

Daseke (DSKE)

Disclaimer: As of the publication date of this report, Alta Fox Capital Management, LLC and its affiliates (collectively, “Alta Fox”), have a long position in Daseke, Inc. (the “company” or “DSKE”). Alta Fox stands to realize gains in the event that the price of DSKE’s stock increases. Following publication, Alta Fox may transact in the security of Daseke. All expressions of opinion are subject to change without notice, and Alta Fox does not undertake to update this report or any information herein. Please read our full legal disclaimer at the end of this report.

Executive Summary

Alta Fox is currently a holder of Daseke, Inc. (DSKE) shares. Since [Freightwaves](#) released commentary on the U.S. truckload market on March 24, 2022, DSKE shares have fallen nearly 30% alongside other trucking stocks. The article accurately describes recent weakness in dry van rates causing public trucking stocks (all predominantly dry van operators) to fall materially.

However, DSKE is not a dry van operator. The Addison, TX-based company is predominantly a specialized and flatbed operator, a segment which is exhibiting different demand trends than dry van and is tied to different markets. We believe the relative strength of the flatbed and specialized markets is supported by their association with industrial, energy, and military uses (versus dry van which is tied to consumer goods demand).

Alta Fox believes the recent weakness in Daseke’s stock price reflects investors’ inability to differentiate between dry van weakness and flatbed strength and has created a tremendous opportunity in DSKE shares today. **Alta Fox estimates that DSKE is now trading less than 7x forward earnings per share and a 20% normalized free cash flow equity yield for a business that we believe can organically grow EPS mid-teens annually as the company continues to simplify the corporate structure, eliminate inefficiencies, and expand EBIT margins to 8-15% through the cycle (600 bps higher than today), in-line with private flatbed operators of similar scale.**

Earlier this week, Alta Fox urged Daseke’s Board of Directors to consider a meaningful stock buyback program to take advantage of current weakness, which would not be the first time that management has opportunistically repurchased stock. In Q2-Q3 2021, management repurchased ~\$20M of DSKE stock at prices similar to current levels (~\$7 per share). The market has once again presented management with a very compelling repurchase opportunity.

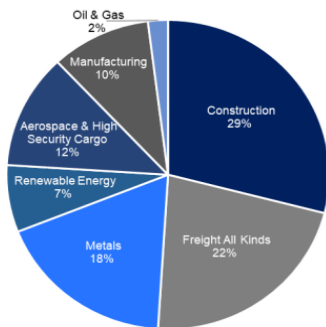
We believe the company can generate \$1.61 in EPS by FY 2024 and trade at 12x PE resulting in a \$17 share price, representing more than 100% upside from current prices. However, if the company utilizes its balance sheet to opportunistically retire ~10% of shares outstanding to take advantage of DSKE’s steep discount to fair value, the company could generate closer to \$1.75 in EPS by FY24. With this ~\$60M buyback, DSKE’s leverage ratio would remain comfortably below 2.5x. Not only would this increase earnings per share, but it would also increase confidence in management’s ability to effectively allocate capital.

Business Description

Daseke (DSKE) is the biggest flatbed trucking company with ~1% market share in an extremely fragmented \$100B U.S. flatbed market. 40% of DSKE’s revenues are derived from the flatbed market, and the remaining 60% are from the specialized trucking market (military/high-value/high-risk/unique transportation needed items).

While DSKE is thought of as asset heavy, as of Q4 2021, only 44% of its revenues come from company-owned trucks. The remaining revenue base is derived from owner-operators who supply and drive their own trucks in a variable cost structure model (34% of revenue) and third-party logistics (22% of revenue) services. **DSKE is the only publicly traded pure play flatbed and specialized carrier and has zero direct exposure to dry van rates.**

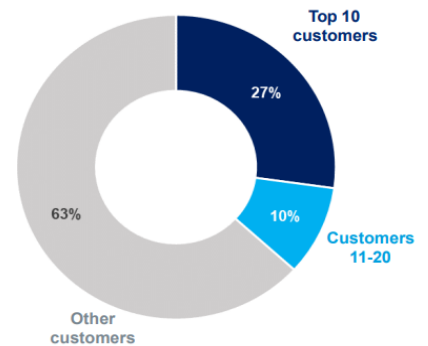
2021 Revenue by End Market¹



Blue Chip Customer Base

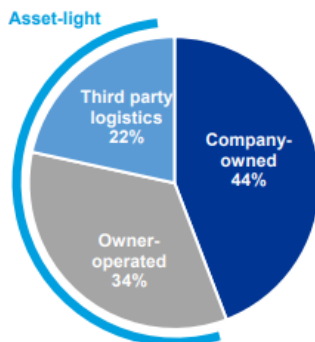
Customer	Tenure (yrs)
GP	41
NUCOR	26
Weyerhaeuser	26
Vestas	24
BOEING	23
SIEMENS	21
CAT	21
Other	18
GE	16
AGC	13

Customer Concentration



Highly flexible business model

LTM Dec-21 revenue mix¹



Company-owned: serves blue-chip customer base, with longstanding relationships in hard-to-service niche markets

Owner-operated: largely on a variable cost structure, allows for flexibility to adapt to market fluctuations

Third party logistics portfolio: provides a natural hedge to any future changes in volumes

Source: [DSKE Investor Presentation](#)

Main Thesis Points

- 1) Daseke is in the early innings of a “self-help” story under new management which will improve bull market EBIT margins from <9% in 2021 to 15% over the next few years.
 - a. Prior to 2020, Daseke struggled with below-peer margins due to an undisciplined M&A strategy that resulted in the ownership of 21 operating companies. There was little to no integration amongst the businesses, and subsidiaries often found themselves competing for contracts.
 - b. Poorly timed, expensive, and unfocused acquisitions contributed to a loss of investor confidence in the prior management team and a steep deterioration in Daseke’s stock price.

- c. As a result of a board-led turnaround in 2019, both the CEO and CFO have been replaced and significantly improved. The new CEO has a background in private equity and has brought desperately needed cost discipline. The new CFO brings best-in-class trucking operator experience from his 14-year tenure at Knight-Swift Transportation Holdings (KNX).
- d. To date, new management has already structurally improved EBIT by \$45M (~1/3rd of current EBIT) through a broad-based restructuring that has reduced operating companies by approximately 50%. We believe ongoing improvements will ultimately increase EBIT margins by approximately 600 basis points through the cycle.
- i. Our research suggests that private, well-run flatbed operators earn between 8-20% EBIT margins through the cycle (this compares similarly to publicly traded dry van operators). We see no reason why management cannot achieve these margin levels at Daseke given their superior scale vs flatbed and specialized competitors.
- e. Key drivers of 600 bps of margin improvement through the cycle to ~8-15% EBIT margins:
- i. Consolidation – When new management took the helm, operating company count started at 21. It is now down to 11. Management’s medium-term goal is to slim the company down to 4 subsidiaries.
 - ii. Technology Integration - Integrate technology across Daseke’s fleet to better view, manage and optimize customer orders and deliveries.
 - iii. Value Proposition Expansion - Invest in growing logistics capabilities and services which represent a growing portion of revenues and complements current customer offerings.

These initiatives should result in:

- i. Improved revenue per truck through better utilization, mix shift, and pricing.
- ii. Natural margin expansion as labor force (first party and third party) is more efficiently utilized.

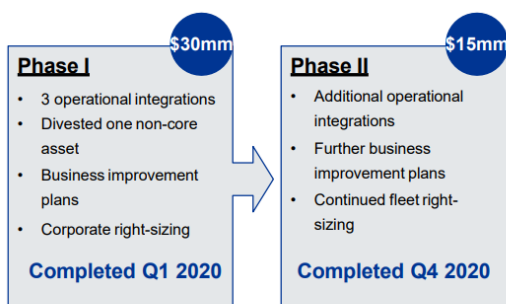
Daseke’s track record of execution



Focus on tactical initiatives

Prior Daseke 2008 to 1H'19	Daseke Today 2H'19 to Present	Execution update
Focused on revenue growth – primarily fueled by M&A	Corporate-wide focus on driving earnings growth and cash flow	<ul style="list-style-type: none"> ✓ Divested Aveda ✓ Materially improved operating ratio and adj. EBITDA margin expansion of 250 bps
Limited focus on coordination and synergies	Aggressive integrations, business improvement plans and cross-platform coordination	<ul style="list-style-type: none"> ✓ Completed phase I & II of operational / cost improvement plan ✓ \$45mm annual operating income improvement
Organization and leadership not structured for decisive execution	Built leadership team that drives results and accountability	<ul style="list-style-type: none"> ✓ Building a C-suite of proven industry executives ✓ Created Leadership Council ✓ Established Transformation Office

Operational and cost improvement plan executed in 2019 and 2020



Operational and cost improvement plan impact – Phase I & II combined

- ✓ Operating units streamlined: from 16 to 11
- ✓ \$45mm annual operating income improvement
- ✓ Fleet rationalization

Source: [DSKE Investor Presentation](#)

- f. The Street refuses to give management the benefit of the doubt that Daseke can continue to see organic margin improvements despite significant improvements to date. Alta Fox assumes moderate organic improvements in our base case, well above sell side analysts who underwrite margins *decreasing*. Note that Alta Fox forecasts are still well below management's targets (which imply a near doubling of margins).

	2018	2019	2020	2021	2022	2023	2024
Revenue							
Alta Fox	1,615	1,737	1,454	1,557	1,650	1,710	1,764
Consensus	1,615	1,737	1,454	1,557	1,646	1,709	N/A
<i>Alta Fox vs consensus</i>					0.2%	0.1%	
EBIT							
Alta Fox	79	51	83	137	150	165	179
Consensus	79	51	83	137	136	142	N/A
<i>Alta Fox vs consensus</i>					10.6%	16.0%	
EBIT Margin							
Alta Fox	4.9%	2.9%	5.7%	8.8%	9.1%	9.6%	10.1%
Consensus	4.9%	2.9%	5.7%	8.8%	8.3%	8.3%	N/A
Q4 21 cc mgmt implied targets					10.5%	13.0%	15.0%
<i>Alta Fox vs consensus (bps)</i>					81.4	132.8	

Source: Alta Fox Internal Analysis / Daseke Company Filings

- 2) Daseke and the overall flatbed market are in a much better supply/demand situation than the dry van market right now--- a fact seemingly lost on Mr. Market.

Supply Constrained Market

a. Drivers

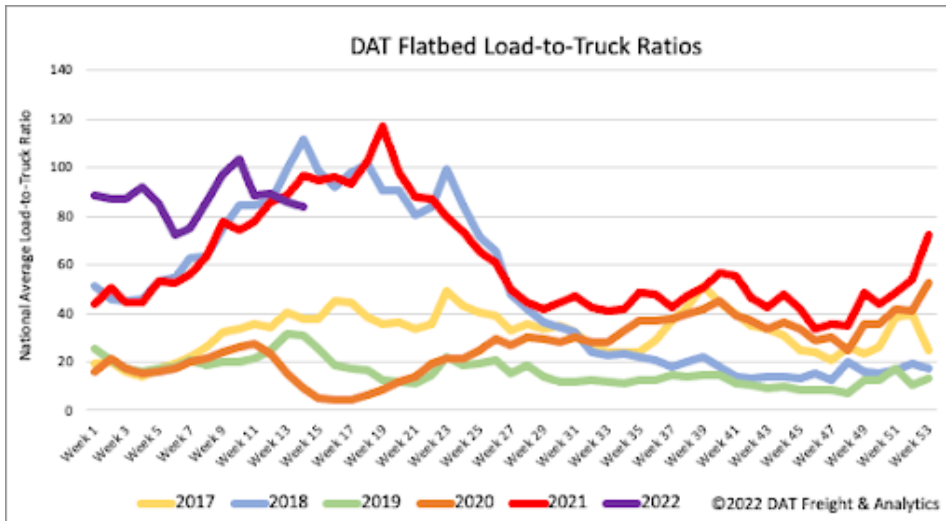
- i. Driving flatbed and specialized trucks is very challenging and often requires significant training & experience. It also requires the driver to assume responsibility for strapping down and securing cargo in addition to ensuring it arrives safely in all weather conditions. By contrast, dry van drivers rarely have to leave their vehicles. Loads are heavy, unique, and more challenging to drive with compared to enclosed dry van trailers.
- ii. The comparative intensity of the flatbed and specialized market keeps new drivers on the sidelines who prefer to enter the more relaxed dry van market.
- iii. While driver pay is increasing, rev/mile is increasing either proportionally or faster, creating bottom-line expansion for operating companies.

b. Trucks

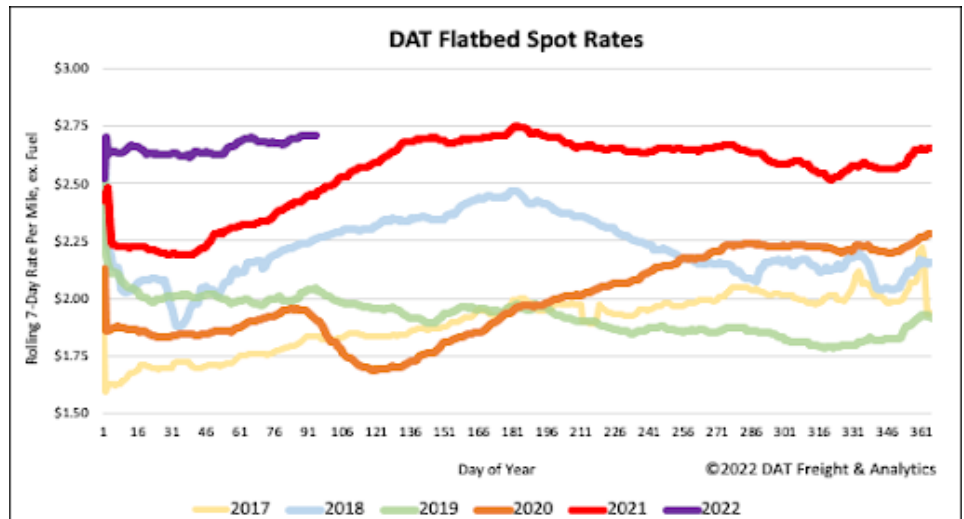
- i. Production of new trucks remain are below flatbed industry needs.
- ii. The value of used trucks is more than double pre-covid levels, improving cash flow profiles for operators (lower net capex between buying new/selling mid-life used trucks).

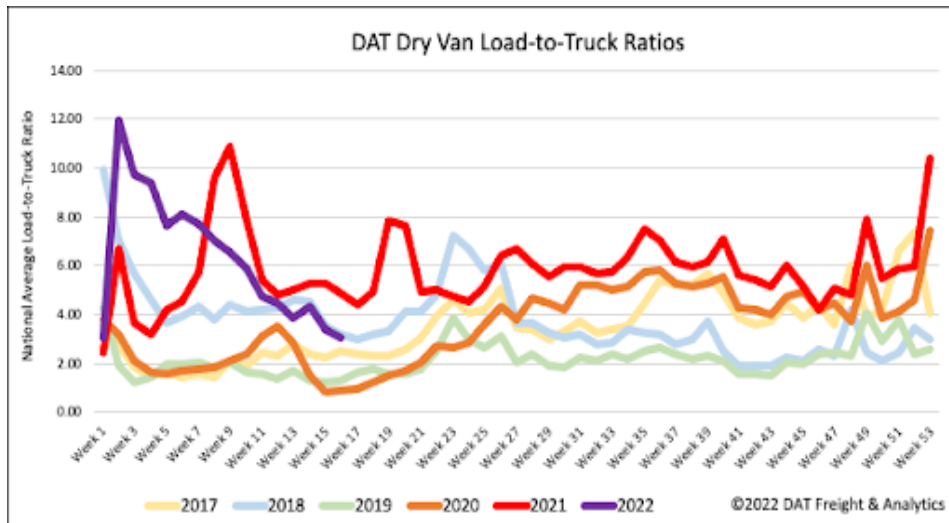
Healthy Demand Levels

- a. Current demand levels remain very healthy relative to supply, supported by a current Purchasing Managers' Index (PMI) of well over 50.
 - i. The Load-to-Truck flatbed ratio (measure of demand/supply → the higher the ratio, the greater demand exceeds supply) remains near all-time bull market seasonal highs seen in 2021 and 2018. This is very supportive of flatbed rates continuing to increase.
 - ii. Flatbed KPI and spot price strength is in stark contrast to dry van market weakness.

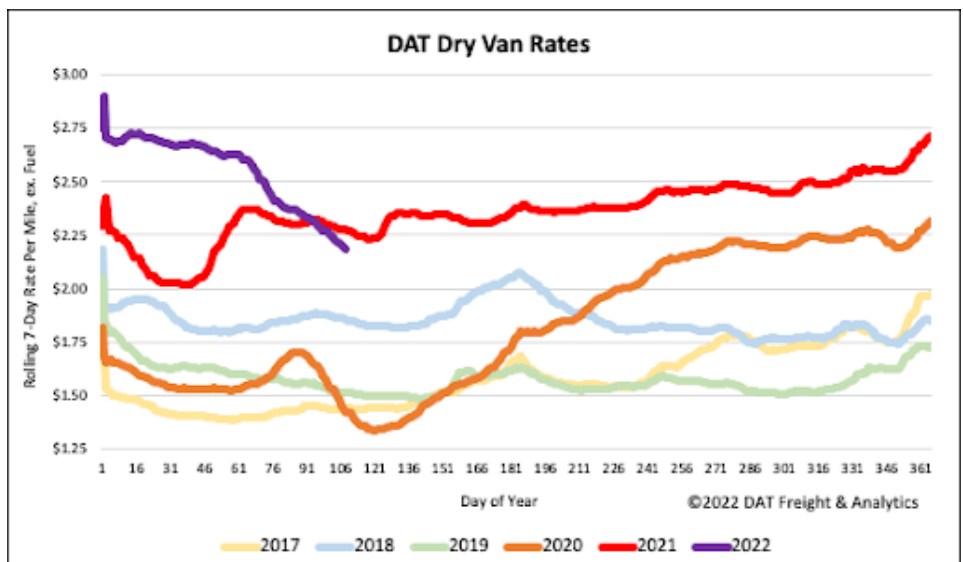


Source:
DAT Freight and Analytics





Source: DAT Freight and Analytics



U.S. Infrastructure Spending Tailwinds

- a. Significant tailwinds for US infrastructure spending that should further increase demand/supply imbalance driven by:
 - i. Onshoring of manufacturing for the first time in recent memory as businesses are realizing that they cannot depend on offshore labor for 100% of production. The ongoing conflict in Eastern Europe makes this even more likely.
 - ii. PMIs are currently well over 50 (any score >50 indicates growth forecasts, <50 indicates industrial contraction forecasts).
 - iii. **\$1 trillion dollar infrastructure bill set to positively impact markets by the end of 2022/2023. Approximately \$500B of the bill is directly applicable to Daseke's end-markets, which should boost demand above current levels.**

- 3) The current valuation of <7x forward earnings and ~20% normalized free cash flow equity yield are extremely attractive given the strong fundamentals. Alta Fox believes DSKE could triple from today's valuation on a medium-term basis with reasonable assumptions, with even greater upside if management is able to buy back shares at attractive prices.

Valuation | No Buybacks

↳ ~200% upside long-term with below industry average mid-cycle multiples.

Daseke, Inc

Ticker : DSKE US

Last Price (USD) \$ 8.30

Real-Time Stock Price : Bloomberg OFF

Model Sheet Currency : USD 2

Buyback? - 1=yes, 0=no

	Restated	Restated							
	365	366	365	365	365	366	365	365	
	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26	
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	
Valuation									
Flatbed Rev	663.0	578.9	694.8	742.4	767.2	776.6	786.2	790.7	
y/y %	0%	-13%	20%	7%	3%	1%	1%	1%	
Specialized Rev	1,095.7	893.7	874.0	919.5	955.2	999.5	1,046.2	1,087.2	
y/y %	14%	-18%	-2%	5%	4%	5%	5%	4%	
Corporate eliminations	(21.7)	(18.5)	(11.9)	(12.0)	(12.0)	(12.0)	(12.0)	(12.0)	
Total Rev	1,737.1	1,453.8	1,557.1	1,650.1	1,710.4	1,764.1	1,820.4	1,866.0	
y/y %	8%	-16%	7%	6%	4%	3%	3%	3%	
Q4 21 CC Guidance			77.0	4-7%					
Flatbed adj EBIT	31.1	39.2	77.0	83.4	90.1	95.0	98.2	100.7	
Flatbed adj EBIT Margin	4.7%	6.8%	11.1%	11.2%	11.7%	12.2%	12.5%	12.7%	
Specialized adj EBIT	67.6	78.6	95.5	103.0	111.7	121.9	132.8	143.5	
Specialized adj EBIT Margin	6.2%	8.8%	10.9%	11.2%	11.7%	12.2%	12.7%	13.2%	
Overhead	(47.5)	(34.3)	(35.3)	(36.0)	(37.1)	(38.2)	(39.3)	(40.5)	
Adj EBIT	51.2	83.5	137.2	150.4	164.7	178.7	191.7	203.7	
y/y %	-35%	63%	64%	10%	10%	9%	7%	6%	
EBIT Margin	2.9%	5.7%	8.8%	9.1%	9.6%	10.1%	10.5%	10.9%	
y/y bps									
Q4 21 CC peak to trough EBIT				8-15%	8-15%	8-15%	8-15%	8-15%	
EV/EBIT			8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	
EV			1,097.6	1,203.1	1,317.5	1,429.9	1,533.2	1,629.3	
(+) cash			147.5	76.8	160.6	169.4	182.9	195.9	
(-) debt		520.9	586.9	506.9	481.1	366.5	238.1	91.2	
Market Cap			658.2	773.0	997.0	1,232.9	1,478.0	1,734.0	
FDSO			69.2	70.0	70.0	70.0	70.0	70.0	
Price Target			9.5	11.0	14.2	17.6	21.1	24.8	
Total Upside				33%	72%	112%	154%	198%	
IRR				334%	57%	41%	34%	30%	
Current Price				(8.3)	(8.3)	(8.3)	(8.3)	(8.3)	
Target Price				11.0	14.2	17.6	21.1	24.8	
Today				4/20/2022	4/20/2022	4/20/2022	4/20/2022	4/20/2022	
Date FV Realized				6/30/2022	6/30/2023	6/29/2024	6/29/2025	6/29/2026	
Implied Multiple from Valuation									
EV/EBITDA			5.0x	4.8x	4.9x	5.0x	5.1x	5.2x	
PE			0.0x	9.1x	10.1x	10.9x	11.5x	12.0x	

Source: Alta Fox Internal Analysis / Daseke Company Filings

Valuation | Buybacks

Assumes \$60M of buybacks at \$8/share in 2022.

~220% upside long-term with below industry average mid-cycle multiples.

Daseke, Inc

Ticker : DSKE US

Last Price (USD)

\$ 8.30

Real-Time Stock Price : Bloomberg

OFF

Model Sheet Currency : USD

2

Buyback? 1.0 1=yes, 0=no

	Restated	Restated						
	365	366	365	365	365	366	365	365
	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Valuation								
Flatbed Rev	663.0	578.9	694.8	742.4	767.2	776.6	786.2	790.7
y/y %	0%	-13%	20%	7%	3%	1%	1%	1%
Specialized Rev	1,095.7	893.7	874.0	919.5	955.2	999.5	1,046.2	1,087.2
y/y %	14%	-18%	-2%	5%	4%	5%	5%	4%
Corporate eliminations	(21.7)	(18.5)	(11.9)	(12.0)	(12.0)	(12.0)	(12.0)	(12.0)
Total Rev	1,737.1	1,453.8	1,557.1	1,650.1	1,710.4	1,764.1	1,820.4	1,866.0
y/y %	8%	-16%	7%	6%	4%	3%	3%	3%
Q4 21 CC Guidance			77.0	4-7%				
Flatbed adj EBIT	31.1	39.2	77.0	83.4	90.1	95.0	98.2	100.7
Flatbed adj EBIT Margin	4.7%	6.8%	11.1%	11.2%	11.7%	12.2%	12.5%	12.7%
Specialized adj EBIT	67.6	78.6	95.5	103.0	111.7	121.9	132.8	143.5
Specialized adj EBIT Margin	6.2%	8.8%	10.9%	11.2%	11.7%	12.2%	12.7%	13.2%
Overhead	(47.5)	(34.3)	(35.3)	(36.0)	(37.1)	(38.2)	(39.3)	(40.5)
Adj EBIT	51.2	83.5	137.2	150.4	164.7	178.7	191.7	203.7
y/y %	-35%	63%	64%	10%	10%	9%	7%	6%
EBIT Margin	2.9%	5.7%	8.8%	9.1%	9.6%	10.1%	10.5%	10.9%
y/y bps				8-15%	8-15%	8-15%	8-15%	8-15%
Q4 21 CC peak to trough EBIT								
EV/EBIT			8.0x	8.0x	8.0x	8.0x	8.0x	8.0x
EV			1,097.6	1,203.1	1,317.5	1,429.9	1,533.2	1,629.3
(+) cash			147.5	75.3	157.5	166.2	179.5	192.3
(-) debt		582.4	586.9	566.9	542.6	431.1	305.9	162.4
Market Cap			658.2	711.4	932.4	1,165.0	1,406.8	1,659.2
FDSO			69.2	65.3	62.5	62.5	62.5	62.5
Price Target			9.5	10.9	14.9	18.6	22.5	26.5
Total Upside				31%	80%	125%	171%	220%
IRR				304%	63%	45%	37%	32%
Current Price				(8.3)	(8.3)	(8.3)	(8.3)	(8.3)
Target Price				10.9	14.9	18.6	22.5	26.5
Today				4/20/2022	4/20/2022	4/20/2022	4/20/2022	4/20/2022
Date FV Realized				6/30/2022	6/30/2023	6/29/2024	6/29/2025	6/29/2026
Implied Multiple from Valuation								
EV/EBITDA			5.0x	4.8x	4.9x	5.0x	5.1x	5.2x
PE			0.0x	8.5x	9.8x	10.6x	11.2x	11.8x

Source: Alta Fox Internal Analysis / Daseke Company Filings



Why Does the Opportunity Exist

- Daseke is the only publicly traded trucking company that is predominantly flatbed and specialized focused.
- Flatbed and specialized are significantly smaller markets than dry van, have very different supply/demand drivers, and are currently diverging quite significantly.
- Daseke has limited sell-side coverage (Craig Hallum, Stifel, Cowen, and Northland).
- The analyst community has underestimated the new management team and its ability to meaningfully improve margins.

Conclusion

Daseke's stock has been caught in the violent selloff of dry van stocks despite zero dry van exposure and fundamentally strong end markets. The stock is looking like a proverbial "baby thrown out with the bathwater." At <7x PE and 20% normalized free cash flow equity yield on Alta Fox 2022 estimates, Daseke seems too cheap to ignore. We believe the risk/reward is extremely attractive at current levels. We encourage the company to embark on an aggressive share repurchase plan to take advantage of recent share price weakness and create value for long-term focused shareholders.

DISCLAIMERS: Alta Fox Capital Management, LLC ("Alta Fox") is an investment adviser to funds ("Funds") in the business of buying and selling securities and other financial instruments. One or more Funds currently has a long position in Daseke ("DSKE") common stock. One or more Funds will profit if the trading price of DSKE common stock increases and will lose money if the trading price of common stock of DSKE declines. Alta Fox may change its views about DSKE or its investment positions in DSKE at any time, for any reason or no reason. On behalf of the Funds, Alta Fox will buy, sell, or otherwise change the form or substance of its DSKE investment which means it could, on behalf of the Funds, sell shares of DSKE common stock immediately after this publication. Alta Fox does not have an obligation to notify the market of any such changes and it will not do so. The information and opinions expressed in this Presentation (the "Presentation") are based on publicly available information about DSKE. Alta Fox recognizes that there may be non-public information in the possession of the management of DSKE or other information that could lead DSKE or others to disagree with Alta Fox's analyses, conclusions, and opinions. The Presentation includes forward-looking statements, estimates, projections, and opinions on DSKE, as well as more general conclusions about DSKE's anticipated operating performance. Such statements, estimates, projections, opinions, and conclusions may prove to be substantially inaccurate and are inherently subject to significant risks and uncertainties beyond Alta Fox's control. Although Alta Fox believes the Presentation is substantially accurate in all material respects, Alta Fox makes no representation or warranty, express or implied, as to the accuracy or completeness of the Presentation or any other written or oral communication it makes with respect to DSKE, and Alta Fox expressly disclaims any liability relating to the Presentation or such communications (or any inaccuracies or omissions therein). Thus, shareholders and others should conduct their own independent investigation and analysis of the Presentation and of DSKE and other companies mentioned. The Presentation is not investment advice or a recommendation or solicitation to buy or sell any securities. Except where otherwise indicated, the Presentation speaks as of the date hereof. Alta Fox undertakes no obligation to correct, update, or revise the Presentation or to otherwise provide any additional materials. Alta Fox also undertakes no commitment to take or refrain from taking any action with respect to DSKE or any other company.