SWIFT TRANSPORTATION COMPANY

Moderator: Jason Bates
July 28, 2015
11:00 a.m. ET

Operator: This is conference # 83626856.

Operator: Good morning. My name is Sylvie, and I will be your conference operator today. At this time, I would like to welcome everyone to the Q2 2015 Swift Transportation earnings call conference call.

Thank you. Jason Bates, Vice President of Finance and Swift's Investor Relations Officer, you may begin your conference.

Jason Bates: Great. Thank you, Sylvie. We'd like to welcome everyone out to our second-quarter 2015 Q&A session. As a reminder, we have posted a comprehensive letter to stockholders, which summarizes our results of the front page of our Investor Relations website.

We will start the call today with a brief forward-looking statement disclosure. This call contains statements that may constitute forward-looking statements, which are based on information currently available. Such forward-looking statements are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995.

Such forward-looking statements are inherently uncertain, are based upon the current beliefs, assumptions and expectations of Company management and current market conditions. Which are subject to significant risks and uncertainties as set forth in the Risk Factors section of our annual report Form 10-K for the year ended December 31, 2014.

As a result of these and other factors, actual results may differ from those set forth in the forward-looking statements and the prices of the Company securities may fluctuate dramatically. The Company makes no commitment and disclaims any duty to update or revise any forward-looking statements to reflect future events, new information or changes in these expectations.

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 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'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, and I will be moderating today's Q&A session. We genuinely 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 follow-up questions, feel free to reach out to me after the call.

So with that, will start the Q&A portion of the call today with a couple of questions on adjusted EPS trends and guidance. Before moving into a discussion about the various operating segments.

Jason Bates: Does your adjusted EPS guidance range of $1.64 to $1.74 include or exclude the $0.03 after-tax charge related to the non operational contractual dispute in the second quarter?

Ginnie Henkels: When we originally established the EPS guidance range, we did not anticipate this charge for the contractual dispute. Nor did we anticipate the refinancing of the credit agreement that we discussed in the letter. Therefore, although neither of these were originally included, they're both included now and partially offset each other.

Jason Bates: What was the charge related to non operational contractual dispute due to?

Ginnie Henkels: We are subject to a nondisclosure agreement on this topic, and therefore cannot provide the details. Although I can confirm, this was not related to any accidents or to our core operations, which was why it was termed non operational.

Jason Bates: Was the $7 million reduction in the annual interest expense originally contemplated in your full-year EPS guidance?

Ginnie Henkels: Yes. As I just mentioned, the expected savings associated with the new credit agreement was not originally contemplated in our guidance. But it partially offsets the impact associated with the contractual dispute, which was also not originally included.

One other point I want to make on the expected interest savings, for modeling purposes, is that the $7 million is based on interest rates as of today. Keep in mind that our loan is LIBOR based and interest expense will be impacted by any change in rates.

Jason Bates: Given the reported balanced conditions of the broader Truckload market in the second quarter, why not reduce the targeted 700 to 1,100 tractor count growth during the second quarter of 2015? Has the composition of the growth changed? I.e., favoring Dedicated over Truckload, and is there a bias towards the upper or lower end of the range?

Richard Stocking: Through the second quarter, we have already grown approximately 300 trucks in 2015. So we do believe that we can achieve the 700 to 1,100 truck growth this year. Although it is likely to be towards the lower end of that range, than the higher end.

Although you cited balanced conditions, we believe that balanced will shift in our direction with the freight demand and regulation changes in the second half of the year. Providing an environment in which we can grow profitably. Assuming we can continue to attract and retain our drivers.

If our assumptions are not correct, we do have the ability to adjust our fleet growth as necessary in either direction, by managing the trades and incoming purchases. As far as growth by segment, we are anticipating the majority of the growth to be in Truckload followed by Dedicated and CRS.

Jason Bates: Can you please speak to your return criteria for when you decide to add trucks to the fleet? Swift is now adding company-owned trucks in all three segments. Truckload, Dedicated, and CRS.

Yet the three segments have different operating ratios. 86%, 89% and 93%, respectively. What are the return metrics Swift uses to evaluate adding new trucks to the fleet. Is there a specific return threshold pretax or after-tax?

Ginnie Henkels: Our expectation is with that we will continue to make improvements in the operations of Dedicated and CRS. So, their OR’s will be similar to Truckload, longer-term. So therefore, in Truckload, we monitor utilization, freight trends, rate trends, market trends, et cetera, to determine the size of the fleet. This happens almost on a daily basis.

In Dedicated, we have certain targeted return ratios based on the investment required on an account by account basis. And then monitor and adjust our performance, as necessary, to reach those return ratios. For Central, we use a combination of these methods since they have both Dedicated and over the road irregular route businesses.

Jason Bates: Is management worried about the increase in industry capacity, or is the market absorbing it?

Richard Stocking: We do not see a significant increase in capacity. Freight is seasonal, and in softer periods like July, there may appear to be more capacity. But that capacity is gone once there is a pickup in freight volumes.

Jason Bates: Fourth-quarter earnings seasonality is significant for Swift. We've heard mixed reviews about peak season expectations, and we're curious what your customers were telling you? What are initial expectations for the upcoming peak shipping season, as well as the project business Swift generally benefits from during this period?

Richard Stocking: We believe volumes in Q3 and Q4 will meet our expectations. Customers are positive about the upcoming busy season, and we believe we will have a peak.

Some customers will have an elongated peak with online offerings, and others will likely experience more of a spike. But in general, they expect increased volumes over current levels. With regard to the project business, we are expecting this will be fairly consistent with last year, based on our current discussions with our customers.

Jason Bates: Can you specifically comment on whether or not your outlook for the second half of 2015 has changed, in light of recent freight trends and dynamics versus your prior commentary?

Richard Stocking: Our outlook for the second half of this year is consistent with prior expectations.

Jason Bates: While the quarter exceeded expectations, operating earnings only increased 5% versus 2014, and are roughly flat with the results achieved two years ago. With the recent driver pay increases likely weighing on margin performance in the second quarter, can you please discuss expectations for operating improvement for the remainder of 2015?

Ginnie Henkels: By operating earnings, I'm assuming you are referring to operating income. Keep in mind, there are also tens of millions of dollars of below the line earnings improvements we have been able to deliver over the past couple of years as a result of our financial leverage. In addition to the operating income improvements you pointed out.

However, specifically related to your question about go forward op income improvement opportunities in the second half of 2015, we agree that driver and owner operator pay increases will be headwinds. However, in spite of these headwinds, we are currently projecting second half 2015 year-over-year op income improvement in all four of our reportable segments. These improvements are expected to be fueled by additional fleet and loaded mileage improvements, continued rate growth and ongoing cost control initiatives.

Jason Bates: What would get you to lift your outlook giving the state of demand and ongoing pricing?

Ginnie Henkels: The two key items that would cause us to consider lifting our outlook would be improving GDP and consumer spending. And the associated impact that would have on pricing, as a result of the supply demand imbalance it could continue to perpetuate.

However, if you are asking what items other than those two could cause us to consider lifting our outlook, I would list the following. Meaningful traction in the strategic team's targeting improvement in utilization and reduction in deadhead, favorable fuel trends, significant continued improvement in accident trends and/or favorable actuarial claims development, and dramatic improvements in used truck pricing. To name a few.

Jason Bates: We will move now into the operating segment questions. The first is the Truckload segment, and there were a lot of fairly similar questions.

What percentage of your Truckload bids were implemented in the second quarter of 2015? What percentage do you expect to have implemented during the third quarter?

Richard Stocking: We don't disclose the exact percentages. But as we have said in the past, the bids are pretty evenly distributed throughout the year. Between the second and third quarters, we expect to implement or review approximately 40% of our annual volume.

Jason Bates: It seems like a large fleet addition, slightly softer rates given excess capacity, and looser utilization, given the size of fleet adds. How do you think the demand picture is shaping up for the second half of the year?

Richard Stocking: The fleet additions were in line with our expectations, if not on the lower end. The rates at roughly 5% year-over-year improvement were solid, and also consistent with our expectations.

Utilization, as you referenced, was pressured by the fleet adds. However, based on the feedback from our customers, we are encouraged about the second half demand picture.

Jason Bates: Can you discuss the balance between asset utilization and productivity? I.e., miles per truck per week versus fleet growth? Other carriers have discussed slowing fleet growth.

Ginnie Henkels: As mentioned, in the second quarter, we had a lot of trucks coming in and going out, which obviously weighed on our productivity metrics. Based on our customer's feedback regarding expectation and needs as well as our hiring and retention efforts, we feel that our fleet growth objectives are appropriate.

However, if an adjustment needs to be made due to driver shortages, slowing GDP environment or customer sentiment. We have the flexibility to right size the fleet accordingly by adjusting trades or purchases.

Jason Bates: Will rate increases secured in the second quarter of 2015 and the third quarter of 2015 be sufficient to fully offset the May driver pay increases?

Ginnie Henkels: If you are asking whether or not the rate increases we achieved in Q2 and those we expect to achieve in Q3 would be sufficient to offset the driver wage increase from an earnings perspective, assuming all other costs remain flat, the answer is, yes.

But we would remind you that there are a variety of other cost headwinds that our industry is facing, which rate increases from our customers are designed to help mitigate, such as driver recruiting, training, and retention costs, the rising cost of equipment, and the rising cost of insurance.

Jason Bates: Can you discuss your thoughts on spot freight? Specifically, do believe there is less available due to customers moving more under contractual arrangements? If yes, how much of the reduction in spot freight is the economy versus shipper decisions? Can you discuss shipper adherence to contract terms?

Richard Stocking: Unfortunately, given the size and extremely fragmented nature of the Truckload market, it is impossible for us to quantify how much of the movement in the spot market is tied to the economy versus shipper's decisions. The only thing I can definitively tell you, is what our customers are telling us, and what we're seeing day in and day out.

However, we do agree that many customers have moved freight from the volatile spot market to contractual and Dedicated environments. They have indicated to us that they are doing so out of concern for capacity availability in the coming quarters.

Jason Bates: There is increasing evidence that Truckload spot markets are loosening, which is weighing on your spot market rate increases. We know Swift has very little direct spot exposure.

But do you think that the looser spot market is a leading indicator for where Truckload contractual rate renewals are headed? Why or why not?

Richard Stocking: You are correct. Unlike many of our peers, Swift has very little exposure to the spot market. Last year, people criticized us for not leaving our contract customers on the curb to chase the lucrative spot market rates. Now those same people are singing a different tune, as we have ample contracted and Dedicated customer freight when several of our peers are being negatively affected by the weakening spot market.

Regarding the second part of your question, it is important to remember that the correlation between spot market rates and contract rates is not as perfect as many have tried to depict. In our experience, the spot markets are heavily influenced and driven by one-off and unique events. Such as ice storms, hurricanes, port strikes, et cetera.

As you would imagine, these unique events, while potentially having meaningful impact in the short-term price to move freight from one market to another are unlikely to determine the one, three or five-year rates that our customers will agree to pay in our contract environment.

Customers are concerned, as we've said previously, about capacity. And are moving their freight from spot markets to contract markets. And in many cases, are paying a premium to do so, for the benefit to secure capacity.

So the contract market is getting more volume at strong price points, while the spot market is losing business. Which further drives down pricing, as the supply demand equation plays out. So in some ways, you could argue that the two markets are divergent, or at the very least, not leading indicators of one another.

Jason Bates: Is July softer than normal? We recognize that most of your business is contractual in nature, but some of the spot market indices would seem to indicate that freight has been rather weak the past few weeks.

Also, is the equity market putting too much credence on the spot market data that is now widely circulated every week? Has the change in sentiment towards Truckload group been rational here in 2015?

Richard Stocking: Great question, or should I say questions. I'll try to hit them in order, here.

First off, July is seasonally a softer month. I would say that this July feels more normal than those we have seen in recent years past.

Regarding some spot market indices, as I referenced earlier, customers are moving freight from spot to contract out of capacity and availability concerns. And yes, we agree that the equity market is paying too much attention to the weekly spot market data, and in many cases, misinterpreting it. The market has felt a bit irrational from our perspective.

Jason Bates: You added 220 attractors year-over-year, but dropped 80 sequentially, with a large increase in company-owned tractors. What is the driving factor here?

Ginnie Henkels: The fleet counts toward the latter part of the quarter was higher than the operational average for the quarter. Driven by a variety of factors, including the driver wage increase on May 1 and the significant influx of new equipment during the quarter. In addition, the positive trends have continued, with our Truckload fleet having increased more than 200 units in the month of July.

Jason Bates: Management noted weaker tractor utilization during the second quarter. Partially the result of a tougher year ago comp, but also as a result of increased tractor trade-ins and in servicing.

Can management quantify how much of the trade-ins and in servicing negatively impacted utilization? And in general, will his headwind continue during the second half of 2015?

Richard Stocking: We don't quantify the exact impact. However, given the manufacturer delays experience in the first quarter, the second quarter had a bigger bubble of trucks to absorb.

We will continue to have some of these same pressures in the second half of the year, given the volume of newer technologically advanced equipment we are bringing into our fleet. However, we hope the impact will begin to lessen as the year unfolds.

Jason Bates: Revenue per loaded mile improved strongly during the second quarter 2015, up 4.8% year-over-year. Can Swift provide an update on yield growth expectations for 2015?

Richard Stocking: We actually improved our rates by 4.9% in the second quarter, slightly higher than you referenced. The 4.9% increase comes on the heels of a 6% increase last quarter, and a 6.5% increase in Q4 of 2014.

As we have forecasted all year long, we continue to expect the third and fourth quarters to be slightly more difficult. Simply given the strong prior year comps. But continue to remain very confident in our ability to deliver on our 4% to 5% previously stated range for rate increases for full year 2015.

Jason Bates: Management cited a 15% improvement in Truckload turnover during the second quarter of 2015. Can management provide more color, i.e. this improvement is relative to what time period, and are there absolute turnover metrics that management can talk to in order to better frame the improvement?

Richard Stocking: For competitive reasons, we do not want to provide too much detail in this regard. But we are excited about our progress.

We are content to say that we are trending strongly in that direction, in the right direction. We are proud of our people and the various initiatives we have implemented as it relates to recruiting and retaining the best drivers in the industry, and providing them a better life.

Jason Bates: Are you finding it easier to seat tractors following pay raises, given you increased your Company fleet 9%?

Richard Stocking: Well we've been very encouraged by the response to our recent driver wage increases. As I stated previously, not only did we increase the Company fleet throughout the quarter, but those trends have continued into the third quarter.

Jason Bates: Was the 1.4% decline in loaded miles per tractor due to the increase in tractor count? Was their change in customer mix in there, as well?

Richard Stocking: There was no meaningful change in customer mix. The utilization impact was predominantly associated with the increase in the fleet count.

Jason Bates: How are your daily pre-bookings?

Richard Stocking: I'm assuming you are referring to the second-quarter. While we do not disclose the exact figures related to our bookings, I will say that during that period, our pre-bookings and the same day booking volumes were not materially different year-over-year.

Jason Bates: Total miles are up 0.9%. Fleet is up 2.2%. Are you over building the fleet and pressuring rates, given the mileage demand?

Richard Stocking: I would, again, reference the fleet bubble we discussed previously to address the slight gap between miles and the fleet growth. However, we feel that we are preparing for what will likely be a busy remainder of the year. Keep in mind we have a lot of flexibility built into our fleet, with multiple levers at our disposal to pull, to ensure we have the fleet right sized to meet our customer's requirements.

Jason Bates: Weekly revenue per tractor was up 3.4%, and revenue per loaded mile was up 4.9%. Both shy of targets and last quarter's gains. Should we expect this slowdown to continue in this market?

Richard Stocking: We never provide any revenue for tractor or revenue per loaded mile targets. So, I'm not sure what you mean by those figures being shy of targets.

Regarding the slowdown from the prior quarter. We reiterate what we said previously, about the year or prior-year comps becoming tougher each quarter this year. So were not surprised that the second quarter slowed down.

Nor will we be surprised if Q3 or four quarter slowdown on a year-over-year basis. However, we continue to remain very confident of delivering the previously committed 4% to 5% year-over-year increases in our rate per mile excluding fuel surcharge revenue. Which we deem to be a solid year-over-year improvement.

Jason Bates: Congratulations on a very solid performance on the Truckload operating ratio. Should we expect this to move to the low 80%s to continue given your normal second-half progression?

Richard Stocking: Thank you. Yes, we expect to see continued progression in our adjusted OR for our Truckload segment. We will soon lap the August 2014 wage increase.

We will continue to drive this technologically advanced and driver-friendly equipment into our fleet, as well as focus intensely on driving improved productivity. All the while, continuing to work with our strategic customer partners on rate increases and our network optimization. We believe the combination of these various activities will enable us to continue to drive the adjusted OR into the mid-and eventually low 80’s.

Jason Bates: Can you please comment on any indications with respect to customer demand outlooks for the second half of 2015? And what this could mean for Truckload utilization year-over-year in the second half?

Richard Stocking: I want to emphasize that our organization is all over utilization. We have cross functional strategic focus teams specifically attacking pressure points throughout the fleet to push utilization in the right direction.

However, keep in mind, the fleet adds we have discussed will pressure these initiatives in the short term, but customer demand will not be the issue. We remain focused throughout the organization on driving improvements. Hopefully sooner rather than later.

Jason Bates: At this point, would you expect 2016 price increases to decelerate, accelerate, or be roughly consistent with 2015 increases?

Richard Stocking: Right now, we would expect them to be relatively consistent. However, the ELD mandate could move those numbers upward, depending on customer reaction and the timing and enforcement mandate.

Jason Bates: What are you seeing from a demand standpoint, thus far, in Q3? How did customer demand trend throughout the quarter? Were there any notable areas of strength or weakness that excite or concern you looking into the back half of the year?

Richard Stocking: In the second quarter, demand trends were relatively flat from month to month. And as I mentioned earlier, seasonally, July is a slower month, with this year being consistent.

However, based on our customer feedback, we expect things to pick up into the back half of the year. And are positioning ourselves accordingly so that we can take advantage of what looks to be a solid second half of 2015, and setting us up well for 2016.

Jason Bates: So, let's move now into questions about the Dedicated segment.

Do you anticipate any large Dedicated contract onboarding in the second half of 2015? If so, will there be startup costs associated with those contracts?

Richard Stocking: Our Dedicated pipeline is full, and we expect some great additions in the second half of 2015. We are very close to closing on a few of these accounts with some excellent customers.

For 2015, we anticipate our contract wins to be the smaller to midsize variety, contracts typically between 10 and 75 trucks. These smaller accounts do not cause as much disruption to our network, such as staging equipment, hiring staff, procuring facilities, et cetera.

Therefore, we do not expect significant startup costs in the latter half of the year. However, if a significant opportunity presents itself, we will evaluate appropriately.

Jason Bates: How much more of the insurance costs remain? Seemed like a solid job on the operating ratio in terms of making improvement versus targets. Will the improvement in Dedicated's work comp help out future quarters, in terms of accruals?

Ginnie Henkels: We developed several initiatives in our Dedicated business to address our elevated insurance costs. And we're happy to report that we are seeing very positive trends in accident frequency and severity in our Dedicated business.

Safety is a significant priority for us, and our team has worked diligently to improve in this area. However, as we discussed in the letter, due to the long tail associated with actuarial models, we expect our insurance and claims costs in Dedicated will taper gradually through this year and we will see more benefits next year.

Jason Bates: Were there any headwinds in the Dedicated operating margins during 2Q 2015, startup costs, other, that potentially dissipate as the year progresses?

Richard Stocking: In addition to the elevated insurance costs we discussed above, we had some headwinds with a couple of new large accounts that were not operating as efficiently as the customer or we expected. As a result, we have been working with our customers to change processes, procedures, rates, et cetera, in order to meet our expectations.

These are fantastic customers that are just as concerned about our operational efficiencies as we are. And as a result, I'm confident that we will develop a mutually beneficial arrangement, and I'm excited about the future growth with these folks.

Jason Bates: It seems that the Dedicated segment is adding more company trucks and less owner operators. Was that due to the pay increases?

Richard Stocking: That's a good question. Our Dedicated business is much different than our over-the-road business. And in many situations, it doesn't make sense to add owner operators.

For example, if the business model requires two driver shifts on one truck, or if the business requires specialized equipment, it is not conducive to the owner operator. So the growth in company trucks has more to do with the specific accounts than anything else.

Jason Bates: Can management provide more granularity on what drove the improvement in Dedicated revenue per tractor? How should we think about this metric during the second half of 2015?

Richard Stocking: Yes, this improvement was mostly driven by rate increases and some improvement in utilization. As we have implemented driver wage increases across our Dedicated fleets, we have worked with our customers to give corresponding increases to offset the cost. We have experienced very positive results from these efforts, and we should see most of these benefits in Q3 and Q4.

Our customers recognize the challenges we are facing in this very tough driver market, but they also recognize our efforts to improve driver retention by more than just pay increases. As a result, they have been phenomenal business partners, and have been working with us to address these areas.

Jason Bates: That takes us to the Intermodal segment.
Intermodal improved to a 98.1% operating ratio. Is this move to the upper 90%s sustainable? Where do you see it trending in your second half outlook?

Richard Stocking: The improved OR in Q2 is indicative of the systematic improvements which have been implemented in Intermodal. The operation of a more tightly refined COFC network, improved operational infrastructure, increased utilization of Swift dray power, improved container turns and reduced chassis cost are sustainable. Our short-term objectives is to operate in the mid-90%s operating ratio.

Jason Bates: What are the biggest impediments from Intermodal having a good operating ratio, except for Q4 each year?

Richard Stocking: The critical factor for Intermodal to deliver a positive OR throughout the year, is to deliver a sustained level of volume with strong revenue attributes. This will allow Intermodal to more adequately cover fixed costs during seasonal slowdowns, while keeping the increasingly large dray fleet more fully utilized. The steady COFC growth in the past year, along with improved dray operations, is making significant improvements to achieving stronger OR throughout the entire year.

Jason Bates: What is the full potential of the Intermodal business? When would you expect the unit to fully earn its cost of capital?

Richard Stocking: We remain committed to growing the Intermodal division into a profitable, $1 billion business unit. Customers increasingly value the portfolio of services Swift provides, and Swift, increasingly, values customers who utilize our full portfolio of services. The unit is very close to covering its cost of capital on a full-year basis.

Jason Bates: What level of margin gets you comfortable to increase the fleet again? How profitable can this get? Can you operate in the upper 80%s?

Ginnie Henkels: We will increase the fleet size when the realized container turns indicate the fleet is being fully utilized. When the container fleet is fully utilized, and we're confident that the profitability results will justify the fleet growth. Our current objective is to deliver an operating leverage in the low 90%s and then continue from there.

Jason Bates: How much more operating efficiency can you get out of your Intermodal operations that is not related to rail service?

Richard Stocking: We believe we can move 15% to 20% more COFC loads with our existing fleet. Acceptable rail service is a foundational component to achieving this objective. We believe running a well-managed and defined container network and executing a disciplined dray strategy based upon the use of Swift power is also critical to achieving this goal.

Currently, over 85% of dray moves are completed utilizing Swift power. Attaining this level of Swift dray utilization was a critical intermediate objective to meeting our operational and profitability objectives.

Jason Bates: How has the sales process within Intermodal changed over the last 12 months? Are we moving past the service issues from the rails? How were your container turns impacted on the quarter by rail service?

Richard Stocking: The sales process at Swift has increasingly emphasized a targeted sale to support both our growth objectives, in addition to delivering dray and network efficiencies. Rail service has significantly improved over the past year.

Although, there are still lanes in which improvement is desirable, our rail partners have demonstrated a commitment to improve overall Intermodal service. Our container turns were not significantly impacted by rail service in this Q2.

Jason Bates: In Intermodal, your price per load ex-fuel was down 2% year-over-year, which you attributed to some of the mix shift between TOFC and COFC. Can you comment on what you are seeing in just your COFC pricing trends, as some of your competitors have discussed upwards of mid-single digit pricing in that market?

Richard Stocking: Yes. We were seeing a positive COFC pricing trend in the marketplace similar to the feedback provided by other Intermodal providers. Our revenue per load results have been impacted by a mix change in COFC versus TOFC, mix changes between regions, with growth within our Eastern Railroad partners, and efforts to create a more efficient dray network throughout.

Jason Bates: The load count went up 5%, and COFC jumped 14.6% and TOFC dropped 65%. What quarter is the inflection point that COFC growth of mid-teens should not be constrained by TOFC declines?

Ginnie Henkels: We believe the inflection point on the drop-off in TOFC volumes will occur within the fourth quarter, and Q1 of 2016 will reflect a more direct correlation between COFC growth and overall Intermodal growth.

Jason Bates: Can management discuss current market dynamics? Are competitors going after price or volume?

Richard Stocking: Intermodal market dynamics have remained favorable, with our perception continuing to be that our Intermodal competitors are more focused upon price than volumes.

Jason Bates: How much did improved rail service aid Intermodal profitability during the second quarter of 2015? Can management remind us what percent of Intermodal line haul travels with which class one railroad?

Richard Stocking: Intermodal rail service helps deliver increased volumes, improved turns and reduced dray costs. All these results occurred in Q2, as rail service significantly improved over last year. Although, growth rates in the East were greater than in the West in Q2, we do not disclose our volumes by class one railroad.

Jason Bates: That takes us to the CRS segment.

At what point would you expect to begin to grow the CRS/Swift Refrigerated fleet? How do you think about top line growth for the segment longer-term?

Richard Stocking: We want to grow revenue as fast as we can, but short-term focus has been on improving the margins and retaining our drivers. We are seeing positive improvements in both of these areas.

These trends are very positive, and as long as we can keep the trucks full, we expect revenue growth to soon follow. I've had a lot of conversations with customers who are eager to give us more business as we grow our fleet.

Jason Bates: CRS posted its best OR since being acquired. How much of the improvement was from walking away from the underperforming Dedicated account earlier in the year versus internal initiatives outside of shedding this business? How soon can central refrigerated get to a 90% OR, and what are its margin impediments?

Richard Stocking: We have not disclosed the specifics of the underperforming Dedicated account. But it did favorably impact our year-over-year operating ratio, as did many of our internal initiatives. We are very happy with the results we are seeing in our refrigerated business.

We are even more excited about the opportunity to have to continue to improve. We are not just aiming for the 90% operating ratio, we believe we can be in the 80%s. At a high level, we believe our rates and utilization are too low, and our driver turnover, deadhead and claim costs are still too high.

We're making progress in each of these key areas, but we feel there are many opportunities for further improvement. The team we have in place is doing a fantastic job, and they have ambitious goals. They're making great strides, and we are extremely excited about the future of this line of business.

Jason Bates: When does the name change become official? Are there meaningful costs associated with CRS name change to Swift Refrigerated? If so, roughly what is the amount and timing of potential costs?

Ginnie Henkels: Internally, we are already using Swift Refrigerated. But officially, it will take a few months to change the names with all of the respective governmental agencies and other authorities.

We do not anticipate material costs to implement this change. And to avoid excess costs, our equipment will continue to bear the Central logo until it goes through our normal trade cycle.

Jason Bates: Owner operators showed a bounce back from Q1 in CRS, the opposite of Truck and Dedicated. What drove this impact? Is pay higher here?

Richard Stocking: Actually, our average owner operator count was relatively flat from Q1 to Q2, with 589 in the first quarter and 591 in the second. As you know, we lost some owner operators through the acquisition process last year, as we worked through various challenges. But we have been able to maintain this level of owner operators through the past three quarters.

The pay packages are relatively consistent between Truckload and over-the-road refrigerated. And these were increased in May of this year.

Jason Bates: Utilization, loaded miles per tractor, really fell. Is that given the number of tractors you added? Same with revenue per tractor per week, dropping 3.5%. Does that put drivers at risk if they are not getting miles and getting paid?

Richard Stocking: As we discussed in the letter, revenue per truck per week dropped 3.5%, but this was mostly due to the discontinuing of the large specialty Dedicated account earlier this year. However, I will agree that drivers are at risk if they are not getting miles and the associated pay. However, lower tractor utilization does not necessarily mean lower driver utilization.

For example, trucks sitting without an assigned driver lower utilization, but do not affect the driver. Also, drivers are compensated differently for shorter length of haul loads. This may negatively affect utilization, but it won't negatively impact the driver's pay.

Drivers work to earn a living for their families, and this is very important. However, driver pay is not the only reason why they stay with us.

We want to deliver a better life for them, and all of our initiatives are focused on that very goal. As a result of these initiatives, our net promoter score, which is one way to track driver satisfaction, is at an all-time high, and we are extremely excited about that.

Ginnie Henkels: When you look through the CRS book of business, are there other remaining accounts that are unprofitable? And to what extent are you satisfied with the current mix of business?

Richard Stocking: We're currently evaluating all areas of the business. We have recently moved all of our over-the-road tools to CRS to help improve our productivity. Through these analytical tools, we can now see several areas where we need to improve our network through rate increases, improved velocity, or in other ways. We will be actively working with our customers to improve in these areas.

For our Dedicated business, we have few accounts where we're working with the customers to improve operational efficiencies. And our rates to ensure these are meeting our profitability thresholds.

I've had very positive conversations with these customers. And we have developed great relationships. So in these few situations, I believe we can develop a solution that will mutually benefit both parties.

Jason Bates: Management had previously discussed $4 million of targeted 2015 synergies at CRS. Can we get an update on what has been realized to date, and expectations for the remainder of the year?

Ginnie Henkels: The identified synergies were based on the integration of facilities, fuel procurement, maintenance and back-office staffing. All of the initiatives to integrate these areas were completed in 2014, and the savings are in the current run rate. And expected to continue going forward.

Jason Bates: So, that takes us to questions around debt and CapEx.

Net CapEx guidance was raised from $305 million to $330 million for full-year 2015 to now, $350 million to $375 million. Can you discuss in more detail the use of funds for the additional CapEx versus what you were expecting previously?

Ginnie Henkels: The net cash CapEx guidance was increased by the total equipment or [less] the total equipment that we plan to bring this to remains unchanged. So just to reiterate, the total equipment that we're bringing in is unchanged. But we are planning to acquire more of that equipment with the use of cash, now that we have a larger revolving credit facility.

Jason Bates: From a balance sheet perspective, do you anticipate any adjustments to your capital structure, other than deleveraging from free cash generations into 2016? Would the Board consider a share buyback considering relative valuation to your peer group?

Ginnie Henkels: This is a great question. We had discussions with the Board of Directors earlier this year regarding a share buyback program. Because we do believe that our stock is undervalued.

Based on various investor feedback we have gathered, including a third-party survey. We have been told that two of the primary reasons we have a discount in our P/E ratio, are leverage ratio and management credibility. Given this and the fact that we, as management have consistently stated that our target leverage ratio is between 1 and 2 times debt to EBITDA and that a share buyback would increase our leverage, we have chosen not to proceed with a share buyback at this time.

But will continue on our path to de-lever to our target range. Depending on the circumstances, however, we will consider a share buyback and/or other capital allocation strategies in the future.

Jason Bates: Once the tractor fleet is refreshed, how rapidly would you expect the leverage ratio to fall in 2016 and 2017?

Ginnie Henkels: We are still anticipating the accelerated trade cycle to continue in 2016. But with EBITDA growth and other operational improvements, we anticipate our leverage ratio to fall below 2 during 2016, with a further drop in 2017.

Jason Bates: How do you see depreciation expense trending in the second half of the year?

Ginnie Henkels: With the anticipated increase in truck count, we expect depreciation to increase in the second half.

Jason Bates: Gain on sale of $10 million seems quite large. Can you review what you were discussing in the letter about why it was so large? What was the timing, amount of equipment?

High used truck pricing, or desire to get out of certain types of tractors and engines? What are you expecting for gains on sale of equipment in the third and fourth quarters?

Ginnie Henkels: Our second-quarter gain on sale results were tied to the increased volume of units sold within the quarter, as well as a strong used truck market. Like we have discussed in previous quarters, as well as in our most recent letter to stockholders, we made a strategic decision to shorten our trade cycle to allow us to take advantage of the safety and fuel efficiency benefits associated with the new technology.

Therefore, the number of units sold or traded in the second quarter more than doubled, compared to Q1. We expect this activity to remain high in Q3 before tapering off a bit in Q4.

Jason Bates: How are gains on property and equipment sales allocated on a division-by-division basis? Is it a function of what equipment was sold and from what division it originated? Can management provide some color on the OR improvement per division, and how much was related to increased gains on equipment during second quarter of 2015?

Ginnie Henkels: With regard to the allocations, if equipment is specific to a segment, the gain would be attributed to that segment. If the gain is related to our core truck or trailer fleet in which the equipment is interchangeable, those gains are allocated to the segments based on fleet composition and miles driven.

On a year-over-year basis, the gain as a percent of revenue, excluding fuel, is fairly consistent. So the impact to OR by segment is relatively minimal, in the 10 basis point range for each segment.

Jason Bates: There seems to be an increase in your non operational truck count. Why is this increasing? Is it due to unmanned trucks?

Ginnie Henkels: There is an increase in our non operational truck count, but it is not due to unmanned trucks. Company trucks that are available for this batch but unmanned are included in our operational truck count.

The increase in the non operational truck count at the end of the quarter, is due to an increase in the number of trucks being prepped for trade or sale. And the new trucks that are being prepped for service.

Jason Bates: On the cash flow statement, noted gain on disposal of property and equipment less write off of totaled tractors is $13.5 million. Gain on sale was $10 million on the income statement. Is this extra $3 million a lot of impact from trailer totaling?

Ginnie Henkels: The cash flow statement is prepared on a year-to-date basis. Therefore, the $13.5 million on the cash flow statement should be compared to the year-to-date gain on the income statement of $14.1 million. So the $600,000 difference is due to the write off of equipment that has been totaled in accidents, as well as some other minor non operational items.

Jason Bates: So that takes us to a section about drivers.

How much did driver pay go up, and what was the percentage increase?

Ginnie Henkels: For competitive purposes, we chose not to disclose the increase percentage recently given to our drivers. However, I can say that both the increases, the first one being in August of 2014 and the second one recently implemented on May 1, 2015, were material.

Jason Bates: By what percentage did driver turnover improve in response to the driver pay increase?

Richard Stocking: As we disclosed in the quarter's letter to stockholders, our Truckload segment increased to 15% improvement in our operations turnover metric on a year-over-year basis. Granted, several factors contributed to this improvement.

Improved operating efficiencies and processes, honoring home time requests, and a potpourri of other initiatives. The driver feedback we solicit and review indicates to us that these driver wage increases have played a part in this improvement.

Jason Bates: You mentioned improved retention of drivers. But how has the recruitment of drivers been trending?

How much more work on driver pay is needed, both from you and an industry point of view? Is it becoming more important to offer better home time and shorter length of haul in the recruitment effort versus blanket pay increases?

Richard Stocking: The current driver market remains very competitive. As drivers increasingly have more and more employment options, the burden remains on the carriers to walk the walk. And to prove to these driving professionals that they can provide both a quality working environment, and an honest living wage.

We're confident that our driver-based initiatives, both externally visible as well as internal initiatives, have and continue to position Swift as an employer of choice in the eyes of the driver. Our recent recruiting numbers have been strong. Even up slightly over the last several weeks, as our academies remain full.

We will continue to seek and listen to driver feedback to improve the Swift driving experience and further make Swift an employer of choice. Including honoring home time, fully utilizing driver hours, process improvements, the respect and treatment of our drivers, as well as wage increases. Our goal is to higher to retire.

Jason Bates: Okay. That takes us to a variety of miscellaneous questions we've kind of thrown all together here. So, apologize if we bounce around a little bit.

The Truckload M&A market really heated up in 2014. Yet it has been rather quiet in 2015, in spite of the continued availability of inexpensive debt. Any thoughts why the market cooled so quickly?

Richard Stocking: Well it seems that everyone that could buy, did buy, and they are now absorbing and integrating their acquisitions as we are, with Central. In addition, from what we have seen across our desk, the valuation expectations of the sellers are just too high.

Ginnie Henkels: Assuming the final ELD rule making is issued on or around September 30 this year, how long will it take to feel the tightening in supply/ demand relationships? Some have suggested that smaller fleets won't install these devices until 2017, and that once the deadline is reached on or about September 30, 2017, enforcement will be soft, at least initially.

Richard Stocking: Based on our customer feedback and interactions, we feel that the tightening will occur almost immediately after the ruling. In fact, customers are already telling us and showing us they value quality carriers that are able to be compliant.

This is evident by shippers already pursuing contract carriers, like Swift, instead of participating in the spot market. Compliant strategic carriers providing a wide suite of services will be well-positioned for this transition, as we believe pricing for these contract services will continue to out pace the spot market. I also think that we're seeing drivers coming to us, as well.

Jason Bates: Please provide updates on the status of your Mexican and Canadian cross-border efforts.

Richard Stocking:

Both our Mexico and Canada operations continued to grow nicely, as we continue to partner with great groups of shippers who are supportive of our long-term objectives. Demand in both north and southbound Mexico freight remains very strong.

Our Mexico personnel continued to deliver results as operational efficiencies improved, while our sales team continues to focus on gaining market share. Our Intermodal service into Mexico is also doing well, as customers utilize our various service offerings. Although we have less tenure operating in Canada, our Canadian business is also growing, as we work to replicate our Mexico structure in Canada.

Jason Bates: How much did fuel in total benefit second quarter 2015 earnings on a year-over-year basis? How did this compare to the first quarter of 2015? Remind us, please, and what are your expectations for the second half of 2015?

Ginnie Henkels: Our expectations at the outset of the year, were for fuel to be a benefit in the first quarter, which it was, resulting in a $0.04 to $0.05 favorable impact to adjusted EPS. Followed by a relatively neutral year-over-year impact in Q2 and Q3.

Then followed by a headwind in Q4, given the significant decline of fuel prices in the fourth quarter of 2014. Thus far, the year has played out as we anticipated.

Jason Bates: How much will the fuel efficiency of your fleet have to have improved as a result of the accelerated fleet replacement program? What will be the net bottom-line impact?

Ginnie Henkels: This is not something we disclose. However, the fuel efficiency benefit should help to offset the increased cost of equipment.

Jason Bates: Walk-through seasonality of other revenues, brokerage, leasing, logistics, et cetera. Should we still expect a negative impact in 3Q, and a sizable gain in 4Q?

Ginnie Henkels: Our other non reportable segment will typically exhibit the same seasonality each year/ With the fourth quarter being the largest, as far as revenue and op income are concerned. However, keep in mind that Q3 of 2014, we had a $2.3 million impairment on certain software rendered obsolete, which we do not anticipate to recur this year.

As we have previously disclosed, the other segment contains a portion of our annual contracted project business, which ramps up in the fourth quarter. Our logistics business is also contained in the other segment, and is expected to continue to grow in the second half of the year.

Our logistics initiatives are progressing nicely. And we continue to see strong year-over-year growth, fueled by our brokerage, single source, and freight under management service offerings.

Jason Bates: Thank you. That concludes the questions that were submitted, and we'd like to turn it over now to Jerry Moyes, to wrap things up.

Jerry Moyes, Swift Transportation Company - CEO

Thank you, Jason. I want to start by emphasizing how proud we are of the results of our second-quarter. We grew our consolidated revenue ex-fuel by 6.8% year-over-year in the second quarter, fueled by 15.1% revenue growth in our Dedicated and 5.7% revenue growth in our Truckload.

Even more impressively was our 12.1% year-over-year improvement in our adjusted EPS. Which was actually a 21.2% year-over-year improvement, when you normalize for the non operational contractual issue. These are impressive quarterly results.

Additionally, we have met or exceeded our 2015 stated range for our rate per mile improvement of 4% to 5% for each of the past three quarters. And we remain confident in our ability to finish the year in this range, regardless of what the spot market indexes or other surveys may tell you. We also believe that the ELD mandates will be a meaningful factor going into 2016 and beyond, relative to capacity and rate increases.

We are very excited about the investment in our new trucks. With the exciting new technology that's going to drive better safety, better fuel economy, and the improved maintenance costs. This will lead to better driver satisfaction, and uptime for our customers and our drivers.

I want to emphasize how proud we are of our people. Starting with the driver professionals we have out on the road, followed by our shop personnel and the support by all of our office staff. They are the reason we've been able to generate these results.

I'm very proud of all the work and focus our Swift family has placed on our various strategic initiatives. And I am confident in our team's ability to continue to drive progress on these initiatives in the second half of 2015 and into 2016.

We're excited about our strategic customer partnerships. And their support for our internal initiatives. Richard and I have regular contact with our customers. We are deeply entrenched with their future growth strategies.

As an example, Walmart's gross domestic revenue were up 3.5% for their most recent quarter. But keep in mind, that's 3.5% of $70 billion for a single quarter.

Costco has announced that they will have impressive domestic store growth over the next few years, on top of same store sales growth. Several of our other customers such as Amazon, Dollar Tree, and many others have very similar impressive growth initiatives.

So in summary, we are excited about our recent results, and reinforce our annual guidance. And we are excited about our strong leadership team, our driver force, and our new equipment with its technological improvements and our very impressive customer base.

We want to thank all of you for your support of Swift Transportation. Thank you very much.

Jason Bates: Thank you. That concludes the call for today.

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

END