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RLGT - Q2 2020 Radiant Logistics Inc Earnings Call

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CORPORATE PARTICIPANTS

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John David Godin *Lake Street Capital Markets, LLC, Research Division - Equity Research Analyst*

PRESENTATION

Operator

This afternoon, Bohn Crain, Radiant Logistics' Founder and CEO; and Radiant's Chief Financial Officer, Todd Macomber, will discuss financial results for the company's second fiscal quarter and 6 months ended December 31, 2019. Following their comments, we will open the call to questions. This conference is scheduled for 30 minutes.

This conference call may include forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. The company has based these forward-looking statements on its current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about the company that may cause the company's actual results or achievements to be materially different from the results or achievements expressed or implied by such forward-looking statements. While it is impossible to identify all the factors that may cause the company's actual results or achievements to differ materially from those set forth in our forward-looking statements, such factors include those that have in the past or may in the future be identified in the company's SEC filings and other public announcements, which are available on the Radiant website at www.radiantdelivers.com. In addition, past results are not necessarily an indication of future performance.

Now I'd like to turn the conference over to Radiant's Founder and CEO, Mr. Bohn Crain.

Bohn H. Crain - *Radiant Logistics, Inc. - Founder, CEO & Chairman*

Thank you. Good afternoon, everyone, and thank you for joining in on today's call. We're very pleased to report another quarter of solid financial results, posting adjusted EBITDA of \$9.4 million on revenues of \$201.9 million and net revenues of \$56 million for the second quarter ended December 31, 2019, in what was generally recognized as a tough economic environment. We've certainly felt the impact of industry-wide headwinds, but as we indicated on our last quarterly call, our results are relatively flat on a quarterly sequential basis and down relative to the comparable prior year period.

On a sequential quarterly comparison, revenues were up \$1.4 million, net revenues were up \$0.5 million and adjusted EBITDA down a modest \$0.3 million for the -- relative to the quarter ended September 30, 2019.

A number of factors contributed to our difficult comparisons to our record results in the year-ago period, including the \$30 million in nonrecurring disaster relief project work reported in the year-ago period, our decision to exit certain lower-margin business earlier in calendar 2019 and the general market softness associated with slower global trade and margin pressures on our brokerage operations associated with excess truck capacity that exists in the marketplace.

Notwithstanding these market headwinds, we saw our net revenue margins improve 320 basis points over the comparable prior year period, which helped us to deliver the \$9.4 million in adjusted EBITDA and over \$6.2 million in cash from operations for the quarter.



In addition, this last quarter, we also took the opportunity to begin buying in our stock. And for the quarter ended December 31, we spent \$1 million repurchasing 189,558 shares of our common stock at an average price of \$5.28 a share.

As we previously discussed, we believe the current share price does not accurately reflect Radiant's long-term growth prospects, and in that regard, we recently announced the renewal of our stock buyback program authorizing the repurchase of up to 5 million shares of our common stock through December 31, 2021.

We also made some very recent progress on the acquisition front, and earlier today announced the purchase of 2 of our Adcom agency locations in Alexandria, Virginia and Pittsburgh, Pennsylvania, both owned by our long-term operating partner, Bonnie Knoedler. Supporting our operating partners in transition to a company-owned model remains a significant opportunity inherent in the Radiant network.

Looking forward, we remain committed to our long-standing strategy to deliver profitable growth through a combination of organic and acquisition growth initiatives. We will continue to make investments in our technology platform and incremental sales resources to drive organic growth. At the same time, we continue to enjoy low leverage on our balance sheet, strong free cash flow and continue our disciplined search for additional acquisition opportunities, which we believe, over time, will deliver meaningful value for our shareholders, our operating partners and the end customers that we serve.

As we continue along this path, our stock buyback program will remain an integral part of how we think about capital allocation, acquisition multiples and the use of our free cash flow.

With that, I'll turn it over to Todd Macomber, our CFO, to walk us through our detailed financial results, and then we'll open it up for some Q&A.

Todd E. Macomber - *Radiant Logistics, Inc. - Senior VP & CFO*

Thanks, Bohn, and good afternoon, everyone. Today, we will be discussing our financial results, including adjusted net income and adjusted EBITDA for the 3 and 6 months ended December 31, 2019.

For the 3 months ended December 31, 2019, we reported net income attributable to common stockholders of \$2.587 million on \$201.9 million of revenues or \$0.05 per basic and fully diluted share. For the 3 months ended December 31, 2018, we reported net income attributable to common stockholders of \$3.766 million on \$260.9 million of revenues or \$0.08 per basic and \$0.07 per fully diluted share. This represents a decrease of approximately \$1.179 million over the comparable prior year period or 31.3%.

For the 3 months ended December 31, 2019, we reported adjusted net income attributable to common stockholders of \$6.298 million. For the 3 months ended December 31, 2018, we reported adjusted net income attributable to common stockholders of \$8.154 million. This represents a decrease of approximately \$1.856 million or approximately 22.8%.

We reported adjusted EBITDA of \$9.374 million for the 3 months ended December 31, 2019, compared to adjusted EBITDA of \$12.499 million for the 3 months ended December 31, 2018. This represents a decrease of \$3.125 million or approximately 25%. Keep in mind, the prior period had significant disaster relief project work that had -- that favorably impacted the company by approximately \$1.6 million in EBITDA, which did not reoccur in the current period.

Moving along with the 6-month income results. For the 6 months ended December 31, 2019, we reported net income attributable to common stockholders of \$5.822 million on \$402.5 million of revenues or \$0.12 per basic and \$0.11 per fully diluted share.

For the 6 months ended December 31, 2018, we reported net income attributable to common stockholders of \$6.338 million on \$479.8 million of revenues or \$0.13 per basic and \$0.12 per fully diluted share. This represents a decrease of approximately \$516,000 over the comparable prior year period or 8.1%.



For the 6 months ended December 31, 2019, we reported adjusted net income attributable to common stockholders of \$12.782 million. For the 6 months ended December 31, 2018, we reported adjusted net income attributable to common stockholders of \$13.531 million. This represents a decrease of approximately \$749,000 or approximately 5.5%.

We reported adjusted EBITDA of \$19.053 million for the 6 months ended December 31, 2019, compared to adjusted EBITDA of \$21.312 million for the 6 months ended December 31, 2018. This represents a decrease of approximately \$2.259 million or approximately 10.6%.

With that, I will turn the call back over to our moderator to facilitate any Q&A from our callers.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll go first to Jason Seidl with Cowen.

Adam Kramer - *Cowen and Company, LLC, Research Division - Associate*

This is actually Adam on for Jason. I just wanted to ask, first of all, about the coronavirus and any impact you guys are seeing on supply chains. What have you guys seen in terms of kind of any disruption to supply chains?

Bohn H. Crain - *Radiant Logistics, Inc. - Founder, CEO & Chairman*

Sure. We're definitely seeing volumes slow down, while at the same time, people are trying to get themselves organized around how to ultimately accelerate supply chain. So it's -- we're certainly early in the process, but it certainly wouldn't surprise me over time to see a boost associated with air freight and/or charters as everybody is trying to kind of preserve the integrity of their supply chains. But near-term or most immediately, we're definitely seeing some slowing on the international side, somewhat compounded by the extended Chinese New Year.

Adam Kramer - *Cowen and Company, LLC, Research Division - Associate*

Got it. And do you think these are volumes that could be made up? In other words, could there be kind of a delayed kind of a surge later on in the year maybe, or maybe second, third quarter, where some of these volumes are made up and that could potentially be a positive for the business?

Bohn H. Crain - *Radiant Logistics, Inc. - Founder, CEO & Chairman*

Yes, I would think so. I think -- well, it's early days yet, but it would seem logical that people will potentially divert volumes that would normally have gone by ocean freight to airfreight to try to restart or reposition inventories in kind of a catch-up phase. Again, it's early days as people are still trying to assimilate what's going on and how to respond. I guess I should also take the opportunity to say, in the aggregate, our plus or minus \$800 million in revenues, probably a little less than \$200 million is through international to date with maybe 60% or 70% of that being in the Asia Pacific trade line.

Adam Kramer - *Cowen and Company, LLC, Research Division - Associate*

Got it. Appreciate the color there. And then just as a follow-up, I wanted to ask about -- and obviously, you guys announced the deal earlier today. I wanted to ask about kind of the M&A pipeline and if there's a potential to do more of these kind of smaller tuck-in deals, and what you guys are seeing more broadly in terms of M&A.

Bohn H. Crain - *Radiant Logistics, Inc. - Founder, CEO & Chairman*

Sure. Well, we -- as we've said for quite a while, we think there is an inherent pipeline of tuck-in acquisitions embedded in our agency-based network. And we would expect, over time, more and more of our strategic operating partners to effectively raise their hand and begin that process of converting from an agency to a company-owned store. We've also historically talked about how that will manifest itself as margin expansion in our business, where effectively that -- nothing changes down to the gross margin line item, but agent station commissions go away, so our EBITDA as a function of gross margin will improve over time as we continue to buy in the agency station. So that's certainly one category that remains for the foreseeable future to be an opportunity for us.

At the same time, and as we've talked about before, we really view ourselves as having 3 functional platforms to support M&A, our Canadian platform to support Canadian-centric M&A. And we're certainly looking kind of along that category. We have our U.S. brokerage operations reflected by Clipper out of Chicago, and we're actively looking for tuck-in truck-brokerage-type opportunities to continue to build out our bimodal competency. Recognizing our principal strength at Clipper today is on the intermodal side of things. And we're trying to complement that on the M&A side with some smaller tuck-ins in the truck brokerage space.

Operator

We will go next to Mark Argento at Lake Street.

John David Godin - *Lake Street Capital Markets, LLC, Research Division - Equity Research Analyst*

This is John on for Mark. Just to kind of follow-up on the M&A. I guess what are you seeing in terms of opportunities to continue expanding that value-added services area?

Bohn H. Crain - *Radiant Logistics, Inc. - Founder, CEO & Chairman*

So value-added services kind of categorically captures a lot of different opportunities, right? So for us, that would include contract logistics, it would include customs brokerage work, both of which would be categories and areas of interest for us. And we certainly are exploring opportunities that would bring, not only transportation, but also some of these complementary services.

So I think kind of a multi-part response. Yes, we're certainly interested in continuing to do that or pursue those types of opportunities. But we also -- as we look at those opportunities, we view them as the value-added service, meaning our core line of business is transportation, we view those value-added services as kind of enhancing the value proposition. But to the extent we look at M&A, the principal line of business for the companies we would likely acquire is core transportation service offerings and kind of hanging off of those businesses might be some complementary value-added services.

John David Godin - *Lake Street Capital Markets, LLC, Research Division - Equity Research Analyst*

Got it. And then second, thinking about kind of broad capital allocation going forward, how would you kind of rank who you guys are thinking about M&A versus buyback versus continued kind of technology investments?

Bohn H. Crain - *Radiant Logistics, Inc. - Founder, CEO & Chairman*

Sure. So I think we'll continue to -- I think, like we always have and -- but I'll kind of start from the top, I guess. Ultimately, some of the larger transactions or most of the larger transactions, the market clearing multiples will likely be at valuations higher than where our own stock trades. So that -- not to say never ever, but we would have to feel awfully inspired to effectively pay up for a larger transaction, which kind of brings us full



circle back to smaller tuck-in-type acquisitions where we can value and structure in a way that we think creates better shareholder value over the longer term. And at the same time, as we recently kind of begun to engage in the stock buyback, we think that that represents certainly an interesting opportunity for us. So I would think as a -- just kind of as a baseline idea would be, we can take half of our free cash flows and buy-in our stock, and half of our free cash flows and do tuck-in acquisitions.

And over time, if we come across larger transactions that inspire us, we certainly won't rule those out. But again, as a baseline to pressure test, as we look at other ideas, the idea of the multipronged strategy, both on the organic side and -- those investments will likely -- as you alluded to, take the form of ongoing investments in our technology sets. But it will -- it may well also include making some incremental investments in our sales organization to drive the organic growth side. But then as we think about M&A, I think free cash flow is kind of an equal-opportunity employer for doing tuck-in acquisitions, but also prepared to buy in our stock at these levels remains kind of the baseline against which we'll look at other opportunities.

Operator

(Operator Instructions) We'll go to Jeff Kauffman at Loop Capital Markets.

Jeffrey Asher Kauffman - *Loop Capital Markets LLC, Research Division - MD*

Tough environment out there. Not so much focused on coronavirus, but a lot of freight companies that we've heard from so far this quarter have talked about how difficult the fourth calendar quarter was, but that they were seeing things a little more positively in January so far. Can you talk -- it's hard to separate the coronavirus impact right now. But does the world look a little different to you in January at all? And if so, kind of how?

Bohn H. Crain - *Radiant Logistics, Inc. - Founder, CEO & Chairman*

I don't know the -- well, I can say, we're not really prepared to speak to January yet. But what I can say is that our -- actually, our December results actually had a positive trend relative to the prior year. And how that's going to play out in the context of the coronavirus and excess capacity, I think it's premature to say. But I don't want folks to lose sight of the fact that we had an extraordinary prior year quarter we were comping against. We had some nonrecurring business in the prior year period.

And the fact is, as we're -- even though we've got this rough economic environment out there, we're still jetting along at \$40 million a year of run rate EBITDA. And as we look at our valuation relative to our peer group, we think we remain meaningfully undervalued. We've got really low leverage on our balance sheet. And we -- I mean, we would all like sunnier days, but at the same time, we view this environment as a potential opportunity to serve as a catalyst to maybe activate some sellers and create some opportunities that might not otherwise present themselves.

Jeffrey Asher Kauffman - *Loop Capital Markets LLC, Research Division - MD*

Just 2 quick hitters. You mentioned in the press release the acquisition of the 2 agency locations. How meaningful could this be to -- when we think about -- you said the station costs go away and impact to EBITDA. Is this really more of kind of a small tuck-in, not material to financials, or whether these large agency locations that might bump up the growth a little bit?

Bohn H. Crain - *Radiant Logistics, Inc. - Founder, CEO & Chairman*

We purposely didn't kind of get into the details of the particular transaction. So I don't want to veer from that on this call. But what I would say, yes and yes. Yes, this is a tuck-in acquisition in the context of -- it's a long-standing partner. There's virtually 0 integration risk because they're already a long-standing part of our network. But I would also say they were one of our very largest agent stations in terms of contributors. So I think they will make a meaningful impact as we move forward. And again, not the top line revenue, not at the gross margin line item, but in terms of incremental EBITDA that their organization brings to the table, it is one of our bigger partners.



Jeffrey Asher Kauffman - *Loop Capital Markets LLC, Research Division - MD*

All right. And last question, maybe more of a Todd question. The last few quarters, we've been talking about different systems that you've been upgrading, I think some on the accounting side, some on the TMS side. Can you give an update of where you are in that integration process? And maybe how much more there is to go?

Bohn H. Crain - *Radiant Logistics, Inc. - Founder, CEO & Chairman*

So I'll start, and Todd can fill in. But just some good data points as we were updating our Board here last week. We now have transacted over \$100 million of business inside of the new TM. And crossed over the 100,000 transaction mark inside of TM. So we continue to deploy it. It's certainly up and working. Domestic is deployed. We continue to roll that out across stations. We work through the pilot on international and really are beginning to roll out international across the stations. We have a handful of agent stations up and running on TM, including a couple of our very largest agent stations are virtually 100% on SAP-TM at this point.

Todd E. Macomber - *Radiant Logistics, Inc. - Senior VP & CFO*

Yes. And as far as the accounting side, I mean, the -- we've got SAP ECC fully up and functional. We do have opportunities to bring over some other parts of our business on to that system, and we're looking at that. So -- but our biggest focus, like Bohn is alluding to, is a TM. So -- and that's progressing as we have planned.

Operator

And at this time, I have no other questions holding. I'll turn the conference back to management for any additional or closing comments.

Bohn H. Crain - *Radiant Logistics, Inc. - Founder, CEO & Chairman*

All right. Let me close by saying that we remain very excited with our progress and prospects here at Radiant, and we remain very bullish on the growth platform that we've created and the scalability of our nonasset-based business model. Our unique multi-brand strategy and consolidating agent-based forwarding networks, ongoing investment in technology and low leverage on our balance sheet puts us in a unique position to support further consolidation in the marketplace. We believe this represents our longer-term and almost perpetual opportunity, and we continue to invest in technology and our people with an eye towards building out a world-class scalable back office infrastructure to support a much larger enterprise going forward. We are patiently persistent in the pursuit of this long-term vision, which we believe, over time, will deliver meaningful value for our shareholders, our operating partners and the end customers that we serve. Thanks for listening and your support of Radiant Logistics.

Operator

Ladies and gentlemen, that will conclude today's call. We thank you for your participation. You may disconnect at this time. And have a great day.



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