

Covenant Logistics Group 1st Quarter 2026 Conference Call

Mr. Grant – Good morning everyone and welcome to the Covenant Logistics Group first quarter 2026 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.

Our first quarter was unique in that it included two of the worst and one of the best months we have experienced in the last three years. The trajectory was positive and has continued into April, leaving us with conviction that the change in the market is structural not seasonal. Our Expedited segment was most negatively impacted by both weather and fuel costs in the quarter, with improved rates and volumes in March and April, which we believe will continue to improve throughout the year, giving us plenty of operational leverage. Our new business pipeline for committed truckload capacity continued to strengthen in the quarter for both our Expedited and Dedicated fleets. Revenue trends during the first three weeks of April remain strong across all of our business units. In our view, we are finally feeling the impact of declining industry-wide driver and truck capacity and improving demand in certain segments and geographies.

With that background, I will move on to the quarter's statistical review.

Year-over-year highlights for the quarter include:

- Consolidated freight revenue increased by 15.9% or approximately \$38.7 million to \$281.9 million, primarily as a result of the assets acquired in the fourth quarter of 2025 that are now being operated as Star Logistics Solutions .
- Consolidated adjusted operating income shrank by 11.5%, to \$9.6 million, primarily as a result of margin compression in our Expedited segment, which was particularly challenged with reduced utility from severe weather and higher net fuel costs.
- Our net indebtedness as of March 31st decreased by approximately \$51 million to \$245.3 million compared to December 31, 2025, yielding an adjusted leverage ratio of approximately 1.8x and debt-to-capital ratio of 37.6%. The reduction in net indebtedness was a result of selling a significant amount of used equipment in the quarter and buying very little new equipment. With equipment deliveries concentrated in the last three quarters, leverage ratio may increase modestly in the next couple of quarters depending on the timing of deliveries and the prices for used equipment. Ultimately, we expect improved cash flow and disciplined capital allocation to reduce the leverage ratio over time, excluding acquisitions and other strategic options.
- The average age of our tractors at March 31st increased to 26 months, compared to 20 months a year ago, consistent with year over year reductions to our high mileage Expedited fleet and growth in our less capital-intensive Dedicated fleet.
- On an adjusted basis, return on average invested capital was 5.0% for the trailing four quarters versus 7.6% for the same period in the prior year.

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

- The Expedited segment reported an adjusted operating ratio of 99.1% for the quarter, performance that fell well short of our expectations. Severe weather and rising fuel costs adversely impacted this segment more than any other in the quarter due to its linehaul nature, requiring high utilization to cover the fixed costs for the operation. Going forward, we have line of sight to sequential improvement in this segment throughout the year. Over time, our goal is to average a double-digit adjusted operating margin across the freight cycle to generate an acceptable return on capital.
- Dedicated's 95.5% adjusted operating ratio was an improvement compared to the 98.1% achieved in the prior year. Although this segment also encountered cost headwinds in the current period, those headwinds were not as severe as the impact of avian influenza in 2025. Going forward, our goal is to restore adjusted operating margin to double digits, grow the fleet serving high-service niches and reduce the fleet that is exposed to more commoditized end markets where returns are inadequate.
- We were pleased with Managed Freight's performance for the current period, growing both revenue and adjusted operating income compared to the prior year. While the growth in freight revenue outpaced the growth in adjusted operating income, the cost to secure quality brokerage capacity has remained elevated from the fourth quarter of 2025. Due to the asset light nature of this business, we note that an adjusted operating margin in the mid-single digits generates an acceptable return on capital.
- The Warehouse segment successfully grew freight revenue 14.6% compared to the prior year as a result of organic growth with a new key customer in the fourth quarter of 2025. Despite the growth in revenue, adjusted operating income declined slightly, primarily due to increased startup costs and operational inefficiencies associated with the new customer. Looking ahead, we remain committed to driving organic growth within this segment and are focused on enhancing our adjusted operating margin, with a target of reaching high single digits.
- Our minority investment in TEL contributed pre-tax net income of \$3.7 million for the quarter, compared to \$3.8 million in the prior year period.

Regarding our outlook for the future:

We believe 2026 will be known as a transition year in the freight market, with sequential incremental financial improvement to occur each quarter. During the first quarter, we secured rate and lane improvements with existing customers and developed a mature pipeline of new customers with attractive pricing on a level that has not occurred since 2022. We expect this trend to continue as the year unfolds. The nature of these bids is the new rates and lanes take effect a few weeks after being negotiated, so the first quarter activity will begin to show up in the second quarter and so on. It will take time for our 2026 efforts to be fully reflected in our financial results. This explains why the market impact was more than offset by the softness we experienced in January and February. Nevertheless, for the first time in multiple years, we have line of sight to capturing operational leverage from these environmental tail winds. Our team is refreshed, energized, and ready to execute.

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