Knight Transportation, Inc.

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

Operator: Good afternoon. My name is (Vincent), and I'll be your conference operator today. At this time, I would like to welcome everyone to the Knight-Swift Transportation First Quarter 2018 Earnings Conference Call. All lines have been placed on mute to prevent any background noise.

Speakers for today's call will be Dave Jackson, President and CEO; Kevin Knight, Executive Chairman; and Adam Miller, CFO. Mr. Miller, the meeting is now yours.

Adam Miller: Thank you, (Vincent). And good afternoon, everyone, and thank you for joining the call. We have slides to accompany this call posted on our investor website, which is investor.knight-swift.com/events.

So first off, we'd like to welcome you to the Knight-Swift Transportation First Quarter 2018 Earnings Call. Our call is scheduled to go until 5:30 pm eastern time and will be structured similar 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 your question due to time restriction, you may call 602-606-6349. During this call, we plan to cover topics and any questions specific to the results of the first quarter and provide our future outlook on the market. The rules for questions are one question per participant.

If there’s a follow up question, we invite you to get back in the queue to ask your question. To begin, I'll first refer you to the disclosures on slides two and three of the presentation. I'll 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 one of the company's annual report on Form 10-K filed with the United States SEC for a discussion of the risks that may affect the company's future operating results.

Actual results may differ. We'll now move to slide four, and discuss the results of the first quarter. The table on slide four compares first 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 2017 figures represent only Knight Transportation's historically reported results. Due to this unique circumstance, year-over-year comparisons at the consolidated level are less meaningful.

Later in the presentation, we'll provide more context around the year-over-year results. GAAP earnings per diluted share for the first quarter of 2018 were $0.39. Our adjusted EPS, which excludes $10.3 million or $8.3 million after-tax of amortization expense related to the merger, came in at $0.44.

Our effective tax rate in the quarter was 21.2 percent compared to 35.3 percent in the prior year, primarily due to the Tax Cuts and Jobs Act that was passed towards the end of 2017. On a go-forward basis, we expect a normalized tax rate of approximately 25 percent.

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've included the historical Swift results in gray, as we believe this provides a better year-over-year comparison.

With the addition of Swift, our first quarter consolidated revenue, excluding fuel surcharge, was $1.1 billion. If we compare this first quarter of 2018 with the combination of what each entity separately reported in the first quarter of 2017, revenue, excluding fuel surcharge, was relatively unchanged from the prior year despite having 1.9 percent fewer trucks at Knight and eight percent fewer trucks at Swift.

The combined adjusted operating income was $104 million for the quarter. Again, if we compare the first quarter of 2018 with the combination of what each entity separately reported in the first quarter of 2017, adjusted operating income improved 147 percent from the prior year.

Our results for the quarter were encouraging, as we're seeing the results of our synergy efforts as well as the impact of more favorable market dynamics in terms of freight demand and constrained trucking capacity.

I'll now turn to slide six. We view a strong balance sheet as a competitive advantage, as we believe 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 first quarter, our net debt ended at $788 million, which means we were able to reduced debt sequentially by $107 million, even with the acquisition of Abilene, which was funded through cash and our credit facility.

Net cash CapEx was $7 million in the quarter, which was larger than a typical quarter, due to the timing of delivery of our 2018 equipment order and the acceleration of CapEx in the fourth quarter of 2017, as we previously reported.

We are still expecting $525 million to $575 million of net cash CapEx for the full year of 2018, which primarily represents the replacement of the tractors and trailers we intend to pull out of service during the year.

This range also 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 the historical

CapEx numbers. Therefore, there maybe limited comparability of future CapEx to historical CapEx results as it relates to Swift.

Our unrestricted cash increased $2.5 million, and our total available liquidity was $711 million at the end of the first quarter. Our shareholder equity increased to $5.3 billion, and we have paid out $31 million of dividends over the past 12 months.

Our operations remained strong, as we're able to generate $209 million of cash flow from operations, resulting in $202 million of free cash flow during the first quarter.

We continued to strategically manage the fleet size and age to maintain returns in a changing market environment. Gain on sale of equipment was $7.1 million for the first quarter of 2018 compared to $800,000 for the first quarter of 2017. However, to note, Swift reported $4.2 million in the first quarter of 2017, which is not recorded in our consolidated prior year comparison.

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

David Jackson: Thank you, Adam, and good afternoon, everybody. I will start on slide seven.

On March 16, we announced the acquisition of Abilene Motor Express. Abilene is based in Richmond, Virginia and has an operating ratio typically in the low 90s, runs about 400 trucks and generates approximately $100 million in annual revenue.

They're primarily an over the road fleet, providing drive in and some temperature controlled services, with a customer base that provides unique customer relationships compared to the existing Knight-Swift brands.

Our strategy at Abilene is very similar to other acquisitions. We will keep Abilene as a distinct brand and focus on developing synergies that will reduce costs and improve revenue.

We're excited to have them join our team. They have great customers, great drivers and great people.

Since the acquisition closed late in the quarter, our first quarter of consolidated results include Abilene's results for only the last two weeks of March. The results of Abilene are and will continue to be included in the Knight segments.

Now on to slide eight. In the first quarter, our Knight trucking segment operated at an 81.6 percent adjusted operating ratio, which is a 790-basis-point improvement over the prior year, and resulted in operating income more than doubling from $20.3 million in the first quarter of 2017 to $40.8 million in the first quarter of 2018.

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, from the back half of 2017 carried into 2018, and provided noncontract revenue opportunities throughout the quarter.

Revenue, excluding trucking fuel surcharge and intersegment transactions, increased 15.2 percent, driven by a 17.4 percent increase in revenue per tractor, partially offset by a 1.9 percent decrease in the average operational truck count year-over-year.

While the average tractor count was down year-over-year, we were still able to grow our average operational truck count by 24 tractors from the fourth quarter of 2017, even when we exclude the additional trucks resulting from the acquisition of Abilene. Miles per truck also improved to 1.8 percent year-over-year, again excluding Abilene.

Our non-asset-based logistics segment produced a 94.6 percent adjusted operating ratio, which is a 90-basis-point improvement compared to last year. Logistics revenue increased 25.3 percent, driven primarily by a 25.2 percent increase in brokerage revenue.

Our brokerage business increased revenue per load by 28.4 percent and improved gross margin percentage by 30 basis points year-over-year to 14.5 percent.

The brokerage revenue growth was partially offset by a 2.5 percent decrease in brokerage load volume.

Now on to slide nine. We have continued to see positive momentum in our Swift segments, as each reportable segments improved its adjusted operating ratio when compared to what was previously reported by Swift in the first quarter of 2017.

In the first quarter, adjusted operating income improved $40.2 million or 206 percent over what Swift previously had reported in 2017 for the same quarter. We believe this improvement is a result of our focus on cost control, managing the markets, a strong freight environment and our synergy efforts, which we believe are still ahead of schedule from our original estimates.

These improvements were partially offset by the headwinds and increased costs related to the challenging driver market.

During the first quarter of 2018, our truck count declined by 385 trucks from the fourth quarter of 2017. Since the merger, we implemented several initiatives pertaining to our own compromising commitment to safety. We believe these initiatives may create a short-term headwind with regards to our truck count, but will improve financial results for the long term.

To counteract these more stringent hiring requirements and the increasingly difficult driver market, we have increased the investment in our driver recruiting and retention efforts.

These additional efforts began in the fourth quarter and continued into the first quarter. As a result of these efforts, our driver count has stabilized over the past few weeks.

Our Swift truckload segment increased revenue per tractor 5.2 percent year-over-year, driven by a 10 percent increase in revenue per loaded mile, partially offset by a 4.3 percent decrease in utilization due primarily to an increased number of unseated trucks.

Revenue per tractor was largely unchanged from the prior year, and our dedicated segment however, we were able to achieve margin improvement through some contractual rate increases, cost reductions and some shifts in the business mix.

For our Swift refrigerated segment, revenue per tractor was largely unchanged from the prior year, as the 6.3 percent increase in revenue per loaded mile was offset by a 6.3 percent decrease in utilization. The decrease in utilization was a result of a decrease in the average length of haul and an increase in the number of unseated trucks.

Our over the road portion of the refrigerated segment, which is approximately 25 percent of the segment, increased revenue per tractor 12 percent as a result of a 12 percent increase in revenue per loaded mile.

We are encouraged by our intermodal segment, which achieved an adjusted operating ratio of 95.7 percent, which is a historical best for our first quarter. These results were primarily a result of a 16.5 percent increase in load volumes and a 16.4 percent improvement in our revenue per container.

I'll now turn it over to Kevin Knight.

Kevin Knight: Thanks, Dave. 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.

These economic growth factors, however, may increase the competition of vocational labor, potentially resulting in a more challenging driver market. 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 had an impact throughout the quarter.

So far in the 2018 bid season, we are seeing high single-digit to low double-digit rate increases, driven by the strong market conditions as well as the increased inflationary pressures, such as expenses associated with hiring and retaining drivers.

We expect these rate increases to continue throughout 2018. In this environment, we will continue to monitor the markets in order to maximize both service levels and yield. On to slide 11.

We are pleased with how well our Knight and Swift teams continued to work together. Groups from each brand are sharing and implementing best practices, and we feel we are gaining a sense of teamwork from our employees.

We're seeing improvements from these best practices of both Knight and Swift. We remain committed to both brands, with our goal of making Swift the best Swift it can be and Knight the best Knight it can be. And we have similar thoughts about Barr-Nunn and Abilene.

Excelling at safety and service is of the utmost importance to all of our businesses. We have already begun to implement several initiatives to improve both safety and service at Swift. These changes do not happen overnight, but we are beginning to see positive trends in our performance metrics.

While the teamwork we are witnessing and the opportunities ahead 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 at Swift and Knight. 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 fleet. We are encouraged with the margin improvement 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 improving service, while also developing high-quality drivers and reducing our cost per mile and our cost per transaction.

And with that, we will now open up the call, ((Vincent)), for questions.

Operator: We have a question that comes from the line of Tom Wadewitz from UBS.

Thomas Wadewitz: Yes, good afternoon, Kevin and Dave, Adam. Let's see. I guess I'm wondering if you can offer some thoughts on the mix that you had in the quarter, and how the pricing may change as a function of seasonality you had. You had a lot of trucks and legacy Knight in the spot market I think in fourth quarter, you may get over 20 percent. What's that kind of similar?

And maybe if you can offer a thought on where Swift was? And then just how you might see that changing if you look at the second quarter being seasonally stronger, would you kind of put more in spot? And may be give more of a kicker in your pricing from the amount you have in spot?

David Jackson: OK. Thanks, Tom, for the question. This is Dave, I'll take a run at that. Yes, we estimate back in the fourth quarter, as you alluded to, that Knight was probably in that 20-something percentage of our business was in the noncontract market. And we estimate that likewise in the first quarter, we were somewhere in that 20 to 25 percent range in terms of what was noncontract versus what was maybe more of a contractual nature.

Our best estimates at this point at Swift was that Swift was probably closer to the 10 to 12 percent range. But we'll get more and more refined in how we look and measure those things. I would say that just as it didn't change dramatically from one quarter to the next as we look to the second quarter, we don't expect dramatic change in terms of the percentage of our fleet has that kind of exposure.

Of course, we're going through a bid season right now, and it's -- as we recently, just a minute ago, alluded to the upper single digits to low double digits that we're seeing on -- from an increased perspective there, that's encouraging to us. And so we're not in a -- you shouldn't expect us to try and making dramatic shifts or swings in kind of the composition of how that works.

Thomas Wadewitz: OK. So we should anchor to your comments on contract rate to kind of figure out the contour of how your rates coming in are going to come in overall in second quarter or third quarter?

David Jackson: I think that's fair to look at. But the piece of that makes these comparisons a little bit tricky is the noncontract market a year ago was at a discount. Arguably a double-digit discount. So if you found yourself short loads last year in the first quarter, you were scraping and willing to sometimes move things at unsustainable rates.

And you fast-forward, and now you look at that noncontract market at a very healthy premium, and so it makes it a bit exaggerated here in these first few quarters while we have a comparison over what was a very weak market over a year ago. And so those will begin to go away as we get to the second half of 2018, but second quarter is going to be -- second quarter is going to have favorable comparisons when you look at noncontract rates.

Thomas Wadewitz: OK. Yes, great. Well, good results and thank you for the time.

David Jackson: Thank you. (Vincent), I think we're ready for the next question.

Operator: Next question comes from the line of Allison Landry from Credit Suisse.

David Jackson: Hi, Allison. What's your one question?

Allison Landry: My one question is on the labor side. And I think you mentioned on the last call that for every dollar of a rate increase that you guys can attain, that about

$0.25 of every dollar will go to the drivers. Is that still how you're thinking about it? Or does the tighter labor backdrop and how that's developed over the last few months, is that changed your thinking and that equation as you think about 2018?

David Jackson: Yes, good question, Allison. I think that it's increasing. Historically, it's been in that 25 percent to 30 percent of the rate improvement would find its way to the driver fairly efficient, fairly quickly. And so we're definitely on the upper end of that range, if not pushing it up to even higher.

If we look at what wages have been trending for the last two quarters, really, for Knight and for Swift, we're in that upper single-digit percentage range for them from a pay, call that somewhere between seven percent, eight percent, nine percent, give or take. And it varies sometimes by trainee versus experienced driver.

And so it's very much a dynamic moving target. What we know is that when rates go up, driver pay goes up almost immediately. And now we find ourselves where -- across the entire industry, driver pay has gone up, and it's gone up in all kinds of different ways. And it's been probably a little confusing to drivers out there in the market to understand what's really going on.

So it's very dynamic. So we're working the fine line of working with our customers to help us find a way to make sure that we can remain competitive to have enough drivers to be able to fill our trucks, to make sure that we have high quality safe drivers at the same time.

And so by and large, to make it work for all stakeholders, if we share somewhere in that, call it, 30 percent of the revenue of the increase, that typically can work for the driver for the business and hopefully it still is -- provides a lot of value for the customer.

Allison Landry: OK. Excellent. Thank you for…

David Jackson: Thanks, Allison.

Operator: Your next question comes from the line…

David Jackson: (Vincent), I think we're ready.

Operator: Your next question comes from the line of Brandon Oglenski from Barclays.

Brandon Oglenski: Hey, good afternoon, everyone and thanks for taking my one question. I guess…

David Jackson: We're trying to give everybody a chance. We always end up leaving people off unintentionally.

Brandon Oglenski: Well, I'll keep it fast here. And I'm sure we've covered this on past calls, but as you guys get deeper in running the Swift business, is there any reason to think that the truckload and dedicated segment and even refrigerated can't match the profitability levels in the legacy Knight business overtime?

Kevin Knight: Yes. Brandon, this is Kevin. Certainly we have an expectation that under our approach to businesses at Swift, that we can be just as profitable as we can at Knight. Now that doesn't mean necessarily that we're going to get there the same exact way. For instance, I don't see Swift being a big player in the noncontract market as I see Knight being.

Certainly, we'll be a bigger player in the noncontract market than what we've been in the past. And so really, we don't see anything fundamentally or structurally that will keep us from getting there. Now you've got to realize that some things take time to improve. So there are some things we can fairly, and, fairly quickly.

There are same areas where Swift outperforms Knight already. And there are some areas that you've got to lay the groundwork and the foundation, and three or four years later, you'll see the results. And those of us that have gray hair just have to keep convincing the guys that don't that just be patient, it's going to come.

And -- but yes, in our drive business, in the refrigerated business, we see nothing. Now from a dedicated perspective, Swift is a big dedicated player.

And probably, bigger than people realize, because we have a massive amount of work we do in the grocery segment that actually is in our refrigerated segment.

And I would say between the two brands, we're probably approaching 6,000 dedicated trucks. Now a small portion of those are Knight. So some of those large dedicated contracts probably won't operate in the low 80s. And if you look at who our primary competitors are in that part of the world, those guys tend to be a little more happy with an 88 or an 89 or a 90 O.R..

In our culture, you're in trouble if that's what you put up. I'm just teasing. But so all of our people at Swift and Knight, we want to be as efficient as we can. And as a result of that, we see no significant barriers other than possibly on the dedicated side. And from my perspective, this is new to me.

In other words, we have not participated in large dedicated contracts in our past at Knight. But I'll tell you what, we've got a lot of good dedicated business at Swift. We love it. Our team over there is top-notch, and I really believe nobody does it better. And so -- and it doesn't matter whether we're talking about just dedicated or grocery or what.

We have amazing people executing. So no, don't give us any credit at Swift. I mean, make us earn it, and we plan to earn it. And we don't see anything standing in our way that should keep us from financially performing close to the same.

Brandon Oglenski: Thank you.

David Jackson: Thanks, Brandon.

Operator: Next question comes from the line of Scott Group. Scott Group, your line is open.

Scott Group: Hey, thanks. Afternoon, guys. So if I look at first quarter results and compare first versus fourth quarter, Knight truckload did much better than normal seasonality, and Swift truckload was sort of right in line with normal seasonality. So I guess I'm wondering why you think we saw that difference this quarter.

And maybe more importantly, how should we think about this going forward? Swift's margin and earning seasonality into the second quarter and the rest of the year, do you think it should be sort of better than normal because of the synergies? Or maybe not because of the driver and fleet issues you guys are highlighting?

Kevin Knight: I'll take that, Scott. First off, we told you when we released earnings in the fourth quarter, that Swift historically is -- has not performed the way that maybe people had hoped in the first quarter. Swift has a massive amount of retail exposure. And we pull out all of the stops in the fourth quarter to serve our customers and take care of the seasonal holiday.

And we were very clear that in our fourth quarter call, that it's going to take us a few quarters to get our arms around how Swift should perform seasonally. And I would say that Swift performed admirably in the first quarter compared to historical results in that area. Now Knight performed especially well in the first quarter.

And there, at Knight, the Knight brand are set up -- the setup was very good. At the Swift brand, we came out of fourth quarter, and recognizing that first quarters are typically very difficult and we just worked our, you know, what's off to try to make sure that we perform better than historically.

And so I would say Swift should build steam as we progress throughout the year. And Knight will be a little more of a consistent performer as we progress throughout the year. It's our expectation, now there's no promise there, but just based on how the two businesses -- the two brands work, that's what we expect.

Scott Group: Just trying to make sure I understand. Are you comfortable or suggesting that Swift should start doing, now, better than normal seasonality? Is that what you're trying to say, Kevin?

Kevin Knight: No, no, not necessarily. I'm saying that Swift's typically very strong in the fourth quarter and light in the first quarter. And quite honestly, I haven't been there in the second and third quarter. So we're kind of learning as we go, Scott.

But we have a large team of people that get a better than we do, and we'll just help them and support them and work with them the very best we can to produce the very best second and third quarter that we can.

Scott Group: All right. Thank you guys. Appreciate it.

Kevin Knight: Thank you.

Operator: Your next question comes from the line of Amit Mehrotra from Deutsche Bank.

Amit Mehrotra: Hey. Thanks so much. Thanks, guys. Appreciate you taking the questions. So first quick -- very quick one, I guess is, can you give us the unseated truck count, how that trended for Swift in the quarter? And then you guys have this $50 million of cost synergies for the year, any sense on how much of that was realized in the quarter?

And then just lastly, quick one, Dave, you talked about the wage inflation and that's helpful, but it will also be more helpful if you talk about what the operating leverage profile of the business is X the synergies that you're seeing. I mean are you seeing drop through or is the wage inflation on the driver side so severe that without the synergies you'd actually be seeing detrimental returns?

Any help there would be appreciated. I know that’s three questions, but thanks.

David Jackson: Yes, those are three. So Amit, which one would you like us to answer for you?

Amit Mehrotra: That's a good question. Let me see. How about the incremental margin question, the last one.

David Jackson: OK.

Amit Mehrotra: I can repeat it if you want.

David Jackson: Why don't you repeat it because I lost you after question two. Go ahead, quick.

Amit Mehrotra: OK. You talked about driver wage inflation but you really haven't talked about what the incremental margin profile of the companies over the next several quarters X the synergies that you're going to have. So any thoughts there. Thanks.

David Jackson: Yes. Well if you look, the business saw revenue per mile improvement, but not 100 percent of the dropped to the bottom line, clearly. So a meaningful portion of that was drivers. And we talked about drivers, it's not just driver pay, it's everything associated with recruiting and sourcing a driver.

It includes a greater effort on the recruiting side, the advertising expense goes up as more and more people are all working to try and find the same group. So driver-related is by far the largest portion of that. But in addition to that, there are -- you were seeing inflation in the equipment, we're seeing inflation in even then non-driver side, clearly, in the mechanic and the shop technical expertise side, we see it as well.

And used equipment market continues to be soft, which you feel that on the gain of sale. Fuel, depending of the month, but more often than not, is -- has been a headwind as of late. And now more recently, now as we move into the second quarter, it's consistently been a headwind. So those of our inflationary factors.

We -- you so that we overcame some of those in order to be able to drop the improvement like we saw in the Knight side in particular, we saw the 790-basis-point improvement on the operating ratio, in the asset based truckload business.

So this is where -- this is get paid to do, is to understand our business, understanding kind of rate increases that are needed in order to at least keep up with the inflationary cost we have, and ultimately to provide a return that allows us to exceed weighted average cost of capital and keep reinvesting in the fleet. So Knight is -- that's approaching that level, but still is -- isn't dropping as much to the bottom line on a rate per mile basis.

It's historically is done. On the Swift side, we have more room -- a lot more room to improve. As I look and compare how much rate was able to drop to the bottom line at Swift and at Knight and compare that to others in our industry that have released thus far. I see that Knight and Swift have both done better than most, if not, led the charge in terms of dropping to the bottom line.

So when we look at second quarter, third quarter just as we did an issue earnings guidance today, and we're not going to -- we're not ready, and we haven't decided yet when we will, if will be ready to issue earnings guidance again.

Those are factors that, that we keep private, that we keep in our own internal projections and we wouldn't quite be ready to share, but we do try, just like I've done outlined where some of the areas are, and hopefully that will help you to make your best estimates going forward.

Kevin Knight: I would just add. Knight did a really good job in the first quarter. And I am grateful for all the good work that we got out of the redemption brand. But on the same token, Swift, our folks did an amazing job.

When I look at the O.R.s and the trucking segment, last year and last first quarter, the dedicated segment, the refrigerated segment, the intermodal segment, I mean, significant O.R. improvement in every one of those businesses. And when you look at our competitors, it's been interesting to me to see how dedicated just not performed this quarter for our competitors.

And in our dedicated business, we improved, I think, a couple of hundred basis points. So it's -- we kind of can't control the market, but we can control how we compete and how we finish at the end of the day so that's just an additional comment that I have. I appreciate the question.

Amit Mehrotra: That’s helpful. Thank you, guys. Appreciate it.

Operator: Your next question comes from the line of Brad Delco. Your line is open.

Brad Delco: Good afternoon, gentlemen.

David Jackson: Hi, (Brad).

Brad Delco: Dave, how are you? I'll make this real quick. Dave, you often like to give your thoughts on what's going on in the industry. And I think you made some comments about concerns on whether or not truck orders, if they remained elevated, what that would mean for the market, and they've remain elevated. So tell me why that's not a bad thing. And that's it for me.

David Jackson: Wow. Yes, thanks for dropping that bomb and just hopping off.

Brad Delco: I’m sorry, Dave.

David Jackson: I can tell you’re sleep deprived with that the new baby. Four babies in two years is a lot. So hope the triplets are doing well with their new little baby sibling there. So congrats to you.

Brad Delco: Thank you, sir.

David Jackson: So I think bottom line, if you study supply and demand as closely as one probably should if you want to be in this industry, new truck orders are negative. And it's a matter of to what degree and how soon can they be a negative. And so there's a few things I think one has to take into account.

I don't think it's a simple relationship as most things in economics are not, where you seen high truck orders, therefore, supply goes up. Because there's the second component that's really important, and then there's a third component that's really important. Perhaps the second component would be the labor piece.

And when we look at the vocational labor that is scarce already, that it's on its ways to be even more scarce, and then because of certainly the growth in construction, we've been seeing growth in manufacturing, every vocation seems short labor. And on top of that, we have trucking who seems to have a disproportionately number of baby boomer still as a significant portion of our work force in the industry, which -- that's a group that's 59 60 on the low end of the age.

And so when we look at what this vocational, I don't know if I should call it a crisis or not, but the vocational labor challenge that the U.S. has, trucking probably couldn't be in a worse position to try and deal with it, both because of quality of life concerns and because of the average age of one of our workers that we're trying to replace it with somebody in the current -- that's coming in to the vocational labor.

So you have there is always a big piece that has to be taken into account at the same time when you look at new orders. Maybe the third part of this equation would then be what's going on with used equipment prices. And when we look at 2014, when we look at 2006, 2007, what we saw -- we saw huge orders, of course, but we also saw record high used equipment prices.

And so used equipment prices that peaked late in 2014 still have not recovered as they fell precipitously throughout -- really throughout end of '15, throughout '16 and '17 and continues into 2018.

And so one would say, if you were a carrier, a small carry, and you wanted to go out there and grow to take advantage of the strong market, one would say I'm a well, you can place an order to receive delivery in 120 days for a truck that's going to cost you $150,000 or you can go buy a four -year-old truck for $40,000 and drive it off the lot today and put it to work.

And the reality is the shipper or your customer is going to pay the same rate regardless of which truck you have. And so given that logic and given the bloated inventory of used equipment and were pricing has stayed week in there, it would suggest that perhaps we shouldn't quite run the judgment of these new trucks are finding their way into the marketplace immediately with the driver.

So hey, that's -- I mean, that's -- and I hope I'm not glasses with that outlook is there, but one of those three is really bad, and that is the number of orders. And that's hard to compete with, but those other two factors probably should be taken in. so (Brad), I probably took too long on that question, but that would be a couple of thoughts.

Brad Delco: I appreciate it. We'll pay attention to used truck values. Thank you, sir.

David Jackson: Thank you.

Operator: Next question comes from the line of Brian Ossenbeck from JPMorgan. Your line is open.

Brian Ossenbeck: Hey, guys. Thanks for taking my question. So mine's on just the gain on sales. Pretty strong in the quarter, $7 million. Should we expect that to continue, assuming primarily driven by Swift side of the business, as you continue to see the contraction on the truck count?

Kevin Knight: Yes. Brian, I'll take that question. I'd say that the used equipment our to gain on sales of equipment probably continues at that pace. I don't think -- could have a little volatility. But I don't think anything significant.

Again, we just want to note, I know we said that in our comments, that it doesn't -- that 800,000 from the last year does not include what Swift previously reported, which was $4.2 million.

So the comparison is not as different as maybe just looking at the press release. But we would expect any significant changes in the trends from a gain standpoint.

Brian Ossenbeck: OK. Thanks a lot.

David Jackson: Thanks, Brian.

Operator: Your next question comes from the line of Dave Ross from Stifel.

David Ross: Yes, good afternoon, gentlemen. Back to the drivers. Is there a reason that -- you mentioned some driver hiring standards might be more stringent at Knight, thus being applied to Swift. But outside of that, a reason for the drop off at Swift much greater than at Knight in terms of number of trucks?

Kevin Knight: Well, I would just say, Dave that that has more to do with it than you might expect. And I would also say, whenever you go through a leadership change, and whenever the culture starts to shift a little bit, it can create just a few issues. So literally, at Swift, we had been going negative company driver count since the second half maybe or last quarter, third quarter of 2015.

And it built steam in '16, it built steam in '17, and boy, did it built steam when we got there for the first few weeks. But the good news is for five out of the last six weeks, we've been either flat or positive on our driver count at Swift. So I think it's just change. I'll give you an example of Dave, why we approach our acquisitions now like we do.

You all know that Barr-Nunn has been an extremely successful acquisition. And Abilene is shaping up to be an extremely successful acquisition. I think at Abilene, we've supported the management that we have there, and we've not culturally had to adjust anywhere that I'm aware of.

And I'm not sure we've lost two or three or four drivers, if that. And so at Swift, especially as you announce the merger and then it takes you how many months to close. And then, then you close. You have all that stuff going on in a C-suite leaves and the C-suite enters, I mean, it's tough.

And it doesn't matter how much effort you put into it, it's going to be challenging. But I will say this. There was an old Swift employee walking through the building yesterday and he stopped in and chatted with seven or eight of our associates over there. And he asked them how are things, and they said, things are looking good.

It's been like a trucking company around here. He marched up to my office and shared that story with me. So I wasn't going to bother you, I know you're busy, but I just thought it was important for you to hear that. These are from the guys on the ground floor. So these are our folks in the transients.

And so it just -- it just takes a bit of adjustment. And some of those hiring standards that we modified, I mean call us crazy, but we know that we need a certain type of foundation in order to be really, really successful with our driver development retention, safety service, productivity, all of those things.

And so I'm really proud of our people at Swift and how they've embraced some of these changes. And yes, it's a tough driver front, but like I said last conference call, you're still going to give us a couple of quarters. Well, five or six weeks ago, we started to gain some real tractions.

So I'm not telling you we're out of the woods yet, but I am telling you that the results are improving. So that would be why, in my opinion, Dave, it was -- we've had more slippage at Swift than at Knight or any of our other brands.

David Ross: Thank you, that’s helpful.

Kevin Knight: Thank you.

David Jackson: Thanks, Dave.

Operator: And our next question comes from the line of Matt Brooklier from Buckingham Research.

Matthew Brooklier: Hey, thanks and good afternoon. So my question is around the sales synergies that you talk to at Swift. I'm just curious to get an update in terms of where you think you are in terms of repricing that business. What are the prospects for the remainder of the year? And if there's any color that you can may be provide in terms of how impactful it could potentially be.

I know you've given us a number in the past, but maybe there's like an example of some business that you're able to repriced and you know what the delta was? And is, does an update in terms of where we are on the sales energy process?

Kevin Knight: So Matt, I appreciate that question. This is Kevin, I'll take that. I think you are more specific to Swift. And so really, it takes a year to basically work through your book of business on irregular route. And you're on your dedicated business, it can take two or three or four years, depending on the length of your contract.

Now we also have the ability to go back on the dedicated side and ask for help. And sometimes, we get supported, and sometimes we don't get supported. But so we're well into the bid season, we're well into the bid cycle, and we are seeing high single-digit even up to mid-double-digit price increases.

And it really just depends on where that business is, where it was, how it was priced. We have significant market intelligence in our brands that we can get just through our technology that we have developed. And so we kind of know where our problems are. But it's just a matter of when do we have the opportunity to fix?

I mean, we are still under a commitment that where the customer honor their commitments in the past. Or are we in a situation where that hasn't been the case and we're OK to change right now. So really, I would say we're about halfway through that process. And the results that we are seeing both at Knight and at Swift are very good.

And I would say we're no less bullish than we were a quarter ago, maybe a little more bullish. But, hey, it's just -- it's a process. And when you go through the process, sometimes you lose business. And then you've got to figure out, OK, what do we do? We've got to fill those holes up or we take our chances in the noncontract market?

But I would say that the Swift team is doing a very good job in that area. But we're still a couple more quarters away from working our way through the first cycle. And then if the market can stay strong, we'll start the next cycle, because we're still not where we need to be from a driver pay perspective in our opinion. So I hope I answered your question.

Matthew Brooklier: You did. I appreciate the color. Thank you.

David Jackson: Thanks, Matt.

Operator: Your next question comes from the line of Ken Hoexter from Bank of America Merrill Lynch.

Ken Hoexter: Great. Good afternoon. Kevin, you did concern a little bit in one of your answers earlier about chasing competitors to the margin to the 90 percent margins before you're giving commentary. But I just want to get your feeling on the returns on that business and dedicated whether it's in dedicated order in refrigerator.

Whether you look to shrink the business, if it's a much lower return profile? Or is it all about rates? And if you can completely change on how you structure that business you can keep and grow it?

Kevin Knight: Yes, no. We have no intention or effort of shrinking our refrigerated or our dedicated business. We like both of those businesses. Those businesses at Knight have operated historically in the low to mid-80s, depending on what environment we're in. And we plan to get those businesses more profitable, more efficient.

And it isn't just about rate, we've got work to do on the cost side. And so we've just -- I love our dedicated businesses at Swift. And we just -- but like any part of our business at any of our brands, there's always room to improve. So no, we would expect to continue to make improvements.

It might not come as fast as the irregular root side of our business, but nonetheless, we expect to improve those businesses.

Ken Hoexter: Thank you.

David Jackson: Thanks, Ken.

Operator: Next question comes from the line of Ravi Shanker. Your line is open.

David Jackson: Hi, Ravi.

Ravi Shanker: Thank you. Evening, gentlemen. Hi. I apologize if I missed this in your remarks, but how do we think of the truck count going forward for the rest of the year? Is it likely you're going to flat sequentially from the latest number in the second quarter and then up slightly in the back half of the year? And also, now that you have better quality drivers, do you expect to see gains in claims and insurance costs in the coming years?

Kevin Knight: I'm going to try to give you a quick answer, because we've got several in the queue we're trying to get to still. So what I would say, in terms of truck count in Swift, we're working to stabilize, as we said in January for the fourth quarter call, our goal was to stabilize the fleet count by the middle of the year, which would suggest that, hopefully, we can stop the attrition that happened and maintain the fleet size.

And then once we get to that point, then we'll decide where we go from there. But I wouldn't be modeling growth in the back half of the year on the Swift fleet. On the Knight fleet, given the progress made in the first quarter, we remain optimistic that maybe there's two percent or three percent that might be added as we move deeper into the year, which would basically add back the trucks say that were -- that we down on the Knight fleet in 2017.

So that's I would model the fleet growth. And as to improving, if you will, that qualifications of the driving associates that we hire, we would expect to see that materialize in lower cost per mile particularly in the insurance and claims line item.

And so hopefully, that will materialize. It will take some time. So as we talked about, there's an immediate headwind, but a long-term, hopefully, tailwind to cost per mile over the next few years.

Adam Miller: And then Ravi, I would add, I mean the fact of the matter is we have inorganic growth opportunities. And at Knight, we've established the path to do way that. And we certainly hope that we continue to find opportunities on the inorganic side.

So we'll keep plugging away there.

Ravi Shanker: Very good. Thank you.

David Jackson: Thanks, Ravi. Well, we're at our hour mark. Unfortunately, we have at least five, I believe, that were hoping to ask questions that we ran out of time to. We would encourage those that have questions to the did not get answered to call us at 602-606-6349, and we'll do our best to reach back out to you. We appreciate you joining us. Have a lovely evening.

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