USA Truck, Inc.

First Quarter 2017 Earnings Conference Call

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CORPORATE PARTICIPANTS

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Zach King - *Vice President and Controller*

PRESENTATION

Operator
Good day and welcome to the USA Truck First Quarter 2017 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on a touchtone phone. To withdraw your question, please press star then two. And please note this event is being recorded.

I would now like to turn the conference over to Jody Burfening. Please go ahead.

Jody Burfening
Thank you, Brian. Good morning, everyone and welcome to USA Truck's first quarter earnings conference call. Joining us this morning from the company are James Reed, President and CEO; Jim Craig, Executive Vice President and Chief Commercial Officer; Jason Bates, Executive Vice President and Chief Financial Officer; and Zach King, Vice President and Controller.

Before beginning the call, I would like to remind everyone that this call will contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 as amended, and Section 21E of the Securities Exchange Act of 1934 as amended, and such statements are subject to the Safe Harbor created by those sections and the Private Securities Litigation Reform Act of 1995 as amended. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. Please review our disclosures and our filings with the Securities and Exchange Commission.

Also, on today's conference call, management will be referring to certain non-GAAP financial measures in its analysis of the results that supplement the GAAP financial statements. A reconciliation of these non-GAAP measures to GAAP is provided in the tables at the end of the slide presentation accompanying today's conference call.

With those housekeeping items out of the way, I would now like to turn the call over to James. Good morning, James.

James Reed
Good morning and thank you. Thanks, everyone, for joining us this morning. As we begin I want to acknowledge our recent additions in Jason Bates, that's our EVP and CFO; Cheryl Stone as our Senior Vice President of HR; and Jason Geldermann, who is our Senior Director in Logistics. All three of these leaders are game ready and make the team better now. They have had an immediate impact on our team and bring new meaning to the word urgency. They're pushing us to be better every day and we look forward to announcing some other additions very soon.

Getting the right team has been one of my most important jobs in the three months since I became CEO and we're making great progress. The whole team understands that we must execute and accelerate the pace of change at the company. Our results have not met our own high standards and we're looking forward to leading USA Truck into the future on a much faster path.

Last quarter, I shared this quote from Andy Grove, "Most companies don't die because they are wrong, most die because they don't commit themselves. The greatest danger is in standing still." We have not stood still. Our strategy is proving out as we continue to improve yield, continue to improve tractor productivity, and improve revenue per seated truck. It's true that we have further to go, but we are bucking industry trends and improving operating measures of success and we see that as a positive. Execution and pace at USA Truck are accelerating daily, but still are not at the pitch required to meet our goals. Our intensity and immediacy are still new to many here. We lost people in the quarter who simply weren't keen on being accountable to results or felt the pace to be uncomfortable. We wish them well, but we will not abandon our approach as we shared last quarter. We will improve. We expect excellence. We expect engagement and we demand maximum effort and fast results.

Let's turn to Slide 4 for a look at our consolidated results. The overall freight environment in our business was slow seasonally as both January and February were sluggish compared to prior years. March showed promise as volumes improved for our core trucking business, but logistics volumes, particularly for full truckload brokerage were slow throughout the quarter and the push for more volume in that environment put pressure on margin. For the quarter, operating revenue was down 8.1% over prior year and we had an operating loss of $6.4 million or $4.9 million in net loss. Our operating ratio was 106.3, well below our results for the same period in 2016.

In this year's first quarter, included in the loss per diluted share for the quarter was approximately $800,000 or $0.06 a share net of tax, a severance cost recorded in salaries, wages and employee benefits. The quarter also reflects the $4.5 million or $0.35 per share net of tax charge in insurance claim reserves from lost development on plans related primarily to the 2011 to 2014 policy years. For reference, the 2016 quarter included a $5.3 million charge or $0.34 per share net of tax relating to restructuring, impairment and other costs. Also recall that in 2016, the company bought back shares and that in the first quarter of 2016, there were $1.4 million or 14.8% more diluted shares outstanding accounting for approximately $0.09 per diluted share of the consolidated earnings impact.

In Trucking, we had an operating loss of $7.1 million, driven by lower base revenue per loaded mile, a smaller fleet, more unseated tractors than expected and an increase in insurance and claims expense that I mentioned earlier, partially offset by a $2.6 million reduction in operations and maintenance expense. In Logistics, we had operating income of $700,000, down when compared to both last year's period and sequentially due to soft demand and gross margin compression.

Let's now move to Slide 5 for a closer look at Trucking's first quarter results. We believe we have one of the best stories in the industry with our progressively improving price. Price has been on a steady recovery since the pricing collapse we experienced in the second quarter of 2016. Recall that base revenue per loaded mile dropped in that quarter by $0.17 per loaded mile or 9.1% due to the loss of business from some larger customers. The timing of that drop means that the first quarter of 2017 is the last remaining challenging quarterly comparable, and as one would expect our base revenue per loaded mile for the quarter was down 3% or $0.053 per mile when compared to the same period of last year.

As discussed last quarter, we implemented a change to our pricing strategy in the fourth quarter of 2016. So, the first quarter is the first full quarter where the benefits of our new pricing strategy have been realized. Sequentially, base revenue per loaded mile only decreased 0.8% or $0.014 per mile compared to the 7.2% decrease in rate that occurred from the fourth quarter of '15 into the first quarter of '16. This, better than seasonal sequential performance is an encouraging sign that our strategy is being accepted by the marketplace.

This pricing performance comes on the heels of two consecutive quarters of sequential increases in the third quarter of '16 and fourth quarter of '16 respectively, further considered that March 2017 was up $0.037 per loaded mile over March of 2016 or 2.1%. We think this unique story is likely to continue through the year, especially in the tightening environment anticipated in the second half of the year.

When looking more closely at the pricing trends in the quarter, it is worth noting that bids that became effective in the first quarter were up 5% year-over-year on average. While we are not expecting across the board pricing strength of that magnitude, we are optimistic about our ability to continue driving improvement to pricing throughout 2017. During the quarter, we won two prestigious outstanding service awards: one from a large retailer as their top carrier in our size carrier set, and another from a large home improvement retailer. We believe that our commitment to excellent service plays a meaningful role in our ability to realize price increases.

Now we'll move to the middle of this slide. We had a lower seated tractor count throughout 2016 as we eliminated high cost tractors, and we also experienced changes with driver retention that continued throughout the first quarter. Just in sheer reduction of tractors alone, we are down 195 seated tractors year-over-year. The revenue associated with those tractors at first quarter revenue levels would have been over $7 million. We ended the first quarter of 2017 with an unseated tractor percentage of 8.3%, up from 3.1% for the same period in the prior year. But despite that performance, average seated tractor count increased 1% over the fourth quarter of 2016 to 1,563 tractors. This is because although we don't report our turnover percentage, we saw a significant improvement in driver turnover year-over-year. Getting the unseated percentage to 5% would have accounted for a $2.3 million of the aforementioned $7 million in revenue opportunity in the quarter.

We've implemented immediate countermeasures designed to specifically address this issue of unseated trucks. Our remediation plan includes the hands-on, 90-day on boarding concierge-type experience for our most recently hired drivers. This has been very well received thus far and has greatly reduced turnover in participant cohorts.

We have also implemented a driver advocacy role for expedited resolution of driver concerns. We have reinstated regularly recurring fleet-wide driver conference calls and began a driver advisory board this past quarter whereby drivers nominated by their peers participate in our decision process on things like pay, tractor specifications and driver concerns with key leadership personnel USA Truck. We think these actions combined with a recently announced increase in driver pay of an average of $0.015 per mile that went into place early in April should aid an improving driver retention further. It is important to note, that we came to this decision to raise driver pay through a robust analysis of our network and combined driver dynamics to derive a solution that helps our drivers, our competitiveness and the network.

The pay change which we think will cost us $1.8 million in annualized costs was made for two reasons. The first is to address shortcomings we had in regional pay differential. USA Truck has always had one pay plan until now and that prevented us from being competitive in certain areas of the country, where we had experienced higher turnover and recruitment challenges. The second reason we implemented the pay increase was to aid in recruitment and retention in higher yield areas of our network. The company could benefit from improved network density and network balance by recruiting and retaining more drivers in higher yielding areas of our network.

Finally, looking at the bottom of this slide, we show the continued and disciplined improvement in revenue per seated tractor per week. Base revenue per seated tractor per week improved 0.9% to $3,040 up from $3,014 for the fourth quarter of 2016. This is the third consecutive quarter of improved results on this critical measure, and in the last 12 months, reflects a 2.4% improvement in this most important measure of our business.

Moving to Slide 6 where we have summarized Trucking's operating metrics, I'll call out a few notable items. Average miles per seated tractor per week improved by 4.8% versus the first quarter of 2016. This is the second consecutive quarter of near 5% year-over-year improvement in tractor productivity. Tractor productivity and miles per tractor per week has improved in four of the last five quarters and this further reinforces what has already been discussed that despite general industry trends we are improving our core trucking performance in a way that will sustain performance into the future.

Next, operations and maintenance costs continue to be a bright spot, improving approximately 29% versus the first quarter of 2016 on the replacement of high cost tractors and in-sourced road call services.

Insurance and claims cost continue to be a burden on a CPM basis. And while we expect a lesser impact as truck productivity metrics continue to improve, it is a concern. One factor in play is that the loss history of the business reflects a materially higher fleet size that created liability that age and develop over time despite our relatively smaller current fleet bed. Another is markedly higher cost per claim and cost per million miles of claims. We are actively working to reduce accident frequency and improve our process for managing claims once they occur to further reduce this problem area.

As we saw on the financial metrics already shared, our first quarter results for USAT Logistics were not encouraging as we continue to see traction and contribution from our major initiatives come in below expectation. The brokerage market didn't do us any favors in the first quarter, but we're not going to use that as an excuse. We simply didn't get the job done.

USAT Logistics margin compression was seen as our margin percentage dropped from 18.7% last year to 16.4% for the first quarter of 2017. Our average margin per load remains higher than the market average, but the decline is by design as we accept more conservative margins in exchange for aggressive market share expansion that has yet to occur.

Our sales pipeline is robust and our customer contract activity over the first three months of the year was stronger than any other similar timeframe during the past two years. Our leading indicators are encouraging as are some of the market trends that have begun to emerge over these last few weeks. And I apologize those comments are addressing Slide 7.

Jim will provide some more detail on our current and some new revenue initiatives a little bit later in this review, but I'll now turn it over to Zach for an update on our balance sheet and liquidity. Zach?

Zach King
Thank you, James. Turning to Slide 8, I'll give you an update on our balance sheet and liquidity. As of March 31, 2017, our total debt was $131.9 million and total availability under our credit facility was $43.2 million. Our focus in 2017 has been on increasing our free cash flow position over 2016. Through the actions discussed by James we expect our operating cash flow to increase over our 2016 levels. And then noting this outcome, coupled with our reduced CapEx requirements during 2017, we expect to make significant progress on reducing our leverage ratio towards our goal of 2.5x to 3x adjusted EBITDA.

I will now pass the call back to James.

James Reed
Great. Thanks, Zach. If we now go to Slide 9, you'll see the strategic action plan that we laid out for trucking in our third quarter and fourth quarter calls of 2016. We have revised our expectations given the slower than expected start to the year and now expect these initiatives to add $5 million to $7 million compared to the 2016 results.

These initiatives remain critical to 2017 success and so here is an update on progress to those goals. First, increasing the rates, I mentioned earlier we're making really good and steady progress on this front. Second, improving maintenance costs, we're planning for continued progress on maintenance cost reductions and looking for even more on this front. Third, optimizing our network, our network management is progressing nicely. We've overhauled our network analysis and our improvement process and have seen the returns in density that has improved over 3x in terms of loads per lane over the last two years. This has yielded improvement in both price and driver productivity. Finally, we increased the percentage of independent contractors as a percentage of the fleet. We increased the number of independent contractors by 12 over December 2016 and up 39 from March of 2016. We remain committed to the goal of raising this portion of our capacity to over 20% this year.

We released our version of a self-dispatching cut and load board exclusively for independent contractors operating under our authority in the quarter has received outstanding reviews from our partners and should provide a platform for growth going forward. The two new performance targets we set for 2017 that are outcomes of the strategic action plan are shown on the right side of the screen. The increased base revenue per seated tractor per week by 3% to 5% over our 2016 average of $2,998 and to increase seated truck count by 5% to 7% over the fourth quarter 2016 average of 1,547. And as we noted previously, these measures are up 0.9% and 1% respectively through the first quarter of 2017.

I will now turn it over to Jim who will discuss the Logistics business. Jim?

Jim Craig
Thank you, James. Looking forward, we expect to see significantly improved performance from our direct efforts as well as improved market dynamics in the brokerage space in the second quarter and for the balance of 2016.

Our sales agent program has not yet contributed at levels we originally anticipated, but has posted their strongest results to-date over the past several weeks for both number of agents generating revenue and the total revenue from the program. Because our results have not yet met our own high expectations, we are determined in managing our expenses, primarily headcount, while investing in areas we believe will help us overcome market challenges. As James mentioned earlier, we have recently made a significant staff addition, recruiting a proven performer and leader in business development in the 3PL space, Jason Geldermann, to lead our sales and pricing initiatives.

We are also responding to customer requests and market conditions by expanding our service portfolio to diversify and reduce our dependency on drive van truckload freight. We have just added an LPL specialist to expand our capabilities there and are actively recruiting a flat bed, project cargo leader to take advantage of market opportunities we see there.

Plus Power, our power only independent contractor solution, growth has been less than expected as the smaller carriers and the owner operators we focus on in our recruiting efforts are taking a wait and see attitude with the pending ELD mandate. Frankly, we're hearing from some of these carriers that they may choose to exit the business instead of the run under the new requirements. If this occurs, tightening capacity anticipated during the second half of 2017 would become a reality.

Our USAT Logistics de Mexico office in Celaya, somewhat delayed due to the government regulatory requirements, is now open for business, fully functional, engaged in the pursuit of numerous customer opportunities. We have a very capable and experienced team leading this effort both in Mexico and here in the US. We identified previously untapped opportunities for daily bidding of customer spot load activity and implemented the customer load board desk approximately six weeks ago. Since implementing this initiative, our weekly revenues secured have grown steadily and we are now approaching $100,000 a week for our combined brokerage and asset businesses.

Finally, we are now planning to complete the evolution of regional cost center operating model and we'll use the second quarter of 2017 to transition our carrier management and dispatch activities to be aligned with the freight origin versus where the customer relationship lives. This will give us better negotiating leverage on our current volumes, concentrated carrier relationships and focused expertise for more effective capacity management and service delivery. Our efforts, initiatives and determination to overcome the internal and external challenges are relentless. And we remain optimistic about our ability to deliver significantly improved year-over-year results in the second half of 2017.

I'll now turn the call back to James for his closing remarks.

James Reed
Great. Thanks, Jim. And I think it's worth noting that Jim is out visiting customers even as we're on this call, so appreciate his commitment to our business.

As a recap, I'd like to highlight some of the comments we've made in this and prior releases. We are assembling a great team with more to come. We're striving to create a cost-conscious culture and we have a variety of levers at our disposal that we constantly evaluate. And to that end, we expect continued fixed cost reductions. We targeted $3 million to $4.5 million in fixed cost reductions in our third quarter 2016 release and have $1 million to $2 million remaining throughout the remainder of 2017 to meet that objective. We already accomplished $1.1 million of those savings towards that goal in the first quarter of 2017.

Our seated tractor count grew 1% in the quarter. And as it grows, much of that growth will come from independent contractors, which we expect to grow to be over 20% of our fleet. Today, the independent contractor fleet is nearing 20%. Asset-light remains a critical element of our success. We expect USAT Logistics to generate approximately 35% of consolidated revenue by the end of 2017 and have upgraded talent, expanded our offerings and added a load board team generating over $1 million in incremental annualized business on a run-rate basis.

We expect improved cash flow and EBITDA versus 2016 sufficient to cover future CapEx requirements going into 2018 and maintain our fleet strategy. Furthermore, we expect a return to profitability in the third quarter of 2017 and beyond, especially as expected industry dynamics materialize.

I've now been here for two quarters, and in the fourth quarter of 2016, we took a $2.8 million impairment on assets held-for-sale and in the first quarter of this year, we've taken a $4.5 million increase in our insurance reserves related to development. My point is we have conservative accounting. We will continue in our conservatism and we will stick to our knitting, which is to be a great transportation company.

We are disappointed with our slow start yet we are taking the right actions to build a solid operating company with a bright future. The measures we have taken are not elegant or fancy. They are fundamentals seen in each of the most elite performing companies in our sector and we seek to emulate that. A key area that we did not discuss is the work we have done in building our culture, one of accountability, capability and growth with a clear view of our purpose and potential as an organization. We'll talk more about that in the future.

Right now, we're focused on getting improved results. This is an effort that is yielding results as outlined above. Now that our management team is arriving and digging in, we expect to find new opportunities to further tighten our network, improve yields, reduce turnover and improve our cost performance. It's gritty work for sure, but we enjoy that kind of stuff around here.

At this point, operator, Ryan, we'd like to open the call up for questions.

QUESTIONS AND ANSWERS

Operator
And now we'll begin the question and answer session. To ask a question you may press star then one on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

And our first question will come from Brad Delco with Stephens. Please go ahead.

Scott Schoenhaus
Hi, guys. This is actually Scott Schoenhaus on behalf of Brad. How are you guys doing?

James Reed
Hi, Scott. We're well. Thanks.

Scott Schoenhaus
I guess my first question is you noted that the freight demand environment was weak in January and February. It seems like you saw some improvement in March and April. I was just wondering if you could comment on the improvement in the freight environment in March and April and what you're seeing so far in the first few days of May and if you can continue to target these 5% contract renewals going forward.

James Reed
Yes. Good question, Scott. So as I said on the call, March was significantly stronger than January and February for us although we continued to experience some softness in our Logistics business around the truckload brokerage space. That said, we finished March pretty strong. We got a bit of a slow start to April, but the second half of April in this first week have each week been higher and higher revenue week. So, we've seen continued improvement in the marketplace.

And I think it's pretty consistent with what we'd expect seasonal business to be with drinks and home improvement and all the things, charcoal and the various things that go with that. So we are seeing a dynamic that's more consistent with I'd say normal expectations.

And then the second part of your question was about pricing. You know, we do not want to set expectations that pricing will be up 5%. What we have experienced as I said on the call in March is an increased March versus March of 2.1% year-over-year. So, we think that's an encouraging and more sustainable trend. We also noted that—and we said this on last quarter's call as well—that freight bids had gone in—awards that had gone into the network in Q1 into effect I should say that were year-over-year bids were up 5%.

Now that said, something I didn't say on the call, but I'm saying here is we had an additional over $80 million of business that we re-priced in the quarter that's going into effect even as we speak that collectively was over 4%. And so we feel really good about our price. We think that we have further to go than others. Our price is below the market. And so there's a bit of a USA Truck effect here of getting caught up with the marketplace, so I wouldn't reach broad-reaching market conclusions about that, but we're encouraged.

Scott Schoenhaus
That's very helpful. Thanks for the color. And I guess just my second follow-up question is I noticed in your 10-K that you filed that you tend to increase your average age of equipment up to 2.7 years. Is that still your goal? And if so, your targeted maintenance cost reductions, how will that impact? I mean that seems like a relatively higher average age of equipment?

James Reed
Yes, that's right. We were asked this question last quarter as well. So that is the number that we're targeting. It's consistent with our investment in capital strategy this year. And I'm not here obviously to speak about any of our competitors but I don't think that's a unique strategy in our industry given what the resale and gain on sale opportunities are of used equipment. The ROI is better for us at this point to keep that equipment a little bit longer and get more useful life out of it.

With respect to the maintenance cost, we've done a few things to improve our maintenance costs. We brought our road call in-house it had previously been over—it had been contracted out in much of 2016. And we, as I said on the call, have seen $2.8 million year-over-year reduction or 29, approximately—it's $2.6 million, excuse me, and approximately 29% reduction year-over-year. So, we're continuing to bring those reductions home to roost.

Scott Schoenhaus
Thanks. Thanks, James.

Operator
And our next question comes from Jason Seidl with Cowen. Please go ahead.

Jason Seidl
Hi, everyone, and welcome to the new USA Truck team members that are on the call today, especially Jason Bates who probably had the unfortunate pleasure of dealing with me at Swift . Anyway guys, I wanted to drill down a little bit on some of your commentary. I think you mentioned that you expect to improve your seated truck count. And then I thought I heard you say that some of that was going to come with owner operators. I didn't know that owner operators are counted in your seated tractor fleet?

James Reed
So, in our seated tractor fleet, we do include the owner operators in the denominator. I'm looking across the table at Zach to make sure I'm being truthful about that. So that's always been the case at USA Truck in the metrics. So, it's no change in the comp.

And I'll just address what you didn't ask, but just to clarify something we said, last year, we intentionally reduced the fleet size to more appropriately match our network. And so as we were taking trucks out, it reflected in a lower unseated tractor count but we had turnover issues throughout 2016 and some of those persisted into 2017. So we're taking immediate kind of evasive actions to improve our performance there and expect to increase our seated truck count really by two actions: one, improving our turnover percentage, which we saw material improvement in that year-over-year; and two, by adding additional independent contractors, or really I mean to say owner operators.

Jason Seidl
Well, let me ask it another way. So, if we exclude the additions of the owner operators that you're going to bring on board and assume that your turnover improves, because obviously, you put a pay rate in, how should we look at your own fleet and the percentage of you own fleet that is seated going forward?

James Reed
Yes. That's a great question. So last quarter, I think we said this in some of our public disclosures, our own fleet had over 10% turnover. So that was an issue—excuse me over 10% unseated tractors.

Jason Seidl
Yes, 10% turnover would be great.

James Reed
My apologies, I'd love that. Over 10%, I believe it was—do you have the number, Zach? We'll look up the number while I'm answering the question, but our unseated tractor count on our company tractors was over 10%, I believe it was slightly over 11%. We now are into single digits on that and that's a recent improvement that's come about really within the last 90 days.

So I don't know if that addresses your question. But I think the way to look at our fleet, I'll just give you the numbers. I think we disclosed this, if not, I'm willing to disclose it, which is last year we had in the first quarter 1,564 company tractors and this year we have 1,412 company tractors.

Jason Seidl
Okay, that provides us with some good color. And how should we look at sort of the cadence of your reported earnings? You're going to have some stuff I assume that's not going to continue in 2Q that we hit in 1Q including the severance and obviously the insurance reserves, but then that's going to be offset by a driver pay increase that will hit in the quarter that will be somewhat of a negative, but I'm assuming some of that can get offset a little bit by improving your driver turnover and your seated tractor count. And then I am looking at your pricing for new business, although I hear you, you're not expecting yet 5%, that stuff will start flowing through the network as well. So as I'm looking, should 2Q look better than 1Q including seasonality for you?

James Reed
Yes. I think that's fair, I mean given especially the one-time events that you mentioned and the continuing trends that we've already talked about. I mean we've seen quarter-over-quarter improvements in productivity which really the measure that I care most about is the quarter-over-quarter improvements in revenue per tractor per week. And we expect to continue to improve those measures.

Jason Seidl
Okay. And I guess my final question for you guys, I thought I heard you say $5 million to $7 million of improvement in the business that's taken down from last year, but your release says $6 million to $10 million. Is that $5 million to $7 million only in the Trucking business?

James Reed
Yes, it's $5 million to $7 million in Trucking. And then on the slide that talks about Logistics we have $1 million to $2 million—excuse me [indiscernible] there. So that's where the tie out is.

Jason Seidl
That's where I thought it was. Okay. Gentlemen, thank you for the time as always.

James Reed
Thanks, Jason.

Operator
The next question today comes from Michael Vermut with Newland Capital. Please go ahead.

Michael Vermut
Hi guys, how are you doing?

James Reed
How are you doing, Mike?

Michael Vermut
Just quickly, just I guess hitting on what Jason said, so we should see sequential improvement, it was kind of a kitchen sink quarter, it looks like. And quarter-to-quarter we should see metrics start to improve, as we go along?

James Reed
Yes. I think that's certainly consistent with our expectations, Mike. I mean what we have said, probably main provision from our last release is we got a slower start to the year than we expected like many of our industry peers. And we expect to be profitable in the third quarter. That said, it necessarily requires that we improve quarter-over-quarter, and so yes.

Michael Vermut
Excellent. Looking over than next year or two years, structurally where can this company get back to on the OR? When you've now had I guess two quarters at the company, is there anything that has changed your mind as to where you can get the OR and then what are some of these targets that you're looking over the next into '18 and '19?

James Reed
Yes. So what we've said, we haven't said publicly, I'm going to resist the urge to tell you what my internal targets are for OR over '18 and '19, but our goal over the next three years, I should say, is to improve to peer averages.

And then as we've discussed in other conference calls and other public forums, none of us here are content with being second place. And so the first objective is to run down the competition that's in front of us and be at least as good as they are. And then we should be talking about three years' time, Mike, about how we passed them and what truly unique things we'll have to do to do that.

But that said, back to your original question, structurally, I'm encouraged here. I kind of expected to find this island of misfit toys that didn't have the right customers, didn't have the right network, didn't have the right equipment and didn't have the right systems and tools. And really what was missing was consistent industry well-informed management and as we've gotten into this, and I don't want to speak for Jason, he's been on the job for three days, so he probably won't see anything here, but I think we're all encouraged that the guts are there. And I think that's manifested in our results. I mean we have had very consistent performance over the last few quarters in improving revenue per tractor, improving our productivity, improving our yield, heightening our network, all the things that speak to a fundamentally sound underpinning. Now we just got to go manage it and get fit.

Michael Vermut
Excellent. Has there been any—I know you're looking to pay down debt at these levels that I guess are almost $1 below tangible book. Has there been any discussion to using some of that availability for a buyback?

James Reed
Not at this point. We appreciate the question, but not at this point.

Michael Vermut
Well, keep it up, guys, and we're looking forward to that turn to profitability.

James Reed
Thanks, Mike.

Operator
This concludes our question and answer session. I would now like to turn the conference back over to James Reed for any closing remarks.

CONCLUSION

James Reed
Thanks, Ryan, and thanks, everybody, for participating in our call this morning. I'd like to sum up by saying that companywide, we do have a relentless focus on execution throughout the organization, and are committed to the return to probability. We share that we believe that should be realized in the third quarter of 2017.

But to be completely transparent with you, our goal is to be profitable every day and in aggregate, as soon as we possibly can. We want to emphasize that while we believe the company strategy is solid, we have real work to do to execute and return to the levels of performance we expect, including becoming profitable in the third quarter. We have recognized that our comps are relatively easier than our competitors. And while we celebrate, improving despite market pressures to the contrary, our aspiration is to not only catch up to our peers, but to become one of the best performing names in the industry.

We will be in New York for an industry conference later this month. You'll see details in an upcoming advisory announcement about that. Jason and I look forward to meeting you and discussing our plans for strengthening our business further in both the short- and the long-term then. Thanks a lot and have a great day.

Operator
Ladies and gentlemen, the conference has now concluded. Thank you for attending today's presentation. You may now disconnect.