USA Truck

First Quarter 2016 Earnings and Conference Call

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CORPORATE PARTICIPANTS

Randy Rogers – *President and CEO*

Michael Borrows – *Executive Vice President and CFO*

Martin Tewari – *President, Trucking*

Jim Craig – *President, USAT Logistics*

PRESENTATION

Operator
Good morning and welcome to the USA Truck First Quarter 2016 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 (0). After today's presentation there will be an opportunity to ask questions. To ask a question you may press star (*) then one (1) on your touchtone phone. To withdraw your question, please press star (*) then two (2). 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, Austin, and good morning everyone and welcome to USA Truck's first quarter earnings conference call. Joining us this morning from the Company are Randy Rogers, President and Chief Executive Officer; and Michael Borrows, Executive Vice President and Chief Financial Officer. In addition, Martin Tewari, President, Trucking; and Jim Craig, President, USAP Logistics are with us today.

Before beginning the call, we'd 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. Forward-looking statements may be identified by their use of terms or phrases such as expects, estimates, anticipates, projects, believes, plans, goals, intends, may, well, should, could, potential, continued, future, strategy and terms and phrases of similar substance. Forward-looking statements are based on the current beliefs and expectations of Management and are inherently subject to risks and uncertainties some of which cannot be predicted or quantified, which could cause future events and actual results to differ materially from those set forth and contemplated by the underlying forward-looking statements. Accordingly, the Company's actual results may differ from those set forth in the forward-looking statements. Investors should review and consider factors that may affect future results and other disclosures by the Company in its press release, Annual Reports, and Form 10-K and other filings with the Securities and Exchange Commission. The Company disclaims any obligation to update or revise any forward-looking statements to reflect actual results or changes in factors affecting the forward-looking information. I'd also like to point out that Management is using certain non-GAAP financial measures in today's conference call to supplement the consolidated financial statements. A reconciliation of these non-GAAP measures to GAAP is provided in the tables at the end of the earnings press release in the slides accompanying today's conference call's prepared remarks. With those housekeeping items out of the way, I would now like to turn the call over to Randy. Good morning, Randy.

Randy Rogers
Thank you Jody and good morning everyone. I'm happy to be here this morning with my colleagues Michael, Martin, and Jim. Rather than jump directly into the results for the quarter as we usually do, I thought I'd change things up a bit and start with a Company update and my view of where we are in our transformational journey and what you can expect to see from us in the periods to come. I think this will provide good context for framing our first quarter results.

So if you'll turn to slide 3 please you will see how we have arranged today's agenda. I'll start with introductory comments, a view of recent achievements, and then discuss the consolidated results. I'll be followed by Michael, who will discuss the balance sheet and our liquidity position, and then we'll turn it over to Martin and Jim for more specifics on our Trucking and Logistics businesses. I think it will be very helpful for you to hear directly from them about their perspectives and priorities.

Finally, I'll come back for a few closing comments. If you would, please turn to slide 4. I wanted to start by saying how excited I am to have the Executive Team fully in place. There is no question a transformation is underway at USA Truck. Although we've not yet been together for an entire quarter, this team is working very collaboratively and is extremely focused on delivering defined and measurable results.

On this call we will be sharing with you some specific targets we've established as well as a defined path to achieving them. One of the key targets relates to our Trucking operations and how we're committed to achieve peer level performance in our operating ratio. With Jim's arrival in February we're also very focused on growing market share in our Asset Light division, which we have now rebranded USAT Logistics, sorry to steal your thunder there, Jim.

I believe one of our key achievements under this leadership team has been to develop our culture basically, to one focused much more on process excellence and efficiency, and with a keen awareness to the need to allocate our capital wisely. So what does all this mean? As you'll see on slide 5, we've laid out what I would call our path to excellence. There is a lot of information here so I won't walk you through all the bullet points, but suffice it to say the actions we've taken over the last year to reset our culture, operational priorities and focus on ROIC have created a solid foundation on which to improve and grow this Company.

In the first quarter this year we've been building on this foundation through greater collaboration between the divisions and a more structured approach to process improvement and redesign. Martin, in particular, will walk, will talk about some of the improvements he and his team implemented in Trucking and you will see many of these have translated to lower costs per mile in the first quarter despite industry headwinds.

With value creation our priority, we've continued to take a hard look at our overhead and fixed cost structure and we've taken additional actions in Q1 which I'll discuss on the next slide.

Finally, as we progress through this year, we'll implement some of the even more value-enhancing improvements in our Trucking network through greater use of technology and optimization tools that will be key to continued improvement in our network and cost structure.

Now let's go to slide 6, which details the actions we took in Q1 to take out costs and continue to drive operational efficiencies. As you can see there are a number of significant actions in each of the two categories. Their impact isn't yet fully visible in our reported results. In fact, the fundamental changes we've been making in our Trucking operations inevitably brought some short-term disruption in expense. However, they were necessary to improve long-term returns and efficiency. To summarize, we closed two maintenance facilities, two underperforming logistics branches, one operations terminal, drop yards, and removed other idle assets. In addition, we reduced approximately 10% of staff department headcount and reduced discretionary expenses in recruiting, advertising, and other areas. The estimated total annualized savings for these measures will be approximately $2 million. With respect to operational efficiencies, you'll see some of the actions we implemented in the first quarter. We made several advancements in implementing a yield management system, network management improvements, which Martin will discuss in his comments, and continued advancement in driver recruitment.

With that, I would like to run you through the consolidated results for the first quarter starting with Slide 7. For the first quarter, we had operating revenue of $110.6 million, down from $132.9 million reflecting the smaller fleet we now operate, about 400 fewer company-owned tractors and also a reduction in fuel surcharge revenue of more than 50% due to the dramatic decrease in fuel prices. Despite a challenging freight environment, we achieved USA Truck's seventh consecutive quarter of profitable adjusted earnings, posted adjusted EPS of $0.15. It was also our second consecutive profitable first quarter on an adjusted basis. During the quarter, as I just described, we took many actions to improve our cost structure resulting in $5.3 million of restructuring impairment and other costs. On an adjusted basis, our consolidated OR was 97.2%. At this point, I'll ask Michael to update you on the balance sheet and liquidity. Michael?

Michael Borrows
Thank you, Randy. On Slide 8, you will find highlights of our balance sheet and cash flow. Our balance sheet and overall credit profile continue to strengthen as we improve our Trucking business. We ended the quarter with $103.9 million debt outstanding net of cash, which is $2.5 million higher than we ended in 2015. Debt to adjusted EBITDA was 1.8 times compared to 1.6 times at the end of June 2015, still within our leverage range of between 1.5 times and 2.5 times. With $82 million liquidity under our revolver, we have the liquidity for any investment necessary to execute on our strategy, which is focused on driving increased return on invested capital. In 2016 we will acquire about $50 million of new revenue equipment. However, net cash capital will only be about $25 million to $30 million based on our forecast for equipment sales proceeds, including $10 million to $15 million in favorable lease financings. As a side note, we are forecasting gains on the sale of revenue equipment for the full year to be in $1 million to $1.5 million range.

USA Truck will continue to maintain a normalized trading cycle, about 2 years for tractors. As you may recall in previous discussions, we have a bit of a 2012 tractor bubble. Even so, as we acquired new tractors and purchase 2012 model year, the average age of the fleet will still approach the range of 2 years. Trailers will continue to be managed to about 5-year average age and will remain close, and we will maintain close to a 3:1 tractor to trailer ratio.

Additionally, we will continue to allocate capital to our share repurchase program in order to further enhance shareholder returns. During the first quarter we repurchased just over 445,000 shares under our stock repurchase authorizations at a cost of approximately $7.5 million. We have every intention of completing our most recent 2 million share repurchase authorization as we move through the rest of the year, and as of yesterday, we had just under 1.3 million shares remaining under that authorization. Even with this aggressive program, we are currently projecting to be free cash flow positive in 2016. Okay, with that quick summary, I will turn the call over to Martin.

Martin Tewari
Thanks, Michael. I'm glad to have a chance to go over my vision of Trucking's path to peer performance outlined on Slide 9. Taking stock for just a moment on what we've already accomplished, our first focus has been on doing the front-end work essential to our operations and making sure we offer a top flight service to our customers. We've been making safety improvements, overhauling our maintenance operations, and upgrading the quality of our drivers, all of the things Randy described earlier that are essential to getting us to adjusted OR targets that we set for the next 2 years. We intend to fill the gaps in our network around freight needs in a thoughtful and strategic way. We're changing our approach from opportunistically soliciting freight to strategically fulfilling customer commitments. We need to align our customer lanes that fit well within our network going forward. Technology will play an important role in all

of this. Better profitability tools have been deployed to manage our network. We have added a planning and optimization group that will look at loads real-time to determine what's inefficient, take waste out of those loads, improve delivery performance, and route drivers home on a timely basis.

As we move through the year, we will layer on more sophisticated network optimization systems to give us full visibility into what our trucks are doing, the best assignments for each driver, and how we can make good decisions across our network. We're going to focus on the geographies and shipments that make most sense for USA Truck rather than diffusing our strengths and capabilities. Our target is to capture in the range of $20 million of additional annualized operating income improvement by the fourth quarter of 2017. And finally, I want to emphasize that a 90 OR is a milestone for USA Truck, not the end game. We're focused on driving operational excellence as far as we can go.

With that as a background, let's move to Slide 10 where you'll see the summary of Trucking's results for the first quarter with a comparison of the first quarter of 2015 and the fourth quarter of 2015. There are a lot of numbers here that you can review, but as you can see how the actions we've taken in the second half of 2015 to reduce our fleet size and other fixed costs are beginning to flow through the P&L. As you can see from the chart on the bottom left side of this slide, on a smaller fleet we're improving asset utilization and average amounts per seated tractor improved sequentially from the fourth quarter to 1,920.

Our unseated percentage has also been improving. For the first quarter this metric was 3.1%, 560 basis points better than the last year and a 170 basis points better than the fourth quarter. Rate on year-over-year and sequential basis primarily reflects changes in customer mix. Looking at the chart on the right side of this slide, you can see that Trucking operating expenses on a per-mile basis are improving both year-over-year and sequentially. The chart illustrates the benefit of optimizing our fleet size and our strategy to focus on a more flexible fleet and return on invested capital. Operations and maintenance is higher in the first quarter of 2016 than in both the fourth quarter and prior-year period as we are still adjusting to the reductions we're been making in our operational footprint as we move from a fixed cost to a variable cost model.

Clearly, strong collaboration with Logistics is important to our mutual success. For the first time Trucking now has total visibility and access to the brokerage loads and Logistics is also seeing all Trucking's activity so that our network planners can determine the best way for our Company to fulfill customer demand and get the highest return on Company assets. With that, I will turn it over to Jim.

Jim Craig
Thanks, Martin. I'll start with Slide 11. It's been a busy and exciting three months since I joined USA Truck from BNSF Logistics in February. As Randy said we've mapped out our plan to significantly increase the contribution of the Company's asset-light business and we've begun implementing that plan starting with re-branding our sales last month as USAT Logistics. Our new name better represents and clearly differentiates both the customers and team members with 3PL capabilities within the USA Truck family. Beyond the re-branding, we're doing a lot of things to move our vision forward.

First, as Martin indicated, collaboration is key in this process. Goal alignment between USA Truck's asset and asset-light businesses are already driving more efficient and effective collaboration. Logistics is committed to finding loads for USA Truck's in surplus capacity markets to reduce empty miles, idle trucks, and the need to discount their capacity and service to secure incremental loads. Trucking will benefit from Logistics for our flexibility and variety of customers and freight allowing the Company to keep revenue and margin dollars in-house instead of supporting our 3PL competitors. And Logistics can realize additional volumes covering available loads that fall outside of Trucking's service network or available capacity.

New processes and protocols recently implemented that resulted in record number over the last two weeks of customer loads we've been able to cover that previously would have been lost to the market. Our combined sales initiatives are offering customers the greater value inherent in the unique complementary service capabilities of the two business units and our customers are responding favorably.

Second, we have redesigned Logistics organizational structure. As Randy mentioned, we've closed two underperforming offices and begun reshaping our organization around regional sales and operating centers. Under this structure, proven leaders will have larger teams and broader service portfolios to manage, the responsibility for both customer and carrier development in their regions. We now have 10 locations and we will invest in them to support aggressive growth and market coverage. We will not open additional offices without a clear and strategic purpose.

Third, we are segregating the customer and carrier [indiscernible] activities within our regional centers to improve customer service levels, communications, ease of doing business, and market knowledge. By having client managers who focus on business development, customer service, and pricing responsibilities and carrier managers who are responsible for carrier selection, negotiation, dispatch and load management, we'll have greater employee productivity on both sides, higher levels of customer and carrier satisfaction, and yields that will improve over time.

Next with the specialization within the regional centers we have redesigned our variable comp model to recognize and reward both the business development efforts and equally important, the carrier negotiation and capacity securement work. Based on my prior experience with industry compensation benchmarking studies, I'm confident our new variable comp model is in line with our major competitors and driving the right kind of behaviors. The other change we have made is to the variable comp plan for our branch or regional managers. The Company's prior plan was too lucrative too soon, rewarding generously for results that may have been less than stellar. At the same time, it was a cap plan, which ran counter to our performance-based culture. The new variable comp rewards excellence, encourages hyper growth efforts and results, with removal of any cap.

Fifth, we are placing a lot of focus on recruiting, training, and supporting superior talent. Our intention is to continually be in talent-acquisition mode at each location that's meeting our financial performance expectations. We want to give proven leaders and proven formulas for success the opportunity and empowerment to increase their contribution and generate exponential returns. We're also investing in our own direct sales resources, adding local market coverage for our Logistics offerings to supplement our inside sales and USA Truck's national sales Fortune 1000 company-focused efforts.

Finally, we are broadening and strengthening our service portfolio to enhance our value to both current and future customers. We have teams focused on developing our currently modest servicing capacity capabilities in flat bed and temperature-controlled freight and are developing the go-to-market strategies that will reward those efforts with increased market shares. Similar initiatives are underway led by subject matter experts on staff for LTL consolidation, intermodal, and over-dimensional heavy haul cargos.

Now, moving to Slide 12, you will see a quick summary of the results of our asset-light business in Q1. As you see, we held net revenue steady at $6.7 million even though operating revenue was lower due primarily to softer spot markets and the decrease in the fuel prices. Quarter-over-quarter, our load count was up 18% reflecting solid market share gains. Our gross margin increased 130 basis points to 18.7%. So, it was a pretty good performance in a tough freight environment, and we look forward to doing much better as our strategy gains traction and perhaps even we benefit from a better freight environment. With that said, I would like to pass it back to Randy to wrap things up.

Randy Rogers
Thanks, Jim. Turning quickly to Slide 13, I will conclude by saying it's an exciting time to be part of the team here at USA Truck as this Management team is committed to continuing the progress we have outlined on this call. We have communicated some specific targets, which you see here on this slide, which will help us achieve peer performance in our Trucking business and we made a number of positive changes to accelerate growth in our Logistics business. Our organization is motivated and engaged at all levels to ensure we deliver on these expectations. Thank you very much for your attention, and at this point, operator, we'd like to open up the call for questions please.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question you may press star (*) then one (1) on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star (*) then two (2). At this time, we will pause momentarily to assemble our roster. And our first question comes from Jason Seidl with Cowen. Please go ahead.

Jason Seidl
Thank you, operator. Good morning, guys.

Randy Rogers
Good morning Jason.

Jason Seidl
So, a couple of things. Let me get sort of the micro view and then we can talk macro. With a lot of the changes that you've just implemented going forward, when we're looking at your expenses on a per mile basis, I'm assuming operations and maintenance is going to be coming down based on some of the closures as maybe you might have a little bit on salaries, wages and benefits as well. Where else should we look at it from a modeling perspective as line item by line item here?

Michael Borrows
Yes, Jason, this is Michael. What I would, how I would view it is we think about the targets that have been given through the rest of this year and through 2017 as we move to peer performance, right? We expect that the range of $20 million that Martin referenced in his discussion, probably 60% of that will come out of operations and maintenance, maybe 20% out of insurance and claims flowing through fewer collisions and enhancements to our safety

culture. We're looking at, you know, maybe about another 15% coming out of salaries and wages and 5% out of fuel through some other fuel efficiency MPG initiatives that we have.

Jason Seidl
Okay. Now, that's great color. Looking forward, obviously you guys just came off a big review sort of your business lines, is there anything else that could be sort of Phase 2 of this and if there is a Phase 2 where do you think that might be focused on?

Randy Rogers
Yeah, phase 2 in terms of just getting at operational efficiencies or top side growth?

Jason Seidl
Operational efficiencies.

Randy Rogers
Yeah, I think, this is Randy. I think Martin alluded to it a bit. We've done a lot of work here recently on looking at our optimization tools, the tools that we currently employ in the business. I would say we've gone through really three phases in our evolution here. The first was really to get the basics right, to, we've got a very professional management team here that understands how to run the Trucking side of the business and focused on key issues like the safety things that we've been talking about and getting, you know, instituting a culture of performance and accountability and excellence.

The second phase for us was really to look at the existing tools we have in the business, work on optimizations that were fairly visible to us, things that we weren't doing from an optimization perspective, equipment utilization, some of those things that didn't require a major process redesign. And we are now kind of in the third phase of this, where we are looking at our core processes and how we, those processes relate to this technology that we use and the optimization tools that we employ currently. So, I think Phase 3 of this, and really probably where one of the biggest bangs for the buck is going to come for us is in implementing some of these tools to really focus on hours of service and driving out inefficiencies, because when you look at it, that's really what we have to sell is hours of service for our drivers, and we're not where we want to be right now and that's where our key focus is going be.

Jason Seidl
Okay,

Michael Borrows
Hey, this is Michael. I would just add too, and I don't want to put words in Jim's mouth, but we're just getting started right now with exploding the growth in the Logistics business, as well.

Jason Seidl
Guys, listen, that's great color. It sounds like that next phase, if you will, is going to be on the technology side and helping you push some positive implementations going forward. I guess when I take a step back and I look at the macro right now, a lot of your competitors have already reported, kind of said listen, you know, sort of middle of March on kind of slowdown, April had been slow as well, could you give us an update on what you're seeing in the marketplace and also talk a little bit about sort of what you guys are getting on contractual renewals?

Martin Tewari
Hey, Jason, Martin here. How are you doing?

Jason Seidl
Good. Yourself?

Martin Tewari
Good, good. In regards to the freight environment, it continues to be weak, but fortunately, we have been able to bring on some additional business as well as do a better job in collaborating with our Logistics division to help improve asset utilization. So, we've had an uptick in asset utilization over the first quarter, you know, over the last few weeks. And as we continue to really focus on filling the pipeline where we need to, strategically across our network, you know I feel we will continue to see that, to see our utilization increase as we move through the year.

Michael Borrows
It is it fair to say, Martin, that we're somewhat competing against ourselves? It's how we view it, Jason, is that right as we continue to move towards operational excellence there will just be more demand for our capacity regardless of what the market looks like.

Jason Seidl
I get a sense though as I am listening to you guys that what you're seeing right now might be a little bit more company specific rather than the market itself, is that an accurate statement?

Martin Tewari
I mean, we are feeling the market as well. And there is some downward pressure on rates, same thing other carriers are feeling at this point, but we feel that we can continue to make the gains and productivity that we need to offset some of the decrease that we are seen in new rates with customers.

Randy Rogers
Yes, this is Randy. I would also say that as we've evolved with the network, there has been an awful lot of work done on balancing the flows and kind of reorienting the way we run the network, where we send our equipment, into what markets, and knowing what type of backhaul we get out of those markets. So, I think we're in a much better kind of balance in our network. There is still some work to do there. But I think the thing that we have done the most, I think, been the most effective on is connecting our sales force to operations, so that on a daily basis we know exactly where our needs are for capacity and are doing a much better job at planning that, which has kind of helped to really get the kind of freight that we want in the network. And you know, that's evolving, that's going to take a little bit of time to really perfect. And I think some of these technology and optimization tools that we're employing will also help us there.

Jason Seidl
Okay. Gentlemen, I appreciate the time as always. I'll turn it over to someone else.

Randy Rogers
Thank you.

Operator
Our next question comes from Brad Delco with Stephens. Please go ahead.

Brad Delco
Hey, good morning gentlemen.

Randy Rogers

Good morning Brad.

Brad Delco
Randy, it's, maybe to continue on the last string of questions, it seems like you are benefiting on the truckload side from some loads that are coming in from the asset-light side, how do you balance that so that over the course of time your asset-based organization doesn't become too dependent or reliable on the Logistics side, and what's the right balance and how should we think about those decisions being made internally?

Randy Rogers
Yeah, that's a good, that's a really good question. I mean, it was still early days, but the best thing is we've removed kind of these barriers that we had internally to, which quite simply didn't work very well across the organization. We didn't have visibility to loads and how we were, where we were trying to optimize. But I think there is a key emphasis on utilizing and optimizing our assets, and we can do that in a number of different ways. So, I think really the priority typically would be for the asset side, where we have defined lanes and can meet capacity with our assets and for our existing customers and fulfill existing commitments with those customers. That's kind of a priority.

And then Jim and his team are helping to fill the gaps where we need additional capacity there or additional freight, I should say. So, they're helping us with that. So, it's really working on optimizing the right mix there. And I think that's something that's being refined over time. We had some pretty foolish ways of doing this in the past with some artificial kind of intercompany rates and some things that didn't work very well for us. So, it's still evolving there, but I think we're moving much more to an optimization from a total Company standpoint of our equipment asset utilization, but also really responding to our customers who have shown a real desire and expressed value in what we bring to the table with having the assets and being able to supplement key markets for them in key destinations with Jim's group in our asset-light side of the business.

Jim Craig
Yes, this is Jim Craig. If I can add, what we're doing with Trucking is filling in some of their gaps. It, we represent a very small portion of their overall freight. So, we're just helping them be more efficient. Like any asset-based provider, USA Truck has used brokers to fill some of their needs. Prior to our recent changes in processes, most of those needs were being filled by our competitors in the 3PL market. And so to be able to keep those additional loads in-house and enjoy those revenues is a positive for both sides of our organization.

Michael Borrows
And that's right, Jim. This is Michael. And I will tell you that, if you remember, Brad, we used to kind of, as a Company kind of beat our chest and say, hey, you know, less than 5% of the capacity on the truckload side comes from our brokerage, right? Well, as we think about how we optimize the overall Company return on invested capital and what might be a little bit loser freight market, etcetera, it only makes sense to move the needle on that. It may be the 10%, 12% range and then move it back as things get tighter because we don't want to lose any loads or any of the revenue on either side, if that makes sense, but really that's kind of the nimbleness of our model and we will, we're better capitalizing on the synergies between our 3PL capabilities and our asset complement.

Brad Delco
That's, and I was going to, I think Michael you asked, or answered my follow-up, so as it stands today roughly 10% to 12% of truckload freight is coming via a 3PL source?

Martin Tewari
Brad, it's Martin, less than that. I mean, typically on a daily basis, we might be 2% to 3% of our loads come from, come from our Logistics division and then maybe another couple of percent from another third-party provider, but so it's still probably in the less than 5% range.

Brad Delco
My point was the example of….

Multiple voices

Martin Tewari
Yes, right we can – we have got the ability to scale up a little bit with our sister company and keep the revenue captured. And then really, we've got the relationship obviously where we can smooth out peaks in our network where we surge areas and we can tap into our sister company to help us with productivity and empty miles out of those, at those times.

Brad Delco
No, that makes sense. And then in terms of the specific truckload guidance you gave this year, I just want to make sure I'm thinking about it correctly, 200 basis points of adjusted OR improvement, is that off of the 95.5 OR last year, what's sort of the base that we should be working off of?

Randy Rogers
That's right, Brad. So, we set up to, we expect to improve by up to 200 basis points and that would be off the 95.5, so achieving that full 200 basis point target would be a 93.5 for the full year 2016 Trucking operating ratio.

Brad Delco
And so then, I mean, just to make sure I'm thinking about this correctly, first quarter OR was a little bit worse on a year-over-year adjusted basis. So, how should the cadence of that improvement sort of play out over the course of the calendar year?

Michael Borrows
Yeah, well, our target right now is that it will improve obviously in the second quarter. The back half of the year is obviously further improvement. As you can appreciate, I mean, it's not linear. It's going to be a little chunky step function. And so it will kind of, as some of these improvements are made, they'll step in deeper until they kind of get lit up. So, that's kind of going to be our progression. So, to tell you that it's going to be linear would be probably a false expectation.

Brad Delco
No, I guess, my only concern is I mean, you guys have put together a great team, but I'm just concerned with how prudent it is to put that type of expectation out there given what appears to a fairly weak freight environment in addition to an environment where we're seeing more pricing pressure and I'm just, I want to make sure that, you know, we're not just setting sights too high and that there are very clear and achievable ways of getting there.

Randy Rogers
Yeah, I mean, we've obviously, Brad, really done the numbers on this and this is an element of I think where we're taking a different approach, where we are, we've got concrete initiatives to drive improvement in a project, it's a very structured project management way. We are in the process of hiring process improvement, professional process improvement managers as well to help with some of these, but we've certainly identified clearly where the buckets are to be had and have a good line of sight on how to realize that value, you know, over the course of the year and how that will come to us. So, it's not just an estimate that we've put out there and we hope we can get to. We have very concrete plans that we track and monitor on a weekly basis and report on and the team is confident that we can deliver that.

Michael Borrows
And willing to hold themselves accountable, which is why we put those targets out there.

Brad Delco
Yep. Well, guys, great. Thanks for the time and good results and best of luck.

Randy Rogers
Thanks Brad.

Operator
Our next question comes from Donald Broughton with Avondale Partners. Please go ahead.

Donald Broughton
Good morning, gentlemen.

Randy Rogers
Good morning, Donald.

Donald Broughton
Can you remind me, or can you tell me number of owner operators you had December 31st, number of owner operators you had March 31st?

Michael Borrows
Yeah, we could give you that, Donald. At March 31st we were probably in the 250 to 300 owner operator range. And then when you look at the end of the year, right, I want to say off the top of my head, we were about 15% lower than that, so that would be, let's see here, we were in that 250 to 275 range.

Donald Broughton
Which was it? Was it 250 or 275?

Michael Borrows
250.

Donald Broughton
Okay. Number of unseated trucks, again, 31st of December to 31st of March?

Martin Tewari
What have we got, about 86 tractors unseated, what have we got 56 unseated tractors at the end of March, Donald.

Donald Broughton
56 at the end of March and you had 86 at the end of December, was that right?

Martin Tewari
Yes.

Michael Borrows
Yes.

Donald Broughton
Okay. Well, that's good, you've made progress there. That number of trucks you traded in the first quarter and then total number of trucks you plan to trade in '16 in the next three quarters?

Michael Borrows
Yeah, the number of trucks, we sold in the first quarter about 124 trucks and we took acquisitions of about 50.

Donald Broughton
And you bought 50, and as we go through the next three quarters, Michael, what do you anticipate those numbers look like?

Michael Borrows
As I, we haven't disclosed the exact numbers of our new truck acquisitions, um, we're still working some things out with a couple of our key suppliers, OEMs there, Donald, but we are going to maintain our average fleet age, as we discussed, for tractors at about 2 years this year. So as we take tractors out of the fleet, it's more of a replacement. We're not currently planning to reduce the size of our fleet unless, as you heard Martin say, as they look at miles per seated truck and where we're at in the overall kind of macro, we may have to make, we may make some of those decisions. But, and then on the trailer side we'll keep that at about 5 years from a fleet age perspective. And we're maintaining about a 3:1 trailer to tractor ratio.

Donald Broughton
And I got those numbers, I was just wondering what your, how many trucks should we plan. Have you discussed which OEM you're going to buy truck, well, which OEM did you buy trucks from in the first quarter?

Michael Borrows
In the first quarter we bought all those trucks, they're Kenworth trucks.

Donald Broughton
They're all Kenworths, and do you have, what do you plan on buying, the rest of the year what do you plan on buying have you decided on who the OEM will or number, mix of OEMs will be?

Michael Borrows
Yeah, we're not really disclosing that yet, but I will tell you that we've moved to a single engine model. So, you know, our trucks in the past have had mostly Cummins engines.

Donald Broughton
Right. And you're going to maintain Cummins engines?

Martin Tewari
Yes, I mean that's our intent to keep, to try and keep one engine there and, Donald, and will stick with the Cummins...

Donald Broughton
That makes sense. That makes complete sense. The… I heard you say that your gains on sale for the full year were going to be $1 million to $1.5 million, is that what I heard?

Michael Borrows
That's what you heard, yes.

Donald Broughton
So if we, let's give you the benefit of the doubt, and let's say you hit the top end of that range at $1.5 million, so we are going to go from $7.5 million in gains, that's going to go down to $1.5 million, that's a $6 million headwind. That's $0.37 to $0.40 a share.

Michael Borrows
That's right. So when you look at the operating ratio improvement that Martin referred to, that 200 basis points on an adjusted operating ratio. If you adjusted that for gains on the sale of equipment right, that really is year-over-year over a 400 basis point improvement in the operating ratio.

Donald Broughton
Yeah, alright. I just wanted to make sure I was hearing that right. I know you've changed the way you account for tires, but I continue to be puzzled by the rate of descent and deprecation. Maybe we can talk about this offline, Michael, but…

Michael Borrows
Well, some of that as we talk (multiple voices) but I just want to remind that – yeah, we can talk about it offline. But I also wanted to remind you that we also did a number of operating leases last year. And so we did move some of our equipment purchases out of what would be traditionally depreciated into equipment rents, right? And so you're seeing a split between depreciation and equipment rents.

Donald Broughton
Fair enough, okay, okay. I'll go do the math and you and I can talk about it afterwards. I'll let someone else have the floor. Thank you very much for your time gentlemen.

Michael Borrows
Thank you, Donald.

Martin Tewari
Thanks, Donald.

Operator
Our next question is from Adam Wyden with ADW Capital. Please go ahead.

Adam Wyden
Hi guys, a couple of questions here. You guys gave some timetable on the truckload business getting to 90 OR and below, can you give us a little bit of timetable as to now how quickly you think it will take Logistics to get back to its levels in 2014, and you mentioned the near-term

target of 50% asset-light operating revenue, I mean can you give a sense of what that translates to operating income contribution, how you think about near-term?

Jim Craig
Sure, Adam. This is Jim Craig. Thank you for the question. As you know, 2014 was really a high watermark for all brokers, all third-party providers, a perfect storm of good news, as it were. And today we're not seeing that lift from the market; we have to do the heavy lifting ourselves, which we're in the process of doing. So you're seeing some really strong market share gains from us, 18% increase in loads year-over-year for the quarter. So we are taking market share from the competition. Our current share of the market is so insignificant that we have tremendous growth that we can drive our own destiny here and we're taking steps to do that. A lot of investment in our version of assets, which is talent. And so you see us doing a lot of hiring of quality people to bolster our branch capabilities and capacity. You're going to see positive results in growth throughout the remainder of 2016. I think we're really going to hit our stride in '17 where you're going to see the real impact of the dramatic changes that we've put in place here. And then by the end of 2017, we hope to achieve that 50% revenue position where we are similar in size to our trucking brethren here. And again what you will see, with full candor, is that the EBIT that we have realized off our revenues will be a little bit different mix than in the past, because we're adding to a different customer mix, we're going after more high volume contract business with the larger shippers in the country. And that's going to be business that's not quite the margins we've enjoyed on some of the more specialty freight we've handled in the past. But it's going to allow us to grow that top line and take more market share in doing so. So I'd say that you can look for substantial results in '17. Whether we can replicate '14 in '17, not going to be that bold, but certainly we're trending in that direction.

Adam Wyden
Okay. So when you say 50%, I mean, I'm just trying to get a sense for that, if we're plus or minus $300 million of base revenue in truckload given Q1, you think that, you know, near-term 2017, you know, that's a $300 million base revenue business plus or minus. And if your ORs come down a little bit, you know, maybe they come down from 91 and then they come down to, I don't know, 93, I mean it's pretty close to where we were in '14, I mean you don't want to give a hard number, but it's not impossible to be where you were in '14 or?

Randy Rogers
No, not at all, and we've got very bold goals for our Logistics group. We're very bullish on the future. And so yeah, I have no reservations in saying that the second half of '17 as we round out the year, we'll be generating monthly revenues comparable to our Trucking division, and the profits off of that business will be significant.

Michael Borrows
We will accelerate that through maybe capability, acquisition, etcetera and opportunistically if it makes sense and it would very accretive.

Randy Rogers
Yep.

Adam Wyden
This is a question for Randy. You know, I really appreciate your emphasis on return on invested capital and I think historically companies that earn great on return on invested capital deliver a tremendous amount of shareholder value and there's tons of studies on it, so I think that's really great and I think repurchasing shares in the Company that's shifting our mix of return invested

capital from low to high is also a way to leverage that. It's very similar to what I think J.B. Hunt did about 15 years ago. I guess my question for you is, and I guess it's a joint question for you and Martin, on the truck load side, I mean, your owner-operators are 15%, I mean do you think that you can improve return on invested capital in the truckload business by flexing owner-operators or going into more of I don't know, dedicated or transportation management, I mean are there ways to improve return on invested capital within truckload? And then can you comment on kind of a little bit about your efforts on the 3PL and kind of longer sales cycle logistics stuff in terms of shifting the total mix of the business and shifting return on invested capital beyond just traditional truck brokerage?

Martin Tewari
Ah, I'll answer that first part of that question, Adam, in regards to independent contractors. We've had a good growth in independent contractors and we continue to grow that base and lighten our capital load and as you were talking a little bit more to hopefully improve our return on invested capital and we'll continue that trend going forward. I believe that we can hopefully get to, you know, hopefully a quarter of our fleet being asset-light at some point between now and the end of 2017. As well, we are also looking at independent contractors contracted that will run for us under their own authorities as well, so.

Adam Wyden
Okay.

Martin Tewari
I just wanted to kind of give you that as…

Randy Rogers
Yeah, I mean, I want to just jump in there too with respect to kind of the longer term vision. I think we're very, we've got a great platform, we've got a great platform here to grow the asset-light side of the business, and part of that is taking the expertise, the experience, the understanding of the Trucking side of the business and being able to supply assets to customers. And I've seen this in a number of customer meetings here recently. Some of our largest customers, where they really value the fact that we have assets that we can deliver very competitive pricing and provide them with capacity, but they also look to us for when we don't have the assets to help them realize that potential. But I do know, and I think you and I have talked about this before, that there's also a demand for more of the supply chain, in organizations similar to ours that can drive out, complete, focus on supply chain costs in general and help them to drive out costs in their transportation and supply chain networks. And so I think we've got to, as we're progressing here and especially progressing to kind of a more of an asset-light profile that there are some complementary and very value-adding services that we can bolt-on to this such as transportation management and being able to really help in the planning an in-bound, out-bound reduction of overall supply chain customer, or costs for our customers. So we do have plans to look at that longer term. Our focus clearly though is right now on making sure that we run our Trucking operations as efficiently as possible and getting and delivering on the commitments that we're making on this call, for example, with respect to our operating ratio and efficiencies and then growing our existing asset-light size through USAT Logistics. But there are — there is a number of different complementary and very interesting segments of the supply chain industry that we will be looking into over time.

Adam Wyden
Great.

Jim Craig
And if I can jump – and if I can just echo on Randy's comments that I've had the opportunity as part of my on-boarding 90-day plan here to get out in front of customers. I have met nearly a dozen customers in the past three weeks both active and prospect. They've really liked the message that we're delivering about balance between the asset and non-asset flexibility and the total value we can bring to their organization with those two complementary services. And so that's resonating quite well with customers. And then as we meet with these customers and talk about their long-term needs, they're willing to really open up and have candid conversations with us, knowing that we're going to take our opportunities both on the asset and non-asset base side and reinvest in our organization both in assets, technology, and other things. And we have actually met with a couple of customers who stated a strong bias for doing business with a third-party who does indeed have assets because they like the fact that we understand the market, that we've got skin in the game, as it were, and that we're taking our profits from our 3PL business and allowing that to reinvest in our assets that they desperately need as well.

Adam Wyden
Great, great, great. Well, look it looks like you guys are working well together and the team is collaborating and that's really exciting. Randy, do you have like a targeted return on invested capital for the group, I don't know it's intermediate term, longer term, I mean, do you kind of have the sense of where you want to be, like what you want this business to look like 3 years to 5 years from a return on invested capital across both sides of the house?

Randy Rogers
Yes, at this point I would say peer performance. I mean, and I think we have taken certainly know where our peers are and where the best performers are. We understand that quite honestly if you look at carriers of our size or larger, there are different mixes and approaches and everything else. But we do have a pretty clear idea of where we want to head longer term.

Michael Borrows
I guess I think we would expect to be in the mid to high-teens as we realize our targets and our strategy over the near-term. And I guess that would be between now and the end of '17 and currently operating in that, you know, kind of mid-single-digits range, Adam, if that's helpful.

Adam Wyden
Right. One last question, on the buyback you guys mentioned that you did 445 and I think I got to like 1.3 I think you said 1.3 left on it, so that's you've repurchased effectively 700,000. I know the Q hasn't come out, but can you kind of give us a sense of where the shares outstanding are right now?

Michael Borrows
Yeah, we're in the 9.2 million share range.

Adam Wyden
Okay. 1.3 million left, so that would be about 7.9 million, and if you completed it, and if I kind of look at the pace with which you're operating on, you'll probably, if you continue at the pace that you're on, you will have exhausted your share repurchase plan probably in the September, October of this year, does that sound about right? I mean if you, I mean given the rate at which, you're obviously subject to volume restrictions and all the rest, but if the volume stays what it is, I mean you should be under 8 million plus or minus by September or October. Does that sound about right?

Michael Borrows
It does, but I mean when you think about where we end up on that. Obviously, we're keeping a close eye on the liquidity ball. And we're keeping a lot of flexibility from a liquidity perspective as we think about our cash forecast etcetera. So, you know, depending on where our share price is, where we believe the intrinsic value of our stock is, etcetera. I mean, there could be elements of that that move around a bit. But what I'll tell you is that we currently are very confident and believe that it's very a good investment as we think about how we're investing in ourselves.

Adam Wyden
Sure. Well, look if you guys get to your 90 OR in truckload and Jim gets us back to where we were, I mean, these share repurchases will be an incredible investment. I don't think that there's a single truckload asset provider trading at 4x forward earnings, so if you can do it, it's going to be tremendous. So I hope that you continue to execute on the share repurchase and find ways to accelerate the program.

Michael Borrows
Thank you.

Adam Wyden
Alright. Thanks guys. That's it for me.

Michael Borrows
Thanks Adam.

Operator
Our next question is a follow-up from Brad Delco with Stephens. Please go ahead.

Brad Delco
Hi guys. Thanks for taking my quick follow-up. Michael, just in the comment I think you said you sold; now I can't find it, sold 124 trucks, bought 50. Maybe this question is for Martin. Martin, how would you expect the size of the fleet to trend throughout the year flat from here, I mean, I think we saw an improvement sequentially but just with that comment it sort of made me wondered whether or not we're going to see this shift, shrink from here?

Martin Tewari
I think our fleet size will be roughly about the same but we'll have a different mix as far as independent contractors versus company assets.

Brad Delco
Okay.

Michael Borrows
Yeah, and as we think about our capital structure, Brad, from that perspective right? I mean, what I appreciated here with Martin's strategy is that he's intolerant of low utilization. And so we'll adjust based on that and with the flex fleet side of things, you know, based on where we think capacity is headed in the marketplace but also like we discussed, really just as we move to operational excellence and working with our customer base. We think our capacity will be demanded.

Randy Rogers
And Brad, I will jump in here too, this is Randy. I think one of the key things Martin had mentioned is we did, historically we have not had a consistent fleet refresh program here. So, we've got a bit of a bubble on the 2012s, which I think, as we know, is a difficult and very expensive model to maintain. So, with the units that we're purchasing here we'll be able to retire a fair number, if not all of those remaining this year and reduce the corresponding maintenance costs on those. So that's a key objective.

Michael Borrows
Yes, that's a good point, Randy, because, Brad, the maintenance costs per mile on these 2012, that's when the environmental changes came in and so forth, but I think we're looking – we're probably $0.18, $0.20 a mile on those tractors, where the cost of maintenance is less than $0.02 a mile on a new tractor. It's a pretty big difference.

Brad Delco
Yep, yep. Gotcha. Thanks guys.

Randy Rogers
Yep.

Operator
This concludes our question-and-answer session. I would like to turn the conference back over to Randy Rogers for any closing remarks.

CONCLUSION

Randy Rogers
Okay, thank you very much. Boy, at this point, I'd just like to thank everybody for attending the call. We'll be in New York City for the Wolfe Conference on May 24th and 25th and hope to see many of you there and hope everybody has a good rest of the day. Thank you very much.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.