

Operator

Good afternoon. My name is JP and I will be your conference operator today. At this time I would like to welcome everyone to the Knight-Swift Transportation Second Quarter 2023 Earnings Call. All lines have been placed on mute to prevent any background noise. If at any time during this call you require immediate assistance, please press star zero for the operator.

Speakers for today's call will be Dave Jackson, President and CEO; Adam Miller, CFO. Mr. Miller, the meeting is now yours.

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.

Thank you, JP. Good afternoon, everyone, and thank you for joining our second quarter 2023 earnings call. Today we plan to discuss topics related to the results of the quarter, provide an update on current market conditions, and update our full year 2023 guidance. We have slides to accompany this call, which are posted on our investor website. Our call is scheduled to go until 5:30 p.m. Eastern Time. Following our commentary, we'll answer questions related to these topics. In order to get to as many participants as possible, we're going to limit the questions to one per participant. If you have a second question, please feel free to get back into the queue. We will answer as many questions as time allows. If we're not able to get to your question due to time restrictions, you may call 602-606-6349.

To begin, I'll first refer you to the disclosures on slide two of the presentation and note the following: This conference call and presentation may contain forward-looking statements made by the Company that involve risks, assumptions, and uncertainties that are difficult to predict. Investors are directed to the information contained in Item 1A, Risk Factors, or Part One of the Company's annual report on Form 10-K filed with the United States SEC for a discussion of the risks that may affect the Company's future operating results. Actual results may differ.

Before we get into the slides, I want to turn the call over to Dave for a few opening remarks.

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.

Thanks, Adam, and we appreciate you joining us today.

We're now over a year into a freight down-cycle with an unusual combination of dynamics at work to create a particularly difficult operating environment. I don't know that we've ever seen freight demand fall this far so fast and for so long without an accompanying economic recession. I'm not suggesting that truckload demand softness is an automatic read-through or a predictive indicator of broader economic weakness. In fact, we're very encouraged with how consumers and the economy have digested interest rate increases and their positive impact on inflation. But the truckload market was severely impacted by the reduction from the unusual and enormous growth in inventories that built in the latter part of 2021 and into 2022. The worst of those adjustments appear to be behind us and we expect further normalization in the flow of goods and supply chains.

This normalization is now being met with less truckload capacity, as carriers have not survived with the harsh truckload freight environment. One of the reasons is the lack of cost reprieve that would normally be associated with such a decline in truckload freight demand that this inventory destocking catch-up has created. Ordinarily, a broader economic recession would have matched those soft freight volumes with significantly lower fuel prices, very low equipment costs, and a loose labor market, with drivers more plentiful than any other time. None of those cost concessions have been present this time, leading to margin pressure and business failures for others. These prolonged challenges are setting up for an eventual strong recovery. Such recoveries often come from an unlikely catalyst and can be difficult to predict with precision. We are positioned to grind in the current environment and thrive as conditions improve. This includes our newly acquired U.S. Xpress. Additionally, we have significant opportunities unique to Knight-Swift such as the build out of our LTL network and doing for U.S. Xpress what we have done with Swift in achieving new levels of profitability. We are seeing the benefits of diversification with our LTL segment in their continued growth and performance.

Now I'll turn to slide three. Slide three compares our consolidated second quarter revenue and earnings results on a year-over-year basis. Revenue, excluding fuel surcharge, declined by 17.9% while our adjusted operating income declined by 66.3%. GAAP earnings per diluted share for the second quarter of 2023 were \$0.39 per share and our adjusted earnings per share came in at \$0.49. These results were negatively impacted by a \$10.2 million increase or

\$0.05 per diluted share in interest expense and the \$15 million operating loss or \$0.07 per diluted share in our third-party insurance business within the non-reportable segments, primarily as a result of ongoing claims development during the quarter as we worked to realign the performance of this business. The operating loss was reduced from the \$22.8 million loss in the first quarter and we anticipate that the operating loss will moderate further to approximately \$10 million for the second half of the year.

Now on to slide four. This slide illustrates the revenue and adjusted operating income for each of our segments. Freight demand in the second quarter was below expectations and has largely lacked the typical seasonal patterns of support for the fourth consecutive quarter. The depressed spot market and weak demand caused pressure on contractual pricing to intensify in the truckload, intermodal, and logistics segments. This caused acute pressure on margins in our truckload and intermodal segments. Our LTL segment weathered the soft environment well, operating in the mid-80s. Logistics navigated significant declines in volume and revenue per load year over year to produce a 91.6% adjusted operating ratio.

I'll now turn it to Adam to discuss each segment's operating performance, starting with truckload on slide five.

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.
Thanks, Dave.

On a year-over-year basis, our truckload revenue, excluding fuel surcharge, declined 15.5% while our operating income declined by 67.1%, reflecting the comparison of an especially difficult second quarter of 2023 against the record-setting second quarter earnings of 2022. The prior year quarter was the peak of overall rate per mile, as still rising contract rates overcame spot rates that had begun to fall rapidly. The softer than expected demand in the first quarter put more pressure on contractual pricing through the second quarter than expected. Our cost control efforts helped hold cost per mile flat with the first quarter, though costs were still up 2.7% year over year. During the quarter, revenue per tractor fell 14.5%, driven by an 11% decrease in revenue per loaded mile and a 3.3% decrease in miles per tractor. Overall miles and utilization bottomed in April before building modestly throughout the balance of the quarter. This second quarter marks the lowest absolute utilization level for a second quarter ever, largely due to the weak demand environment coupled with the persistent tightness in labor in the general economy. The low utilization is one of the headwinds on cost per mile and revenue per truck that makes the current environment particularly difficult, but which represents a meaningful operating leverage opportunity once demand levels recover.

Now we'll move to slide six. Our LTL segment continues to perform well, modestly growing revenue excluding fuel surcharge and delivering an 85.1% adjusted operating ratio despite the softer volume environment. Pricing remains solid as revenue excluding fuel surcharge per hundredweight increased 7% year over year. Shipments per day were down 3.9% year over year but did show a sequential build in May and June, which appears to be continuing into July. Further, we have experienced a recent increase in inbound requests from shippers for additional capacity support moving forward. The map shows the AAA Cooper and MME terminal locations and indicates new locations since the acquisitions in 2021 as well as planned locations in the near future. Filling out a super-regional network in the short term and creating a national network in the long term will allow us to participate in more freight and enable us to find opportunities to further support our existing truckload customers with LTL capacity. This remains a key strategic priority for us.

Now on to slide seven. Despite the challenges posed by the soft market, our logistics business remained disciplined and nimble and maintained near double-digit margins with an adjusted operating ratio of 91.6%. This was achieved while the current environment is marked by top-line price pressure that is no longer being offset by corresponding declines in purchase transportation costs. Overall revenue was down 52.4%, driven by a 26.8% decrease in revenue per load and a decrease in load count of 35%. Customer behavior has exhibited a strong preference for the power-only value proposition over the past few years. These volumes were stable quarter over quarter while our traditional brokerage volumes declined sequentially. Further, we expect this service will be an outsized beneficiary once demand recovers. On the right we show an actual snapshot of our trailer locations at a point in time to illustrate the extensive coverage we have throughout the supply chain network. This network of nearly 80,000 trailers, growing further with the addition of U.S. Xpress, provides us the ability to respond with distinctive scale in both our truckload and logistics segments to our customers' needs. We continue to be excited about this business and have several technology initiatives ongoing that will improve the experience for our third-party carriers as well as provide more

seamless information internally and to our customers that will lead to more opportunities to better utilize our equipment.

On slide eight I will cover our intermodal segment. Revenue decreased 21.5%, driven by a 24.5% decrease in revenue per load, partially offset by a 4% increase in load count. Additionally, the wind down of our container leasing project further pressured revenue and operating margin in the quarter. Intermodal industry volumes are down due to the soft freight environment and the current competitive position of the truckload alternative. Customers are leveraging the low spot rates, quicker transit times, and the better service in the truckload market; however, improvements in rail service and positive volume awards we are seeing through the bid activity should support volume growth and a return to profitability. Further, we will experience improvements in underlying rail costs in the second half of the year.

Now on to slide nine. Slide nine illustrates our non-reportable segment, which includes insurance, maintenance, and equipment sales and rentals under Iron Truck Services, as well as equipment leasing and warehousing activities. For the quarter, revenue growth slowed to 1.6% year over year, largely as a result of our actions to address the recent challenges within our third-party insurance program. Our efforts to improve our Iron Insurance line of business reduced its operating loss by \$7.8 million since the first quarter to a \$15 million operating loss during the second quarter. We have made progress reducing the exposure basis of third-party carrier risk and we are applying more stringent underwriting criteria and higher premiums for any retained risk as policies come up for renewal. The current operating loss is primarily due to ongoing claims development and the time it takes to work higher premiums through the portfolio. The other businesses within the non-reportable category remained largely stable and their income partially offset the loss within the Iron Insurance business, bringing the non-reportable segments as a whole to an operating loss of \$7.1 million, which includes amortization of intangibles of \$12 million related to the 2017 merger between Knight and Swift and other acquisitions. We anticipate modestly positive operating income for the non-reportable segment for the second half of the year. We expect to continue growing the revenues and income from these other services over time and believe this effort supports our ongoing diversification objectives.

Now on to slide 10. While income and cash flows are down during this freight recession, they still compare well in a historical context when compared to pre-pandemic levels. Despite the challenging current environment, we continue making strategic investments in technology and businesses with an intentional approach to deploying capital to improve returns, diversifying our business, and position it for further growth. Recent examples of this are our 2021 entry and further organic expansion in the LTL sector to tap into a new growth vertical that also enjoys greater stability than the truckload industry; organic and inorganic investments in technology to remove friction, empower our drivers and third-party carriers to unlock greater earnings power, enhanced value and visibility for customers, and unlocked synergies between businesses; as well as our acquisition of U.S. Xpress earlier this month to bring \$2 billion in revenues with significant room to improve operating income and cash flows in a business where we have demonstrated competence.

For more context on our plans for U.S. Xpress, I'll turn it over to Dave for slide 11.

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.

Thanks, Adam.

We're excited to have the transaction closed as of the beginning of this month and to have our synergy teams fully engaged with work well underway to execute the plans formed over the past few months to improve results at U.S. Xpress. We've already begun to realize \$6 million of monthly cost savings out of the gate with more ground still to cover. We're already making moves to deal directly with shippers and remove intermediaries that often prevent profitability for U.S. Xpress. The revenue opportunities are not only in pure price, but in network strategy, freight selection, lane density, customer mix, and cross-brand collaboration, not all of which require an improving market to facilitate progress. Additionally, we are preparing the business with tools and training to react to a changing market, similar to our approach at Knight and Swift and our other truckload brands. Most of our focus is the over-the-road U.S. Xpress business that has not performed profitably for some time. The need for improvement at Total Transportation in Jackson, Mississippi in the dedicated segment is less; however, we expect to see meaningful progress there too. We expect U.S. Xpress to achieve breakeven operating results before interest expense in the first half of 2024. We still target positive earnings accretion for 2024 and reach the \$1 per share of earnings accretion milestone in 2026, as previously communicated. Early on, barring a market recovery, we anticipate much of the

improvement realized will be on the cost side, increasingly shifting towards the realization of revenue synergies over time as the market improves. We estimate that 60% to 70% of the synergy opportunities are in the revenue per truck with the balance in the cost per mile.

Given the scale of U.S. Xpress and the large opportunity it represents for earnings accretion over time, we feel it appropriate to provide a little more detail on the types of efforts that are underway to achieve the goals we have communicated. I'll turn it to Adam to provide some detail on the synergy and transformation efforts.

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.

Thanks, Dave.

So we established 10 synergy teams across the business with members from both U.S. Xpress and Knight and Swift that have been working closely together since we announced the transaction in March. These teams are all focused on different areas, but all with the goal of reducing our cost per mile and/or improving our revenue per tractor. We have several initiatives already underway. I'll give a few examples.

We are building out a terminal network with existing U.S. Xpress properties that will mirror how we execute the OTR, the over-the-road businesses, at both Knight and Swift. So two terminals have already been established and we have more to come. This will allow the U.S. Xpress team to develop better relationships with drivers, improve turnover, enhance safety, recruit in the local market, develop freight density and regional opportunities, and finally have financial accountability to a detailed P&L. Now this is a significant change for U.S. Xpress, but the team is excited and fully on board.

And a second example would be our pricing and account management teams that are developing a more cohesive market strategy and are building tools and leveraging available resources to allow them to navigate changes in the environment. We're focused on upgrading our freight selection, limiting reliance on brokers, reducing outsized spot exposure that exists, and securing more commitments, all with the intent of significantly increasing our revenue per truck per day and meaningfully improving margins.

We have many more initiatives in process, but we wanted to share a couple on the call. We have a lot of progress to make with U.S. Xpress and Total Transportation, but we couldn't be more excited about the team we have working on these initiatives and we have confidence that we will see meaningful progress in the near term as well as in the long term.

I'll turn it back to Dave to touch on the market outlook on slide 12.

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.

Okay. So, slide 12 contains our updated outlook on market conditions for the remainder of 2023. We believe we're in the final stage of inventory destocking. While we're not ruling out a market inflection in the next few months, we're not calling for such a turning point. As such, our base case is for a modest seasonal uplift in the fourth quarter. Not a moderate seasonal uplift or a strong one, but a modest seasonal uplift, including a return of some typical seasonality activity and project opportunities with some early movement on project arrangements already showing signs.

Having experienced deeper pressure on revenue per mile in the second quarter than we previously expected, we anticipate contract rate declines will slow as bid activity has quieted down and volumes seem to have stabilized. After bottoming in the second quarter, spot rates may bounce along the bottom or show modest improvement in the third quarter before showing expected modest seasonal uplift in the fourth quarter of this year. The soft environment and lower rate expectations, combined with ongoing inflation in equipment, maintenance, and insurance, will keep the pressure on carriers, especially smaller and less well-capitalized carriers. Higher interest rates and tight credit standards are also taking a toll. These factors should serve to accelerate the ongoing capacity attrition and limit immediate capacity expansion upon a recovery.

Pressure on LTL shipment volumes seems to be easing throughout the second quarter and especially entering into the third quarter. We anticipate this trend to continue and for pricing to remain positive year over year. Inflationary pressures should ease, though plentiful work alternatives in the general economy will pressure hiring and utilization until freight conditions improve. Demand should begin improving as shippers stabilize inventory levels and import

volumes return to more normal levels. A combination of demand, recovery, and supply reduction should lead to improving freight market conditions in the near future, so long as the consumer spending remains largely stable.

I'll now turn it back to Adam to cover our 2023 guidance on slide 13.

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.

Okay. Thanks, Dave. This will be our last slide of our prepared remarks.

For the full year 2023 we now expect adjusted EPS to be in the range of \$2.10 to \$2.30, which includes a projected U.S. Xpress loss of \$0.25 to \$0.30 per share, including roughly \$0.11 per share for acquisition-related and legacy interest expense. This guidance is updated from our previous guidance of \$3.35 to \$3.55 per share, which did not include U.S. Xpress. Now we recognize this is a significant change, so we're going to walk through some of the key drivers.

First, as noted earlier, the persistent weakness in demand caused pressure on pricing to intensify in our truckload segment. As a result, we now anticipate that revenue per mile will decline high single to low double digits for the year as compared to our previous expectation of being down high single digits on the year. We anticipate the 11% year-over-year decline in Q2 should prove to be the worst, but we are now recovering off a lower base and expect a slower pace of recovery than previously projected with the deficit narrowing in Q4 but no longer being flat year over year. We still expect non-contract opportunities, combined with some return of peak season patterns, to provide some support to rates in Q4 as discussions around certain projects have already begun.

Second, gains on sale continue to fall as small carriers struggle in the soft market, so our projection has reduced from \$15 million to \$20 million per quarter for Knight-Swift to a range of \$10 million to \$15 million per quarter inclusive of U.S. Xpress moving forward. Also, it is proving more difficult to make further progress on cost reductions than we had previously anticipated in our truckload segment. While we have held cost per mile largely flat since late last year, the tightness in labor in the general economy is preventing us from seeing the typical benefit from labor availability that occurs in freight recessions. This serves as a governor on hiring and utilization, resulting in a headwind on cost per mile.

And third, as in the truckload business, we are seeing greater pressure on revenue per load in intermodal than originally projected, even as we continue to modestly grow volumes. As a result, we now project this business to break even for the year as compared to our previous expectation for a mid-90s OR.

And fourth, our guidance now includes the impact of U.S. Xpress for the back half of the year. We estimate a loss of \$0.25 to \$0.30 per share for this business, inclusive of the acquisition related and legacy interest expense of approximately \$0.11.

Our other assumptions saw a little change and are as follows: our LTL segment is expected to see a slight improvement in revenue with a relatively stable sequential margin profile subject to typical seasonality. Logistics volume and revenue per load remain under pressure in Q3 before improving sequentially in Q4. We still expect an OR in the low 90s for the year.

For our non-reportable segment, we expect modest growth for the year and our operating income for the second half of the year to be in line with what the second half of the year was last year. Excluding U.S. Xpress, truckload tractor count should be down modestly with miles per tractor slightly positive year over year in Q4.

Interest expense should increase roughly \$20 million in the second half over the first half of the year, primarily acquisition related and assuming the Fed hiking cycle is nearly complete.

Our CapEx is expected to be \$700 million to \$750 million, as we've now added U.S. Xpress to the back half of our projections, and our tax rate is expected to be 25% to 26%.

That concludes our prepared remarks. JP, we will now open the line for questions.

QUESTION AND ANSWER SESSION

Operator

At this time I would like to welcome everyone to the question-and-answer session. If you wish to ask a question, please press star then the number one on your telephone keypad. Again, this is star one on your telephone keypad. We will pause for a moment to compile the Q&A roster.

Your first question comes from the line of Jack Atkins from Stephens. Your line is now open.

Jack Atkins, Analyst, Stephens

Okay, great. Good afternoon and thanks for taking my questions, Dave and Adam. Appreciate it. So I guess if we could maybe start, I'd like to touch on LTL for a minute. I know it's probably not the not the biggest question people have out there today, but there's a lot of changes going on in the LTL market right now. You touched on seeing an uptick in activity here in recent days, Adam, in your comments. I wonder if you could maybe expand on that a bit and how you think things could unfold here, assuming we do have a closure at Yellow or maybe a strike early next week, how are you planning on protecting the network against any sort of operational challenges? And then I guess longer term, if we were to see Yellow shut down, does that change the thought around acquisitions versus building out the rest of the LTL network organically? So if you could maybe touch on that for a minute, I'd really appreciate it.

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.

Okay. Thanks, Jack. I guess it's probably reasonable to assume that some of the very recent volume gains that we've seen in our LTL network might be connected to some of the uncertainty that you've noted. Probably not appropriate for us to try and speculate a whole lot more than that, but clearly that's a factor at play right now yet to be totally understood how that would totally play out. I would say that our vision and view for building out the LTL network is one that is, it's steady, it's going to involve consistently growing organically and making some key acquisitions along the way to fill out the country, hopefully doing so with the least degree of overlap in cities that we already have existing service with our LTL business. And so I would say that any opportunity to pick up properties along the way, we would have great interest in that, and I would say that we would be opportunistic there, as we have been prior. There was Central Freight Lines. With their bankruptcy and liquidation, we had an opportunity to pick up some valuable facilities. I think there are some others that are underway that hopefully we'll pick up some facilities. If there were to be a nationwide network here in the near future that were to offload those facilities, there might be some of their larger ones that we're not quite ready for, but if a larger center is swallowed up by somebody who's a little further down in their LTL network than we are, it may mean that there are some smaller or midsized that open up as they trade up.

So we watch this very closely. We're in the LTL business for the long game and we've established kind of the style, the labor style if you will, that we've approached for our network, and so we're still committed to that and we'll stay committed to that. Clearly, if there were to be a disruption as a result of Yellow, I think that could be felt in all types of transportation, including in the truckload world, as there is space to absorb that, I would say, in our own LTL network, there is. There is space to absorb increased volume, even to the degree of double digits. And so we stand ready to help and serve our customers, especially if they're dealing with some uncertainty along the way, and so our LTL group and AAA Cooper and MME are incredibly capable at being able to, I think, provide a lot of solutions through a time of uncertainty and so they're positioned and ready to do so.

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.

And Jack, I mean I would also add that even in our truckload businesses we're seeing more opportunities come our way from not only AAA Cooper but other LTL providers, and so I think that's an opportunity that could pull some truckload capacity into the LTL space to handle maybe some surge volumes that others are seeing.

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.

But that, Jack, just want to be clear, we're not taking that into account right now in our estimates for the back half of the year. And so that could play out to become a much bigger catalyst, but that is not taken into account right now.

Jack Atkins, Analyst, Stephens

Okay. Thank you very much for the time.

Operator

Your next question comes from the line of Scott Group from Wolfe Research. Your line is now open.

Scott Group, Analyst, Wolfe Research

Hey, thanks. Good afternoon, guys. Sorry about my voice. Maybe I'm getting a little ahead of myself, but what do you think are the puts and takes in terms of the ability to grow earnings next year? Obviously, the pricing that we're seeing now, we've got to live with that at least through the first half of next year, so I don't know, what are the puts and takes as you see it to grow from this reduced base this year?

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.

Well, and hope you feel better soon, Scott, first off. If you look at the kind of OR degradation that we've seen in the truckload business, call it 1,290 basis points, if we were to look at our rate per total mile, it's off 1,150. So we're largely tied to what's going on in rates and certainly feeling like that is bottom. So we would sure hope and we expect that we've seen the bottom of this cycle.

If we look at previous transition points in the cycle, obviously 2017 it came the second week of September, in 2020 it came really at the start of June of 2020, and so it kind of just sneaks up, you see things building, building and then it turns. And our ability has been, with each successive cycle, we have been able to make capacity available in a strong market very quickly, almost create capacity, and so if you were to look at, you know, we alluded to the fact that our miles per truck are as low as they've been probably in any second quarter that we have record of, which definitely weighs on your cost per mile, but it also, it means we have a lot of pent-up operating leverage and capacity to run more miles. So, in a strong market, not only do rates go up, but our ability to begin to maximize the productivity of the business, it can change really fast.

So again, to reiterate, we're not forecasting that in our numbers. We're not ruling it out, but we're not forecasting it as we look at the back half of the year. But it may not take a traditional bid cycle, if you will, to see some meaningful lift come from that. So if we look at U.S. Xpress, you know, you might say, gosh, what a tough time to have even more truckload exposure. I wouldn't necessarily disagree with that, but now is exactly the time to help a business like that position itself to be ready for what we think is inevitable, it's just a matter of time and to what degree and then how potent that recovery is. So, that being said, I think we could very much exit next year with having made up several hundred basis points in margin. Probably doesn't go back up as fast as it came down, but I think it may surprise you how fast we could recoup earnings now that we have this expanded revenue base with the extra \$2 billion from U.S. Xpress.

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.

Yeah, Scott, when we think of how the trucking cycles work, first you see a lift in load count and then that leads to spot opportunities that are a premium and then that will lead to improvements in contractual rates. I think we believe we're one of the first to know when the spot becomes available at a premium. The reason being is that we have scale unlike anyone else and we get the calls when our customers are in a pinch and need to have someone who could be nimble. And we see some of that already, you know, very short temporary type projects, so there's a few green shoots, but again, nothing across the network that would give us confidence in predicting a strong recovery this year, but we're already starting to see some of that percolate. And these are opportunities that we're seeing, in many cases, others, even some of our other brands, aren't seeing those opportunities. So when it does turn, I think we know it probably faster than anyone and can react to it. And then, as Dave mentioned, we have the self-help store with U.S. Xpress that will just layer on top of that additional earnings when the market does turn.

Scott Group, Analyst, Wolfe Research

Okay. That makes sense. And I hopped on late, I wasn't sure if it was one question or two, if I can get a second one, just a follow-up on LTL. Given how rapidly things changed in the last week or so, are you, is anyone starting to talk about GRIs? Is pricing really changing given all the changes in the market right now?

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.

I think it's still just a little early. I mean, you know, we would have views and opinions, but things need to play out here. But yeah, probably too premature for us to comment right now. We would have opinions, but too premature for a public comment.

Scott Group, Analyst, Wolfe Research

Fair enough. Thank you, guys.

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.

Thanks.

Operator

Your next question comes from the line of Ravi Shanker from Morgan Stanley. Your line is now open.

Ravi Shanker, Analyst, Morgan Stanley

Thank you. Good afternoon, everyone. Dave, can you elaborate a little bit more on kind of what you're hearing from your customers right now on the cycle, kind of are they still destocking? Are they done destocking but are hesitant to restock? Are they thinking of restocking? Kind of how quickly do you think does the cycle turn if people decide that the consumer is holding up and we're not going into a recession?

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.

Yeah, well, Ravi, I think our customers, we've heard stories about great lengths they went to store product, to find warehousing space. Certainly our trailers were used in an unprecedented way to store product and so we, firsthand, have seen that go away. So we've seen things, ah, we've seen that inventory deplete.

Now we've just come through a bid season where our customers, you know, that are sort of the largest businesses in the world, they've been negotiating on rates, and of course for their own businesses, representing their own interests, have tried to maximize the decreases that they could get. I would tell you that as we come through this bid cycle we have fared better than we would have expected based on what the demand might be too strong of a word, but we were, in many cases, given targets and target decreases in rates that the customer expected us to get to and somewhat put our incumbent business in jeopardy if we didn't get to those levels. I will tell you that, in most cases, we did not get, certainly in the cases where they were aggressive, aggressive declines, we did not lower our rates to those levels, and yet we were awarded business, and in some cases we were awarded even more business than the incumbent business that we have.

So it's been a little bit difficult, admittedly, Ravi, to always get the exact story and the exact outlook, but if we, you know, like the old basketball defense example, watch the belly button, don't fall for the head fake, if we watch the belly button, perhaps meaning what happens as a result of the bid, what's the end product, what it's telling us is there is not new capacity out there. We're not facing severe competition from fellow trucking companies trying to gobble up share or anything. I think what we have experienced is perhaps the most irrational aggressiveness we've ever seen out of the non-asset broker group through a bid season. And I think there has been an all-out attempt to hold on to volume in some of those shops that it's led to some unrealistic expectations for some of our customers and full truckload shippers as to what kind of rate decreases they could possibly get. And so, when it comes down to it, our cost continued to go up. Our cost per mile was still up 2.7%. Now we're glad that number is down to only 2.7%, but that number has been extremely inflationary for the last few years, and so we are not in a position to digest those kind of decreases and still provide the kind of trailer pool nationwide capacity that we've done. So it feels like we're at that point where as much blood as can be extracted out of the turnip has been extracted and the market seems particularly sensitive right now to the least degree of seasonality.

Now I would say that freight volumes still have not normalized. The imports still are weaker than one would expect them to be. So there still is some room to go here. But things are sensitive. So we're in that phase. I'm not going to try and predict when exactly it's going to turn, never gotten it right in the past, don't expect I ever will, but what we do know, as Adam alluded to, is we see it fast, maybe as fast as anybody but I will tell you we see it immediately fast, and we've seen it immediately as it happens without nearly the amount of data that we now have and collect and without nearly the kind of size and scope that now we have across all of our network. And so what matters most to us isn't exactly when it's going to happen, but it's have you taken the steps necessary to prepare for it to happen.

And so an example would be, if we look at the Knight-Swift network, it's approximately 2% of our business comes via an intermediary that isn't acting as a, call it, 3PL that's personally representing the carrier, but through an intermediary, whereas U.S. Xpress, you know, that number is significantly higher. I would say that if you were to go back in time just a little bit prior to our acquisition, that number could be as high as 40%. And so it's not unrealistic to

believe that, if you're going through intermediaries versus dealing directly with customers and positioning yourself for the cycles to be able to deal directly with the customer, it's not unlikely to see a difference in rate that could be as much as \$0.80 or \$0.90 per mile to provide, in essence, the same service, in many cases in the same lanes. So it's all about how you've set up and how you've positioned your business to be able to provide the value and service to our customers. And so that's where our focus is right now, is to be prepared so whenever it comes, and every day that goes by we're obviously a day closer to it, but we'll be prepared and we're, you know, in this guidance that we've given, we're going to let you and we're going to let the investing public decide when they think that turn is going to come and so you have guidance that just assumes that we're not going to see it here in the next two quarters.

Ravi Shanker, Analyst, Morgan Stanley

Thanks for the color, Dave. I may borrow your "look at the belly button" quote for my report, but I'll turn it over here. Thank you.

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.

It's all yours

Operator

Your next question comes from the line of Amit Mehrotra from Deutsche Bank. Your line is now open.

Ben Moore, Analyst, Deutsche Bank

Hi. This is Ben Moore calling in for Amit Mehrotra at Deutsche Bank. Just wanted to ask what's your outlook on yields and OR in your truckload segment as we move from 2Q to 3Q? Do we take another leg down or do we stabilize from these levels?

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.

Yeah, I don't know that we're going to get that granular on the guidance on the call here. I think we gave the color that kind of being down 11% year over year would be the bottom, would be the trough, and that starts to improve on a year-over-year basis, more so because of an easier comparison rather than making improvement in rate. I think with the bid season being largely complete, there may be a few bids out there that still need to be implemented. Rate has been relatively stable and that's what we would expect and I think you can kind of run your model to try to back into an OR on the truckload business that gets you to the guidance we've put, but it probably doesn't change a ton sequentially, maybe a little bit of a lift in Q4 if we see the very modest seasonality we alluded to.

Ben Moore, Analyst, Deutsche Bank

Thanks. And if I can just squeeze one more in, do you expect to acquire another LTL company before the end of the year? It felt like you guys were maybe close 3Q. Not sure if the recent Yellow developments changed that outcome at all for 4Q. Or, sorry, I meant 3Q and then 4Q.

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.

We don't speak to the timing of any kind of, at least not intentionally, we don't speak to the timing of any potential future acquisition. Since our commitment to move into the LTL space, which really took shape, I think we were committed to get into the space probably as early as 2020, maybe even into maybe late 2019, and then finally were able to do so in the middle of 2021, we've been committed ever since. And so we continue to have dialogue and evaluate potential opportunities. As you know, the pool there is not huge and so we've been patient, we'd ask everybody else to be patient, but we are committed to building it over time.

Ben Moore, Analyst, Deutsche Bank

Okay. Thanks for the insights.

Operator

Your next question comes from the line of Tom Wadewitz from UBS. Your line is now open.

Michael DiMattia, Analyst, UBS

Hey, Dave and Adam. This is Michael DiMattia for Tom. Can you provide more details on the evolution of dilution for U.S. Xpress in the back half of 2023 into 2024 and then how much of the path to growth is macro versus the opportunities that you described in the slides?

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.

So, as we described in the slides, we've already identified \$6 million of monthly cost savings on the U.S. Xpress business, and we expect that number to improve as we can dig into many of the areas that we've identified as having opportunities. We've just had the business owned for, I think, 20 days now, so there's still a lot of room to figure out what's going to be an opportunity and how much savings will come from that. So I think those will be done regardless of the market, so we expect the results of the business to improve sequentially. And I think we talked about in the presentation that we expect to be breakeven in the first half of 2024. Certainly, if we have some wind at our back from a market perspective, that could lead to capturing revenue synergies sooner than what we've projected but, again, that's kind of subject to what happens with the overall trucking market. But we'd be prepared, if that does occur, to be able to react very quickly to the synergy opportunity, similar to how we would on the Knight and Swift business.

Michael DiMattia, Analyst, UBS

Great, thank you. And just is there a way to think about the evolution of OR? If you look at 18 months, could this be a mid-90s OR business, or what's the right cadence to think about?

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.

Yeah, I think, Michael, where we are right now, again, to Adam's point, we're 20 days into the ownership, is we're targeting \$1 per share for 2026. And a strong market brings that forward a lot faster. But we are trying to not, we don't have the ability to be the economist to predict when that change happens. Obviously, we have a high degree of confidence that we'll see the cycle switch and see some strength in recovery between now and that 2026 period, but we're not prepared to give any more commentary on the margins than what we've already alluded to through the first half of 2024 right now.

Michael DiMattia, Analyst, UBS

That's helpful. Thank you.

Operator

Your next question comes from the line of Ken Hoexter from Bank of America. Your line is now open.

Ken Hoexter, Analyst, Bank of America

Hey, Dave, Adam. Good afternoon.

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.

Hi, Ken.

Ken Hoexter, Analyst, Bank of America

I guess we've now moved your outlook to half your prior trough target. That was below, now seemingly below your prior cyclical low. Not sure if you're being overly conservative now versus not being prior but, I don't know, is there something you need to do here in terms of the downturn to find that higher floor that you kept talking about? Is it consolidating the brand names and operations? Have things gotten too sprawling with U.S. Xpress and Barr-Nunn and too many brand names? Is intermodal the issue? Do you need to get rid of intermodal? Maybe just thinking about that conceptually versus the cost machine that we saw at the prior Knight standalone.

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.

I would answer with none of the above, Ken. So really, when we first rolled out the \$4 trough, that was early 2022. There was a few things that have kind of changed I'd say materially since that. Some were maybe out of our control. Others probably just didn't anticipate the type of downturn that we would experience coming off the strength we had in 2021 and the first half of 2022. For instance, rising interest rates have had probably a negative impact of about \$0.35 beyond what our original expectations were just given the rising rates, which, when you think about in a freight recession, rarely does that align with rates that are rising as rapidly as we've seen. So that's been a headwind to those original projections.

In our Iron Insurance business, we were very bullish on that business early on. We had great results when we first rolled that out. And starting in the fourth quarter of last year we saw claims experience develop well beyond what we

had historically seen and so that's been a headwind this year much more than we anticipated. We actually had baked in that we would make money in that business and so now that we're going to lose money for the full year, that's probably a \$0.45 delta between original projections. So right there you're at an \$0.80 difference from what our original expectations were.

And then we think through the rate pressure that we felt, I don't think we've ever seen double-digit declines in rate per mile, even considering what we have in dedicated, which those rates have been very stable. And so when we put out the \$4 floor, it was really comparing how we've navigated these downsides in previous cycles, and this one has proven to be more dramatic than we would have anticipated. And so, given that sharp decline, I think that all those factors led to the type of EPS that we see.

But look, here's what I would say: We're confident that our margins will return very quickly when the market improves and we think we'll make meaningful improvement with the U.S. Xpress business. We've already started on the cost side. We'll continue to chip away there and then we'll make even further improvement on the revenue side when we have some wind at our back. I think a lot of people don't really understand how these businesses operate. To combine brands, we would lose accountability, you'd probably lose scale, you'd lose market efficiency. It doesn't work that way. On paper, it sounds a lot easier. But to have these brands out there that have the accountability and they can navigate the market, be more nimble, we just think we have—our job is to ensure we have great leaders that understand what we're trying to accomplish and that we're executing and, where we have opportunities to improve, we help and give them resources. So we would not change our strategy given the market that we have today.

Ken Hoexter, Analyst, Bank of America

Great. Thanks for the input. Appreciate it.

Operator

Your next question comes from the line of Jason Seidl from TD Cowen. Your line is now open.

Jason Seidl, Analyst, TD Cowan

Hey. Thank you, guys, very much. Listen, I wanted to focus a little bit on the intermodal sector. You know, a bigger loss than we expected in the quarter. Was there much difference in performance between sort of the Knight legacy and sort of that Swift intermodal business? And then how should we think about volumes going forward as we look into 2024 and as truckload rates are expected to increase?

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.

Well, we don't really have much of a Knight intermodal legacy to compare against. That was a very small and very different model. And so I look at the Swift intermodal business, you know, we made, I'd say, some nice progress on operating ratio the last couple of years, but that was really on the back of some leasing we've done with some containers that proved to be very profitable and we were making some changes in our network in terms of rail providers. And when doing that, you know, you have some fallout from customers that you have to rebuild, but we felt very confident with the providers that we had and knew that we would eventually build that volume back up. So, when that lease project has ended and we've received most of those containers back, you lose that revenue, you pick up that, you know, you still have that depreciation, and it weighed on our margins a bit more than we anticipated.

And then pricing has been a bit of a challenge, because intermodal kind of follows the path that we see on the truckload side, so revenue per load has taken a bit of a hit. If I back out the effects of the leasing project that we had as well as the change in fuel, revenue per load is maybe off 10%, right? So much better than what the print looks like. But we're building volume, right? So we're up 4% this year and the bids that we have coming in the door are going to prove to have more volume that we add to that network. Based on the way we have our contracts, we do have some savings that we expect to pick up in the back half of this year from a rail cost standpoint. We have some new leadership in place that have different strategies that we think will help us improve the operating costs of our business.

So yeah, we had a tough quarter in the second quarter here. We expect to get that business back to profitability by the end of this year and believe 2024 could be a nice rebound year where we grow both top line, we grow margins, and ultimately the bottom line of that business.

Jason Seidl, Analyst, TD Cowan

That's great color. If I could just get one more in here. When you guys look at your non-reportable insurance segment, obviously you gave us good guidance for the back half of the year, but do you think you've gotten that segment where we shouldn't expect any more losses as we head into 2024?

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.

Well, look, the insurance we talked about, we've stemmed some losses there. We still have some things to work through there, but we do believe that the overall segment will be profitable in the third and fourth quarter and then expect that to continue into 2024. But hey, we still have some work to do on the insurance front to get there.

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.

Yes. So Jason, to be kind of specific, what we mentioned earlier in the remarks was we expect to be around \$10 million in losses for the insurance piece for the remainder of the year, so that's third and fourth quarters combined, which of course is down considerably from the \$15 million and \$22 million, almost \$23 million in the first quarter. And then just one comment on the intermodal piece. That container leasing business will lap that come, call it, middle of the first quarter. So that'll make for a more difficult comparison. So, when we do look at 2024, comparisons for nearly the entire year of 2024 will be a favorable comparison versus what we've been dealing with up to this point.

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.

Okay. We're going to do one more question, and that actually does mean one more question, so we'll reiterate that next time a little bit more.

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.

So, JP, we'll take our last question here.

Operator

Your last question is coming from the line of Chris Wetherbee from Citi. Your line is now open.

Chris Wetherbee, Analyst, Citi

Hey, guys. Thanks for squeezing me in under the wire here. I will keep it to one. So I just wanted to ask about U.S. Xpress and I guess, Adam, you said that you're going to be breakeven as you think about the first half of next year. Should we assume that U.S. X contributes to earnings, assuming a market that's arguably better than what we have here in 2023? I just want to get a sense. Will it be accretive in 2024?

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.

Yeah. I mean we do believe it will be accretive in 2024. And hey, if the market turns quicker, then, hey, that could come even sooner. And yeah, we believe we'll make tremendous amount of progress on the cost side but, as we mentioned in our prepared remarks, the revenue side represents 60% to 70% of the synergy opportunity, so if we get a little help from a market perspective, that'll move sooner.

Chris Wetherbee, Analyst, Citi

Got it. Thank you.

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.

Thanks, Chris. Well, thanks, everybody, for joining our call. That will conclude our call. We appreciate your interest. Take care.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.