

**KNIGHT-SWIFT TRANSPORTATION**

**November 6, 2017  
4:30 p.m. ET**

Operator: This is Conference # 7378689

Operator: Good afternoon. My name is (Giles) and I'll be your conference operator today. At this time, I would like to welcome everyone to the Knight Swift Transportation 3rd Quarter 2017 Earnings Call.

All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer session. If you would like to ask a question at this time, please press star then the number one on your telephone keypad. If you would like to withdraw your question, please press the pound key.

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, (Giles). Good afternoon, everyone, and thank you to those who have joined the call. We have slides to accompany this call posted on our newly developed investor website which is [investor.knight-swiftinc.com/events](http://investor.knight-swiftinc.com/events). Please note this is a change in web address as this site is new and differs from the address we have provided in the past.

First off, we would like to welcome you to the Knight Swift Transportation 3<sup>rd</sup> Quarter 2017's Earning Call. We are excited for this opportunity to report the financial results for the first time for this newly formed entity. Our call is scheduled to go until 5:30 p.m. 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 are not able to get to your question due to time restrictions, you may call 602-606-6349 following the call and we will return your call.

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

If we don't clearly answer the question, a follow up question may be asked. To begin, I'll first refer you to the disclosure on page 2 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 for part one of the company's annual report on form 10-K filed with the United States SEC for discussion of the risks that may affect the company's future operating results. Actual results may differ. Before we jump directly into our third quarter results, I'd like to provide an update on our external reporting structure expected to begin in the first quarter of next year.

Let's move on to slide 3. As we work to the closing of the merger, we are currently assessing our reporting structure along with our externally reported segments. The reporting of this year's third and fourth quarter will most likely remain consistent to the manner of which Knight and Swift have reported in the past. For example, Knight will report results on its trucking and logistics segments whereas Swift will provide results for its truckload dedicated refrigerated and inter-modal segments.

We will be performing a full review of the reporting structure and any potential changes to the structure will most likely begin in the first quarter of 2018. At that time, if any changes are deemed appropriate, we'll provide a prior year to -- a prior two year recast of results reflective of any change. Hopefully this will help many of you as you update your models accordingly.

As it relates to EPS, both a GAAP and adjusted EPS metric will be provided going forward.

As I'm sure you can appreciate, we view these integration efforts as a top priority and are fully committed to the -- to a successful transition. Our leadership teams continue to work together to identify both revenue and cost synergies between both companies. As we work through this process, we will refrain from providing earnings guidance until we feel it is appropriate. So with that, I will now recap our third quarter results starting with slide 4.

As in quarter's past, the team (above) compares third quarter revenue and earnings metrics on a year over year basis. An important item to note, however, is that due to the accounting requirements associated with a merger transaction such as ours, 2017's figures include Knight Transportations full third quarter results combined with 22 days of Swift's Transportation's 3<sup>rd</sup> Quarter results dictated by the merger close date which was the end of the day on September 8<sup>th</sup>.

2016 figures represent Knight Transportation's historically reported results. Due to this unique circumstance, year over year comparisons at the consolidated level are less meaningful. The basic and diluted share count also only represents 22 days of Swift. Please refer to the most recently filed S4 for an estimate of the share count moving forward.

We have provided adjusted financial information that includes merger related expenses, amortization of the intangibles associated with the merger as well as software impairment which was recognized within the third quarter. We believe the comparability of our results is improved by excluding the expenses that are unrelated to our core operations. Adjusted operating income increased 19.2 percent year over year to approximately 44 million while our adjusted earnings per share were 25 cents compared to 29 cents in the same quarter last year.

Now onto slide 5. Our third quarter consolidated revenue excluding trucking field surcharge increased dramatically year over year due to the addition of Swift's 22 days of revenue. Excluding the revenue related to Swift, our

revenue excluding trucking field surcharge decreased 1.5 percent. Adjusted net income increased 7.3 percent to 25.5 million.

We continue to experience a tightening market in the third quarter and remain confident capacity will become more constrained over the coming quarters, allowing us to increase the productivity of our fleet and improve our overall yield. Turning to slide 6, we view a strong balance sheet as a competitive advantage. We also believe it provides operating and strategic flexibility. Following the merger, our net debt is 824 million and our shareholder equity is 4.8 billion.

We feel this debt level is very manageable and have plans to de-lever going forward. At the end of September we successfully closed on a new credit facility which will reduce our annual interest expense by roughly 2.7 million going forward. As of the end of the third quarter, we have built up cash and cash equivalents of 136.4 million and expect to increase the free cash flow generated by the company. We would plan to deploy this capital towards accelerating deleveraging capital returns as well as featured growth initiatives.

I will now turn it over to Dave Jackson.

Dave Jackson: Thank you Adam and welcome to everyone on the call today. I'll now turn to slide 7. In the third quarter, our Knight Trucking businesses operated at an 85.9 percent operating -- or adjusted operating ratio which is a 280 basis point increase compared to the third quarter of 2016. The change in operating ratio was primarily driven by a 3.9 percent decrease in miles per truck during the period, increased driver related costs and a year over year decrease and gain on sale of use equipment.

Revenue, excluding trucking fuel surcharge within our trucking segment, decreased 4.2 percent during the quarter. However, our revenue per loaded mile increased 4.6 percent when compared to the third quarter of 2016. Our non-asset based logistic segment produced a 93.5 percent adjusted operating ratio which is a 170 basis point improvement compared to last year. This improvement was the result of both an 11.5 percent increase in our brokerage revenue and a 180 basis point expansion in our brokerage gross margin.

In total, our logistic segment revenue increased 8.8 percent year over year. Now on to slide 8, due to the accounting of the merger, quarterly year over year comparisons for Swift are unavailable. The table above represents Swift's results for the 22 day period, post merger close. On a September over September comparison, our Swift trucking segment produced a 2 percent increase in its revenue per loaded mile as well as a 2 percent increase in its weekly loaded miles per truck.

Our dedicated segment increased its weekly revenue per truck 4 percent due to a 4.6 percent increase in its weekly loaded miles per truck. Our refrigerated segments weekly revenue per truck decreased .90 percent driven by a 2 percent decrease in its weekly loaded miles per truck. This decrease was partially offset by a 1.1 percent increase in revenue per loaded mile.

The results within our inner-mobile segment displayed above do not represent our actual run rate within the segment, as the last 22 days of September proved to be a more profitable time period during the quarter. We are focused on improving this business by increasing our operational efficiencies. Now on to slide 9, as you can see the freight market hit a strong inflection point in the second quarter of 2017 which continued in the third quarter.

Over time, the Knight and Swift rate per mile trends have been directionally similar. Knight rates historically have tended to move with greater volatility due to a higher percentage of uncommitted capacity, less dedicated contract business, and specific tools that we've employed. Swift rates are improving and the improvement has accelerated in the recent weeks.

In terms of trends during the quarter, the year over year increase in yield improved in each month of the quarter and into October for the Knight fleet and improved during September and October in the Swift fleet. Each brand creates significant value for the supply chain. Swift creates more value for customers than any other truckload provider by a wide margin. Now on to slide 10, Knight and Swift will continue to operate as separate operating companies with distinct strands and distinct management.

As a result, we expect little to no change for customer and driver facing activities. There may be some areas that work closely together to support our operations and we're confident these opportunities will continue to manifest themselves over time. We believe execution on a per load, per truck or per service or terminal basis remain as the foundation for achieving a low operating ratio.

And our experience has been the visibility to the right measurements at the right time in the hands of an appropriately empowered manager can meaningfully accelerate improvement. We plan to leverage the freight market knowledge of both organizations, improving the lanes and loads each company chooses to serve and the degree to which each is willing to commit capacity through contract and non contract opportunities as well as remaining extremely focused on our synergy efforts which we expect will produce positive results in yield and expense reduction.

We also believe that accelerated development and implementation of technology will be one of the direct benefits from the collaboration between these two companies. Each company has projects at various stages of development and implementation that will enhance visibility for our customers, improve the driver experience, streamline employee efficiency, improve asset productivity, and improve our partnership with third party capacity providers. Utilizing this technology throughout both companies is a top priority.

I'll now turn it over to Kevin Knight to cover the next slides.

Kevin Knight: So on to slide 11, thanks Dave and Adam. As we mentioned earlier this year when we announced our intent to merge with Swift, we expected to realize 15 million in synergies from the time of the merger close to the end of 2017. We've seen success in these efforts and have been very pleased with the response and participation we have received from both Swift and Knight employees.

We fully expect to realize this 15 million by year end. We also expect these synergies to increase to 100 million and 150 million in 2018 and 2019,

respectively. These figures will come from both yield improvement and expense reduction. Now on to slide 12, we've had synergy teams represented by both companies working together since the announcement of the merger.

Since the close of the merger, I have spent the majority of my time at Swift working to improve Swift's operations. Some of Swift's executive leadership chose to move on, those that have remained are as energized and engaged as I have seen. We also have a strong group of leaders from Knight at Swift now supporting or filling leadership roles. Everyone seems to be working well together.

We've established stretch, internal goals for improving operating profit at Swift and each line of business. I am energized as we all work together to achieve those stretch goals in the coming quarters. Our strategy at Swift is to create significant value for our customers in the full truckload space. This will lead to a premium yield profile for Swift. We will also be focused on reducing our costs to support higher profit and greater returns.

We will now open up the line for questions.

Operator: At this time, I would like to remind everyone in order to ask a question, press star then the number one on your telephone keypad. We'll pause for just a moment to compile a Q&A roster.

Your first question comes from the line of Brad Delco from Stephens, Inc.

Brad, your line is open.

Dave Jackson: Hi Brad.

Brad Delco: Dave, good afternoon Kevin and Adam. Dave, this is for you and probably Kevin and try to keep this to my one question. We've seen a remarkable inflection in just the truckload industry over the last call it six months since this deal was announced.

I imagine there's been a lot of puts and takes internally in terms of what you've been able to execute on and what challenges may have come as a

result of the market getting as tight as it has, most notably the driver market. If you take a step back, can you kind of walk us through how your outlook of this merger has changed over the last six months in light of what we've seen happen in the truckload industry?

Dave Jackson: OK, well Brad, I'll give it my -- I'll give you my best shot here and Kevin may have some thoughts as well, of course. This is a transaction, and we may have alluded to this when we made the announcement about it back in April that -- that this was attractive for a number of reasons that go well beyond just market timing. And so this was not positioned as a play on an inflection.

This was a long term -- long term plan in terms of what we thought we could do over time, so the goal for us at -- with this transaction is to help Swift to achieve a cost per mile performance that they're capable of. We haven't found any barricades that would prevent Swift from achieving a cost per mile that we think can put them in the low 80s in the regular truck route market and at a lower OR and all the other operating entities that they have.

And then we -- we continue to see unbelievable value that Swift provides to their customers and so we're looking at this for a long term. What we know is it's a cyclical business, and so we happen to be in a time where it's going to be a very positive cycle but we know that there's a chance that someday in the future its -- we're not on the upside of a cycle, and so the plan is to help Swift be a very healthy business that earns a double digit return on invested capital both in good times and in bad.

And so, hey we -- we definitely welcome the market developments that have happened over the last six months and honestly, we wish we could have closed this deal a little bit sooner to be in a better position perhaps with a kind of -- where we are in the inflection point, but hopefully that answers your question. Kevin, anything to add?

Kevin Knight: Yes, I would just say Brad it was disappointing that it took us until September to close the transaction. In the improving market it would have been good to have been able to go to work a month sooner, but nonetheless, I would say



we're making up that ground rapidly. And I think though the thing that we all have to remember is Swift and Knight provide different values to the market.

And I don't want everybody to think that the way we're going to do it at Swift is the same way that we -- we do it at Knight. Knight is more of a non-contract player and Swift is more of a contract player. Now, hey, through this merger, we'll both do better at each working to -- working together. And I would just re-emphasize with Dave. I am just -- I am just amazed at the value that Swift provides for their customer base and really excited to be part of that.

I -- as Dave mentioned in one of his slides, there's nobody that provides more value in this space to its customers than -- than Swift, so I would say we're well on our way of getting there and going there. So I don't really have any major disappointments. I mean, as we know the driver recruiting front is as difficult as we've seen and during this transition period, that's an area where Swift didn't perform very well and -- but I will tell you in the last couple of weeks, it feels like we've got our legs under us and our numbers are improving significantly in that area.

You have to remember Swift is -- it creates amazing value through their driver academies and their driver development capabilities, and so about 75 percent of their new hires come through that program and 25 percent come through experienced recruiting. And at Knight, we're just opposite of that. We're about 75 percent on the experienced side and 25 percent through our academy and training program.

So that -- the driver recruiter area is probably one that I wish was producing at higher levels right now but I do -- I have seen in the last couple of weeks, and you got to remember we've only been in there, gosh, seven maybe eight now - - eight weeks now. And so to stabilize that and to get it moving in the right direction feels good to me, so those are my additional comments, Brad.

Brad Delco: Thanks, Dave, Adam -- or Dave and Kevin. I'll leave it there.

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

Tom Wadewitz: Hi, yes good afternoon, Kevin, Dave, Adam. Thanks for time -- the time of the call. I wanted to see if you could comment on where you think the fleet will be -- I guess we've seen some decline in the Knight legacy -- legacy Knight fleet which has been uncharacteristic. Obviously, the driver market is pretty tough. How will -- how should we think about that going forward and I don't know, I didn't see driver -- I didn't see tractor counts in -- in or around Swift.

I didn't know if that -- you saw any kind of change in the Swift tractor count either kind of during September, but just some kind of thoughts on maybe how we ought to think about fleet size given that you've seen some decline I think relative to the tight market.

Dave Jackson: Yes, I would say Tom that we'll kind of maybe address the two fleets maybe a little bit separately. So from a Knight perspective, given the decline in utilization or miles per truck, that's -- that's a key focus for us before we think about adding a lot of capacity and so the -- the open truck count has seen levels that we have not experienced in the past.

And so we've been working hard and diligently to try and -- try and fill trucks but not compromise on safety and the recruiting process to hire qualified drivers. And of course, as we see this inflection in rates, we have great desires to have every truck out safely running and so, that's the primary goal right now is to any growth in drivers if you will, will be to get us, to get us full. And hopefully you'll see that impact on utilization. That's, that's the near-term goal. If we find that we're able to get enough rates to raise driver pay to a level that is more attractive and helps us compete with some of the other vocational jobs out there that likewise seem to be growing but didn't take a couple years off on wage increases.

Like truckload transportation did as a result of the pricing environment. Then, and we're in the position we will. Right now, given how difficult the driver environment is, it's very hard for us to forecast, forecast that as we look into certainly the first half of next year. And for the foreseeable future the goal is, is to get our trucks full and hey, there's nobody that will be more excited

about growth when we get that to happen than us. But we've got our work cut out for us. On the Swift side, Kevin, do you want to...

Kevin Knight: And on the Swift side, Tom, I would just say if you go back about two years, Swift is down about 1500 trucks in that, in that two-year period. A chunk of those came in the last couple of quarters as we were working through the merger which was disappointing. You know I would, I would have been hopeful that Swift would have done a better job in that -- in that area during the transition period. But as I said earlier, I think we've got it stabilized. We've done some things recently that are just starting to come online that are going to be benefits for our drivers. We increased driver pay.

We've increased student pay. We're -- and we're doing a couple of other things that I'd rather not mention at this particular time that I do believe is going to help us in the driver recruiting area. So, you know, from that perspective I'm hoping at Swift we can remain flat. But a big part of that too, Tom, is going to be as we work through their book of business. And I would say, that you know, about 50 percent of what Swift does is good and about 20 percent of what Swift does is OK, and I would say about 30 percent of what Swift does probably doesn't really work.

Now the fact of the matter is, I think we can work through most of that over the coming -- over the coming quarters, especially with the freight environment that we have. Hopefully, we will be able to work thorough that without having to take a step backward as far as our, as far as our truck count is concerned.

Those are my comments on Swift, Tom.

Tom Wadewitz: OK great. Thank you for the time. I appreciate it.

Dave Jackson: Thanks, Tom.

Operator: Your next question comes from the line of Todd Fowler from Keybank Capital Markets. Todd, your line is open.

Todd Fowler: Great, thanks, and good evening.

Kevin, maybe this is a little bit of a follow up on your last comments as I think about what you have on slide 8 for the Swift results for 22 days. As you look at the revenue buckets, how do we think about those chunks of revenue? What would you expect to retain of that going forward? I think that Dave made some comments that the intermodal performance improved at the end of the quarter, but how do we just think about Swift's revenue performance and what you'd expect to keep of that revenue as you move through the integration process?

Kevin Knight: I would say, (sic - Todd), if I look at each of those lines, I think we should be able to maintain, you know, most if not all our truckload revenue. I would say some of our dedicated revenue could be at risk but not a high percentage of that. I would say a fairly large portion of our refrigerated could be at risk but again, I believe we will maintain most of that. From an intermodal perspective, I'm -- I don't think our intermodal is at risk at all. As a matter of fact I expect for that to -- for that number to grow on a year over year basis.

One of the things that we're working on, (sic - Todd as a company is really leveraging our franchise to capture share on some of our larger customers as a result of the regular dedicated truckload capacity that we provide. And thus far we're having very good improvement. In October we had our biggest month that I'm aware of as far as (empties) as far as intermodal is concerned. We're up 16 percent year over year in the month of October.

We're closing in on that magical 2.0 per month number as far as turns are concerns. We're actively approaching the market as far as rate increases. We're active in the spot market on the intermodal basis. We're implementing and increasing accessorial revenue and we're controlling and eliminating costs. From my perspective, you know, that's, that's a business that I think we're going to continue to plow forward on to the surprise of maybe many on this call.

And we fully expect to eventually achieve an operating ratio in the low 90s with that -- with that business unit. We've made some leadership changes there and our leader there chose to exit. Gary Knight, as many of you know,

has been next to me for the last 42 years is leading that. We're developing a new leader at Swift. We've got a good team of people below this new leader and Gary's going to stay close to it and I'm going to stay close to it and so that's really how I see it.

Maybe back to the refrigerated business. I don't want to scare anybody. We just -- that's just a business that really we inherited kind of in turnaround form. And so as you work through the challenges of turning a business around, you don't really know what to expect but I can tell you that I am extremely optimistic that that business is going to operate in the low 80s. I just can't tell you how big it's going to be and I can't tell you how long it's going to take us to get there.

I will share with you, though, the gentleman who operated that business for many years is now there again. As you know when Swift acquired Central, he left and we put him to work in one of our businesses and so we have him back leading that business. And I can tell you that those folks up there are more than excited to have him back leading and helping. So, you know, I'm optimistic,(sic - Todd), about the whole book of business. But, hey, as you know, as you work through change, you're not 100 percent certain. But I would say I lean to the optimistic side as far as maintaining most of the business and improving it ...

Todd Fowler: ... OK, Kevin. And so the 30 percent that you mentioned in response to Tom's question that doesn't work -- that's most refrigerated and dedicated. You're not saying that 30 percent of Swift's business is going to go away ...

Kevin Knight: ... yes, no, when I say, (sic - Todd), it doesn't work. It isn't great. It may work today but it isn't great. And basically our challenge is we just have to improve it. And I think the good news is that we're working in a market where we should be able to do that hopefully.

Todd Fowler: Understood. Thanks for the time.

Operator: Your next question comes from the line of Allison Landry from Credit Suisse. Your line is open.

Kevin Knight: Hi, Allison.

Allison Landry: Hi. Thanks for taking my question.

Dave, this is a follow-up to one of your earlier comments about, you know, sort of what it would take in terms of rates for you guys to increase driver pay at Knight. So just curious, how much higher, either rate per mile or rate for loaded mile, whatever you think is the right metric -- how much higher would it have to go in order for you to raise driver pay at Knight?

And maybe to give us a little bit of what you're thinking a little bit, of sort of, color on your initial expectations for contract rate increases in 2018?

Dave Jackson: OK. Well we're already there. We're already seeing the kind of rate increases that enable us to begin to raise driver pay. The truth is we started to raise driver pay before we really had that rate improvement as a result of the merger. And so we announced a penny-stay bonus back in April and then we made it permanent when the deal closed. We've had -- we increased a penny going back to April that we have continued on and we are -- with the kind of rate improvement that we've seen as it's -- as the rate of improvement has increased with each month that's gone by since the start of the third quarter -- we're in a spot where we will be -- we will be continuing to raise driver pay.

Kevin talked about a couple of programs that are going on over at Swift and similar things are going on at Knight. Not every pay increase is just a penny across the board like we did in April. Sometimes they come in the form of extra money for certain services that they provide or in the training world and things like that. That is underway and will continue to be underway. Historically what we've done is we've shared somewhere in the neighborhood of -- about 25 percent of the rate increase goes to the driver. And it's not always that. Sometimes it needs to be a little bit more given the environment if there's some catch up but it all seems to even itself out over time.

We need to see driver wages increase fairly significantly here in the next couple of years if we want to be able to replace many of the baby boomers that the industry has been perhaps too reliant on over the last 30 years for labor. And so when we see the kind of growth in construction, the kind of

growth in manufacturing, and other vocational jobs and with some of the -- over the last 20 years the decline in vocational support at the, maybe at the institutional or the public education levels -- we find ourselves where most every area that requires vocational labor is short labor.

And so trucking has often or for years has enjoyed a premium because of the quality of life compromises that sometimes a driver must be willing to make. Driving jobs have often enjoyed a premium over other vocational work where you would stay home. And a lot of that, that premium has, has disappeared as trucking has had to deal with these up and down cycles that have made rates go flat or negative for extended periods of time. I think all of this number of macro factors have led us to the point of where we are today where there's an acute shortage of drivers that is likely to just get worse as time goes on. We will definitely be sharing rate and that's one of the reasons why, Allison, that we feel like there's a strategic advantage with our ability to be in tune with the market.

Now, I'll tell you we're not, we're not as efficient or in tune with the market as some of the non-asset based players are. There's a very large non-asset based player that showed based on rate per mile that they had even more efficiency and flexibility in moving and so and we look at the Knight fleet that saw revenue up, revenue per loaded mile up 4.6 percent versus the Swift at 2 percent and yet there are others who are leading the market even higher than that. But our ability to move with the market in a very efficient way enables us to continue to raise driver pay at an accelerated pace in what is a competitive driver market.

Now, you I think snuck a second question in the there about rates and the market and where we saw it kind of going forward. And we think that the market will support continued increases. When we look at kind of how July and August were positive on a year over year basis and we probably take that for granted now, but they were positive, low single digits. Which was, which was a big deal given that almost two years we had had leading up to the second quarter of flat to negative rates, but we have seen in September and continued into October pretty healthy sequential improvements in rate.

And so beyond what you would normally expect in a fourth quarter, you know, seasonal strong peak time, and also we believe that much of that is independent of some of the disruption that came from hurricane and weather. This trend had started really in the middle of the second quarter and seems to be gaining some pace. And so as we look kind of through the rest of the year and into the 2018 bid season, you know I think it's reasonable to assume that, that we're going to see a bid season that will have positive rates and instead of what would have been a third year of probably flat contractual rates, we may see a year and a bid season that is closer to maybe that 5 percent plus potentially, which, in essence, kind of makes up for two years that were flat.

And so, or at least attempts to begin to make up for two years that have been flat. And so as we've looked at the 2018 bid season and I think, you know, everybody's talked about it for the last two years because of ELDs, all of these conclusions really are independent of any impact from ELDs. And so I think as we started the year, you know we would have probably anticipated maybe even been happy with a 2 percent type of an environment to maybe a 2 percent plus bid season in 2018 and as the year seemed to progress, second quarter that number probably was three to four and as I said now, we probably look at that as 5 percent plus. And hey, we may view that differently as we get closer to it. So, hopefully, I answered both of your questions.

Allison Landry: You did. And thank you Dave. I appreciate it.

Dave Jackson: (Thanks).

Operator: Your next question comes from the line of Chris Wetherbee from Citigroup. Chris, your line is open.

Chris Wetherbee: OK, great, thanks and good afternoon, guys.

I wanted to ask you about productivity, specifically at night and maybe get a sense of sort of in the third quarter maybe parsing out a little bit of, you know, whether there were weather impacts or any merger potential impacts on productivity in the miles per truck.



And then maybe thinking about sort of given the market backdrop, Dave, that you just hear described to us, how you might think that that trends over the course of the next couple of quarters. I just wanted to get a sense of maybe how correctible this is in a relatively short term or if it's something we might be dealing with for awhile?

Dave Jackson: Yes, OK, appreciate the question.

You the length of -- average length of haul was down 3.9 percent and so when we -- or actually down 4 percent -- and while, which mirrored with the miles -- what the miles were feeling -- and so a way to look at that is we hold the same number of lows but we had a shorter length of haul. And in our system here, we become less and less committed as the bid season gets more and more competitive.

And so, we've two, counting '16 and '17, bid seasons that we highly competitive and so we find ourselves perhaps being a littler lower on the routing guide in terms of what we win from a volume perspective.

And so, we're not complaining right now, given opportunities in the non-contract space that are paying premiums. And so, -- and hence, you're seeing that and you're going to continue to see that as a result, but one thing that does create is some disruption in the network as we continue to see loads and lanes change hands from us to somebody else or we pick up something that might be new to us.

And so, combination of some of that switching up, a combination of 3. -- or a 4 percent shorter length of haul and the fact that we have more open trucks, which is part of how we calculate that, we do total trucks divided by the miles.

That's what lead to it. So, as we look forward and how to do we fix this, I think as we're finding more loads offered on a daily basis, then we have capacity to provide, we will work to optimize those and put more miles on our trucks.

So, I'd like the opportunity there, as rates go up, we have the ability to raise rates, or driver wages, and hopefully we can do that at perhaps a faster pace,

still calculated and measured as a percentage of the revenue but at a faster pace than our peers, which may help us in the idea of filling trucks.

And the third one on length of haul, if you look at our length of haul, the deeper we get into the negative parts of the cycle, you'll see our length of haul tends to shorten and it's because that's – we go to the nasty places.

We go to the tough stuff and it's where we can get yield. And so, we'll – we have more opportunities in a strengthening environment.

We'll have more opportunities going through a bid season where we can get the kind of increase that we need to get. So, I like to think that we're going to see some progress again throughout 2018 in utilization.

Kevin Knight: Yes, and I would just add Chris that on miles proceeded truck, we're virtually the same year over year from '16 to '17. So, it's definitely an open truck issue. And I would say that hey, going through this merger, we may have got a little bit side tracked doing all the stuff that we were doing.

I know that at Swift, the folks seems to have gotten a little sidetracked and I would say it probably had a bit of a negative impact here at Swift too.

But as mentioned, we've got initiatives in both businesses to really get back on track and get that open truck count headed in the right direction. So, from an operational perspective, we're producing the same on a year over basis for every seeded truck.

Chris Wetherbee: OK, that's very helpful. Thanks for the time. I appreciate it.

Kevin Knight: Thank you.

Operator: Your next question comes from the lines of Brandon Oglenski from Barclays. Brandon, your line is open.

Brandon Oglenski: Hi, gentlemen, good afternoon and thanks for taking my question. I guess this one's for Adam or Dave, but I'm going to come out and ask the question on a lot of investors minds.

I'm looking at consensus expectations for earnings next year that are up, let's call it 45 percent versus this year, and I get it that we're fully lapping the Swift acquisition, but when we think about organic growth, given the tightening market, you guys are talking about better rates, better freight environment, and then the structural opportunities to improve the prior Swift business.

Should we be thinking, as analysts – and I know you guys aren't providing guidance, but just some framework here, because expectations are pretty high, should be thinking to take organic truckload improvement and then be adding on that 85 million of expected synergies in the combined entity? Or are there other factors that we should be considering in next year?

Adam Miller: OK, well Brandon, I'll take a stab at that and then Dave or Kevin can chime if they want to correct anything I say here. Well, based on how we've answered the questions thus far around tractor count, we would've factor in a lot of organic growth for the – for 2018.

As Kevin mentioned, we're working through some of the components of the Swift business and we've seen pressure on the utilization of our tractors because of open trucks. So we need to right size that before we start growing the fleet, and so when we look at what's driving the upside of our earnings in '18 that's going to be, obviously, an improving environment where Knight has historically performed well in the ability to increase yield and improve margins. And we'd expect for that to occur. And then from a Swift component, there's obviously a lot of synergies that we think are out there. We feel good about the targets that we've set out so we'd expect, obviously, that will impact those earning projections.

We've broken those out in our, when we announced the merger in April where about half of its coming from revenue and the other half will come from costs. And we're making good headway on both of those areas. And then on the cost side, you know it's broken up into several different components. Some of them are much faster to be able to work through such as leveraging our purchasing power. Others take more time such as, such as safety. And then

on the revenue side we're working towards evaluating the markets and how we can improve yield with the existing truck fleet.

Kevin Knight: Yes, and I would add, I would add Adam, and you know, when I think about Swift, Swift has not been a participant in the non-contract market. So, and Swift has tended to be overcommitted in the market. And so I really believe we have a lot of opportunity for Swift to do a better job in this, in this, in this rate cycle that we are in right now. So I think just based on our experience in the business for the last eight weeks, we have a good feeling about Swift being able to leverage this upturn much better. And like I say Swift won't look exactly like Knight, but we expect that Swift will leverage the upturn significantly, significantly better than what they have in the past.

So, and you know, then from a cost perspective, there are opportunities to improve costs at Swift everywhere. In other words, I've not seen one major line item where we don't expect to be able to improve costs. And you know, hey, we've spent our life in the 80 (OR) world and as a result of that, you get pretty good at what things can cost and what expense you can have on a per line item basis and so from that perspective, I believe we'll be able to add significant value at Swift. Now some of those costs as Adam indicated, you don't just get them over night. I mean you got (Audio Gap) In order to succeed in that, in that area. But hey, we have outstanding people there at Swift and also at Knight that are working on that as we speak. And then hey, the procurement, that one probably comes fairly quickly. And, and some of the functional efficiency stuff will come fairly quickly. And so, you know, it'll be a mix. That's why we've said, you know, the synergies will come over a call it a 2 and 2 years and a quarter period and so that's, those are my additional comments. Adam, did you have any more? Or Dave?

Dave Jackson: Updates you have.

Dave Jackson: I think Brandon, you know, talking about EPS for next year, you know, there's a lot of moving parts. We plan to keep you posted and give you directionally a good feel of what each business is doing on these quarterly reports and we expect to report up to, report progress if they're not obvious and self-evident in the income statement on the synergy progress. So

hopefully, hopefully it will come into more clear vision for you as to how the future will look.

Adam Miller: OK, thank you gentlemen.

Operator: Your next question comes from the line of Brian Ossenbeck from JP Morgan. Brian, your line is open.

Dave Jackson: Hi Brian.

Brian Ossenbeck: Hey guys. Thanks for taking my question here. Just a quick one on how you're thinking about CapEx and the (Suite H). We see that the core sleeper for Swift is about 2.5 and Knight overall is about 2.7 so, do you think you need to step up some of their replacement cycle perhaps to be more competitive in terms of attracting drivers. I know maintenance costs have been running up a little bit on, on the legacy Knight before, before the mergers. So I just wanted to get a sense of how you were thinking of balancing that through this year and into 2018 against the driver backdrop.

Adam Miller: Yes, sure Brian. I'll take a stab at that one. So yes, the Knight fleet's 2.7. It's the lowest we've been in quite some time and our plan is to invest in the fleet and to refresh the tractor age and we, you know, we expect to see that in the coming quarter as we already have some orders in place that would allow us to do so. I think we have a similar strategy on the Swift side. I think they're about 2.5 years in their core sleeper fleet and we would again invest in some equipment there to lower the average age for Swift. I think the CapEx numbers, we're still working through that so I hate to give any guidance to that today. There may be some different strategies we, that we take particularly on the Swift side.

I think at Swift historically, they've made some that they've purchased with cash, upped their line of credit. They've done quite a few on capital leases and quite a few on operating leases as well. So we would, we may take a different approach than they have historically which may make that CapEx number look a lot different than what it has historically been. I think we're committed to refreshing the fleet. We're committed to investing in technology into the trucks. We think that's a, we have the balance sheet to

allow us to do so. We think that's part of our strategic advantage and so we'd expect to have maybe some better clarity for the (street) maybe in the coming quarters in terms of what that number may look like.

Kevin Knight: I would just add, you know, basically, all four major OEMs now have made the leap as far as to new chassis, fuel efficiency, safety technologies incorporated into and so really going forward we've got, we've got a lot of good choices and we'll be working, we'll be working through that. But yes, you'll see, you'll see more invested in both the Knight fleet and the Swift fleet in the coming quarters.

Brian Ossenbeck: OK, thanks for taking my question.

Dave Jackson: Thanks, Brian.

Operator: Your next question comes from the line of (Jason Cidal) from Talon. Jason, your line is open.

(Jason Cidal): Thank you operator, and hey, gentlemen, thank you for the time here at the end of the call. I wanted to focus my question more on your brokerage business. I mean you had double digit top line growth, you actually had some descent year over year gains in your gross margin. Can you talk a little bit about what's going on there in the quarter, how much of it might have been related to just a burgeoning spot market and what we should expect going forward in that division?

Dave Jackson: So (Jason), the brokerage business for us has always been predominantly in that non-contract space. So it's been a little bit challenging for top line growth over the last couple of years in the absence of making broad based commitments. And so that business, we've worked very hard now for more than a decade on building a solid portfolio of third-party carrier partners. We feel like we have some things we can offer and some understanding we have by running trucks ourselves that maybe the traditional broker doesn't offer. And so we work hard to develop strong relationships there.

We've invested heavily in technology. On the Knight side there hasn't been a bigger investment in technology than in our brokerage space. And so we're

starting to see some of that we think bear fruits. And so you saw a gross margin, you know, in that over 16, 16.3 percent range which, you know, with our cost per transaction, helps us to be in that low 90's number despite being a relatively small business and not a large as we expect to be someday to spread out some of that overhead costs. So this is a business that we, we expect to grown and we expect to grow it because we expect to do brokerage with all of our customers.

And virtually all of our customers, both on the Knight and the Swift side, find the need and take advantage of the opportunity to use third party brokers to go and work with a very large vast group of carriers. Because oftentimes that can be the optimal way to move a load and oftentimes it's a great way to handle surge freight and seasonal freight.

So, we don't view it is optional or extracurricular, we view it as an important part of the offering that we provide to our customers. And of course, in such an asset-intensive business, we really, we really need some of that high return, high return on invested capital business to help us make the kind of capacity commitments and the capacity investments that our customers really want us to make long term to help them. So, this is something that is well ingrained I would say on the Knight side and I think on the Swift side, it is, it is a huge priority. And I think we have found, we've found a lot of support on the Swift side and maybe Kevin could speak to it a bit more.

Kevin Knight: Yes, I would just say, (Jason) that basically Swift has had, got multiple leaders in that business line over the last seven or eight years. And kind of each one of them had their own ideas that, but nonetheless, that's an area where Swift's never really gained traction. And so, so we now have that business is being led by a former Knight employee that helped us develop and grow our brokerage business here.

And so that's definitely going to be a massive focus for Swift is to, you know, really develop our buying capabilities, develop our carrier relationships, develop our customer relationships as far as having that opportunity to not only provide them capacity that we own but also capacity that we own but also capacity that we source and you know this should be a major area of

growth at Swift. And really not really enough of our Swift customers give us significant opportunities on the brokerage side. And I'm not really sure we've been ready to really receive those.

I mean we, we, you know I don't want to point the finger at our customers. I mean really, at Swift, we have not gotten ready to do the things that we need to do in order to be a serious contender for that business. But, but I believe that, you know, especially if Swift focuses more on the non contract market as well as the contract market, I do believe, (Jason), that that's going to be a really positive area for, for us at Swift, so.

(Jason Cidal): And in terms of the gross margins going forward, should we expect continuing improvement given that you're mostly playing in the spot market and that the market's sort of up into the (rack) right now.

Dave Jackson: Yes, I think, you know that we're in levels that historically we've not been much higher than this. And so, hey we, we, would love to see that but hey, there's an appropriate margin for brokerage and it's in that mid teens we think. We're not going to be overly bullish on that. We want our customers to give us opportunities to provide good value for them, so.

(Jason Cidal): All right. Thank you, gentlemen.

Dave Jackson: Thanks, (Jason).

Operator: The last question from today comes from the line of Ken Hoexter from Bank of America-Merrill Lynch. Ken, your line is open.

Ken Hoexter: Great thanks guys. Good afternoon. Thanks for squeezing my question in. Just, now that you're through the door Kevin, you talked about the synergy potential with Swift. Is there any potential to upsize that, are you hesitant to do that given the, the step back, you know that during the merger period, was it too great to overcome or is there the potential to merge any more of the back operations than what you thought when you stepped through the door. Maybe just give us some insight on, on the synergy side.



Kevin Knight: Yes, so, so really Ken, the, we're not in a position today to up size the synergies but, you know, hey I sure hope we are as we progress through, you know, the process. And as far as merging the operations, there will be no merging of the operations. The operations will remain separate but there are areas that are not customer-facing and that are not driver-facing that, you know, we can gain some synergies from. And, you know, hey one area that just comes to my mind all the time is just technology. I think that, you know, we've got a really good team here at Swift. And as you know we have a good team at Knight. And, and you know, I think we can accomplish more.

We're kind of working on some of the same stuff. And, but you know, as we figure out how to work together, I think we can get all that good stuff done faster and then get even more good stuff done. So, so that's an area that that comes to mind. But you know Ken, overall I'm optimistic.

When I look at the operating numbers on a per-business basis over the last couple of quarters, you know, I, I really feel like we're going to do really well as far as synergies are concerned and we're getting good things done every day and, and you know there's not a day that goes by or a week I should say where something positive doesn't come out of the work that we're doing. I'm optimistic that we're definitely going to hit our, you know, our goals as far as synergies and yes, I hope that, I hope that we can deliver more and, you know that will be our expectation.

Ken Hoexter: Thank you for the answer.

Dave Jackson: Thanks Ken. Then (Giles), that will conclude our call. We appreciate all of you joining and your interest in our company. Take care.

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

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