

SWIFT TRANSPORTATION COMPANY

Moderator: Jason Bates
January 27, 2017
10:30 a.m. ET

Operator: This is conference # 49094961

Operator: Good morning. My name is Stephanie and I will be your conference operator today. At this time, I would like to welcome everyone to Swift's Q4 and year-end 2016 earnings conference call.

All lines have been placed on mute to prevent any background noise. If you should need assistance during the call, please press "star" then "zero" and an operator will come back on line to assist you. Thank you.

I would now like to turn the call over to Jason Bates, Vice President of Finance and Investor Relations Officer. Please go ahead Sir.

Jason Bates: Great. Thank you, Stephanie. We would like to welcome everyone out to Swift Transportation's fourth-quarter 2016 Q&A session.

As a reminder, we have posted a comprehensive letter to stockholders, which summarizes our results, on the front page of our investor relations website.

So we will start 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 of company management and current market conditions, which are subject to significant risks and uncertainties as 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 these forward looking statements. And the prices of the Company's 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.

Reconciliations of our GAAP to Non-GAAP measures can be found in the letter to stockholders posted on our IR website.

So with that out of the way I'd like to recognize the members of Swift's management team on the line today. We have Richard Stocking, our President and Chief Executive Officer. And Ginnie Henkels, our Executive Vice President Chief Financial Officer. Again, my name is Jason Bates, First Vice President of Finance and Investor Relations Officer, and I will be moderating today's Q&A session.

We appreciate all the questions that were submitted prior to the deadline last night. As in quarters past, we have strived to streamline the Q&A process by addressing key themes and categories rather than answering every single question was submitted. We have attempted to address each of the more prevalent topics.

However, if you have any follow-up questions, feel free to reach out to me after the call. With that, we will start today's call with some questions on each of the operating segments, and then we will wrap it up with a variety of CapEx, fleet, debt, and guidance related questions.

Jason Bates: Starting with the truckload segment, management indicated that truckload yield, revenue per loaded mile, ex fuel improved sequentially due to contract pricing and a lesser mix of trucks in the spot market. Roughly how much was attributable to contract rates versus shifting trucks away from the spot market during the fourth quarter of 2016?

Richard Stocking: Thank you, Jason, and good morning everyone. Our truckload spot exposure for the fourth quarter decreased to sub three percent levels for the entire quarter, which was the lowest level all year. But please keep in mind we had periods this year where we were north of six percent. Additionally, the rate per loaded mile, while still negative on a year over year basis, was the best we have seen from the market all year. It actually turned positive in December for the first time this year.

Jason Bates: How long will it take to recover the 2.3 percent reduction in truckload revenue per loaded mile lost between the fourth quarter of '15 in the fourth quarter of '16? Would you expect the first quarter of '17 revenue per loaded mile decline on a year-over-year basis to be better or worse than the 2.3 percent decline reported for the fourth quarter of '16?

Richard Stocking: We should have the reduction in the rate per mile loss between fourth quarter 2015 and fourth quarter 2016 recovered going into the third quarter of this year. We expect the first quarter of 2017 year-over-year decline to be lower than fourth quarter 2015 to fourth quarter 2016 decline.

Jason Bates: Can management talk to truckload contract pricing during the fourth quarter of 2016? Did Swift see sequential improvement in their truckload contract rate negotiations during the quarter? When compared to the third quarter 2016 when contract pricing was down one percent to 1.5 percent earlier in the quarter? What are management's expectations for contract pricing through bid season this year?

Richard Stocking: Our contract rates actually followed a similar trend to the spot rates we just discussed. While still negative on an absolute basis (given the carry forward of rates locked in earlier in 2016) they improved sequentially and built each month throughout the fourth quarter. That trend has carried forward into the early part of 2017. So we're cautiously optimistic about the trends we are seeing. And we will continue to monitor incoming bids very closely. In short, the rate environment is not yet where we would like it to be, but it is getting better.

Jason Bates: What quarter will reported revenue per loaded mile, ex fuel turn positive?

Richard Stocking: It is obviously tough to know for certain. But based on what we know today, we believe that by the third quarter of 2017 our year-over-year reported revenue per loaded mile excluding fuel surcharge revenue should turn positive. Keep in mind, as I mentioned previously, we have some challenging comps from the first part of last year to lapse, as rates did not begin to move downward until late spring time in 2016. This is our expectation at this point, however, depending on how the year develops, it could be sooner than Q3.

Jason Bates: Have customers' behaviors changed towards the approach to bid season due to ELDs, i.e., are they more eager to bid freight early? Are they more receptive to increases in rate in 2017?

Richard Stocking: In short, yes. Some have started the season early. More in anticipation of a tightening market dynamics including possible ELD impacts. We have seen more questions on ELDs in recent bids. However, a few bids are excluding noncompliant carriers at this point. ELDs are in the award discussion process, we believe it's having some impact on increases. We expect this to escalate more as we move throughout the year.

Jason Bates: Can you talk about pricing and volume trends for each business line thus far in 2017?

Richard Stocking: Although we have only had 26 days and only 19 business days in 2017 thus far, the year-over-year trends have been very encouraging. As previously discussed, we are encouraged by the direction pricing conversations are developing in each of our reportable segments. We've also generated year-

over-year utilization increases in each of our four reportable segments, truckload, dedicated, Swift Refrigerated, and intermodal, thus far in the quarter, in spite of some very difficult across the country weather year to date. We've also seen a year-over-year dead head improvements in all three of our trucking segment so it's safe to say that the combination of these various data points leave us feeling cautiously optimistic about 2017 at this juncture. We plan to provide a more detailed update in our mid-first quarter call in early March, consistent with quarters past.

Jason Bates: Why did utilization loaded miles per tractor take a step back sequentially in the fourth quarter? Presumably the market tightened around the peak season. Any concerns of returning to negative utilization similar to what we saw in 2015 and early 2016?

Richard Stocking: Freight in the third quarter of 2015 was weak, while at the same time we were adding trucks. We started reducing trucks in the second quarter of 2016. Freight was stronger in the third quarter of 2016 versus the third quarter of 2015 and coupled with right sizing of the fleet, contributed to solid gains in utilization for the third quarter of 2016 versus third quarter 2015. The market did tighten around the peak season in the fourth quarter of 2016, but freight was not measurably stronger than Q4 2015 and utilization gains was impacted more by fleet right sizing and network process improvements.

We believe the negative utilization trend we experienced during 2015 and the first part of 2016, during which we had an ill timed fleet growth, is largely behind us and we're excited about the opportunity for the leadership team to continue to assist the entire organization at catching the vision and pushing asset utilization to new heights.

Jason Bates: How will your transborder business to and from Mexico perform if President Trump implements a 20 percent import border tax at the Mexican border (to pay for the wall) for all northbound imports?

Ginnie Henkels: Right now this is still a big "if". Even if it does come to fruition, the specific impacts are currently difficult to quantify. From our perspective, it's simply too early and very speculative to quantify the potential impact. Having said that, the US importers have been benefiting, and will continue to benefit, from the US dollar, Mexican peso exchange rate would will continue to help offset potential tax.

We have seen the peso lose ground to the dollar by more than 20 percent in the last couple of years. So while a potential 20 percent tax would likely have an impact, in talking with our customer, the consensus seems to be that it is still too early to tell. And, as all the news reports are discussing this morning, having the US consumer pay for the wall with an import tax doesn't actually meet Trump's objectives.

Jason Bates: Given increasing rhetoric, can you please provide us with an update on what percent of Swift's business is tied to Mexico and what key verticals are served?

Ginnie Henkels: While we don't provide the exact figures, we have discussed in the past that we do roughly \$100 million of business within Mexico. And approximately \$200 million more on the US side of those loads. This business serves a variety of verticals including manufacturing, retail, appliance, produce, automotive, and consumer products to name a few.

Jason Bates: What percentage of the Company's revenue is from intra-Canada and cross-border Canada freight? If you could break it down by segment that would be helpful, too.

Ginnie Henkels: Again, while we don't provide the exact figures, this is a very nominal amount.

Jason Bates: Are you making any progress in implementing a relay system in the West that would allow for two turns per day on a day cab equipped tractor? What is been the drivers' reaction to the slip seating and the improvement and home life predictability?

Richard Stocking: We call it Swift Express. And although it is still in its early stages of its life cycle, the business grew close to 100 percent in 2016. Not just in the West but across the country. We've expanded the network by adding 11 new lanes, and now nearly span coast-to-coast. We have also experienced very favorable improvements in metrics, including a reduction in crashes, an increase in service, and an increase in loaded miles per truck per week. And while we don't disclose the specific number, we've seen a significant improvement in driver retention, well below best in class industry figures and have also experienced very positive driver feedback on the program.

Jason Bates: Thinking big picture, what inning are we in on long-term utilization gains? How long and how far can it go?

Richard Stocking: I would say we're in the third inning of an extra inning game. We believe we have tremendous opportunity to improve utilization. But it requires us to think and act differently. And utilize the strength of our network in ways we haven't done before.

We're excited by the success and progress we have been able to achieve thus far. But are continuing to implement and refine initiatives to drive further improvements. Some of these items require structural changes that will take some time. Others are concepts we can implement more quickly, which is why I believe we're in the early innings. We are continuing to implement

initiatives such as: the expansion of Swift Express, engineering our network balance, which helps as we load our trucks where they land, and seek more year-round shippers, our process improvements, which include improved trailer availability, higher pre-planned acceptance, et cetera. And then also increasing backhaul opportunities we have within our network.

Jason Bates: Where are customer inventories at this point? And do you see further destocking headwinds in 2017?

Richard Stocking: We are getting varying opinions from our customers on current inventories. Based on consensus feedback, we do not anticipate seeing further destocking headwinds this year.

Jason Bates: How should we think about the truckload fleet in 2017? Is there potential for further reductions in Swift's truck count? Does the fleet remain flat from current levels? Additional color on the fleet would be helpful for modeling purposes.

Ginnie Henkels: It is a difficult question to answer given the many "unknowns" for 2017 right now. As we discussed on the mid fourth quarter conference call, we have the ability to flex our fleet count 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 truck count up. Also, depending on the market environment and how bid 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.

Jason Bates: Typically we see a large step up in operating income from 3Q to 4Q. This year it was relatively flat. Is this a utilization rate issue or a cost issue given comments on casualty costs?

Ginnie Henkels: The pressure on the sequential operating income change was a combination of various items, as previously discussed. While insurance was an obvious sequential headwind when comparing Q3 and Q4 of 2016, to prior year's Q3 and Q4 trends, there were other contributing factors such as declining gains on sales, rising fuel costs, increasing depreciation and difficult comps in terms of pricing as well as utilization.

Jason Bates: So we will move into the dedicated segment now. Has the looseness in industry-wide supply and demand slowed the pace of dedicated bids?

Richard Stocking: The excess industry capacity in 2016 did slow the dedicated pipeline in the first half of 2016, however, we used this lull to improve our operating metrics, which ultimately improved our operating margin. We're confident we now

have a much more improved platform to add growth, too, in 2017. Since then, we've experienced an increase in our number of customer inquiries as their concerns regarding tightening capacity have grown. We are currently in discussions with several customers regarding dedicated fleet solutions. And if those deals materialize, they will have implementation dates in the second and third quarters of this year.

Jason Bates: Does management anticipate growing the dedicated fleet during 2017?

Richard Stocking: Yes. As we just mentioned, we expect our dedicated fleet to have growth in 2017.

Jason Bates: You previously mentioned plans to add 20 to 30 trucks in the fourth quarter, yet only added seven. What shifted during the quarter? Did you add and eliminate or just slow net-adds?

Ginnie Henkels: Our previously disclosed expectation of 20 to 30 truck count growth was based on a sequential comparison to the third quarter. And excluded the seasonal surge support units we planned on "borrowing" from truckload. The 86 truck count growth from the third quarter includes this 20 to 30 truck count addition.

Jason Bates: Similar to truckload, operating income was really hit. And same for operating ratio. What were the factors here? Same casualty issue? The rest of the statistics appear to be in line to really just an income issue for us.

Ginnie Henkels: As we mentioned in a letter to stockholders, our dedicated operating income was negatively impacted by increases in insurance and claims expense, fuel prices, depreciation expense, along with lower gains on sale of equipment.

Jason Bates: As management noted in its letter, the dedicated segment has now sequentially improved weekly revenue per tractor per quarter for five quarters in a row. Can management comment on the sustainability of this trend? And discuss some of the characteristics of the underperforming accounts being culled?

Richard Stocking: We are extremely proud of our team's ability to produce these sustained results. And remain confident that they can and will continue throughout 2017. As it relates to culling of underperforming accounts, in very simplistic terms, this culling begins by addressing any variances of our key operating metrics to contract terms, and/or internal pricing platforms. Once these variances is identified, appropriate countermeasures are implemented, including operational modifications, cost control initiatives, and customer renegotiations.

Jason Bates: So we will move to the intermodal segment. Intermodal volume declined 4.1 percent year-over-year during the fourth quarter of 2016. Which outpaced

management's expectation range of down 2 percent to 3 percent. What drove downside versus prior expectations? Was it a function of market weakness during December, increased competition, and or any other factors?

Richard Stocking: This decrease was primarily driven by weaker than expected market conditions in December, which have also caused of the first half of January's volumes to be somewhat pressured. We are pleased, however, that intermodal volumes have shown signs of strengthening over the last few weeks and feel that several retailers will see further volume improvements as we enter into February. Additionally, the early Chinese New Year should add incremental strength to late January and early February numbers.

Jason Bates: Can management provide some color on the potential for intermodal volume growth during 2017?

Richard Stocking: As we previously discussed, we remain optimistic the truckload market will improve as 2017 progresses which, we believe, will also help improve the strength of the intermodal marketplace as the combination of reduced truck count, the impact of ELDs, potential driver shortages, and the potential for increased demand will tighten intermodal capacity. We believe this tightening, along with our approved operational and cost metrics, will allow us to reestablish load volume growth on a year over year basis, starting in this first quarter.

Jason Bates: What market conditions or internal improvements are needed to improve intermodal margins sustainability?

Richard Stocking: From an internal perspective, we believe we currently have a strong intermodal foundation to deliver sustainable profitability. Our rail costs are competitive, and reflective of current market conditions and our dray costs have improved to the most efficient levels ever produced at Swift, as we have focused on increasing tractor utilization, minimizing third party dray spend and establishing operating points near the ramp. These items, along with the refined strategic chassis and container stacking programs, have driven cost out of our systems and have allowed us to be more price competitive. We believe this foundation, along with the likely improvements in the macro intermodal market expected in 2017, will support our intermodal division to successfully improve and deliver profitable results in 2017.

Jason Bates: Can you talk more about the extremely aggressive intermodal pricing you mentioned? Is it one IMC that is causing this pressure or more? Is the pressure in specific lanes or with certain rails or is it broad-based?

Richard Stocking: The majority of this aggressive pricing is caused by competition out of the Southern California market.

Jason Bates: What percentage of your customers use both your intermodal services and another service? Do customers come to you specifically for your intermodal capabilities? Or does it typically come from cross selling?

Richard Stocking: The vast majority of our intermodal customers use other Swift services also; as a typical customer is attracted to Swift for not only our traditional trucking capabilities, but also our ability to service all of their supply chain needs.

Jason Bates: You mentioned cost focus several times given intensifying pricing competition and O.R. was sub-99. What did you focus on and where can you continue to drive that to?

Ginnie Henkels: Our operational focus remains on filling our container fleet with profitably priced freight, while achieving two turns per container per month on average. We feel this objective is reasonable in 2017 if we continue to deliver strong service results to our customers, maintain our lane cost structure, and market conditions improve.

Jason Bates: Given JB Hunt's strong sustainable scale and cost advantages in intermodal, would you consider selling the intermodal business or exiting this line of business all together?

Richard Stocking: Similar to what we reiterated on prior calls, we believe intermodal can offer long-term value to both Swift's customers and shareholders. Many of our current customers value a true asset based multimodal transportation solution, of which, Swift is only one of a few companies that can truly offer this value to their customers. That being said, intermodal, like every other business at Swift, must cover its cost of capital and earn its right to spend and grow. If we feel the intermodal division is not likely to attain this objective, we will evaluate all options available to Swift.

Jason Bates: So that moves us to the Swift Refrigerated segment. Has there been a fundamental shift in the temperature controlled sector that makes it less desirable than in the past? Or are you still confident that this business can consistently post O.R.s in the high 80s, low 90s?

Richard Stocking: The refrigerated market was especially soft throughout 2016, which caused us to decrease our fleet size and focus on increasing our asset utilization. We were successful in this endeavor as our full year 2016 weekly loaded miles per truck increased roughly 6.8 percent, compared to full year 2015. We remain confident that as ELD enforcement draws near, the refrigerated market will experience even greater tightening than the truckload market, due to some of the characteristics inherent within the reefer business. This tightening, along with improved operational efficiencies, leave us confident that over time we can drive the operating ratio in the direction of the low 90s within this segment.

- Jason Bates: Management's thoughts on the refrigerator fleet size during 2017?
- Ginnie Henkels: We anticipate our Swift Refrigerated fleet size to grow slightly in 2017 as we have recently been awarded new dedicated business from both existing as well as new customers. Furthermore, as capacity tightens and customers move toward ELD compliant carriers, we believe we will obtain additional awards possibly requiring additional units. We will continue to utilize our current fleet to the best of our ability and add additional assets only where needed.
- Jason Bates: Refrigerated saw sequential improvement in its revenue per mile. Can management talk to how much of this was spot market driven, mix, versus sequential improvement in contract rates? Also, what are management expectations for contract rates in refrigerated market for 2017?
- Richard Stocking: With regards to our Swift Refrigerated segment, our participation in the spot market has been minimal. Our operations and sales teams have worked hard to refine and engineer our network, resulting in improved rates. We were able to secure direct customer freight at higher rates throughout the fourth quarter, as customers prepare for the anticipated impact of the ELD mandate. As it relates to 2017, we expect this trend to continue as we anticipate revenues, excluding fuel, per loaded mile to be built throughout the year and show year over year increases each quarter.
- Jason Bates: It seems like larger removal of fleet, but prior restructuring issues were supposed to have passed. What is driving this, just a lack of reefer demand? Overcapacity? The yields stats that seem to be fairly in line or stronger than target so presumably removal of fleet was to protect that rate?
- Ginnie Henkels: We adjusted our fleet size based on freight levels and driver of availability to ensure we achieved our desired asset utilization level.
- Jason Bates: The West Coast produce season and is expected to be good. Do you think it can move the needle for reefer or truckload?
- Richard Stocking: Our freight commitments to the produce market are expected to help improve margins this year. As we anticipated year over year increases in load count, as well as a more predictive season. This can also lead to non-produce opportunities in select markets, as capacity will likely follow the produce harvest.
- Jason Bates: So we will move into a variety questions around debt, CapEx and cash flow. Management has previously indicated that maintenance CapEx for a normal year is in the range of \$250 million to \$300 million. Does management anticipate this year will be normal, i.e., is it more likely that gross CapEx hits this range? Or does this all depend on the operating environment? Is there a

certain number of trucks that Swift must refresh this year in order to keep the fleet up to its minimum standards -- thinking about driver recruitment and operating expenses? If so, what are the CapEx associated with the refresh and does it differ meaningfully from the maintenance CapEx number of \$250 million to \$300 million?

Ginnie Henkels: Our net cash capital expenditures is definitely dependent on the environment. If we do not have any growth in the fleet, then we should be in the \$250 million to \$300 million range. If we win some of the dedicated opportunities that are in the pipeline and the market begins to tighten later in the year as the ELD mandate approaches, then we could trend higher than this. Again, it all depends on the environment and we will react accordingly.

Jason Bates: What remains in Swift's current share repurchase authorization? And how should we think about cash being potentially deployed through repurchases this year?

Ginnie Henkels: \$63 million of the \$150 million authorization remains. Capital allocation and free cash flow will be discussed at the February Board meeting and we will provide more information on our mid-quarter call in March.

Jason Bates: What was the EPS accretion or cash flow benefit of paying down the term loan?

Ginnie Henkels: The debt reduction in the fourth quarter was \$47.3 million. And an additional term loan prepayment was made in January of \$22.5 million. So, this combined reduction of approximately \$70 million will reduce our interest expense by roughly \$1.6 million or just under \$0.01 per share.

Jason Bates: How much did the discrete tax item benefit EPS in the fourth quarter?

Ginnie Henkels: The discrete tax benefit in the fourth quarter was approximately \$0.04 of EPS.

Jason Bates: Is the corporate tax reform is passed under the current House GOP plan, how would Swift be impacted both financially and strategically?

Ginnie Henkels: The House GOP plan calls for a reduction in the corporate income tax rate from 35 percent to 20 percent, which would not only reduce our current tax expense, but also our deferred tax liability. It also allows businesses to fully and immediately expense the cost of investments' intangible properties, such as equipment and buildings and intangible assets, such as intellectual property but not land. All of which would be positive for Swift. On the flip side, the House plan only allows businesses to deduct interest expense against interest income, with any net interest expense not being deductible being carried forward indefinitely to use against future interest income. It would also eliminate various special interest deductions and credits that are designed to

encourage particular business activities, such as domestic production activities deductions and WOTC credits which are helping to lower our effective tax rate today. All in, it is difficult yet to quantify the net impact, but strategically the proposed changes could impact how we acquire equipment and think about debt.

- Jason Bates: What tax rate can we expect for 2017? Assuming we don't see any Trump-related policy changes.
- Ginnie Henkels: We're expecting our estimated effective tax rate to be in the range of 36 percent to 37 percent.
- Jason Bates: Do you have plans to pay down any further debt this year?
- Ginnie Henkels: As I mentioned, this will be discussed at the next board meeting.
- Jason Bates: Buyback tailed off. Is that your view of the stock price at these levels versus choosing to pay down more debt? Why prepay so far in advance at these interest levels?
- Ginnie Henkels: The buyback tailed off in the fourth quarter, as expected, given the board's mandate to keep our leverage ratio under two times. Given increased capital expenditures in the fourth quarter, and EBITDA levels, cash was used primarily for debt reduction to keep the leverage ratio in line.
- Jason Bates: Given your lower debt to EBITDA levels, anything else you would want to refinance to lock in rates?
- Ginnie Henkels: We're always looking ahead to our next step in the evolution of our capital structure. We believe we are close to having additional opportunities to refinance. And will continue to evaluate as we move forward.
- Jason Bates: So there are a variety of miscellaneous questions we will jump into now. Specifically, there were several questions about insurance. Insurance and claims expense remained elevated during the fourth quarter of 2016 at five percent of revenue. Can management provide some color on how we should think about insurance and claims expense during 2017? Does it moderate back to four percent -- 3.8 percent on average -- from 2013 to 2015? Or are management's expectations that could trend higher than four percent this year?
- Ginnie Henkels: This is a good question and one that I think is best answer by first clarifying the makeup of expenses included in our insurance claims expense line item on our P&L which may be different from some of our peers. And I will warn that this explanation is long, but I think is worthy. So first, as we have discussed historically, we have a captive insurance company that underwrites certain third-party risks, primarily related to owner operators. We receive

premium revenue for the policies we write and this business is profitable for us. On a consolidated basis, the premium revenue is included in other revenue and expenses associated with the covered losses are included in insurance and claims expense. Since the overall premium revenues are small compared to the total revenue of the Company, this distorts our insurance and claims expense as a percentage of revenue in a negative way. Second, when one of our tractors or trailers are damaged in an accident, we include the cost to fix the equipment in insurance and claims expense, regardless of whether it is fixed internally by one of our shops or by a third-party shop. Instead of classifying this as maintenance expense. We also had an increase in our internal labor rates this year causing a shift of cost for maintenance expense to insurance and claims expense, associated with internal labor required to repair our equipment. To put this into perspective, if we removed the premium revenue from revenue excluding fuel surcharge, and remove the claims cost of a captive and the repair cost of our equipment from the insurance and claims expense line as a percentage of revenue excluding fuel, our insurance and claims expense was 3.9 percent in 2016 compared to 3.7 percent in 2015 and 3.5 percent in 2014. So yes, it is still an increase but not as dramatic as it appears on the surface.

So with that as a baseline, let's discuss the trends we're experiencing and our expectations. As we discussed in the letter, our total crashes were down roughly 5 percent year-over-year but we've seen an increase in the average cost per claim, which includes incurred but not reported actuarial developed reserves. This is based on what we hope to be an abnormal year, with regard to the number of severe crashes experienced in 2016, as well as trends we and the industry are experiencing with the litigious nature of society and increased medical costs. Another item that impacted us in 2016 is related to the rollout of certain safety technology that we believe caused an increase in our driver turnover. We have empirical data that shows that less tenured drivers are more likely to have more severe accidents. As we have worked through this implementation we expect our turnover to improve, which should mitigate some of these trends. We do know that the technology is working, though, as it has exonerated us from certain incidents where without it we would likely have some liability.

With all of that said, our expectation is that our insurance and claims expense should trend lower in 2017.

Jason Bates: Your insurance trends are getting worse despite investments in safety enhancing technology. What seems to be the problem and what further actions are being taken?

Ginnie Henkels: I explained some of this in the last question, but in addition, we are taking other actions. First, the trucks acquired in 2017 will have further safety

enhancements and the event recorders will be fully deployed for the entire year. In addition, we have recently concluded a complete audit of our claims handling process and have a new VP of Claims starting next week. We believe there are process improvements that can be quickly implemented to enable us to better manage small to medium-size claims. And last but not least, our operations have several safety initiatives underway to help prevent claims and crashes from occurring in the first place, which is our ultimate goal.

Jason Bates: Was the year-over-year increase in insurance claims expense a function of an increase in accident frequency, accident severity, and/or an increase in the cost of insurance premiums for excess liability coverage?

Ginnie Henkels: This too has been addressed in the previous questions, but to clarify our premium expense, we are self insured up to \$10 million per occurrence. Therefore, our premium expense as a percentage of our total insurance and claims expense is very small, less than two percent. We also have not had a significant increase in our premiums, which is why this is not highlighted as one of the causes of the increase.

Jason Bates: Will you accelerate steps to in-source insurance over \$10 million? Given what is happening to your insurance costs and your growing penetration of ADAS technology?

Ginnie Henkels: No. This is not something we're currently considering.

Jason Bates: Has the used truck market firmed up at all? When can we expect the gain on sales of used equipment to start climbing sequentially quarter over quarter?

Ginnie Henkels: We are expecting gain on sales to be in the range of \$1 million to \$2 million in the first quarter and do not expect any sequential improvement throughout the year. Given the current state of the market and the expected impact of the ELD mandate on capacity, at this point we expect 2018 to remain soft as well.

Jason Bates: If infrastructure spending and energy exploration and development perk up over the near term, will we see a major tightening in the driver market? How would you plan to cope with drivers who might leave to join the construction or energy businesses?

Richard Stocking: The answer is yes. Any time this country prospered economically, we see a decline in those interested in a driving career. Our industry is at a crossroads. In order for the trucking industry to move America, we must address wages, benefits, and work life balance. We're actively working on these items within our control. That our size uniquely provides to improve pay and balance by driving utilization.

- Jason Bates: Continuing EBIT results in non-reportable segments during the fourth quarter 2016 were better than management's previous expectations, for an operating loss of \$3 million to \$4 million. What contributed to the upside during the quarter?
- Ginnie Henkels: This was primarily driven by an increase in some of the fourth quarter project business.
- Jason Bates: Given the numerous pieces in the non-reportable segment, can management provide what is embedded in the non-reportable segment for the first and second quarter?
- Ginnie Henkels: We are expecting to have operating losses of \$8 million to \$10 million per quarter in the other non-reportable segment in Q1 and Q2. These losses are primarily driven by the amortization of intangibles and certain other unallocated corporate expenses and higher equipment cost in our leasing subsidiary.
- Jason Bates: Will you seek to continue to expand brokerage in this market?
- Richard Stocking: Yes. We will continue to look for opportunities to expand our brokerage business. We are launching a series of initiatives in an effort to tap into new revenue streams.
- Jason Bates: Curious if Swift has any view on how the change in administration, including the Transportation Secretary, and the President's forward focus on reducing regulations might impact the ELD implementation?
- Richard Stocking: Based on everything that we are hearing and seeing, we do not expect there to be any impact on the ELD implementation.
- Jason Bates: A judge overturned a penalty on Wal-Mart that assessed back wages for break time, maintenance, et cetera, in California. Any impact for Swift?
- Ginnie Henkels: It is our understanding that the judge did not overturn a penalty but instead stated that she is not inclined to award the plaintiff significant penalties. But this decision will not have any direct bearing on Swift.
- Jason Bates: Given the recent judgment against you by a federal judge, how do we think about the risks associated with the contractual agreements with your owner operators? Is an industry-wide risk? Or Swift specific?
- Ginnie Henkels: First to be clear, we did not have a judgment against us as many news publications incorrectly reported. The recent decision by a judge involved only a procedural question of whether the case should be decided by the court or a private arbitrator. It had nothing to do with the merits of the case and we

have already appealed. We are confident we will ultimately prevail on the merits of the case. Also, this was not a trucking industry risk, but a US corporation risk as the previous administration and the tone I just mentioned has been challenging independent contractor status across many industries.

Jason Bates: Are you testing any autonomous truck or platooning technologies?

Richard Stocking: Given our size and our testing capabilities, we are often asked by many vendors to help test new technologies, but given confidentiality requirements, we do not comment on any current or future partnerships or test results.

Jason Bates: A large peer is preparing to go public. Is there more pressure in the marketplace in the current market?

Richard Stocking: We do not believe this is having an impact on the marketplace.

Jason Bates: Can you elaborate on the further operational and cost control improvements for next year as well as cross selling services? Such as how many customers use two, three, or four primary service?

Ginnie Henkels: Some of the operational and cost improvement areas we are focused on are increasing efficiency and utilization of our fleet, reducing non-revenue producing miles, improving non-driver productivity, rationalizing vendors and proactively managing spend and enhancing safety and claims management as we discussed earlier to name a few items.

With regard to cross selling opportunities, 100 percent of our top 20 customers use more than one of our services. This penetration starts to diminish as we move down the customer list and is a tremendous area of opportunity for us that we will be focusing on at our upcoming national sales meeting.

Jason Bates: So that takes us into our last section for this morning's call, which is the guidance section. What can we expect in terms of gains and losses on the sale of equipment in 2017?

Ginnie Henkels: We're estimating gains on sale of equipment to be between \$3 million to \$5 million for the full year 2017.

Jason Bates: Management's guidance from the last mid-quarter update was for depreciation expense to increase \$1.8 million per month. Was this a sequential or year over year number? In either case what does management expect full year depreciation expense to be?

- Ginnie Henkels: The \$1.8 million represents a monthly year over year increase in 2017. Given the fact that this was first made in August 2016, this will be a year over year headwind for the first seven months of 2017.
- Jason Bates: How will the mix of Company and owner operator drivers change in 2017? Any plans to change the percentage of trucks leased through the company?
- Ginnie Henkels: The mix between Company and owner operator drivers isn't expect to materially change in 2017, nor is the percentage of leased trucks.
- Jason Bates: What is the forecast for driver inflation in 2017 versus 2016?
- Ginnie Henkels: We're expecting driver wages to increase in 2017, similar to the year over year increase in 2016 when compared to 2015.
- Jason Bates: What are your underlying utilization assumptions behind the first half 2017 guidance?
- Ginnie Henkels: Based on recent trends, we anticipate quarterly year-over-year improvement and weekly loaded miles per truck in our truckload and Swift Refrigerated segments between three percent to six percent in the first and second quarter of 2017.
- Jason Bates: How much does fuel, all in, negatively impact the fourth quarter 2016 results? What are the levels of fuel headwinds baked into management's current first quarter 2017 the second quarter 2017 EPS guidance?
- Ginnie Henkels: Fuel was a headwind in the fourth quarter of roughly \$0.03 of EPS. We have assumed that fuel prices will increase gradually throughout 2017 and thus will be a headwind throughout the year.
- Jason Bates: When will you provide the second half 2017 EPS guidance?
- Ginnie Henkels: As of now we are planning to provide this guidance on our mid-second quarter conference call which is expected to be at the beginning of June.
- Jason Bates: While I understand that you've maintain first half 2017 EPS guidance ranges, do you feel better or worse about the ability to achieve them than you did in December? Has the market gotten better, worse or stayed the same?
- Richard Stocking: Overall we feel about the same. Despite the poor weather thus far in January which has challenged us as we discussed, our utilization and dead head metrics are strong and we are encouraged by our customer sentiment.

Jason Bates: And our last question and I will turn it over to Richard to wrap it up. Richard, now that you are in charge, what changes are you looking to make? Or are making to shift the ship?

Richard Stocking: As many of you are aware, I'm very passionate about Swift. I've spent almost 26 years here and know this company inside and out. I've expressed our renewed vision and excitement around a variety of key initiatives, which will serve as the baseline for everything our current management teams does going forward. We will focus on revenue generation but will do so in a disciplined manner. We will not grow for growth's sake. We have a complex network and we will be measured and controlled about how we engineer this network to maximize utilization and profitability. We will leverage our world class suite of services; doing more with less is the key. We will continue to drive efficiencies in all facets of the business model, from improved asset utilization to fanatical cost control. There are no sacred cows. Our organization is learning that important principle in a measured way and going forward, every line of business must earn its right to grow and to spend. Discipline and accountability will be paramount throughout our organization going forward.

I have spoken a lot in the past about a few initiatives that serve as the backbone for the leadership style I believe in. It starts with inspiring trust: trust from our customers, trust from our employees, trust from our vendors and also from you, our stockholders. Our goal is to under promise and over deliver. We want to continually exceed expectations, with each of the key constituents I just mentioned. Will we be perfect? No, but we will push ourselves hard to be better tomorrow than we are today.

In conjunction with inspiring trust, we need to focus on aligning systems and processes. This is something we've been working on behind the scenes for several years now. We are aggressively challenging the status quo, continually looking for new ways, better ways, to do things. We know to get the results that we've never had, we must do things we've never done and we are committed to doing just that.

Finally, we need to unleash the talent of our people. We have great leaders here at Swift. We have great people throughout the entire organization. We will focus on training them, and giving them the tools and resources that they need to be successful in simplifying and speeding up processes and then we will get out of their way and let them execute at a very high level like we know they can. I am humbled by the opportunity to help lead and direct such a great Company. But I am also excited about the task that lays before us. We have had our ups and downs over the years but all signs are pointing to 2017 and beyond being great years for our industry and for Swift specifically. We know we have not been perfect, and that we have significant potential yet to be unlocked. That fact is one of the motivating drivers for me each and every day. I know that the upside potential for this Company is enormous and

I am committed to working with our employees, customers and vendors, and you to realize that potential. We appreciate your continued support and patience as we navigate this process. And we look forward to driving continued value to each of you, our stockholders. Thank you.

Jason Bates: Thank you all for joining us today.

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

END