Covenant Logistics Group 2nd Quarter 2026 Conference Call

Mr. Grant – Good morning everyone and welcome to the Covenant Logistics Group second 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.

Before we dive into the quarterly numbers, I want to take a step back and connect a few dots regarding the freight recovery we are now seeing.

Ten years ago, Covenant looked very different. We were almost entirely an irregular-route carrier without multi-year committed customer contracts. That meant our financial results were significantly linked to the ups and downs of the volatile freight cycle, making it difficult for investors to understand the long-term value proposition of our business.

To fix that, we launched a strategy to deeply embed ourselves in our customers' supply chains. We began moving away from highly volatile commoditized business and intentionally invested in more specialized value-added businesses, such as dedicated and warehousing, which require multi-year committed relationships. These businesses have performed well and, crucially, lowered the volatility of our business. We aren't finished, but we are well on our way.

Today, we have much less exposure to the extreme swings of the market. We saw the proof of this from 2023 through 2025. When the market bottomed, our margins held up much better than our peer group average and our own historical results. As a result, our stock outperformed.

As we look ahead, we expect this strategy to keep delivering. Over the next few quarters, we are focused on three execution priorities:

- First, we are transitioning expiring contracts into new, long-term commitments.
- Second, we are moving more of our uncommitted capacity into committed revenue.
- And third, over time we expect Managed Freight gross margin to return to normal levels as contract rates catch up to capacity costs.

Given our levels of contractual capacity, our operating margins won't spike as fast or as high as peers who have mostly uncommitted capacity. But the flip side is exactly why we built this model: when the market turns down again, our margins should be more stable because we have proven our long-term value to customers.

During the last cycle, we proved we could raise the floor on our earnings. In this cycle, our goal is to raise the ceiling while establishing an even higher floor. Based on an extended cycle of tight industry driver capacity and strong execution, we believe we can significantly expand our operating margin. We expect steady improvements, not a hockey stick.

This is where we have been heading for a decade, and we are confident in our path forward. With that background, I will move on to the quarter's statistical review.

Highlights for the quarter include:

- While rates and revenue quality improved in the quarter, elevated costs more than offset any improvements to operating margin.
- Consolidated freight revenue increased by 6.6% or approximately $18.2 million to $294.7 million, primarily as a result of the brokerage assets acquired in the fourth quarter of 2025 that are now being operated as Star Logistics Solutions within our Managed Freight segment, partially offset by approximately 3% less freight revenue from our Combined Truckload operations as a result of fleet reductions.
- Consolidated adjusted operating income shrank by 19.0%, to $12.2 million. The largest contributor was lower gross margin in Managed Freight. Dedicated Truckload improved its results, and all others declined slightly.
- Adjusted net income declined by 9.8%, as a result of the combination of higher pretax earnings from our minority investment in TEL, combined with a favorable tax rate as a result of infrequent discrete items impacting our income tax provision, partially overcoming lower operating income.
- Our net indebtedness as of June 30th decreased by approximately $6.6 million to $289.7 million compared to December 31, 2025, yielding an adjusted leverage ratio of approximately 2.2x and debt-to-capital ratio of 41.2%. The reduction in net indebtedness in the first half of the year was in line with our expectations. Cash proceeds from operations for the period was impacted by acquisition related earnout payments, insurance policy renewals and large claim settlement payments. For the second half of the year, we anticipate our net capital equipment investment to range between $50.0 million and $60.0 million depending on the timing of deliveries and the prices for used equipment, operational cash flow to improve, and net indebtedness to reduce modestly.
- The average age of our tractors at June 30th was 26 months, up from 22 months compared to a year ago. This growth is in line with our life cycle management plan for our asset based fleet and consistent with year-over-year reductions to our high mileage Expedited fleet.
- On an adjusted basis, return on average invested capital was 5.2% for the trailing four quarters versus 7.0% 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 94.6%, approximately 70 basis points above the prior year quarter. The segment's profitability improved sequentially from the first quarter by 450 basis points, but still fell short of our expectations for the quarter. Over the past twelve months, this segment has undertaken a considerable amount of transition. While the fleet was reduced 17.0%, freight revenue per average tractor has improved by 6.8%. Our focus on growing our customer base with high-value cargo through multi-year committed capacity agreements has resulted in improved freight revenue per total mile but has been partially offset with a reduction in miles per average tractor for the period. Elevated insurance related claims costs also impacted this segment unfavorably in the quarter. As we work to convert this segment to serving more committed capacity freight under multi-year agreements, we are confident that profitability will improve to a level that meets our expectations. Going forward, we have line of sight to steady sequential improvement in this segment's profitability 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 adjusted operating ratio of 95.0% was in line with the prior year quarter. Freight revenue per average tractor for the period improved by 8.6%. Cost headwinds in the quarter, including maintenance and insurance related claims, offset improved freight revenue in this segment. Going forward, our goal is to steadily restore adjusted operating margin to double digits, grow the fleet serving high-service niches, improve profitability with certain legacy customers as contracts renew, and if applicable reduce any part of the fleet that is not adequately returning capital in line with our expectations.

- Managed Freight grew freight revenue 28.4% compared to the prior year, primarily as a result of the brokerage assets acquired in the 4th quarter of 2025. However, the segment's operating margin in the quarter lagged our longer-term expectation as a result of rising costs to secure quality brokerage capacity outpacing our ability to secure contractual rate increases from customers. This type of margin compression is normal for an early upcycle. As we look ahead, our goal is to improve upon these results with the understanding that cost pressure may remain elevated as carrier capacity may be constrained for some time, and higher insurance and claims expense has become a greater risk after the Supreme Court's recent *Montgomery* decision.

- The Warehouse segment performed in line with our revenue expectations, but disappointed us by failing to improve margins sequentially as a result of a continuation of labor inefficiencies with a 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 $5.3 million for the quarter, compared to $4.3 million in the prior year period. While pleased with these improved results, much of it is attributable to higher equipment sale gains, which we do not anticipate benefiting from in the third quarter.

Regarding our outlook for the future:

The second quarter marked a positive inflection point for the freight economy following a prolonged downturn, reinforcing our view that 2026 is a transition year for the industry. While elevated costs pressured our profitability in the quarter, we were encouraged by the pace of revenue improvements this early into an upcycle. Through the remainder of the year, we intend to build on this progress by improving the quality and durability of our customer relationships and maintaining disciplined cost controls, resulting in improved operating margin and earnings over time. Although the pace of improvement may be more measured than that of certain peers, we believe the durability of our model and the continued execution of our strategy position us well for long-term performance that meets or exceeds our shareholder expectations.

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