Covenant Transportation Group 3rd Quarter 2016 Conference Call

Mr. Cribbs – Good morning and welcome to our third quarter conference call. Joining me on the call this morning are David Parker and Joey Hogan, along with various members of our management team.

> *This conference call will contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. Please review our disclosures in filings with the Securities Exchange Commission, including, without limitation, the Risk factors section in our most recent Form 10-K and Form 10-Q. We undertake no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances.*

A copy of our prepared comments and additional financial information is available on our website at www.ctgcompanies.com/investor-relations. Our prepared comments will be brief and then we will open up the call for questions.

In summary, the key highlights of the quarter were:

- Our asset-based divisions' revenue, excluding fuel, decreased 5.2% to $132.3 million due to a 4.3% decrease in average tractors and a 1.2% decrease in average freight revenue per truck,
- Versus the year ago period average freight revenue per total mile was down $.016 per mile or 1.0% and our miles per truck were down 0.2%,
- Freight revenue per tractor at our Covenant Transport subsidiary experienced an increase of 3.9% versus the prior year quarter, and our Star Transportation ("Star") subsidiary experienced an increase of 2.2%, while our refrigerated subsidiary, SRT, experienced a decrease of 11.0%,
- The asset-based division's operating costs per mile, net of surcharge revenue, were up approximately $.106 per mile compared to the year ago period. This was mainly attributable to higher capital costs, employee wages, casualty insurance expense, and other fixed costs. These increases were partially offset by lower operations and maintenance expense,
- We recognized a loss on disposal of equipment of $0.4 million in the third quarter of 2016 versus a gain of $0.1 million in the third quarter of 2015,
- The asset-based operating ratio was 97.3% in the third quarter of 2016, compared with 90.2% in the third quarter of 2015,
- Our Solutions logistics subsidiary increased revenue by 14.4% versus the year ago quarter. Combined purchased transportation and other operating expenses decreased as a percentage of revenue resulting in operating ratio

expansion to 88.5% from 93.4% in the year ago quarter, the result being an increase of operating income contribution to $1.8 million in the current year quarter from $0.9 million in the prior year quarter,

- Our minority investment in Transport Enterprise Leasing contributed $0.5 million to pre-tax earnings or $.02 per share,
- Our effective income tax rate declined to 27.1% in the current period from 43.9% in the year ago period. This reduced effective income tax rate is not expected to regularly occur in future periods,
- The average age of our tractor fleet continues to be very young at 1.7 years as of the end of the quarter, equal to a year ago. As we do not expect to accept deliveries of any new tractors for the remainder of the year, we expect the average age of our tractor fleet to increase by December 31, 2016,
- While EPS declined significantly versus year ago, our operating cash flows decreased 18.2% to $17.7 million during this lackluster freight economy,
- Since December 31, 2015, total indebtedness, net of cash and including the present value of off-balance sheet lease obligations has decreased by approximately $25.9 million to $238.3 million,
- At September 30, 2016, we have available borrowing capacity of $47.6 million under our revolving credit facility.

The main positives in the third quarter were 1) revenue growth and improved operating profitability from our Solutions subsidiary for which we also hired former Armada executive, Paul Newbourne to continue to push profitable growth, 2) a 4.1% sequential improved revenue per truck at our Covenant Transport subsidiary, 3) a 1.9% sequential improved revenue per truck at our Star subsidiary, and 4) our tangible book value per basic share increased 15.3% to $12.38 from $10.74 a year ago. The main negatives in the quarter were 1) increased operating costs on a per mile basis, including unfavorable capital and casualty insurance costs, 2) a 5.3% increase in Department of Transportation ("DOT") reportable accidents compared to the prior year quarter, and 3) a 4.2% sequential decline in revenue per truck at our SRT subsidiary resulting in further deterioration in quarterly operating profitability at SRT, while operating at a loss for the third consecutive quarter.

Our fleet experienced a decrease to 2,581 trucks by the end of September, an 8 truck decrease from our reported fleet size of 2,589 trucks at the end of June. Our fleet of team-driven trucks averaged 996 teams in the third quarter of 2016, a 1.1% decrease from 1,007 average teams in the second quarter of 2016.

Our third quarter freight was softest in July and improved in the last two months of the quarter. Our year-over-year July miles per truck was down 4.0%. Our year-over-year August miles per truck was up 1.1%. And, our year-over-year September miles per truck was up 2.3%.

For the fourth quarter of the year, our focus will be on executing on the additional commitments from peak season customers at higher peak season rates, while insuring all of our valuable customers' shipping needs are met, and increasing the percentage of our trucks with drivers. Regarding SRT's profitability improvement plan, we are focusing this quarter on transitioning to new leadership, enhancing the culture and employee morale, building lane density and optimizing the freight network, removing excess equipment to improve capital costs, and improving on the excellence of our customer service.

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