Knight Transportation, Inc.

Moderator: Adam Miller
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4:30 p.m. ET

OPERATOR: This is Conference #9589078

Operator: Good afternoon. My name is (Rob) and I will be your conference operator today. At this time, I would like to welcome everyone to the Knight-Swift Transportation Fourth Quarter 2017 Earnings Call.

All lines have been placed on mute to prevent any background noise. Speakers for today's call will Dave Jackson, President and CEO, Kevin Knight, Executive Chairman, and Adam Miller, CFO. Mr. Miller, the meeting is now yours.

Adam Miller: Thank you, (Rob). And good afternoon to everyone who's joined the call. We have slides to accompany this call posted on our investor website, which is investor.knight/ – or sorry, -swift.com/events. So, that's investor.knight-swift.com/events.

Please note this is a change in web address as this site is new and differs from the address we've provided in the past. So, first off, we'd like to welcome you to the Knight-Swift Transportations Fourth Quarter 2017 Earnings Call.

We are excited for this opportunity to report the financial results for the fourth quarter of 2017, which represents the first full quarter of the combined Knight and Swift entity.

Our call is scheduled to go until 4:30 p.m. Eastern Time and will be structured similarly to our calls in the past. Following our commentary we hope to answer as many questions as time will allow. If we're not able to get to your question due to time restrictions, you may call 602-606-6349.

During this call we plan to cover topics and any questions specific to the results of the fourth quarter, provide an update on merger and synergy initiatives, as well provide our future outlook on the market. Rules for questions remain the same as in the past, one question per participant.

If we do not clearly answer the question a follow-up question may be asked. To begin, I will first refer you to the disclosures on page two and three of the presentation. I will also read the following.

This conference call and presentation may contain forward-looking statements made by the company that involve risks, assumptions, and uncertainties that are difficult to predict.

Investors are directed to the information contained in Item 1A risk factors or Part 1 of the company's annual report on form 10K filed with the United States SEC for discussion of the risks that may affect the company's future operating results.

Actual results may differ. Now, we may – now we'll move to slide four to discuss the results of the fourth quarter. The table on slide four compares fourth-quarter revenue and earnings results on a year-over-year basis.

An important item to note however is that due to the accounting requirements associated with the merger transaction the 2016 figures represent only Knight Transportation's historically reported results.

Due to this unique circumstance, year-over-year comparisons at the consolidator level are less meaningful. Later in the presentation, we plan to provide more context around the year-over-year results. Diluted earnings per share for the quarter. ended December 31, 2017. were $2.50.

Our adjusted earnings per share came in at $0.52 excluding an income tax benefit of $364 million. representing management's estimate of the net impact of the Tax Cuts and Job Act passed during the quarter, $10.3 million of amortization expense related to the merger, and $1.9 million of legal reserves related to class-action lawsuits.

We believe the comparability of our results has improved by excluding these and frequent items that are unrelated to our core operations. Now on to slide five, we've provided a three-year comparison of revenue, excluding fuel surcharge and adjusted operating income.

In this comparison we included the historical Swift results in grey, as we believe this provide a better year-over-year comparison. With the addition of Swift our fourth-quarter consolidated revenue, excluding fuel, was $1.2 billion.

If we compare the fourth-quarter of 2017 with the combination of what each entity separately reported in the fourth quarter of 2016, revenue excluding fuel surcharge was relatively unchanged from the prior year.

The combined adjusted operating income was $156 million for the quarter. Again, if we compare the fourth quarter of 2017 with the combination of what each entity separately reported in the fourth quarter of 2016 adjusted operating income improved 33 percent from the prior year.

Our results for the first full quarter after the merger were encouraging. We are beginning to see to the results of our synergy efforts as well as the impact of a more favorable market dynamics in terms of freight demand. Now let's turn to slide six. We view a strong balance sheet as a competitive advantage.

As we believed it provides operating and strategic flexibility. We remain committed to continuing to strengthen our leverage ratio through improved EBITDA and continued deleveraging of both on balance sheet and off balance-sheet debt.

In the fourth quarter, we accelerated the timing of equipment purchases when possible to maximize tax benefit under the Tax Cuts and Jobs Act.

As a result, cash decreased and debt increased sequentially as we utilized the revolver to fund CapEx. We expect our net capital expenditures will be in the range of 525 to 575 million in 2018, which primarily represents the replacement of the tractors and trailers we intend to pull out of service during the year.

This range assumes all CapEx will be funded with cash and on balance sheet financing through our revolver. Historically, Swift has utilized off-balance-sheet operating leases to fund a portion of equipment purchases, which are not included in historical CapEx numbers.

Therefore, there may be limited comparability of future CapEx to historical CapEx result as it relates to Swift. We continue to strategically manage the fleet size and age to maintain returns in a -- in a changing market environment.

We also believe our current balance-sheet positions us to have a flexibility to continue to invest in future growth opportunities. I'll now turn it over to Dave Jackson.

Dave Jackson: Thanks, Adam. Now, to slide seven, in the fourth quarter our Knight trucking segment operated in 81.6 percent adjusted operating ratio, which is a 210 basis point improvement over the prior year.

This improvement was primarily driven by the increase in revenue per tractor, partially offset by an increase in driver related costs. The strong freight market provided noncontract revenue opportunities throughout the quarter and into January.

Revenue excluding trucking fuel surcharge and intersegment transactions increased 6.3 percent driven by a 12.2 percent increase in our revenue per tractor, partially offset by a 5.3 percent decrease in the average operational truck count.

While the average tractor count was down year-over-year we were able to achieve a sequential increase in the ending tractor count during the quarter and narrow the decrease in utilization from negative 3.9 percent in the third quarter of 2017 to negative 1.6 percent in the fourth quarter of 2017 as we continue to improve our ability to source and retain drivers.

Our not asset base logistics segment produced a 94.0 percent adjusted operating ratio, which is a 70 basis point increase compared to last year.

Logistics revenue increased 6.8 percent driven primarily by an 8.8 percent increase in brokerage revenue. Our brokerage business increased revenue per load by 17.2 percent, while maintaining gross margin flat year-over-year at 16 percent.

The brokerage revenue growth was partially offset by a 7.2 percent decrease in brokerage load volume. Next on to slide eight, we are seeing positive improvements in each Swift segment as our adjusted operating income improved 40.4 percent when compared to what was previously reported by Swift in the fourth quarter of 2016.

Overall, our results were positively impacted by the improving freight environment, cost controls, and synergies we have begun to implement.

The difficult driver market combined with the implementation of more stringent hiring requirements continue to be a headwind for our business. We believe these additional hiring requirements will have a short-term impact on our driver count, but will be a long-term benefit to our operating results.

In our Swift Trucking segment, we achieved an 84.6 percent adjusted operating ratio, our revenue per tractor increased 6.7 percent. Our dedicated segment achieved an adjusted operating ratio of 86.5 percent as average revenue per truck increased 2.6 percent.

Our refrigerated segment achieved an adjusted operating ratio of 92.9 percent as average revenue per truck increase 7/10 of 1 percent. Our overall average Swift truck count is down 6.7 percent compared to the fourth quarter of 2016.

As sourcing and retaining high quality drivers remains the most significant challenge we face. Our intermodal segment achieved an adjusted operating ration of 95.0 percent as revenue per container increased by 8.0 percent.

Now onto slide nine, the broader economy continues to show signs of growth, consumer spending, durable goods, and the prospects of increased manufacturing and construction all point to positive growth in the future, especially considering the recent tax relief from the Tax Cuts and Jobs Act.

The driver shortage continues to be a headwind for the industry and will likely impact the ability to increase capacity in the space. We also believe that the ELD mandate began to have an impact on capacity late in the quarter, which has continued into the first quarter thus far.

Given the strength in the freight market and the inflationary pressures the industry is experiencing and driver wages, we expect to see rate increases in our contract business in the high single-digits to low double-digits throughout 2018.

In this environment, we will continue to monitor the markets in order to maximize both service levels to our customers and yield. I will now turn it over to Kevin Knight.

Kevin Knight: Thanks Dave. I'd like to first start by reaffirming our commitment to our brands, Swift and Knight, distinct brands with distinct management. I talked to our people all the time and share with them the fact that I want Knight to be the best Knight that it can be and I want Swift to be the best Swift that it can be.

As a result, we expect little to no change for customer and driver facing activities. There are some areas where we will work closely together to support our operations and we are confident we will continue to realize additional synergies over time.

Excelling at safety and service is at the utmost importance to all of our businesses. We believe we have significant opportunities to enhance the safety and service performance at Swift.

While the teamwork we are witnessing and the opportunities ahead of us, give us confidence we continue to face a challenging driver environment.

Longer-term we expect to overcome the near-term headwinds through the driver sourcing capabilities of Knight and Swift. Specifically, we believe Swift has an unmatched advantage to source and train new drivers through our academies and driver development capabilities.

Knight plans to leverage Swift's competency to source and train new drivers and Swift plans to further leverage Knight's approach to increase the sourcing of experienced drivers. Sourcing and retaining drivers remains a top priority across our fleets.

We are encouraged with the margin improvement that we have experienced at both Knight and Swift, but understand we have more opportunity to improve.

Our teams remain committed to working together to enhance our performance in managing markets, improving safety and service, developing high quality drivers and reducing our cost per mile and cost per transaction.

Now to slide 11, our synergy efforts are in full swing, reflecting a high degree of collaboration and dialogue across the Knight and Swift platforms. We expected to realize synergy benefits of 15 million in 2017. And we are happy to report that we are ahead of schedule both in cost and revenue synergies.

Our intention with providing synergy targets in April, at the time of the merger announcement, was to provide an estimate of the improvements we believe we could achieve with the combines efforts of both companies.

Actual improvements will be realized in improved adjusted operating income. During the fourth quarter of 2017, adjusted operating income at Swift improved over $32 million year-over-year, despite 6.7 percent less tractors.

Moving forward, we may not provide specific synergy updates, however the improvements in the business will be visible in the changes in our operating income in each of our lines of business on a year-over-year basis.

We also want to reaffirm our expectation that these synergies will increase to 100 million and 150 million in 2018 and 2019 respectively.

I would like to close this presentation by expressing how appreciative I am for the outstanding work of all the employees of both Swift and Knight who are ultimately responsible for the solid fourth quarter results. And (Rob), with that, we will now open up the line for questions.

Operator: At this time, if you would like to ask a question, press star then the number one on your telephone keypad. We'll pause for just a brief moment to compile the Q&A roster. And your first question comes from the line of Ravi Shanker from Morgan Stanley. Your line is open.

Ravi Shanker: Thanks. (Inaudible). Can I just follow up on your comment on the pricing for 2018? You say your contract pricing could be up high single-digits, low double-digits throughout the year. Does this imply kind of once you roll in spot there's even more upside to that?

And also, typically, I think most people expected the pricing to improve in the second half of '18 given the time of your contracts. Can you just talk about how we thing about the timing of the price increases through the year? Thanks.

Dave Jackson: Hi Ravi, I'll try and take that. When we look at kind of how rates have hit an inflection in about the middle part of last year and we saw more of that -- more of the rate increase come through the non-contract world, typically what happens, and this happened in previous cycles, is we transition into the next bit season.

What we find is increased rates; it can increase the kind of volatility that perhaps some of the shipping community has experienced in the second half of 2017. And so, as a result of that, we'll see some meaningful improvement in the contractual rate environment.

I would say that bid season is really just in its early stages and so with the kind of strength that we’ve continued to see in January, we expect to see meaningful improvement in the contractual marketing.

And what I would remind you of is that we saw negative rates throughout '16 and even the back half – the very end of '15. So we've seen significant volatility since 2014, I think we're seeing some of the catch-up for that.

I think from our early interactions with our customers on the bids, there seems to be an understanding that in this upper single digit, and in some cases the lower double digits, that is largely where the committed market appears to be or appears to be heading.

And so clearly the noncontract market has been a couple times that for the last few months of the year and perhaps there might be some of that.

As we look out into 2018, we would expect to see – continue to see positive rate improvement on a year-over-year basis and then when we come a year from now and we're talking about the fourth quarter of '18 and comparing against the kind of increases that we just – we've just reported for the fourth quarter of '17 that – it's going to be difficult to show a lot of meaningful improvement on a year-over-year basis.

But what will have happened, I would expect, is that the increases throughout 2018 will come from the contracts and not from the noncontract environment, so that's similar what happened and '14 going into '15, and I think what we're seeing is something similar to that.

Ravi Shanker: That's very helpful (Clark), quickly follow-up and ask you, what you – are you able to quantify what you think are driver wages will be up in 2018? I'm just trying to juxtapose the two of them and figure out just how much of the pricing you can actually keep.

Dave Jackson: Well typically, the – and it's not always exactly in the moment, but over time around 25 percent maybe a couple of points higher than that 25 to 30 percent of the increase goes to the driver. As you know, driver wages are the largest expense we have and so typically you'll see it follow that way.

I would say right now when you look at the businesses, the driver wages are up in the neighborhood of 6 to 7 percent and given the fact that drivers in the industry did not see an increase in 2016 and they saw very little in 2017, if any -- they saw some towards the end of the year, there definitely is some pent-up wage pressure and I think you're seeing that manifest itself in these kind of noncontract rates that we're seeing out there in the third-party indices.

So but overtime Ravi, I think you should expect some around 25 percent of the increase to find its way to the driver.

Ravi Shanker: Great, thank you.

Dave Jackson: Thanks.

Operator: Your next question comes from the line of Jason Seidl from Cowen and Company, your line is open.

Jason Seidl: Yes thank you operator I wanted to chat a little bit about your CapEx outlook. What do you project in terms of by the end of your fleet age?

And then how much of this CapEx is really just playing a little bit to catch up to get the fleet age down and how much you think is really just geared toward some of the benefits now that you're going to see with the new tax bill?

Adam Miller: So I'll take that, this is Adam, Jason.

Jason Seidl: Hey, Adam.

Adam Miller: So I'd say from a fleet age – from a fleet age standpoint, Knight's currently at 2.7 and I think Swift is currently at 2.5 from an average age standpoint and we'd expect that number come down probably closer to 2 by the end of the year and so I think some of this CapEx will be some catch-up to refresh the fleet.

Again we're not planning much of any growth within the CapEx, we may see a little growth from the Knight side, but certainly not on the on the Swift side.

We didn't change our CapEx strategy as it relates to the new tax law, the only thing that we did was we probably pulled forward some of the CapEx purchases that were planned for the first quarter and moved that into the fourth quarter to get the deduction at the at the higher rate.

But generally speaking our CapEx is going to replacement and to improve the average age from where it is today.

Jason Seidl: But as I'm thinking about going forward, if you guys get down to closer to two then you'll probably be more in line with what you are thinking – where you at that age to be longer-term as you head into 2019, am I correct in thinking that?

Adam Miller: Yes I think that's fair, I think historically when you look at where Knight's been, we've been sub two for quite a while, but I think we're comfortable in that two range, give or take a few months.

Jason Seidl: OK and if I have a quick follow-up to Ravi's question, you talked about the high single digit rate increases. Can you – is there any difference between what Knight historical is going to get what the Swift business is going to get in terms of the rate increases. Is Swift more under market than Knight is? I guess is what I'm asking.

Kevin Knight: You know, Jason, this is Kevin. I would say at Swift, we just have a different portfolio of services. Swift, I think, probably won't get to the revenue per mile levels necessarily that Knight is, is my expectation. So again as I stated earlier, our goal is for Swift to be the best Swift and for Knight to be the best Knight.

Swift has a broader portfolio of dedicated businesses; when you look at Swift's dedicated businesses if you tally everything up in all segments, it's probably over 5,000 trucks and the characteristics around dedicated are different than one-way line haul.

We also – when you look at our Swift, when you look are length of haul in our line haul businesses, we tend to be a longer length of haul at Swift then we tend to be at Knight.

And we don't really have any plans to superficially push that down in any way. I -- for the most part, I really like the book of business that we have at Swift.

There are some pieces of it that I'm still trying to understand a little bit better than what I currently understand. I think probably the biggest opportunity for Swift is in their one-way irregular route reefer segment and that that book of business was not what I would call the best book of business that I've seen.

But we are – we're working diligently to improve that book of business and expect that you will be pleased with the improvements in revenue per mile and profitability, especially in the irregular route side of refrigerated. And so that's how – that's how I how I see it.

So I wouldn't look at these numbers merging anywhere down the road. I would expect that with the market that we've been afforded, I would expect that yields are going to improve for both entities.

Knight has a bigger presence in the noncontract area than Swift, and I don't see Swift probably ever having as big a presence from a percent of capacity standpoint, so that's basically how I see it, Jason. I hope that's helpful.

Jason Seidl: That's great color. Thank you very much, and thank you for the time, guys.

Operator: Your next question comes from the line of Brian Ossenbeck from J.P. Morgan. Your line is open.

Brian Ossenbeck: Hey. Good afternoon. Thanks for taking my question.

Dave Jackson: Hi, Brian.

Brian Ossenbeck: So I said kind of think over just strategic fit of some of the segments, I think you were – gave us a little bit of color on that last time. Sounds like one way refrigerated is the best upside, but you also made some more positive comments on intermodal during the last call.

I was wondering if you'd give us your sense of that business, especially when you see some of the rail services not quite where it should be, but I imagine that also has some decent upside given where it's been operating in the past. So if you could give us an update on that?

Kevin Knight: Yes, I'd happy to. We're kind of learning our way on intermodal, and first off in the red brand, we've got a non-asset based intermodal offering that performs very well. It's not large, but that business has really good trajectory, and so we're excited about that. But it's a small piece of our overall revenue.

So as far as Swift, it's much more significant. It's asset based where we own our own boxes, as I think most of you know. We're extremely reliant on our (Rel) partners.

They don't always provide the highest level of service, but from Swift's perspective, we've probably not always provided the highest level of service on the dray sides of the business and that's the area that we are focusing on. That's how we can ensure that we provide more value to our customers.

And we're primarily focused right now on improving our revenue per box on a quarterly basis and we make good improvement there in the fourth quarter.

We do believe that we will see good opportunities to improve our yields in terms of intermodal as this market continues to develop. I also think we continue to have opportunities to improve our cost structure on the intermodal side.

This quarter was a little tough as far as drayage cost. If we wouldn't have experienced higher drayage costs, we could have reported possibly a 93 or 94 O.R., which would be legitimate but not where we would like to be long-term.

And so we're working to improve our understanding at a business to improve our disciplines around the business and I believe the yield will come.

And we won't be as good at that as some of our competitors, who are much more experienced in this area, but it's an important customer offering to our customer base, and it's important that we figure out how to do our customers a good job in this area, and I think there's certainly potential for us to grow a bit here.

But before we do that, we want to make sure we know what we're doing, and we're not a 100 percent certain we do yet, but I think we're getting closer and closer. So I would say, that's the commentary from an intermodal side. Was there an additional line that you had a question on?

Brian Ossenbeck: No, that was great. I think intermodal was the one that you'd called out specifically being more positive on the last call, and you gave a comment on (refer), so we'll leave it there. Thanks for all details. Just a real quick follow up.

Adam, if you could potentially give us some sense of how you see 2018 stacking up from – you gave us the rate perspective, you got synergies moving in the right direction faster than you originally thought.

What sort of EPS range or growth trajectory do you think we should me modeling for next year? I know we've typically seen some quarter head guidance in the past, so just wanting to give us a feel for how this story can develop in the first half of the year. At least the next couple of quarters would be helpful. Thanks.

Adam Miller: Sure, and I think on the last call we shared the fact that we were probably not going to get guidance given we're just trying to understand maybe the different cadences of earnings for both businesses.

Like for instance, Swift has a history of a much steeper drop off of EPS from fourth quarter to first quarter as compared to Knight, so we're trying to understand what's driving that and certainly help mitigate that.

But I think with all the moving pieces, with the market, the efforts around synergies, we're not in the position to give guidance at this point. I'd give you maybe a little help on the tax rate side because I think that's a number that I think most people will want to update in their models.

We're expecting that to be around 25 percent, and we've given you some help on the revenue side. But in terms of trying to put out some EPS guidance, we're not in a position to do it at this point. Potentially down the future, but we'll see how things transpire.

Kevin Knight: Yes, and I would just add that on our Swift book of business, it's a heavier retail BANT than on the Knight side, and retail really intensifies in the fourth quarter and then kind of lightens up a bit more than food and beverage and some of those kinds of things.

So I would just reaffirm with what Adam said. We've kind of got to get through a full year of quarters with Swift where we really understand how things change from quarter to quarter.

The good news is that it feels like this market is definitely hanging in here with us. And so, hopefully we won't see the drop off at Swift like we have in the past. But I also know that there were a lot of year end – I think Swift in the past has referred to them as projects.

And we were doing a lot of project work. And so, we're just going to have to get another two or three quarters down the road to really fully appreciate how things will cadence for the (Blue) brand.

Brian Ossenbeck: OK. Great. Thanks for all the time. Appreciate it.

Operator: Your next question comes from the line of Casey Deak from Wells Fargo Securities. Your line is open.

Casey Deak: Hi. Thank you. If I can go back to where Jason was asking earlier, if you look at what Knight's doing on the revenue (promoted) mile vs. what Swift's doing, and Swift if you can exclude what happens in the dedicated, looking forward, are you bringing the strategy that that you employ at Knight of entering the day maybe under-booked so that you can attack the spot market to those irregular routes at Swift as well?

Kevin Knight: You know, we will do some. Swift, the makeup of the fleet is different also, where a higher majority of Swift's fleet is independent contractor.

And so we want to make sure we have enough committed freight to keep the beast moving every day. But on the same token, there's no question that we will provide a higher level of service if we are less committed.

And so by doing that, by being less committed, it gives us an opportunity to do two things. Number one, exceed our customer expectations and number two, when our customers have a need for additional noncontract capacity, we will be in a position to respond.

So yes, we will do more of that. We will do more of that over time at Swift. But still, we want to be respectful of our (Blue) brand and how it works and make sure that we're deliberate in our process there.

Casey Deak: OK. That's helpful. Thank you. If I could add to that, on top of that, so because they are separate entities and how you're managing them, are you bringing managerial talent from Knight to Swift to maybe facilitate that change in mindset?

Kevin Knight: We have. We've done some of that to help Swift be a little more focused on the profit side of the business, the operating ratio.

But we've also brought some talent the other way, too. So I would just tell you that Swift is a much bigger company and I'm an old guy. And it takes a lot of help and that we have an amazing team at Swift.

And I've asked a few folks, that I know how they think and how they operate, to help me at Swift, because that's where our greatest opportunities are.

But I will tell you that we have an amazing group of very talented people at Swift that I believe are excited about the stability that we have added from a leadership perspective.

But yes, we have moved some people there to help, a handful of people, and they've been extremely well received by the Swift team. And so, yes, that's how we're approaching it.

Casey Deak: All right. That's great. Thank you very much.

Kevin Knight: Thank you.

Operator: Your next question comes from the line of Brandon Oglenski. Please state your company affiliation. Your line is open.

Van Kegel: Hi, this is Van Kegel on for Brandon with Barclays. Thanks for taking my question, guys. Good afternoon. I guess with rate expectations now in the 8 to 12 percent range, could you talk us through how to think about margins next year?

I mean, is 600 or 800 -- or six or eight points of margin improvement out of the question after you pass on that 30 percent or so to the driver? And can you talk to some of the other cost items and how they might temper that outlook and maybe any of the offsets from synergies at Swift?

Dave Jackson: Yes. Maybe I'll jump in and Adam might supplement here a bit. As we talked about earlier, we didn't see much by way of rate over the last couple of years.

But that didn't stop the cost of trucks and the cost of trailers, some quarters fuel, and then of course we're very depressed used equipment market. So we've definitely seen cost creep up. There seems to be a bit of a catch-up that we need to get caught up.

It looks as though the cost could be inflationary again here going forward. We know for a fact our largest cost, the driver wages will be. But that will likely not be the only thing that might be inflationary in this growing, strengthening environment and economy.

So as we look out, our goal is going to be to get as much of that to drop to the bottom line as we can. We're probably not going to ever forecast, right now, how many points of O.R. we might get if we got that kind of improvement.

I think you can look at our history in the past to see our track record on cost and our track record on how much of a loaded rate per mile is able to drop to the bottom line.

We didn't drop as much to the bottom line this fourth quarter as we normally would have liked to have. And I think that had to do with just some of the pent up cost that has been there.

So I think it is reasonable, however, to assume that you'll see -- on a year-over-year basis, you should expect to see O.R. improvement in our business. And it's particularly on the asset-based side of the business.

When we look on the logistic side, that's a difficult place right now, just because of the volatility in the purchase trends cost, I mean, those are where we're seeing the highest rates.

And you can look at these third-party indices to get a sense for where that rate pressure is. And really, that's the group that saw the deep plunge in terms of pricing.

And so it's more than come back now and it's unclear when that is going to stop. And there may be a number of factors for that. So on the logistics side, it's going to be tougher to make margin improvement.

But on the asset base side, we would expect your reader improvement every quarter certainly this year because we fell like that there's enough strength in the bit season will carry us through the next four quarters. And hopefully it continues beyond that.

Adam Miller: Just to add that I think historically we would normally expect to see two to three percent inflation for a cost for mile stand point. However were probably in a market where driver wages will be much more inflationary then they have in the past.

And I'd also point to not just purchase Trans on the logistics side but also purchase Trans on the asset side where we have our owner operator group that will also be some inflationary pressures there as well.

So certainly we would hope to expand our margins in a strengthen environment but probably see more inflationary pressure then you would in a normal year.

Kevin Knight: Yes I would maybe just add that when you think of these cycles in the past it usually takes you four or five quarters to find your best OR that you're going to get in the cycle.

Now this cycle looks like it could last longer than maybe most. Kind of depending on if how many new trucks creep into the market place.

But you know typically on the Knight side we have seen OR's in the high 70's when we hit there. So from an asset base perspective you know that would indicate there's three or four hundred basis points of improvement. You know could it get better than that? It really depends on the (breath) and the depth of the market.

On the Swift side, we would hope that we would be within two or three hundred basis points of that, on the asset based side. Probably not including dedicated, that's probably maybe an unrealistic goal for dedicated. And so that's how I would see it.

Van Kegel: Thanks for the insight guys. I'll keep at the one.

Dave Jackson: Thank you.

Operator: Your next question comes from the line of Tom Wadawitz from UBS, your line is open.

Tom Wadawitz: Yes good afternoon, congratulations on the strong results and Dave I guess you've already exceeded on the red truck. The peak pricing you achieved in fourth quarter '14, I think it was like 12.1 percent so.

Anyways the – I wanted to ask you a little bit about the contour of the pricing and just kind of you get to these big numbers its hard to figure out what to put in the model.

So how much of your business in fourth quarter at Knight was in the spot market? And how much did you actually reprise on the contract side in the fourth quarter?

Dave Jackson: Well thanks Tom. First thing just to correct you I mean you said just my name, as you can imagine there's a whole team if not army of people that work at Knight on rate, both the time you talked about and now, and so when we look at – think your question is what percentage of the spot or non-contract market …

Tom Wadawitz: Yes how many (inaudible) spot in fourth quarter versus just recognizing (that buy) boosted the over all realized.

Dave Jackson: Yes we believe that that number for the fourth quarter of '18 was north of 20 percent. Perhaps in the low 20 percent range and to compare that for perspective to the fourth quarter of '17 we would have probably been in the mid to high single digits on the year over year.

And of course that mid to high single digit percentage didn't experience the premium any where close to kind of what we've seen here in the market over the last four or five months.

So hopefully that gives you an idea. When you talk about what we really saw contractually, it's at the kind of off time of the year for the contracts. I mean you're kind of dealing with pricing that had gone into a place six to nine months previously. So there wasn't nearly as much of increase on a contractual basis.

We'll see that change here over the next two quarters, we expect. Now there's another factor here and that is that it appears as though our customers – we're going a little deeper in the routing guide on the back half of the year as compared to maybe the first half of the year.

When -- and then you don't really know what your going to be tendered or awarded on a day to day basis until you get into the heat of battle.

And so, you have hopes and expectations perhaps through the (bits) season and so as it played out in the first half of the year, I think we found ourselves you know not getting a lot of loads that had been priced in a place where we thought they needed to be given the driver difficulties and that we needed an increase.

And so in the back half of the year, I think part of this rate improvement that you've seen was also from us just being tendered loads at the agreed upon rate but just those – they were a little – we we're a little deeper into the route guide and our customers were having a tougher time finding capacity.

So we found ourselves hauling those loads and those loads would have come at a year over year increase, modest but yet a year over year increase.

So the combination of that, the combination of exposure to the spot were non-contract market and some of our efforts to get in front of this with certain customers to get things priced in a way to avoid any disruption in the capacity that we provide to them is what lead to the rate you saw.

And so, we'll continue to work but in a slightly different way, more so through the bid process here in the next couple quarters and keep plugging away.

Tom Wadawitz: Yes, I appreciate that and I didn't mean to single you out only for the good performance obviously it's a (Kevin, Nat and broader) team I just was just noticing that particular metric that was quite strong among others.

So how do we think about when the year over year change might peak? Maybe if I can also ask you that in terms of this metric of revenue per loaded mile like fuel? Is that maybe second quarter this year or how do you think about when that year over year change might actually peak.

Dave Jackson: Well typically, we get to a second quarter much of the contract pricing is usually just beginning to take effect at various stages through out the quarter. Second quarter as you know has a nice seasonal in pact to it.

And so between beverage and just the shifting season and all that comes with warmer temperatures, we typically see a more robust non-contract market there.

Not quite like fourth quarter, of course, but more so then what we would normally see in a first quarter. So I imagine we will see strong seasonality this year but we won't probably still feel the full impact of the contract pricing until the third quarter.

So I think we'll just have to kind of watch and see how that plays out. When we get to fourth quarter, I would be surprised if we saw the same degree of volatility in the non-contract market. I mean I think things will be largely prepared for in this first half of the year.

Now there's a chance that you know because we haven't seen a year where we've had strong broader economic growth and restrained capacity growth.

And there are reasons to believe that both of those could happen in a way that's different then what we saw in '14 or different then what we saw in '04 to '06.

And so, we'll have to see how that plays out. We're not really budgeting, if you will, that we would see a similar fourth quarter at the end of 2018.

Adam Miller: And Tom, I would probably add, I think the supply chain all of us that participate were caught a little bit off guard by all the dynamics of what was – what was going on.

It was the disruptions and weather initially, and then a very strong retail season. And then on top of that, a few – a few weather events, and then on top of that the introduction of the ELD requirements.

So, our customers are very good at sourcing capacity. And I would expect that over the next couple of quarters that they'll focus on making serious awards at very good contract pricing to folks such as ourselves that have significant capabilities for supplying capacity. So it – you could even have some dips.

You could have some dips and you could have some strengthening. And it really, I think, depends on how strong the economy remains, what the Tax

Cuts and Jobs Act does, and really just also what happens with additional capacity finding its way into the system. So, we've just got to take it as it comes and navigate through it in the best way – best way possible.

Tom Wadawitz: Great, thank you for the time.

Operator: Your next question comes from the line of Brad Delco. Please state your company affiliation. Your line is open.

Brad Delco: Good afternoon, gentlemen. This is Brad with Stephens Inc.

Dave Jackson: Hi, Brad.

Brad Delco: Dave, good afternoon. Dave, I wanted to focus a little bit – and maybe this is for you, Kevin, on the direction of Knight's fleet. I feel like I've heard you deliver the message that driver wages need to go up at Swift.

Driver wages will go up when you get rate, so you saw the feet count down about 450 trucks or so in the fourth quarter. When do you think we start seeing that turn the other way and what is it going to take from both a wage and a rate perspective to see that – to that move?

Kevin Knight: Well, Brad, it's a question I wish I had the answer to. But I will tell you that we have introduced some disciplines in this onboarding process that didn't exist at Swift to the degree that they had existed at Knight. And so, that isn't helping.

But I feel like – that when you think about Swift, nobody trains and develops drivers like Swift. And when you think about Knight, nobody develops experienced drivers like Knight. And so, I really believe that we're going to be able to make Knight better.

And I will tell you that Knight is now in positive territory for the last few months. And we feel like we've got our feet under us at Knight. And I appreciate Dave and his team.

And I know that Dave is spending an enormous amount of time in that area in our business. And at Swift, we're probably a couple quarters away at least, maybe, from finding the bottom, but we will.

And that's an area where we're going to have to invest more time. When you introduce more disciplines, you've got to start with more supply, and we are working on that.

And we're really building a very strong driver development and retention group at Swift that's going to be bigger and stronger than it has been in the past.

And so, Brad, that's basically how I see driver – the driver situation playing out at Swift. Where, we now have got good rates – or better rates, and rates that are going to continue to improve.

And the good thing about rate is it puts you in a position to do more for your drivers, not only from a driver pay perspective but from a driver development perspective, from a driver retention perspective, and so you're going to have to be a little patient with us.

I apologize for not having more clarity, but we're just going to have to stay focused and stick to our – to our – the way we do trucking, and it should all work out very, very well.

Brad Delco: Kevin, if can, just a clarifying point there. Dave suggested $0.25 to $0.30 on the dollar going to the driver at night. Is that the same range you expect at Swift or is there a little bit of a catch up that needs to take place?

Dave Jackson: Yes.

Kevin Knight: Yes, no. We're pretty close, not too far off. Knight could be a little bit higher – I'm not 100 percent certain about that. I think we're really pretty dang close, Brad.

And so, I don't – I don't see necessarily any catch up on Swift. One of the things that we had to do at Swift was we had to improve the cost to get a good driver on his own. And so, that is a cost that we've been experiencing for – since we started, or shortly after we started.

So those costs are already hitting the Swift side. But as far as once a driver becomes solo and on his or her own, we're pretty dang close, Brad.

Brad Delco: OK, well great. Thanks, guys, for the time.

Kevin Knight: Thank you.

Operator: And that is all the time we have today for questions. I will turn this meeting back over to our presenters.

Dave Jackson: Hey, we really appreciate the many of you that have joined, those that have asked questions. And for those who we did not have time to get your question, we would welcome you to give us a call at 602-606-6349 and (Linda) will be there to grab a message, and we'll try and get back touch with you. Have a wonderful evening.

Operator: This concludes today's conference call. You may now disconnect.

END