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# EDITED TRANSCRIPT

SWFT - Q3 2012 Swift Transportation Earnings Conference Call

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## OVERVIEW:

SWFT discussed changes to its Q&A process and answered questions from investors and analysts.



## CORPORATE PARTICIPANTS

**Jason Bates** *Swift Transportation Company - VP of Finance & IR*

**Ginnie Henkels** *Swift Transportation Company - EVP & CFO*

**Richard Stocking** *Swift Transportation Company - President & COO*

**Jerry Moyes** *Swift Transportation Company - Founder & CEO*

## PRESENTATION

### Operator

Good morning, my name is Bridget and I will be your conference operator today. At this time I would like to welcome everyone to the Swift Transportation third-quarter 2012 question-and-answer earnings call. All lines have been placed on mute to prevent any background noise. (Operator Instructions). Thank you. Mr. Bates, you may begin your conference.

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### Jason Bates - Swift Transportation Company - VP of Finance & IR

Thank you, Bridget. We'd like to welcome everyone out to our third-quarter 2012 Q&A session. As a reminder, we have posted the comprehensive letter to stockholders summarizing results of our third-quarter on the front page of our IR website. We are going to go ahead and start the call today with a forward-looking statement disclosure.

This report and 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 Form 10-K for the year ended December 31, 2011.

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 presentation 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 would like to recognize the members of Swift's management team on the line today. We have Jerry Moyes, our Founder and Chief Executive Officer; Richard Stocking, our President and Chief Operating Officer; and Ginnie Henkels, our Executive Vice President and Chief Financial Officer.

Again, my name is Jason Bates, Swift's VP of Finance and IR officer, and I will be moderating today's Q&A session. We will start today with some opening remarks from Ginnie regarding the structure of our Q&A session.



**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

Thanks, Jason. As Jason did mention, we have received several questions about the structure of our Q&A session and have heard various rumors over the last couple months regarding why we do not take live questions. So I wanted to take a few minutes to address the pros and cons of our structure.

First, let's start with reviewing where we started. So we used to issue a press release followed by a live conference call which contained prepared remarks with a slide show, then we had a live Q&A. Afterwards we spent hours on the phone clarifying or following up from the live Q&A session due to the unstructured nature of the call. All of this was then followed by a 10-Q. Therefore, to gather all of the information we provided you needed to go to three or four different sources.

So as we do with all of our internal processes at Swift, we decided to streamline and give the customer, our investors, the information they needed in a complete and efficient format. We decided to incorporate all of the information we provided through various mediums into one document, which is our letter to stockholders. The data included in the letter to stockholders basically becomes our MD&A for the 10-Q.

Knowing that we may not anticipate every question about our results in the letter, and not wanting to create Reg FD the issues by handling individual calls from analysts and investors, we knew we needed to find an efficient way to handle the questions.

We listened to our investors' complaints that included that our calls were too long and that analysts would ask the same question over and over. Based on this set of circumstances we developed this new structure in which we allow written questions to be submitted via e-mail. We then consolidate the questions and provide answers that are thoughtful, complete and accurate.

We recognize this process is different and that change is sometimes difficult to accept. Internally we call this disruptive innovation, and believe that change can be good. In fact, many of our largest shareholders have given us very positive feedback on the new process and are thankful that we are being mindful of their time during the busy earnings season.

Also, we are now receiving questions directly from our shareholders, which never happened during the live Q&A. And probably the most telling indication of our process is that the number of calls we receive post conference call has dropped dramatically indicating the information we are providing is meeting the needs of the investors.

We have heard one primary concern and one key rumor regarding the new process. The biggest concern is that we will cherry pick questions and that we will not address the tough questions. We do address each and every question we receive, although we do consolidate similar questions into one to avoid duplication.

We also realize that people other than investors listen to our calls, so we cannot disclose every detail and risk giving out competitive information. Therefore if we receive a question that requests information that we do not disclose we acknowledge the question and provide what we can. Hopefully this has become apparent over the last several quarters.

As we have stated, we are not trying to hide anything with this new format, we are simply trying to streamline the process and improve the quality of the output. The rumor we have heard is that we are afraid of live Q&A because we may not know the answer to the question. We have attended over 20 conferences and have had hundreds of meetings with investors and analysts over the past two years in which we have answered many live questions, so I can assure you that this is not the reason for the change in format.

We certainly welcome and listen to your feedback and have made changes based on the feedback we have received - such as shortening the time between the release of the letter and the conference call, and adding a full cash flow statement to the letter. We continue to welcome your feedback and will consider those comments that help us achieve our goal of providing transparent, comprehensive and thorough disclosure in a manner that is an efficient use of our investors' time.



One other point of feedback we received regarding the call is that it is awkward that we ask the questions to ourselves. We actually agree with that comment and, although we structure it with Jason as a moderator, it does feel a bit strange for us on this side of the phone too.

However, our ultimate goal is to simply provide a written form of the Q&A on our website rather than reading it to you. We are hoping to be able to transition to this format at some point in the near future. With that I will turn it over to Jason, our moderator.

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## QUESTIONS AND ANSWERS

**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Great, thanks, Ginnie. We appreciate all the questions that were sent in last night. We have tried to group them, as Ginnie referred to previously, into different categories and we will get as many of them in as possible, and as efficiently as possible here today. We are going to start off with some questions on Intermodal.

What are your current expectations for Intermodal revenue growth for the remainder of 2012 and how should we think about Intermodal's 2013 growth opportunity?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

Yes, thank you. As we have shared throughout the year, our goal for 2012 has been to increase our Intermodal revenue by 20% to 25%. We are exceeding those original targets aided by the addition of more than 2,000 Intermodal containers.

We currently expect our full-year 2012 Intermodal revenue growth to be between 40% and 45%. As we look forward to 2013 our goal will be to maximize the turns on all of these new containers. We believe that once fully integrated into our network we can grow our revenue by approximately 20% without adding any additional containers.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

What percentage of other service revenues did Intermodal represent in the third quarter?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

It was about 60% of our other revenue line.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

With respect to Intermodal, can you provide some context around the 41.5% revenue growth? It looks like the average fleet size was up approximately 30% year over year in the quarter. So, can you elaborate on box turns, pricing, fuel mix and network utilization? What is your strategy for growing Intermodal and what are you seeing with respect to price and margins? Is it primarily converting existing truck freight or gaining share in the market?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

At this point in time we do not report statistics on our different revenue service offerings. However, we hope to be able to provide further color in coming quarters. Regarding our strategy for growing Intermodal, as I had previously mentioned, the goal will be to focus on improving the utilization



of our existing assets. We have focused on training our sales team this year, providing them with the resources and tools they need to be successful in selling this service offering and we are encouraged by the growth potential that exists.

There will be some growth that comes from converting existing truck freight as well -- as we work with our customers to educate them on the benefit that comes from moving freight Intermodally. However, a good portion of our projected revenue growth will come from gaining share in the Intermodal marketplace.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Intermodal growth was impressive. Can you break out the 41% Intermodal growth by region? How much of this growth is concentrated in the cross-border Mexico business versus other Intermodal lanes?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

Currently we do not provide regional breakouts of our Intermodal growth regarding our cross-border Mexico business, we feel we are just seeing the tip of the iceberg here. Most of our growth up to this point has been on domestic Intermodal lanes.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

If you look at the trucking operating ratio, what is the year-over-year difference? Is there a significant substitution effect from the lower operating ratio in the Intermodal business as it grows as a percentage of revenue?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

We do not yet provide profitability metrics on our service offerings. But you are correct in that the 40% plus growth in our lower margin intermodal service is diluting the overall consolidated operating ratio, partially masking the improvements we have made and continue to make in our truckload service offerings.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Did truck brokerage and/or owner/operator services revenue declined during the quarter, year over year?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

No, our truck brokerage and owner/operator services revenues increased in the third quarter of 2012 both sequentially as well as year over year.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

There were also a lot of questions as it relates to volumes and utilizations.

To clarify on the intra-quarter commentary, the release states volumes were down sequentially in July and then "generally consistent throughout the remainder of the third quarter". Can you provide more color on what is meant by the statement "throughout the quarter"? Does this mean consistent sequentially or year over year? Similarly, is the uptick in September and the first weeks of October sequential or year over year?

**Richard Stocking** - *Swift Transportation Company - President & COO*

Consistent with seasonal trends July freight volumes were down sequentially for our trucking services. Typically we see an uptick in volumes in August that builds into September. This year that uptick was less than what we have come to seasonally expect. The language in the letter is specifically referring to the sequential trend throughout the quarter. Having said that, we believe we are seeing the beginnings of a peak season building in October. And although it is only a couple of weeks, the freight trend has been up both sequentially and year over year.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

What were the total and loaded miles for the quarter? What was the year-over-year change in total loaded miles in the third quarter?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

We have not disclosed our total and loaded miles. However, our year-over-year percent change in loaded miles was down 2% due to the nearly 5% reduction in our fleet offset by a 2% improvement in the utilization of our loaded miles per truck.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

So the loaded miles were down 3%? Is that right?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

Correct.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Okay. To what extent, if any, did third-quarter results benefit from demand pull forward driven by the potential ILA strike? How should we think about how ongoing threat of an ILA strike could impact the fourth-quarter results?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

The ILA strike did not have a material impact on our demand in the third quarter, nor do we believe it will have a significant impact in Q4.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

While the OTR line haul miles grew 73 miles per truck per week year over year, what was the total increase in miles across all tractors, regional, over-the-road, and dedicated, but excluding dray?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

For the entire fleet loaded mile per truck per week were up 2%. We do not currently disclose our utilization excluding the dray.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Is the increased mileage productivity per truck per week a function of any particular initiative (EOBRs, network optimization efforts, etc.)? Or is it just a function of fewer unseated trucks awaiting disposal?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

There are various initiatives that contribute to the increase in productivity including all of those just mentioned. We have goals at each level throughout the organization centered around what they can do to help move the needle in this regard. We continue to develop improved processes, strategies and disciplines to further the cause of improving our asset utilization and also increasing our return on our net assets.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

To what degree did Swift benefit from project-related freight in the third quarter?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

We do not have significant amounts of project-related freight outside of Q4.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Where are customer inventory levels currently? Can you provide some color on customer inventory levels by specific end market?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

Unfortunately we don't have that much insight to our customers' inventory levels. However, I can say that based on conversations Jerry and I have had with our customers over the past several weeks, they are leading us to believe that inventory levels are relatively low, and that as customer demand increases over the next four to six weeks going into the holiday season they will have demand on capacity to keep the shelves adequately stocked.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

How far along are you in the EOBR implementation across the fleet? And what sort of productivity headwinds have you seen thus far?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

As we have mentioned in past quarters, with the exception of a few miscellaneous trucks and owner operators, our EOBR implementation is essentially complete. Contrary to what some analysts have reported in the past, we have not experienced any productivity headwinds. In fact, we have seen our utilization per truck per week steadily increase through the implementation process.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Okay, thanks. There were a lot of questions about rates as well. The first one is, what is driving the deceleration in yields (revenue per loaded mile excluding fuel)? Are competitive pressures driving tougher pricing?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

The deceleration in rate per mile excluding fuel is primarily a function of business and lane mix. Throughout this year we have consciously decided to haul a smaller percentage of freight on our over-the-road line haul business versus our dedicated service offering. We make these decisions by looking closely at the revenue per truck per week metric. What I mean is that our customer may have a slightly lower rate per mile, but if the

utilization per truck per week is substantially higher the overall revenue per truck per week will be higher. This decision has generally been accretive to our bottom line, but at times can have a negative impact on the statistic of rate per loaded mile. We believe this business and lane mix shift negatively impacted our rate by approximately 1% on a year-over-year basis.

Additionally, the past few months has brought a softer than desirable freight environment, which in turn has caused our network and lane mix to change. This change in lane mix can also lead to dilution in our rate per loaded mile as the percentage of loads hauled in each lane can vary from period to period.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

You mentioned that trucking revenue per loaded mile excluding fuel slowed to less than 2% year over year. Can you provide the actual rate per loaded mile, or a more exact growth comp?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

Yes. The revenue per loaded mile excluding fuel surcharges was up 1.6% for the quarter.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Can you more fully explain the comment that pricing could be 2% to 3% for the full year if "current mix trends from the shift in over-the-road to other service offerings continues"? Is this a reference to the length of haul (which looks like it came down slightly year over year and we would expect that to be a modest favorable for revenue per mile)? Or is it increased dedicated business as a percent of overall mix? Or does it relate to the growth in Intermodal and brokerage or something else entirely?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

It is more a function in the business mix we just discussed rather than a change in our average length of haul, Intermodal or brokerage. This mix change could be even larger in the fourth quarter (when we are comparing the year-over-year comps), if we have a peak season that is significantly smaller than last year.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

How do you plan to keep yields strong in the face of a changing business mix?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

We have hundreds, or more likely thousands, of pricing scenarios based on the geography, load type, customer, deadhead, et cetera. We could increase our profitability by improving in several areas, which might result in less of an improvement in our blended rate. So a drop in revenue per loaded mile due to a shift in business mix is not necessarily a concern. We are more concerned about the absolute profitability per load, or customer, than the statistic of loaded rate per mile.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

How much of the 1.5% to 2% revenue per loaded mile increase was due to price increases and how much can be attributed to better freight selection?





**Richard Stocking** - *Swift Transportation Company - President & COO*

We do not disclose exact amounts in each of these areas. However, I can say that our sales team is proactively reaching out to customers to increase rates (where appropriate and in conjunction with our rising costs) throughout our entire customer base.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Are shippers still willing to exchange rate increases for capacity commitments going forward? Or have they returned to their former ways now that there is a little slack in the truckload system?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

A little more of the latter. Our customers are much less concerned about capacity in the fourth quarter than they were two or three months ago. However, as I mentioned previously, they still believe we have a decent peak season ahead of us.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

What sort of rate increases are you seeing in the contractual versus spot markets?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

As we have disclosed in the past, we do not significantly participate in the spot market. So our overall rate increases would reflect what we are seeing in the contractual market, partially offset by the business and lane mix changes I have just described.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

So we are going to shift gears a little bit to talk about drivers and owner/operators.

You mentioned in your letter that driver retention has improved. Is this due to the higher salaries that you have implemented? Has the driver market gotten any better or is the combination of better salaries and your tightening truck capacity resulting in a better driver market?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

We believe there are several reasons we have experienced improvement in our driver retention. As you may have noticed from many of our competitors who have reported, the driver market has not improved and driver retention and availability continues to plague our industry. Our driver turnover levels continue to be well below the industry average, which we partially attribute to our incentive bonus program, but also to our driver friendly environment.

As we have shared in the past, we have various initiatives geared at helping our drivers get the miles they need to increase their W-2s. When you combine these various initiatives with our regional presence, which allows them to get home to see their families more often, it creates a strong value proposition for attracting and retaining good, qualified drivers.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

How would you characterize driver supply currently? Are the schools full? Has turnover accelerated or decelerated since you put the incentives into effect?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

As I mentioned, the driver market is tough right now. The supply of experienced qualified drivers is low. However, as we have discussed in the past, Swift has a unique internal academy infrastructure which differentiates us from most of our peers. Our schools are full, based on our current academy staffing levels, and the driver pipeline looks good. To the extent the economy and the freight market expand, we do have the ability to further leverage our existing academy infrastructure.

Regarding the latter portion of the question about turnover trends since implementing the incentives, we have noticed a reduction in the turnover levels since we've rolled out the driver incentive bonus.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

How much, if any, of the increase in driver and owner/operator incentives were offset by better productivity, fewer and less severe accidents, and improved service (for which customers presumably are willing to pay more for)?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

The cost we disclosed, \$0.02 to \$0.025 of earnings per share, associated with our driver incentive bonus program does not include the benefit from the various items mentioned above. Those will be incremental benefits that would help offset this cost. Unfortunately, given the various moving pieces associated with each of these items, it is difficult to isolate any one variable and determine the exact benefit associated with this incentive.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Following the changes in driver and owner/operator pay during the quarter, do you anticipate additional changes to driver and/or owner/operator pay in the fourth quarter? Also, should the \$0.02 to \$0.025 EPS headwind quantified in the release subside going forward either from corresponding rate increases or operational efficiencies?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

We do not expect to see further changes in our driver and owner/operator pay structure in the fourth quarter. But we would expect ongoing rate increases from our customers as well as many of the factors mentioned in the previous question to help offset this cost headwind as we roll into Q4 and 2013.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

So there were several miscellaneous expense related questions.

Within the salaries, wages and benefits section the release mentions an increase in the number of non-driving employees. Can you please comment on what these employees relate to?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

The headcount increases are primarily in the shop as we have in-sourced more of our maintenance this year, as well as we've added dedicated business and we have on-site personnel associated with that. And then we have added in intermodal to support the growth in that area.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

If rental and depreciation expense continues to increase year over year and the average age of the tractor fleet decreases, is there a corresponding offset from declining maintenance expense?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

This concept is generally correct excluding the impact from inflation on parts and tires, etc.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

You mentioned the lag effect on the fuel surcharge revenues. Were there any changes to the structure of the fuel surcharge program that contributed to the negative impact in the quarter? Or was it just a timing issue?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

Yes, the year-over-year negative impact was associated with the lag and the fuel surcharge recovery. There was no structural change to the fuel surcharge program, it was simply the lag.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Were there any unusual accidents during the quarter or any unfavorable adjustments to prior period claims?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

I wouldn't characterize our accidents in the third quarter as unusual. Our trends have been relatively consistent. Also we did not have any significant adjustments to prior year claims in the quarter. As we discussed in the latter, our expense is up year over year because we had favorable adjustments to prior year claims in the third quarter of last year, which brought that number down.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

So there was a question about the guidance provided.

You provided third-quarter EPS guidance of \$0.20 to \$0.23 at the end of the third quarter. But the final EPS ended up at the lower end of the range. Was this primarily a result of freight trends through the end of the quarter coming in materially below management's expectations as of 9-19? Or were there other factors at play that drove 3Q results below the midpoint of management expectations?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

We gave a range because many things can vary -- freight volume, fuel prices, insurance, etc. For us to meet the high end of the range all of these items would have needed to go in the right direction. Freight trends did improve, as we talked about at the end of the quarter, but they were not strong enough to help drive us to the high end of the range.

Fuel prices were relatively consistent in the last month of the quarter so we did not see a significant drop that could have boosted earnings to the high end of the range or a significant increase that could have driven EPS down further.

On the insurance side, we do not receive the actuarial reports until the end of the quarter. So we can estimate where we think we will be, but we do not know for certain until we receive the final reports and the quarter is complete. Unfortunately we did not have a benefit, as I just mentioned, from the prior year layers, as we did last year, to drive that number to the higher end of the range. So these are just a few items that can fluctuate, but these are usually the larger items that drive variances.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Okay, there were a lot of questions, as we approach the end of the year and going into 2013, about some guidance and outlook in several areas - rates, volumes, truck counts, etc. So we're going to try to run through some of those right now, starting with rate.

How is pricing trending so far in October and what are your expectations for the rest of the fourth quarter? Is the rate environment improving in the fourth quarter or is that a tough year over year comp?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

It is too early in the fourth quarter to definitely say how pricing is trending, especially since we are still waiting to see how the full peak season develops. However, we are encouraged by the uptick in demand as well as conversations we are having with our customers. In addition, we have commitments from our customers on unique fourth-quarter business that is accretive to our rate and overall profitability.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Please discuss conversations with shippers regarding expectations for 2013 rates, particularly given the softer third-quarter freight demand and contracting spot market pricing in recent months?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

As I briefly mentioned earlier, customers are much less concerned about fourth-quarter capacity availability than they were a couple of months ago. However, based on our discussions with them, they believe consumers are waiting to make significant purchases, and that a peak season is coming, most likely similar to last year. So our customers are positive. However, we haven't seen a significant uptick yet.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Is there danger that rates could erode in 2013?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

It's always a possibility. However, we believe that scenario is very unlikely.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Regarding volumes, how is demand trending so far in October and what are your expectations for the rest of the fourth quarter?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

We have seen some strengthening thus far in October and are encouraged by our conversations with customers. But I would say volumes are still below our expectations.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

The commentary regarding a stronger October is not consistent with remarks provided by some of your competitors, such as Werner, which cited tempered October demand. To what should we attribute the difference?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

Well, I really can't speak to our competitor's specific situation. I can just tell you what we have experienced over the last couple weeks.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

How are West Coast freight volumes trending currently? And how is demand trending by geography overall?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

Currently I would say that both the East and West Coast are stronger in general, with the middle of the country - from Texas to the Midwest - somewhat softer.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Is this volume mostly from big-box retailers pushing holiday merchandise through their supply chains?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

As I mentioned earlier, most of our customers have told us that their inventories are fairly low and that they have not fully stocked for the holiday season. While we do not have specific data on holiday merchandise, I would assume some of the uptick we are seeing is due to the stocking for the holidays.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

You have added to your fleet count since the end of the third quarter, are you achieving similar utilization metrics as you have expanded your fleet?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

Yes, we are. We look at utilization in conjunction with our driver situation and the overall freight environment when making decisions about the size of the fleet.

**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Can you give any guidance on how utilization, on a revenue per truck or mile per truck, could trend in 2013?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

Utilization is impacted by an assortment of different scenarios including the freight market, the availability of drivers, business mix, et cetera. While we cannot predict what will happen in 2013, we can say that utilization is a strong focus of ours and will be throughout 2013. As a result I would expect to see improvement in this area.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Any new dedicated contracts on the horizon?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

We are constantly in negotiation with new and existing customers about expanding our dedicated fleet, and have had several new accounts added throughout the year.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

There were several questions about trucks and how people should think about trucks going forward.

Given the current economic environment and looking out into 2013, do you anticipate a planned fleet reduction in the first quarter of 2013 on a similar level to the one executed at the beginning of 2012? Or do you believe the fleet is appropriately sized near the current 14,600 level?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

Yes, from our years of experience we know that volumes in the first quarter will be lighter than the fourth quarter. Because of this we once again are planning to reduce the size of our fleet toward the end of December and into the first part of January and February, and then increasing again at the end of February into March.

So because this reduction won't start until the end of the fourth quarter I would anticipate that our average operational trucks for the entire quarter would be closer to our current level of 14,600. We also don't expect the fleet reduction in the first quarter to be as large as it was in 2012. And we do expect to be back at the levels where we will end the fourth quarter by March or April.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Average tractor count has declined year over year for the past four quarters. Should we expect modest declined to continue in 2013 as efficiency initiatives allow for greater asset utilization in the slow economy?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

Yes, our focus on efficiency has yielded benefits throughout the year. We have been able to generate similar trucking revenues with substantially fewer trucks and we hope to continue this in 2013. However, we have stated that our truck count is currently at 14,600, which is higher than our third-quarter number.

We anticipate a drop in the first quarter before picking up again throughout the remaining three quarters in 2013. But a lot depends on the strength of the market. If we have a higher GDP then we would anticipate larger truck growth. If we have slow growth, then our truck growth will not be as substantial.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

What is the longer term view on truck count? Is there a way to grow the fleet over the longer term?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

Our longer-term view is that we want to grow our truck count and we believe that we are in a position to expand significantly. We have the infrastructure in place and, as we improve our business, perfect our processes, and improve the service we provide to our customers, we will be able to expand in all of our suites of services.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Are you talking to OEMs about 2013 orders yet?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

Yes, we have had ongoing discussions with the OEMs about 2013 orders, but we haven't made any final commitments yet.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

What drove the reduction in your gain on sale expectations for Q4? How should we be thinking about this line item for 2013?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

For the fourth quarter it is a combination of the mix of trucks we are disposing of, combined with the softer used truck market. And at this point it is a little too early to tell for 2013, but we certainly do not expect the gains to be at the same level as 2012.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

So there were some questions about natural gas trucks and how things are progressing with regard to Swift and natural gas, as well as any experiments that we are doing on that front.

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**Jerry Moyes** - *Swift Transportation Company - Founder & CEO*

We are experimenting with three basic projects with natural gas. We have 10 of the 8.9 liter engines - they are working out okay, and are good for aluminum cans, plastic bottles, chips, etc. They have got to be in a very lightweight environment.

We are running four of the 12 liter Cummins engines. These seem to be working out pretty good. We are running them out of the Utah where we got some mountains and some pretty good terrain up there, and we are pretty optimistic about the way those four are working. We will probably add a few more of these in first and second quarter. But it is going to be third and fourth quarter of 2013 before Cummins starts releasing that engine in any quantity.

We are continuing to work on our dual fuel project, which is the Cummins 15 liter. All three of these projects are with the CNG. We believe that all three of these have very positive effects from the long term. The negatives are that these trucks are \$40,000 to \$45,000 extra to buy and when you look at the savings per year of \$10,000 to \$12,000 we have got to make the math much better than that.

We are working with our vendors today to get the price down on these new trucks. It is kind of the "chicken and the egg", you know if you get volumes they will bring the price down. But we really believe that long-term natural gas is definitely a viable option for diesel and we are very optimistic about it. But it is a long-term project.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Great. So there was a question about fuel. The statement was that it had abated somewhat in the fourth quarter and whether or not we expect any tailwinds in the fourth quarter as it relates to fuel.

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

It's certainly going down nicely today. But if prices do continue to drop we should see some pickup in the fourth quarter. However that is very difficult to determine.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

What fuel initiatives is Swift undertaking? How much mpg improvement is Swift targeting next year?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

To start with, we are bringing in equipment which is much more fuel efficient than that which we are disposing. We are regularly analyzing our equipment specs to ensure maximum benefits, as well as testing products that may yield additional efficiencies.

We are continually working with our drivers to help educate them on the impact they can have to the profitability of our organization by managing their fuel consumption. And finally, we are continually tweaking our fuel optimization software to ensure the most optimal fuel purchasing.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Is 3Q 2012's EPS drag of \$0.02 to \$0.025 per share for the various implemented driver incentive programs an appropriate run rate for the fourth quarter and into 2013?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

Yes, that is our best estimate. Again, as we talked about earlier on the cost side; however, we do expect to have some improvements from productivity as this program gains some steam.



**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Are third-quarter deadhead percentage improvements sustainable going forward? How much is due to better planning versus seasonal mix?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

Sequential trends and changes are influenced more by seasonal mix, but the year-over-year trends are more correlated to operational and process improvements.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Do you expect deadhead to tick up in the fourth quarter then as a result of new equipment?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

New equipment will not have a material impact on our deadhead in the fourth quarter. However, similar to prior years, deadhead will increase in the fourth quarter when compared to the third quarter because we do our best to get our drivers home for the holidays.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Can you expand on what you may have in the seasonal project pipeline? Is it similar to last year? A competitor recently stated that project freight was weak in the fourth quarter. Do you have a competitive edge in pricing or service that you can comment on? Can you be more specific on the details?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

We do not disclose specific details as it relates to our unique fourth-quarter projects. However, we have commitments from our customers that meet or exceed prior year fourth-quarter seasonal business.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

There were also a lot of questions about debt, interest and CapEx.

Given your aggressive reduction of debt, what do you expect the net interest cost to be in the fourth quarter?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

Obviously this depends on when the debt is repaid, and changes in LIBOR. But we expect our interest expense to be under \$28 million in the fourth quarter.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Is the \$100 million plus annual debt pay down sustainable into the future?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

Our goal is to pay down \$50 million to \$100 million per year. This will fluctuate depending on business performance in the capital expenditures. And to the extent we are able to pay more, as we are this year, and we did last year, we will.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

How much room do you have under the most restrictive financial covenants?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

At the end of the third quarter our leverage ratio was the most restrictive covenant and we have over 25% EBITDA cushion in this ratio.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

You gave the total leverage ratio of 2.97 times, what was the interest coverage ratio?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

Our interest coverage ratio for the third quarter was approximately 4.6 times versus a minimum required of 2.875 times.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Is the right way to think about the net debt reduction of \$30 million to \$50 million for 4Q the \$6 million voluntary prepayment on October 15th, and then an increase in cash during the quarter?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

Not necessarily. We do expect to make additional repayments on the debt in the quarter.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

On the equipment and CapEx front, your operational truck count was significantly lower than expected. If driver retention is up why haven't you ramped up purchases of trucks?

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**Richard Stocking** - *Swift Transportation Company - President & COO*

We did not ramp up the trucks in the third quarter as expected because the freight volumes did not increase as we had expected them to.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

If the freight market continues to improve as it has through October does Swift have the capability to expand the fleet beyond the 14,600 that it is currently operating with?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

Since we are trading our equipment based on a mileage range versus an absolute age we have tremendous flexibility with regard to the size of fleet. So if the freight market heats up we can delay our trade plans and can expand the fleet by accepting new trucks without selling the old ones.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

It looks like owned trucks, as a percentage of the total Company fleet, declined again this quarter. I believe you have touched on this before, but can you expand on the decision to lease versus own equipment?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

Yes, this is primarily an economic decision. We have been receiving very attractive lease rates for tractors this year as a result of the bonus depreciation that lessors are able to utilize. Since we have NOL's we are not able to take immediate use of the bonus depreciation on purchases and therefore have been leasing a bit more than we originally anticipated at the beginning of the year.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

What are the planned uses for the \$50 million to \$60 million of incremental CapEx spend in 2013 versus 2012?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

The primary difference is an increase in tractors, and an increase in the number of tractors purchased versus leased, offset by a decrease in containers.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

That is decrease in the number of new containers purchased next year versus this year?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

Correct.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

How much of your CapEx for 2013 is for intermodal containers (dollars and/or number of containers)?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

At this point we don't have much planned for intermodal containers in 2013. As Richard mentioned, we are in the process of acquiring 2,500 containers as we speak and we want to absorb these into our network and increase the utilization of these containers before we add more. We will assess this as we move throughout 2013.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

What are the macro assumptions behind the high end of the 2013 CapEx guidance?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

As Richard discussed, we do have some fleet growth assumed in the 2013 CapEx guidance. So the high end of the range would assume an environment that is a bit more dynamic than we are experiencing today.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

What is the average age of the tractor fleet and how has that changed from this time last year?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

The average age of our company sleeper fleet is currently 2.7 years and it was over 3 at this point last year.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

What is the average age of the trailer fleet, and how has that changed from this time last year?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

We have not historically disclosed the average age of our trailer fleet because we have repurposed many of our older trailers for special rental or storage projects with our customers, which skews the age. We expect to bring in roughly 3,000 to 4,000 trailers per year, that will vary, but on an annual basis going forward and we will trade or sell the older trailers as needed depending on their condition and the demand for their use.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Is there any financial impact from termination of equipment under operating and capital leases with original values of \$62.3 million?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

We did terminate leases in the quarter with original values of the equipment at the beginning of the lease of \$62.3 million. Of this amount \$10.8 million were on capital leases and \$48.2 million were on operating leases. We also initiated new leases in the third quarter for equipment with original values of \$19.1 million on capital leases and \$48.2 million on operating leases for a total of \$67.3 million.

So the financial impact - our operating leases show in our financials as rental expense. Therefore the monthly difference between the operating lease payments terminated, and the operating leases originated, will come through on the rental expense line. Capital leases show as debt on our balance sheet and assets are included in PP&E. On the P&L the expense comes through as depreciation and interest expense. Therefore the balance sheet will be reduced by the residual value of the equipment that was terminated, and will increase by the original value of the new equipment that was just leased. The P&L will be impacted by the change in the monthly amounts of the depreciation and in interest associated with those two. So hopefully that answers that question.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

Do you have to keep shrinking the fleet in order to maintain the operating ratio? How do you think about the trade-off between OR and operating income?

**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

No, we do not need to keep shrinking the fleet to improve the OR. We believe we have opportunities to improve our operating ratio in our various services by improving our utilization, our deadhead, cost control, etc. But that does not necessarily include shrinking the fleet.

As we have discussed before, one of our goals is to increase our earnings per share. To do this we have to increase our operating income. We have also discussed that we expect our consolidated OR to increase as we grow some of our asset light businesses, that may have a higher OR. Overall we are looking to increase our EPS, and our return, and the OR may or may not have the same trend in total.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

What was the RONA this quarter?

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

We define RONA as our last 12 months adjusted net income, as a percent of the average of our tangible net assets excluding deferred taxes less non-interest-bearing liabilities, excluding deferred taxes. Based on this calculation our RONA was 8.1% at the end of September compared to 6.9% at the end of 2011.

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**Jason Bates** - *Swift Transportation Company - VP of Finance & IR*

So looking out longer-term, can you please comment on your current expectations for long-term earnings objectives of 15% EPS growth between 2013 and 2017; 100 basis points annual improvement in RONA over the next five years; debt reduction and leverage ratio? I believe these targets assumed balanced industry capacity and 2% GDP growth which may or may not be likely at least over the next three to six quarters.

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**Ginnie Henkels** - *Swift Transportation Company - EVP & CFO*

These assumptions are correct in that we were expecting to have tight capacity in the industry and GDP growth north of 2% when we established these objectives. With that said, these are our long-term five-year goals. We have may have ups and downs along the way, but this is the direction we are heading, and we have aligned the organization to make progress on these objectives.

These goals are certainly going to be more challenging in a weak economy, but we believe if we continue to focus on doing what is right, when the economy turns we should be well-positioned for acceleration on these objectives.

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**Richard Stocking** - *Swift Transportation Company - President & COO*

All right, we would like to thank everybody for your questions and for being on the call this morning. We are -- as Ginnie mentioned, very excited about our continued transformation, our strategies, our visions and our future. So thanks again.

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**Operator**

Thank you, this does conclude today's conference call. You may now disconnect.

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