SWIFT TRANSPORTATION COMPANY

Moderator: Jason Bates
December 9, 2016
10:30 a.m. ET

OPERATOR: This is Conference # 26275169

Operator: Good morning. My name is (Jennifer) and I will be a conference operator today. At this time, I would like to welcome everyone to Swift's Q4 Mid-Quarter conference call. All lines have been placed on mute to prevent any background noise. If you should need assistance during the conference, please press "Star", "Zero" and an operator will come back online to assist you. Thank you. I will now turn the conference over to Mr. Jason Bates, Swift's Vice President of Finance and Investor Relations Officer. Please go ahead, Sir.

Jason Bates: Great. Thank you, (Jennifer). I would like to welcome everyone to Swift Transportation's mid fourth-quarter conference call. We're going to go ahead and start the call today with our forward-looking statement disclosure.

This call contains statements that may constitute forward-looking statements which are based on information currently available. Such forward-looking statements are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are inherently uncertain, are based upon the current beliefs, assumptions and expectations the company management and current market conditions, which are subject to significant risks and uncertainties that set forth in the risk factor section of our most recently filed annual report Form 10-K.

As a result of these and other factors, actual results may differ from those set forth in the forward-looking statements and the prices of the company securities may fluctuate dramatically. The company makes no commitment and disclaims any duty to update or revise any forward-looking statements to reflect future events, new information or changes in these expectations. Reconciling information of our GAAP to non-GAAP measures can be found in the Form 8-K filed today on SEC.gov.

So with that out of the way, I like to recognize the members of Swift's management team on the line today. We have Richard Stocking, our President and Co-Chief Executive Officer; and Ginnie Henkels, our Executive Vice President and Chief Financial Officer.

We will start the call today with an overview of the trends we are seeing in some of our key operational metrics across the various business segment thus far in the fourth quarter. We will then shift gears and share some preliminary thoughts with you regarding our views expectations and general outlook for 2017. But before I turn the call over to Ginnie and Richard, we wanted to touch on one other item. Since we haven't had any chance to speak with all of you since our third-quarter Q&A call on October 25, we wanted to ensure everyone was aware of the 8-K/A which we filed on November 1st which contains the revised letter to stockholders for the third quarter 2016. This filing was a result of new unfavorable information regarding certain litigation which we received subsequent to the issuance of our original letter to stockholders of prior to the filing of our 10-Q. As a result of the two letters, we have seen some conflicting reports with regards to our year-to-date earnings. To be clear, as outlined in the revised letter to stockholders and as outlined in our 10-Q, our GAAP diluted EPS for the nine months ended September 30 was $0.73 cents and our adjusted EPS for that same period was $0.82 cents. With that clarification, I will go ahead and turn the call over to Richard.

Richard Stocking: All right. Thank you, Jason. Regarding the fourth quarter, let's go ahead and start by discussing some of the trends we're experiencing in the **Truckload Segment:**

We're seeing moderate pickup in the fourth quarter volumes through November as shipper volumes definitely have increased during this peak season. Volumes have increased throughout the quarter through Thanksgiving and have remained strong thus far into December. In some instances, we are experiencing an increase in tractor repositioning as shippers have not been able to find enough capacity in certain markets. We are encouraged by these trends and are focused on finishing this year strong. The volume trends combined with our efforts to right size the fleet throughout the year have resulted in a year-over-year utilization improvement. Our quarter-to-date loaded miles per truck per week through November has increased by 0.8 percent in our truckload segment compared to the same period last year and 1.6 percent sequentially when compared to the third quarter of this year. As expected, our average truckload fleet is down approximately 250 trucks sequentially and approximately 450 trucks year-over-year.

Despite the increase in volumes due to seasonal trends, the pricing environment remains challenging as our quarter-to-date fourth-quarter contract pricing is down roughly 1 percent year-over-year. The combination of this contract pricing trend in the year-over-year pressure we've seen in the spot market results in our overall truckload revenue, excluding fuel surcharge per loaded mile, to be down approximately 2.5 percent quarter to date.

Moving into our **Dedicated Segment**:

We continue to find opportunities to grow with our existing customer base as our current quarter-to-date average operational truck count has increased roughly 100 trucks over the third quarter 2016 average, which is a combination of true growth and support of seasonal surge throughout – or through a temporary transfer of trucks from truckload to dedicated. Approximately 40 to 50 trucks of this growth is non-seasonal business and is expected to remain after the peak season subsides. In addition to this growth, our productivity and pricing continues to improve over prior year as our quarter-to-date dedicated weekly revenue, excluding fuel surcharge per tractor, has increased roughly 6.2 percent when compared to the same period last year.

Next, we will talk about our **Swift Refrigerated Segment:**

The refrigerated freight market remains moderately soft. However, some regions have started to tighten over the last few weeks. Therefore, we believe our revenue excluding fuel per loaded mile within this segment has somewhat levelled out when compared sequentially to the third quarter of 2016. On a year-over-year basis, we reconfirm our expectations for this metric to be down roughly 3 percent to 4 percent in the fourth quarter. We continue to implement countermeasures to increase the fleet's efficiency to offset this pricing pressure. As a result, quarter-to-date loaded miles per tractor per week through November in the Swift refrigerated segment has increased 6.9 percent when compared to the same period last year. We anticipate average operational truck count in the fourth quarter for the Swift refrigerated segment to be relatively flat when compared to the third quarter of this year.

And finally, our **Intermodal Segment:**

Intermodal load counts continued to show signs of strengthening this quarter as our quarter-to-date container on flatcar load counts have increased and are now in line with the COC volumes we've experienced during the same of last year. We are pleased with this growth and feel they represent our collective efforts to grow strategically with a strong customer base. However, we are currently projecting fourth quarter total loads to be down roughly 2 percent to 3 percent year-over-year caused by the previous discontinuation of our trade on flatcar service offering. As it relates to pricing, we have experienced additional pressure this quarter causing our two – our quarter-to-date revenue excluding fuel surcharge per loaded metric to be down roughly 1 percent year-over-year. Although we are not pleased with this trend, we feel it's safe to say that in regards to pricing, we have outperformed the market as a whole and feel this decrease would have been much greater if not for the many countermeasures and disciplined approach that we have implemented throughout this year. We continue to feel confident our improved strategy and leaner cost infrastructure will help our profitability in the future.

Ginnie Henkels: Overall, although we are encouraged by some of the operational trends we are achieving, we are experiencing some challenges in the used truck market which continues to be weak. We previously expected the gains on the disposal of property and equipment to be approximately $3-$4 million in the fourth quarter. So we are now only expecting roughly $1 million of gain for the quarter. In addition, in terms of claims, expense remains high and fuel prices have increased 10 cents thus far in the quarter. Based on all of these trends, we expect to be in the lower half of our guidance ranges for the year which were $1.09 to $1.19 for GAAP diluted EPS and $1.20 to $1.30 for adjusted EPS.

Richard Stocking: As we alluded on our third-quarter earnings call, we want to take this opportunity to provide some initial thoughts on 2017. As many of you are aware, 2017 has the potential to be a very, very exciting year for large well-capitalized strategically positioned compliant carriers. As the clock winds down next year towards the deadline for EOB implementation and potentially speed limiters as well, we are likely to experience a meaningful capacity contraction which we believe we'll have a positive impact on the rate environment for carriers. We have heard commentary that some shippers are expecting to see rate increases in the mid to upper single digits in the back half of the year.

Furthermore, for those of us in the industry who are already EOB compliant, we are hoping to see shippers redirect freight volumes our way which should also assist us in driving utilization improvements. Although we are already seeing preliminary signs of this phenomenon taking place, it is likely to meaningfully manifest itself in the back half of the next year. It is possible these effects are felt earlier in the year, potentially as early as the second quarter. However, this time, we don't have a clear enough visibility to make assumptions on what this will mean to our overall volumes and pricing.

Ginnie Henkels: So given the unknown potential positive impacts, these two meaningful tailwinds are likely to have in our earning. We found it difficult to provide full year 2017 earnings range that would be a value to you, the investment community at this time. However, we do recognize the importance of providing you with as much visibility as we can to assist you in accurately modelling the potential opportunity that are exist – that exist for our company.

As such for the time being, we've elected to provide more near-term guidance given the higher probability of properly assessing the near-term environment. We will provide further updates to the current and future periods as we continue to move throughout the year and as visibility improves.

Now that we have spent some time discussing the likely tailwinds for 2017, we want to reiterate what we have previously stated with regards to some of the headwinds that will be present, none of which should be new information to you. As we discussed on our third-quarter earnings call, given the difficult used truck market, we elected to reduce the residual value on a certain group of trucks in August which increase our depreciation expense by approximately $1.8 million per month. Therefore, this will be a year-over-year earnings headwind for the first seven months of 2017. In addition to this depreciation change, we have also said that we do not expect our gains on sale of equipment to be at the same level in 2017. For full year 2016, we are anticipating to finish the year with approximately $18 million in gains with the majority of that occurring in the first half of 2016. Next year, we are estimating $3 million to $5 million in gains for the entire year. Another item we have repeatedly referenced is the favorable tax rate we have experienced this year which could represent a headwind in 2017. Or depending on what Trump and the new administration does with the corporate tax rate, it could be a benefit to us. But for now, we are assuming an effective tax rate for 2017 of 36 percent to 37 percent. As a reminder, we realized a 29.8 percent, 34.4 percent and 30 percent effective tax rate in the first, second and third quarters of 2016 respectively and we expect the fourth quarter of 2016 to be in the low 30s as well. And finally, as we have discussed previously, as a result of the difficult 2016 market environment, our average revenue per loaded mile excluding first fuel surcharge revenue decreased throughout the year until we realized some of the seasonal surge pricing in the fourth quarter. This will impact our rates in earnings on a year-over-year basis, particularly in the first half of the year until these contracts lapse.

So as you can see, while we remain excited about the many tailwinds in our industry and the Swift specific opportunities to grow revenue and improve utilization while continuing to reduce costs in certain areas, we also recognize the various headwinds specifically those in the early part of 2017 that will exist. Given these trends, we are currently anticipating our first quarter 2017 GAAP diluted EPS to be in the range of 11 cents to 16 cents per share and adjusted EPS to be in the range of 13 cents to 18 cents. For the second quarter, we expect our GAAP diluted EPS to be in the range of 23 cents to 28 cents and adjusted EPS to be in the range of 25 cents to 30 cents. Our intent is to provide updates to the earnings throughout the year as visibility continues to improve. It is possible that the various tailwinds we discussed previously for 2017 begin to manifest themselves earlier in the year. But given the high degree of uncertainty at this time, we felt the prudent to plan for what we now see and update or revise accordingly as the year-end folds.

With regard to capital expenditures for 2017, given the environment I just described, we are going to keep our capital expenditure plans as flexible as possible for 2017. As we discussed on the third-quarter conference call, a normal year of maintenance net cash CapEx is in the range of $250 million to $300 million. We have the ability to flex this up or down depending on the environment. We do have certain dedicated opportunities in the pipeline and if we are successful in some of these bids, we could flex our CapEx beyond the maintenance range. Also depending on the market environment and how this season plays out early in the year, we may have the opportunity to gain share in other areas as well. Our first priority is to grow by adding volume to our existing fleet. But given certain circumstances, we may add equipment to facilitate profitable growth that will generate commensurate returns.

Richard Stocking: So we are very excited about the potential opportunities that exist in 2017 both for the industry as a whole, as well as for Swift specifically. And we appreciate each of you and your continued support of Swift and we wish you all an enjoyable holiday season and look forward to connecting with you in the New Year. Thank you.

Operator: Thank you. Ladies and gentleman, this does conclude today’s conference call. You may now disconnect.

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