Old Dominion Freight Line, Inc. (ODFL) CEO Greg Gantt on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-24-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $2.05 misses by $-0.07 | Revenue of $1.05B (-0.92% Y/Y) misses by $-15.05M

Earning Call Audio

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Old Dominion Freight Line, Inc. (NASDAQ:ODFL) Q3 2019 Earnings Conference Call
October 24, 2019 10:00 AM ET

Company Participants

Greg Gantt - President & Chief Executive Officer

Adam Satterfield - Chief Financial Officer

Earl Congdon - Senior Executive Chairman

Conference Call Participants

Jack Atkins - Stephens

Allison Landry - Credit Suisse

Ravi Shanker - Morgan Stanley

Scott Group - Wolfe Research

Amit Mehrotra - Deutsche Bank

Jason Seidl - Cowen and Company

David Ross - Stifel

Todd Fowler - KeyBanc Capital Markets

Matt Brooklier - Buckingham Research

Ariel Rosa - Bank of America Merrill Lynch

Chris Wetherbee - Citi

Kevin Sterling - Seaport Global Securities

Ben Hartford - Baird

Operator

Good morning, and welcome to the Third Quarter 2019 Conference Call for Old Dominion Freight Line. Today's call is being recorded and will be available for replay beginning today and through November 1st, 2019, by dialing 719-457-0820. The replay passcode is 3218857. The replay of the webcast may also be accessed for 30 days at the company's website.

This conference call may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements, among others, regarding Old Dominion's expected financial and operating performance.

For this purpose, any statements made during this call that are not statements of historical fact, may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, plans, expects, and similar expressions are intended to identify forward-looking statements. You are hereby cautioned that these statements may be affected by the important factors, among others, set forth in Old Dominion's filings with the Securities and Exchange Commission and in this morning's news release and consequently, actual operations and results may differ materially from the results discussed in the forward-looking statements. The company undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or otherwise.

As a final note, before we begin, we welcome your questions today but ask, in fairness to all, that you limit yourself to just a couple of questions at a time before returning to the queue. We thank you for your cooperation.

At this time, for opening remarks, I would like to turn the conference over to the company's President and Chief Executive Officer, Mr. Greg Gantt. Please go ahead, sir.

Greg Gantt

Good morning and welcome to our third quarter conference call. With me on the call today is Earl Congdon, our Senior Executive Chairman; Adam Satterfield, our CFO; and David Congdon, our Executive Chairman, who is joining from a separate location.

Earl Congdon

Good morning, everyone.

Greg Gantt

After some brief remarks, we will be glad to take your questions. Old Dominion delivered solid operating and financial results for the third quarter of 2019, in spite of the challenging environment. Decrease in our volumes reflects the continued softness in demand as some customer simply have fewer shipments than normal, while others may be placing more emphasis on price versus service, and choosing other carriers with lower rates.

As a result, our LTL tons per day declined for the third straight quarter when compared to the prior year and quarterly revenue declined for the first time since the second quarter of 2016.

Continuing decrease in volume that we have faced each quarter this year has resulted in the loss of operating density, yet we still improved the productivity of our operations and the ongoing improvement in yield help mitigate the impact to our bottom-line.

We continue to believe that the path to long-term, profitable growth is the balance between operating density and yield management, both of which require the support of a favorable operating environment, along with improved productivity.

I was pleased to see our P&D shipments per hour improved 1.6% in the third quarter, while and our dock shipments per hour increased 7%. Our line-haul latent load average decreased by 1.9%, but this metric was somewhat affected by the decrease in weight per shipment.

While productivity is always a focus, it is imperative that we maintain our best-in-class service performance. Our team delivered on this front during the third quarter with on-time service of 99%, while our cargo claims ratio remained at 0.2%.

This service performance is critical to support our ongoing focus on consistently improving yield, which provides us with the ability to further invest in our employees and our customers. We do this by investing in service center capacity and technology that supports customer demands, while also improving the efficiency of our operations.

Our best investment, however, continues to be in our people. We rewarded the OD family with improvements to our wage and benefit program, which became effective in September, while continuing to provide the necessary tools and training for the team to better serve our customers.

Our ability to provide customers with superior service and network capacity, balanced against our consistent cost-based approach to pricing, provides an unmatched value proposition that supports our ability to increase market share over the long term.

Our value proposition was recently validated as Mastio & Company named OD as the Number One National LTL provider for the 10th straight year. In this latest survey, shippers ranked us number one in 33 of the 35 service and value-related attributes they measure.

This was our best performance in terms of first place rankings for individual categories. A decade of award-winning service was made possible by our team of dedicated employees who are motivated to work hard every day to provide a superior level of service, which helps our customers keep their promises.

The execution by our team and consistency in our long-term financial results, gives us continued confidence in our strategic plan. While we can't control the economy, we will continue to focus on the disciplined execution of this plan by providing superior service at a fair price, controlling costs, and investing for our future.

Doing so will occasionally require decisions that may have a negative impact on short-term results, but support our long-term vision such as the ongoing investment in service center capacity.

Our investment decisions are supported by our financial strength and the consistent returns we have generated during periods of both economic strength and weakness. We know from experience that the consistent execution of our strategic plan should help us win market share and thus create long-term profitable growth that will increase shareholder value.

Thanks for joining us this morning, and now Adam will discuss our third quarter financial results in greater detail.

Adam Satterfield

Thank you, Greg, and good morning. Old Dominion's revenue for the third quarter of 2019 was $1.0 billion, which was a 0.9% decrease from the prior year. The third quarter of this year included one extra workday, so the decrease on a per-day basis was 2.5%. Our operating ratio increased to 79.3%. We were pleased to produce another sub-80 operating ratio in a challenging environment, especially considering some of the extra costs, included in our results.

With the reduction in revenue and increased operating ratio, our earnings per diluted share decreased 3.3% to $2.05. Our revenue results for the quarter reflect the 5.2% reduction in LTL tons per day that was partially offset by the 4.4% increase in LTL revenue per hundredweight.

Excluding fuel surcharges, LTL revenue per hundredweight increased 5.8%, which was in line with our expectations, as LTL weight per shipment was more comparable to the third quarter of 2018. These yield results are consistent with our long-term, consistent approach to pricing.

On a sequential basis, LTL tons per day and LTL shipments per day were both below normal seasonality. Compared to the second quarter of 2019, LTL tons per day decreased 1.2% as compared to the 10-year average increase of 1.9%, and LTL shipments per day were down 0.6% as compared to the 10-year average increase of 3%.

At this point for October, our revenue per day is trending down 1.5% to 2%. LTL tons per day are slightly below normal seasonality, but I view this as a positive, considering our sequential performance over the past 15 months. This follows our August and September tonnage results that were both essentially in line with normal seasonality.

The growth in our revenue per hundredweight, excluding fuel surcharges for October, is trending lower than our growth rate in the third quarter. We expect a slight step down from the third quarter growth rate, due to tougher comparisons with the fourth quarter of 2018.

Similar to the comments that we made on the second quarter call, we want to ensure that any slowdown in this growth rate is not misinterpreted as a change to our pricing philosophy. As usual, we will provide the actual revenue-related details for October in our third quarter Form 10-Q. Our third quarter operating ratio increased 90 basis points to 79.3%, as the increase in our overhead cost as a percent of revenue, unfortunately more than offset the improvement in our direct costs.

Decrease in revenue had a deleveraging effect on many of our fixed overhead costs, as reflected in the 50 basis point increase in depreciation. In addition, our miscellaneous expenses increased 80 basis points when compared to the third quarter of 2018. While several items within this account increased, the largest was a $4.9 million net loss on the disposal of property and equipment, as compared to a slight gain in the third quarter of 2018. Much of this loss was related to the removal of structural assets to create room for improved service center and maintenance facilities.

In regard to our direct costs, we continue to gain productivity, and the year-over-year decrease in fuel prices has resulted in our operating supplies and expenses being lower as a percent of revenue. Old Dominion's cash flow from operations totaled $285.6 million and $747.5 million for the third quarter and first nine months of 2019 respectively, while capital expenditures were $140.4 million and $370.3 million for the same periods.

We continue to expect total capital expenditures of approximately $480 million for this year. We returned $54.2 million of capital to our shareholders during the third quarter and $246.4 million for the first nine months of the year.

For the year-to-date period, this total consisted of $205.3 million of share repurchases, and $41 million in cash dividends. Our effective tax rate for the third quarter 2019 was 24.9%, as compared to 24.3% in the third quarter of 2018. We currently expect an effective tax rate of 25.8% for the fourth quarter this year, as the effective tax rate in the third quarter benefited from certain discrete tax adjustments.

This concludes our prepared remarks this morning. Operator, we'll be happy to open the floor for questions at this time.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Jack Atkins with Stephens.

Jack Atkins

Hey guys, good morning. Thank you for taking my questions. So Adam, I guess just going back to your prepared comments just around October and sort of what you're seeing there, I know you guys are going to give a more pinpoint number when the Q comes out. But would just be curious, if you or Greg could just talk about what you're seeing in terms of general business trends in October. It seems like things are kind of holding in there, even though the industrial data continues to be fairly challenging. I would just be curious to get your sort of broader take on how you're seeing macro trends thus far in October, and if things continue to feel relatively stable, all things considered?

Adam Satterfield

Sure. This is Adam. We obviously see the same macroeconomic information that everyone else does, and have noted some of the industrial numbers that are now showing some weakness, but our trends are actually continuing to be stable. As I've mentioned, thus far with our October results and granted the month isn't it finished, but we're seeing, I would say more stability on the volume side than we have seen in recent quarters. What I mean by that is, going back to July of last year, the first month of every new quarter from a seasonality standpoint has been well below what our normal seasonal trends have been. And while we're below, we're roughly in line with the October results at this point. And that follows basically August and September that were in line with what our normal seasonality would be.

That's been good to see, and obviously our yield trends are continuing to hold steady from a sequential standpoint as well. As we mentioned, we expect similar to what we did going into the third quarter that the growth rate in yield might slowdown a little bit in the fourth quarter, if you hold mix constant, and just even assuming a little bit of sequential acceleration from 3Q.

That year-over-year change may be a little bit weaker, but we're seeing more stability and I think some of that is, we're starting to hear more business that we lost earlier in this year. Some of that business is coming back to us. They may have left this for a cheaper price, but maybe have become dissatisfied with the level of service they were receiving, so we're starting to win some of that business back and those have been good trends for us to see.

Whereas maybe earlier in the year when the economic data was stronger and our results might have been a little bit weaker, now we're seeing some of the economic numbers showing weakness, while our results are staying fairly stable. It's been good to see.

Jack Atkins

Okay. Well, that's very encouraging. I guess for my follow-up, just going back to your comments there Adam on pricing, and Greg's comments in his prepared remarks on yield. I mean, I guess how should we interpret the broader yield environment today relative to say, three months ago or six months ago?

I know Greg said that, he's seeing shippers look for opportunities to sort of go after, in some cases, some lower prices in the marketplace. Are you seeing any more or less competition at the margin on yields? I just would be curious, if anything has changed there over the last several months?

Adam Satterfield

I don't know that anything has necessarily changed. We were careful not to, and don't want to, try to characterize maybe the environment any more like we used to perhaps put a label on it. But certainly, we noted earlier this year kind of in late first quarter that competition intensified, and we dealt with that.

And certainly it's had an impact on our volumes and that's what Greg's comments we’re getting at. But that hasn't really changed at any point there forward. It continues to be competitive, and I think that just reflects the softness in demand that's out there. And it's not unusual in comparison to the periods that we've seen before.

But certainly, the environment has been very supportive of our ability to continue to get the increases that we want. That's I think reflected in our numbers. We've been really pleased with that.

And I think we've been really pleased to see our sales team, our pricing teams, working together, working with our customers, continuing to leverage the relationships that we have, figuring out how we can create win-win scenarios. I think that's reflective in our numbers as well.

We're happy with the relationships that we have, but it takes people to leverage those relationships. Real people, not Gogo bots like Bumblebee Bee and Optimus Prime that can only do that in the movies.

Jack Atkins

Well, that makes a lot of sense, Adam. Thanks very much for the time. Appreciate it.

Operator

Question from Allison Landry with Credit Suisse.

Allison Landry

Thanks, Adam. Good morning. So I just -- Adam, I wanted to go back to your comments about the stability in volumes in October and the last couple of months. I know you mentioned, you're regaining customers that maybe you lost earlier in the year.

So when we think about these normal seasonal trends, would you attribute it more to sort of regaining this lost share? And perhaps it's not necessarily indicative of stability in sort of the broader environment? Maybe if you could give us a little bit of color on that?

Adam Satterfield

I think that's more of it than anything, because certainly, you know, we're still seeing our revenue levels trending negative, which certainly we'd rather them be positive, and we're anticipating that coming into the year. But it's not necessarily anything to write home about at this point.

And I think demand trends overall continue to be fairly weak, but certainly more of the reports that we've been getting recently have just been regaining some customer business that we've lost. But existing customers that have been by us all year, as Greg mentioned, they are continuing to see shipment levels that may not be where they were last year. So there has been a little weakness there.

But overall, in recent months, I think that we're continuing to keep business with existing customers and then maybe winning back a little bit of business that perhaps had been lost earlier in the year.

Allison Landry

Okay, that's helpful. And then on the salaries line, if I look at that as a percentage of sales and sort of the sequential trend is a little bit higher, I think, than sort of the normal historical trends would suggest. Was this mainly just driven by the deleveraging or are there any other factors that you would call out, that may have contributed to that? And then, any thoughts you can give us for how to think about Q4? Thank you.

Adam Satterfield

For the salaries wages and benefits, when you pull those apart and you look at our productive labor trends, we saw some improvement there and I think that a lot of that was the productivity that we were able to gain during the quarter.

When you look in sort of the overhead side, and then just thinking about the fringe benefits, we did have an increase related to our Phantom Share Program. So overall, fringes as a percent of salaries and wages in the third quarter this year were 36.6%. It was 35% in the third quarter of last year.

So that drove some of the quarter-over-quarter increase, if you will, and that also was a reason for, from a sequential standpoint, why our costs were higher. The fringe benefit rate in the second quarter of this year was at 34.1%, which is in line with what I had estimated the year might be.

So we were certainly a little bit higher there on that fringe benefit side, and increase, if you will, with the Phantom Share, which most people, I think, understand that program and the details of how that works. But with the share price of our stock that increased a little over $20 during the third quarter of this year created an entry of about $8.5 million, and we had Phantom expense in the third quarter of last year of about $2 million, so that was certainly a quarter-over-quarter headwind.

But going into the fourth quarter, the fourth quarter typically includes several adjustments that could impact fringes. One of those is, every year we completed our annual actuarial study that includes the workers' compensation accruals and so that adjustment last year was pretty favorable.

Then last year in the fourth quarter, we had a favorable entry related to our Phantom Share Program as well, so our fringe benefit cost as a percent of salaries and wages were 30.7% in that period. Right now, if our share price continues to hold, it's trending quite a bit above. I think we're about $20 or so above what the 50-day moving average at the end of the third quarter of this year was.

So any sequential increase there in the share price would result in Phantom stock expense and then we'll just have to evaluate what those other adjustments might be. But absent any kind of adjustments one way or the other, I would expect our fringes to kind of be in that 34% range, if you will. So we just got, I mean the comparison to the fourth quarter of 2018, we had several favorable adjustments that benefited that operating ratio pretty significantly, I think, by about 200 basis points.

Allison Landry

Okay. Just to clarify for the 34% fringe, that's a Q4 number, or is that a full year 2019 number?

Adam Satterfield

That was my guesstimate for the full year, but absent any changes like I mentioned on the actuarial adjustment for workers' comp and for the Phantom Share Program, that's kind of the baseline of what I would expect in 4Q.

Allison Landry

Okay.

Adam Satterfield

Right now if we closed the quarter based on where the share price is, it would be much higher than that, because we'd have another big period of Phantom stock expense.

Allison Landry

Right, Okay. Excellent. Thank you so much.

Operator

Our next question from Ravi Shanker with Morgan Stanley.

Ravi Shanker

Thanks. Good morning, gentlemen. In the discussion on price, I guess the question is, when do you guys know if you are pushing too much on price? Or is there no such thing?

Adam Satterfield

Ravi, I think that we certainly get feedback from our customers, and I think our pricing programs and our philosophy is always to look at the individual account profitability and then have a cost-based approach. When we talk with our customers every year and we look at what our cost inflation is, and then we work with our customers in the sense on what type of increase we might need, but then we also consider other ways that we can maybe accomplish the same objective of improving an operating ratio, if there are things that we can change operationally that maybe help us on the cost side for a specific customer.

Those are just things that we work through, and then we work very hard to keep our cost structure as low as possible to drive operating efficiencies, so that basically the rates that we charge are in line with market rates, and maybe it's at a slight premium. But certainly when you think about the overall value equation, we think would provide a bit better value proposition than anyone, given the quality of service balanced against the consistency with our pricing approach.

Ravi Shanker

Got it. And you implied that some of your old customers that you lost are coming back. Are you hearing from folks on the ground, are you getting a sense, or any more detail on why they're coming back? I mean, is this a service thing? Is this pricing? What's driving them back to you?

Greg Gantt

Ravi, it's simply because our value proposition with our service product is superior. In some cases, they can't stand the service that they've been getting. Just the price isn't worth the service that they get, so they come back to us.

Ravi Shanker

So, again -- sorry, go ahead.

Greg Gantt

So we’ve seen that very recently. I was actually in one of our service centers yesterday and had a few national account reps in attendance at this event we had. And I heard it again yesterday that we have business coming back, so that we lost because of price. So I think it's very positive from that standpoint.

It's not massive business returning every day, but it's bits and pieces. They love what they had, they tried to go away for a cheaper price, and then they come back, so. It's been that way over the years, and again, we continue to rely on our value proposition. It's served us well over the years.

Ravi Shanker

Got it. And that's a great segue to my next question. I mean is this something that normally happens in a down cycle? Can you use that as an indicator for where we might be in the cycle? Meaning, when you start to see the first few guys who left come back, does that imply some kind of inflection?

Greg Gantt

I don't know if I can project that or not, but this does happen in a down cycle for sure. We've seen it happen over and over. It is consistent with what we've seen in the past.

Ravi Shanker

Got it. Just a couple of housekeeping ones. One is, again, you guys probably sound more bearish on the cycle and industry trends than you've have -- and you’ve done in many years, and you're still printing sub-80 ORs. Is it fair to say that outside of a recession this is like a floor on your OR right now?

Adam Satterfield

I don't know that we want to make that call at this point and give any guidance on our operating ratio. But certainly, we've talked about our ability to continuously improve the operating ratio over the long term and it just takes continuous improvement density and consistency with our yield to offset our costs.

And certainly we're lacking for density this year. We've faced some higher costs for multiple reasons, and some of those related to our fleet that we had planned for growth this year, and so we're probably a little heavy in that regard. So we're definitely carrying some higher cost, but that gives us opportunity as we work our way into next year, and then we'll just deal with the demand environment with whatever faces us.

But certainly, we're always looking forward to kind of the next legs of growth, but we've got to operate and deal with whatever the economic situation is, but I think our strategic plan has guided us through downturns and upturns and we're certainly building out and investing in our service center footprint to ensure that we have capacity that's willing and ready to be able to step up when there is a positive inflection in the economy. It's just a matter of when that happens.

Ravi Shanker

Got it. If I can just squeeze one more in, Adam, you said, you had a bunch of miscellaneous expenses in the quarter, including the $4.9 million you called out. Are those items all normalizing for 4Q? And what is the run rate number?

Adam Satterfield

Our miscellaneous expenses tend to average around sort of 0.5% of revenue, and they are quite a bit above that, about 0.5 point related to that loss that we pointed out. But certainly that's not a repeating type of event, so those should go more back in line. I would expect them to in the fourth quarter.

Ravi Shanker

Got it, thanks very much, guys.

Operator

Question from Scott Group with Wolfe.

Scott Group

Hey, thanks. Morning, guys.

Adam Satterfield

Morning, Scott.

Scott Group

Adam, can you give us just the monthly numbers on tonnage and weight per shipment? And then with October revenue down 1% to 2%, just as you look at the balance of the quarter, can you help us think, do comps get tougher or easier as we think about modeling the full quarter?

Adam Satterfield

Let me start with the tonnage. And you're talking about sequential or year-over-year changes?

Scott Group

I'm good with year-over-year.

Adam Satterfield

The year-over-year for tons in July, it was down 6%. In August it was down 5.2%, and then in September was down 4.5%. That's the tons per day. The shipments per day in July were down 5.3%, down 4.0% in August, and down 4.2% in September.

In terms of the comps overall, our numbers when you go back and kind of look at the tons in particular, certainly the growth rate was when we started that number kind of going flatter in the fourth quarter of 2018, and some of that goes back to really the comps in September of 2017. So our comps then got significantly harder and that was that period where our revenue growth just stepped up tremendously from kind of that 12% to 19%, 19.5% rate in 3Q 2017 versus 4Q.

So in that regard, the comps got harder in 4Q last year, and they get a little bit easier as we go into this year. So we'll just continue to watch and if we can somewhat get back to more consistent trends, even closer in line with normal seasonality, certainly, I mean if you start going into 2020, the comps will be maybe a little bit harder in the first half of that year, and then get a little bit easier as we progress through the year.

Scott Group

Okay, that's helpful. I appreciate all the discussion on fringe earlier. If we look sequentially, labor costs were flat, and they typically increase. Total labor costs flat, and they typically grow 3% to 4%, I think, as you did the wage increase. Is headcount coming down sequentially? Is there anything going on with incentive accruals? I'm just trying to help understand why labor is flat?

Adam Satterfield

It was up slightly, compared, if you're talking sequentially, to the second quarter, but there was a decrease in headcount, and that's something that we've talked a lot about, that we're always matching our labor revenue trends. That's a day-by-day, minute-by-minute kind of thing. But overall from a year-over-year standpoint, our peak number of employees was in October of last year, but we're down on average in the third quarter 3.7%.

When you look at just September to September, I think the decrease is about 5%. So, and then sequentially in the third quarter, we were down from the second about 1.5%. We're just continuing to try to have the labor force right-sized based on the volumes that we're dealing with on a day-to-day basis, and I think that some attrition has taken place.

We've just not filled or backfilled some of those positions, and just allowed the headcount to kind of drift down. And we'll continue to monitor that as we progress through the fourth quarter as well. Wouldn't necessarily expect any kind of material change, kind of flattish, if you will, from the third quarter going into the fourth quarter.

Scott Group

Okay, helpful. And then just last thing, OR a little noisy this quarter. It was noisy fourth quarter last year. Anything you could do to just sort of help us think about OR seasonality sequentially year-over-year for fourth quarter?

Adam Satterfield

Sure. I think that this quarter if you will and obviously, it's got a little bit of noise, maybe quite a bit of noise in it. But I think that if you sort of take out about half a point for that loss and maybe half a point on the benefits kind of side, so that would have been, just call it 78.3 for rounding, would have put us right in line with normal seasonality from the second quarter to third quarter and then maybe if you use that as a base going into 4Q. Normally the fourth quarter operating ratio was up a little over 200 basis points. Last year kind of skewed our averages down, but if you just sort of do a five-year average from 2017 going back, the average sequential increase was 240 basis points.

So if you kind of roll that kind of adjusted third quarter number by an average, that's probably going to be more likely in line. Obviously, we're not giving that as guidance so to speak, but that will become kind of the baseline for which we would be comparing to. And obviously, we'll continue to watch and see sequentially how things go, the Phantom stock number is always, when our stock price is swinging around. It's good for us to see it increasing 20 bucks within a given quarter, but it ends up creating expense that might be higher than what would be in these longer-term averages. But that would -- for my comparison that would sort of be the baseline to compare and contrast against.

Scott Group

Okay. Thank you, Adam.

Operator

Go to our next question from Amit Mehrotra with Deutsche Bank.

Amit Mehrotra

Thanks. Good morning everybody. Just I wanted to follow-up on the market share line of questioning, because, I guess the competitive landscape is also kind of evolving for the first time in a while. Saia is obviously expanding and seeing some early success there. XPO seems to be investing to make its LTL network more efficient or better utilized. So I'm just trying to understand if there is anything you're doing differently in that context of kind of an evolving competitive landscape. It just seems like you're ceding some market share, particularly in the Southeast. I'm not sure if you're doing anything different or how you think about going to market or engaging with the customers in that backdrop?

Adam Satterfield

I think we continue to engage with our customers to sort of see what their demands are and how we can continue to respond to their changing needs. But at the end of the day, we look and evaluate the data that we have and customer perceptions on service. And the best means for us to do that is this very detailed data that we get from these MASTIO results. As Greg mentioned, we are really pleased to see that the perception for us has improved as compared to last year and we were number one in 33 of those 35 attributes, the best showing ever for us.

So I think that as we continue to focus on doing right things, right for our customers, we're continuing to get feedback that they love our service in that regard and still perceive us as a very strong value. And maybe the invoice price for our service might be a little bit higher than the next person, but when you look at the total value equation, the cost of transportation can certainly be lower by using Old Dominion. So we can help our customers save money from a big picture standpoint, but also improve the service that they're delivering to their customers.

Amit Mehrotra

Adam, is the spread between, just for our own edification, the spread between how far you guys are ahead versus the rest of the pack, has that changed at all or has that increased? Has it come in? I'm just trying to get a sense of kind of where you are relative to the pack now versus history?

Adam Satterfield

It widened this year. Our lead widened and back to just the big picture market share, when we've gone through prior slower cycles, our market share kind of comes back more in line in terms of tonnage growth with where the market is, and that's some of what we've seen.

But when we look at our market share by region, we've seen tremendous growth, given the environment in both the Northeast and the Midwest, and then we're just kind of flattish in most of the other regions.

The Southeast, as you mentioned is just down slightly, but like we've seen in prior economic cycles, that's fairly short-lived and we think that we're continuing to hold our own and certainly we feel like doing the right things in terms of protecting our yield and most importantly protecting our service and continuing to invest in service center capacity.

Amit Mehrotra

Okay. That's very helpful. Thank you. And just as a quick follow-up, just on the labor front, we've seen kind of this nice reduction in productive labor costs. It was like 27.5% in the first quarter, it was 27% last quarter. Can you just talk, I know you disclose it in the Q, but I wasn't sure if you can disclose where your productive labor costs were in the third quarter. What's the opportunity there? Like how low can that go in the context of maybe a little bit more of a difficult revenue environment?

Adam Satterfield

It was 27.3%, the productive labor cost in the third quarter, so a slight improvement over where we were in the third quarter of last year. How low it goes, we don't know. We continue to look at how we can continue to leverage technology. I would say that we're already, this particular element of our cost, I think demonstrates the technology that we've invested in over the years and how efficient we operate, probably versus the industry. So that's something that we'll continue to look at how we can implement tools from whether it's a planning standpoint or any type of efficiency gain that we can make within our line-haul pickup and delivery or dock operations.

We're thinking about this every day and certainly want to continue to drive efficiencies there where we can. But we're looking at ways that we can use technology to drive efficiency throughout all areas of operations, all of our back office functions as well, and then things that we can do that provide better information and better services to our customers that help on the yield side.

Amit Mehrotra

Right. Okay, good. Congrats on the good results in a tough, tough environment. Thanks a lot. Bye.

Operator

Go to our next question from Jason Seidl with Cowen and Company.

Jason Seidl

Thank you, operator. Good morning, gentlemen. I want to talk a little bit about some of your end markets. In terms of the declines that you've seen, is there any difference between what we would look at as industrial versus consumer? And to that extent, was the quarter impacted negatively by the GM strike in anyway? Even though you might not have a lot of business with GM, you do parts business with some others.

Adam Satterfield

The GM question, no, we didn't see or feel any kind of impact from that in any regard, other than maybe indirectly the fact that may be the economics of that particular region might be down a little bit, but nothing on a direct standpoint.

In terms of the balance of our business, 55% to 60% of our revenue is industrial, and close to 30% is retail. And so this year, we have definitely felt, I think, that as industrial economy has had been slowing that's had an impact on our industrial related customers.

And then on the retail side, that business had been the fastest growing for us, and kind of the change in revenue, if you will, at this point since its negative is more in line with both the industrial and the retailers. There’s probably multiple reasons for that. Some of that I think we talked about, or have talked about before is that they may have been maybe a little bit more price conscious, and so that brought that growth rate down back more in line with the industrial in the first half of the year. But some of that is where we are winning business back. So, we’d expect longer term to see our retail business probably continuing to grow faster than the industrial.

Jason Seidl

Okay, that's very good color, Adam. I want to also jump back here for my second question, you mentioned about capital spending. I'm just trying to frame up, I know you don't give guidance for 2020, but just trying to frame it up, because you opened the call saying, hey, listen, we take a long-term approach to our spending, and look at our great track record, which you guys have a phenomenal one-off of investing in the right facilities and equipment and technology. So, I was just trying to think, how should we think just directionally about 2020 CapEx versus 2019, without giving any numbers, just directional thinking?

Adam Satterfield

Well, I was going to give you the numbers, but since you didn't ask for them…

Jason Seidl

Oh, perfect. No, hey, listen, you can always email that too.

Adam Satterfield

We're in the process, actually, of trying to finalize what our CapEx plan will be for 2020. We go through a detailed process of building up a bottoms-up forecast and a top-down, and trying to figure out what we think the environment might look like from a top-line standpoint before we get into planning, primarily on the equipment side.

But on the real estate front, we'd certainly expect to continue our projects that we have in the works, and we always keep a two-year plan going, so that could be even higher next year. And we always keep our eyes out too from a longer term standpoint, things that may be on our long-term list, which we've got a target of about 40 service centers or so, or places that we think we need to add service centers.

If the weakness in the market results in perhaps some service centers becoming available, they might be on, kind of, our three-year plan, but we would go ahead and take advantage of any opportunities that present themselves. We will keep our eye out there.

And then on the equipment side, we just have to look at what the replacements are. And as I mentioned before, we're little heavy on the fleet side and generally when that happens, then you take less, probably, in the next fiscal year. So overall, my guess is that we'll probably have a little bit lower spend on equipment in 2020, but maybe higher on the real estate, and then we'll obviously keep our expenditures going from an IT standpoint as well.

Jason Seidl

Perfect, that's great color. Listen, I appreciate the time as always.

Greg Gantt

Jason, keep in mind that the majority of our CapEx spend from the real estate side will be in projects that we have already started that we are planning to complete.

Jason Seidl

Right. Understood.

Operator

Question from David Ross with Stifel.

David Ross

Yes, good morning, gentlemen. Given your significant exposure to the 3PL world, I wanted to know if there’s any significant changes this quarter, or into October, in terms of 3PL pricing and volume. And how, I guess, you see your 3PLs different from the other customers? Are there any different trends in the 3PL market?

Greg Gantt

It seems like, if anything, our 3PL customers have trended. We are doing significant business with 3PLs. We've talked about that in the past, but if anything, at this point, they are trending on the positive side.

David Ross

David Ross

So they would be growing faster than the other basket of customers?

Greg Gantt

That is correct.

David Ross

Excellent. Thank you very much.

Operator

We'll take our next question from Todd Fowler with KeyBanc Capital Markets.

Todd Fowler

Hi, great. Thanks and good morning. I know that we see the reported yield numbers, but obviously there is some mix and some things that could impact that. I was wondering if you could share maybe some comments on where you think contract renewals are on a base, kind of, basis for maybe just the industry, and how that's been trending this year? Has the rate of increase been pretty consistent? Are you seeing any moderation in the contract pricing?

Adam Satterfield

Sure, Todd. Well, one, we kind of stopped giving any kind of numbers and details on contract renewals, because it somewhat felt like, especially what we hear other companies say, they don't always reconcile to what the actual yield numbers are.

But what we've been able to get this year on the contract renewals, more so you can see it in the third quarter where you don't have the same type of mix effect, if you will, with the weight per shipment. It was still down a little bit, given a little bit of a boost, but kind of more in line.

When we look more at our revenue per shipment, if you will, and kind of how that's trending, that really gets at the heart of what we're trying to do in the long-term. Our revenue per shipment growth has been kind of in the 4.5% to 5% range and that's been kind of 80 to 100 basis points higher than what our cost inflation has been on a per-shipment basis.

I'd say that last year we probably made a little bit more headway, obviously in 2017 and in 2018, in that regard. This year we didn't have the same type of expectations, but probably not getting that full kind of delta above cost inflation, which was the shipment weakness. Our cost per shipment has been a little bit higher than what I had anticipated as well.

It's always a balancing act, but our target, when it comes to contract renewals and our GRI is -- our assumptions on what our cost per shipment will be trending and we came into the year expecting about a 4.5% increase in that regard.

And so, we target an increase above that, and I'd say that our renewals have certainly been on the positive side of that cost inflation target.

Todd Fowler

Okay. So, if I hear you correctly, Adam, I mean the contract renewals remain pretty consistent and kind of within your targeted range and maybe it's not unusual or not unfair to think about kind of slightly below mid-single-digits right now?

Adam Satterfield

Yeah, that's fair to say and they've been pretty -- the renewals that we've got have been consistent all year long, really.

Todd Fowler

Great, okay. And then just to follow-up, the year-over-year decline in weight per shipment moderated in the third quarter and I think the numbers that you gave to an earlier caller's question about the trend, it feels like in September the gap really closed.

When you look at weight per shipment, what do you read into that metric? As you think about that going forward, if that stabilizes and turns positive, how does that impact the results or what can that mean from a margin perspective?

Adam Satterfield

The lower weight per shipment has produced lower revenue per shipment as well, and so your cost to handle is going to essentially be the same in terms of you are continuing to make those same pickups and deliveries, the same number of stops and the dock handling cost is going to be the same. That certainly eats into the operating income on a per-shipment basis.

But the weight per shipment trend that we've seen, it's really been down in levels, in that sort of 1,550 pound-ish range; we were slightly below that during the quarter. But that was fairly consistent with what we saw in late 2015 and through 2016 as well, when the industrial economy was a little bit weaker.

So, I think it reflects the fact that the industrial economy has been softer and maybe a little bit higher mix to retail business, going back to that timeframe. But we were pleased to see we had seen a little bit of a drop in the weight per shipment in August, and kind of thought that it had dropped to about 1,530 pounds and I felt like that was continuing to show the economy or to reflect in the weakness in the economy, but that came back pretty solid in September to 1,554 pounds. So, I was really pleased to see that September number sort of come back up and help us there in that regard.

Todd Fowler

Okay. Thanks for the time and nice job getting that Transformers reference in earlier.

Adam Satterfield

Thanks Todd. I'm glad you got it.

Operator

Our next question is from Matt Brooklier with Buckingham Research.

Matt Brooklier

Hey, thanks and good morning. I'll be quick. Adam did you talk to the magnitude of wage increase that was put into place in third quarter?

Adam Satterfield

Adam Satterfield

I don't think I said it, but it was about 3% this year in terms of the wage and we continue to do some other things on the benefit side that add extra cost as well. So, it's one of those things we continue to look at the program as a whole and between the different generations of employees we have, there's some value, kind of your paid time off and the other incremental benefits that we offer, whereas some may put more emphasis on the wage. But you've got to have a healthy balance between both. And I think we achieved that this year with the changes that we made to both wages and benefits.

Matt Brooklier

Okay. And that 3% compares to -- what was it last year?

Adam Satterfield

About 3.5% last year.

Matt Brooklier

Got it. And then can you talk to your service center count, your expectations for opening more locations through the end of the year. I think the message last quarter was, you were looking to accelerate the rate of terminal openings this year. I just wanted to check in to see if that's still the plan here?

Greg Gantt

Yes Matt. We have -- today, we have 236 and we have half a dozen or so that are in process now. Several of those we will get opened prior to the end of the year and then several more that we will look at opening first quarter next year.

Matt Brooklier

Okay. And then just last one quickly, you talked to incurring a loss on the disposal of some of the property to make way for either a new maintenance facility or you're expanding a maintenance facility. Maybe just give us a little bit more color in terms of, is that one location, is that multiple locations? Are you doing something different in the network with respect to your maintenance? Are you expecting to do more maintenance in house? Or is this just kind of a one-time thing where you just needed more capacity at a certain location? Thank you.

Greg Gantt

It was absolutely a one-time occurrence, Matt. We acquired some additional property in a location and we built a new maintenance facility on that property that we acquired, and took the other one out that was actually in the way and restricted us quite a bit from an operating standpoint, from a yard space standpoint, so that's why we did it.

Operator

Our next question from Ariel Rosa with Bank of America Merrill Lynch.

Ariel Rosa

Hey, good morning, guys. For my first question, I just wanted to touch on your thoughts on how this current downturn compares to the severity of previous downturns that you've seen in your career? A number of carriers mentioned that they think conditions might start to improve somewhere around second half 2020. I would love to get your thoughts on just kind of where we are in the cycle, and what your thoughts are on when we might start to see some improvement?

Greg Gantt

That's hard for us to call, because I'm not an economist and I don't play one on TV, but we continue to look at those economic reports and have conversations with our customers to try to figure out what demand trends might be. And certainly, comps will get a lot easier in the second half of next year.

But I think going through the first part of the year, you've still got a little bit, probably, of an overhang from a political risk standpoint and what that landscape might be as we work our way into this election cycle, and what effect that's had.

Fortunately, the consumers continue to be strong, and the consumer drives 70% of the economy. So if business owners can maybe have a little confidence in terms of what the landscape might be from a tax and regulatory standpoint, then maybe they'll take the lid off of spending a little bit more and we can get the economy growing at a healthier rate like we had seen.

But we'd certainly like to think that it might be stronger in the second half of the year, and have read reports to suggest as much. We certainly will be in position and ready if that happens. And I think we've proven in the past that we can certainly rise to the challenge if demand trends change and incremental volumes come our way at a more rapid pace than certainly what we've been seeing recently.

Ariel Rosa

Great, that's helpful. And, Adam, you mentioned retail a bit earlier, your retail exposure. Could you talk about what activity levels you're seeing in preparation for the holiday season, and maybe how that compares to previous years?

Adam Satterfield

We don't see a whole lot of impact anymore from the holidays. It's minimal, at best. I think most of the retailers and whatnot; they're so far out in front of it now compared to what they used to be. We just don't see a huge impact from that either way.

Ariel Rosa

Okay. Fair enough. And then just my last question. So I think your most recent GRI was in May, and I think it was close to 5%. Just assuming that activity levels kind of stay where they are, do you think that's an achievable level for next year? Or, do you think it would have to moderate a bit to maintain the market share that you guys are targeting?

Greg Gantt

I think as we get closer to that point in time, we will certainly evaluate where we are with the market and whatnot, but probably a little bit too early to make those decisions.

Ariel Rosa

Okay. Fair enough. Thanks for the time.

Operator

Question from Chris Wetherbee with Citi.

Chris Wetherbee

Yes. Hey, thanks for squeezing me in here at the end. I guess, I wanted to come back to the tonnage comments, and I guess the revenue per day implies, if you make an assumption about where you think yields might be, down a little bit from 3Q, it implies a step backwards in tonnage in October, at least, and I guess against easier comps.

I guess maybe the first question is, just wanted to get a sense maybe of what you're seeing in the market. I know it's sort of weaker than seasonal, but what are the dynamics that you may be seeing admittedly early here in 4Q? And do you think that 4Q total tonnage, based on what you're seeing from your customers in the end market, could be down as much or maybe a little lower than where the decline was in the third quarter?

Adam Satterfield

Without giving any specific guidance on anything, certainly we mentioned the comps get a little bit easier in the fourth quarter for us, so we'll continue to just sort of see how things come in. But, obviously, we'd love to see the improvement, and the fact now that if you kind of piece the last three months together and include October, and if kind of what our current trends are at this point, if they can kind of hold, we'll have sort of the first three months trend following normal seasonal patterns in quite some time, going back into 2018 when things were growing so nicely for us.

So we'll continue to monitor that, but I think that when you just sort of look overall, like I mentioned, the revenue on a per-day basis in October at this point down kind of 1.5% to 2%, and not that it's a marked improvement, but it is slightly better than the 2.5% per day decrease that we had in the third quarter.

So we'll continue to monitor those trends, and hopefully we'll continue to see some business coming back to us from a customer standpoint. And it'd be nice to see if these trends can continue to hold somewhat in line with normal seasonality that might allow us eventually in 2020 to maybe get back into more of a growth environment, versus dealing with the declines that we faced this year.

Chris Wetherbee

Okay. No, that's helpful to understand. And then Just maybe separately, when you think about 2020 and kind of the current environment that we're in, obviously sluggish from a demand perspective, can you just give us a sense of sort of how you're approaching what you've talked about before in terms of your bigger picture capacity growth aspirations? I think you've talked about a good opportunity to continue to grow and take share. Do you start 2020, a little bit on pause in that respect, or do you kind of continue just sort of along? It sounds like you want to be opportunistic in case opportunities or assets come available, but I just want to get a sense of maybe how we think about sort of that approach as you are entering 2020?

Adam Satterfield

We always look at sort of the three big buckets of capacity, and the biggest component being the real estate needs. An LTL network requires a certain amount of doors to be able to process freight, otherwise growth can be limited. So that's something and it's an investment that can't be made overnight, it takes a long time to plan and to ensure that we stay ahead of the growth curve in that front. So I think that the investments that we've made and the plan that we've had over the last couple of years, we're probably from an excess capacity standpoint within the service center network, we're somewhere around kind of 20% excess capacity, and we'd like to be closer to 25%. The growth in 2017 and 2018 kind of ate into that spare capacity somewhat, so we're still trying to make progress toward getting that number up maybe a little bit higher, so we do have it in place for when that next big leg of growth comes our way.

And then, from a people standpoint, we're always looking at continuing to train our people, our drivers, and I think some of the changes that we've made this year when we haven't had the demand to dictate, we've had some pools of drivers that have moved to the dock. And so they are is still in place and ready for, again, when demand picks up and the full-time need is there, to fill in on that need. And then the final piece would be on the equipment side, and that's something that certainly we manage more on the year-to-year basis. When we get a better feel for what our bottoms-up type of projections might be for next year that will be when we really finalize and fine tune what we think the equipment needs will be for 2020.

Chris Wetherbee

Okay. Okay. That's super helpful. Last question very quick detail, you had mentioned 34% on the fringe as sort of as good a guess as you can give for 4Q, but with the stock where it is, all things equal, it would be higher because of Phantom stock? I just want to make sure that's what you're saying about the fourth quarter, specifically?

Adam Satterfield

Yeah, that's exactly right. That 34% is kind of a good baseline, if you will, and that's closer to what we had in the second quarter of this year. Which, the second quarter of this year included about $1 million of Phantom stock expense, so there are a lot of kind of puts and takes in that number on the fringe line with paid time off benefits and workers' comp and other items. But nevertheless, there's probably just been a little bit more fluctuation and variability in that Phantom Share Program this year than perhaps we've seen before.

Chris Wetherbee

Okay. Perfect. Thanks so much for the time. Appreciate it.

Operator

We'll take our next question from Kevin Sterling with Seaport Global Securities.

Kevin Sterling

Thank you. Good morning, gentlemen and thanks for squeezing me in. Just kind of a real big picture question, you talked about business coming back to you because of service, and they may have left because of a lower price. From a historical perspective, and this is not your first rodeo, when you see business leave but it comes back to you, because maybe they were getting poor service from another carrier, does that business tend to be a little bit more sticky going forward? The customer realizing, well, I'm not going to make this mistake again. How should we think about that with this business coming back to you? Does it tend to be a little bit more sticky. Have you seen that over time?

Greg Gantt

We would certainly hope so, for sure. No doubt, I think we have customers that maybe got burnt once and they don't want to get burnt twice. So yes, we have seen that. You know, in some cases situations at the various customers will change. They may get new management or what not, and who knows what you face the next year. But yes, for the most part, it does become more sticky for sure.

Kevin Sterling

Got you. Thank you. And Adam, I know your tax rate moved around a little bit this quarter. I think you're guiding to 25.8% for the fourth quarter. For 2020, should we think about in that 26% range for a tax rate for 2020? Is that a fair assumption?

Adam Satterfield

I think that's probably a good benchmark to use, yes.

Kevin Sterling

Okay. Well, that's all I had today. Thanks so much for your time and color today.

Adam Satterfield

Thanks.

Operator

Our last question from Ben Hartford with Baird.

Ben Hartford

Hi. Thanks for squeezing me in. Adam, just to finalize a thought on weight per shipment. It was running 1,530 pounds earlier in the quarter. At 1,545 it is as low, really, as it has been in a decade, as low as it was in 3Q 2015. I know the efforts that you took last year to kind of protect the network. We know trends have been weak from an industrial end market perspective, and truckload capacity has been loose, but this level here, what's your level of confidence that we're at or near a trough? Or, is there any sort of mix change within the network that could drag that number lower from here? What are your thoughts there?

Adam Satterfield

Probably a little bit of mix change, just the fact that we have a little bit more retail exposure and I think those shipments tend to be a little bit lighter weighted. But like I mentioned before, it was really good and a positive for me to see that dip that we had in August, kind of the rebound that we had back in September, and things sort of coming back sequentially, if you will, in that jump back up to slightly above 1,550. But I think that, we're just kind of down in this lower sort of range and there's fewer demand for widgets right now. And so fewer widgets on each shipment that we're handling and I think that's just a reflection of kind of the environment, very similar to that late 2015 and 2016 period as well.

So we earlier in the year, we did have the operational change headwind, if you will, and that was the cause for the 4%-ish type of year-over-year decrease in weight per shipment. And so now we should be -- from a mix standpoint, more in line with and more comparable type of numbers, if you will, in that regard. I think it's just somewhat a sign of -- the slight decrease was a sign of just continuing to be in a little bit weaker operating environment.

Ben Hartford

And I guess in that vein, some competitors have announced across the threshold services recently, residential delivery. Any change in your viewpoint as it relates to the potential for across the threshold or residential-type deliveries within your network?

Adam Satterfield

Not from our regard. That's not something that we're focused on at this point. We feel like there are better market opportunities out there, and we'll continue to focus on serving the needs. The LTL needs of our customers and not necessarily trying to get into more residential types of deliveries.

Ben Hartford

Thank you.

Operator

At this time, I will turn the call back to Mr. Congdon for any additional or closing remarks.

Earl Congdon

Okay, this is Earl Congdon. Thank you all for your participation today. But before we close the call, I would like to also share my appreciation with the entire Old Dominion family. I am extremely proud of our recent MASTIO award, as well as our financial accomplishments this year.

I think that keeping our operating ratio below 80, in spite of a reduction in revenue, was quite an accomplishment. One of our largest shareholders, the Congdon family certainly wants to see the company's profitable growth to continue, and we know that we have the team in place that will make that happen. We appreciate your questions today and feel free to give us a call if you have anything further. Thanks, and have a good day.

Operator

Thank you for your participation, you may now disconnect.