Proficient Auto Logistics Inc(Q1)

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Corporate Speakers:

- Brad Wright; Proficient Auto Logistics Inc; Chief Financial Officer
- Richard O'Dell; Proficient Auto Logistics Inc; Chief Executive Officer

Participants:

- Bruce Chan; Stifel; Senior Analyst
- Ryan Merkel; William Blair; Analyst

PRESENTATION

Operator^ Good day, and thank you for standing by. Welcome to the Proficient Auto Logistics First 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^ Thank you, Shannon [ph], and good morning, everybody. I'm Brad Wright, Chief Financial Officer of Proficient Auto Logistics. Thank you for joining us on Proficient's First Quarter 2024 Earnings Call.

As you probably know, on May 13, 2024, we completed our initial public offering and the combination of our five founding companies. Under SEC rules, we are required to file first quarter financial statements for Proficient Auto Logistics, the designated accounting acquirer of each of the founding companies, and Proficient Auto Transport, the designated accounting predecessor to the company.

These financial statements will be filed on a Form 10-Q later this week. We are not required to provide, and the Form 10-Q will not contain pro forma financial data for the first quarter. However, our earnings release provided summary unaudited combined financial information for the first 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 by the forward-looking statements. Further information can be found in our SEC filings.

During this call, we may also be referring to EBITDA. Please refer to the portions of our earnings release that provide a reconciliation of EBITDA to GAAP measures such as 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. Rick?

Richard O'Dell^ Thank you, Brad, and good morning, everyone. The closing of our IPO and the founding company acquisitions on May 13th represented the culmination of significant efforts over the past year by everyone from the transaction organizers to the management teams of Proficient Auto Logistics and each of the five founding companies, our legal and investment banking teams, and of course the investors who did the analysis and showed their interest and confidence in our story to become the holders of equity in our new combined enterprise.

While we were pleased with the accomplishment of completing those transactions, it merely marks the beginning of the real work in front of us to execute against the plan that we described to investors in the lead-up to our IPO. There are many initiatives requiring execution over the near-to-intermediate term, but we are particularly focused on five.

Cost synergies. The enhanced national scale afforded by our combination provides leverage in our procurement efforts that is expected to reap immediate benefits in our operating ratio. Within 10 days of closing our transactions, we had implemented an improved fuel contract with a national provider. We expect the savings to equal or exceed $3 million on an annualized basis.

Increased utilization. The reduction of empty miles across our network may well be the highest impact initiative on our operating ratios over time. To that end, we are currently in the process of implementing our common transportation management system at the fourth of our five founding companies. We expect all five companies to be active on this system during the third quarter.

In the meantime, our management teams are evaluating high-volume lanes with typically empty backhaul and sharing loads to fill these miles as often as possible. This will be an ongoing effort and will become increasingly efficient as the TMS systems get integrated.

Increasing company deliveries. Improving our operating ratio by shifting more units and revenue to company trucks versus subhaulers is an initiative that not only improves the profitability of existing lanes, it also provides more opportunities to increase our utilization efforts as described previously. We've developed a fleet plan for the remainder of 2024 that will result in an increase of approximately 10% in company-owned asset.

These new units will be put immediately to use covering newly contracted business and also to reduce the subhaul activity in select lanes where we can improve our efficiency and profitability.

Activity-based cost analysis. We have initiated implementation of a third-party software that is transportation-specific and provides profitability by customer, delivery, lane, and even down to the truck level. Full implementation will take six to nine months but will allow for much higher precision in our profit analysis and our contract bidding process.

Used car and fleet marketing. Our marketing team is in place nationally and has begun building the relationships in each geographic market that will allow us to grow this largely untapped revenue potential.

From an operating perspective, we've been in active communication with our OEM customers describing the impact of our recent combination on our ability to deliver increased geographic coverage and the availability of increased and enhanced service capability that the new structure provide.

As we noted in our earnings release earlier this morning, we experienced reduced demand early in the first quarter. However, volumes began showing improvement around the middle of February and have continued to strengthen since then. In addition, our companies continue to add new contract business with nine net new contracts between the beginning of 2024 and the end of May. There were also 13 renewals of existing contracts during that time span.

While our primary focus is the integration and growth of the founding companies, we also continue to see a number of interesting strategic opportunities, and in each case, we'll evaluate their potential for accelerating the achievement of our coverage and profitability goals. We are encouraged about the prospects for continued growth over the coming months and look forward to providing you with another update when we report the second quarter results. I will now turn it back to Brad to cover key financial highlights.

Brad Wright^ Thank you, Rick. I'll start by reiterating some of the highlights that we called out in the earnings press release early this morning.

All financial references are for the combined founding companies. Operating income of 6.5 million in the first quarter was an increase of 7.9% over the same period in 2023. Operating ratio improved from 94.1% in the first quarter of '23 to 93.2% in 2024. Income before taxes of 5.4 million in the first quarter was an increase of 12.1%. These profitability measures are up in spite of an approximately 5% decline in revenue before fuel surcharge.

As we also noted, the lower customer demand during the first quarter fell disproportionately to the dedicated fleet business, which is geared for resolution of excess inventory hotspots.

While that portion of our business represented approximately 15% of total revenue before fuel surcharge in 2023, it comprised approximately 7% of total revenue in the first quarter of this year. On units delivered basis, the dedicated fleet business comprised 3.7% of total units in 2023 and 2.1% of all units delivered in 2024. The disparity in these two measures reflects the fact that this business is billed [ph] by the hour rather than by units.

Removing the impact of the dedicated fleet business, total units delivered increased by 3.7% year-over-year, and revenue per unit delivered increased from $180 per unit to $184 per unit, or approximately 2%.

As it relates to the balance sheet, on May 13th, we closed on the initial public offering of 14,333,333 shares of our common stock at $15 per share. On June 4, the company sold an additional 1,435,000 shares of our common stock through a partial exercise of the underwriter's range new [ph] option, also at a price of $15 per share.

As we've previously disclosed, a significant portion of the IPO proceeds were used in the purchase of the five founding companies. Net of underwriter's fees and other transaction expenses, and the cash portion of the combination purchase price, the combined company had approximately $40 million of remaining cash and equivalents available for future operations and other strategic opportunities.

Aggregate long-term debt, predominantly for the financing of revenue-generated equipment, totaled approximately $56 million following the combinations, for a net debt position of approximately $16 million. Total common shares outstanding are $26.1 million. Operator, we're now ready to 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, gentlemen. Great to get some confirmation here with these results that the predecessor business is in good shape, but obviously, investors are going to be a little bit more focused on the post-deal results. And, Rick, you already gave us some great color on that process so far, but it sounds like there may be a couple of, I'd say, new developments here, and I just want to make sure that I have those right.

So, first of all, you've got that fuel savings program and the $3 million in annual savings. I know, you talked about that possibility around the IPO, but it was not in our model. Is it safe to say that those savings are now in the bag at this point?

Richard O'Dell^ Yes. Yes, that's under contract, and it's progressing.

Bruce Chan^ That's great to hear. And then, it sounds like that activity-based cost analysis program, maybe a little bit faster to inure and maybe more meaningful than we'd initially thought. Is there a good way to think about, how that benefits the model, whether it's on the pricing side or the cost side?

Richard O'Dell^ I think it's a little bit of both, on the -- the analytics are very good on the pricing side with the new system, and, we're lacking a little bit of sophistication in some of the founding companies with our pricing analytics, so it'll be a really nice enhancement. And then, furthermore, once you have the profitability by lane, then you can kind of target market and know what you're going after business that operates well.

Bruce Chan^ Okay, great. That's good to hear. And then, maybe just for my follow-up, and then I'll turn it over and get back in the queue. On the units delivered, you had $460,000 in the first quarter. Brad, maybe if you have a monthly ramp on that number, just given some of the disruption earlier in the quarter. And I know you're still dealing with some of that residual strike drag.

And then, when you think about that result, how do those compare to your model? And just, given some of the news around recent star numbers, how are you feeling about current volume trends?

Brad Wright^ Yes. The trends in the second quarter today have been very positive. We're trending up about 10% quarter to date in the second quarter, which is obviously a lot of -- a big step up from the first quarter.

Bruce Chan^ Okay, perfect. That's good to hear. Appreciate it, and I'll hop back into queue.

Brad Wright^ And I would just comment, too, on the volume side. So, I think it's encouraging to see we've actually signed nine new contracts since the combination was announced. So, we continue to see good reception from customers to the combined entity.

Bruce Chan^ Okay, great. Appreciate that color.

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

Ryan Merkel^ Hey, good morning, everyone. I just wanted to follow up on the quarter to date revenue of 10%. How did things look sort of February, March, April?

Richard O'Dell^ That was just for clarity, that was units, not revenue.

Ryan Merkel^ Got it. Can you just talk about how the volumes improved since February and sort of where we're at, sort of May, June timeframe, if we've seen a lift?

Brad Wright^ Yes. So Ryan, this is Brad. So, I think Bruce asked the question, too, in terms of January versus the remainder of the month. So, in January, or I should say, let's just say in February versus January, we were up about 15% month over month and then kind of maintained that same pace in March. As we get into April, much more strength, up probably, I think Rick mentioned 11% and we've maintained that through the end of May.

So, really good strength, once you get to basically mid-February, year-over-year increases have been in the low double digits.

Ryan Merkel^ Okay. Got it. And then can we talk about price? I think it was 2% in the quarter. Should we expect that to be trending up through the rest of the year as some of the new contracts come on?

Brad Wright^ Yes. Well, you're going to see -- you'll see it even in the second quarter that price is up and that's not necessarily all, new contracts. It's some, renewals and I think Rick mentioned that we've got net new contracts that added to the business mix in the form of about nine net new. But yes, you'll see the overall price and revenue numbers moving north even in the second quarter.

Ryan Merkel^ Got it. Great to hear. I'll pass it on. Thanks.

Richard O'Dell^ Thanks, Ryan.

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

Bruce Chan^ Yes, appreciate the double dip here. Just, maybe a follow-up on some of that line of questioning. Just want to know if there have been any customer concerns expressed post-deal as a result of the consolidation? It sounds like from the nine new contracts and the 13 renewals that the answer is that it actually may have been a boon for you, but just want to hear if there's been any pushback on the combination here.

Richard O'Dell^ No, it's been well received by the customer base. They like the commitment to capacity, company trucks, the coverage area that we have, and the service that the five founding companies have been providing continues to be enhanced by some of our technology implementations. So, it's been well received. We haven't really had any negative feedback.

Bruce Chan^ Okay, great. That's good to hear. And then just maybe one final one here that's sort of a prospective question. But, just given the upcoming election, I'm wondering if any customers have discussed their expectations around what potential tariffs could look like and how that would impact the business. I know, again, that's somewhat of a hypothetical, but if you had any thoughts there, that would be helpful.

Richard O'Dell^ No, it hasn't really been a topic.

Bruce Chan^ Okay. Hopefully, we don't have to worry about that.

Richard O'Dell^ Yes, right.

Operator^ Thank you. And I'm currently show no further questions at this time. This does conclude today's conference call. Thank you all for your participation. You may now disconnect.