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SWFT - Q1 2013 Swift Transportation Earnings Conference Call

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PRESENTATION

Operator

Good morning, my name is Stacy, and I will be your conference operator today. At this time, I would like to welcome everyone to the Swift Transportation first-quarter 2013 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.

Jason Bates - *Swift Transportation Co - VP Finance, and IR Officer*

Great. Thank you, Stacy. Again, we'd like to welcome everyone out to our first-quarter 2013 Q&A session. As a reminder, we have posted a comprehensive letter to stockholders summarizing our results on the front page of our IR website.

We are going to go ahead and start the call today with the forward-looking statement disclosure. This call contains 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, 2012. As to the company's business and financial performance, there are many factors that could cause actual results to differ materially from those in any forward-looking statements. You should understand that there are many important factors in addition to those discussed, and in our 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 securities may fluctuate dramatically. The company makes no commitment and disclaims any duty to update or revise any forward-looking statements to reflect future events, new information, or changes in these expectations.

In addition to our GAAP results, this call also includes certain non-GAAP financial measures as defined by the SEC. The calculation of each measure, including the reconciliation to the most closely-related GAAP measure, and the reasons management believes each non-GAAP measure is useful, are included in the schedules attached to our letter to stockholders.

So with that out of the way I'd like to recognize the members of Swift's management team online today. We have joint 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. We would like to thank everyone for all the questions that were submitted last night. We've categorized them and we'll try to go through them as expeditiously as possible today. So with that, I will turn the call over to Richard who is going to begin by addressing a few questions on rates.

Richard Stocking - *Swift Transportation Co - President and COO*

All right, good morning everyone. The first question is, can you discuss how Swift's bid season with customers works? Namely when does it begin and end, and is there a bellwether customer, or customers, that sets market expectations for pricing? Can you elaborate on this subject for each of the asset-based businesses, i.e., truckload, dedicated, and intermodal. And the answer is, as we've discussed in the past, our bid season isn't confined to any particular quarter, but generally last all year long. The volume of bid activity is typically a little heavier in the first quarter, with each sequential quarter, bid volume being slightly the lower than the last. So the first quarter been the highest of and fourth quarter is typically a little bit lower. However the bid activity is relatively even throughout the year. There really isn't a bellwether customer that sets market expectations. Every customer is unique. And finally these patterns are relatively consistent across each of our reportable segments.

So the second question is what kind of rate increases are you able to command in the current environment? How has this trended into April? Can you elaborate for each of the segments -- truckload, intermodal, and dedicated. So our rate increases have not been as robust as we had expected at the start of the year, and unfortunately that trend has continued into April. As we disclosed in the letter to stockholders, in the first quarter our truckload segment and intermodal segments realized a 1.9% and a 1.2% year-over-year increases in our revenue, and that excluded the fuel surcharge per loaded mile, respectively. We did not disclose revenue excluding fuel surcharge per loaded mile for our dedicated segment because it can vary due to changes in our mix.

The next question is what are your current expectations for truckload contract pricing for 2013? As we've said all along, if the economic environment in 2013 is similar to that of 2012, we would expect increases in the 2% to 3% range. And based on what we've seen through April of this year, we are probably trending toward the lower end of that range. However, saying that, with the hours-of-service regulations going into effect in a couple of months, and if GDP improves in the latter half of this year, capacity would become increasingly scarce and provide further opportunities for us to go back to our customers with rate increases.

The next question is can you talk about your expectation for the bid season? Can pricing re-accelerate to 2%-plus in the coming quarters as a result of better contracts, or is negotiating power resting with the shippers? Well, we've talked quite a bit about this already. However the one thing I will add is that the hours-of-service regulations coming into effect in July will provide potential utilization headwinds for all carriers throughout the industry. Most carriers have been prepping shippers for that fact, that rates will need to increase, to offset these headwinds. How quickly that takes place, and to what magnitude, has yet to be determined. We've been very upfront with our customers, and have helped them understand the possible impacts there.

The next question is, can you provide some color on how pricing/volume growth rates trended throughout Q1 on a monthly basis? We would say each of the months of the quarter was relatively consistent with regards to our year-over-year rate increases that we realized. The trend of the increase was neither accelerating nor decelerating, rather kind of stayed flat year-over-year on the rate increase.

Looks like that's the section on rates.

Jason Bates - *Swift Transportation Co - VP Finance, and IR Officer*

So we will go ahead and turn our attention now to several questions that came in as it relates to freight volumes and trends.

Richard Stocking - *Swift Transportation Co - President and COO*

The question there is, can you elaborate on freight volumes from a geographical strength and weakness perspective, also from an end market perspective? Can you elaborate on the subject for each of the asset-based businesses -- truckload, dedicated, intermodal? We'd answer that the freight trends have been pretty erratic across the geographic markets thus far this year. The West Coast, as well as the upper-Midwest and throughout parts of Texas have all demonstrated volatile trends at different points so far in 2013. The weather has also wreaked some havoc at different points and at different locations, adding to the unpredictability. Regarding your question about segment-specific trends, unfortunately there haven't really been any. Meaning the volatility has been felt at different times throughout the year by each of the different asset-based segments, including some weather here in Wyoming in April.

The next question is, please discuss current industry demands thus far through April with respective to truckload, dedicated, and the intermodal markets. How did Q1 2013 end, and what our management's directional expectations for demand in Q2 of 2013? Are things feeling seasonally normal at this point? I believe we've covered most of this question already. However, I will touch on the latter part of this particular question, regarding feeling seasonally normal. As a general rule, June is the strongest month of the second quarter so three weeks into April, it's tough to get a read on the quarter in its entirety. However, was we have discussed previously, the rate and the volume trends have been somewhat sluggish in the first two or three weeks here in April.

Next question -- can you please outline your view on the current freight market, as well as current customer or consumer segments that affect both the truckload and dedicated businesses? In your current contract negotiations, does it feel as though there is more or less competition? Are pricing negotiations more or less strained then in recent quarters? Our customers are much closer to the end consumers in their buying patterns that we are, so we rely pretty heavily on our customer feedback in this regard. They have indicated that customer sentiment is still pretty good in spite of all the macroeconomic noise, elimination of the payroll tax holiday, the sequestration, Europe, weather, and et cetera. Regarding competition, we don't necessarily feel like there are more competition but we do believe that all of the carriers, ourselves included, are smarter today about the types of freight we bid, and the disciplines around adding capacity. Keeping in mind that as an industry, we believe capacity is pretty close to equilibrium. So that even the slightest improvements in the economy will lead to capacity constraints, thereby moving the needle in favor of the carriers.

The next question is, what demand drivers would you need to see improve before beginning to add incremental capacity to your network about the guided capacity growth of 200 to 300 tractors? How much further improvements is needed in either freight volumes or pricing in order to justify further capacity in your network specifically? Can you elaborate on the subject of each of the asset-based businesses -- truckload, dedicated, intermodal? The answer there is, there are several demand drivers we monitor, including manufacturing, the housing starts, consumer sentiment, et cetera. However they are all generally rolled up into GDP. To the extent we see GDP meaningfully improve, and we are meeting our utilization goals of our equipment, we will definitely grow the fleet. If not, we remain committed to focusing on maximizing the utilization of the equipment we have on hand. As we have said for the past couple of years, our focus is to increase our return on our net assets. To the extent the economic -- economy is not cooperating, or we are unable to earn market share, such that we are not meeting our utilization goals, we will hold off on growth. We will not add trucks to the fleet simply for the sake of adding capacity.

And our next question is what specific plans or strategies are in place to drive better utilization throughout the network over and above what was accomplished during 2012? Can you elaborate on this subject for each of the asset-based businesses? For comparison reasons we don't disclose the specific detail but we have several internal strategic focus teams, as well as an array of process improvement initiatives that should drive continued utilization improvements in each of our reportable segments. We continue to improve our processes and innovate in each of these areas.

The last couple questions on volumes, if truckload pricing begins to improve, in conjunction with an improvement in freight volumes, how long do you believe the industry can sustain the pricing power before too much capacity gets added back to the market? So, good question. As we've touched on briefly a minute ago I believe the industry is much more disciplined about adding capacity than it ever has been, especially with the larger carriers. Many of us were burned back in 2006 and 2007 with the industry-wide pre-buy, and the subsequent economic downturn which resulted in a huge surplus of capacity, and swung the pricing power into the hands shippers. We are not interested in repeating those same mistakes. In addition to enhanced disciplined by the larger carriers, the barriers to entry for the smaller carriers are increasing. With additional hours of service regulations, higher equipment costs, increased credit requirements for equipment financing, and especially the difficult driver market -- it is not as easy today for smaller carriers to go out and add a lot of capacity. We believe that we will remain disciplined as an industry there.

And the last question before we move on to equipment -- did you successfully source any project business during the quarter, and what is the outlook for project business this year? The answer there is our project business a very seasonal in nature. We have some small amounts in the spring and it's more heavily geared toward the fall and the end of the year. We will have a better read on how much of that business we expect to win and achieve as we progress throughout this year.

Jason Bates - *Swift Transportation Co - VP Finance, and IR Officer*

Great. Thanks, Richard. There were also a few questions as it related to equipment, so we will turn it over to Ginnie to go over some of those.

Ginnie Henkels - *Swift Transportation Co - EVP and CFO*

Thanks, Jason.

The first question on equipment was, has Swift tested any of the 2014 model-year equipment to evaluate the new equipment's fuel efficiency gains? And would Swift contemplate accelerating a suite refresh if the model year 2014 equipment were to have material improvement and fuel efficiency over the existing fleet? We have done extensive testing on the fuel efficiency of the new equipment. The results vary depending on the manufacturer. We are seeing some good improvements in certain truck engine combinations, and not much change in at all in some of the others. We are anticipating -- we are not anticipating an acceleration in our fleet refresh since we already have a heavier year of trades planned.

The next question is, what are your expectations for equipment gains for the remainder of the year? And the answer to that is, in the 10% to 15% EPS growth guidance that we've given, we are assuming gains of equipment of roughly $1 million to $2 million per quarter. However, given the volume of trades we are now anticipating in the second quarter, the gains could be higher than that in Q2.

And finally the last question in this section is of the 300 to 500 tractors growth you a guided for the year, what percent would you estimate will be owner-operator versus company drivers? We are targeting for at least 50% to be owner-operators. But have the ability to flex that in either direction depending on the market conditions.

Jason Bates - *Swift Transportation Co - VP Finance, and IR Officer*

Great. Thank you, Ginnie.

There were a handful of questions about drivers and hours of service, Richard, if you wouldn't mind going through those.

Richard Stocking - *Swift Transportation Co - President and COO*

Yes, the first one's on drivers -- are you currently encountering difficulty seating drivers? Are you experiencing higher driver retention and recruitment cost, should volume stabilize at current levels? Will capacity remain fairly tight given the difficulty the industry is having attracting and retaining drivers? Great questions. As an industry it is getting tougher to attract and retain our drivers. An improving economy, including an improving housing market, will make it more difficult to attract and retain. This in turn will drive increased retention and recruiting cost, and make it difficult for the industry to increase capacity.

The next question is, can you discussed the health of your drivers' schools and driver recruitment and retention in general? We would say we worked long and hard to have a successful program with the academies -- the schools -- and we would say our schools are currently healthy.

The last question on the drivers was, based on the increasing difficulty the industry is seeing on the driver front, should we expect salaries as a percent of total revenue to stay at Q1 levels, or raise -- rise higher through 2013? Due to the volatility in fuel prices, we typically look at salaries and wages as a percentage of revenue excluding fuel surcharge rather than a percentage of total revenue. At this point we are not expecting to give a rate increase for the drivers. Rather we are focusing on the increasing their pay by getting them more miles each week, as well as continuing the driver incentive program that we implemented last year. However, because it was implemented in the third quarter of last year, the driver incentive pay will be a year-over-year headwind in the second quarter this year.

And there were two questions on hours of service -- what are your expectations regarding the timing of the implementation of the new hours-of-service rule, and the likely impact on each of the business segments? The overall belief in the industry, as you have heard, that this will have a negative impact on productivity by about 5%. We believe our terminal network and internal processes, better planning will help to mitigate some of the impact in the truckload, dedicated, and intermodal segments.

And finally, what impact do you expect hours of service to have on pricing specifically in the second half of 2013? How long does it take for pricing to catch up, and will be pricing be enough to offset the cost efficiency losses? As we mentioned previously, we hope to be able to work with our customers on the headwinds that will come via the new hours of service regulations, and they -- we have prepped, them so it will be fairly quick.

Jason Bates - *Swift Transportation Co - VP Finance, and IR Officer*

Great. Thank you, Richard. There were a handful of questions around operating expenses so will turn it over to Ginnie to go through some of those.

Ginnie Henkels - *Swift Transportation Co - EVP and CFO*

All right, the first question was, please discuss the increase in non-driver employees, what are they related to and do you expect additional increases in the coming quarters? The additional staff was added in intermodal, to facilitate the growth that we've seen in that business as well as other support areas, such as driver recruiting and customer service. As the business grows we would expect some additional growth in our non-driver headcount going forward, but this was not a significant driver of the increase in salaries, wages, and benefits year-over-year in the first quarter.

The next question is, salaries, wages, and benefits as a percent of net revenue picked up as it did in the first quarter of 2012? Do you expect a similar sequential decline in the second quarter of 2013? So just to add a little color to that, what they are referring to there is from the fourth quarter to the first quarter, we did see an increase in our percent of revenue -- a percent of salaries, wages, and benefits as a percent of net revenue, and then it comes down in the second quarter. That is a general seasonal trend. It's more related to the fact that our revenue is higher in the fourth quarter and the second quarter from the first quarter, so it's a function of a smaller denominator rather than a larger numerator in that equation.

The next question is, can you quantify how much additional workers' comp expense was incurred during the quarter? The unfavorable development -- or will the unfavorable developments in prior year layers impact workers compensation expense going forward, and if so by how much? As the workers comp expense increased roughly $2.5 million-year over-year in the first quarter, and as we discussed it was primarily resulting from changes in the prior year's layers, therefore this should not have a significant impact going forward.

Next question is, in the release you mentioned negative impacts from driver and owner-operator pay changes, higher equipment cost, and inclement weather. Can you frame each of those items in EPS terms, and describe the longer-term effect, and longer-term plan for driver pay and equipment cost? Is very difficult to determine the impact from inclement weather since it's nearly impossible to pinpoint the missed freight opportunities, the increased idle time, deadhead maintenance, etc., that are caused by the shutdowns resulting from the poor weather. With regard to the driver and owner-operator pay changes, similar to previous quarters, the impact was roughly $0.01 per mile, which equates to about a $0.015 or so of EPS. As we have discussed before, at this point we are not anticipating making any significant changes to the pay structure this year, so we will have one more quarter of year-over-year impact from the changes made last year. And then with regard to the higher equipment cost, our rent and depreciation expense combined, was up about $5.7 million year-over-year in the first quarter, but was consistent with the fourth quarter of 2012. For the full year of 2012, our equipment costs were up approximately $25 million compared to 2011. This increase for the full year of 2013 will depend upon the growth in the fleet but could be similar to 2012 if we add the full 500 trucks.

Jason Bates - *Swift Transportation Co - VP Finance, and IR Officer*

Great. Thank you, Ginnie. There were also several question as relates to debt, interest expense, et cetera. Ginnie, if you want to handle those as well.

Ginnie Henkels - *Swift Transportation Co - EVP and CFO*

All right. The first one is, in the past the company has indicated that if the stock price improved it may considering issuing equity to repay debt and bonds. Please update your view on issuing equity to repay debt, particularly as it relates to the second lien notes and the equity clawback option which is available until November 15 of 2013. And as we stated before we continue to evaluate the possibility of issuing equity -- easy for me to say -- to call a portion of the notes. The equity call allows us to call up to 35% of the notes, or $175 million of the $500 million outstanding, at 110% of par. Unfortunately the stock price needs to be closer to $18 or so to make this trade economically viable, so we will continue to monitor the environment and look for an opportunistic trade, not only with equity but as well as debt, other term debt, that we could issue to potentially take out the notes. But at this point we do not have any times because the economics do not work.

With regard to the next question, we have $12 million of the B1 tranche was prepaid on April 10. Do you expect to make additional prepayments in the second quarter 2013, or are they likely to be spread throughout the rest of 2013? Although we do expect to continue to make payments with excess free cash flow throughout the year, we expect the repayment activity to be relatively light in the second and third quarter, and then heavier in the fourth quarter, based on our current projected cash flows and use of cash with equipment.

The next question is, as a part of the second-amended credit agreement, are there any additional interest step downs related to leverage reduction? And the only interest step down we have in our credit agreement pertains to the revolving credit facility portion, for which we had $140 million of letters of credit outstanding, but otherwise this facility is undrawn. As mentioned in the letter, we did trigger a step down from LIBOR plus 325 to LIBOR plus 300 on the revolving credit facility. As our leverage ratio was less than 2.75 at the end of the first quarter. The next step down will occur on this revolving credit facility when we are below 2.25.

And finally, what is the run rate for interest expense in the second quarter of 2013, following the recent debt repayment and the refinancing of the debt? And the run rate for our interest expense, excluding any derivative interest expense after the Q1 event should be approximately $24.5 million per quarter.

Jason Bates - *Swift Transportation Co - VP Finance, and IR Officer*

Great. Thank you, Ginnie.

We are going to now turn our attention to questions that were related to each of the specific segments, and we will go ahead and start with the intermodal segment. Richard?

Richard Stocking - *Swift Transportation Co - President and COO*

All right. Thanks, Jason.

The first question is, how has your intermodal group performed of late? Are you seeing increased interest in road-to-rail conversion activity? How many of your current traditional truckload customers are potential targets for conversion to intermodal customers? We are still new in our intermodal business. We are continuing to develop. If you look at taking out the one major accident that we had last year we were profitable. Our hope is here is to improve upon that profitability. We have several initiatives underway as we speak. Relative to our customers, all of our customers are potential targets. We do a lot of business with them, and if they have intermodal business, we have an intermodal product to take care of that business for them. Our average length of haul is about 450 and that's not very conducive to intermodal, but if they have that intermodal freight in their supply chain, we have the product to handle it.

The next question is, utilization of your intermodal containers averaged roughly 1.3 turns a month in Q1, down from 1.6 turns in Q4 and Q1 of 2012, and down sequentially three quarters in a row. Was the decline caused by seasonal factors, the addition of containers, or was demand weaker than expected? What levels of utilization can we expect to see going forward? So the container turn figures mentioned in the question include both the COFC and TOFC loads, and are therefore not an accurate portrayal of just the container turns. However our container turns are down year-over-year in the first quarter. The answer to your question is, as to why, is all three of the items you mentioned. As we discussed earlier, the first-quarter volumes were not as strong as we would have liked to have seen. So the impact -- that impacted our container turns. Also keep in mind that during 2012, we added over 2,500 containers with almost 2,000 of those occurring in the second half of the year. As we discussed at the end of last year, our focus this year is on the utilization of this equipment. We believe we have enough equipment to achieve our revenue growth targets for 2013. And during the first quarter our COFC load volumes grew nearly 21% year-over-year, and we expect our utilization to improve over the course of the year as we grow that business.

The next question is, do you need to add expense -- i.e., add intermodal salespeople in order to spur load growth even higher? We've already added sales personnel to strategic markets and we feel that our current sales force is adequately staffed today. We have also increased intermodal support personnel and expect to expand that as needed as we grow the business.

The next question is can you give us any color regarding your growth in COFC versus TOFC and the difference between the revenue gains and loss respectively for each? How large of a drag to intermodal OR is the reduction in the TOFC volumes? The answer there is the overall revenue growth for intermodal was 11% net of fuel surcharge. Overall load volumes increased 9.7% and revenue, excluding fuel surcharge, was up 1.2%. Loads in our container on flat car, or the COFC business, grew 20.8% and our COFC revenue, excluding fuel surcharge, per load, grew 1.8%. This growth in COFC was partially offset by a 65.5% reduction in the trailer on flat car, or the TOFC business. We shed that TOFC business because it did not meet our margin requirements.

The next question was, how has core pricing trended in your key intermodal lanes? How is the competitive dynamic? Your previous guidance included a 20% to 25% year-over-year increase in intermodal revenue, excluding fuel surcharge, in 2013 compared to 2012. Do you still expect the 20%, 25% year-over-year increase on a full-year basis, and if so, can you talk about the timing of revenue growth? If you no longer expect 20% to 25% growth, can you provide updated guidance, and discuss what has changed from when you provided the original guidance? We would say that the market right now is extremely competitive, especially off the West Coast, where volumes are softer than we would expect this time of year. You know our COFC side we still feel very good about; the growth that 20% to 25%. As we previously discussed the TOFC business has declined, but I will tell you that we still feel that our customers are optimistic and we have some meaningful growth opportunities in the pipeline, which we feel good about that COFC growth at 20% to 25%.

The next question is, are the higher intermodal expenses you described in the release, larger container fleet and chassis, related more to start-up cost, or will these be ongoing expenses? What is your plan for expanding intermodal margins? These expenses are a direct result of the increased fleet size and will be an ongoing expense. However, as we grow intermodal revenue, this expense as a percentage of revenue will be reduced. Now the initiatives that we have underway are relative to our container turns, to our load matching, more efficiency in our dray network, and reducing our chassis expenses.

The next two questions -- or last two questions on this part of the questions are, can you please comment on the expected profitability of intermodal on a quarterly basis? Do you expect sequential improvements throughout the year? Excluding unusual accident related cost, are prior year adjustment -- adjusted operating ratios representative of normal sequential changes in intermodal operating ratio? We would answer that by, due to seasonal freight patterns, the first quarter volumes are usually the toughest and then each quarter volumes, the freight volumes are typically stronger. As the year progresses the increased volumes will help to offset our fixed overhead expenses, so we expect our adjusted operating ratio to improve throughout the year, assuming we have similar freight patterns that we've had in prior years. The accident-related cost we discussed did not materially impact the second quarter of 2012 because the claim had not fully developed at that time, but it did both impact the third and the fourth quarters.

The last question on this segment is, for the intermodal segment, as the company plans to increase utilization on its fleet, and increase its intermodal revenue as a result, without adding additional tractors, will the company plan to utilize more third parties and thus see higher purchase transportation costs from purchasing drayage? Or is it possible to continued to drive further utilization in the existing drayage fleet as well? The answer there is, it will be a combination of both. We believe we have opportunities to improve the utilization of our existing dray fleet, but there are also markets where we will need to utilize third-party providers as it relates to profitability.

Jason Bates - *Swift Transportation Co - VP Finance, and IR Officer*

Great. Thank you, Richard. We will roll right into the truckload segment -- there were a handful of questions in that area as well.

Richard Stocking - *Swift Transportation Co - President and COO*

All right, the truckload segment -- the first one is can you please elaborate on the comment that expected growth in the truckload fleet of 200 to 300 units may be adjusted based on freight volumes, and overall economic conditions? Does this imply it may be adjusted down, or is the comment implying it may be adjusted up? The answer there is both. As we discussed previously, our focus is on maximizing our RONA, so if the economic conditions are such that we can improve our RONA by adding equipment we will do so. The opposite holds true as well. If we need for adjust our growth targets down as result of economic conditions, in order to retain the equipment utilization efficiency we desire, we will do that as well. We have shown this level of discipline in past periods and will continue to do so in the future. We believe that Mexico is a great opportunity for us and we'll add 100-plus trucks down there this year.

The next question is, what is the timeframe that we can expect for the fleet additions of the 200 to 300 units, and you know, it will depend entirely on the freight demands we experience, either through the economic growth, or by gaining and earning market share.

The next question is, how will utilization be impacted as you grow trucks? Should we expect a year-over-year degradation? How tough do you view the comps in the second and third quarters? The answer there is no, as we've discussed, we will not grow, especially in our truckload segment, at the expense of utilization. The second- and third-quarter comps are more difficult than the first quarter was but we will continue to strive to achieve year-over-year improvements through the initiatives that we have underway.

The next question is, how much further can you push up truck utilization? If you look at it, current best-in-class utilization is around 2,200 miles per truck, per week. However, our goal is to redefine best in class, and we believe the various initiatives and strategic focus teams that we previously referenced will enable us to achieve that goal.

The last two questions in this segment, truck rate per mile excluding fuel was 1.9% up year-over-year. What were core pricing gains adjusting for mix in the first-quarter 2013, and what are they expected to be for the rest of 2013? We do not provide that level of detail in our pricing improvement for the truckload segment.

The last question was, what drove truckload's year-over-year increase in OR, do you expect to seat truckload OR improvements in 2013? It and as stated in the release, the increase in the adjusted operating ratio in our truckload segment was driven primarily by a $5.2 million benefit from the favorable contract resolution with the Port of Los Angeles in the first quarter of 2012.

Jason Bates - *Swift Transportation Co - VP Finance, and IR Officer*

Great. Let's go ahead and roll into the last group of segment questions and round it out with the dedicated segment.

Richard Stocking - *Swift Transportation Co - President and COO*

Okay -- how was your pipeline of business in dedicated, and we define that as we have a very robust pipeline in this line of business. We continue to help our customers see the advantages of dedicated in their supply chain.

And the next question is, do you have criteria for bringing on new business -- operating ratio, gross profit dollars, et cetera? Does the dedicated fleet growth guidance of 100 to 200 units also depend on overall economic conditions? And yes, we do. One of the key metrics that we use to measure new business is return on our net assets. We expect any additional business we bring on to help improve that metric as well as other profitability guidelines. Our ability to grow will be based on whether we can win business that meets these criteria, or grow with our existing customer contracts.

Next question, you made very strong progress in OR for dedicated. How much of the OR improvement in dedicated is from new customer contracts that came in at higher profitability, culling low-margin business versus improving utilization of existing fleets, back-haul opportunity, et cetera. How much more opportunity is there on terminating underperforming customer contracts? So we don't provide specific improvements in each area but the contracts we discussed in the letter were terminated predominantly and the third and fourth quarter of 2012. So we should still see some year-over-year improvements in the second quarter. Sometimes we take on new business with certain utilization and cost assumptions that turn out to be very different. In these situations we work together with our customers to develop ideal solutions that help both of us, but occasionally it makes the most sense to walk away from the business. OR improvements in the future quarters will come from improving our existing business, and growing new business rather than terminating contracts, existing contracts, that we have today.

And the final question on the dedicated was, when did the company first began servicing Walmart as a dedicated customer? Walmart has been a customer of ours, participating in various service offerings, over the last 20-plus years. But specifically on the dedicated side they've been with us for 11 years.

Jason Bates - *Swift Transportation Co - VP Finance, and IR Officer*

Great. Thank you, Richard. There were a few miscellaneous other questions which we kind of grouped all together, and so we will kind of divide those up between Richard and Ginnie. Richard, if you want to handle the first three in here and then we'll turn it over to Ginnie for the last couple.

Richard Stocking - *Swift Transportation Co - President and COO*

Yes, what mix changes are you expecting to see in your customer base as you build out your dedicated and intermodal franchises? We would say most of our customers participate in multiple service offerings that we provide. So we do not expect to be a significant change in customer mix. We are however looking at growing revenues with new customers and new markets. Mexico, again, is a great opportunity for that growth.

The next one is how low can OR go in each segment? Can you provide long-term guidance? As we've said before, we do not provide segment-specific long-term guidance in this area. However we believe we have room for improvement in each one of these segments.

And finally, what percent of the non-reportable segment revenue, i.e., other revenue, is made up from brokerage? We do not disclose specific amounts or percentages but I can say that the amount right now is relatively small.

Ginnie Henkels - *Swift Transportation Co - EVP and CFO*

The next one is can management provide more color on the two non-operating properties in Wilmington, California and Phoenix, Arizona that were sold during the first quarter? The Phoenix property was undeveloped land next to our corporate headquarters. The Wilmington property was near the Port of LA, and it became less significant operationally as we transitioned to other facilities in the LA area over time.

The next question is, do you have any further plans to sell any other non-operating properties in the near term? And yes, we do have one additional property that is under contract that should close sometime within the second or third quarter, but we do not expect the gain on this property to be as significant as we saw the first quarter.

Jason Bates - *Swift Transportation Co - VP Finance, and IR Officer*

Great, so we will wrap it up today with some questions on EPS guidance. Ginnie, we will turn it over to you.

Ginnie Henkels - *Swift Transportation Co - EVP and CFO*

Okay, the first question is, what truck growth is assumed in your guidance of 10% to 15% growth and adjusted earnings per share? And we are assuming a 300 to 500 truck growth in those projections.

What is the economic back drop in your 10% growth forecast scenario, versus your 15% growth forecast scenario? The economic back drop for the lower end of the range would be an environment similar today -- slow growth, pricing closer to 2%, et cetera, where the 15% would include a slightly more robust economy with pricing closer to 3%.

The next question is, given the magnitude of the first-quarter beat, why are you not raising full-year growth guidance on EPS? Did your original 10% to 15% EPS guidance include the favorable impact from the first-quarter debt paid down and repricing, and are you seen a significant slowdown in growth in the second quarter that keeps you cautious? So the answer to that is no, the original 10% to 15% guidance did not include the impact from the debt repricing. But it did assume the various debt pay downs. So far in 2013 the overall economy and freight environment is not -- has not been as robust as we expected, as Richard discussed earlier, which is why we are maintaining the same 10% to 15% range.

And finally, the final question we have is, given the softness in April, are you still comfortable with 10% to 15% EPS improvement in the second quarter? And so as we discussed in the past, our 10% to 15% guidance is on a normalized basis per quarter. So in the second quarter of 2012, I will point out that fuel prices dropped dramatically, and as we disclosed last year, this had a $0.03 to $0.035 benefit in EPS within the quarter. So if you normalized those type of items we would guide to the 7 -- or 10% to 15% improvement on a quarterly basis.

So with that, that does finalize our Q&A session today. To summarize, I will say that we are proud of our Swift team and their continued ability to execute on our strategies. We thank you for your support of Swift. We do look forward to seeing you on May 10 at the New York Stock Exchange for our Second Annual Investor and Analyst Day, and I will remind you to send in your RSVPs to make sure you reserve a seat. So thank you, everyone, and we will see you soon.

Operator

Thank you for participating in today's conference. You may now disconnect.
