operator^ (Operator Instructions) Our next question is the follow-up from Bruce Chan with Stifel.

Matthew Milask^ Great. Thanks for allowing us a follow-up here. Just curious to hear about how you're thinking about M&A.

Is there an appetite for it from your side, especially with your needed capacity requirements? Does the M&A market potentially get more competitive from here? Any color around that would be great.

Richard O’Dell^ Yes. I guess what I would tell you is, I mean we have a pipeline of opportunities that will be a nice fit for us providing synergies and adjacent geographical capacity. I would say -- we’re obviously managing that or balancing that against other priorities and opportunities that we have.

But I would say, we’re still active in the marketplace and we would probably expect one to two smaller acquisitions to occur this year.

Operator^ And I’m currently showing no further questions at this time. I’d like to hand the call back over to Rick O’Dell for closing remarks.

Richard O’Dell^ All right. Well thank you so much for your interest in Proficient Auto Logistics. We’re very excited about the opportunities in the marketplace and confident in our execution capabilities.

Operator^ This concludes today’s conference call. Thank you for your participation. You may now disconnect.