USA Truck, Inc.

Second Quarter 2018 Earnings Conference Call

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CORPORATE PARTICIPANTS

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James Reed – *President and Chief Executive Officer*

Jason Bates – *Executive Vice President and Chief Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to the USA Truck Second Quarter 2018 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 your telephone key pad. To withdraw from the question queue, you may press star then two. Please note, this event is being recorded.

At this time, I would like to turn the conference over to Jimmie Acklen, Financial Reporting Manager. Please go ahead.

Jimmie Acklen
Good morning, and welcome to USA Truck's Second Quarter Earnings Conference Call. Joining us this morning from the company are James Reed, President and Chief Executive Officer and Jason Bates, Executive Vice President and Chief Financial Officer.

Please be reminded 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 are made pursuant to the provisions of 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 and consider the factors that may affect future results and other disclosures by the company in its press releases, annual report on Form 10-K, and other filings with the Securities and Exchange Commission. Any forward-looking statement speaks only as of the date on which it is made.

Also, on today's call, management will be referring to certain non-GAAP financial measures in its analysis of the results that supplement the GAAP financial statement. 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.

I will now turn the call over to Jason.

Jason Bates
Great. Thank you, Jimmie. We want to thank everyone for joining us on the call today, and we appreciate the interest in, and support of our company. I hope you all had an opportunity to review our earnings release from last night. We are pleased to report that our team has delivered a fourth consecutive quarter of consolidated profitability. Furthermore, we are encouraged by the fact that this strong financial performance was a result of a relatively balanced contribution from both our Trucking and Logistics segments in the quarter.

If you will please turn with me to slide 3 for a review of our financial results. Consolidated operating revenues came in at $135.4 million for the quarter, which represents a 26.1% increase year-over-year. Consolidated operating income was $4.3 million, and net income was $2.5 million, or $0.31 per diluted share. Consolidated operating ratio for the quarter was 96.8%, which represents an improvement of 600 basis points year-over-year and 70 basis points, sequentially.

Our Trucking segment generated $2.1 million of operating income in the second quarter of 2018. This is a $6.9 million improvement year-over-year and a $2.6 million improvement, sequentially. Their operating ratio for the quarter was 97.5%, an improvement of 930 basis points year-over-year and 310 basis points, sequentially. James will talk shortly about the key drivers to this impressive improvement, but needless to say, we are very proud of the progress the entire operational team has made in our Trucking segment.

And, finally, our USAT Logistics segment generated $2.2 million of operating income in the second quarter of 2018. This is a $300,000 improvement year-over-year, but a $700,000 reduction, sequentially, off of an unusually strong first quarter. Their operating ratio for the quarter was 95.7%, an improvement of 90 basis points year-over-year and a decline of 190 basis points, sequentially.

If you will turn with me to slide 4, we will highlight some key balance sheet and liquidity measures. As of June 30, 2018, our total debt and capital lease obligations was $90.3 million, which was relatively flat from the first quarter. Total stockholders' equity was $70.1 million, and the company had $68.2 million available to borrow under its credit facility, as of June 30, 2018. Net debt to adjusted EBITDA, again, decreased sequentially to 2.1x, compared to 2.6x as of March 31, 2018. The 2.1x leverage ratio represents a 430-basis point reduction from our peak of 6.4x times, which was at the end of the second quarter of 2017. So, in the past 12 months, coinciding with the onboarding of our new management team, we have successfully reduced our leverage ratio by 67%. This was a measure we committed to you that we would reduce, and we remain focused on keeping this ratio between 2.5x and 3.0x over the long-term.

I will point out that on our first quarter call we indicated an expectation to receive a number of new trucks in the second quarter; however, we, along with others in the industry, have experienced unanticipated delays from some of the OEMs. As such, we only received 41 new trucks in the second quarter, as opposed to 135 anticipated receipts. Although we would have preferred to take delivery of the new trucks, for fuel economy, maintenance expense, and driver satisfaction reasons, the delay did temporarily favorably impact our net debt and leverage ratio statistics. However, as discussed during last quarter's call, fleet investment is a top priority for us in 2018. Delivery time notwithstanding, we expect to replace between 350 and 400 tractors this year. We still anticipate full year net capex of $40 million to $50 million for the year.

So, with that, I'll pass the call to James.

James Reed

Thanks, Jason. As you can see from the results, we had a very strong second quarter, relative to our own past performance and relative to the market, especially in our Trucking segment. Our cadenced theme is that this is a turnaround story, with several self-help opportunities, which differentiates us from many of our peers. Keep in mind that this business has now seen a new leadership team, new people in the business, higher rate and network changes, a heightened accountability, and higher performance standards. This is the fourth consecutive quarter of profitable results and improving year-over-year OR dynamics, providing us confidence that we are creating a structurally sustainable business model, with results that manifest we are on track. In fact, we are a bit ahead of schedule. While an improving truckload market helps—and we'll take it—much of what we are accomplishing is independent of an improving environment.

Moving now to slide 5, for a discussion of results for our Trucking segment. Base revenue per available tractor per week increased $564 or 19.5% year-over-year in the second quarter and $203 or 6.3%, sequentially. This continues a trend of sequential and year-over-year increases that began mid-2017, with focused network and rate improvement efforts.

Base revenue per loaded mile increased $0.383, or 21.7%, when compared to the second quarter of 2017 and increased $0.136, or 6.8%, sequentially. Loaded miles per available tractor per week decreased 29 miles, or 1.8%, year-over-year, and decreased 8 miles per available tractor, or 0.5%, sequentially. Deadhead percentage for the second quarter of 2018 increased 70 basis points year-over-year and 80 basis points, sequentially.

Let me be clear though, both the positive and negative changes in these metric were expected outcomes from intentional, targeted shifts in our freight mix. While slightly dilutive to utilization and deadhead, the impact of these freight mix changes contributed to increases in revenue per truck per week, which is our most critical measure. The market demand for freight, exacerbated by the tightening driver market that we all face, has given us an opportunity for increase in our dedicated businesses, as well as repositioning of tractors to areas of higher rate and yield in our network. These are both great catalysts for our business.

An important item we wanted to highlight for investors is the year-over-year increase in maintenance costs. We benchmark these costs regularly and have a firm understanding of where they should be to be best in class, and we are not there. Our average age of fleet peaked in the quarter at 3.3 years, the oldest in our company's recent history. Although we had anticipated the fleet aging, we had hoped to receive more of our newly ordered trucks in the quarter, as Jason discussed, to help mitigate these rising maintenance costs. The aging fleet has, unfortunately, had a material effect on our ongoing maintenance costs. We are working diligently with our OEMs to rapidly address this issue and get back on our planned, disciplined replacement cycle, with the goal of driving our average fleet age to approximately 2.5 years on an ongoing basis. We hope to accelerate fleet replacement, such that we can make up the lost ground with the OEMs by year-end.

Our average unseated tractor percentage for the second quarter of 2018 was 6.7%, which represents an improvement of 130 basis points year-over-year and 60 basis points, sequentially. The average available tractor count for the second quarter of 2018 was 1,638, which is a 2.6% reduction when compared to our second quarter 2017 average of 1,682. The biggest challenge we face every day in this business is the industry-wide, on-going driver shortage. The driver shortage is fueled by a strong economy with near full employment levels, increased transportation regulations, and fewer new drivers entering the industry.

These conditions require us to constantly evaluate and refresh our recruiting program to ensure our methods are effective and efficient. We continue to be focused on engaging and retaining our existing drivers through increased communication, constant feedback, and market-based compensation.

We have also recently overhauled our recruiting program to allow us to be more responsive to the dynamic driver market and effective in our recruiting efforts. Our approach is to utilize traditional consumer marketing tools to better segment our target audience and drivers for recruitment. Early returns on this change are good, as we are actually seeing more student applications than we can onboard and a more desirable geographic mix of driver domiciles, better aligned with our network.

Another important change we recently made in our operations team is to invest in more driver managers to achieve a much lower driver-to-driver manager ratio. This increases the headcount in operations but reduces the workload on the driver manager and allows them to build enduring relationships of trust with our drivers, which we believe will allow us to recruit and retain the best drivers in the industry.

Finally, to combat this increasingly tough driver environment, we have made the decision to increase our driver pay, effective later this quarter. Details will be forthcoming, but we expect the structure to be self-funding over the long-term, as we continue to emphasize pay for performance, drivers who are the most productive have—and will have—the greatest earning potential at USA Truck.

The short-term implications of this increase will be a rise in driver wages. However, we believe an advantage to our commercial strategy is that we have achieved our results through contracted rates that we expect to be sustainable, not through playing the spot market and abandoning customer commitments. This discipline allows us the opportunity to go to our customers and enlist their support in implementing this driver wage increase, as it is designed to ensure continued high levels of customer service. We have already discussed this concept with several of our large shippers, who have expressed a willingness to support us in this critical effort.

This combination of customer support and driver support, via their own performance, should make for a meaningful opportunity for drivers to increase their take-home, while supporting the organizational objective to increase overall productivity. Aligning our mutual economic motives with each other, we believe, is a win-win for all stakeholders.

As we have said previously, the primary focus for all of USA Truck is the improvement of our safety results. Additionally, we have focused on increasing rates through pricing and network design initiatives that promote a “network first” approach to our business. While the improvements reported to date are among the best in class, and merit praise, they are merely milestones on our journey. We still have a long way to go. We know that continuing to improve revenue per tractor per week, via improved utilization and rates, and seating more tractors are our top business priorities.

Turning now to slide 6, USAT Logistics generated operating revenues of $49.8 million. This represents a 39.1%, or $14 million year-over-year improvement, and a 7.6%, or $3.5 million improvement, sequentially. Operating income increased $300,000, or 15% year-over-year, and decreased $700,000, or 24.4%, sequentially, again, off of an unusually strong first quarter.

USAT Logistics generated $7.5 million in gross margin in the second quarter. This is a $900,000 year-over-year improvement and a $400,000 sequential reduction. Our gross margin percentage for the second quarter of 2018 was 15.1%, a reduction from 18.5% in the second quarter of 2017, and 17% in the first quarter of 2018, which I will address shortly. Finally, our load count increased 5.6% year-over-year and 13.6%, sequentially, a manifestation of the various growth initiatives we have underway in this segment.

Our Logistics business continues to be a strong contributor to our results. These operating metrics are a direct result of continuing to service our contractual freight, while striving to mitigate higher market-based purchased transportation costs, as opposed to abandoning commitments and purely pursuing spot market transactions. Strong spot market rates for trucks in the quarter add margin pressure to customer-focused businesses like ours, resulting in higher purchase transportation costs in moving freight associated with relatively stable customer contract business. We believe this strategic partnership with our core customers will enable USAT Logistics to grow volume and market share over the long term and bodes well for longer-term stability.

Moving now to slide 7, as we have mentioned previously, we will report quarterly on a few key strategic targets. Safety remains—and will always be—our highest priority in the business. The first measure we discussed is improvement in base revenue per available tractor per week, with the goal of an additional 5% to 7% over 2017's full-year averages. As of the second quarter of 2018, we are already 13.4% better than the 2017 average, and remain committed to driving continued improvement to this critical metric. Given our year-to-date results and our second half 2018 expectations, we are confident we will be able to exceed this previously committed range of 5% to 7%.

Another metric we manage closely is our unseated tractor percentage. Our goal is to keep this measure at or below 5%. As of the second quarter of 2018, our unseated tractor percentage is 6.7%, and it reflects the challenging environment of recruiting drivers, as previously mentioned. We have made some real progress in this metric and expect to reduce our unseated tractor count further in the back half of the year through the initiatives we discussed earlier in this call.

Next is increasing our available tractor count 4% to 6% through the expansion of our independent contractor or owner-operator program. We have increased our owner-operator count 22% since December 2017 by identifying new leasing partners that align with our values to ensure owner operators are immediately successful in our program, and we have executed well in ramping that initiative.

We reiterate that this target of growing 4% to 6% is one that we expect to hit by year end, 2018. We have also been targeting a $3 million to $5 million reduction in cost on a CPM comparative basis, through a series of corporate initiatives. While we have identified many fixed and variable cost savings opportunities to date, which are in-flight or already recognized, our success on this front was also largely dependent on driving increased miles over which we drive to get the CPM comparative reductions. However, rigorous analysis on key profitability drivers has led us to more aggressively focus on driving revenue per truck enhancement through rate initiatives, combined with freight mix changes, as opposed to prioritizing mileage enhancement at this time. As such, we feel the $3 million to $5 million target may be a stretch to achieve in the calendar year, especially in light of the higher maintenance expenses we are seeing due to the OEM delays, but we remain committed to driving further cost reduction initiatives in the back half of the year.

Finally, USAT Logistics came in at 37% of consolidated revenue in the quarter. We have already achieved the 2018 goal of growing this segment to 35% of total revenues in 2018, and we remain committed to our long-term goal to get this business to 50% of total revenues. Our new leadership team in Logistics accomplished a lot in the quarter, finally delivering on a technology implementation that even predates my arrival, working hand in hand with our trucking operations to cross-pollinate business between the two segments, and creating a standard operating discipline that will lead us toward sustained growth.

In conclusion, we are very proud of our team here at USA Truck. We have now delivered four consecutive quarters of profitability by doing just what we said we would do; we've improved the fundamentals of the business in our people, in the network, and through sustainable process improvement.

As we set out on this path a little more than a year ago, we repeatedly said that this is a "self-help/get well plan." We indicated that we expect 300 basis points of OR improvement per year for the first three years or so, after which we'd still expect OR improvements, but on a slower trajectory. Year-to-date in 2017, our consolidated adjusted OR was 104.6%. Year-to-date in 2018, we are at 97%, which is more than 750 basis points improvement. We acknowledge that the comps will be tougher in the back half of the year, but the team is ahead of schedule. What we are most proud of is that we accomplished this result the right way, through structural improvement in our customer base, our network, our rates, and our execution, which we expect will provide a solid foundation for us to build upon, as we eye the future.

This second quarter result was within 30 basis points of our best Q2 in recent history, and the better result, which occurred in 2015, was accomplished through spot pricing plays, which backfired when the market turned the following year. As a reminder, this team has avoided playing [ph] significantly in the spot market. Our business today is more than 95% customer contract driven on the trucking side and more than 60% contract driven on the logistics side.

For the full year of 2017, we ended at an adjusted consolidated OR of 100.3%, and we expect that we will end 2018 at least 300 basis points better than that, as we are off to a great comparative first half. It is fair to say that we are ahead of schedule in returning USA Truck to a competitive profitability profile.

Now, be certain that we are not satisfied with these improved results yet. We have been consistent in saying we need a couple of bid cycles to get our network where we want it to be. That means a year from now we think our network will be mostly where we want it to be. So, if you look at the two-year time-horizon from when we started on this journey last year, we feel like we are 60% of the way there in our results and 50% of the way there from a timing perspective.

And while we have made solid progress on the rate, exceeding industry tailwinds in our estimation, we still have a ways to go on improving our utilization, which will help drive continued improvement in revenue per available truck per week. As we said last quarter, we have very specific actions that we believe should positively affect utilization. Improving network densification naturally leads to better utilization. We recently implemented the bid for one of our largest customers and, in so doing, increased both our total revenue and our rate per loaded mile opportunity while reducing the length of haul and number of lanes we run for them, by more than 800 lanes. On that single customer's business alone, we increased our lane density by over 800%. That will have inevitably positive consequences on our fleet and utilization.

Additionally, our investment in more driver managers will lead, we believe, to better relationships between our driving and driving support team members and, thus, lead to better utilization outcomes as well.

Finally, we have been relatively quiet on the technology and systems front, but USA Truck has historically operated what can best be describe as a "Frankenstein" TMS. We literally developed custom apps on top of an off-the-shelf database to plan and dispatch loads and drivers outside of the system. This has been an onerous process and competitive disadvantage to the company. As brokerage successfully transitioned to the new TMS system in the quarter, we learned a lot about the capability and breadth of a new system, and we are now in the process of updating our trucking business to TMS.

This will be a big project, but with the test bed of logistics to learn from, and that recent success, we feel well prepared to execute on this and, in so doing, expect to have positive impacts on our utilization, management, and optimization of freight opportunities. Remember, given my nearly 20 years in tech and working with a CTO here, who I have personally worked with in previously deploying a TMS system in trucking, moving into this phase of our transition is exciting. We will give you updates on this in coming quarters but expect it to be a multi-quarter endeavor that is already contemplated in our expectations. In a highly fragmented industry, one of our internal strategy statements is to "disintermediate ourselves;" to do that, we first have to catch up on core technology, and this effort will accomplish that feat.

We remain well-positioned to continue closing the gap with our competitors in delivering acceptable sustained financial results, and I think most will agree that this team has exceeded expectations over the last 12 months. We believe there is a lot of runway remaining, given the structural changes yet to be accomplished at USA Truck in refreshing the fleet, completing our network overhaul, and deploying modern systems, and even, simply, executing better than we already have. So, with that, Denise [ph], I'll turn it back over to you for questions. Thanks.

QUESTIONS AND ANSWERS

Operator
Thank you. Ladies and gentlemen, we will now begin the question and answer session. To ask a question, you may press star then one on your telephone keypad. If you are using a speaker phone, please pick up your handset before pressing the keys. If your question has been addressed, you may withdraw from the queue by pressing star then two. Again, it is star one, if you would like to ask a question. The first question will come from Jason Seidl of Cowen and Company. Please go ahead.

Jason Seidl
Thank you, operator. James, Jason, good morning, gentlemen. Three quick ones here from myself. I guess just from a modeling standpoint, as I look to 4Q, last year was a big step up for you guys, and I think it was largely created from you freeing up a lot of excess capacity to play in the spot market, which was really humming in 4Q '17. How should we think about it this year in terms of—on a year-over-year basis for you guys?

James Reed
Yes. Thanks for the question, Jason. I'll address the business issues. And then I'll have Jason hit on some of the modeling issues. A slight correction, we really didn't play the spot market. What we played in more in Q4 last year was the surge capacity environment. And that was with existing contracted customers. That is a nuance between traditional spot and contract, because we are literally planning right now for our Q4 surge with some of our biggest, especially, retail customers. And we see that starting actually a little bit earlier this year than it did last year. It's a planned intentional use of capacity with customers, not in a market-responsive spot play type play. That said, I'm going to answer your question a little bit differently than the way you asked it, which is, we expect in the second half, even against tough comps, as we're modeling our bids that are hay in the barn. We're modeling double-digit year-over-year rate increases in Q3 and Q4. I know, I head faked you a little bit there, but we really played in the seasonal surge, that we said it coming out of Q4 that, that's going to be part of our business henceforth and forever going forward. It's not something we've done historically, Jason, I don't know if you want to add anything on that?

Jason Bates
No, you hit it. I think the key is, is that business we expect to be there in the fourth quarter this year as well. If you're thinking about the way you look at how the trajectory in the changes in some of the metrics as you move from Q3 to Q4, we would expect similar changes this year. Now, I would say that last year, we were in the early stages of fixing our network and fixing rates. There was more of an improvement that we were able to realize last year as we sequentially moved from three to four, but we still expect similar positive momentum in the back half of this year.

Jason Seidl
Okay. And in terms of your seated truck count, I'm assuming you're expecting the recent driver pay increase to help that a little bit, that might free up some extra guys for surge capacity?

James Reed
Yes, I don't know that we're looking at it that way. We are not growing our core fleet for additional capacity. We're going to stay pretty level on our truck count. I think where the benefits will come more to us is a couple of tangible and less easy to measure things. The tangible ones are; we'll have to recruit fewer drivers because we expect to retain drivers better. As we retain those drivers, the things

that are really tough to model is the opportunity cost of constantly turning over drivers. There's cost associated with prepping trucks. When a driver turns in a truck, you have to prep it to be able to give it to a new driver. You also have the revenue upside of a driver who knows your shippers, your constant needs, your system, their fleet managers. Our data shows us that a more experienced driver in our fleet is a more productive driver. That's where I think that we'll see more of it more than—I wouldn't go out and say that it creates additional capacity. Now, where we might create a little bit more additional capacities, we still expect to grow our owner-operator fleet, and that's where the growth will come from.

Jason Seidl
Okay. That's fair enough. Touch on a little bit here on logistics, and I'll turn it over to the next person. Talk about what our expectations should be for your net margins going forward. And also, you said you grew 5.5% year-over-year. I think on Echo's call, recently they said July was up like 11% on their volumes. They started July pretty strong. Maybe you can give us some color on how July looks for you there.

James Reed
Yes, I mean what I'll say generally about July, especially with respect to logistics, you have to go back into Q2. In the quarter, and we talked about this in my prepared comments, we saw a margin pressure. And you see margin pressure when there's really strong spot market rates. While we saw spot market spike, it made it tough for us to buy economically. It put margin pressure on our existing contracted business. That's what happened in the quarter. As we move into July, and I'll just be candid with what we are seeing, we're not seeing super strong volumes in that business, but as spot rates are coming down, we're seeing better margin profile. As you think long term about what you should think about, Jason and I have been consistent in these calls and in our follow-up visits with you guys that we expect to increase volumes while taking a little bit of margin compression. That's our strategy, if you will. That evidenced itself in the first half of this year. On a go-forward basis, we are seeing a little bit of strong margin behavior right now, just as the spot market is coming down. And that's a reflection of—we have customer-contracted freight that has more or less—think of it is a fixed priced to it, and we're buying better. A nuanced answer, but that's what's going on in the market today.

Jason Seidl
Okay, well, listen, gentlemen, thank you for the time, as always.

James Reed
All right, thanks, Jason.

Jason Bates
Thanks, Jason.

Operator
The next question will be from David Ross of Stifel. Please go ahead.

David Ross
Good morning, happy Friday.

James Reed
Yes. Hi, Dave.

Jason Bates
Same to you.

David Ross
I guess—in talking about the trucking side first, you touched on some of the expectations for continued margin improvement and a lot of self-help. But how much of the margin difference versus peers will remain the cost issue versus a rate issue at this point?

James Reed
Yes, that's a really good question. You may not be surprised to know that we benchmark ourselves with publically available information. And we're really—outside of the guys that are playing significantly in the spot market and dedicated, we've got the best price profile, the rate profile of anybody now. If you throw those guys in the mix, we're third, and we're pretty close to being second. We think our rate environment is pretty good. Your question misses one other nuance, which is how much of it is productivity and revenue per tractor per week? Because we feel like we've got our rate per loaded mile in a spot where we want it. We feel like the network, like I said, is about 60% of the way home to what we want. Our rate is really solid. We need to put more miles on these trucks. We need to get more revenue per tractor. That's the revenue side of the equation. On the cost side, it's pretty significant.

We have some opportunities there. I mean the fact that we had in the quarter, our trucks peak out at 3.3 years, and we have a goal to get that down to 2.5. And we think really, that's going to take us past the end of ‘19 to get there. It's probably going to take us into 2020 to get there on the age of truck, you can do the math yourself. But just illustratively, and you can benchmark this data. It's out there. ATRI actually publishes a report on this. A brand-new truck has average operating cost of $0.012 to $0.016 a mile. A five or six-year-old truck has operating cost that get into the plus—over $0.20 a mile or higher. You do the math on bringing our fleet down from 3.3 to 2.5, you're talking about, just amongst friends, over $1 million a quarter of opportunity in doing that. You hang that—a multiple on that. You start to get a sense of what the impact is the stop [ph]. But more importantly, you look at that from an OR standpoint, and you realize, oh my gosh, it could be up to 300 points of OR just in maintenance cost alone. Sorry to be a little convoluted, but I would say, our 2 biggest opportunities is get more revenue per tractor per week by running more miles. And we outlined the ways that we think we'll do that. And the second one is we think cost in—I don't know, Jason, as I look across the table, I think, it's kind of 50-50 right now. I am—

Jason Bates
Yes, I would agree. And I think just to, add a little bit of color on James' commentary there, I think the maintenance expense is something that you are constantly going to be work on, because even though you're replacing trucks, your fleet is aging as you're doing it, right? It's not something that—and we also want to be very careful that we don't fall to the temptation to go and create bubbles in our tractor procurement and replacement cycle. We want to be methodical about how we do it. And so that's why, it'll take a little time for us to get where we want to get. But, as we've been saying all along, there are some systemic issues and things that we are working through here at USA Truck. They are going to take a little time. But know that we are very aware of them. We are doing rigorous analysis behind each one of them. And we're aggressively attacking them one after another. And I would tell you there is a handful of other items in addition to maintenance that while not as large, in terms of the dollar contribution, there are cost opportunities there for us to address.

James Reed
Yes. And we talked a lot about safety. We don't get into specific disclosures about how much reserves and BIPD and all that stuff cost us. But trust me when I say improving our safety culture, which we have done a fantastic job of doing, has impacts on your financial performance. Those are the 2 biggest areas where we see the opportunity. And I just want to take this opportunity in your question, and I don't want to bore you guys with details, but something as simple as we have never had a tire program here. Now you guys may not even know, on the sale side, what I'm talking about. But it's literally

somebody who's managing your tires to ensure that you have the right rotation of rubber to minimize your cost exposure. Our ops team and I were in a meeting, I don't know, four or five months ago, and somebody said to me, “Do you realize that the rims that we have on the trucks are different than the rims that we on the trailers and that, therefore, prevents us from rotating rubber off to the front of the trucks to the trailers?” Again, it's really nuanced, but it's stuff like that, that I'm telling you is a huge disadvantage in our operating model compared to our peers. They have, essentially, ostensibly a well-refined model that's subject to the sways of the market. We have a long way to go to just fix simple stuff like having even a tire program.

Jason Bates
Yes. And that's what gets exciting about the opportunity here for us and investors in USA Truck is, irrespective of what happens with the market, there are self-help opportunities here that we are going to execute on. We have been executing on, and we will continue to do so.

David Ross
And, do you guys do any retreads on the tires? Have you found super singles are helpful or not helpful?

James Reed
Yes, we do have retreading program. But, again, sorry to get too specific, but I get really excited about these operational details. As we brought on this new tire leader, we've discovered that we have not been efficiently using our casings, which essentially is the core of the tire that gets retreaded. And that's an immediate finding that he had that will have a relatively immediate impact on our tire costs. We do have a retread program, but it's going to get a lot more efficient, which should have direct cost savings opportunities associated with it. On the super singles, super singles are a great solution for people that carry a lot of beverage and are trying to maximize weight. We have a whole broad spectrum of customers. And we don't have any fleets that we've dedicated specifically just to beverage. No, we don't run super singles.

David Ross
Excellent. And then just to follow-up a couple more on the cost side. Since you mentioned safety, looks like insurance and claims have been trending down from about 5% of revenue to say 4%. Is that a good number going forward? Do you expect to drive it still lower?

Jason Bates
Yes. That's one, obviously. And when you look at the environment that we've been in over the last year, where we've been driving top line growth and rates, I would just caution you to make sure you look at it, not only on a percent of revenue basis, but also on an absolute dollar basis. Typically, insurance will trend more. It would be more correlated to the miles you run than necessarily the revenue that you generate, especially when you've been driving 20% type rate increases or revenue per truck per week increases, as we have over the last couple of quarters. I would tell you that, that's something that we're going to continue to work on. We've made significant investments in our organization, as James has talked about, in terms of technology and equipment to ensure that we're running one of the safest fleets out there for our drivers and for the motoring public. But I think that that's somewhat—that's the number that can vacillate from quarter-to-quarter, but somewhere in that 4.5% to 5.5% range for modeling purposes is probably a safe thing to be modeling. There will be quarters where we do better, and it's closer to 4%. But there will be quarter for our tire as well.

James Reed
Now, that said, Dave, Jason mentioned it, but I have to take the opportunity to mention the things that we've done and where we are. Because, again, it speaks to the self-help nature of where this business

is relative to our other public competitors. We only have about one-third of our fleet that has Forward Collision Mitigation Systems on it. All of our new truck investments will have Forward Collision Mitigation Systems on them. As we do that, there is no doubt, we see fewer rear end collisions, which are the most expensive collisions that we experience in this business. Additionally, in February, we completed the installation of our inward and outward facing recorder program. And that also has contributed to better safety. While we don't report the specific safety numbers that we experience, although, CSA tracks all of that, we've seen a material improvement in the frequency and the severity of the collisions that we have experienced. But, as we add Forward Collision Mitigation to the other two-thirds of our fleet, we expect that only to get better. Jason is saying the right thing about how to model it. I would expect you to ask us a follow-up question a year from now, as we continue to improve that. It has to improve. Now, you're combating the headwinds of aggressive plaintiff's attorneys and larger jury verdicts. But that aside, we are doing everything we can to improve that outcome. Jason said the right things, but we're going to continue to drive that number down by improved operational performance.

David Ross
Yes, we have seen absolutely insane jury verdicts over the past few years in trucking.

Jason Bates
Yes, we agree.

David Ross
Last question related to insurance, again. How are the insurance companies treating all of this safety technology, as you add it? When you install a collision mitigation or your recorders in the trucks, is there an immediate credit or benefit? Or is it one of these things where you just expect it to lower the frequency and severity over time, and, therefore, it's better for your self-insurance program but you don't get any rate reductions?

James Reed
Yes, I'll tell you the way that the underwriters talk about it. And it's interesting. Although, Jason and I didn't go on the trip this year, we're in the process of placing our insurance. And our risk guys were recently in the London and Dublin markets talking to underwriters. And the story we tell is the same story we just told you. There's not an immediate and measurable impact that we have seen yet on your premiums, for example. But they understand the story, and we try to get them to realize the investment in these technologies change your loss-run experience. The last ten years are not good predictors of the next ten years, given these investments in technology. They seem to get that, and they seem to understand that. We do think it helps us in the overall rating of the policies. But it's very difficult—there is no, oh, you have Forward Collision Mitigation, and it's on 30 of your trucks? We'll run it through this magic money formula and tell you what the price reduction is. That's not the conversation we're having. But they do appreciate it, and they understand. And we certainly make the point that it should have an impact on our loss runs.

David Ross
Excellent. Thank you, very much.

James Reed
Thanks, Dave.

Operator
And as a reminder, if you would like to ask a question, please press star then one. The next question will come from Barry Haimes of Sage Asset Management. Please go ahead.

Barry Haimes
Hi, guys. Congrats on all of the progress. Question on the tractor delivery delays. Can you give us some feel of how many new tractors you've received in the second quarter versus what you thought you were going to get? And then, any sense—is this one OEM in particular or is it industry-wide? And any sense as to when they think they may be able to catch up? Thanks.

Jason Bates
Yes. We've seen hiccups from—we've got two main OEMs that we're receiving trucks from this year. We've had little snafus with each of them, and I've heard in talking with different contacts throughout the industry, we are not alone in that regard. It's a widespread issue. But we were anticipating receiving 135 trucks in the quarter, and we only received 41. That's something, as I alluded to in our prepared remarks, we would have preferred to—even though it helps our leverage ratio and capex figures, we would have preferred to have had the trucks. We have been pretty transparent with our OEM partners about that. They understand and are aggressively working with us to remedy the issues. We are already making up ground here in July and expecting to continue to make up ground. But we don't want to flood our shops either. You have to be methodical about how you bring these things in. We're hoping to make up that ground over the next four or five months.

James Reed
Barry, it's James. Let me give you just a bit of color about some of things that have happened. There have been supply-chain issues, where they had trouble getting some parts. There have been issues with—there are these systems that help the truck idle at different temperatures that didn't work properly, actually with all the OEMs for they have all been working through that. But the most comical, but infuriating for me, has been that there have been trucks available, but they, the OEMs, literally do not have drivers to deliver the trucks, which sounds crazy. We're working in all kinds of creative ways to just go get the trucks off their lots, to get guys in our building that work in operations that have a CDL to go help them bring—we're just trying to figure out, and to the point of your question, and Jason's fantastic answer, it's been an industry-wide thing. Everybody I talk to is having the same problems.

Barry Haimes
Great. Thanks for the color, guys. Appreciate it.

Jason Bates
Our pleasure, Barry.

James Reed
Thanks, Barry.

CONCLUSION

Operator
And ladies and gentlemen, this will conclude our question-and-answer session. I would like to hand the conference back to James Reed for his closing remarks.

James Reed
Great, thanks, Denise. I hope you guys will stay on. This is the section where I gave you a Satchel Paige quote, last time. Some friends and I recently took a group of eight young men and four adults from Arkansas to Colorado, where many of them saw and climbed mountains for the first time in their lives. As one of our co-travelers had some real trouble at altitude over 10,000 feet on our way to 13,000 feet, I asked him, "How badly do you want to get to the top?" His response to me was, "James,

I really want to do this." At that point, I assured him we would get him to the top, and we did. It was long, it was slow, and for him, at least, it was painful. But we made it. And in that trip, I was reminded of the title of Ed Viesturs' book—Ed is the best American climber of our generation in my opinion, and he wrote a book that's entitled, *No Shortcuts to the Top*.

USA Truck celebrated its 35th anniversary in the quarter, it was amazing to recognize the great legacy that has been laid before us. And while we have made amazing progress, we don't let the frenzy of the market cloud our perspective. There absolutely are "no shortcuts to the top."

We are taking all the right steps, one step at a time, and are making even better progress than we expected, with much more yet to come. We also realize that it is a process, that there are structural changes that take time to accomplish yet before us, and that there may be unforeseen pitfalls ahead of us. But, as my friend said, "we really want to do this," and our commitment to each other in our company is that we will get to the top. That is the only outcome that will be acceptable to this team.

Our motto this year that reflects all of what we just said is "USA is back," and we believe this quarter's results support that axiom. Thanks again for joining us and for following our story. Jason and I will be in Boston the first week of September and look forward to seeing many of you there and answering additional questions you may have at that point. Thank you for your interest in, and continued support of, USA Truck. Thanks.

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