Operator
Good afternoon. My name is Ludi and I will be your conference operator today. At this time I would like to welcome everyone to the Knight-Swift Transportation Third Quarter 2023 Earnings Conference 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, and Adam Miller, CFO.

Mr. Miller, the meeting is now yours.

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.
Thank you, Ludi, appreciate that, and a good afternoon, everyone, and thank you for joining our third 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 2023 guidance. We have slides to accompany this call, which are posted on our investor website. Our call is scheduled to last one hour today and, following our commentary, we'll answer questions related to these topics. In order to get to as many participants as possible, we are going to limit the questions to one per participant. If you have a second question or a follow-up, please feel free to get back into the queue and we'll answer as many questions as possible. If we're not able to get to your question due to time restrictions, you may call 602-606-6349 following the call and we'll answer as many questions as possible at that point.

So, to begin, I'll first refer you to the disclosures on slide two of the presentation and I'll also 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 I 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.
Thank you, Adam, and hello, everyone, and thank you for joining our call today.

As has been widely reported, we continue to be in a depressed truckload freight market where rate expectations from shippers are often close to, if not below, operating cost. Spot rates are not at sustainable levels and are proving not to be survivable for those that are dependent on that type of freight. When we did our last call a quarter ago, there were rumors of Yellow closing. Obviously, since that call, that has indeed taken place and the already resilient LTL market has seen more strength.

On the truckload side, the announcements of failures and rumors of more seem to be increasing by the week as of late. It's taken a lot to get to this point so deep along the bottom of this current cycle, but the market is beginning to show signs of sensitivity to when supply leaves suddenly or a provider cannot perform with freight lanes that were awarded by offering the cheapest price and a shipper may find themselves quickly seeking a quality provider at a higher price than the original award. However, we are not seeing enough of that kind of activity or enough supply leave and/or enough strength in volumes to move rates to a meaningful inflection position right now, but it does appear that the stage is being set for positive rate pressure in the next bid season.

In the meanwhile, here at Knight-Swift we are focused on three specific objectives. The first one is improving the performance of our truckload businesses. There's much in our control that we can do, including being better at cost, running more miles safely, and in hiring and retaining driving associates. Our people are digging in and working hard. We're grateful for that. The truckload operating ratio excluding U.S. Xpress was at 91.5% and we are just simply not comfortable with an OR that starts with a 9 and our people are working with urgency to do all that we can.

Another objective is to grow our LTL network. AAA Cooper and Midwest Motor Express seamlessly operate on one operating network while maintaining their local identities. We've opened 14 LTL service centers organically since the acquisition of AAA Cooper and MME in 2021. We've already purchased 11 additional terminals that have not yet been launched as service centers and we'll continue to pursue acquiring additional terminals that fit our nationwide plan in addition to other strategic forms of growth for LTL. We have found synergies between LTL and the truckload business while not getting in one another's way.

And the third objective that I would point out is the turnaround of U.S. Xpress. We feel like we had good momentum going into the close of the transaction with a goal of being able to hit the ground running and it feels like that's what's happened. We've had positive sequential rate improvement while lowering cost per mile in the first quarter of our ownership despite strong market pressure in the contrary. Still a long ways to go, but we are ahead of schedule. The people at U.S. Xpress have been great and we're so excited for where that business is headed and, with some help from the market, we'll get there even sooner.

Now we'll turn our overview to slide three. The charts on slide three compare our consolidated third quarter revenue and earnings results on a year-over-year basis. These results now include the results of U.S. Xpress for the full quarter. Revenue excluding fuel surcharge increased 7.6% while our adjusted operating income declined by 60.8%. Market conditions in the LTL business were strong while soft demand continues in the truckload space. GAAP earnings per diluted share for the third quarter of 2023 were $0.37 per share and our adjusted EPS came in at $0.41 per share. These results were negatively impacted on a year-over-year basis by a $20.4 million increase in interest expense and the $22 million reduction in operating income in our third-party insurance business with the non-reportable segments. Also, the third quarter GAAP results were positively impacted by a $14.6 million income tax benefit from the partial release of a tax benefit valuation allowance held by U.S. Xpress associated with net operating losses and the tax credit carryforward benefit at the time of the acquisition. This benefit was recognized post closing due to the ability of Knight-Swift to utilize those tax attributes, which had the effect of reducing the consolidated effective tax rate at Knight-Swift to negative 2.1% for the current quarter. Our adjusted EPS of $0.41 is calculated using a normalized 23.2% effective tax rate for the quarter and excludes the $0.09 per share benefit of the lower tax rate.

Now on to slide four. This slide illustrates revenue and adjusted operating income for each of our segments. Freight demand in the third quarter remained stable at soft levels for truckload but fairly strong and building in LTL. The truckload seasonal build usually seen in the late third quarter was subdued and this has continued thus far in early October. Our insurance business performed worse than expected, but this was largely offset by LTL and U.S. Xpress performing ahead of our plan in the quarter while our existing truckload businesses were largely in line. Contractual bid rates are largely baked in at this point for the 2024/2023 in the truckload business while project opportunities are less prevalent than a normal peak season but are continuing to materialize. After generally falling for much of the past few quarters, fuel prices increased throughout the third quarter, providing a new headwind to operating margins for truckload and intermodal, though our efforts to reduce costs largely offset the impact. Our existing logistics business did a great job navigating significant declines in volume and revenue per load year over year to maintain a low 90s adjusted operating ratio, excluding U.S. Xpress logistics.

I'll now turn it over 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.
Thank you, Dave.

For the truckload segment, the ongoing soft demand, further rate pressure, and a recent sustained increase in fuel prices were headwinds to operating margins in the third quarter; however, our actions to reduce costs offset these challenges to produce a slight sequential improvement in adjusted operating ratio for our existing truckload business, excluding the results of U.S. Xpress. The inclusion of U.S. Xpress negatively impacted the adjusted operating ratio for this segment by 340 basis points. On a year-over-year basis, our truckload revenue excluding fuel surcharge increased 21.9%, reflecting a 15.5% decline in the existing truckload business prior to the inclusion of U.S. Xpress. Revenue per loaded mile fell 14% in total, or 11.8% before including the U.S. Xpress truckload business, as the spring bid activity is now fully realized. Excluding the results of U.S. Xpress, miles per tractor increased 1% for the first year-over-year increase in 2023. Including the results of the U.S. Xpress, miles per tractor increased 5.1% year over year. The decline in rates, partially offset by the improvement in miles per tractor, produced an 8.2% decrease in revenue per tractor year over year.

Now we'll move to slide six. The benefits of our diversification into LTL really stood out as this segment continues to perform well, aided by the recent disruption in the industry. Our LTL business grew revenue excluding fuel surcharge nearly 7% year over year and delivered an 84.9% adjusted operating ratio. Pricing growth strengthened as revenue per hundredweight excluding fuel surcharge increased 10.7% year over year. Volumes built throughout the quarter as shipments per day increased 4.8% year over year, which reversed the trend of decline seen in the first half of the year. As Dave mentioned, we've brought on 14 new service centers on line since entering the business in late 2021 and efforts are underway to continue growing this number with properties in various stages of procurement, development, or reconditioning. 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. The logistics market is in a difficult phase where freight demand that has been soft for over a year is producing top line price pressure that is no longer being offset by corresponding declines in purchase transportation costs. Despite these challenges, our existing logistics business remains disciplined and nimble, maintaining a low 90s adjusted operating ratio before the inclusion of U.S. Xpress. The U.S. Xpress logistics business is already showing sequential improvement in adjusted operating ratio since the acquisition, closing to within 300 basis points of our existing logistics business as we improved the cost structure and pricing even in a difficult environment. Overall revenue was down 24.5% year over year as revenue per load declined 15.8% and load count declined 10.3%. Excluding the U.S. Xpress logistics volumes, load count was down 29.7% year over year in the existing business.

Now if we move to slide eight, I'll cover our intermodal segment. Revenue declined 22.6%, which was driven by a 26.6% decrease in revenue per load, which was partially offset by an increase of 5.5% in load count. The operating ratio improved 190 basis points since the second quarter as a result of cost reductions, which offset a slight sequential reduction in revenue per load. This business improved during the quarter, reaching breakeven in September, and we expect modest profitability in the fourth quarter.

Now on to slide nine. This slide illustrates our non-reportable segment, which includes insurance, maintenance, and equipment sales and rentals under the Iron Truck Services brand, as well as equipment leasing and warehousing activities. For the quarter, revenue declined 14.2% year over year, largely as a result of our actions to address the recent challenges within our third-party insurance program, including significantly reducing the exposure basis. The $5.4 million operating loss within the non-reportable segment is modestly improved from the $7.1 million operating loss in the second quarter as improvement within other services provided greater offset to the ongoing losses within the third-party insurance business. We are evaluating strategic alternatives for the insurance business, including potential reinsurance strategies for the outstanding liabilities, in order to help insulate our business from the volatility primarily arising from prior loss years. As noted previously, it will take some time for the changes in the insurance business to fully materialize in the results, but we are making progress raising premiums and improving the quality of risk as we work to mitigate volatility.

Now I'll turn it over to Dave for an update on the progress at U.S. Xpress.

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

The team at U.S. Xpress has really rallied around the goal of making significant improvements to this business and is currently running ahead of plan, as previously mentioned, on our projected path to reach an operating profit within the first half of next year. As noted in previous slides, the U.S. Xpress truckload and logistics businesses have already made meaningful progress improving their operating ratios. Coming out of the third quarter, we have already reached a $100 million annualized run rate of realized synergies with a target of increasing that to $120 million run rate by the end of this year. We highlight some of the progress on this slide. You'll notice these are fundamental areas of the business, some of which are the most critical levers to pull through cycles. Ultimately, as we lower cost per mile and increase rate per mile, we will make operating ratio progress, and that has begun. U.S. Xpress is rolling out a decentralized, terminal-based operating model, similar to Knight and Swift, where there is P&L accountability at the local level with far more personal driver interaction. Nine out of the ten locations have been converted from places to park to operating terminals. Understanding where rates need to be for a proper return has led to the elimination of brokers, as the business is now dealing directly with shippers, while significantly reducing exposure to spot rates versus contract rates, which has improved from approximately 45% at the beginning of the year to approximately 15% today. This is an uphill battle, as we closed this transaction at the end of the spring bid cycle in July, but the team has made progress and will continue as we will soon begin the 2024 bid season. We are excited for this early progress and for how this consequential truckload business is positioning for the future. We have been impressed with the effort and attitude of our new fellow teammates at U.S. Xpress and appreciate their hard work.

Next to slide 11 for our outlook. Slide 11 contains our updated outlook on market conditions for the remainder of 2023. The LTL market should continue to see solid demand as the recent capacity disruption in the industry continues to be sorted out over the next several months. This should support further yield improvement as the new business is increasingly re-priced through bid activity. In the truckload space, we believe we are moving past inventory destocking, though shippers caution about the direction of the U.S. consumer behavior is governing freight demand for the time being it feels. We continue to expect a modest peak season, including a return of some typical seasonal activity and project opportunities, with opportunities continuing to materialize. Spot rates seem to have bottomed but have yet to inflect positively. As a result, contract rates continue to be pressured. The soft demand, unsustainably low rates, ongoing inflation, and restrictive financing conditions will keep pressure on carriers, especially smaller and less well-capitalized carriers. These factors should serve to accelerate the ongoing capacity attrition and limit immediate capacity expansion upon recovery. The pace of cost inflation should ease, though plentiful work alternatives in the general economy will pressure hiring and utilization until freight conditions improve. New equipment availability continues to improve and the used equipment market weakens further as small carriers struggle and capacity exits.

I will now turn it back to Adam to cover our 2023 guidance on slide 12.

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.
All right. Thanks, Dave. And this will be our final slide.

For the full year 2023, we now expect adjusted EPS to be in the range of $2.10 to $2.20 per share, which is an update from our previous guidance of $2.10 to $2.30 per share. This is based on our expectations that truckload rates have stabilized at current levels for the fourth quarter; the truckload tractor count would be down modestly with miles declining sequentially similar to prior year in the absence of a strong peak; the LTL revenue excluding fuel surcharge increases in the mid-teens year over year with a relatively stable sequential margin profile; the LTL shipping count and revenue excluding fuel surcharge per hundredweight improve at high single-digit percentage year over year; the U.S. Xpress EPS estimated dilutive impact in the fourth quarter expected at less than or around $0.05, I believe, as performance continues to improve; logistics volumes and revenue per load remain under pressure in Q4 with OR stable in the low 90s; the intermodal operating ratio slightly profitable with volumes stable sequentially; the non-reportable op income to decline roughly $10 million to $15 million sequentially as third-party insurance stabilizes and other businesses experience their typical seasonal slowdown in the fourth quarter. We expect some easing cost pressure in the fourth quarter as we realize further cost containment efforts around some of our cost initiatives. We do expect gain on sale to range from $8 million to $12 million, which includes now disposals at U.S. Xpress. And we expect a minimal increase in interest expense from Q3 assuming the rate hiking cycle is largely complete. And our net cash CapEx is expected to be between $700 million to $750 million for the full year 2023 and that we expect our tax rate to be approximately 26% for the fourth quarter.

That now concludes our prepared remarks and, Ludi, we will now turn it to you to open the line for questions.

QUESTION AND ANSWER SESSION

Operator
Thank you. At this time I would like to remind everyone in order to ask a question please press star then the number one on your telephone keypad. Again, that is star one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

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

Ravi Shanker, Analyst, Morgan Stanley
Thanks. Good evening, everyone. So, Dave, I think you said at the top of the call that you do expect to see some positive pricing momentum going into 2024. It seems hard to fathom with spot and contract rates where they are right now, but you also have spoken of cost inflation a fair bit. Can you unpack that a little bit more? Kind of, you know, what's the early signs on bid season looking like? Are we looking at a flat first half and a positive second half or something even better than that?

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.
Yeah, I would say that that comment is largely based on the economic position of the providers of full truckload transportation today. I think, you know, we've seen in the reports, between second quarter and what we've already seen reported out for third quarter, I mean you have really record tight margins in the full truckload space, and this is all while driver wages, which are by far our largest expense, have not increased since 2021. And we likely will have some pent-up increase to work through as perhaps truckload is losing pace in recruiting vocational labor in the economy and so it feels like we don't have the benefit or opportunity to be aggressive in pricing. In fact, we need a little bit of help. And as we noted last quarter, this is a unique freight recession or trough of a freight cycle in that normally, when we've seen it so prolonged, so pronounced, we're in a broader economic recession and so we naturally get cost concessions in the areas of fuel and labor and equipment. And in this case we've seen the opposite. And now fuel has kind of turned from being more neutral into now being more of a headwind on the truckload side.

So that's how this is being set up. It feels like there are, and what I referenced in my comment is we've seen some situations where it appears that lanes and meaningful bid awards were awarded to carriers at levels that we just don't understand how that would be possible from a rate perspective, and what we have found is some of that has made its way back through. Often it's done through a mini bid, as we call them, where perhaps the service level wasn't where it needed to be or they just couldn't deliver on it. So we're starting to see some of those signs. That tells us that maybe things have been pushed to the limit. And so we're here, hunkered down, just working as hard as we can to be as efficient as we can. We have virtually no margin for error on the truckload side of the business right now. And we don't think that we're alone in that.

Now I would guess that our optimism of what could happen and what would need to happen in a bid season might not be the same as shippers might view right now. Truckload doesn't do cost-based pricing. That's more common in the LTL space, as we've learned, but it isn't the case for truckload. But that really is what's driving this, is this is not elective. This is just essential. And so we'll have to see how it plays out. If the bid season began right now today, we would really have a tough time seeing it be positive. But as things continue to materialize I think that natural conditions are going to lead us in that direction.

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.
And Ravi, I'd just add to that, again, the bid season hasn't kicked off. We've had some maybe just early discussions with some of the shippers that would have a bid coming out in the next quarter or so. The sentiment is a lot of our customers have enjoyed the low rates that they've had in the spot market, even some of the contract rates, and I think they probably moved a disproportionate amount of their volume than they historically have to brokers where they're able to capture some of that discount. And our shippers know, just like carriers know, that the market, it's not if it will turn, it's when, and they're concerned about ensuring that they're going to have sustainable capacity. And so some of the commentary is, even though the market may not bear it today, they know in six months they could be in a tough position if they don't have capacity with asset-based carriers, especially in light of some of the failures that we've seen as of recently. So we're in dialogue with our customers. We're partners with them. We know what we need for sustainable capacity and we feel like we'll be able to work through what we believe will be fair rates moving forward.

Ravi Shanker, Analyst, Morgan Stanley
Very helpful. A very quick follow up, kind of speaking of failures on the logistics side, we did hear headlines that a large digital player may have paused or stopped operations today. What kind of impact do you think that has in the marketplace and kind of what do you think this tells us about where we are in the cycle and kind of for the brokerage model going forward? Like is this a good thing or a bad thing? Kind of what does it mean to the industry?

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.
So here's what I'd say. We'll answer that, Ravi, because I think everybody on the call would appreciate a comment, but it's one question. Because I think the last call we had, the first analyst asked two and then everyone decided to ask two. So, one question.

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.
Ravi, I'm sure we'll get to that and, if we don't, jump in that queue we'll answer that question. Thanks, Ravi.

Ravi Shanker, Analyst, Morgan Stanley
All right. Thanks, guys.

Operator
Thank you. And your next question comes from the line of Scott Group from Wolfe Research. Your line is open.

Scott Group, Analyst, Wolfe Research
Hey, thanks. Good afternoon, guys. So can you just give us some color on the revenue and OR for U.S. Xpress in the quarter and where that goes from here? And how important is it for the market to get better and pricing to get better to get the U.S. Xpress OR better or can you do it without, like can you get to the profitability that you want without getting the pricing up for the market?

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.
Scott, just given where that business started once we finalized the acquisition, I mean there is going to need to be improvement in both the cost side and the revenue side of the business.

Now, on the cost side, we don't really have to wait for the markets to change. We can move forward on a lot of activities there. On the procurement side, we're working on building out the terminal network that we expect will help safety, turnover, recruiting, and those all can have a meaningful impact to the cost side of the business. Now we've made probably, I think we said mid-single-digit improvement in our cost per mile, which we're excited for. We know that there's more there. On the revenue side, it's low single digits and that's in a market where most are taking hits on the revenue per mile front and we haven't had a bid season to be able to address where the current rates are for U.S. Xpress.

To get to the long-term profitability that, you know, dollar of accretion, we're going to need both revenue and cost to support that, but I think that's just a matter of time before we have an opportunity to be able to do what we need to do on the revenue front to really close the gap from a rate perspective between U.S. Xpress and our other brands.

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.
Maybe, Scott, I'll just add, you know, the logistics business is in a good place. It's contributing earnings. The dedicated business is contributing earnings. The subsidiary Total is contributing some earnings. And the wildcard is that over-the-road component and it's made dramatic progress. And some of the things that we outlined on that slide, those are things that we have experienced, seeing driver turnover go down, we have experienced it seeing revenue on a per-truck basis improve, and we have experienced in seeing P&L accountability on the cost side drive to lower cost to improve margin, and so they are not very far. As you could tell by the earnings for this quarter, they were not nearly the drag that, frankly, we would have expected this early on. And so the idea of getting to breakeven without any help from the market, that is definitely within reach, and so… Of course, that's not the goal. But to take them from the state, as Adam alluded to, the state they were in coming out of the second quarter and into this, this has been dramatic and faster than we would have expected.

Scott Group, Analyst, Wolfe Research
Thank you.

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

Operator
Your next question comes from the line of Jack Atkins from Stephens. Your line is open.

Jack Atkins, Analyst, Stephens
Okay, great. Thanks very much. Jack Atkins from Stephens. But I guess, Dave and Adam, I'd love to maybe ask you about the LTL business for a moment. You said it exceeded your expectations in the quarter. There's been further market disruption in October. Just sort of curious, how did operating ratio trend in that business relative to normal seasonality? Did you incur any additional expenses as you were trying to sort of onboard some of the market share that was probably moving around? And I guess just would be curious the opportunity to maybe grab some of the real estate that's up for auction here with the Yellow estate over the next the next couple of weeks. I know it's a lot of

questions in one, Adam, so if you could excuse the just kind of broader topic, I would be curious if you could expand on that for a minute.

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.
Adam, the enforcer might shut this down before we get started with all those questions.

Jack Atkins, Analyst, Stephens
That's okay.

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.
But it is not typical, at least in the experience with the two LTL franchises that we own, to see that sequential improvement from a second into third, but we did. It was slight, but we saw a slight improvement sequentially from second to third quarter.

In terms of bearing an additional cost burden, I don't know that that was so much the issue. I think, in the LTL space, as our customers had found themselves with some immediate need, our LTL group just jumped in to get those things covered. It's more of handling those shipments and preserving the service than it is immediately talking about price. It works a little different than the truckload space when there are projects or things that are out of the norm. And so some of that volume that we've picked up, some of that volume that I think is in the process of being dispersed long term throughout the LTL providers, that'll be addressed in these bids that have already started and that will continue to happen to make sure that we price it appropriately as you kind of know how it fits the network. So I wouldn't say that was, ah, there was a cost headwind there. I would say that that sequential improvement was a very positive sign for us of where things are. And the fact that we are seeing shipments turn positive on a year-over-year basis and to be able to see revenue excluding fuel per hundredweight up in the double digits continue, those are very positive signs for us.

Jack Atkins, Analyst, Stephens
Thank you.

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

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

Tom Wadewitz, Analyst, UBS
Hey, Dave. Hey, Adam. It's Tom Wadewitz here. I wanted to ask you a little bit about kind of cycle view. Dave, you offered some thoughts kind of constructive on bid season. Do you need to see spot rates move up first in order to really see that improvement in contract? It continues to be a widespread between contract and spot and I think the brokers take advantage of that and compete against you guys, so I'm just wondering is the kind of optimism on contract rates next year really contingent on seeing some momentum in spot rates ahead of that. And I don't know if you have a thought on just capacity exiting and when you get enough of that to take place to tighten the market as well. Thank you.

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.
Yeah, I'll jump in and then Adam can finish this off. I think that historically through these cycles it's worked where that spot rate starts to climb and if you were to graph out spot rates and contract rates you'd find that intersection, and when they intersect, that is the tell-tale sign that spot rates are just getting going and that the curve of the contractual rate is now about to bend and turn to the positive again. And so yeah, we have not seen that. We've really seen spot rates just kind of move sideways as time has gone on.

One disadvantage we have from cycle to cycle is the data set that we look at is constantly evolving and it seems like, increasingly, the data set that we look at is a magnifying glass into just broker and the smallest of carriers. That isn't necessarily where the majority of freight moves or how it moves but, nonetheless, we've got that corner of the market with a telescope right now it feels like. So it's hard to always compare that to previous years. It's hard to think that we wouldn't see that kind of, generally speaking, that kind of mechanic happen again where spot rates increase to a point where they intersect, contract, and then now you know you're off to a different part of the cycle. The piece about that that's hard to predict is that it always, it happens so fast and it happened unexpectedly and there's always a catalyst or a multitude of catalysts that bring it to bear, whether it be weather, whether it be fuel prices. It feels like the extreme aggressiveness that we have seen out of non-asset-based players has reached a level to where it's not only unsustainable but, when you add how expensive financing is and what might subsidize and allow that to happen, it becomes, it just, it blows up. And now all of a sudden you have a lot of small carriers who were dependent on some kind of a model like that that now are maybe in a little bit of trouble. So I think we're starting to see some of this. I mean we are hearing of asset-based carriers that are closing the doors. I mean just this month we continue to hear, I think there was another one just heard about today to say nothing for a non-asset-based player that seems to be stopping operations or something. So things are breaking right now. Now I don't know if that is enough to be this catalyst where you start to see this happen, but inevitably it is almost impossible to predict. And when it does change, it's always been many, many, many months, if not many, many quarters in the making, so it doesn't just turn around all of a sudden. And it feels like we're right, we're pushing up against that level.

Adam, any thoughts?

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.
Yeah. I think, you know, as you see some of these disruptions from the operations that have ceased, I mean we see immediate reactions in our business. They may be short term, some maybe longer term, and we'll see how it plays out, but that tells us there's not much slack in the supply chain right now. And so any type of lift in demand or exaggerated decline in capacity, I think we'll see the market turn very quickly. And again, we're predicting that will happen in 2024, it's just a matter of when. And so as we approach bids we're looking at rates that we believe will be sustainable as the market shifts and those are the type of conversations we're having with our customers rather than just waiting for the spot market to turn, which would then dictate that rates, contract rates should follow.

Operator
Thank you. Your next question comes from the line of Chris Wetherbee from Citigroup. Your line is open.

Chris Wetherbee, Analyst, Citigroup
Thanks. Good afternoon, guys. I wanted to ask about the U.S. Xpress fleet and how you think about that relative to some of the cost synergies that you're realizing. So I think you said about $100 million run rate maybe moving up to $120 million by year end. Is there a relationship between getting that cost synergy and then ultimately profit synergy and the size of that fleet? I guess in other words, do you need to cull a little bit more to be able to generate profitability? What do you think kind of you'll be able to net hold on to over the course of maybe one year and maybe that 2026 target you have out there?

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.
We don't think we have to shrink into profitability. There are a few hurdles that they had already overcome that we hadn't on the Swift merger. On the Swift merger we had, ah, post the deal we adopted hair follicle drug testing, for example, and we also made some adjustments to the owner-operator program. In this case we didn't have either one of those and so we are really battling to hold on to that fleet and to help them be more profitable on a per-truck basis. If I look at just sequentially, we've only owned them for a quarter here, but if I look at it, the fleet size has remained, ah, it's down just slightly, but it's almost the same, and so there's not a plan to cull the fleet.

Chris Wetherbee, Analyst, Citigroup
Okay. Appreciate the comments. Thank you.

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

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

Ken Hoexter, Analyst, Bank of America
Great. Good evening and thanks for the thoughts on the right up against the wall on the rates. Hopefully, I think we've all been watching that, waiting for the capacity to leave to get that rate up there, so hopefully that follows

through. Maybe just, Dave, your thoughts on intermodal. You kind of talked about it getting to profitability. What's the confidence there? Is that the same thing? Is that just about rate and getting that up there? Is it about going through bid season? What's operationally going on with intermodal that you've been losing money that you see a flip there?

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.
I'm going to let Adam answer that.

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.
Yeah, I think it's a combination of multiple things. Just like any business that's operating at that level, it's not one thing that you have to get done.

I think there's going to be some opportunity to pick up some additional volume in the bid season as we've got our rates with our rail partners adjusted based on the way our contract is structured with them, so I think that puts us in a better position to be aggressive there. I think we've got some operational efficiencies we need to work through in terms of how we manage chassis and I think we've made some progress there. And we started the quarter out on a rough start, but we saw that sequential progress all the way through until we got to a level of profitability just slightly in September and we expect to continue that momentum. But it'll be something that just takes time to work through. Service is improving at both the west and the east. I think customers that had moved freight off of the rail to truckload because of the issues with service are looking at that again as an option and I think we've got some great relationships on the truckload side that we still don't do much with on the intermodal side that I think we'll be able to open up those doors.

So it's going to be a combination of all those factors, Ken, that we think will get us to a good position where that's a business that can compete with the top providers there and generate a margin in that, hopefully, high single digit, low double digit, depending on where we're at in the cycle.

Ken Hoexter, Analyst, Bank of America
But Adam, if I can just clarify, it sounds like those were, you know, working with customers, is that longer term? Because you said you're going to get the profitability fourth quarter. Did I miss something? Or is that bid season that already happened that's going to happen quickly?

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.
I said, because we got to slight profitability at the end of the third quarter and we expect that to continue into the fourth quarter, so to be profitable there, but not where we're targeting to be. I mean that's going to take a few more quarters as we work through the operational efficiencies we need to pick up as well as work through the bid season to pick up more volume and address rate.

Ken Hoexter, Analyst, Bank of America
Thanks for that clarification. Appreciate it, guys. Thanks.

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

Operator
Your next question comes from the line of Allison Poliniak from Wells Fargo. Your line is open.

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

James, Analyst, Wells Fargo
Hey, guys. James on for Allison. I wanted to actually kind of look back to the question on the truckload rate. Like basically it seems, as you said, they're still under pressure, you're still seeing cost elevated, but there is a sort of an amount of capacity that's still out there. Just wanted to get your thoughts on what you thought was allowing that capacity to stay in there and sort of when do you think it might exit or if there's a particular type of event that needs to happen for it to exit. Just wanted to kind of get your thoughts on sort of the pace of capacity exits.

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.
Well, I appreciate the question, James. I think, you know, what we're seeing is a pretty extreme resourcefulness on the part of small carriers to survive. And it's hard to say if it's the fact that the used equipment market hasn't completely collapsed like sometimes it does at this stage of the cycle. Perhaps it's kept folks on the financing side maybe willing to make some accommodations. I don't know to what degree that is the case, but there could be that for sure. You have individuals who, if it's a one or two truck operation, that might be temporarily living out of a truck just to get by through to the bottom part here. We know through our exposure to small carriers that they're under extreme pressure and juggling kind of cost and low on cash flow and, in many cases, deferring maintenance, for example, just routine oil change maintenance. And so it just feels like there's a lot of folks out there that are just barely getting by with credit cards maxed out, hoping that they don't have to buy a tire over the road or have any other kind of mechanical failure. So that's what it feels like. To be honest, we're a little puzzled as to why we haven't seen more capacity come out, because if you look at spot rates on an absolute basis these, levels on an absolute basis were enough to send the market in 2017 into a strengthening position because of the atrophy of supply. And so if you compare the cost structure and what inflation has done, it's hard to imagine that you could have the same absolute spot rate and yet have higher cost and still get by. So it feels like more survival than anything else, James, but we're watching anxiously and trying to understand that better ourselves.

James, Analyst, Wells Fargo
Got it. A small follow up: Is there anything at the end of the year, like a maintenance event, insurance renewals, or anything else that might be sort of a catalyst over in the fourth quarter for exits? Thank you for the time.

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.
Yeah, I don't know that there's one event. I mean those kind of renewals and registrations happen routinely. It does feel like they do get a little bit bunched up towards the end and beginning of the year, but I don't really have a place I could point to to validate that. That's just kind of a feeling. But I don't think there is one event like that.

Operator
Thank you. Your next question comes from the line of Bruce Chan from Stifel. Your line is open.

Bruce Chan, Analyst, Stifel
Good evening, gents. Maybe just wanted to ask one here on core demand. I know you've got a pretty diverse base of customers, but is there anything that you've been seeing in terms of end markets that may be worth calling out, especially anything around food and bev and what, you know, at least one big shipper talked about with regard to lower spending due to Ozempic? Anything related to industrial in TL or LTL related to UAW? Anything there that would just maybe be material enough to affect your outlook for the rest of the year?

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.
Adam and I are looking at each other and we're both kind of shaking our heads like no. So I think what's been a little different this year is we have seen a little more seasonality through the beverage season and a little bit of produce in the second quarter that we saw none of last year. Seen a little bit around the holidays, which is more of a food-and-beverage play. But haven't seen any.

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.
Yeah, I think there are maybe some specific customers who maybe have made more progress on inventory than others that might see a different demand pattern than others, but I think that's more specific to their strategy versus something that's broader to a certain sector.

Bruce Chan, Analyst, Stifel
Okay. That's good news. Thank you.

Operator
Your next question comes from the line of Jon Chappell from Evercore ISI. Your line is open.

Jon Chappell, Analyst, Evercore ISI
Thank you and good afternoon. Adam, maybe better for you, I know it's not a core business, but it does tend to move the needle pretty significantly, the insurance business, just looking for a little bit of clarity there. I mean if we take the

midpoint of what you've kind of guided to for the fourth quarter, that looks like a $40 million EBIT drag. I know you're evaluating strategic alternatives but as we think about how that plays into 2024 it seems like it's pretty cycle independent first and foremost. Is that a business that goes back to kind of breakeven in 2024? Is it a first half drag that maybe you get a bit of a second half recovery? Or is it just kind of a lesser loss line item for 2024?

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.
That's a business that, obviously, has been challenging over the last, I think now four quarters, and we're working on what we can do to kind of mitigate those losses. And there are several things that we're working on. It's probably improving or tightening our underwriting standards in the near term. We're looking at some reinsurance opportunities that could help with just eliminating some of the volatility or the outstanding liabilities we have currently on the balance sheet. So that is underway. And really I think everything is on the table to be able to kind of work through mitigating our losses there. And hey, do we expect to see a lesser loss into the 2024? Certainly from where we are. And I think there are measures we've taken to do that, but we need it to move a bit quicker than it currently is. And in a difficult cycle, and this is the last thing that we need is a business that has been a bit challenging for us, and we've got a lot of people working towards that and looking at every different alternative to approach it and we think we'll see some progress here both in the fourth quarter and as we get into 2024. And hey, if we find some of these strategies that help us eliminate that liability sooner rather than later with the reinsurance option, we'll move quickly on that if we find it to be appealing.

Jon Chappell, Analyst, Evercore ISI
Got it. Thanks, Adam.

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

Amit Mehrotra, Analyst, Deutsche Bank
Thanks, operator. Hi, David. Hi, Adam. I guess there's an expectation that earnings can be up meaningfully next year and I know you guys do an exceptional job kind of pivoting to where maybe the opportunities present themselves, so there's obviously that opportunity or potential next year, but I guess the question, Dave, is I want to understand how you're thinking about how expectations are calibrated for next year, how you think the slope of the recovery from here. Can it be more muted? Is there an opportunity to see gaps higher if you think those opportunities are likely to show up? We're just kind of late in this year now and demand doesn't seem to be there and I'm just trying to understand, kind of get in your head a little bit and how you're thinking about the recovery path from where we are today.

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.
Well, thanks, Amit. As you know, and I think we've referenced in previous calls, these kind of recoveries on the truckload side start with some volume increases and then volume begets a little bit of rate improvement and then volume and rate improvement beget earnings. And so this will be a gradual process. Our comparisons to start the year are not going to be as easy, but they'll get a little bit easier as we go into, we hope, into next year on the truckload side.

Now if you look at our business, so we've got this LTL business that's going to continue to chug away, we expect that to be very predictable, we expect that to be very positive, and then we've got this maybe large call option, if you will, on the truckload space with U.S. Xpress, a business that's very close to breakeven and that, as we have another bid season to work with to work on the network and a little bit of strength, all of a sudden that does give us quite a significant sail, if you will, if the wind decides to blow that we have not had in the past. And so I think, as we mentioned a couple of quarters ago, this is somewhat of a try and make sure that our, you know, we're trying to make sure that our cycles, that our peaks in the cycle in terms of earnings performance outperform the previous cycle. And so, as far as the timing to predict that that's a little bit beyond our control and very difficult to do so in the truckload space, but for us, we're just heads down preparing ourselves to be ready for that. To be ready in terms of how our business is committed, the kind of relationships we have on the truckload side, and just kind of where the operation is.

So this next quarter we'll put out our guidance for 2024. And I'm grateful that we can do that in three months and I don't have to do it today, because a lot could change, frankly, in the next three months. Now our posture in terms of running the business is hey, we're heads down working hard as if nothing is going to change and nothing is going to be given to us and we're not going to have any wind at our back. We're just not going to wait for that to happen to try and control what we can control. But we will be prepared to move when the market, when the wind blows. We'll be prepared. So that's the best I could answer that right now for you, Amit.

Amit Mehrotra, Analyst, Deutsche Bank
That's very fair. Thank you. I wish you guys the best. Thank you.

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

Operator
Your next question comes from the line of Bascome Majors from Susquehanna. Your line is open.

Bascome Majors, Analyst, Susquehanna
Going back to the insurance business and the boom/bust cycle you've managed through there, what have you learned from that, both about how you would incubate a future business at Knight and grow it internally? And also, just dealing with some of your small trucking competitors as customers there, what have you learned about the market that will help you manage cyclically going forward? Thank you.

Adam Miller, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.
Well, Bascome, a few things. For one, it is difficult to find small carriers who care about safety the way that we do and are willing to do things to change behavior, such as hair follicle drug testing, to have cameras in the vehicles that track your scoring that then indicate whether you're a safe driver or not. It's difficult to find a carrier who's willing to do that at a consistent level. And that's part of the underwriting process and I think what we found is we had to be a bit more disciplined on the compliance around some of those factors. I think we also found that this is a difficult environment and so one of the first bills that may not get paid may be the monthly insurance bill and so we have to do a better job getting probably a couple of months or some larger deposit on the front end to protect ourselves from any bad debt that we may incur should you have a carrier that doesn't make a payment appropriately. And I think we learned quite a bit on just how we manage claims, what the development looks like, and when you know that and understand it and understand how different it is than company drivers or owner-operators that operate for us, we can be more effective at how we price that business. So I think we made some, I think, some missteps in terms of assuming that claims would develop the same way they do with our own business and maybe didn't price the business as effectively as we should, so we're in the process of moving pricing up as quickly as we can and that affects any renewals. We're not writing any new business now until we can really understand what the right mix of carrier is and what the underwriting qualification should be. And we'll determine through that process whether we think it's a business that we can grow and develop profitably. So there's still more that we're working through in this process. It's relatively new to us. And hey, we're, again, open to a lot of different approaches to make this business work if we can.

Bascome Majors, Analyst, Susquehanna
Thank you, Adam.

Operator
And this ends our Q&A session. I would like to turn it back to our speakers for closing remarks.

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.
Okay. Well, thank you, Ludi. We are grateful for your interest today. I think we hit a record number of questions today. So if we did not get to your question, please feel free to call us at 602-606-6349. Thanks for joining the call today. Take care.

Operator
Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.