

Covenant Logistics Group 2nd Quarter 2025 Conference Call

Mr. Grant – Good morning everyone and welcome to the Covenant Logistics Group second quarter 2025 conference call. As a reminder:

This call will contain forward-looking statements under the Private Securities Litigation Reform Act, which are subject to risks and uncertainties that could cause actual results to differ materially. Please review our SEC filings and most recent risk factors. We undertake no obligation to publicly update or revise any forward-looking statements.

Our prepared comments and additional financial information are available on our website at www.covenantlogistics.com/investors.

Joining me today are CEO David Parker, President Paul Bunn and COO Dustin Koehl.

Revenue rebounded during the second quarter to a new record high, thanks to growing our Dedicated fleet, strong new business awards in Managed Freight, a small acquisition, and receding impacts of weather and Avian Influenza. However, margins remained compressed, particularly in our asset-based truckload segments, due to an inflationary cost environment, persistently high claims expense, a quarter-end jump in fuel prices, and continued pressure on volume and yields in our Expedited and legacy Dedicated segments.

During the quarter, we repurchased approximately 1.6 million shares or 5.7% of the average diluted shares outstanding for a total cost of \$35.2 million. The average price per share repurchased was \$22.69. Approximately \$13.8 million remains available under our \$50.0 million share repurchase authorization. We retain the full range of capital allocation alternatives based on our current financial profile.

Year-over-year highlights for the quarter include:

- Consolidated freight revenue increased by 7.8% or approximately \$20.0 million to \$276.5 million.
- Consolidated adjusted operating income shrank by 19.6%, to \$15.0 million, primarily as a result of year-over-year cost increases within our Truckload segment.
- Our net indebtedness as of June 30th increased by \$49.0 million to \$268.7 million compared to December 31, 2024, yielding an adjusted leverage ratio of approximately 2.0x and debt-to-capital ratio of 39.2%, as a result of executing our share repurchase program and acquisition related earnout payments.
- The average age of our tractors at June 30th increased slightly to 22 months, compared to 21 months a year ago,
- On an adjusted basis, return on average invested capital was 7.0% versus 8.0% in the prior year.

Now providing a little more color on the performance of the individual business segments:

- Our Expedited segment yielded a 93.9% adjusted operating ratio, a result only slightly better than the year ago quarter. While this result falls short of our expectations for this segment, we were pleased with the year-over-year consistency. Compared to the prior year, Expedited's average fleet size shrunk by 50 units or 5.5%, to 860 average tractors in the period. We expect the size of this fleet to flex up and down modestly based on various market factors. As market conditions improve, our focus will be on improving margins through rate increases, exiting less profitable business, and adding more profitable business.
- Dedicated's 95.0% adjusted operating ratio improved sequentially but fell short of both the prior year and our long-term expectations for this segment. On a positive note, we were successful in growing the

Dedicated fleet by 162 tractors or approximately 11.7% compared to the prior year and grew freight revenue by \$8.3 million, or 10.2%, compared with the 2024 quarter. We continue to win new business in specialized and high-service niches within our Dedicated segment and reduce exposure to more commoditized end markets where returns have not justified continued investment. Going forward, we remain focused on our strategy of growing our Dedicated fleet, specifically in areas that provide value-added services for customers.

- Managed Freight exceeded both revenue and profitability expectations for the quarter. We were pleased by the team's ability to bring on new freight, handle overflow freight from Expedited, and reduce costs. The quarter benefitted from non-recurring business that is expected to roll off during the third quarter, and we point out that this segment generally is susceptible to volatility of revenue gains and losses, and to margin expansion and compression related to the cost of sourcing capacity during market cycles. Over the longer term, our strategy is to grow and diversify this segment, and we note that an operating margin in the mid-single digits generates an acceptable return in capital given the asset-light nature of this segment.
- Our Warehouse segment experienced freight revenue that was effectively flat to the prior year quarter, but adjusted operating profit fell by approximately 45%. The significant reduction in adjusted operating profit is largely due to facility-related cost increases for which we have not yet been able to negotiate rate increases with our customers and startup-related costs and inefficiencies related to new business. We anticipate improvements to adjusted margin during the remainder of the year.
- Our minority investment in TEL contributed pre-tax net income of \$4.3 million for the quarter, compared to \$4.1 million in the prior year period. TEL's revenue in the quarter increased by 34% compared to the prior year primarily by increasing its truck fleet by 429 trucks to 2,635 and increasing its trailer fleet by 866 to 7,880. The revenue increase was largely offset by lower margins on lease revenue and equipment sales due to a soft market.

Regarding our outlook for the future:

Our team is performing well while keeping the pedal down on growth and shifting mix toward more contracted, specialized, and high-service niches. Covenant Logistics is one of few companies in our industry to grow revenue and fleet count year-over-year. While the combination of a tepid general freight market and start-up costs in new Dedicated accounts, along with inflationary costs, has pressured margins more than we'd like, we see a path to improving fundamentals as the year develops.

Our baseline expectation for the second half of the year includes additional start-ups in our Dedicated segment, a slowly improving general freight market and modest peak season that will benefit Expedited and Dedicated, and a wide range of outcomes in Managed Freight.

If the general freight market fails to improve, we still expect mix change and seasonality to generate better results in the second half of the year. If the general freight market improves, and a typical peak season takes place, we believe leverage exists in our model to capitalize in Expedited, certain Dedicated accounts, and Managed Freight.

Regardless of what the remainder of 2025 has in store for us, our team is aligned and focused on continuing to execute on our strategy and plan, which includes a disciplined approach to capital allocation, executing with a high sense of urgency, improving operational leverage as conditions improve, growing our dedicated fleet and improving our cost profile.

Thank you for your time and we will now open the call for any questions.