# SWIFT TRANSPORTATION COMPANY

**Moderator: Jason Bates**
**March 8, 2016**
**4:30 p.m. ET**

Operator: This is conference #: 62561755

Operator: Good afternoon. My name is (Mariama) and I will be your conference operator today. At this time, I would like to welcome everyone to the Swift Transportation 1st Quarter Mid-Quarter Call.

All lines have been placed on mute to prevent any background noise. If you should need assistance during the call, please press star zero on your telephone keypad and an operator will come back to assist you. Thank you. I would now like to turn the call over to Swift Vice President of Finance and Investor Relations Officer, Jason Bates. You may begin your conference.

Jason Bates: Thank you, (Mariama). We'd like to welcome everyone out today to our first ever mid-quarter conference call. We will go ahead and start the call today with our forward looking statement disclosure. This call contains statements that may constitute forward looking statements which are based on information currently available.

Such forward looking statements are made pursuant to the safe harbour provisions of the private security litigation reform act of 1995. Such forward looking statements are inherently uncertain, are based upon the current beliefs, assumptions and expectations of company management and current market conditions, which are subject to significant risks and uncertainties as set forth in the risk factor section of our most recently filed annual report form 10K.

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 the future events, new information or changes in these expectations.

So with that out of the way, I'd like to recognize the members of Swift management team on the line today. We have Jerry Moyes, our Founder and Chief Executive Officer, Richard Stocking, our President and Chief Operator Officer, and Ginnie Henkels, our Executive Vice President and Chief Financial Officer. We will start the call today with an overview from Ginnie Henkels discussing rationale for the mid-quarter call and hopefully dispel any rumors that may exist in that regard.

She will also reiterate our previous commentary around earnings cadence to assist all investors and analysts with their Swift models. After Ginnie, we will turn the call over to Richard to provide an update on the key operational trends we have experienced thus far in the quarter and to discuss our customer sentiment and outlook into the next few quarters.

Finally, we will conclude with – conclude the call today with a summary from Jerry. So with that, I'll turn the call over to Ginnie.

Ginnie Henkels: Thank you, Jason. As many of you know from an investor relations perspective, we continually seek out best practices and are not afraid to try new things even if they may be different from others in the industry. Over the past several years, we have strived to tailor our communication strategy with investors and analyst to ensure that we are providing consistency and transparency with the ultimate goal of attracting long-term investors and reducing volatility. We moved away from providing quarterly earnings guidance given some of the unique aspects of our business which include our diverse business model, our size and scale, as well as our high self-insured retention levels, but we do appreciate and understand that the sell-side analyst create consensus estimates for each quarter and year and in the absence of quarterly guidance from the company, the investment community will hold the company responsible for meeting or exceeding these consensus estimates.

So one of our goals with these mid-quarter calls is to provide an update on trends we are seeing and to assist the sell-side in updating their models to reflect the most current information available whether favorable or unfavorable. Again, the goal is consistency and transparency. Our intention is to have a mid-quarter call each quarter this year and then we will assess the strategy and determine if it is meeting our overall objectives and we'll make any adjustments if necessary.

Richard will be talking more detail shortly about some of the operational trends we have experienced thus far in 2016, which we would encourage investors on sell-side analyst to incorporate into the models. However, before doing so, we want to confirm our previously provided 2016 annual guidance of a $1.50 to a $1.60. Having said that, we do feel the need to reiterate at this time the guidance we provided on our fourth quarter call with regards to quarterly earnings cadence – in an effort to assist the sell-side and understanding how best to model the quarters that lead up to the $1.50 -$1.60 range that we have provided. This is what we said on our fourth quarter call.

"Historically, roughly 15 percent to 17 percent of our expected annual earnings will be achieved in the first quarter, with 23 percent to 25 percent in both the second and third quarters and the remainder as much as 35 percent to 37 percent of annual earnings in the fourth quarter. Obviously there is a variety of things that could cause the percentages to vary from historical averages, such as the timing of significant driver and owner operator wage increases, lawsuits, claims, and insurance settlements, fuel price assumptions, macroeconomic effects on freight volumes, the EOBR implementation impact to pass the availability et cetera."

So to be clear, we would encourage investors and analyst to use these percentages as the **starting point**, and then they would need to adjust their models to reflect any unique year over year anomalies, or known headwinds or tailwinds in determining the appropriate 2016 quarterly earnings cadence for their model.

A couple of examples that we would encourage you to consider as you think about the appropriate adjustments to those percentages for 2016 are as follows: First, for the first quarter, you should consider the meaningful driver wage increase we gave in May of 2015, so the entire 1st quarter, and part of the 2nd quarter, of 2016 would have a headwind relative to the historical percentages in that regard. Another example, although not necessarily as extreme to historical percentages, would be the fact that fuel was a meaningful tailwind in the first quarter of 2015, and is not anticipated to be so in 2016, which would result in another headwind. Therefore, if you take the midpoint of our full year at EPS range of a $1.55, and multiply that by 16 percent for Q1, you would arrive at 24.8 cents of EPS as the **starting point** for the 1st quarter. Then you would want to downwardly adjust or normalize that figure to reflect the driver wage and fuel impacts previously discussed as well as any commentary you may have received from us (on this call for example) or other shippers and carriers regarding freight patterns or seasonal trends for that quarter.

On the flipside, the opposite effect would be true when considering the 3rd quarter and to a lesser extent, the 4th quarter of 2016. As disclosed, last year, we had experienced significant headwinds in Q3 and Q4, many of which we would not anticipate to recur to the same extent in 2016 such as the impact associated with the equipment backlog, unfavorable claims, development and the class section settlement. And therefore, you would want to upperly adjust the anticipated earnings percentages for those quarters.

We hope this reiteration of the way to think about quarterly earnings cadence for Swift will prove to be beneficial for the sell-side as well as the buy-side, when analyzing your models and triangulating the appropriate quarterly estimates.

With that, let's go to the primary purpose of our mid-quarter call, which is to provide an update on the key operational trends we have experienced through two months of the quarter. For that, I will turn the call over to Richard.

Richard Stocking: OK. Thank you, Ginnie. I will walk through each of the key operational category starting with volumes. As we discussed on our earnings call in late January, which we also reiterated the second week of February of the Florida conferences, the general freight environment was slow to start the year. When looking at our combined trucking operations (excluding inner model and logistics), total loaded miles were down approximately 4 percent year over year in the month of January.

However, while the year clearly got off to a slow start, things have been improving over the past five weeks. Since February 1st, our loaded miles are up roughly 3 percent year over year on a fleet count that is actually down approximately a 120 trucks when compared to the same period of last year. The reduced fleet count is predominantly a function of the efforts to clean up the equipment backlog we discussed in the 3rd and 4th quarters of last year, and adjustments for the seasonality slow 1st quarter.

So on a quarter to date basis, even after the slow start in January with improvements over the past five weeks, we're almost flat year over year in total loaded miles and we have done so with the smaller fleet count leading to slight utilization improvements quarter today. And I just want to remind everybody, March is historically the strongest and largest month and largest month of the first quarter so we hope to see these encouraging trends continue to play out over the next several weeks.

So let's move to rates, we've had a significant number of questions about the rate environment. There are many of you who closely monitor a variety of spot, rate, indexes, and trends, and wonder about the correlation of those may have to the contract market.

We have mentioned a few times in the past, but I want to remind you that Swift's business model is almost a 100 percent contractual in nature - and we have very little, if any exposure to the direct spot market. We do see negative pressure on our ability to charge repositioning revenues when the spot market is suffering; however, outside of that, the spot market does not materially affect our business model.

Having said that, as is normal course, we have been engaging in price conversations with our customers as bids come due for renewal. There's no question that the current rate environment is difficult right now. It's a constant battle with our shippers. However, I will state that we seek to do business with shippers who are interested in strategic, long-term partnerships.

We remind them that a short sided mentality on their part at this juncture will likely have an effect on our mentality over the next several quarters as the ELD story plays out, and we begin to see significant capacity contraction. With any strong strategic partnership, there is give and take. However, we believe that our key partners recognize the value and stability that a sizeable, reliable, and a technologically advanced carrier with enhanced equipment safety features like Swift brings to them and to the table. And we are encouraging them to think long-term and not short-term or "transactional".

On a quarter to date basis our average revenue per loaded mile excluding fuel surcharge across all of our trucking operations is up about roughly 2 percent year over year; however, our line haul business is relatively flat. As we have discussed, with our goal to not add equipment in 2016, we'll be continually evaluating our overall business portfolio to ensure we are providing capacity where it financially make sense for our shareholders.

So let's move to a safety and insurance trends. While we don't disclose specific figures, I am proud to state that the – Our crashes per million miles are down more than 10 percent on a year to date basis when compared to 2015. So our on-going focus on safety throughout the entire organization, combined with the continued investment in our enhanced safety technology and hopefully this clearly had a positive effect on both accident frequency and severity trends.

As we have outlined in the past, we carry high sell insured retention levels and the actuarial development of prior your claims generally have multi-year tails which can create volatility from time to time.

As a result, we would anticipate our insurance and claims as a percent of net revenue to be slightly higher in the upcoming periods and slowly tapering off overtime as we continue to incorporate additional quarters with lower accident frequency and severity trends into the actuarial models.

So let's go to customer feedback. Jerry and I have spent a lot of time with our customers over the past couple of months. We've attended a variety of industry forums and conferences, and have had a good feel for customer sentiment both currently but also their views into the future. There is lots of concern about ELDs and how soon that impact will affect capacity and availability.

We have already picked up some business from some shippers who have not invited carriers who have not put a plan into place to become ELD compliant. We have also had other shippers give their carriers a certain timeframe to become a 100 percent compliant. We believe, we have seen incremental business as well as drivers come to Swift Transportation because of ELDs. And we believe that, that picks up speed and steam as we go through 2016 and more importantly in 2017.

So we're seeing a flight to quality from our customers. Inventories has been a talked about a lot, traditional stock versus safety stock. We believe we have worked through most of that inventory on the traditional stock. We do have some customers that are reducing the safety stock which puts a lot of pressure on on-time service so that they don't have any out of stocks on their shelves.

We're also seeing quite a bit of dedicated opportunities as well and we believe that, that only enhances as the ELD start to play out. Again, we're not planning to add capacity this year via truck count, we intend to grow revenue by improving the utilization of our fleet in elevating our mix of business.

We firmly believe that as capacity begins to tighten later in the year as customer's transition their carriers to those with ELDs, we'll have additional opportunities to elevate or upgrade our current freight mix as I mentioned earlier.

So Swift's commitment to returning capital to shareholders as we discussed on our year end earning's call, the $100 million share repurchased program authorized in 2015 was completed in January. On February 22nd the board authorized an additional 150 million share repurchase program to be implemented with the following constraints.

First, we continue to refresh the fleet at normal trade cycles. Second, we have at least $30 to $50 million debt repayment during the year. And finally, the purchases must be funded through excess free cash flow. If fully exhausted, we can always return to the board for further authorizations. We are committed to focusing on utilization through the entire organization, free cash flow generation, and returning that cash through our shareholders in the most accretive manner possible.

And with that, will return it to Jerry for a summary in a wrap up.

Jerry Moyes: All right. Thank you, Richard. To summarize I want to reiterate the key takeaways from today's call. Many of which are similar to the points that we made on our earnings call in January.

First, Ginnie did a great job outlining the purpose of these mid-quarter calls. We're committed to trying this new communication format for 2016. We recognize that there's no perfect solution – I believe the opportunity to ensure clarity, consistency, and transparency for our shareholders is critical.

We want them to hear the message from us as opposed to be in subject to the rampant speculations via the rumor mill. Additionally these mid-quarter calls in conjunction with our quarterly earnings releases, we'll provide a public mechanism to assist the sell-side and investors with their models.

Secondly, volume and rates. While the year got up to the slow start from both a volume and rate perspective, we are seeing things pick up. March is typically the strongest month of the quarter and based on what we have seen so far, we anticipate the year will be similar to years past.

Third, we are very encouraged with the continued positive trend of our safety both accident frequency and severity are trending strongly in the right direction. While this may take time for us to fully realize the benefits of our insurance claims line on our P&L, we are excited about the underlying trends.

Fourth, our customers are not near as "bearish" on the overall economy or the great demands as many of the research reports or surveys that are out there. With the exception of a couple of our customers, they are all anticipating increase volumes in 2016 versus 2015. A lot of them are in the 10 percent to 15 percent range and we have one customer that is talking about you know 95 percent increases this year and 95 next year over a large base. Additionally, they're very, very concerned about the impact of the (Electronic Locks) and want to ensure that they're aligned with strategic partners like Swift to lock in the capacity when this market gets tight.

Finally, we continued emphasize on our commitment to the plan we outlined last year regarding CAPEX, discipline, emphasis on utilization, and cost controls, and returning free cash flow to the shareholders.

We want to thank you for joining us on this first mid-quarter conference call today and appreciate everyone's continued support of Swift Transportation. Thank you.

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

**END**