Proficient Auto Logistics (Q3)
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Corporate Speakers

- Brad Wright; Proficient Auto Logistics; Chief Financial Officer
- Richard O'Dell; Proficient Auto Logistics; Chief Executive Officer
- Amy Rice; Proficient Auto Logistics; President, Chief Operating Officer

Participants

- Patrick Tyler Brown; Raymond James; Managing Director
- J. Bruce Chan; Stifel; Director
- Ryan Merkel; William Blair; Co-Group Head of Industrials, Analyst

PRESENTATION

Operator^ Good day and thank you for standing by. Welcome to the Proficient Auto Logistics Third Quarter 2024 Earnings Conference Call.

At this time, all participants are in listen-only mode. After the speaker's presentation, there will be a question-and-answer session. (Operator Instructions). Please be advised that today's conference is being recorded.

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

Brad Wright^ Good morning, everyone. I'm Brad Wright, Chief Financial Officer of Proficient Auto Logistics. Thank you for joining us on Proficient's Third Quarter 2024 Earnings Call.

Under SEC rules, our Form 10-Q, which we expect to file next week, covering the three and nine-month periods ending September 30, 2024, includes 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-Q will not contain pro-forma financial data for the combined companies. However, our earnings release provided comparative summary unaudited combined financial information for the third quarter and the nine months ended September 30 for the combined companies.

Our earnings release can be found under the investor relations section of our website at proficientautologistics.com. Our 10-Q once 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 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, 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 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 third quarter. After our prepared remarks, we will open the call to questions. During the Q&A, please limit yourself to one question plus one follow-up. You may get back into the queue if you have additional questions.

Now, I'd 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 third quarter and some trends that provide insight into our expectations for the remainder of this year.

As we discussed in our last earnings call, July even volumes were up by 2.1% versus the same month in 2023. However, revenue was down by 11% in July of 2024 versus the comparable month of 2023.

This disparity between unit volume and revenue comparisons continued for the duration of the third quarter with a full-quarter volume decline of 0.4% versus the comparable quarter. The total revenue was down by 12.5%. The macro auto industry environment exhibited weakness in the third quarter with seasonal plant shutdowns in July, followed by an even weaker August, and only a modest acceleration in September toward the quarter close.

Slack demand resulted in an outsized impact to certain of our premium-price services. For example, our dedicated fleet service generated revenue of $4.7 million during the third quarter, compared to $16.2 million in the third quarter of 2023. Our revenue from spot buy opportunities during the quarter comprised only 4% of total revenue in the recent quarter versus 10% a year ago. The revenue per unit from spot buys fell by 40% year-over-year. There was both a significant reduction in the spot buy opportunity made available to the market, as well as much less spot pricing power due to significant available capacity to address limited demand.

Seasonally adjusted annual sales rates were lower by 1.9% in the third quarter compared to a year ago, hitting a low of $15.1 million in August before recovering to $15.8 million in September.

In recent earnings releases, major auto manufacturers have continued to reference high inventories at dealership lots, declining profitability, reduced full-year outlooks, and related cost-cutting initiatives. While the fourth quarter typically exhibits stronger seasonal volume relative to the third quarter, an early feedback from the OEMs called for this seasonal uptick. Cautionary language from several carriers recently indicates that the lift in 2024 might not be as pronounced as in the recent past.

There are some positive takeaways from October. We saw our top $16 million, and we saw increases in our unit deliveries year over year versus the first month of quarter three. However, the pressure on revenue per unit persists and we have mixed signals on the expectations for the remainder of the quarter. As such, we remain cautious in our outlook for this quarter and into early 2025. Brad will speak to this in more detail in a moment.

We continue to be positive on our relative market position and see opportunities for 2025 and beyond that gives us confidence in the business and investment thesis for Proficient Auto Logistics. We've noted in previous calls the addition of new contracts in 2024. Fourteen net new through our call in August and another three since that time. Third quarter also included increased renewal activity with a total of seven meaningful contracts renewed. Most of the three year -- most with three-year terms and one with a five-year term. We're pleased with the level of ongoing conversations with customers about ways that we can work more closely together across the entire footprint of our expanded operation and provide solutions that enhance our partnership with these customers further.

We continue to progress with our key operating initiatives. Cost synergies have been identified in the areas of fuel, tires, and parts with national contracts now in place or in the late stages of negotiation. Additional opportunities are being pursued with travel, lodging, and employee benefit programs. We continue to target $8 million to $10 million in annualized savings from this initiative. The shift to company deliveries has been further enabled through the addition of 66 truck and trailer units since the initial mergers, an increase to the own fleet of approximately 10%.

Although partly driven by revenue mix during the quarter, we note that the company deliveries in the most recent quarter were 39% of the total, which is an increase from 34% in the same quarter a year ago.

Technology investments are 75% complete with respect to the transportation management system with full completion to be accomplished this quarter. Cost allocation technology continues to evolve, but requires further customization to recognize the unique nature of auto-hauling compared to the truckload and the LTL users.

Utilization improvements are primarily focused on load sharing between the merged companies to fill empty lanes. During the third quarter, approximately 3% of units and revenue were generated through the load-sharing opportunities identified across our network.

Finally, the acquisition of Auto Transport Group was completed during the third quarter as planned and they're rapidly integrating into the proficient umbrella of companies. They continue to exhibit the performance and profitability characteristics that we anticipated, and they should contribute approximately 10% of the company's revenue in the current quarter.

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

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

Operating revenue of $91.5 million in the quarter was a decrease of 12.5%. Units delivered of 499,311 represented a 0.4 decrease -- 0.4% decrease from prior year. Revenue per unit excluding fuel surcharge was approximately $169 versus $190 in the same quarter last year. Company deliveries were 39% of revenue in Q3 up from 34% in 2023. Sub haul deliveries were therefore 61% of revenue in Q3, down from 66% in 2023.

Of note with respect to the mix of company versus sub haul deliveries, this past quarter shows how the latter is an effective flex to counter volatility in volumes from period to period. The corollary effect can be seen in the respective revenue per unit, with unit revenue increasing by just under 1% for company deliveries, predominantly contract business, while the revenue per unit for subhaulers declined by 17.5% year on year, reflecting primarily the impact of lack of spot buy business and lower price premiums as Rick mentioned earlier.

Expanding on the current environment, October units delivered were up 6.2% compared to October of 2023. Revenue per unit was nonetheless down 15.2% resulting in a year-over-year transportation revenue excluding fuel surcharge off 10% from the prior year. Comparing October of 2024 to July 2024, the first month of the last quarter, units delivered were up 10.4%. Revenue per unit was lower by 4.1% with a net result of transportation revenue, again excluding fuel surcharge, up by 5.8%.

So, while we are seeing early evidence of the expected seasonal uptick in volume, the ongoing pressure on revenue per unit in this environment and the fact that November to date is not showing meaningful acceleration keeps us cautious on fourth-quarter guidance. Based on our activity quarter to date and having the benefit of a full quarter from our ATG addition, we are expecting sequential quarterly revenue to increase by low to single mid digits. At that level of revenue, there should be modest improvement in the adjusted operating ratio, but not a return to the low 90s that we experienced earlier this year.

As it relates to the balance sheet, the company had approximately $16.8 million of cash and equivalents on September 30, 2024. Aggregate debt balance at quarter end were approximately $73.5 million for net debt of $56.7 million. The increase in net debt from

last quarter reflects our use of cash in the acquisition of ATG and financing of fleet growth during the quarter.

Total common shares outstanding into the quarter at $27 million, an increase of just over 1 million shares from the end of the second quarter as a result of the purchase of ATG disclosed previously.

As Rick mentioned, we remain confident in our market position and investment pieces. We're hopeful that with the election uncertainty now behind us, and another interest rate reduction this week, stronger consumer demand for new vehicles will emerge and enable us to demonstrate our performance capabilities more fully in the future. Rick?

Richard O'Dell^ Well, in conclusion, third quarter backdrop was very weak and unanticipated. Proficient continues to advance foundational initiatives in spite of the environment to position our company to gain market share, provide enhanced value proposition, and improve our efficiencies going forward. We're committed to capturing these opportunities for all of our shareholders.

Operator, we'll now take your questions.

QUESTIONS AND ANSWERS

Operator^ Thank you. (Operator Instructions). Please stand by while we compile the Q&A roster.

Our first question comes from the line of Tyler Brown with Raymond James. Your line is now open.

Patrick Tyler Brown^ Hey, good morning, guys.

Richard O'Dell^ Morning, Tyler.

Brad Wright^ Morning, Tyler.

Patrick Tyler Brown^ Hey, well, Brad, can we just start with spot? So, maybe first off, do you have what the spot mix was in Q1 and Q2 on a pro forma basis?

Brad Wright^ In terms of what? In terms of revenue or you mean percentage of revenue?

Patrick Tyler Brown^ However you said the 4% and the 10%, keep it on average, yes.

Brad Wright^ Yes, good. Thank you. So, that in the first quarter was close to 15% and in the second quarter was just over 12%.

Patrick Tyler Brown^ Okay. So, I think you alluded to it, but what is the ARPU differential between a spot move and a contract move just to help everybody understand?

Amy Rice^ Tyler, it's Amy. So, there's a revenue mix component, and there's also a pricing component. Length of haul is a major determiner on the revenue mix component. So, say your contract business length of haul is an average of 200 miles to 250 miles, and a spot opportunity that comes to the market is 500 miles. You would see roughly a 2X factor just for longer length of haul. In addition to which, you would see pricing premium relative to contract pricing. And the strength of that pricing premium would be affected by supply-demand characteristics in the marketplace.

So, in a tighter market, you would expect that premium to be higher. And in a weaker marketplace, you'd expect that premium to still be well ahead of contract rates, but not as strong.

Patrick Tyler Brown^ Okay, interesting. So, there is a cost-to-serve differential, meaning it's more expensive to serve the spot because it's a longer length of haul.

Amy Rice^ It's not necessarily a longer length of haul. It is -- it reflects what traffic needs to be moved quickly that isn't currently being moved by a contract carrier. So, say, in the event of a service disruption at a particular location, the contract carrier is trying to turn as much volume as they can, and they may well focus on the short-haul move to be able to do two terms a day. So, there may be some longer length of haul traffic that needs to get pushed out to the spot market. That's not in all cases, but you might expect that.

Patrick Tyler Brown^ Okay, basically I want to just look at this big picture because there's a lot of questions. But if there's such a big pricing differential in the spot market, were you driving a disproportionate amount of profits last year in spot? And maybe I'll just ask it bluntly, but is the core business, if you exclude spotting, you exclude pro fleet, and I'm sure that we'll talk about pro fleet, but is that core business better than a hundred OR business?

Brad Wright^ Oh, yes, absolutely. It's just that total revenue is down so much because of the lower volumes overall, Tyler, that it just -- it makes -- it removes a lot of the operating leverage, but the business itself is -- operates at a healthy margin.

Patrick Tyler Brown^ Okay, so hopefully we'll see that into the future. But maybe just quickly on Q4, what is low single mid-digit, I think was the word you used, on revenue -- just can you -- is it 2% to 5%, or what are we thinking on Q4? And then you said OR should improve, but I mean, we talked in five basis points or 500 basis points. Just any finer point would be super helpful. Thanks, guys.

Brad Wright^ So, on the low to mid-single digits, I think 2% to 5% is a good range. In terms of OR improvement, I certainly don't think at that level of revenue that you should expect 500 basis points. I think that, again, depending on other cost factors and so on, that we might see 100, 150, maybe as much as 200 basis point improvement, but it's still going to be in the mid, probably a little higher than mid-90s, I would expect, if that's the revenue that ends up being generated.

Patrick Tyler Brown^ Okay. And if the spot mix stays roughly where it is today?

Brad Wright^ That's right. And that could definitely be a variable.

Patrick Tyler Brown^ Okay. I'll hop back into queue. Thank you.

Brad Wright^ Thanks, Tyler.

Operator^ Thank you. Our next question comes from the line of Bruce Chan with Stiefel. Your line is now open.

J. Bruce Chan^ Thanks, operator. Rick, Brad, Amy, good morning. So, appreciate the commentary around the drive from the spot mix and a little bit of the volume headwind here, but I want to maybe focus in on the pro fleet business because when I look at the release and your comments, that business seems to account for really almost the entirety of the year-over-year revenue shortfall and also the gap with our previous model estimates.

So, maybe you can talk to us about what the issue was there, the nature and status of that contract and customer relationship. And then assuming that you're in the process of putting up some guardrails around that business to make it less volatile because I do remember that you got a big bet to the upside in the first quarter, what's the status of that negotiation and when do you think you can have this business repaired?

Amy Rice^ Morning, Bruce, this is Amy. The Q3 2023 quarter in our dedicated business was the highest level of revenue in the last seven quarters. So, the comps were particularly high last year, and obviously, we are particularly low this year, driving the major gap there. That does reflect the market. So, this premium dedicated service plays its greatest utility when there's a need to get new vehicles to dealerships urgently. And therefore, there's a willingness to pay that premium on pricing to do so.

As inventories have inflated, that demand component has lessened considerably. What I can tell you is that at current levels, we are running at essentially the minimum contracted level of movement. So, we've largely hit the bottom, if you will, in terms of what you can expect there on a go-forward basis. And we started to see decline in November of 2023. So, we begin cycling the decline here in Q4. And I would expect less volatility there as we go forward. If there's increased demand, you could see some upside there, but I certainly wouldn't count on that.

J. Bruce Chan^ Okay. Because, I mean, I could be mistaken, but this seems to be the highest operating leverage business, just seeing the cost component. So, I guess, do you feel like this contract is good as is? Do you feel like you need more pricing or adjustment on it?

Amy Rice^ I think we share your view that we would like to have better visibility to the volatility and demand in this stream of business. I think we are appropriately resourced

against it at the current time, such that it continues to be profitable and worthwhile to us. But to your point, it's a large driver in volatility and results, and we'd like to be able to get a better forward look on that.

J. Bruce Chan^ Okay. All right, just as a follow-up, maybe a broader question, you've all for the most part, except for you, Amy, maybe have been at the company now for about months. As you've gotten into the guts here, is there anything that you see either to maybe the positive or the negative that changes your view of the fundamental earnings potential for the business?

Richard O'Dell^ This is Rick. I would say, in terms of the assessment, the market was dramatically more volatile and weaker than we'd anticipated. But absolute confidence and validation of the reception from customers to the enhanced network. And the foundational initiatives that are investments that we've made to advance and control our initiatives going forward are absolutely on track.

We commented on the purchasing savings as being the first thing that would have an impact on margins and we're probably 50% implemented there from a go-forward basis. That's just taking place. So, high degree of competence in that savings opportunity, which is targeted to be about two operating points. And that will occur regardless of the environment. So, again, we're absolutely confident that we're putting the framework together to do -- to have better business analytics and gain efficiencies going forward that we've targeted.

Brad Wright^ Bruce, I might just add to that. We -- the one thing too, on a real positive note, is that we probably feel even better about our competitive position and how we plan to grow through just market share gains than what we did on the road. So, I think that's on the upside.

Richard O'Dell^ Yes. And on the contract business, which we -- which is more stable and we would like to enhance our reliance on that more stable business going forward.

J. Bruce Chan^ Okay, great. Thanks. I'll hop back in queue.

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^ Thanks, everyone. I had a couple of questions on 4Q. So, it sounds like October, the volume's picked up a little bit. Curious if there was any reason why that was. And sorry if you said it, but did that continue in November?

Richard O'Dell^ I think it's a market rebound. Obviously, SAAR was back over $16 million in the month of October. So, yes, I mean, the market has bounced off of the bottom.

Amy Rice^ But to your question, we've not seen that continue in early November. We have seen a little bit of pullback on just daily run rates from where we were in the mid to late October timeframe, which is why we remain cautious on Q4. We do expect some acceleration here as we move towards year-end, but we would generally expect sequential acceleration through the quarter.

Ryan Merkel^ Got it. Okay. Yes, it's definitely choppy, so it's hard to, right, make conclusions. This question might be hard to answer. I know the dealers have excess inventory. Do you guys have a take on how long it's going to take for that to whittle down? And won't the auto OEMs use incentives to try to clear that out here into yearend?

Amy Rice^ We hope so. And I think with a rate cut this week, that's certainly conducive. We are starting to see more dealer incentives and we would expect that to move some cars. And obviously, with new 2025 model, your car is being released. It should unlock some opportunity, but we are watching that just as you are.

Ryan Merkel^ Okay. And let me flip one more in. You guys mentioned you feel better about share gains in the contract business. I'm curious, are your competitors struggling quite a bit here, which is an opportunity for you? Maybe it's a little early to be seeing that, but do you feel like that's an opportunity as we think about right the next 12 months?

Amy Rice^ I think what we are seeing is we have a more expanded offering for having really constructive conversations with customers who are looking for nationwide partnership opportunities. And so, we're seeing growth opportunities in that regard. I wouldn't comment specifically on competitors per se, but I do think the combined entity has a value prop that the market is responding to.

Ryan Merkel^ All right, perfect. Thanks so much, I'll pass it on.

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

J. Bruce Chan^ Yes, thanks for the follow-up here. Brad, maybe just a question on capital allocation. You've made some nice improvements in the fleet. You've got ATG, but just given where the stock is trading right now, it seems like you might have more of an opportunity to invest in your own company than some M&A, especially given your comments about maybe hitting the bottom here. So, just any thoughts on how you're thinking about capital allocation in general, whether buybacks is something that's entered the conversation?

Brad Wright^ Yes, Bruce, I think -- look, we raised what we raised in the IPO with specific corporate uses in mind, and we've used those funds for that purpose, including the ATG acquisition. I don't -- I think we still have a lot of opportunity. I'm not saying for acquisitions necessarily, but we have a lot of ways to improve the business over the long term that we feel is more efficient for long-term holders than just going back into the

market and whittling down our cash. So, we've certainly discussed it. I just don't think that that's where our priority is right now.

J. Bruce Chan^ Okay, great. Thank you.

Operator^ Thank you. Our next follow-up is from Tyler Brown with Raymond James. Your line is now open.

Patrick Tyler Brown^ Hey, appreciate the follow-up here. Hey, I want to actually come back to the question a little bit about the difficulty, obviously, in the auto markets. And I'm assuming that if you're running, call it circuit break even, there's a lot of small carriers that are also struggling out there. But have you guys heard or seen any anecdotes about capacity coming out of the auto-hauling market? Is there any indication that things are tightening up on the supply side?

Richard O'Dell^ I mean, we're not seeing anything specific that's occurring, but you would think that would occur with some of the weaker players that aren't as well capitalized. Anytime you go through a significant volatile period, that gets negative after a stable period, and companies that have leverage, etc. you would think they would be struggling.

Patrick Tyler Brown^ Yes. I mean, we have such good information on some of the other modes of trucking, but not this particular mode. So, I didn't know if you heard much. Okay, but I want to come back to all of this. I mean, if you're running at call it a circa 98 OR, when pro fleet is running at minimum, spots running less than 5%, I mean, this could be a very real reality for some time moving forward. And I know you talked about the $8 million of procurement savings, and I totally get that, but what other things can you do from a G&A perspective or just a broader overhead perspective to re-stabilize the OR if those realities remain the realities?

Brad Wright^ Well, I'll start, and Amy probably has some ideas too, Tyler. I mean, we're looking at all of that, of course, because we can't be complacent on that front. And as we look to a plan for 2025, we're looking at every opportunity to cut where we can, although keeping in mind that we're not going to cut into operating capability. So, it's really, are we as efficient as we can be in terms of personnel across the country? We are combining benefit plans where through integration, there will be some costs that come out. And I'll stop with we're looking at everything. I don't know, is there anything else you have?

Amy Rice^ Yes, I would punctuate that just to say we are looking at how we realize the long-term investment thesis. And so, we certainly don't want to foreclose on that with short-term cost-cutting measures. So, we are keeping operating resources in place to be able to move with a healthier market that we do anticipate, redeeming at some point.

And I would also echo what Brad says there. There's some noise in our cost line currently as we're six months post-transaction and doing a lot of work to drive integration, to drive towards efficient processes. So, besides just the hard costs that you would see in

procurement contracts and those sorts of things, there are also soft costs in the efficiency that will result.

Richard O'Dell^ And I would just comment that filling some of these empty mile lanes with backhaul opportunities can be done regardless of the OEM environment. And the data analytics that we're putting together will allow us to manage our mix opportunities better, putting our company assets on the appropriate business, and removing suboptimal sub haul expenses. I mean, that is in process. And as our analytics improve, we can execute on that much better in the near term, regardless of the external environment.

Patrick Tyler Brown^ Yes, perfect. All right. Thank you, guys. I appreciate the extra time.

Brad Wright^ Thanks, Tyler.

Operator^ Thank you. And I'm 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 very much for your interest in proficient auto logistics. We again remain very excited about the opportunities we have in the future to demonstrate our ability to generate very good returns for shareholders. Thank you.

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