Proficient Auto Logistics, Inc(Q2 2025 Results)

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

Participants:
- Bruce Chan; Stifel; Analyst
- Tyler Brown; Raymond James; Analyst
- Ryan Merkel; William Blair; Analyst

PRESENTATION

Operator^ Good day. And thank you for standing by. Welcome to the Proficient Auto Logistics Second Quarter Financial Information 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.

Bradley Wright^ Good afternoon, everyone. I'm Brad Wright, Chief Financial Officer of Proficient Auto Logistics. Thank you for joining us on our second quarter 2025 earnings call.

Under SEC rules, our Form 10-Q covering the 3- and 6-month periods ending June 30, 2025, and 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-Q will not contain pro forma financial data for the combined companies. However, our earnings release provided comparative summary combined financial information for the second quarter 2025 to the 3-month periods ending March 31, 2025, and June 30, 2024 for the combined companies.

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

During this call we'll be discussing certain forward-looking information. This information is based on our 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 non-GAAP 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 second quarter. After our prepared remarks, we'll open the call to questions.

During Q&A, please limit yourself to one question plus one follow-up. Then you can 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 afternoon, everyone. I'll start with an overview of our operations during the second quarter and some trends that provide insight into our expectations for the back half of 2025.

First, as it relates to the second quarter, as we discussed in our last earnings call the market strength we experienced at the end of Q1 continued into April, producing a record revenue month for the company, with revenue and unit volumes in the month, up 13% and 25%, respectively, year-over-year.

While the market decelerated in May and June with auto SAAR slowing to an average around 15.5 million units, and our expectations had been for sequentially decelerating performance in each month of the quarter, our unit volumes were bolstered by market share gains and the Brothers acquisition such that June did not decelerate from May and revenue performance finished above our expectations.

For the combined May and June months, volume finished up 24% year-over-year, while revenue was up nearly 14% versus the same period of 2024. The combined results produced a record revenue quarter for the company and improved profitability sequentially.

Notably, the adjusted operating income for the second quarter was greater than the prior three quarters combined, demonstrating operational improvements and strategic execution in what has been an uncertain environment.

July auto sales and deliveries were stronger than expected, which was reflected in July SAAR of $16.4 million as compared to industry forecasted expectations that were similar to what we saw in May and June here.

While there is typically a seasonal aspect to July in which many OEMs elect to close plants for one or two weeks, many domestic plants have continued to operate to meet the higher demand for U.S.-based production.

We're again pleased with PAL's July volume and revenue performance relative to expected levels. SAAR forecast remain cautious for the balance of the year. However, the economic impacts of tariffs and policy changes both to our customers and the ultimate consumer are becoming clearer with the announcement of trade agreements. We view both the removal of policy uncertainty and averted worst-case high cost outcomes as a relatively positive for the near term go forward.

Prior OEM shipping holds and delays in bid processes have returned to a more normal cadence with tariff policy resolution, which provides a more stable environment for us to go to market and benefits our ability to execute our strategy and achieve further meaningful margins improvements.

Additionally, favorable tax policy for qualifying car loan interest deductions, a higher likelihood of interest rate reductions over the balance of the year, healthy dealer inventory levels at an average age above historical norms for replacement represent factors that should support stable consumer demand.

Proficient remains focused on our long-term objectives including continued increases in our market share and the effective integration of our merged operating companies, driving improved efficiency and profitability.

From a commercial perspective, there are several OEMs in the midst of scheduled regional or national bid processes with a meaningful amount of new vehicle volume to be decision across the OEM landscape over the remainder of this year, giving line of sight to revenue levels that will allow for ongoing margin expansion efforts.

In the quarter, we successfully retained a number of important OEM contracts at flat to up pricing levels. 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 being further validated in the marketplace.

While automotive OEMs face cost pressure as widely reported in their Q2 earnings releases, PAL is an important component in the transportation and supply chain, and we will continue to partner with customers to serve their needs with industry-leading quality.

Our commitment to service excellence was recently recognized by Toyota Logistics services with their 2025 quality award for finished vehicle logistics. I'd like to thank our team and channel partners for their efforts in achieving this award even as we continue to integrate our companies and further strengthen our capabilities.

The integration of Brothers acquired at the beginning of Q2 has gone smoothly and is now largely complete with seamless service for our customers throughout. All operating companies, including Brothers, are now using our common accounting platform and transportation management system, providing key visibility and actionable insights into our customer base, operating efficiency opportunities and profitability.

In the second quarter, we successfully shifted a higher proportion of our volume onto company trucks, which will continue to aid profitability, as the majority of fixed costs support our asset-based business.

Sister [ph] hauls or load sharing between the merged companies grew to 9% of revenue in the quarter from 8% in the prior quarter reducing empty miles and further improving our asset utilization.

As we look ahead, we have more work to do to control costs in a base market that continues to be weaker than expected coming into 2025. We'll further optimize new business added to the network as we move beyond the startup phase.

While we evaluate our business on a composite and regional basis, we do have three of our seven operating companies already operating at a 90% adjusted OR or better. We're in the process of advancing targeted cost savings initiatives and operating efficiencies that will bring the blended operation to that level over time while preserving the ability to scale up via share gains and acquisitions. I'll now turn it back to Brad to cover key financial highlights.

Bradley Wright^ Thank you, Rick. I'll start with a few summary statistics. Prior year comparisons reflect the combined results of the five founding companies, but do not include amounts for ATG or Brothers, which were acquired later.

Operating revenue of $115.5 million in the second quarter was up 21.4% from last quarter and 8.4% higher than the second quarter of last year. Units delivered of 631,426 represented a 28% increase compared to last quarter and a 24% increase from the second quarter of 2024.

Revenue per unit excluding fuel surcharge, was approximately $171, down approximately 3% from the previous quarter due to customer mix and down approximately 13% from Q2 of last year. reflecting the reduced proportion of spot and dedicated traffic in the quarters beginning in Q3 of last year and after.

Company deliveries were 37% of revenue in the quarter, up from 35% last quarter and 32% in the second quarter of last year, consistent with our stated objective to increase the volume we deliver on company assets.

Our OEM contract business generated approximately 93% of total transportation revenue in the quarter, up from 91% last quarter.

Our dedicated fleet service generated revenue of $3.8 million this quarter compared to $4.3 million during the first quarter and $7.3 million in the second quarter of 2024. The dedicated fleet business should continue to generate approximately $4 million per quarter in the second half of this year.

Revenue from spot opportunities during the quarter comprised only 2.7% of total revenue, continuing a trend that has persisted now for the last four quarters. We expect spot and secondary revenue to remain a relatively small portion of our overall business through the second half of this year.

The trend toward a higher percentage of deliveries on company assets continued during the quarter through a combination of moving available assets to geographic regions with higher demand and the addition of Brothers Auto Transport at the beginning of the second quarter, which operates predominantly through company deliveries.

Utilization improvement was evidenced by a 7% increase in average weekly revenue per company driver in the second quarter compared to the first quarter of 2025. The company had approximately $13.6 million in cash and equivalents on June 30, ‘25, up from $10.9 million at the end of last quarter.

Aggregate debt balances at quarter end were approximately $90.2 million with net debt of $76.6 million. The increase from last quarter reflects our draw on the remainder of our term debt facility when the Brothers acquisitions have closed April 1. Though we did use free cash flow to reduce the balance on our revolving credit line later in the quarter.

Our expected equipment CapEx for the full year 2025 is approximately $10 million most of which was incurred during the first half of the year. Our current annualized run rate for free cash flow from operations will be between $30 million and $35 million after CapEx and which would represent an approximately 20% cash return on our current market cap.

Additional CapEx spending could be required in the event of large share gains awarded in the back half of the year, which would, of course, come with commensurate profitable revenue. The strength of our balance sheet, which will allow us to invest with growth is a differentiator in our industry.

Total common shares outstanding ended the quarter that $27.7 million, up from $27.1 million at the end of last quarter. The increased share count was a combined result of some shares issued in the Brothers acquisition investing of RSU grants made in connection with our IPO in May of 2024.

Looking to next quarter, the third fiscal quarter is typically characterized by seasonal softness despite a stronger July than originally expected, August is showing the seasonality expected -- the seasonally expected slowdown in revenue, and we expect a sequential revenue decline of between 2% and 5% compared to the quarter just ended.

We expect to maintain adjusted operating ratio even on this lower projected revenue. For the full year, we now expect top line growth year-over-year between 5% and 10%. Operator, we’ll now take questions.

QUESTIONS AND ANSWERS

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

Bruce Chan^ Looks like a really good fundamental execution this quarter despite the still soft auto market. And I think you alluded to this, Rick, in your prepared remarks, it's about controlling costs in the base market.

I guess my question here is how much cost have you taken out? How much more can you take out kind of exclusive of the market? And what levers do you have to pull?

I know you talked about the sister loads and the opportunity there. You talked about the company truck in sourcing and the unified tech platform. But maybe kind of detail around how much you expect to be able to pull out even if things kind of remain soft here.

Richard O'Dell^ Yes. We have some incremental opportunities that are targeted and quite frankly, in process. And they're really focused around procurement, consolidation of facilities, some personnel synergies and then, of course empty miles over time as well.

Bruce Chan^ It's super helpful. I imagine that sets you up pretty well for when the market does turn as does Jack Cooper.

So maybe just for my follow-up, now that you have a full quarter close to a full quarter of that Jack Cooper business under your belt, is your shipping still a little bit maybe -- how do you think about what these volumes could mean for you and some of these cost savings could mean for you, especially as the market normalizes?

Richard O'Dell^ We think there's still meaningful opportunity for margin improvements. And again we have a combination of share gains from organic growth as well as cost reduction opportunities and synergies from our empty mile initiative.

And I guess I would just comment with three of our operating companies currently operating at much better margins. The markets, the regional markets where there wasn't a concentration of port type business and imported traffic, we saw more stability in the marketplace and our execution and operating margins is much better there. And I think that validates the magnitude of the opportunity to still be able to operate in the 80s.

Amy Rice^ So there's a number of comments to your question there we entered two new markets this year, which had some start-up costs and some field overhead to go into new markets, we have the opportunity to continue optimizing in those new markets as we now build around those new sort of anchor points.

And we'll pursue business that tie into those new markets that will continue to improve their efficiency and their profitability over time so that we can get more incremental margins on incremental business that come into those new markets as well.

Richard O'Dell^ And to the extent we could grow business in our legacy markets, we won't be opening new facilities and hiring new supervisors will be able to leverage the resources that we have in our network.

Bruce Chan^ Okay. Yes. That makes a lot of sense. And then just to put a finer point on that, and then I'll turn it over. Around the roadshow, you all had talked about, I think a kind of target midterm OR number somewhere in the high 80s.

Obviously, there have been some developments in the OEM auto market that probably pushed those out. But if I were to think about a midterm number, however long it takes for the market to normalize and later on some of these additional cost saves and some of these additional levers that you just laid out, do you think that you can now be getting a number better than that?

Amy Rice^ No. I think our long-term or our midterm objective remains to get to a 90% or better OR to kind of move into the high 80s. And we need to be more aggressive and assertive near term on cost control actions to start that step down in light of the market we're operating in.

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

Tyler Brown^ Maybe Brad, Amy, just the volume looked really good, but I am curious about the sequential deterioration in the yields per Venn.

Can you just kind of parse out how much of that was core rate weakness versus maybe Brothers because I have a feeling you Brothers put some pressure on ARPU. And then should we think about yields hanging around here for the rest of the year?

Amy Rice^ Yes. I wouldn't read it that way Tyler. It really is just portfolio mix, of which customers moved more traffic in the quarter. And if a given customer has a more locally concentrated traffic base, they would have a lower RPU, but maybe just as profitable versus a different customer that may have a higher average length of haul.

So we did see just a shift in the top 10 customers in the quarter and the proportion of who was moving. So it's a customer mix issue.

Tyler Brown^ Okay. So length of haul can have a huge influence there. Okay. That's helpful. And then -- so Rick, I want to unpack the bid market.

So it sounds like it's strong. It's improving maybe, but I just want to be clear. So the majority of those OEM contracts that you're talking about, that is volume that you currently don't move.

So that sounds like a possible market share opportunity. And I don't know if this is the right way to look at it, but given everything just kind of the craziness that's been going on out there, has the bid market been not so normal and maybe there's going to be more go to bid in the market?

I'm just curious about what's going on out there. Sorry, that's probably not a very good question, but hopefully, you can get it what I'm getting at.

Amy Rice^ Yes. I'll take that one. So in a given bid, we typically have both incumbent traffic that we're seeking to renew as well as the opportunity to bid on new traffic. And what is changing a little bit is the degree to which OEMs are either gravitating towards their incumbent carriers for the bid activity versus more open mindedness to share shifts and new carriers in their bid processes.

And the current environment is one where our OEM partners are looking to optimize transportation supply chain against a changing sort of production plan, and they're looking to optimize cost and service.

So while we have got to defend on the incumbent side, you're right that there is a lot of market share potential opportunity to be gained, and we're going after that business. So we do see opportunity in this market, even though there is pressure in the OEM space.

Richard O'Dell^ I would make one further comment on that just to express confidence in our analytical ability to mine those bid opportunities for network business is a fit for us and will meet our contribution margins.

Tyler Brown^ Okay. Sounds like good opportunity out there. We'll wait and see. Brad, really quickly, if I can squeeze one in.

So I just want to be clear on the free cash flow comment. So you're saying that you think that today based on current EBITDA levels, you could generate somewhere around $40 million to $45 million of operating cash flow, right? I mean you're probably a limited cash taxpayer and a limited cash interest payer. So that's how kind of how we get from EBITDA to operating cash.

Bradley Wright^ Yes. So that was pre CapEx. But so when I take the $10 million out, that's where you get to that number, but you're right.

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

Ryan Merkel^ I wanted to follow up on the price question. So I have it down kind of 16% for price in Q2. Can you help us with what you're thinking for 3Q and 4Q? Are we going to stay in this range? Or do you think it might get a little better from here?

Amy Rice^ So I think on a relative basis, if you're looking year-over-year, we should start to see that delta compress. And the reason being, you'll remember when we reported our third quarter earnings last year, that was really when we started to see the softness in the spot market, and the dedicated business came down pretty precipitously and that had a large impact on RPU. We've seen stabilizing since then. And so I think you'll continue to see the RPU stabilize.

Ryan Merkel^ Got it. Okay. And then yes, the unit growth, I think it was up 20% year-over-year. That's a pretty good number. I mean you must be taking a lot of market share. Can you put that plus type unit growth and some context for us?

Amy Rice^ Yes. So there are really three buckets that comprise our volume growth in the quarter, a large portion of it is Brothers. Brothers has performed well in its first quarter in the portfolio, roughly in line with and/or slightly ahead of our expectations. So we're really pleased to have to have them as part of the footprint and the team.

The second large component is a full quarter of the new market share gains. And we've continued to see performance there that's in line with the expectations that we guided.

And then the third component there to somewhat of a lesser extent would just be organic and/or share growth in the base markets. And that's where we'd like to see additional growth coming from the market.

We've not seen as much as we were hoping for coming into 2025, but there is some lift there, particularly quarter-over-quarter.

Tyler Brown^ That's helpful. Okay. And then just to clean up here. Did you say that you expect the OR in 3Q to be in the same range as 2Q?

Amy Rice^ Yes.

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

Bruce Chan^ Brad, you talked about the cash position being pretty strong. Balance sheet is within a range of your target, you've had some nice incremental deals in the last year.

I know you mentioned the potential for some CapEx acceleration later this year if new bids pan out. But maybe you could just kind of give us an update on how you're thinking about additional M&A philosophically. Is that something that you're still keeping your eye on?

Bradley Wright^ Well I think as we've said in the past, I mean we'll always have conversations ongoing and that's something that will be kind of a constant, but I don't know that I would say there's anything imminent.

We're looking at, basically, the cash flow is coming from just organic operations. CapEx would only happen if we had big bid gains. And so you're going to see debt balances coming down over second half of the year. And there's nothing in the immediate future that would impact that.

Richard O'Dell^ But we do -- we are continuing to mine for the right opportunities in the pipeline.

Operator^ Thank you. 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. Again we're pleased with the -- certainly, with the revenue growth and the market share gains that we were able to achieve and obviously some improving execution.

We're not satisfied with the cost structure that we currently have in the volatile market, and we're continuing to advance those initiatives aggressively, continue to improve margins kind of regardless of the external environment. Thanks for your interest.

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