

Operator

Good afternoon. My name is Ynnah and I will be your conference operator today. At this time I would like to welcome everyone to the Knight-Swift Transportation Fourth 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. Thank you.

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

Thank you, Ynnah, and a good afternoon, everyone, and thank you for joining our fourth quarter 2023 earnings call. Today we plan to discuss topics related to the results of the quarter, an update on current market conditions and our earnings guidance. We have slides to accompany this call, which are posted on our investor website. Our call is scheduled to last one hour and, following our commentary, we'll answer questions related to these topics. In order to get to as many participants as possible, we limit the questions to one per participant. If you have a second question, please feel free to get back in 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.

So, 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 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.

Now I'll turn the call over to Dave Jackson for our overview on slide three.

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

Thank you, Adam, and good afternoon, good evening, everyone.

The charts on slide three compare our consolidated fourth quarter revenue and earnings results on a year-over-year basis. Market conditions in the LTL business were strong while soft demand continues in the truckload space. Revenue, excluding fuel surcharge, increased 11.6% while our adjusted operating income declined by 78.6%. GAAP earnings per diluted share for the fourth quarter of 2023 was a loss of \$0.07 and our adjusted EPS was \$0.09 per share. These results include a \$71.7 million operating loss in our third-party insurance business that we've decided to exit, as we will discuss later on the call. The insurance loss negatively impacted our adjusted EPS by \$0.30. Excluding the loss on the insurance business, our adjusted EPS would have been \$0.39 per share. Our results were also negatively impacted on a year-over-year basis by a \$17.8 million increase in net interest expense, approximately \$0.08 per share.

Now on to the next slide, slide four illustrates the revenue and adjusted operating income for each of our segments. Truckload freight demand saw a modest seasonal lift in November before slowing more than anticipated in December. The seasonal lift in November was not enough to offset the productivity disruption we typically experience during the holidays. This not only impacted our truckload business, but logistics and intermodal as well. Freight demand in LTL was strong and led to an 11.9% increase in shipments per day in the quarter. U.S. Xpress made further progress and achieved positive adjusted operating income in each month of the quarter, as revenue and cost per mile both improved over the third quarter. Our existing logistics business navigated significant declines in volume and revenue per load year over year to maintain a low 90s adjusted operating ratio and U.S. Xpress logistics continues to close the gap, posting an adjusted operating ratio that was only 150 basis points behind our existing logistics business.

I will 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.

For the truckload segment, we saw modest seasonal activity as expected, but, as noted on the last slide, the drop in demand in December was greater than anticipated. There were few seasonal projects for truckload and the projects that did exist were smaller in scale than what we see in a typical peak season. Loose capacity prevented any premium pricing opportunities as well. Revenue per mile was up 1.4% sequentially, reflecting stability in the existing businesses while U.S. Xpress saw positive progress as we continue working on the business mix. Adjusted operating ratio for our existing truckload business was flat sequentially and U.S. Xpress improved 280 basis points. The inclusion of U.S. Xpress negatively impacted the adjusted operating ratio for this segment by 250 basis points. On a year-over-year basis, our truckload revenue, excluding fuel surcharge, increased 25.5%, reflecting a 12.5% decline in the existing truckload business prior to the inclusion of U.S. Xpress. Revenue per loaded mile fell 11.6% year over year or 11% before including U.S. Xpress. Miles per tractor increased 8.4% overall or 6.4% before including U.S. Xpress, largely driven by the disposal of roughly 1,300 unseated tractors over the past year in order to reduce cost.

Now we'll move to slide six. The benefits of our diversification into LTL really stand out, as this segment continues to perform well. Our LTL business grew revenue, excluding fuel surcharge, nearly 14% year over year, an acceleration versus the 6.9% growth in the previous quarter. This business delivered an 85.5% adjusted operating ratio and grew adjusted operating income 14% year over year. Pricing growth remained solid as revenue per hundredweight, excluding fuel surcharge, increased 9.5% year over year. As of the end of the year, we have brought 14 new service centers on line since entering the business in late 2021 and efforts are underway with 25 more 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 we'll move to slide seven. The logistics market continues to be a challenge, as many brokers have struggled to find enough volume and margins have been compressed. Being an asset-based logistics provider allows us to provide our customers seamless service regardless if it's on our own assets or one of our partner carriers. This allows us to provide both committed and surge capacity and drop-and-hook trailer pool services at scale. Because of this, our logistics business remains disciplined and nimble, maintaining a low 90s adjusted operating ratio despite a challenging market. The U.S. Xpress logistics business continues to improve both the cost structure and pricing disciplines and made further sequential improvement in adjusted operating ratio, again closing to within approximately 150 basis points of our existing logistics business. Overall revenue was down 5% year over year as revenue per load declined 7.4% and load count improved 2.6%. Excluding the U.S. Xpress logistics volumes, load count was down 22.7% year over year in the existing business.

Now on to slide eight. In our intermodal business, revenue decreased 16.4%, driven by a 19.7% decrease in revenue per load partially offset by a 4.2% increase in load count. The operating ratio was essentially flat with the previous quarter. Our intermodal business didn't perform as well as expected, as volume during the quarter was negatively impacted by several service-sensitive customers temporarily converting intermodal volume to truckload during peak season to take advantage of improved transit times and the competitive truckload pricing. This conversion not only impacted volume but negatively impacted our revenue per load. Many of these customers have now begun to return volume back to intermodal and we expect to build volume in the second quarter as we work through the current bid season.

Now we'll move to slide nine. Slide nine illustrates our all other segments, formerly referred to as non-reportable segments. This category includes insurance, maintenance, and equipment and sales and rentals under the Iron Truck Services brand as well as equipment leasing and warehousing activities. For the quarter, revenue declined 46.6% year over year, largely as a result of our actions to address the challenges within our third-party insurance program, including significantly reducing the exposure basis. The \$83.5 million operating loss within all other segments is primarily driven by the \$71.7 million operating loss in the third-party insurance business. Based on recent results, including the continued negative development of claims reserves, we decided to initiate exiting this business during the quarter. We have begun canceling policies and expect to have that completed by the end of the first quarter of 2024, at which point all third-party insurance operations will cease. But we'll still have the outstanding claims to administer until ultimate settlement. We have already reduced the number of trucks under coverage by nearly 75% from its peak in the fourth quarter of the prior year and we do not expect this business to have a material impact to our results in 2024.

Now I'll provide an update on the progress at U.S. Xpress on slide 10. U.S. Xpress continues to run ahead of plan on our projected path to improving results. As noted in the previous slides, the U.S. Xpress truckload and logistics business have already made meaningful progress and achieved a combined 99% adjusted operating ratio for the quarter. We highlight some of the progress on this slide. You will notice these are fundamental areas of the business, including driver support and development, a decentralized operating model characterized by empowerment and financial accountability, a cohesive strategy for the network and freight selection, and a fanatical focus on cost. As the team covers ground on these initiatives, it is yielding improvement in the operating ratio. The progress on revenue per mile is noteworthy, as this has been accomplished in a difficult market and in between bid seasons given the timing of the acquisition. Further improvement can be made through the bid season as we expand our pursuit of more lanes for the network. We continue to be pleased with the early progress and for how this consequential truckload business is positioning for the future, reaching positive adjusted operating income before an improvement in the market. We are glad to see the efforts of the U.S. Xpress team already paying off and we appreciate their hard work.

Now I'll turn it to Dave to provide an outlook on the market.

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

Slide 11 contains our outlook on market conditions for the first half of 2024. The LTL market should continue to see solid demand as the recent capacity disruption in the industry continues to be sorted out. This should support further yield improvement as the new business is increasingly re-priced through bid activity. In the truckload space, we believe that retail inventory is at a relatively low level, though shippers caution about the direction of the U.S. consumer behavior is governing freight demand for the time being. We expect current soft conditions to continue in the first quarter with modest seasonality in the second quarter. The weather disruptions early in the year only increase the degree of difficulty for operators. On contract rates, we do not believe asset-based carriers can afford for rates to go down any further from current levels. The pace of cost inflation should ease, though plentiful work alternatives in the broader economy will continue to [inaudible] driver retention and utilization until freight conditions improve. We expect the used equipment market will weaken further as small carriers struggle and capacity exits.

Now on to slide 12 for our earnings guidance. Given the unusual degree of uncertainty regarding the direction and magnitude of outcomes from bid season, the timing and degree of an inflection in market conditions, and the difficulty assessing prevailing levels of demand as a result of weather disruptions in January, we are adjusting our approach to earnings guidance to provide two quarters of forward visibility as opposed to the full year. We will reassess this approach as market conditions develop.

We expect the adjusted EPS range or that EPS will range from \$0.37 to \$0.41 for the first quarter of 2024 and will range from \$0.53 to \$0.57 for the second quarter of 2024. More detailed thoughts on the assumptions supporting these earnings expectations are provided in the earnings release available at our investor website alongside with this slide deck at investor.knight-swift.com.

That concludes our prepared remarks. Ynnah, we'd like to open the line to entertain questions.

QUESTION AND ANSWER SESSION

Operator

Thank you. At this time I would like to remind everyone, in order to ask a question, press star and the number one on your telephone keypad. Again, that is star and one to ask a question. Your first question comes from the line of Thomas Wadewitz from UBS. Your line is now open.

Michael Dimattia, Analyst, UBS

Hey, Dave and Adam. It's Michael Dimattia for Tom. I just wanted to see if you could provide a little bit more color in terms of customer activity and freight volumes over the course of December and into January and, looking at the guide for 1Q, how much weather impact is in there. Thank you.

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

Okay. Well, Mike, as we noted, we saw things trade down in December. What little project activity, and I would say little, you know, we anticipated modest and I would say that we saw modest in November, probably saw less than modest in December. That traded down leading to a month that didn't produce the kind of earnings we would have expected or that we were on pace for through the first two months of the quarter. As we look into January thus far, the last two weeks have been pretty severely impacted by weather. Certainly you see that. We've had LTL terminals that have been shuttered, particularly given our concentration through the southeast. Certainly it's had an impact on our productivity on the truckload side. And so I probably am not going to quantify what that means, you know, exactly what two weeks' worth of weather affects on a quarter's EPS, but certainly it has tempered what we thought we would typically earn in a January. Now hopefully we'll see a little bit of a recovery as a result of things being down, but certainly not enough to make up what was lost. So there's a factor in there. Probably those weeks you would see an impact to our business that would be a negative double digit in terms of revenue production for each of those weeks.

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

Yeah, I would say you always have some weather in the first quarter, it just depends on when it hits, right? And so I don't think this is materially different than other periods. And again, we expect that we'll have some freight that our customers have gotten behind on that will have to pick up and move. It's more of a question of do we see kind of that seasonality as it builds into March. And so right now we're just cautious on really trying to estimate that there's an inflection early in the first half of the year and so I think first quarter we've remained relatively conservative.

Michael Dimattia, Analyst, UB

That's great. Thank you.

Operator

Thank you. And your next question comes from the line of Jack Atkins from Stephens. Your line is now open.

Jack Atkins, Analyst, Stephens

Okay, great. Thanks for taking my questions, guys. So I guess, Dave, would love to get your thoughts on the early part of bid season so far. Obviously, we haven't seen a recovery in freight fundamentals to this point, but we're also seeing some signs that freight markets have stabilized and, to your point, inventory levels are getting lower. How are shippers treating bid season? Are they trying to get the last sort of pound of flesh they can out of you or are they understanding that we're kind of reaching a point where you could see a turn in the market this year and they're preparing for that?

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

Well, Jack, it's a good question. It's a valid question. I will acknowledge we are still very early in the bid season. We are grateful for customers who have recognized the fact that rate concessions we've given have come directly out of margin, because there hasn't been any cost reprieve for us through this timeframe where we're able to pass on efficiencies, if you will. So it's simply come out of margin. And if you look at the industry, the publicly traded truckload carriers, it's a common theme for all of us. And so customers who recognize that, recognize where we are in the cycle, have worked with us. Not to the degree where we get an increase that helps us get back to where we want to be, but also shows a sign of trying to provide some consistency in the network and allowing us to move forward. Now there are some situations where I think we do have some customers who, perhaps operating under a mandate, maybe a little bit of a more short-term focus, might be a little more aggressive in pushing. The reality is there is a limit to what you can do. And I think if you look at certainly our truckload model and others we compete with, based on their public reports, we've hit that limit. It feels like this go around the freight market has worked in an extraordinarily efficient way where we've discovered the bottom. And that happened some time ago, around the middle of last year it appears, and that's where we are. You've seen small carrier rates, they've hit a bottom. And so it doesn't take a lot of creativity to understand where this can go from here. A theme I would tell you, a consistent theme that we have seen through this process from many if not most customers has been a very definite preference towards moving their commitments to an asset-based provider as opposed to a non-asset-based broker. I don't believe we've ever seen extreme commitments, the extremely high level of contractual commitments from brokers, and so they sit here today with this super high committed percentage of their business at incredibly low rates, which really you could say are unsustainable as we see small carrier capacity leaving, as we see the bottom spot rates not keep dropping, and as we see margins evaporate in the truckload space. And so we're at a level that's not sustainable and so we have non-

asset broker capacity that is committed at these very, very low rates and certainly seems to be setting up for a squeeze there. And so some of our customers, I think, are able to read the writing on that wall. What none of us know is exactly when that's going to happen. Every day that goes by, we're a day closer to an inflection. And we've ridden out the longest trough certainly that I've seen in almost 24 years of being here. And so that's a little bit of the lay of the land, Jack. I'm not sure if I adequately answered your question. Do you have a follow up to that?

Jack Atkins, Analyst, Stephens

No, you did, Dave. I guess I'm just trying to get a feel for, you know, are some shippers really trying to get that last push or are they willing to work with you and it sounds like the answer is they're willing to work with you a little bit here, by and large. Is that the right way to kind of think about it?

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

These are negotiations and I can appreciate that our customer on the other side, you know, they're trying to do the best they can for their interests. And I will tell you, there is a place, you know, the Clint Eastwood line, a man's got to know his limitations, there is a place where we simply cannot concede any more. And we often get to these in cycles. But we've never been pushed this far from how high the OR gets here. But we are definitely in that place to where the alternative to accepting rate decreases is we have less commitments, we're more exposed to the spot, and we have to rely on our diversified model. And so the way I would answer your question, Jack, is I would say there are some customers that I believe, through this process, will lead us to have a little more exposure to the spot because of perhaps a short-term objective that they have. Now that seems to be the minority so far, but again, it's only January. We're early on in the process. We hope that doesn't happen, because that only leads to disruption for us and for them and we think it costs more in the end. I think we could demonstrate that with data. So we hope that's not the case, but we are not in a position to lower our rates through bids right now.

Jack Atkins, Analyst, Stephens

Okay. Okay, that's very helpful, Dave. Thank you for the time. Really appreciate that answer.

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

Okay. Thanks, Jack.

Operator

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

Ravi Shanker, Analyst, Morgan Stanley

Great. Good afternoon, gentlemen. Dave and Adam, I would like to pick your brain on your extensive cycle knowledge, if you will, again. We have seen spot rates come up quite meaningfully in the last few weeks. Our in-house indices are also kind of looking a little bit better. I'm a little surprised that you still had late December drop off with this improvement and doesn't look like you're pointing to much better for January. Why do you think there is this disconnect between the data point and what you're seeing on the ground, if there is a disconnect? Is it weather? Is it something else? And if you can just kind of elaborate a little bit more on what happened late in the fourth quarter that'd be great. Thank you.

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

I think, Ravi, we have to be careful that just because some of the data is a little bit more accessible and easier to get access to in kind of almost a real time, I think we just have to be a little careful to not paint with too broad a stroke on some of those smaller data points. I do think that, well, maybe I'll share an anecdotal that we've heard, our team and our logistics group has heard this multiple times from small carriers, which is we're going to see what the next four to six weeks looks like and decide what we do with our business from there. And so I do think you have some small carriers that are just basically saying, hey, I just can't, I can't, I can't run to stand still. I can't just keep moving and getting loads, long haul loads in particular, at unsustainably low rates just to keep moving in hopes that something else will happen. And so I think you're starting to see people that are just saying, hey, if it doesn't pay, I'm not going to do it.

And so the market is stressed. I think a data point that's been interesting to watch has been the net revocations of authority on the last business day of the month. We've seen spikes at the last business day of November. We saw it happen again in December. December's was smaller than November; however, not very many would renew their insurance on the last business day of the calendar year and so I suspect at the end of January we could see that

spike again. We think that spike is tied to carriers who are not able to find insurance. It isn't just increasing insurance premiums; that's been an issue, but there have been people willing to finance that, of course, at pretty expensive rates on top of that, which further burden the business but allow you to live for another day. The challenge is if somebody is not willing to underwrite the risk, and painfully we're aware of what that risk is with very small carriers and we completely understand why that market is shrinking and why there are small carriers that we believe will struggle to find anybody willing to take that risk, we think we're seeing the signs of that in that data point in particular. So the market is particularly stressed. And as for why you might see one little data point tell you something different in a month like December versus maybe what we might feel over a broader period of time, I'd just say not all data is created equal.

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

What I'd also note, Ravi, is over the period, if you look at the last four weeks, you've had the holidays where you have a lot of small carriers, independent contractors where freight isn't plentiful, they will take time off during the market. So that puts a little pressure on finding capacity, you may see a blip in spot. And then you have the same issue as you go through weather where you have a lot of trucks, especially the safe ones, that are shutting down, and that puts pressure on the market. I mean we see it in our own markets today, but it's not necessarily because demand is there, it's because you just don't have supply readily available. So I think, as we watch as the weather starts to clear up and we watch those trends over the next few weeks, I think that will be a little bit more telling than just looking at the last four.

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

Good points. Thanks, Ravi.

Ravi Shanker, Analyst, Morgan Stanley

Thank you.

Operator

Thank you. And your next question comes from the line of Ken Hoexter from Bank of America. Please go ahead.

Nathan Ho, Analyst, Bank of America

Hi. This is Nathan Ho dialing in for Ken Hoexter. Just wanted to focus a little bit on the encouraging signs coming out of the U.S. Xpress integration with the 99% operating ratio and the 100 basis points of sequential improvement. Now that the segment is contributing a little bit of operating profits, I'd love to understand a little more on what's next for further alignment of its business structure. And within your first quarter and second quarter targets, what are you expecting in terms of further cost and growth synergy gains? Thanks.

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

Nathan, thanks for the question. Maybe I'll start off and, Adam, you can certainly chime in.

First, I'd use this as an opportunity to just acknowledge the wonderful people we have at U.S. Xpress. I can't say enough good things for how they have gone to work and worked together with us, the degree to which they've been open to collaborate. We're just, we're excited for them. I think that they're excited to be part of the group. And maybe to answer your question about structure and how that changes, this is a brand, an independent brand that we support. And so we have two leaders that have moved to Chattanooga. They did this several months ago in anticipation of the transaction and so they are there. They are taxpaying residents of Chattanooga and have assimilated with the team. And so that business will continue to perform independently. I'd say that thus far, in these first six months, the progress has probably been two-thirds cost, one-third rate. That likely flips here as we go into the next two quarters where rate continues to grow, as cost doesn't grow at the same kind of pace but there still are cost opportunities. As was mentioned, that Adam mentioned with the slide that we highlighted a few key things, one of those was dealing directly with our customers, not going through a broker, intermediary. And so the sales group and the operations group have worked very hard to, you know, when they had an abrupt change and needed to deal direct, and so that's been a positive to the rate per mile.

If we look at just overall the approach in the network and their approach to bids, we've been able to bring a different mindset in terms of how they can go about building the network and they've been very receptive to that. And so now we're receiving a steady diet, I would say, kind of across our business of about 110 bids a week is the going rate. Some of those can be mini bids. Some of those are much larger network bids. And so that's feeding into this decentralized operation that U.S. Xpress is well on their way towards that we think will lead to lower driver turnover,

better operating cost, with a high level of service and good returns, good revenue generated on our trucks with ORs that, over time, we believe will be in that low 80 range, similar to what we would expect over time in our Swift and Knight brands.

Adam, anything else?

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

I mean I think you hit it well. Again, I'd just highlight being more active in the bid season, probably having more opportunities with customers that have relationships with our other asset-based brands that will open doors for U.S. Xpress and then just continued progress on closing the rate gap between U.S. Xpress and our other asset-based brands. And so I think we expect to make progress. It's tougher to do that on rate in an environment where you don't have much wind at your back and so they've been able to make sequential progress despite that. When I think there is a more favorable environment, we'd expect that progress to ramp up very quickly.

Nathan Ho, Analyst, Bank of America

Got it. That's very clear. Thanks, Dave. Thanks, Adam.

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

Thanks, Nathan.

Operator

Thank you. And your next question comes from the line of Bruce Chan from Stifel. Please go ahead.

Bruce Chan, Analyst, Stifel

Thank you, operator, and afternoon, gents. Just insurance aside, it was good to see the progress with growth in the LTL segment. Maybe just wanted to get your thoughts on the timeline for how those new terminals are going to come on line, especially as you start to think about the potential for maybe any margin drag as you spool that network up. Anything that we should be watching there as we model out the OR?

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

Well, maybe I'll talk for a moment here on what some of the cadence of what these look like and then maybe, Adam, if you want to chime in on tempering OR as we do this.

But we will acknowledge, first off, Bruce, that since 2021 we've opened 14 locations while we've seen that OR, consistently on an annual basis, improve as we've settled into that mid-80s, so we like that. Along the way, it was about this time last year that we were integrating the MME network and the AAA Cooper network and so those are operating on one network. So from a technology optimization standpoint we're just one LTL company, but from a uniform and relationship in the local markets we appear and we work with two different brands, MME in one region of the country and AAA Cooper in another. And so we anticipate that, as we have opportunities to enter new markets through organic and also through acquisitions, that that will continue for the most part with acquisitions.

Now as for organic, we mentioned we have 25 in the pipeline. Five of those locations just opened up this week and so there's 20 more that we'll cycle through, through the remainder of the year. Probably about half of those we expect to be open in the first half of the year and then the remainder in the back half. First 60 days we really try to build up enough volume to breakeven and that's largely done by opening up those new serviced ZIP codes to 3PLs. And then over the course of the year you get a chance to build out that business through the nationwide bids. There's also some local business we'll often pick up in addition to things that comes through the 3PLs. There are still some additional locations through the Yellow bankruptcy that we're pursuing and so we think, we expect that the 25 number will grow, and those will likely be on the lease side. Those are in the process of being settled as we speak.

So this is very measured growth, I would say. I'll give you an example. The five locations we just opened are in the bustling cities of West Burlington, Iowa or Cherryvale, Kansas or Rock Island, Illinois or Forrest City, Arkansas or Wichita Falls, Texas. So these are smaller markets. These are not huge facilities. We've been able to procure these at attractive rates on a per-door basis. And so this is, I would say that it's a very conservative growth plan, but nonetheless, there will be some pressure to OR in those locations.

Adam, any thoughts on...?

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

Yeah. I think, as you mentioned, it does take 60 to 90 days to build up volume to breakeven, so it does put a little OR pressure on the business, and so you may see a maybe a sequential change from Q4 to Q1 that's a little higher than normal seasonality. But I do feel like once we get our legs under us, at least with the first batch of them or maybe the first half, that revenue generation of that half will more than offset the cost that we experienced from ramping up the back half. So I don't see a material impact, but maybe earlier in the year we would feel that and then we would be ramping that in the back half.

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

Thanks for the question, Bruce.

Operator

And your next question comes from the line of Jordan Alliger from Goldman Sachs. Your line is now open.

Jordan Alliger, Analyst, Goldman Sachs

Hi, yeah, just to follow up a little bit on the last question, it's very helpful to think about this year and growth. Obviously, looking at your map, I think you talked about, over time, going from super-regional to a national LTL carrier. There's obviously some gaps in the math that exists today. So I'm just sort of curious, how long does it take to go to cover more of the country in some of the areas that you're not in now and does the current plan even this year include newer areas or will that have to come more in like a chunky type of acquisition type of a deal?

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

I appreciate the question, Jordan. Realistically, we would anticipate over the next two years being able to consider ourselves as having nationwide coverage that was in-house. Of course today, with interline partners, we can service the whole nation, but we'll get access to nationwide network bids when we can do that all in-house together on a system. And so we expect for that map to look less super-regional and more nationwide over the next two years. A lot of these locations that we just referred to that are the 25, call it, that we have in the pipeline plus perhaps we may add another 10, let's say, lease-type facilities on top of that, those are largely gap fillers, if you will. Those fill in space as part of a very intentional effort so that we can acquire some chunks, as you will, is I think how you referred to it, in other regions that we don't currently service.

So this is a multiyear plan, but it's not as far out as you might think. So we're well on our way. I would say that the Yellow terminals, I would say, you know, we purchased LTL terminals from two other businesses that no longer use them or also had went through a bankruptcy or liquidation process, those have been wonderful gifts for us. I mean what it would have cost us to go acquire the land and build these, we would have had a much more significant capital investment, and so we're grateful that these have come. We've taken a very conservative approach here, but we're on our way. Hopefully by the end of 2025 we're able to show you a map that makes it very clear we're a nationwide LTL network.

Jordan Alliger, Analyst, Goldman Sachs

Thank you.

Operator

Thank you. And your next question comes from the line of Allison Poliniak from Wells Fargo. Please go ahead.

James, Analyst, Wells Fargo

Hey, guys. It's James on for Allison. Just wanted to ask about TL capacity and just the amount that it's oversupplied. Do you expect sort of a clearing event to push out some of the capacity and drive exit or do you kind of see more of a gradual process? And kind of what I'm trying to get at realistically is, without a clearing event, could you realistically see contract rates up in the second half versus the first half or do you really need a clearing event and not the gradual to see positive rates in the second half?

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

Well, James, it's impossible to predict exactly how it's going to go. If we look at previous cycles, you have several challenges that sometimes there's a little catalyst, whether it could be a spike in fuel prices back in the day, I think we've seen even a weather event before that had a big impact there, or a material change in demand. We're not seeing a big material change coming in demand. The fact that inventories have been drawn down so much, hopefully a day is coming where there's a little bit more mindset for growth. It feels a little bit like retailers have a more conservative view and are focused on profits as opposed to top line. And we would benefit a little bit more in a top line-focused environment.

But I think that in this business, a capital-intensive business, if you take time off investing in the capital or investing the capital that's required, it starts to really catch up with you. And the cost of new equipment continues to be inflationary. The values for used equipment have dropped after being at record high prices, which is in many cases when people acquire their equipment. And so there's a limited useful life to the assets that they have. And so you can get by for a while, but eventually things start to accumulate. It appears that insurance could serve as a bit of a catalyst that finally is that final straw for people. But one thing that we have seen in previous cycles is this seems to snowball. An avalanche might be too strong, but as these things all accumulate, eventually you hit a tipping point, and once capacity starts to come out, it's just the beginning. And as capacity starts to come out, financing dries up, nobody wants to take the risk, the operating environment gets difficult, small carriers perhaps cut corners, next thing you know they become too risky to insure. And so there's just kind of a chain of events that start to happen. So it's hard to guess exactly when that's going to be or how far we are down that path. Our view here is it's going to be a very difficult first quarter for small carriers, which is, you know, we're well on our way to the probably two-year anniversary where it's hard to think that a small carrier would have profit really over a nearly two-year span. So that's probably the best I could say for that and so we just watch for these indicators that give us a sense for all of the different factors that are accumulating and then we see if there's this kind of avalanche effect.

James, Analyst, Wells Fargo

Got it. But without that avalanche effect, there would still be incremental rate pressure in the second half? Or is it sort of trending where it could actually still improve without the avalanche sort of to the point of it? Thank you.

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

Yeah, we're not getting a read on broader economic demand that says that that could be a catalyst. So we think this will be supply driven, as we feel that most, if not all, trucking cycles have really come on the undersupply side. Maybe 2004, 2005, 2006, those were some banner economic years that maybe that was the exception to that, but outside of 2004, 2005, 2006 it sure feels like every other cycle has been supply induced. Every other recovery, I should say, has been due to a pretty meaningful reduction in supply. This one, you know, our economic outlook on the freight side is that, yeah, the inflection has to come from supply. There's not enough to make us think that the demand is going to be enough lift on its own.

James, Analyst, Wells Fargo

Thank you. Appreciate the time.

Operator

Thank you. And your next question comes from the line of Jason Seidl from TD Cowen. Please go ahead.

Jason Seidl, Analyst, TD Cowen

Thank you, operator. Hey, gentlemen. How are you?

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

Good. Doing well.

Jason Seidl, Analyst, TD Cowen

So I know you aren't giving exact guidance for the remainder of the year, but I guess, you know, given some of the gains that you guys have seen with U.S. Xpress and, I guess, a gradual improvement in the marketplace, how confident are you that you're going to be able to grow earnings in the back half of the year, excluding insurance? And then I guess just real quick, what percent of your book of business gets re-priced in the truckload section on a quarterly basis?

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

Jason, I appreciate the question and I would say that if we really felt, if we felt like we had a really good read to speak on the second half, we would have done that through our guidance. So for now we're just going to stop with what we've given for the first two quarters in terms of guidance. Now clearly what you see is you see a range in the second quarter that's better than the first quarter. And so it would be safe to assume that we don't see, you know, we're not expecting a big drop off. We think the worst is behind us. But that's as far as I think we would feel comfortable to talk about that right now.

As for what percentage of our business might turn over, I think with technology it's become rather, it's rather easy for many of our customers to do what we call mini bids, which is, in essence, they fire off an electronic request for us to bid on a handful of lanes. And so we are bidding on freight every single week of the year. Now the majority of the network bids, if you will, is a, call it, mid to late November through, call it, April with these awards largely materializing before the end of the second quarter. It used to be like everybody fit in a pretty tight window there and today, again, I think technology is a factor in that. It's not such an undertaking for them. It's kind of spread out. So I hope that helps. I hope that gives you a bit of a sense. So the majority of our incumbent business will be re-priced over the first six months of the year.

Jason Seidl, Analyst, TD Cowen

No, no, that's helpful. And has the duration of the contracts changed any or have the shippers been pushing for longer contracts?

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

It depends on who feels like they have leverage in the market. And usually they're agreed to for a certain amount of time. I will tell you that there are some shippers that are pulling forward bids that they normally would do later in the year and they're pulling them from, call it, June to February. You can guess maybe what their motivation might be to do or what might drive that. And it sure seems like our customers expect that rates are going to be up in the second half of the year. That's what the behavior is showing us. So it sometimes can change, Jason, is what I'm saying.

Jason Seidl, Analyst, TD Cowen

Understood. Appreciate the time, as always.

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

Thank you.

Operator

Thank you. And your next question comes from the line of Jeff Kauffman from Vertical Research. Please go ahead.

Jeff Kauffman, Analyst, Vertical Research

Thank you very much. Hey, guys. Two quick questions, a little more number detail. A big jump in insurance costs this quarter. Could you talk a little bit about what went on on the insurance? Is this related to what happened in non-reportable? Is this something different? But it looks like that was up something in the neighborhood of almost \$36 million, \$40 million this quarter.

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

So Jeff, you're right. I mean that's related to the insurance business and the decision to exit that and just to try to fully accrue the claims that we have outstanding in this business so we can run them out without seeing much of an impact in the 2024 results. So that would be the largest driving factor.

Jeff Kauffman, Analyst, Vertical Research

All right. Can you help us understand that? I know you said you're going to be exited from the business at the end of 1Q, so was this \$71 million really a bit of a forward-looking charge where we're accruing liabilities and after 1Q is that going to be all we're going to hear from insurance business or there are going to be some legs that occur after that even though you've exited the business and have kind of closed that out?

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

Yeah, you can't book forward liabilities and so I think we looked at the claims development and how that had been growing over time and took a more conservative approach at reviewing the potential growth and IBNR of the book of business and that led to a higher accrual that we believe more actively reflects what exposure we have today. We'll have, you know, because we have to give certain notice to the insureds before we can cancel the policy, there is this run-out period, we have reduced exposure greatly already and so I think there's pretty limited financial impact we'd expect in Q1. And then it's essentially running out the claims and closing out the outstanding liabilities over the next probably year or two.

Jeff Kauffman, Analyst, Vertical Research

Okay. And then just one last clarification on that. So if I look at this as an unusual event, making a decision to exit a business, and I want to try to segregate that from the operating activities of the business in the fourth quarter, what would that split of the \$71.7 million be?

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

Maybe I don't understand the question.

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

How much would have maybe been tied to maybe a receivable or insurance or a software versus the claims? Is that what...

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

Is that what you're asking, Jeff?

Jeff Kauffman, Analyst, Vertical Research

I'm asking, if we did not exit the business, what would that \$71.7 million would have looked like operating-wise in the quarter?

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

Yeah, we don't have that. We haven't differentiated.

Jeff Kauffman, Analyst, Vertical Research

All right. Gentlemen, thank you.

Operator

And your next question comes from the line of Chris Wetherbee from Citigroup. Please go ahead.

Chris Wetherbee, Analyst, Citigroup

Good afternoon. Maybe along a similar line, as you think about non-reportable ex insurance, so if we kind of put that aside for the time being, can you sort of remind us how we should think about the cadence of that business as we go over the course of the year? I know there's often, there has been historically some seasonal work in there, but just give us a sense of what we should be thinking from a baseline perspective, because we've had insurance in there on a look-back period.

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

Yeah, so if you exclude insurance, because sometimes it depends on some seasonal projects, Chris. So we've got a warehousing business that slows in Q4 and so you'll see a seasonal decline there, but it does ramp up in Q1 and is typically strong through the remainder of the year. Sometimes we do a trailer leasing project in Q4. If you're absent of that, then you don't see a lift there. Sometimes you can see a lift there. So it kind of sometimes depends on what activity you see there. I think once you get into Q1 it's relatively stable until you hit Q4, which you could see a drop or it could be stable. I hope that answers your question.

Chris Wetherbee, Analyst, Citigroup

It is from a seasonal perspective and maybe any sense around magnitude, if we can maybe look back at 2023 and think about what the numbers actually look like. There's just some noise in there. So just trying to get a sense of level setting what the earnings power of non-reportable might be going forward.

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

Yeah, so I think if you look at 2023 and you pull out the insurance numbers, that probably gives you a decent idea of how that flows from a seasonality standpoint.

Chris Wetherbee, Analyst, Citigroup

Okay. All right. That's helpful. And then maybe just one on U.S. Xpress. You guys have talked about that and obviously some improvement there, turning profitable. I guess as you think about where you are relative to the guidance you had given us when you closed the transaction in terms of the potential accretion from the dollar of earnings, I guess where are you in that process? Do you feel like you're on schedule? Ahead of schedule? Behind? Just to kind of get a sense. Because obviously the market has moved around a little bit too.

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

So, Chris, you're breaking the rule on one question, right? But since it's late in the game, I'll answer this quickly, right? So I'd say, hey, we're ahead of schedule, especially on the cost side of the business, and we're encouraged with the fact that we've been able to make some progress on rate and sequential progress on rate from third to fourth without the help of the market. And so we feel well positioned that, when the market does turn, that we'll be able to close the gap between a historic Knight or Swift OR to U.S. Xpress OR and certainly would be in line to achieve the dollar EPS accretion that we're targeting.

Chris Wetherbee, Analyst, Citigroup

Appreciate the leniency. Thank you very much.

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

All right. This will probably be our last question here.

Operator

Thank you. And your next question comes from the line of Scott Group from Wolfe Research. Please go ahead.

Scott Group, Analyst, Wolfe Research

Thanks for squeezing me in. So I know the last two questions have just touched on this, but can you just maybe clarify for all of us, what was the total number of insurance losses in 2023?

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

I don't have that right on me. It's a little bit skewed because it's a little apples to oranges when you look at some of what went into the \$71.7 million versus expenses or losses that we had in the other three quarters, but...

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

So, Scott, it's about \$125 million is where we ended for 2023.

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

And that's going to include some extra things, extra cost to prepare us here as we exit the business.

Scott Group, Analyst, Wolfe Research

Perfect. Super helpful. Okay. And then I want to just try and understand the guidance a little bit better. So Q4 underlying \$0.39, you're sort of telling us Q1 \$0.39. I don't know that that's ever happened where it doesn't go down. And then Q1 to Q2 has got a decent, you know, probably a better than normal step up. And it doesn't sound like you guys are counting on things to get a whole lot better yet, so I'm just trying to understand what's driving the much better than normal sequential if we're not counting on better than normal sort of demand or pricing yet.

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

A couple things, Scott. First of all, because I look at it the same way at times because your mind gets stuck in thinking we're just a truckload carrier, right? And also you're thinking a truckload carrier that has a nice fourth quarter. So we certainly didn't see the lift in the fourth quarter and so we don't expect to take the same step down from Q4 to Q1. And then usually LTL, fourth quarter is not a great quarter for LTL. Usually they see a little bit of a lift into Q1, which we'd expect. And then some of the non-reportable, excluding the insurance, like I mentioned, the warehousing business, you see that slow down meaningfully in Q4 and then that ramps back up into Q1. So there's some counter

seasonal businesses that we've layered into the model which would mean you don't see the same volatility from Q4 to Q1.

Scott Group, Analyst, Wolfe Research

Okay. That makes sense. Thank you, guys.

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

Thanks, Scott. Well, thanks, Ynnah, for helping moderate our call. Everybody, we appreciate you joining and your interest in our company. Enjoy your evening.

Operator

Thank you. That does conclude the conference for today. Thank you all for participating. You may now disconnect.