SWIFT TRANSPORTATION COMPANY

Moderator: Jason Bates
October 24, 2014
11:58 a.m. ET

Operator: Good morning, ladies and gentlemen. My name is (Karen), and I will be your conference operator today. At this time, I would like to welcome everyone to the Swift Transportation 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 online to assist you.

Mr. Jason Bates, you may begin your call.

Jason Bates: Great. Thank you, (Karen). We'd like to welcome everyone out to our Third Quarter 2014 Q&A Session. As a reminder, we've posted a comprehensive letter to stockholders summarizing our results on the front page of our Investor Relations website.

We'll start the call today with our forward-looking statement disclosure. This call contain statements that may constitute 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 Factors section of our annual report on Form 10-K for the year ended December 31, 2013.

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, 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.

In addition to our GAAP results, this call also includes certain non-GAAP financial measures as defined by the SEC. The calculation of each measure, including the 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'd 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, Swift's 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. Similar to quarters past, we have categorized them, and we'll do our best to provide detailed responses to each one. To the extent that you have any additional follow-up questions, feel free to reach out to me after the call.

So with that, we'll start the Q&A portion of the call today with a couple of questions on the general performance in the quarter, and then move into the adjusted EPS trends and guidance.

So first question. Congratulations on the great quarter. You seem to be gaining traction in a lot of key areas. Can you discuss the general state of the business right now and how you are thinking about each of your different segments and their respective performance this quarter as well as going into Q4 and 2015?

Richard Stocking: Yes, thank you. We are very excited about the progress each of our teams is making in their respective areas of responsibility. Our Truckload segment is doing great, coming in with an 84.5 percent adjusted OR in the third quarter. Our team in Mexico is excellent, and the economy is strong down there and continues to grow. We are also starting to see and gain traction in Canada and are optimistic about that business moving forward.

Our Flatbed division has been on a tear this year and is beginning to drive meaningful bottom line contribution.

Intermodal has been dealing with some headwinds this year, but we are seeing significant growth in our core COFC business and expect to be very busy in Q4.

Our CRS segment has dealt with its share of challenges this year, but we have a great team in place up there, and we have a very detailed plan to ensure success in this line of business, which I'll talk more about later.

We believe our long-term strategies both – in both Central and Intermodal are sound, and we expect to see positive year-over-year trends in each of those segments in Q4 and into 2015.

Overall, the discipline and accountability we have been emphasizing throughout our organization is taking hold, and our ongoing focus on the various process improvement initiatives will continue to assist us in driving improvements in each of our key metrics. We are also excited about the dedication and the hard work that each of our employees brought to the table this quarter, and we know we can count on them to do more of the same as we move into this quarter, Q4, and into 2015.

Jason Bates: You have raised the low end of your full year 2014 guidance by $0.04. If I understand correctly, the increase in guidance was attributable to improved operations and to higher gains on sale, but the lower Q3 tax rate did not contribute to the full year 2014 guidance increase because this tax benefit was recognized a few months earlier than expected and simply shifted from Q4 to Q3. Is this correct?

Virginia Henkels: Yes, you stated it perfectly. However, given the large number of questions we received on this last night, I will expound a little further.

$0.35 was the midpoint of the original Q3 guidance of $0.33 to $0.37. Items realized above and beyond our Q3 expectation include the $0.03 benefit for taxes in Q3, which I'll talk more about in a minute, as well as about $0.01 more than anticipated for gains on sale.

With regard to the taxes, we had identified tax – these certain tax credits as an opportunity last year and the team has been working on them all year. We were originally anticipating the work would be completed in Q4, but we were able to complete the research and filed the amended returns in the third quarter.

To recap our expectations when we released the second quarter, our results at the time were $0.12 of adjusted EPS for Q1; $0.33 for Q2, which, on a June year-to-date basis, actually rounded down to $0.44. We said we expected Q3 to be in the range of $0.33 to $0.37 and Q4 to be in the range of $0.47 to $0.52, which implied a full year range of $1.24 to $1.33. We are now at $0.84 on a year-to-date basis and expecting to be in the range of $1.29 to $1.33 or $0.45 to $0.49 for Q4, given that the tax benefits were received early. So we have tightened the range and have actually increased the lower end of the range.

Jason Bates: Relative to the original guidance given at the end of the second quarter, what has, if any, changed in management's view of fourth quarter expectations? Has project-related business for the fourth quarter strengthened since then? Is your outlook on Intermodal similar now that you've started this large new contract? Or is the only real change related to the timing of the tax credits and some additional gains on sale for the second half?

Virginia Henkels: Our view of fourth quarter expectations from an operational perspective have not changed significantly. As we discussed last quarter, we had visibility to the new Intermodal contract and some of the seasonal project business when we reported in July. There are a few puts and takes, including a strong used truck market, but otherwise, things are generally progressing as anticipated.

Jason Bates: There were several questions on the various different segments. We'll start out with the Truckload segment. The legacy core irregular route business seems to be where you were getting all the traction. Great revenue per truck per week, great OR, better-than-average success in seating tractors. The other units are strategic fits, but isn't the big opportunity over the next few years in the irregular route Truckload business? Would it make sense to deemphasize the other segments, which are a bit of a drag on performance, perhaps with the exception of Dedicated? Or are customers using so much of your core Truckload services because you offer all of the other complementary services?

Richard Stocking: That's a great question. There is no doubt that we are awarded or were awarded a significant portion of profitable business in the Truckload and Dedicated segments stemming from the variety of service offerings we provide. The customers appreciate the fact that we can provide them with solutions to almost all their logistics needs. There is a flight to quality taking place in the industry, and shippers are talking a lot more about carrier consolidation. The carriers who can provide higher levels of service across an array of platforms will benefit from these trends. It is also important to keep in mind that our Mexico, Canada and Flatbed businesses are included in our Truckload segment and are contributing to the strong improvements in the various metrics you referenced above.

Finally, I would like to point out that we believe that each of our service offerings has the potential to be accretive to the earnings of our company. We would not be in any piece of business for any period of time if we did not see a benefit to the overall organization. We have faith and confidence in the management teams and the various initiatives underway in the CRS and Intermodal segments, which we'll discuss in more detail shortly.

Jason Bates: Are you still overbooked in every region of the U.S. every day? Or are there pockets of load imbalance or pockets of weakness emerging anywhere?

Jerry Moyes: Yes, customer demand has been very strong, and there may have been a day here or there in one geographical area or another that may have been soft at the beginning of the day, but we have generally booked out and are overbooked in every market.

Jason Bates: Can you describe the state of the general freight market thus far into the fourth quarter? Would you say October trends are stronger than usual on a seasonal basis or sequential basis coming out of Q3? How does this set-up conversations with shippers early in 2015 on rate discussions around your Truckload and Intermodal businesses?

Richard Stocking: Yes, demand was solid this quarter. Seasonally, July is generally a slower month, however, this year that did not seem to be the case. We were consistently overbooked this quarter with the demand pattern building throughout the quarter. We have seen that trend continue into October and expect more of the same in Q4.

In general, assuming a similar macroenvironment – economic environment to what we experienced this year, we expect that the demand side of the equation will remain robust in 2015. Our customers are very concerned about securing capacity, and we are actively engaging with them on the need for rate increases to cover the various inflationary pressures our industry is facing, including equipment and, more importantly, the drivers.

Jason Bates: Can you discuss rates? How did they trend throughout the quarter? Can we expect 5 percent rate increases on a go-forward basis? And what about 2015?

Richard Stocking: Regarding amount and timing of increases, as we have discussed in the past, it will vary by customer and lane. In some cases, we received north of 20 percent, but in others, we received much less. Rates trended favorably throughout the quarter, improving sequentially as the quarter developed. As we disclosed in our letter for the third quarter, our average increase in revenue per loaded mile was 5.1 percent in the Truckload segment, and we expect to realize a similar level of rate increases in the fourth quarter.

For 2015, we would expect to see rate increases between 4 percent and 5 percent depending on the supply-demand equation. If the economy is strong and the driver market remains tight, it is possible that we may need to be at the high end of that range or even north of that range, especially as we monitor the driver market to ensure we are appropriately compensating our drivers.

Jason Bates: For Truckload, you stated that you were able to grow 300 trucks within the quarter. Do you expect this trend to continue into Q4? How should we think about the trajectory of operational truck count as we move through 2015? What operational truck count is contemplated in the initial full year 2015 guidance you provided?

Virginia Henkels: Yes. In Truckload, we grew 300 trucks from the beginning to the end of the third quarter, and we expect to continue to grow an additional 200 trucks in the fourth quarter. Assuming a similar macroenvironment to what we have experienced thus far in 2014, we expect to see continued growth in our Truckload fleet in 2015 in the range of 300 to 500 trucks. Obviously, that will depend on a variety of factors, including macro trends, consumer spending, housing starts, GDP, et cetera, as well as the ongoing state of the driver market and our customers' growth plans.

Jason Bates: You have guided to a sequential increase of 200 in your operational truck count in Truckload. Is this increase based on buying additional tractors? Or is it based on seating contractors you already own that had previously been unseated? And what is your unseated truck count today?

Virginia Henkels: The tractor growth in the fourth quarter will stem from additional trucks purchased. Unlike many of our peers, the average operational truck count we report includes our unseated trucks. Although, this negatively impacts our utilization metrics, we feel this is a more accurate way to represent the data. Therefore, any growth in our average operational fleet would not stem from filling unseated trucks as they would already be included. We do not disclose the specific number of unseated trucks within our average operational truck count, but I will say that, at the current time, our unseated truck count is extremely low, especially when compared to historical averages.

Jason Bates: So we had a couple of fairly similar questions here. The first, within Truckload, tractors in service have fallen to 10,147, down 1 percent sequentially and down 7 percent year-over-year, yet you note that the decline is slowing. Given your driver pay increases and strong demand, why did this continue to fall so fast? And similarly, I get that some trucks were shifted from OTR to Dedicated, but the sequential decline in the OTR fleet of 81 trucks is still puzzling. Why are you confident in growing 200 trucks during Q4 '14? Isn't it possible that your pay rates maybe allows you to just run in place as opposed to actually growing?

Richard Stocking: Yes, keep in mind, we started the second quarter at a much higher fleet count for our Truckload division than where we ended. This caused the average truck count for the quarter to be higher than the ending count. We started the third quarter at that low point and via the initiatives mentioned above have successfully added 300 trucks by the end of the quarter, many of which came in late August and September after the driver wage increase. Therefore, the third quarter average was much lower than where we actually ended the quarter. As a result of the growth we have experienced over the past six weeks and that which we have experienced thus far in October, we are fairly confident in our ability to grow an additional 200 trucks on average for Q4.

Jason Bates: How fast can utilization rationally increase, (re) miles per tractor? It's up 2.1 percent this quarter to 1,907 miles. Where is the level you want to operate at?

Richard Stocking: Our goal is to be best-in-class. Obviously, with this metric, and when we reach that point to reset the bar for what is generally accepted as best-in-class. Our ability to do so will be a function of the ongoing focus on our processes, and continuing to drive the various operational initiatives we have discussed in the past throughout the organization. We know it will not happen overnight, but we will continue to push the discipline and accountability throughout our company in order to realize the continued improvement.

Jason Bates: Now that you've been operating with ELDs for a couple of years, have they added to or subtracted from utilization measured in miles per truck per unit?

Richard Stocking: We believe that they have helped our utilization as we've tied the available driving hours into our planning optimization system. We believe this has helped us to use our drivers' time more effectively and wisely and believe we have further opportunity to continue to improve in this area.

Jason Bates: The Truckload segment showed a sub-85 percent OR. Is there additional opportunities for margin improvement in this segment? Or is this about as good as it gets?

Richard Stocking: Yes, we feel like we're only on second base as far as margin expansion opportunity in this segment. There is no structural reasons we can't be in the low 80s operating ratio over the next couple of years. Over the past four or five years, we have attacked a lot of the low-hanging fruit, which has enabled us to move from the mid-90s OR to the mid-80s. To move from the mid-80s to the very low 80s will be more difficult, but we believe it's achievable. It starts with our cultural changes, helping people believe and understand that we must do things differently than we've ever done before if we expect to see different results. We must attack each of our processes from order entry to our planning to dispatch to delivery all the way through our billing to streamline and eliminate waste. Accountability and discipline are paramount in order for us to realize this success.

Jason Bates: Can you give us an update on your transporter operation into and out of Mexico? How about the transporter business into and out of Canada?

Richard Stocking: We're very pleased and encouraged with the growth and the progress of our operation and infrastructure in Mexico. The volumes are robust and growing, which should allow us to continue to expand our fleet. We also have a very strong, capable leadership team surrounded by a great support staff.

Regarding Canada, we have three fleets running into and out of Canada. Although we are still early in the process, we are optimistic about the growth potential in north of the border. Our long-term goal is to strive to replicate what we have in Mexico up in Canada.

Jason Bates: Moving into the Dedicated segment. Trucks ramped up faster than expected, accelerating that growth from the second quarter. Should we expect this to continue at this pace or faster?

Richard Stocking: As we mentioned last quarter, we had two very large Dedicated orders starting at the beginning of the third quarter. For the fourth quarter, we are experiencing some growth with our existing customers as well as some new smaller Dedicated accounts, but not to the extent we added tractors in Q3. The demand for our Truckload service is very strong and capacity is very tight, so we did not want to shift additional capacity to Dedicated in what we are experiencing to be – or are expecting to be an extremely busy fourth quarter. The demand, however, is still very strong for our Dedicated services. So for 2015, I anticipate higher-than-normal revenue and fleet growth but not quite to the same levels that we experienced this year in 2014.

Jason Bates: What was the magnitude of the Dedicated start-up costs in the quarter? And how much is expected in the fourth quarter of 2014?

Richard Stocking: Start-up costs in the third quarter were approximately $2 million, and we are not expecting much in the fourth quarter.

Jason Bates: Operating ratio in Dedicated improved on a sequential basis, and the year-over-year degradation in operating ratio also showed nice improvement versus what you saw in Q2. Are you expecting further improvement in the operating ratio in 2015? What operating ratio and truck count are contemplated for Dedicated in your 2015 guidance?

Richard Stocking: As we pointed out in our Q2 letter to stockholders, our Dedicated segment has operated in the 86 percent to 87 percent range for each of the last three years, in which we experienced more normalized levels of contract renewals and awards. As such, assuming normalized contract renewals and awards from here on out, we would expect to return to those levels of profitability by the end of this year and into 2015. I will also add that we ended the third quarter with a very positive trend.

Jason Bates: Is your improved operating ratio target dependent on your driving higher utilization per tractor in this segment? Or are there pricing gains and operational fixes you are making to improve segment margins?

Richard Stocking: It's some of both but not dependent on either one. We see improved margins as we gain more experience running these new fleets. Also, we are constantly reviewing each Dedicated operation and comparing it to how it was sold and how it is running. We solve any margin deficits by improving operational efficiencies on our side and in conjunction with our customers or by obtaining better pricing. This is an ongoing process, especially as we bring on new fleets.

Jason Bates: Dedicated revenues grew very nicely in the quarter, but segment weekly revenues per tractor, excluding fuel surcharge revenue, declined about 5 percent year-over-year and 1 percent sequentially. What drove this decline?

Richard Stocking: Mostly, this is a mix of customers and business. We have a lot of different operations in our Dedicated segment. Some customers have a very low utilization, no deadhead and supply their own trailers. In these situations, revenue per truck would be lower than normal because we have less cost to cover. Each Dedicated business is priced with the specific customer's needs in mind, and each is priced to meet the same margin and return on investment requirements. So the metric could actually drop while our profitability improves. However, our unseated truck count was a bit higher this quarter than in previous years as our turnover has increased due to the competition for drivers.

Over the past few months, our team has been working with customers in each of our Dedicated contracts to address this driver issue and get additional rates where necessary. We then pass along these rate increases to our drivers. Since each contract is unique, we can't provide a blanket driver wage increase like we did in our over-the-road business. These efforts to improve driver wage is combined with other initiatives we have implemented to deliver a better life to our drivers, are having a significant positive impact on our recruiting and retention efforts.

Jason Bates: Moving to the Intermodal segment. You added containers in the Intermodal segment for the first time in two years, while also driving loads per container higher by 5 percent year-over-year. Meanwhile, revenues per load were down 1 percent. What can you tell us about demand and pricing trends in your Intermodal business? Why did revenue growth slow at 4 percent in the third quarter?

Richard Stocking: Yes, our revenue per load looked lower due to the shift in mix. Our percentage of freight in the East, which has a shorter length of haul, was higher than it has been in the past. Additionally, to improve dray density in certain markets, we have focused on growing loads with a shorter dray. This improves profitability in these markets, but it also reduces the revenue per load.

Revenue slowed in Q3 mostly because we opted to reduce our Central TOFC business, which wasn't meeting our profitability expectations. Our COFC business increased 12.9 percent year-over-year, which was slightly below the Q2 year-over-year growth improvements of 15.7 percent due to us staging equipment for the preparation of our large new customer awards.

Total Intermodal year-over-year revenue growth will be softer due to the year-over-year comps on the TOFC business. However, we expect load growth for our core COFC business to remain strong.

Jason Bates: The Intermodal segment operating ratio is now back below 100 percent. Can we expect it to stay there?

Richard Stocking: We're expecting year-over-year margin improvements each quarter next year. The key for us to improve our profitability in our Intermodal segment is by increasing container turns, improving our dray efficiency and improving our freight selection. We have several initiatives in various stages targeting each of these areas. We have grown our internal dray fleet, drivers and owner-operators over 13 percent sequentially and 43 percent year-over-year. Nearly 75 percent of our dray moves in the third quarter were on Swift Power. This move has helped offset the recent cost pressures the industry is facing from third-party dray providers.

Additionally, we have picked up some great new customer awards in the third quarter that we are very excited about that should help us in Q4 and into 2015 with even more opportunities in our pipeline.

Jason Bates: Can you discuss how rail service is impacting the Intermodal business? What type of visibility are the rails giving you, and when to expect rail service improvements?

Richard Stocking: Yes, service has been an issue across the rail industry, and it has been very well-documented. Rail providers are investing heavily to address these issues, and we are starting to see some improvements throughout the majority of the country, but there are still ongoing struggles and pinch points throughout many of the rail networks. For 2015, we expect to see slow improvements over the course of the entire year.

Jason Bates: You now have 8,778 containers. Weren't you planning on having more than 9,000, getting the bulk of the increase in 3Q not 4Q?

Virginia Henkels: 8,778 was our average operational truck count for the entire quarter. Since we added the containers toward the end of the third quarter, it had a smaller impact on our full quarter average. Our ending container count for the third quarter was closer to 9,000. The rest of the containers were added the first couple of weeks of October.

Jason Bates: Do you plan on adding containers next year? If so, how many? And will it be spread out throughout the year? Or predominantly in the second half of 2015?

Virginia Henkels: This largely depends on what utilization we get on the equipment we recently added and what our volume growth trends look like over the next several months. Also, we still believe we have opportunities to improve our container turns to handle increased volumes so our current fleet can handle substantial growth in 2015. At this point, we do not have any containers on order for 2015, but that may change as we evaluate the business needs.

Jason Bates: So there were several questions about the CRS segment. First, how do you look back on this acquisition? What went wrong? And how do you get it back on track? What are the learning lessons as you potentially make additional acquisitions going forward?

Richard Stocking: Yes. The Central acquisition was the right thing to do for our company. It enhanced our suite of services and filled the gap in our service offerings that was requested from our customers. Some of the Dedicated business we are winning in our Dedicated segment is only made possible by having the support of a large, over-the-road refrigerated fleet.

Admittedly, the acquisition and integration has been more difficult than we originally anticipated. However, we, as well as the CRS team are excited about the improvements we are beginning to realize and the potential additional upside this segment will contribute to our earnings in the future. All of our management team is committed to and invested in ensuring Central is a successful part of Swift's suite of services. We have learned a lot from this acquisition, and we'll obviously use those lessons on future acquisitions.

Jason Bates: The Central segment showed a slight improvement in profitability, but all of its metrics seem to trend worse. Has this segment hit bottom? What should we expect on a go-forward basis?

Richard Stocking: Well, keep in mind, as we discussed in our last call – or call last quarter, we anticipated that the CRS segment would be pressured in Q3 as a result of the large driver wage increase we knew we were going to implement on August 4. In spite of the significant year-over-year cost headwind associated with that increase, the CRS team was able to drive enough positive change, such that the year-over-year operating ratio improved.

Regarding the latter part of the question, we do believe that the most difficult periods for CRS are behind us. The system is fully implemented. The workforce is trained and retrained. The new management team is in place, and we have tons of confidence in them, and they are completely onboard with the Swift way of doing business.

Our turnover has slowed, and we have recently implemented various specific recruiting initiatives that should enable us to grow the fleet going forward. Our sales team is starting to aggressively cross-sell the business, and our customers are excited about that. And we are confident in the CRS team's ability to execute and drive consistent year-over-year improvements going forward.

Jason Bates: Why does the revenue per loaded mile slow sequentially so fast from a 13 percent and 14 percent increase in the first and second quarter to only 4.6 percent increase in the third quarter?

Richard Stocking: During the second quarter of 2013, Central started a new Dedicated business that has a very short length of haul and extremely high revenue per loaded mile. This business caused the year-over-year comps in revenue per loaded mile to show double-digit percentage gains in the first and second quarters of 2014. Since we've had this business in both the third quarter of 2013 and 2014, the year-over-year comps have moderated, but the revenue per loaded mile was up 4.8 percent in the third quarter, which is relatively consistent with our truckload improvements.

Jason Bates: Deadhead in the Central Refrigerated segment has been trending in the wrong direction since the beginning of 2013. After the move-up to 15.9 percent in the third quarter, how should we think about a normalized level for deadhead in this division? When and how will improvement come?

Richard Stocking: The increase in deadhead has been a result of several items. First, the large Dedicated count I just discussed has a much higher deadhead as well, which is compensated by our higher revenue per loaded mile; second, we have won additional Dedicated business with other customers that also have higher deadhead than the over-the-road business; and finally, the reduction in truck count over the past couple of quarters has created some imbalances in our network, and in certain situations, we have had to increase our deadhead to maintain our commitments to our customers.

We do, however, expect to see improvements in this metric going forward. Driver turnover is improving, and we have implemented some specific recruiting initiatives to help us grow the fleet. We have a new task force that is focused on deadhead reduction. This team is looking at each planning area and utilizing both our dry and reefer networks to load our trucks where they land. We are very excited about these and other initiatives and are expecting to see improvements in the fourth quarter and into 2015.

Jason Bates: Is there an ongoing fundamental shift away from owner-operator tractors to company tractors? Or was that just a function of the market over the last two quarters? What are you doing to staunch the departure of these assets?

Richard Stocking: We have unfortunately lost some of our owner-operators over the past couple of quarters. Some left because of chemistry. Others did not like new policies. We are continually gathering feedback from our drivers, and these surveys have helped us learn the frustration points, and we are addressing the top issues and are beginning to see some positive results. In the past month, we have seen several of our owner-operators who have left come back to us.

Additionally, our most recent surveys are showing the highest levels of driver satisfaction since the acquisition, so we're hopeful that we'll be able to grow our owner-operators on a go-forward basis.

Jason Bates: What is the status of the 100-truck dedicated fleet at Central Refrigerated that was supposed to be resolved by now?

Richard Stocking: This account is the one that we've referenced a couple of times over the last couple of quarters. It is a private fleet conversion with unique operating characteristics, different from any other business CRS had ever participated in previously. CRS signed the contract with the customer last summer and has been working with them since that time to improve the operational efficiencies and profitability.

I have personally spent a considerable amount of time this past quarter, working with our team as well as meeting multiple times with the customer. The result of this work and efforts is that we now have an agreement in place with our customer, whereby they will help us mitigate some of our costs in the short term while we jointly work with them to find alternative solutions that will address both of our needs by the end of this year.

Jason Bates: Why do loaded miles continue to fall?

Richard Stocking: Loaded miles were impacted by higher turnover in Q2 and the early part of Q3, which caused our truck count to decline. We have worked diligently over the past few months to correct these issues and are seeing positive results heading into the fourth quarter. All of our utilization trends have turned favorably and are at their very best level since the integration, and our driver turnover has slowed significantly.

Jason Bates: Can you talk about the recruiting initiatives you're implementing in CRS as opposed to those in the Truckload segment?

Richard Stocking: Most of the initiatives are very similar. The driver wage, some of the initiatives we have in place to deliver a better life to our drivers are the same. And there's many, a potpourri of different things that we're doing to save those drivers and go from a hire-to-retire in our company. Additionally, we are revisiting all of the training we have implemented to make sure our employees know how to fully utilize all of the tools at their disposal.

Jason Bates: There were a couple of questions on our Logistics business. Are you still planning to grow logistics and brokerage to $1 billion in gross revenues? And what time frame is contemplated for that growth? Is growing that business more challenging than you expected?

Richard Stocking: We view our Logistics business as a three-legged stool. We have the more traditional brokerage business, single-sourced capabilities and freight-under-management capabilities and opportunities. We are pleased with the rapid growth in improving profitability we have seen recently in our Logistics business. Year-to-date, through September, we have realized in excess of 200 percent year-over-year growth in our traditional brokerage model. We have also won several single-sourced opportunities this year. In addition, we have also recently been awarded and are currently implementing several large freight-under-management contracts. We expect continued, aggressive growth and respectful profits from this line of business in 2015 and beyond.

Our long-term goal is to grow logistics to $1 billion in gross revenues. This growth could be irregular as some freight-under-management contracts could be $50 million to $100 million or more. It may take us a few years or so to get to this level. But we believe we have built the team and the foundation to facilitate this growth and are excited about our progress so far.

Jason Bates: Should we expect customer start-up costs to cut into your margins in Logistics?

Richard Stocking: Although this is a possibility with certain Logistics contracts, we're not anticipating start-up costs to be significant at this time.

Jason Bates: Moving on to debt. What level do you aim to get on debt-to-EBITDA basis?

Virginia Henkels: As we have discussed, we are targeting to be at 1.5 times by the end of 2017. But in general, our goal is to have a leverage ratio between one and two times debt-to-EBITDA.

Jason Bates: You paid down $56 million of debt in the quarter and have generally been using your cash flow to pay down debt each quarter for the past three to four years. Full year 2015 guidance includes $0.18 to $0.19 per share from refinancing and from debt reduction achieved in 2014, but does this guidance also include debt reduction actions to be taken in 2015? Do you intend to continue using your cash flow for these purposes next year?

Virginia Henkels: Yes, we do anticipate continuing to use cash flow to repay debt as well as reinvest in the business. We are actually anticipating our debt balance will increase in the fourth quarter by about $30 million as we refinance the notes and pay the additional redemption costs as well as have higher CapEx as we discussed in the letter.

EBITDA is anticipated to be higher in the fourth quarter as well, so we expect our leverage ratio should remain relatively consistent with the third quarter. The $0.18 to $0.19 of accretion associated with the interest expense saving assumes LIBOR will remain somewhat consistent with 2014 and that there will be some additional debt reduction in 2015.

Jason Bates: A couple of questions on drivers. How much of the driver pay increase in Q3 was onetime in nature as in hiring bonuses?

Richard Stocking: The driver pay increase we gave in the third quarter was not onetime in nature but rather targeted increases for specific bands of drivers, where we were experiencing a higher turnover.

Jason Bates: Would you kindly be more granular with your description of the driver pay package? How much rate increase do you need to offset the driver pay increase? When do you think that you will need to take another pay increase? Is the industry just rearranging existing drivers from carrier to carrier with this latest round of pay increases? Or are new people being attracted to the industry?

Richard Stocking: Very good question. For competitive reasons, we are not providing details with regard to the driver pay package. The growth we experienced in Q3 was, in large part, as a result of our efforts around improving the overall driving experience and the compensation for our drivers. Our retention has improved, and our unseated truck counts are extremely low.

We are pleased with the results we have seen thus far but remain hypervigilant on this front. We need to ensure we continue to provide our drivers with a better quality of life, which we feel Swift is uniquely positioned to provide through our network density, our suite of services, the driver touch points throughout the network and pay, the combination of the large number of miles we can provide them and the pay per mile.

We recognize the importance to stay ahead of this curve on these initiatives to fuel additional growth. We are expecting that another pay increase will be required in 2015. We believe there is some shifting of drivers between carriers but also believe more people are coming into the industry as our current pipeline of drivers and academies are full.

Jason Bates: So there were several questions, which I would just categorize into a miscellaneous category, so we'll kind of go through those at this point. How much profit improvement is expected in the non-reportable segments in the fourth quarter? Typically, not much discussion is given to this segment, but historically, it has represented a large amount of the sequential improvement in earnings from Q3 to Q4.

Virginia Henkels: Yes, we are expecting the profitability in the other not-reportable segments to increase in the fourth quarter and should be in the range of $5 million to $8 million. There are a lot of moving pieces in this area, and some of the project business – the seasonal project work is recorded here, which helps drive the results in the fourth quarter.

Jason Bates: How can you be so confident that the fourth quarter project work will be so sizable? Isn't the size of the opportunity tied to customer demand at the retail level? What happens if a depleted customer shows up in the fourth quarter?

Virginia Henkels: A large portion of our Q4 project business is fixed regardless of the strength or weakness in retail sales. Furthermore, a large portion of this business has already been hauled or is in the process of being hauled. Therefore, we have a high degree of confidence that this business will generate results within a certain range.

Jason Bates: What was the software package that was written off?

Virginia Henkels: The impairment was related to some software in logistics that was no longer being used.

Jason Bates: How much interest savings do you believe will occur during Q4 of 2014, if any?

Virginia Henkels: With the callable notes in mid-November, offset by increased debt associated with the debt extinguishment costs and the additional cash CapEx in the quarter, we are expecting a sequential reduction of approximately $2.5 million in the fourth quarter compared to the third quarter.

Jason Bates: What was the consolidated interest coverage ratio?

Virginia Henkels: As of September 30, the interest coverage ratio was 6.74 with a minimum required of 3.25.

Jason Bates: Have you looked at additional acquisitions? If so, what are you seeking in an acquisition? And how would you finance it?

Virginia Henkels: We have acquisition opportunities across our desk almost every day, albeit most of them are too small to consider. We are not actively pursuing any acquisitions at this time as we believe we have great opportunity to grow and improve the profitability of our existing businesses. If we were to consider an acquisition, we would be looking for something that will enhance our current suite of services or gives us some additional strategic advantage. As we have discussed in the past, this could be in Canada, in Mexico to add on to our refrigerated service offering or perhaps, in logistics, if the valuations are reasonable, et cetera.

As far as financing, of course, that would depend on the size and structure of the deal. Central was $225 million, and we financed that with cash and it had a minimal impact on our leverage. We would consider that again for the right opportunity.

Jason Bates: Can you give us some high-level assumptions around the guidance of $1.62 to $1.72 for full year 2015? What segment do you expect to attribute the most to the 10 percent to 15 percent operational improvement in results? CRS? Truckload? Intermodal? Or Dedicated? Can you give us some high-level detail around these segments?

Richard Stocking: The simple answer is that we expect to have improvement in each one of these segments. Truckload, CRS, Dedicated, Intermodal and Logistics all have opportunities for growth and for further operational efficiencies. In Truckload, demand is strong, and as capacity remains tight, we have the opportunity to grow if we can continue to attract drivers, which we believe we're doing a pretty good job at this time. Rate increases will help, but other factors such as home time are just as important to these drivers. Growth is anticipated through improvements in utilization, growth in our fleet and with rate increases from our customers.

As we have discussed, we have opportunities to drive further improvements in our operating ratios as well by streamlining processes and eliminating waste within all those value streams.

In Dedicated, we're very excited about Dedicated. The demand is also strong. Although, as we have discussed, we expect our growth in 2015 to be a bit lighter than 2014. But with the rapid growth and the start-up costs we experienced this year as we drive the efficiencies in the new and some deficient accounts, we expect to drive year-over-year margin improvements in this segment as well.

We've already talked about our opportunities at CRS to rebound from the challenges we have faced this year and drive the revenue and operational efficiencies we've identified when we chose to acquire Central. There's a potpourri of things that are being worked on, and we should see those improvements going forward.

In Intermodal, as we have discussed, the new awards brought on in the second half of this year will provide an excellent foundation for growth in 2015 and the operational improvements with regard to our network, our dray costs, our container turns and the improvements in rail service should help drive further improvements in this OR.

Logistics has both growth and profitability opportunities in 2015 as well as we continue to grow in the brokerage space, implement the new freight-under-management awards and continue to build upon this platform. We're very excited about our Logistics arm. Overall, we're excited about how the market is shaping up for 2015 and even more excited about the opportunities we have to outperform in the market.

And with that, we'll turn the call over to Jerry Moyes for a wrap-up.

Jerry Moyes: All right. Thanks, Richard. In summary, I think it's fair to say that we're not pleased with the results for our first three quarters this year. We got off to a very slow start in Q1, and we weren’t as prepared as we should have been to deal with some of the challenges that we have met.

Having said that, the team has done a good job of buckling down, coming together and putting together a plan of attack that should enable us to get back on track and will assist us in delivering better results for Q4 and 2015.

First, we were completely caught off guard with the weather this year. The team has done a good job of putting tools and processes in place that we will be much better prepared for these events if they happen, going forward. In other words, if we have a bad year, we're better prepared for it.

Secondly, we've recognized that the Central acquisition and integration has been much more difficult than we'd anticipated. While we've made some mistakes along the way, we have learned from them and are currently executing a very detailed plan in order to help us get back on track, as Richard has mentioned.

Third, we have done a very good job of getting bum- in the seats over the last couple of months. This pay increase, we probably should've started it six months earlier, but it is what it is. Today, our academies are full. The varied initiatives that we talked about are starting to pay off. We will continue to monitor closely the driver environment, and we'll take the necessary actions to ensure that we're giving them the best overall driving experience and compensation. Drivers are the key to our success.

Fourth, our actions have hurt us both in insurance and claims and our work comp. We have invested in a variety of technological advancements that will assist us to be in front of these going forward, but the investment in our drivers may be the best thing that we have done to curb these trends. Retention of good drivers will lead to improved accidents and insurance trends.

Fifth, we have a very great sales team. We're very proud of the relationship that we have built over the past 50 years with our customers. We're aggressively working with our customers to ensure that they understand and appreciate the rising costs our industry is facing. We are pleased with their willingness to help us with these costs and expect that this will continue going forward.

Overall, we know 2014 has had its ups and downs, but we have a very detailed plan in place to ensure that we're -able to execute at a very high level going forward over the next five quarters. We have a great team in place here at Swift, starting with our drivers to our leaders. When you take the above initiatives plus the $0.18 to $0.19 in additional earnings from the refinance, we should have a very strong 2015.

We want to thank you for joining us on this call and appreciate your continued support of Swift.

END