SWIFT TRANSPORTATION COMPANY

Moderator: Jason Bates
January 28, 2014
10:00 a.m. EST

Operator: My name is Regina. I will be your conference operator today. At this time, I would like to welcome everyone to the Swift Transportation fourth-quarter and year-end 2013 earnings conference call. All lines have been placed on mute to prevent any background noise.

If you should need assistance during the call, press star then zero and an operator will come back online to assist you.

Thank you. I would now like to turn the call over to Mr Jason Bates, Vice President of Finance and Investor Relations Officer. Mr Bates, you may begin the conference.

Jason Bates: Great. Thank you, Regina. We'd like to welcome you all out to Swift Transportation's fourth-quarter and full year 2013 Q&A session. As a reminder, we have posted a comprehensive letter to stockholders summarizing our results on the front page of our IR Web site.

We will start the call today with forward-looking statement disclosure. This call contains statements that may constitution forward-looking statements, which are based on information currently available, usually identified by words such as anticipates, believes, estimates, plans, projects, expects, hopes, intends, will, could, may or similar expressions which speak only as of the date the statement was made.

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 annual report Form 10-K for the year ended December 31, 2012.

As to the Company's business and financial performance, there are many factors that could cause actual results to differ materially from those in any forward-looking statements. You should understand that there are many important factors in addition to those discussed and in our filings with the SEC that could impact us financially. As a result of these and other factors, actual results may differ from those set forth in the forward-looking statements. 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. In addition to our GAAP results, this call also contains certain non-GAAP financial measures as defined by the SEC. The calculation of each measure, including a reconciliation to the most closely related GAAP measure and the reasons management believes each non-GAAP measure is useful are included in the schedules attached to our letter to stockholders.

So, with that out of the way, I would like to recognize the members of Swift's management team on the line today.

We have Jerry Moyes, our Founder and Chief Executive Officer; Richard Stocking, our President and Chief Operating Officer; and Ginnie Henkels, our Executive Vice President and Chief Financial Officer. Again, my name is Jason Bates and I will be moderating today's Q&A session.

We appreciate all the questions that were submitted prior to the deadline last night. Similar to quarters past, we have categorized them and will do our best to provide detailed responses to each. To the extent you have additional questions, feel free to reach out to me after the call.

So with that, we'll start off the call today with a couple of questions on rate and volume trends.

So starting out on rates, can you discuss how Swift's bid season with customers works? Namely, when does it begin and end? Is there a bellwether customer that sets market expectations for pricing? Can you elaborate on this subject for each of the asset based businesses: Truckload, Dedicated, and Intermodal?

Jerry Moyes: As we've discussed in the past, our bid season isn't confined to any particular quarter, but generally lasts all year long. The volume of bid activity is typically a little heavier in the first quarter. With each sequential quarter, the bid volumes become slightly lower than in past. So first quarter is obviously heavier than fourth quarter. However, the bid activity is relatively even throughout.

There is not a bellwether customer that sets market expectations. Every customer is very unique. Finally, these patterns are relatively consistent across our various reporting segments. With that said, I think Swift and the industry did not do a good enough job last year in getting price increases. I can tell you that we're focused on doing a better job this year in this line of price increases and really think that Swift will benefit from this going forward.

Jason Bates: How has 2014 started off in terms of demand and spot market pricing?

Richard Stocking: As we've discussed in the past, we don't really participate in the spot market. However, we do participate in repositioning of our equipment for our customers at a cost. That has continued to be meaningful in January. Demand has been reasonably strong as well for January. It has been the weather issues in the Midwest and the East that has hampered us to take full advantage of that booking.

Having said that, three weeks does not make a quarter. We would like to see a better balance of demand across the network; however, we are cautiously optimistic about the demand trends at this point in the quarter. We are likewise encouraged by the implication that has on rates.

Jason Bates: Can you quantify the impact of repositioning on rate growth and deadhead percent in your Truckload segment in the fourth quarter? What is deadhead expected to run in the full year 2014? Can you provide thoughts on the Truckload pricing environment in the fourth quarter of 2013? The release commentary seems to indicate you received paid repositioning but empty miles were also up. Did the empty miles associated with the project work more than offset the paid repositioning?

Richard Stocking: All right. There are a lot of questions in this one. First, we can and do quantify the impact of repositioning on our various metrics. But it is not a figure that we disclose at this time. Having said that, we do make a point to ensure the repositioning revenues are sufficient to cover our cost when we need to make these types of moves for our customers.

Yes. The empty miles would be up, since we count those as miles that are empty, which would increase our deadhead and reduce our loaded miles per truck week. However, an offsetting benefit is accounted for in our rate per loaded mile. Finally, we began to see an increase in demand for this type of move from our customers in the second half of 2013. We expect that trend to continue throughout the year, as we are already seeing it in the first few weeks of January.

Jason Bates: The 2014 pricing guidance of 2 percent to 3 percent per Truckload is essentially flat from 2013, yet the commentary in the release suggests a stronger freight market in 2014. How likely is it that rate improves year-over-year for Swift?

Jerry Moyes: As I mentioned previously, demand has started out pretty strong in January. However, if volumes continue to strengthen and are sustained for a meaningful period of time, then we could have additional opportunities to increase our Truckload rate per mile above the 2 percent to 3 percent guidance provided in the letter to stockholders. A lot of it will depend, obviously, on the macro economy and what kind of consumer spending or demand environment we have for the remainder of the year.

Jason Bates: So there were several questions on volumes. The first one, what demand drivers would you need to see improve before beginning to add incremental capacity to your network above the guided capacity growth? How much further improvement is needed in either freight volumes or pricing in order to justify further capacity in your network specifically? Can you elaborate on this subject for each of the asset based businesses?

Richard Stocking: All right. Good question. We've been focused on utilization for the past couple of years now. We've made substantial improvements. But the great thing is, we still think we have major room for improvement. We have several departments and strategy teams and initiatives centered around improving the utilization of our equipment. Improved utilization is a key metric for us because it allows our drivers to take home a bigger paycheck and provide our stockholders with higher returns on their investment.

As a result, we have plans in place to grow our business without sacrificing our utilization. We're very disciplined in this metric. But we'll adjust that if we see a stronger than expected freight and rate environment. For our Dedicated segment, we will adjust our truck count based on our ability to win incremental business while maintaining our – excuse me, our internal guidelines for our profitability in this line of business.

Jason Bates: We have seen pretty encouraging macro data points since December suggesting a potential freight inflection this year. Have you seen the tighter market so far in January? How is demand trending so far in the first quarter? What are your expectations for the rest of the quarter?

Richard Stocking: Well, internally, we have seen some positive signs and trends for the freight volumes in the quarter, with the first few weeks of January being relatively solid. However, due to seasonality, January is typically a softer market and is not necessarily a good indicator for the rest of the quarter. But we are optimistic about the quarter and the outlook for 2013, as we've talked to our customers and obviously, have seen a couple of good things, so far this year.

Jason Bates: Is weather having much of a negative impact on volumes and/or costs in the first quarter? Are you receiving compensation for deadhead as a result?

Richard Stocking: Winter conditions can cause a lot of problems with service, utilization, deadhead, maintenance and safety. This is true for each of the lines – our lines of businesses that have to travel in and through those areas. Anytime we see these winter conditions, it impacts freight from those locations, to those locations and obviously, through those locations. So, it does have a disturbance on our overall network.

We work diligently to mitigate these impacts, but it is sometimes unavoidable. We have seen these weather-related issues continue into this first quarter. But we will need to see how the rest of the quarter plays out before we can tell if the weather will have a more of an impact this year than last. Compensation for deadhead is more of a function of market imbalances rather than just the weather.

Jason Bates: What does guidance assume for the Truckload segment's utilization improvement in 2014?

Ginnie Henkels: We expect the new hours of service rules to be a headwind on our loaded miles per truck per week through the first half of the year. But we're still targeting year-over-year improvement. We anticipate the improvements in utilization will be tempered in the first half, before accelerating in the second half.

Jason Bates: Can management expand on the 300 owner-operator fleet that joined the Company in the fourth quarter along with additional customer revenue? Was there an acquisition price paid for this addition? Did the addition also secure new customer contracts? How do the margins compare to the legacy Truckload business?

Jerry Moyes: We're really happy to have them on board. I believe this is a great opportunity for Swift. We're working diligently with them to bring them up to speed and are extremely excited about the knowledge, the experience, talented and professional drivers that they're contributing – that add to our culture. They have a great customer base and several customers that we have not worked closely with in the past.

We are excited to work for these customers and hope to build on the high level of service and products that they're already receiving.

At this time, we haven't given any specific details about the transaction and the specific profitability around the fleet and the customers. But I would say that this new relationship is a win for the drivers, a win for the employees, a win for the customers, and a win for Swift. We are looking at this as a test case, and if successful, which it has been so far, we believe that there are numerous other companies out there that can follow this pattern.

Jason Bates: Great. In the Truckload segment, how attractive are these owner-operator fleet additions? Is the 300 truck addition included in the 150 to 200 unit growth outlook for 2014? Are there opportunities for additional owner-operator fleets of similar size? Should we expect these deals to be smaller going forward? Is there any opportunity in Refrigerated?

Ginnie Henkels: The 150 to 200 truck growth will be from the beginning of 2014 through the end of 2014. So it is not a year-on-year average comparison. Since all of these owner-operators – or the 300 fleet that we're talking about, joined our network at the end of 2013, they're not counted toward the truck growth guidance for 2014.

This type of owner-operator addition, like Jerry has said, can be beneficial to all parties involved. We believe this to be the case. Before we do these transactions, we look for the right fit and the right areas with the right customers. We hope to do more of these transactions in the future and think there is plenty opportunities out there for both dry van and Refrigerated.

Jason Bates: Do you have any concerns about the owner-operators utilization?

Ginnie Henkels: Although it is not true in every situation, our experience has been that the owner-operators are typically professional drivers that know what it takes to be successful. As a result, they tend to have high utilization, with many of them running as teams and mentors. However, some owners own their trucks outright and want to work less. That affects our utilization to some extent, but we welcome them to our fleet because they are still accretive to the overall earnings and help to improve our return on net assets.

Jason Bates: Many of your peers experienced strong Truckload trends in the fourth quarter. Can you describe the Truckload environment that Swift experienced in the fourth quarter? What might have been the drivers of any differences from what has been written about other carriers from the analyst community?

Richard Stocking: I don't believe our experience was much different than what many of our competitors are saying. I think we might have had tougher year-over-year comps. We had some headwinds, including weather and hours of service that impacted our utilization and some market imbalances that impacted our deadhead. But overall, the freight environment was strong. We were also in the middle of adding several new Dedicated fleets, integrating our new owner-operator fleet that was just talked about, as well as moving forward with the Central acquisition.

But keep in mind, we had an amazing fourth quarter last year. We were on our way to beating that this year. Unfortunately, insurance expense worked against us this year. That cost us $0.06 of EPS. Without that, we would have ended – or exceeded last year. But we are very optimistic about the future. We have several new pieces of business already in the pipeline for 2014.

Jason Bates: Weekly revenue per tractor fell in your Dedicated segment significantly in the fourth quarter of 2013. What was the primary cause of this? Was it related to mix change from the 250 new units? Do you expect the trajectory of revenue per tractor to improve sequentially in Q1 of 2014, or over the course of the full year 2014?

Richard Stocking: Some of the drop was due to lower utilization of trucks during the initial start-up phase of new contracts. Some of the change was due to a change in business mix. Each contract has unique requirements that could potentially hurt this metric without negatively impacting the profitability. But in general, we would expect this metric to improve over the course of 2014. Dedicated business has been extremely positive for us in the second half of 2013. We expect this trend to continue this year in 2014. We have several new opportunities in the pipeline. In fact, our pipeline is very robust. We hope to win and implement over the next few months.

Jason Bates: Is Central's full year 2014 expected growth of 200 units more likely to come from Dedicated or transactional customers? How will this impact deadhead and revenue per tractor?

Ginnie Henkels: We anticipate growth in both areas. The new specialty business that we brought on in 2013 has a lot of ancillary services and a shorter length of haul that drive a much higher revenue per tractor. It also has a higher a deadhead percentage. As a result, some of the increase in the deadhead and improvement in revenue per tractor is due to the addition of this business in the second half of 2013. So I would expect a stronger year-over-year improvement in revenue per truck in the first half of 2014 as well as a higher deadhead percentage.

Jason Bates: You provided Intermodal revenue excluding fuel surcharge guidance. Any color on the other segments? Truck growth looks like it will be ahead of our expectations across all divisions. How should we be thinking about deadhead in Truckload revenue per loaded mile and deadhead at Central Refrigerated? Then in Dedicated, clearly, this is where you'll be adding the most trucks. What kind of revenue per tractor should we expect?

Richard Stocking: We touched on these a little already and some in the letter. But it might help to recap this. In Truckload, we expect 150 to 200 truck growth from the beginning to the end of 2014, with a 2 percent to 3 percent improvement in rates, with tempered expectation for utilization improvement especially in the first half of 2014. For Dedicated, I already mentioned that we are extremely positive about the new customer awards that we have picked up since mid 2013 and continuing into 2014. As a result, we expect 350 to 400 truck growth over the year. Weekly revenue per tractor improvements will be a function of the new business, but we expect improvements in this metric as well.

For Central, we expect roughly 200 truck growth which would equate to a 10 percent growth in trucks. We would expect revenue to follow similar growth depending on the growth mix of Dedicated and OTR. As we mentioned during the acquisition, we believe that we have several customers that want us to make a significant jump into the Refrigerated over the road business. We have recently been awarded some new Refrigerated business that is beginning to yield the fruit of our labors. We are very positive about additional prospects in 2014. So we're very optimistic about it.

Jason Bates: Can you elaborate on freight volumes from a geographical strength and weakness perspective, and also from an end market perspective? Can you elaborate on this subject for each of the asset based businesses: Truckload, Dedicated and Intermodal?

Jerry Moyes: Yes. So, we're experiencing typical seasonal softness in the West Coast and some up and down markets all along the West Coast and into Texas. The Upper Midwest and East Coast have been very strong thus far. Intermodal has been following these similar trends. Our Dedicated business is not as seasonal and has been fairly steady.

Jason Bates: What specific plans or strategies are in place to drive better utilization throughout the network over and above what was accomplished during 2013? Can you elaborate on this subject for each of the asset based businesses: Truckload, Dedicated and Intermodal?

Richard Stocking: For strategic purposes, we do not disclose specific strategies. But I will say that these strategy teams work together to identify the most impactful ways to improve the lives of our drivers, improve the utilization of our equipment and improve our ability to control our costs, improve revenue, lower deadhead, refine processes, improve accountability, reduce down time, et cetera. It is a very long list.

We are very excited about the teams we have in place and the new initiatives that they are working on for 2014. Much of the improvements we have made over the past years, especially with regards to utilization, have been a result of the efforts of these teams. So we believe that will continue.

Jason Bates: Great. Thank you. There were also several questions about volume specific to Intermodal. So we'll get into some of these. Given Intermodal's 2014 revenue guidance of 15 percent will likely be entirely driven by load growth, how much OR improvement from normalized 2013 levels should we expect in 2014, given improved density in the network? Is it safe to characterize the current domestic Intermodal pricing environment as more challenging than dry van Truckload?

Richard Stocking: We are very excited about the profitability improvement potential in this line of business over the next couple of years. We do not provide specific annual profitability guidance for our reportable segments; however, we expect our adjusted operating ratio to be in the mid to low 90 percents over the next couple years.

Regarding pricing, the Intermodal market is relatively similar to the Truckload market with regards to the competitive nature of the bids, as well as the key drivers for improvement. However, we expect the rate increase potential for Intermodal in 2014 to slightly trail that of Truckload.

Jason Bates: How burdensome were the rail service disruptions with partner BNSF in fourth quarter of 2013? Are you seeing incremental loads diverted to truck during January, given the Chicago congestion?

Richard Stocking: Rail service disruptions always present a challenge for the Intermodal providers. We did experience disruptions in Q4, which caused us to lose some of those volumes. In January, there have been additional weather-related disruptions in the Midwest that have adversely impacted our Intermodal volumes. However, that poor weather has also impacted the Truckload business. So it is difficult to determine at this point whether there has been a shift in volumes from Intermodal to Truckload.

Jason Bates: What are your expectations for growing the Intermodal fleet in 2014?

Ginnie Henkels: As we mention in the letter, we don't anticipate adding containers in 2014 but are confident in our ability to continue to more efficiently utilize the equipment we already have, increasing the turns and better covering our fixed costs. We have had several customer awards over the past few months and should be able to achieve the 15 percent growth this year, without needing to add equipment. If we continue to experience market success that warrants purchasing incremental containers, we will be prepared to do so.

Jason Bates: You guided for revenue growth of 15 percent in Intermodal and also stated you can grow container volumes by 10 percent to 20 percent before needing to add equipment. How do you break down that revenue growth between TOFC, COFC and Intermodal rates? When do you begin to lap the easy comps on the TOFC volume growth losses you have experienced over recent quarters?

Richard Stocking: We have specific growth objectives for COFC, TOFC and rate increases; however, we do not provide that level of detailed guidance at this time. Having said that, our COFC business is by far the largest portion of the overall Intermodal revenue, with TOFC being a much smaller piece of the pie. Lapping the lower volume TOFC quarters will not be materially impactful. Regarding rate increases, as I previously mentioned, although we do expect the opportunity to be positive in 2014, we believe that it will be somewhat modest.

Jason Bates: What was the constraint on COFC growth in the fourth quarter of 2013? Do you expect volume to re-accelerate to the 10 percent to 20 percent range in the first quarter of 2014, given adverse weather conditions?

Richard Stocking: As we said previously, the service disruptions presented a challenge for us in Q4. Additionally, we're keenly focused on ensuring the freight we chose to move Intermodally is done so profitably. We didn't want to increase revenues and volumes at the expense of the bottom line. Regarding our expectations to increase 10 percent to 20 percent in 2014, that confidence stems from our recent customer wins, the time and energy recently spend in providing additional training to our sales organization, combined with our newfound ability to more heavily pursue Refrigerated Intermodal opportunities.

Jason Bates: On the third quarter earnings call, you guided for Intermodal top line growth of 15 percent to 20 percent in 2014. But now, you are guiding to approximately 15 percent. What drives the lower expectations for growth?

Richard Stocking: You have an astute attention to detail. Honestly, I don't know that we intentionally were lowering the guidance here. We are targeting a 15 percent growth and are hopeful to exceed that.

Jason Bates: Do you see an increased customer interest conversion to Intermodal in fourth quarter, given tighter Truckload market?

Jerry Moyes: We believe that finding Truckload capacity will be an increasing challenge for shippers; therefore, as we have seen to date, we expect to continue to see a growing appetite for Truckload conversions to Intermodal. We are well positioned on both sides of this coin and will pursue the route that best services our customers' needs.

Jason Bates: So, there was a question on operating ratios and margins. Can the Company provide 2014 operating ratio targets by business segment? Truckload, Dedicated, Central and Intermodal?

Ginnie Henkels: Unfortunately, we do not provide specific margin guidance at this time. However, we have just completed our detailed annual operating plan process for 2014. Each of our lines of business has been tasked with improving its operating ratio and has created specific plans on how to accomplish that. Each of the LOBs will have some challenges to overcome. But we believe that we can achieve our internal targets.

Also, keep in mind that due to the changes in business mix and the lower margins associated with asset-light businesses, it is possible to improve our operating ratio for each line of business, but show an overall higher consolidated operating ratio.

Jason Bates: There were several questions about equipment that we summarized. The first one was related to CNG trucks. How has the performance of the CNG trucks been? Are there any plans to order more?

Jerry Moyes: It is a little early to quantify the performance of the natural gas trucks. We just started taking delivery of them in the latter part of the fourth quarter and will receive the majority of the 200 throughout 2014. We don't have any current plans for additional CNG equipment. Although it is early, we're very pleased with the performance of this equipment and the fuel economy. I just want to point out that, as we have stated in the past, we have bulk CNG at our facility in Houston, Texas. We will also be having bulk CNG at our Mira

Loma facility in approximately March. So, these trucks will be running the Texas triangle, as well as California and Arizona.

Jason Bates: What accounts for the expected drop in gain on sale of equipment in 2014 from 2012 and 2013 levels? Was there something specific about the equipment over the last two years that made it advantageous to sell, but maybe the dynamics have changed in 2014? Would you consider the 2014 expected level a normalized run rated?

Ginnie Henkels: The gains are reflective of the amount and type of equipment traded, the used truck market at the time, and our trade agreements with the OEM. In the fourth quarter of 2014, we sold more tractors than originally anticipated. The gain per unit was higher. The strong demand could have been driven by the expiration of the bonus depreciation at the end of 2013, but that's pure speculation on my part. We really don't have exposure into the drivers of demand for used equipment. We are expecting the volume of trades to be down in 2014 from 2012 and 2013. In addition, the type of equipment we will be selling is changing. Thus, we are not anticipating as much gain in 2014.

Jason Bates: What is your outlook for driver wage inflation in 2014?

Richard Stocking: Our goal is to remain focused on improving our driver's W-2. As we previously mentioned, we have several of our strategic focus teams that are centered around improving the lives of our drivers, which also includes allowing them to take more pay home to their families. We believe that these initiatives are a win for our drivers, our customers and stockholders.

Additionally, our driver ranking program is working. We are rewarding the right behaviors. Our drivers are motivated to move up the ranks. We also believe we are making positive improvements in this area, but are constantly evaluating customer pricing, markets and trends to make sure our pay is in line with the market.

Jason Bates: There were several questions about various different expense line items that we'll jump into now. The first one, is there anything specific to any individual operating expense categories to consider for 2014 that may be characterized as unusually high for any given year?

Ginnie Henkels: Equipment costs. Meaning the depreciation and lease expense associated with our equipment would be the biggest cost headwind in 2014, similar to 2013. We do expect some offsets in maintenance and fuel to help compensate for that. But that will be the biggest increase.

Jason Bates: Refresh my memory, is workers comp in salaries, wages and benefits or under insurance and claims?

Ginnie Henkels: Workers comp expense is include in salaries, wages and benefits.

Jason Bates: What costs are expected with the integration of the systems at Central Refrigerated?

Ginnie Henkels: We will have travel costs, additional equipment for phone lines, costs to consolidate facilities, and then the disruption and down time associated with the actual systems change and move of facility. We are doing everything possible to avoid disruption and down time with our drivers and to avoid turn over. We have been successful in this so far. But the biggest challenges will lie ahead as we start this week with the system changes.

Jason Bates: System integrations are notoriously difficult. How much of an issue is the February 1 integration CRS's system expected to be? How long will the integration take before it is deemed to be successful? How quickly should the revenue and other synergies materialize after a successful integration?

Richard Stocking: We have been working very hard on this. We have been planning the system integration for over four months now. Each function has been working together on both sides to understand requirements, gaps, processes, et cetera. We believe we have a thorough transition plan in place. The system integration will facilitate the maintenance and fuel synergies, as well as the sharing of freight between the Companies.

In addition, with the automation of several processes and other redundancies in support functions, personnel savings are anticipated beginning in the second quarter. All these changes will provide for the ability to consolidate physical locations in Utah, California and Georgia. We should have a good read on the success of the integration by the end of the first quarter. We'll begin to materialize some of the synergies in Q2.

Jason Bates: Will you be using the legacy Swift or Central system after the technology integration?

Richard Stocking: It will be the legacy Swift system.

Jason Bates: What are the anticipated synergy savings from moving the Central business onto the common systems platform this February?

Ginnie Henkels: As we talked about at the acquisition time, we're expecting the cost synergies to be roughly $4 million on an annual basis. Any revenue synergies would be upside to this cost number.

Jason Bates: How should we think about the start-up costs that hit the Dedicated and Refrigerated segments in 2013? Is it rational to assume they will abate as the year goes on?

Richard Stocking: Yes. The start-up costs are a function of the size and complexity of the new Dedicated business. We are anticipating several new Dedicated start-ups in the first half of 2014 with the potential for additional awards in the latter half as well. We are expecting some costs associated with this, but we are working to manage this as effectively as possible.

With regards to Central's major contract wins that impacted the second half of 2013, this will continue to be a challenge in the first quarter; although, it is progressing. We are working with a customer to fix some of the operational and other issues to improve the profitability profile going forward.

Jason Bates: The release mentioned higher fees in the fourth quarter, in association with an aborted equity offering. Can management expand on the contemplated offering size and intended uses of capital? What were the reasons for not pursuing the transaction?

Ginnie Henkels: The aborted equity offering was related to the equity claw in the notes. As we discussed last quarter, we had the ability to clawback $175 million of the $500 million of notes at a 10 percent premium with the proceeds from an equity offering. This option was only available to us through November of last year.

We were prepared to initiate this transaction if the stock price rose to a level that made the transaction basically neutral from a dilution standpoint, meaning that the interest saved on the redemption of the notes was enough to offset the dilutive effect of the additional shares. This did not occur, but we did incur the legal and other costs to prepare for the transaction.

Jason Bates: Can you break out the increased insurance and claims expense by segment relative to Q4 2012 to help us get a better sense of underlying margin trends without the noise from the negative loss developments on prior year claims?

Ginnie Henkels: We do not break out this level of detail at this time. But as noted in the letter, insurance and claims did have an impact – a negative impact on each one of our segments.

Jason Bates: The increase in operating supplies and expenses during Q4 of 2013, how much of this was due to maintenance of aging equipment versus increased maintenance due to weather? By weather, I mean weather causing maintenance issues and/or drivers being stuck and choosing to take trucks into the shop for work.

Ginnie Henkels: Our maintenance expense was relatively flat year-over-year in the fourth quarter. The average age of our Company tractor fleet decreased to 1.9 years. We did have some impact associated with weather but the newer fleet offset that. The increase in operating supplies and expenses in the quarter was due to the increased legal and professional fees, tolls, unloading expenses, hiring, et cetera, as we described on Page 6 in the letter.

Jason Bates: There were a handful of miscellaneous questions. The first one is, in your closing summary, you described that some of the disappointing items in 2013 were outside of your control, while others were not. What items that worked against you in 2013 were within your control? What actions are you taking to address them?

Richard Stocking: Good question. Two of the key areas we were referencing in the letter were the safety trends and the impact of the hours of service change. Although, the hours of service change were outside of our control, they had a larger impact than we anticipated. We thought we had prepared our drivers, but found that was not the case.

We have just recently made some organizational changes that will allow terminal and fleet leaders to focus more on the drivers. Safety and utilization will be a major focus for this group in 2014.

Jason Bates: How should we think about modeling the non-reportable segments? What is implicit in your full year 2014 guidance for this segment? It seems like the revenue growth and op income growth can swing from one quarter to the next.

Ginnie Henkels: This category, as I'm sure you have noticed, can be very difficult to forecast. As with most “other" buckets, our non-reportable segment is an accumulation of various different revenue and expense categories, many of which move in different directions from one quarter to the next.

Some of the various categories and businesses contained in our non-reportable segment include: logistics; IEL, which leases equipment to our owner-operators; third-party insurance; our owner-operator maintenance; specialty project business; et cetera. So our 2014 expectation for this group in total is modest improvement overall.

Jason Bates: Can you please clarify the 2013 VPF transaction? Were shares tendered to an unrelated third-party, someone besides Jerry Moyes or his affiliates as a result of the transaction? If so, how many? Is there a potential for additional shares to be tendered to a third-party based on existing transactions going forward?

Ginnie Henkels: The 2013 VPF transaction was essentially a means for Jerry and his family to refinance the 2010 METS facility that was issued in conjunction with the IPO in December of 2010. In the VPF facility that was initiated or started in October of 2013, Jerry entered into an agreement with a bank, to buy A shares, which the bank borrowed in the open market. So these were existing shares in the market. These shares were used to settle the 2010 METS, while the B shares that originally collateralized the METS facility were released and are now collateral for the 2013 VPF facility.

So basically, there was a swap of collateral between the two facilities. The net result of all these transactions left Jerry and his family with the same number of shares and voting percentage as they had prior to these transactions. The shares that the bank borrowed from the market went back into the market via the holders of the 2010 METS securities, which were largely institutional funds. No new shares were issued, nor did the number of shares outstanding change as a result of these transactions.

Jason Bates: Great. There were a handful of questions related to debt and CapEx. In addition to debt pay down guidance, do you have a leverage ratio target for full year 2014?

Ginnie Henkels: Yes. As we reported, we ended 2013 with a leverage ratio of roughly 2.5 times. To achieve our goal of 1.5 times by the end of 2017 we need to improve by a 0.25 turn each year. Therefore, our target would be 2.25 or below for the end of 2014.

Jason Bates: Guidance is for 2014 debt reduction near the high-end of your $50 million to $100 million annual target. What are management's plans concerning the outstanding 10 percent notes, which have more favorable redemption options later this year? Is an equity offering still being contemplated?

Ginnie Henkels: In mid November, we are able to call the existing $500 million of 10 percent notes at a 5 percent premium to par. We are looking at opportunities and alternatives to fund this call, but are currently not anticipating using a straight equity offering to do so. The debt markets remain relatively robust. If this remains consistent throughout the year, we should be able to refinance the notes in November with other debt alternatives that would be very accretive. We will continue to monitor this throughout the year and will react accordingly.

Jason Bates: You raised 2014 net cash CapEx guidance from $225 million in the third quarter, consistent with 2013 levels, to $220 million to $250 million. What accounts for the higher CapEx?

Ginnie Henkels: The increase was primarily related to the growth plans as outlined in the letter and as we've talked about. With the truck growth anticipated in Dedicated, Central and our Truckload segment, our CapEx is now expected to be higher than 2013 levels.

Jason Bates: Under what circumstances could the Company exceed its debt reduction targets in 2014?

Ginnie Henkels: There are several scenarios that would enable us to exceed the debt reduction targets for 2014, including further improvement to the utilization of our equipment, reduction in anticipated working capital investments, the sale of the redundant properties resulting from the Central acquisition, cash taxes being less than anticipated, et cetera.

Jason Bates: What was your consolidated interest coverage ratio as of 12-31-2013?

Ginnie Henkels: The interest coverage ratio was 6.44 at the end of the year with the minimum required of 3.25.

Jason Bates: So, the last group of questions are related to guidance, specifically EPS guidance. What are the macroeconomic assumptions behind your 2014 forecast?

Jerry Moyes: We're generally anticipating a macro environment that is relatively similar to 2013, but a little more robust with regard to demand and pricing.

Jason Bates: Does the 15 percent EPS growth target, which implies EPS of $1.41, include any interest cost savings? What about the refinancing of the high yield debt, which is callable late in the year?

Ginnie Henkels: There are some modest assumed interest expense reductions due to the anticipated debt reductions throughout the year. But given the call options for the notes is not available to us until November, this is not a significant driver of the 15 percent full year growth target.

Jason Bates: I believe your original accretion guidance for Central provided in August of 2013, was for $0.04 in the second half of 2013 and $0.10 in 2014? Do you still expect $0.10 accretion from Central in your 15 percent EPS growth target for 2014? Is it correct to assume that $0.07 accretion would be from the legacy business?

Ginnie Henkels: Yes. You are correct in quoting our original accretion guidance. But keep in mind that this was prior to the common control accounting treatment where we had to recast our historical results to include Central for the full year. Now that we're starting with our adjusted EPS of $1.23, which includes Central for the full year, the $0.10 accretion for 2014 is not an appropriate comparison. We are anticipating all of our segments to contribute to the growth for 2014, of which Central will help, but it's certainly nowhere near the $0.10 that's quoted there.

Jason Bates: What are the quarterly adjusted EPS numbers for 2013? Is $0.24 – including a large gain on sale number – the number that you're using for the first quarter of 2013? That we should be using as a base for our year-over-year EPS growth in the first quarter of 2014?

Ginnie Henkels: Our quarterly adjusted EPS numbers for 2013 are $0.24 for Q1; $0.35 for Q2; $0.29 for Q3; and $0.36 for Q4. So, those of you that are good at math and added those up, you can tell that adds up to more than $1.23. So there is some rounding going on there. But those are the quarterly numbers.

These numbers include Central in each quarter and can be found in detail in the breakdown in the 8-K we filed in October with the recast of all of our financials, or in the subsequent quarterly reports for Q3 and Q4. You are correct in recognizing that we had a large gain on sale of properties in the first quarter of 2013, which is one of the reasons why we are not anticipating our year-over-year adjusted EPS in the first quarter to be 15 percent.

Jason Bates: What are the put and takes for the guidance that calls for smaller EPS growth in the first half of 2014 versus greater EPS growth in the second half of 2014?

Ginnie Henkels: The headwinds in the first half of the year are: the hours of services changes, as we noted in the letter; the gain on sale of properties, as I just discussed; and the gains on sale of equipment will likely be half of what they were in the first half of 2013. We have Dedicated start-up costs in the first half, which will begin contributing to growth in the second half of the year. The Central systems integration is requiring additional expenses in the first half that will lead to synergies in the second half.

Insurance was high in the second half of 2013, which should make for easier comps in the second half of 2014, knock on wood. Then once we lapse the hours of service changes and gain traction on other utilization initiatives, our utilization comps should improve at a greater rate in the second half of the year, et cetera.

Given all this, we are expecting our year-over-year growth in adjusted EPS, without normalizing for these types of items, to be tempered in the first half of 2014, in the mid single-digit range, before accelerating in the second half to achieve the 15 percent target for the full year.

Jason Bates: What is your current appetite for M&A?

Richard Stocking: We are currently focusing on integrating Central Refrigerated and achieving the anticipated synergies and value in making that acquisition. With that said, as we have discussed in the past, M&A is something that we will consider in the future if it will help us achieve our goals and objectives.

Jason Bates: Great. So, in conclusion, I'll turn it over to Jerry.

Jerry Moyes: I believe that these are all the questions that we have and would like to thank all of you for your time this morning and for everyone who took the time to submit the questions last night. We genuinely appreciate your continued support of Swift.

In summary, I'm very proud of the Swift family. Many of you may not realize but we now have close to 25,000 employees, drivers and owner-operators for Swift. I want to personally thank each and every one of them for the hard work that they do day in and day out to make this a great Company. Without this entire team collectively pushing in the same direction, we would not have been able to accomplish the record – the many records – that we have achieved this year. In 2013, we achieved record annual revenues, as well as record annual operating income – with and without Central. We continued to provide excellent service to our customers and have expanded the service offerings we were able to provide them. We continued to pay down our debt, reduce our leverage ratio. Above all, we are pleased to see the investment community has begun to recognize the value that we deliver, which in turn, led to 142 percent increase in our stock price over the course of last year.

I am very proud of our employees, confident in our leadership team, and excited about the future and hope each of you feel the same and look forward to a great 2014. Thank you for your support.

Jason Bates: Thank you, everyone.

Operator: Ladies and gentlemen, this does conclude today's conference. Thank you all for joining. You may now disconnect.

END