

PAL Earnings Call Transcript

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Quarter: 3

Operator: Good day, everyone, and welcome to Proficient Auto Logistics Third Quarter Financial information. [Operator Instructions] Please note that this conference is being recorded. Now it's my pleasure to turn the call over to the Chief Financial Officer, Brad Wright. Please proceed.

Bradley Wright: Good afternoon, everyone. I'm Brad Wright, Chief Financial Officer of Proficient Auto Logistics. Thanks for joining us on Proficient's Third Quarter 2025 Earnings Call. Under SEC rules, our Form 10-Q covering the 3- and 9-month periods ending September 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. Our earnings release provides comparative summary financial information for the third quarter of 2025 to the third quarter of 2024 for the company. It 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 our 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 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 then get back into the queue if you have additional questions. Now I would like to introduce Rick O'Dell, who will provide the company update.

Richard O'Dell: Well, thank you, Brad, and good afternoon, everyone. I'll start 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. First, as it relates to the third quarter, as we discussed in our last earnings call, July auto sales and deliveries were stronger than had been expected with SAAR finishing at 16.4 million units and while sequentially lower, consistent with seasonality. August and September SAAR were stronger year-over-year at an average of 16.3 million units driven in part by a surge in EV purchases ahead of the expiration of federal tax credits. Company revenue and unit volumes in the quarter largely followed these trends and were further bolstered by market share gains and the Brothers acquisition, finished up 21% and 25%, respectively, year-over-year for the quarter. The combined results nearly matched the revenue produced in the second quarter of this year and again, improved profitability sequentially and improved 250 basis points year-over-year, demonstrating continued momentum and operational improvements and strategic execution. From a market perspective, volatility in automotive manufacturing and purchase levels continues reflecting production disruption due to supply chain issues and economic impacts of the expiring EV tax credit, interest rate

adjustments and tariffs. While automotive OEMs continue to face cost pressure from tariffs as widely reported in their Q3 earnings releases, PAL continues to provide critical infrastructure in the transportation supply chain and we have the ability to be nimble to serve customer needs as they make necessary shifts. The pricing environment is not as strong as we'd like to see, however, we continue to show discipline in our pursuit of new business and retention of incumbent business to ensure that our portfolio allows for sustainable profitability and reinvestment. We're confident that we can be successful in achieving growth and margin expansion despite complexities in the market. Looking to the fourth quarter, October SAAR slowed to 15.3 million, and we are feeling this softness on volumes. SAAR forecasts are for high 15 million to low 16 million range for the balance of this year and into next year with dealer inventory levels healthy, along with a favorable tax policy for qualifying car loan interest deductions, a high likelihood of continued interest rate reductions and average vehicle age above historical norms for replacement and a typical seasonal increase in buying at the end of the year, we're hopeful that volumes strengthened through the balance of the fourth quarter, but we expect a modestly lower revenue outcome than the third quarter, and we expect to achieve similar adjusted operating ratio and cash flow. With regard to profitability, as I referenced in the second quarter earnings call, we remain focused on controlling costs and advancing targeted cost savings initiatives and operating efficiencies that produce sustainable benefits. In the third quarter, we recognized a \$1.9 million restructuring charge, representing approximately \$0.06 per share which is primarily composed of onetime headcount and facility consolidation resulting from organizational realignment as well as fees associated with the consolidation of causality insurance coverage for all operating companies. In total, we expect to realize over \$3 million in annual savings from the combined restructuring actions going forward though much of this begins in 2026. Note that under our new insurance program, we have a larger retention consistent with the company of our size, and there may be greater quarter-to-quarter volatility in the insurance and claims expense line going forward reflecting frequency and severity of any accidents and injuries that do occur. That being said, we do anticipate annual savings in our annual insurance expense. In addition to these items, we continue to leverage our national scale to drive cost synergies through our procurement efforts. While our now unified accounting and transportation management systems are increasingly providing visibility and actionable insights into our customer base, operational efficiency opportunities and profitability. As evidence of this continued progress sister hauls or load sharing between the merged companies grew to 11% of revenue in the quarter from 9% in the prior quarter, reducing empty miles and contributing to improved asset utilization. As we look ahead, we're well positioned to operate profitably with strong cash flow in the current environment and to respond quickly and efficiently when the market improves. The company will continue to protect its strong balance sheet position and advance our strategic objectives for continued margin expansion, market share gains and acquisitions. I'll now turn it back over to Brad to cover key financial highlights.

Bradley Wright: Thank you, Rick. First, a few summary statistics and note that the contributions from ATG and Brothers are only reflected in periods since their acquisition by Proficient. Operating revenue of \$114.3 million in the third quarter was 24.9% higher than in the third quarter of 2024. The adjusted operating ratio for the third quarter was 96.3%, an improvement of 250 basis points from the comparable quarter in 2024, which was 98.8%. Units delivered during the third quarter totaled 605,341, which is an increase of 21% compared to third quarter 2024. Revenue per unit excluding fuel surcharge, was approximately \$173, up approximately 3% from the third quarter of 2024. Company deliveries were 36% of revenue this quarter, down slightly from 37% in the same quarter last year when revenue was much lower, which diminished the volume available for allocation to sub haulers. Our OEM contract business generated approximately 93% of total transportation revenue in the quarter, which is essentially unchanged from last quarter and reflects a continued lack of spot volume opportunities. Likewise, our dedicated fleet business generated \$4.2 million of third quarter revenue, consistent with our expected run rate for the full year 2025. Building on Rick's comments about our expectations for fourth quarter revenue, we now foresee full year top line growth in a range of 10% to 12% compared to the combined company's 2024 total. The company has approximately \$14.5 million in cash and equivalents on September 30, 2025, up from \$13.6 million at the end of last quarter. Aggregate debt balances at the quarter end were approximately \$79.2 million down \$11 million from \$90.2 million at the end of the second quarter. The resulting net debt of \$64.7 million on September 30

of this year equates to 1.7x trailing 12 months adjusted EBITDA versus 2.2x at the end of last quarter. Free cash flow from operations represented by adjusted EBITDA less CapEx was approximately \$11.5 million during the quarter, which allows for this meaningful reduction in our debt balances. While CapEx was light during the past quarter, we can reiterate our expectations stated in last quarter's earnings call that full year equipment CapEx will be approximately \$10 million for 2025. Maintenance CapEx will likely grow from this level as our fleet expands. However, even with expected CapEx increases, we expect free cash flow yields of mid-teens to 20% return against our current market capitalization. Total common shares outstanding ended the quarter at 27.8 million, up slightly from 27.7 million last quarter as a result of vesting share grants. Operator, we will now take questions.

Operator: [Operator Instructions] Our first question is from Tyler Brown with Raymond James.

Patrick Brown: Brad, just some clarification just real quick. So you said revenues up 10% to 12% for the full year. Brad, is that on a \$389 million pro forma base? Basically, is it about a little over \$430 million for -- using the midpoint for 2025?

Bradley Wright: Yes. It's off of the \$388.8 million.

Patrick Brown: \$388.8 million. Okay. Perfect. And then flattish OR, is that what you said, Rick, sequentially.

Richard O'Dell: Yes.

Patrick Brown: Into Q4. Okay. Okay. Perfect. And then I was hoping, could we get a quick update on where we are on systems. I think that you guys had made the full conversion on the accounting system, but are we fully transitioned on the TMS across all the 7 opcos?

Amy Rice: Yes, we are.

Patrick Brown: You are. And then how is that unified operating platform? Can you talk about how that visibility is helping with those sister hauls? I think you said it was 11% of revenue, up from 9%. But just big picture, Amy, I mean, where can that number go longer term?

Amy Rice: We see that number continuing to rise. In the early stages, we're using that largely as a proxy for filling empty miles. But as our assets become more fluid and flexible across the network, I would expect that sister haul volume to rise, whether it's representing filling empty miles or not. So that the additional visibility in the system is very helpful to being able to act more quickly and there's opportunity for additional technology overlay for dispatch optimization and some of those capabilities as we look forward.

Patrick Brown: Okay. And then just real quick here. Just -- sorry, just a couple of other ones. But just, Rick, you mentioned last quarter that there were a number of OEM contracts that have been -- that were coming up this quarter. I'm just curious how you fared in those RFPs.

Richard O'Dell: Yes, go ahead, Amy.

Amy Rice: Yes. We still have a number of OEM contracts that are awaiting awards and sort of in the process of being resolved. We've not made any results that are material to overall revenues, and we commit to share anything that is of a materiality threshold. There is, as we've shared with pricing, we will work to retain profitable volume only to the point that it makes sense for our portfolio. So we have had some experience of letting some volume go to price points that are not attractive to us. We are, however, continuing to pick up some new lanes and new opportunities in some of these contracts, but they've been smaller more recently.

Patrick Brown: Okay. And just my last one, I promise. But -- and I know '26 is a ways away. But -- there are a few moving pieces that roll into '26. I mean I think you've got some old Jack Cooper business that kind of is still incremental. Brothers, I believe, is incremental. But Brad, is there a reason that assuming that SAAR is flat into '26 that revenue couldn't be up maybe high single digits. Is that a crazy assumption?

Bradley Wright: I don't think that's a crazy assumption, Tyler. We will pick up, as you point out, some incremental revenue for a full year of Brothers. And so that helps. It's -- we're still in the process of doing our 2026 plan, and we'll give you some more specifics on our next call. But I think that's not a crazy assumption.

Richard O'Dell: Tyler, I would just add to that while, again, we're still in our '26 planning progress, we do -- we have kind of established a target to improve our operating ratio by at least 150 basis points in 2026 over the 2025 results.

Operator: Our next question comes from Ryan Merkel with William Blair.

Ryan Merkel: I wanted to ask on October just to get a little more specific what was the year-over-year increase in revenue for October? And then just clarify, it sounded like you thought November and December, the growth could pick up a bit from October. Did I hear that right?

Amy Rice: Yes. So for October, I'll give you the pieces in there. We had Brothers this year, we had the incremental market share gains this year, neither of which were in the comps from last year. And then on just the base market, I would say it was slightly improved from where October was last year. In terms of November and December, typically, seasonally, there is an end of year purchase pattern and pushing up inventory to clear out the 2025 model and bring in 2026 inventory. We're seeing a bit of sluggishness in the current market as it stands in early November. So we are still, as we said, hopeful that we see that uptick seasonally, but we are not experiencing it in the current market.

Ryan Merkel: Got it. Okay. And then the ARPU was still down year-over-year for the company deliveries, so -- and then in the press release, you mentioned there's still excess supply. I realize that's a near-term problem. But how should we think about pricing in the next couple of quarters? Do you think we've bottomed here? Or might there still be a little more pressure?

Amy Rice: So I'll take that in 2 ways, Ryan. One is how we are experiencing pricing on bids that are coming up for renewal. The other is really the RPU trends quarter-to-quarter and how that may change. As we shared pricing dynamics on new contracts are pretty weak right now. We would like to see a more constructive market for pricing with supply and demand a bit more imbalanced. From an RPU perspective, though, we would expect largely stable RPU. The big changes that we saw in some of the quarters previously, we're cycling the declines in the dedicated product cycling the declines in the spot market. So those 2 things had a really material impact on RPU year-over-year. We are stabilizing now, and you should expect to see more consistent RPU year-over-year just with any impact from mix change within the portfolio.

Ryan Merkel: Got it. Okay. That's helpful. And I'll slip in one more. Rick, you said that the dealer inventory was healthy so should I take that to mean that they're fairly lean levels, you feel comfortable? And I realize it's a moving target, but is that something you feel good about as you enter 4Q?

Richard O'Dell: Yes. Yes, we don't perceive the inventories to be in excess. SAAR has been strong.

Operator: Our next question comes from Alex Paris with Barrington Research.

Alexander Paris: Congrats on a strong quarter. Just to be clear on the Q4 guide, so to speak. You said 10% to 12% Brad, I think, for the full year, that would suggest Q4 revenues of somewhere between \$103 million and \$110 million or so. Still strong growth year-over-year, like the -- maybe not quite as high as Q3 year-over-year. But I'm wondering where is the strength coming from? I think last quarter, you talked about several buckets. The acquisitions of Brothers, Jack Cooper market share gains, organic growth, how would you allocate the importance of those buckets to the revenue growth of 25% in the quarter just ended and the unit growth of 21%?

Bradley Wright: Well, I think it's not unlike the second quarter. We still are having the same benefit, roughly the same amount of revenue from both of those 2 components, the Brothers and the new GM revenue. And with revenue essentially flat quarter-over-quarter, I think you could apply the same metrics.

Alexander Paris: Got you. And then just a follow-up question on free cash flow. You said it was adjusted EBITDA minus CapEx, \$11.5 million in the quarter. And I think you said on the last call, \$30 million to \$40 million of free cash flow for the full year. Is that still a reasonable target? Or it seems like it's running a little hotter than that right now.

Bradley Wright: It is. If you -- I was using kind of a run rate last quarter, certainly annualizing this one gets you a little -- get you a higher, probably closer to \$35 million.

Alexander Paris: Okay. And then on that basis, by far, you generate on a free cash flow yield basis more than any other company in the group, whether truckload or LTL. And a free cash flow yield approaching 20% when the next closest is 5% or 6%, which would support a significantly higher stock price. And that's enabling you to reduce debt at a pretty aggressive rate. Is it just a matter of you're a new company, you're a small company? What's it going to take to get the market to recognize this free cash flow characteristic.

Bradley Wright: Well, listen, when we talk to a lot of investors, and I think most of them appreciate the fact that the business is kind of an outsized cash flow return. When we start working off some of these other depreciation levels, amortization and that starts coming through as GAAP operating earnings, maybe that wakes other people up. But I don't know, Alex, it's -- we're as flummoxed by it as you are.

Alexander Paris: And then I guess last one, m&A; pipeline. It seems that you have the 7 companies fully integrated. Is there more cost takeout potential there? And then what does the new M&A; pipeline look like? Are you still pretty active there, particularly with this free cash flow generation.

Richard O'Dell: Yes. I mean we're always pursuing incremental efficiencies. And I think we've demonstrated or we're in the process of demonstrating kind of a cadence of regular improvements, validating our execution and our strategy and that strategy does include a combination of organic growth opportunities, supplemented by selective tuck-in acquisitions. And we have a pretty robust pipeline of opportunities. And obviously, with our strong cash flow, we've got the capability to fund that. And we would expect to continue on our target of 1 to 2 tuck-in type acquisitions a year as we proceed in 2026.

Operator: Our last question comes from the line of Bruce Chan with Stifel.

Andrew Baxter Cox: This is Andrew Cox on for Bruce. Building upon the cash generation discussion prior. Just kind of wanted to talk a little bit about CapEx and cash flow expectations moving through the end of the year and into 2025. You guys said in the prepared remarks that you do expect CapEx to move higher after this year and really appreciate the full year reiteration of the CapEx guide. But kind of wanted to get an expectation of your CapEx into 2026 and beyond. Is -- are there any additional CapEx needs to meet higher volumes if they should come sometime next year. And how do you plan to deploy free cash flow beyond CapEx next year?

Bradley Wright: Thanks, Andrew. I think, look, CapEx at \$10 million is probably kind of at the bottom of the range. But having said that, we've got fleet capacity that could support this kind of a market absent big gains in contract share. And so we'll have to kind of adjust as we go through the year. But the comment in the prepared remarks was just that we do expect that as our fleet grows, we intend to keep the average age at around 5 years. And that's just going to mean that CapEx by definition, has to go up a little bit. And so maybe \$15 million a year might be more normal or even as high as \$20 million as we continue to grow. But with the cash flow generation that we've been talking about, that still yields a mid-to high teens return on market cap, at least at today's market cap. So I wouldn't expect -- we're still working on the CapEx plan along with our full budget for 2026, but I wouldn't expect a much higher commitment to CapEx during '26 unless as again, the market changes, and we see big needs for addressing some contract gains.

Andrew Baxter Cox: Okay. That's really helpful. Every trucking executive team this earnings season has been asked a question about the changes to whether it be non-domiciled CDLs or the enforcement of the English language proficiency. Just kind of wanted to see if you guys have any sense on the impact of maybe these supply changes could have on the auto hauler capacity. Anything on the regulatory side? We would expect that it would have much less impact than dry van, but just any insight you guys have to help us try to model that in would be really helpful.

Amy Rice: Sure. So I mean, of course, we saw today that the interim rule was stayed for now on the non-domiciled CDL front. So we will continue to watch and see how that plays out through the appellate process. But assuming that interim rule does go forward in something substantially similar to what has been proposed, we do think there's a pretty material impact on trucking overall. It is not a material impact that we would expect to Proficient per se as our company's driver population is not impacted in a large way. But we would think for the auto hauler segment, that would hit more closely for smaller carriers potentially sub haulers and there are some niche players in the industry that have a driver composition that it's more likely heavily and/or majority impacted by the non-domiciled CDL interim rule proposed. It is certainly more of an impact on that front than the English language proficiency front.

Andrew Baxter Cox: Okay. Amy, that's really helpful as well. If I can sneak one more in here. Just kind of double-clicking on the mix benefit or just benefit at all that you had from the potential pull forward of EV demand prior to the expiration of the tax credits this quarter. Maybe it might be best if you guys have this offhand or if you guys can help us understand like what percentage of the units in 3Q were

electric vehicles, maybe compare that to the year prior or the quarter prior. Just trying to understand what sort of impact this pull forward may have had on the quarterly results.

Amy Rice: Yes. So I'll come at that in a slightly different way. We don't actually track our volume on the basis of internal combustion engine versus EV vehicles. But the impact to us is that the EV vehicles are a heavier weight so you can get fewer of them on a given truck. So where you'd expect to see some impact is potentially a lower load factor per truck, but that's often and we seek to ensure compensation around EVs so that the lower load factor is offset in higher revenue on those units.

Andrew Baxter Cox: Right. Okay. I just -- I mean should we believe that the revenue per unit impact this quarter, was it at all impacted by mix changes to the EV side?

Amy Rice: I don't think so.

Richard O'Dell: Minimally.

Bradley Wright: Yes. Minimally.

Operator: We have a follow-up from the line of Tyler Brown with Raymond James.

Patrick Brown: I appreciate you guys actually answered my follow-up on non-domiciled. That was very helpful, Amy. But since I've got you, real quick, I think, Brad, you mentioned last quarter that 3 of the 7 opcos were running 90 or better. Can you chalk up 1 or 2 more this quarter? And then on the opcos, the other ones that are not running at 90 or better, they've got to be running just mathematically, call it, 100 or more. And if you were to build the bridge between where they're operating and some of the 90 or better opcos, what are the kind of 2 or 3 key things that really differentiate there on the P&L;?

Bradley Wright: So several things there, Tyler. One, the count on those at 90 or better hasn't really changed this quarter versus last quarter. But I would say more generally that there has been a pretty broad improvement across almost all of the opcos, and that has come on constant revenue. So we are seeing incremental gains even if small, but on flat revenue. In terms of your observation that others would have to be over 100, we don't have that in a pervasive way, but we've got a couple of opcos with -- that are experiencing lower volumes that are at or a little above 100, and that is mostly a revenue issue. We have dealt with a lot of the cost issues through this consolidation effort and the reorganization that we talked about. And so I think that will help in the go forward even for those entities and then pushing some extra revenue through whether that's wins on contracts or whatever it may be, we will take care of the difference. That's the path really.

Patrick Brown: Okay. So it's not a fundamental cost structure issue. It sounds like it's a little bit of price, a little bit of volume would go a long way.

Bradley Wright: Yes.

Amy Rice: Yes.

Patrick Brown: Okay. And then did you give the spot mix? That's my last question.

Bradley Wright: We -- I don't know that we did, but similar to last quarter, it was at or a little below 3%.

Operator: And with that, ladies and gentlemen, we conclude our Q&A; session. I will turn it back to Rick O'Dell for final comments.

Richard O'Dell: Well, thank you for your interest in Proficient Auto Logistics. We're pleased with the progress that we've made in the first 18 months of our endeavor as a public entity. And most importantly, never satisfied with the absolute results and clearly optimistic about our ability to continue to execute and progress our operating margins. Thank you again for your interest.

Operator: And ladies and gentlemen, this concludes our conference. Thank you for your participation. You may now disconnect.