

Knight-Swift Transportation Holdings Inc.

NYSE:KNX

Earnings Call

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Call Participants

EXECUTIVES

Adam W. Miller

Chief Executive Officer & Director

Andrew Hess

Chief Financial Officer

Brad Stewart

Treasurer & Senior VP of Investor Relations

ANALYSTS

Ariel Luis Rosa

Citigroup Inc., Research Division

Christian F. Wetherbee

*Wells Fargo Securities, LLC,
Research Division*

Daniel Robert Imbro

Stephens Inc., Research Division

Jason H. Seidl

TD Cowen, Research Division

Jordan Robert Alliger

*Goldman Sachs Group, Inc.,
Research Division*

Kenneth Scott Hoexter

BofA Securities, Research Division

Ravi Shanker

Morgan Stanley, Research Division

Scott H. Group

Wolfe Research, LLC

Richa Harnain

Deutsche Bank

Presentation

Operator

Good afternoon. My name is Constantin and I'll be your conference operator today. At this time, I would like to welcome everyone to the Knight-Swift Transportation Second Quarter 2025 Earnings Call. Speakers from today's call will be Adam Miller, Chief Executive Officer; Andrew Hess, Chief Financial Officer; Brad Stewart, Treasurer and Senior VP of Investor Relations.

Mr. Stewart, the meeting is now yours.

Brad Stewart

Treasurer & Senior VP of Investor Relations

Good afternoon, everyone, and thank you for joining our second quarter 2025 earnings call. Today, we plan to discuss topics related to the results of the quarter, 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 1 hour. Following our commentary, we will answer questions related to these topics. In order to get to as many participants as possible, we limit the questions to 1 per participant. If we are not able to get to your question due to time restrictions, you may call (602) 606-6349.

To begin, I will first refer you to the disclosures on Slide 2 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 1 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 will hand the call over to Adam for some opening remarks.

Adam W. Miller

CEO & Director

Thank you, Brad, and good afternoon, everyone. So the second quarter saw unprecedented trade actions, which brought a range of responses by shippers and volatility in freight flows that differed meaningfully from normal patterns and typical seasonality trends in the truckload market. This called for agility from our businesses and our people responded, demonstrating the flexibility of our over-the-road capacity and network in order to mitigate pressure on miles and earnings. While the import cliff that many anticipated did not prove to be a start, there was a general softness in freight demand for most of the quarter, especially on the West Coast. We did experience a mild lift in freight opportunities and projects near the end of the quarter, but short of the normal seasonal build in freight volumes we typically see in the second quarter. Given this backdrop, we are pleased that our truckload business was able to prevent a deeper decline in revenues while growing margins and operating income meaningfully year-over-year. Further, we are pleased to see our U.S. Xpress brand build on the profitability it established in the first quarter by expanding operating margins sequentially in the second quarter. While we continue to drive costs out of our businesses, we are careful not to sacrifice the competitive advantage we have through our industry-leading scale and the flexibility of our over-the-road model provides, allowing us to deliver distinctive value to our customers. We are continuing to grow our LTL network, customer base and volumes, and we are committed to doing this while maintaining strong service levels. We are encouraged to see customers responding to our service offering, awarding us robust growth at a time when industry volumes remain under pressure. At the same time, the cost of expansion and integration and our efforts to ramp staffing levels and fleet assets in anticipation of further growth are putting pressure on margins. We have multiple initiatives underway to accelerate the normalization of our operational fundamentals and the regaining of efficiencies in our cost performance even as our network and freight portfolio grow rapidly. The fluid policy environment makes forecasting even more difficult than normal. We are staying

close with our customers as the situation unfolds, delivering solid service and bringing our capacity and creativity to bear in responding to disruptions created by the shifting landscape. As we noted last quarter, changes in trade policy can create the need for shippers to react quickly in managing inventory levels, which could benefit the fast, flexible nature of truckload service. As we begin to navigate the third quarter, we are in early discussions with a few customers regarding potential projects during peak season. It is too early to know if these discussions will materialize into additional business, but these types of conversations provide encouragement that one-way capacity is becoming less plentiful and more valuable when it can be provided with scale. We cannot say when the freight market will finally turn, but we are confident that we are well positioned to make the most of the opportunities that the next cycle will bring our larger truckload business and heavy mix of One-Way Truckload service, our growing LTL business, our agile and efficient logistics business, which complements our asset model and the progress we continue to make structurally cutting costs out of our organization.

With that, I will now turn it over to Andrew for Slide 3, our overview.

Andrew Hess

Chief Financial Officer

Thanks, Adam. The charts on Slide 3 compare our consolidated second quarter revenue and earnings results on a year-over-year basis. Revenue, excluding fuel surcharge, increased by 1.9% and our adjusted operating income improved by 17.2% or \$15.2 million year-over-year. GAAP earnings per diluted share for the second quarter of 2025 were \$0.21, a 61.5% year-over-year increase, and our adjusted EPS was \$0.35, a 45.8% year-over-year increase as earnings improved year-over-year for the third consecutive quarter. Our consolidated adjusted operating ratio was 93.8%, which was 80 basis points better than the prior year. The effective tax rate of 29.2% on our GAAP results and 28% on our non-GAAP results, each lower year-over-year, but were higher than previously projected.

Slide 4 illustrates the revenue and adjusted operating income for each of our segments for the quarter. Overall, most segments experienced pressure on revenue year-over-year with a soft freight environment. While our LTL segment continues to post strong growth driven by our ongoing network expansion with the LTL segment reaching its highest share of the consolidated revenue since our entry into the segment in 2021. Our Truckload and Logistics segments also improved adjusted operating income and adjusted operating ratio year-over-year.

Now we will discuss each of our segments, starting with our Truckload segment on Slide 5. The flexibility of our over-the-road model and meaningful progress improving our cost structure helped our Truckload segment improve its adjusted operating ratio by 260 basis points and grow adjusted operating income 87.5% year-over-year despite loaded miles declining 2.8% and revenue per loaded mile, excluding fuel charge being flat year-over-year in an unseasonably soft second quarter. The lull in import-driven freight demand caused the absence of certain contractual freight, particularly off the West Coast shifting our capacity toward other freight lanes allowed our truckload business to grow loaded miles sequentially, but revenue per loaded mile, excluding fuel surcharge, declined 1.4% sequentially due to spot market weakness and because California headhaul markets were underrepresented in our freight mix. Bid outcomes remained in the low to mid-single-digit increase range during the quarter. We anticipate that as freight flows normalize, our realized revenue per mile will recover.

On a year-over-year basis, our truckload revenue, excluding fuel surcharge for the second quarter decreased 2.7%. We have been reducing the number of underutilized assets, which has resulted in a 6.6% decline in truck count. However, we continue to make progress on our utilization with miles per truck improving 4% year-over-year, making 8 consecutive quarters of year-over-year gains in this metric. We anticipate that tractor count will be fairly stable for the remainder of 2025, while we do have room to further reduce our trailer ratio as we continue to tighten our cost structure. Our cost per mile for the second quarter improved year-over-year for the fourth quarter in a row despite the decline in miles.

We are pleased with the progress of our U.S. Xpress Truckload business, which even in a difficult environment, improved its operating margins by 200 basis points on a sequential basis. We are committed to disciplined pricing, intense cost control and quality service as we position our business for the current volatility and for potential opportunities that may arise.

On Slide 6, we provide a little more context on our cost-cutting progress in our Truckload business. On a trailing 12-month basis through the end of the second quarter, our realized cost per total mile has declined 1.5% or \$0.03 per mile as compared to the preceding 12-month period. This task was made more challenging due to the deleveraging effect of the reduction of miles during this period. Our efforts produced results in both fixed costs and variable costs. We made meaningful progress reducing fixed costs on an absolute basis, which has allowed us to keep our fixed cost per mile flat during a down market. Our fixed cost progress presented the typical margin pressure of a reduction in volumes, which allowed our reduction in variable cost per mile to drive margin improvement. While our lower fixed cost base may not be visible in our realized cost per mile currently, we believe these improvements primarily in areas of equipment, G&A and facilities are durable and will provide increased leverage for margin expansion as freight markets recover. Our reduction in variable cost per mile is the result of improved execution and process improvement, primarily in the areas of insurance and claims, maintenance and fuel. We believe these new levels of efficiency will be sustainable as the market recovers, aiding to the recovery in our truckload earnings. There are still a number of areas with additional opportunity for gains, such as further leveraging technology-enabled efficiencies, rationalizing our capital asset profile, refreshing vendor relationships and terms and optimizing hiring processes and expenses. Our largest segment is already benefiting from the meaningful progress made thus far, and this progress should not only grow but be magnified once volumes recover.

Moving on to Slide 7. Our LTL business grew revenue excluding fuel surcharge 28.4% year-over-year as shipments per day increased 21.7%, which includes our acquisition of DHE. Revenue per hundredweight, excluding fuel surcharge, increased 9.9% year-over-year, while weight per shipment declined 2.6% year-over-year, but was stable sequentially. The adjusted operating ratio was 93.1%, a 110 basis point sequential improvement. Adjusted operating income declined 36.8% year-over-year due to the decline in operating margin primarily attributable to early-stage operations at our recently opened facilities as well as continued costs related to the integration of DHE. As context, quarter ending door count is up 7.8% year-to-date and 27.5% year-over-year. Further, our strategic decision to maintain service during this rapid expansion requires that we onboard staffing and equipment costs in advance of anticipated volume growth. In a steady state, where growth might be more in the single-digit range, that incremental costs would be less noticeable. But in a business growing volumes on the order of 20%, that headwind is more pronounced relative to existing revenue levels. That is not to say that we accept the current pressure on margin in this business. We believe we have opportunities to deliver better margins and have confidence in our plans to achieve this. While the LTL segment continues to post strong growth in customers and freight volumes across the expanding network, we are taking actions to accelerate the realization of cost efficiencies and to better align our resources with evolving volumes and freight flows.

After 24 months of continuous geographic expansion and an acquisition, multiple initiatives are underway to return to our normal operational focus and fundamentals, including expanding our sales efforts to build volume and density into these new markets. We have identified a number of actions to improve yield and reduce costs that should drive multiple points of margin expansion, in addition to the operating leverage benefits of growing into our network investments. Some of these initiatives include improving variable cost per shipment through refined scheduling and alignment of resources to volumes, leveraging software currently being implemented for enhanced pickup and delivery planning and optimizing linehaul routing and load factors. We anticipate that progress on these initiatives and ongoing new business awards will partially offset the normal seasonal pattern of operating margin degradation in the back half of the year and help expand margins in 2026.

We opened 3 new service centers and replaced another with a large facility during the quarter. Our pace of facility additions in 2025 is slower compared to 2024 as we focus on growing in our existing investments. But we continue to look for both organic and inorganic opportunities to expand our

footprint within the LTL market. There is much work to do, but even more opportunity to be excited about. Our solid service levels, growing customer base and ground to make up on pricing provide a compelling runway for the value to be generated by this business.

Now I will turn it over to Brad for a discussion of our Logistics segment on Slide 8.

Brad Stewart

Treasurer & Senior VP of Investor Relations

Thanks, Andrew. The Logistics segment experienced soft volumes for much of the quarter other than brief tightening around the International Roadcheck week in mid-May and the buildup to July 4 at the very end of the quarter. Revenue for the second quarter declined 2.6% year-over-year, driven by an 11.7% decrease in load count, largely offset by a 10.6% increase in revenue per load. Despite the decline in revenue and load count, our disciplined approach to pricing and cost management helped us improve the adjusted operating ratio of 70 basis points to 94.8% and grow adjusted operating income 13.3% year-over-year with opportunities for further efficiency gains ahead. We continue to invest in technology that has allowed us to seamlessly connect with customers to react quickly to spot market opportunities with real-time quotes. We've also developed trailer tracking technologies that enabled our Logistics segment to more efficiently and securely utilize our trailer fleet for power-only opportunities, giving our customers drop and hook capabilities at greater scale. This has helped bring more resiliency to the margin profile of our Logistics business. Our Logistics segment continues to provide additional capacity and scale to our customers while complementing our Truckload segment.

Now on to Slide 9.

Our Intermodal segment was the most impacted by the decline in import volumes on the West Coast and saw revenue decline 13.8% year-over-year, driven by a 12.4% decrease in load count and a 1.6% decrease in revenue per load. Reductions in costs and improvements in network balance helped to partially offset the decrease in revenue and load count as the operating ratio was negatively impacted by 230 basis points year-over-year, which was the first year-over-year degradation in operating ratio in 5 quarters. As part of our efforts to improve the cost structure, we converted to private chassis in 5 markets during the quarter, completing an initiative we began early this year, which will benefit future periods as we no longer experience both rental charges and chassis ownership costs in tandem. Further, we expect load count to grow sequentially as a result of recent business awards and as volumes in the West normalize from recent disruptions. We remain disciplined on pricing with over 80% of the year-over-year volume loss attributable to a few large accounts whose moves were strictly based on aggressive price competition. Moving forward, we are focused on improving our execution, getting more out of our business awards and driving further network and cost efficiencies to position this business for profitability.

Slide 10 illustrates our all other segments. This category includes support services provided to our customers, independent contractors and third-party carriers such as equipment sales and rentals, equipment leasing, warehousing activities and insurance and maintenance. For the quarter, revenue increased 9% and operating income increased 73.6% year-over-year, primarily driven by growth in our warehousing and leasing businesses. The operating result also includes a \$2.8 million charge for additional premiums related to the third-party auto liability risk we transferred in 2024 following the closure of this business in March of '24.

On Slide 11, we have outlined our guidance and the key assumptions, which are also stated in the earnings release. Actual results may differ from our expectations. We are again providing 1 quarter of forward guidance. Based on our assumptions, we project our adjusted EPS for the third quarter of '25 will be in the range of \$0.36 to \$0.42. In general, this guidance for the third quarter assumes current conditions remain fairly stable and that we experience some seasonality. The key assumptions underpinning this guidance are listed on this slide, though I won't cover them in detail here.

We project Truckload operating income will improve sequentially, largely driven by revenues and operating margin that has slightly improved sequentially. This assumes modest sequential improvement in revenue per mile, supported by normalizing freight mix, while miles and utilization are largely flat with the second quarter levels. For LTL, whereas normal seasonality would call for modest sequential degradation in revenue and operating margin, we project modest sequential improvements in both measures, driven by ongoing progress growing our customer base and market share, yield improvements and progress driving cost efficiencies in our growing operations. We project a relatively comparable contribution from our Logistics segment as compared to the second quarter and for Intermodal to reduce its operating ratio and operating loss as compared to the second quarter, largely driven by sequential volume recovery and our cost initiatives. In our all other segments, while year-to-date operating results and our expectations for the third quarter are above our initial projections entering this year, we now anticipate a sequential slowdown in earnings for this category in the fourth quarter, similar to the seasonal trend in the prior year. And finally, we now project our full year net cash CapEx will be \$525 million to \$575 million, which is a reduction from the original range of \$575 million to \$625 million.

This concludes our prepared remarks. And before I turn it over for questions, I want to remind everyone to keep it to one question per participant.

Question and Answer

Operator

Your first question comes from the line of Chris Wetherbee from Wells Fargo.

Christian F. Wetherbee

Wells Fargo Securities, LLC, Research Division

Maybe we could just start with a big picture question about sort of supply and demand and where we think we are kind of in that equilibrium process. So in particular, I think there's some concerns about overhang with inventories and maybe consumer weakness growing in the back half of the year. You have maybe some industrial activity that could improve now that we have legislation in place and it seems like capacity is sort of slowly coming out. But what's your general take? I guess I'm curious how you guys think about the dynamic in the market where we are relative to equilibrium and maybe where we can go in the second half of the year.

Adam W. Miller

CEO & Director

Sure. I'll start that, Chris. This is Adam, and then if Andrew or Brad have anything to add, they can jump in. So I think about the current market conditions, anecdotally, we hear about failures in our industry. Some are sizable fleets compared to the 1 or 2 truck failures that I think we all see on the third-party data. But it's always hard to really have a good feel of exactly what's happening with capacity. I mean we feel and we have stated this for the last few quarters that we think it's going to be a slow process for capacity to exit the market. And I think we're seeing that from just discussions with customers and what they're doing with how much they're willing to be exposed to brokers and maybe some of the service failures they're seeing from brokers that rely on small carriers as well as other customers that have a little bit more sizable fleets that may have operated a dedicated piece of business for them that are no longer going to be continued to operate. So it certainly feels like capacity is continuing to exit. So the question would be what's going to happen with demand. I think some stability with tariffs and trade policy, I think, will help our customers get a better feel on decisions they want to make around inventory and help them better understand where the customer is going to land. I think conversations today with customers are a bit more, I think, stable than they were a quarter ago. I think there's maybe less of a reaction to maybe some of the tariffs that everyone was concerned about. And as we noted in the release and the prepared remarks, we actually are having some discussions around maybe potentially doing some peak projects with customers that have historically done that. And there's certainly some that are concerned about what one-way capacity may look like at scale if you get into a fourth quarter

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where enough capacity has come out where it's no longer easy to fulfill larger needs through your waterfall.

And so when you look at just actual start to the third quarter, typically, the third quarter starts off with a slowing after the 4th of July and is generally soft as you go through August, and then it begins to pick up, build into September as you get into the fourth quarter. And so I'd say for the first few weeks of July, we've kind of felt that softness but if I look at maybe the last kind of back half of last week and into this week, we're seeing a bit more strength than maybe we would have anticipated at this time in the quarter. Now hey, that's just an early indication. We've seen maybe a lot of head fakes over the last several years, but we're watching this closely. And so I think we're still cautious on where the market is going to head in the back half of the year. But I feel like, again, the worst is behind us. We're seeing supply and demand tighten up and I feel like the over-the-road capacity at scale is going to be become more valuable, especially when you have projects. Now hey, it's still transactionally load for load. It's still, I think, relatively easy to find capacity, but it's getting a little tougher when there's bigger projects out there are greater needs for our customers. So again, I think it's just a slow progression of supply coming out of the market and demand really remaining stable at this point.

Operator

Your next question is from the line of Daniel Imbro from Stephens.

Daniel Robert Imbro

Stephens Inc., Research Division

Maybe just a follow-up on that last kind of truckload outlook at the rates this year have clearly not developed as quickly as you hoped. But when you think about Knight's ability to grow earnings through the upcoming cycle, can you maybe talk about where you see mid-cycle margins going, maybe specifically in Truckload. Because on one hand, you have capacity out there, which you mentioned, on the other hand, you made a ton of progress on cost per mile. How do you put those 2 things together? What do you see as structurally different with the margin profile and how that looks through a, maybe longer but less steep up cycle.

Adam W. Miller

CEO & Director

Yes. So I mean, I think we get that question on a regular basis. And the way we would look at our margin profile kind of coming out of this a much more volatile cycle than I think we've ever seen in our industry is mid-cycle on the truckload side, we'd expect to operate our business in the mid-80s. And when you're near peak from a demand standpoint, it's probably low 80s to high 70s. And in a more challenging market that maybe is more similar to what previous cycles have been versus our current cycle, you'd operate in the upper 80s. We still think that's intact. And today, we're really focused on suring up the cost side of our business. We feel like we have a bit more control over things that we can do there and then position ourselves when there's opportunities in the market, we're ready to react to that quicker than anyone, provide value to our customers through that process and certainly be compensated for the value that we are bringing. I think we've done a good job of still continuing to be flexible and nimble and we really manage where our commitments are and can flex into the spot market when it's advantageous to us. We noted in the second quarter that the slowdown, particularly in the West, led to us having to be a little bit more aggressive in the spot market with our customers to try to keep trucks moving while the demand had waned and so that did weigh a bit on our overall rate per mile between sequentially from first to second quarter. But we've already started to see that come back and start to normalize. And so I think we'll start to realize some of the contractual rate improvement that we've been able to achieve in this bid cycle, which we noted was low to mid-single digits.

And it's certainly some of this potential project business comes to fruition in the back half of this year, I think that could provide some upside in margins and that I think would lead to a more favorable bid environment next year where I think we'd have an opportunity to raise contractual rates. So again, we're

focused on what we control right now, which is really positioning us from a cost perspective to provide leverage in our business to when the market does turn, we can quickly get our margins back to the levels I spoke to earlier.

Andrew Hess

Chief Financial Officer

And Daniel, maybe I'll add one other comment to what Adam said. So I would say relative to the competitive landscape, we believe we're seeing fewer carriers wanting to participate in the space for one-way service than, say, how it looked in a year like 2019. So once we kind of look at when one-way service becomes less commoditized, when service is pressured, we think we're positioned well as a business since, say, 2019, we've added U.S. Xpress. We have 3 large brands that are well capable of participating in one-way service, solving acute needs with trailer pools at scale. We think our position is maybe better than it's ever been in regards to that to see outsized gains. But at this point, the spot market is very compelling economically to our customers. And so until you see that tighten up and service is impacted, then so when that happens, you'll start to see, I think, those opportunities become stronger for us. So we believe there's a real opportunity here when opportunity is available to us.

Operator

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

Kenneth Scott Hoexter

BofA Securities, Research Division

Great. So Adam, the commentary on truckload sounds a bit different than maybe some of the past quarters where we were guessing like we're turning in feels like now capacity is coming out continuously and maybe there's some project on the demand side, the consumer building and manufacturing opportunities from the big bill. So maybe relay that over to the LTL side, which is different than the overall market given the build-out that you're doing. So maybe talk some color on the share wins, the costs you're taking out there. I think you mentioned counter seasonality given the opportunity. Can you dig into the scale and the momentum there?

Adam W. Miller

CEO & Director

Sure. Yes. Thanks, Ken. Yes. So on the LTL front, we've done a lot over the last 24 months in terms of scaling that business. We've had an acquisition through the process and it's given us a real opportunity to provide additional services to our customers in markets that we just didn't serve historically and customers that really liked the service that AAA Cooper or an MME or DHE have been able to provide. And so we've really kind of leaned into developing density and growing with the new network that we've created. But there's been certainly challenges in that process. When you're integrating a new system where you have, it's not just the technical changes in terms of how you operate a system, there's process changes, there's just cultural changes that are required while scaling the business and having to do with more volume, it's created some challenges for us. So we've got our team now kind of focused on, hey, let's figure out how we pull some of the costs that we've incurred through this process because, hey, you've had to add labor, we've had to add assets to fulfill the service for these additional load count and we have to optimize that now. We have technology that allows us to do that, but we have to utilize that more effectively, particularly with the brands that have been acquired after AAA Cooper. So our team is focused on that quite a bit now to get us back to more kind of normalized margins without giving up the opportunities to grow into the network that we've developed because I think we still have a long runway to get to more optimal levels of shipment count through the different terminals that we've opened up. Clearly, we've kind of slowed the growth there intentionally, and we may just have a few kind of strategic places that we're going to potentially open up in the back half of this year. But largely, it's going to be focused on growing into what we currently have. We've remained disciplined on price. You could see the revenue per hundredweight continues to grow at a healthy clip. We think there's a

potential to just kind of catch some of the leaders in the space in terms of where they're at from a pricing standpoint. But right now, it's kind of get back to fundamentals to improve the margin, capture more operating income with the network we have and then kind of grow into the shipment count that we know that the door count can really handle and just kind of take a balanced approach in how we approach that. But we really love the team that we have there. They've done a great job navigating such a growing business, a tremendous amount of confidence. But hey, now it's time to execute and just make consistent progress in this business. And historically, from Q2 to Q3, we've seen margins take a little bit of a hit. But we feel like with some of the initiatives we have around the cost side of the business, labor management as well as some bid opportunities we have with the additional scale that we have that we're able to maybe overcome some of the normal seasonality that we encounter from second quarter to third quarter.

Operator

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

Scott H. Group

Wolfe Research, LLC

So I know you guys don't have a fourth quarter guide. I'm just wondering given the big swing in other operating income. Do you think it's fair to think about Q4 being similar with Q3? Or maybe, Adam, because of some of the peak activity starting to pick up, maybe there's still an opportunity to see some decent sequential earnings improvement. And then I know just separately, if I can, does I know you're cutting CapEx does the bill and bonus depreciation change your views about CapEx going forward at all?

Adam W. Miller

CEO & Director

Yes. So on the last piece there, I think the CapEx change there is just kind of us tightening up in different areas. It's maybe not so much on the equipment front. Maybe from a facility standpoint, an IT investment standpoint is really where we're seeing some of the adjustments. We really haven't changed our equipment strategy. We like to keep a pretty consistent replenishment process so you don't have a lot of volatility in your CapEx as you have because if you make adjustments there, then 4 or 5 years down the road, you have a big jump in CapEx. So we're pretty consistent in how we purchase tractors. Trailers can be a little bit more volatile depending on where our need is and what our ratios are. But from a tractor standpoint, it didn't really change our strategy around that.

When I think about fourth quarter, Scott, we don't have a guide out there. Again, there's still a little bit too much uncertainty for us to put a number out there. I think what we wanted to convey around the all other segment is we believed we had made an adjustment in how we bill one of our customers in our all other segment that was going to create maybe more consistency of revenue throughout the quarters. And we just never got that change over the finish line. And so we're continuing with the normal revenue recognition that we had the previous year, which leads to more revenue generation in the third quarter, in the first 3 quarters and then you see a slowdown in the fourth quarter. So we were trying to go fixed variable, but we weren't able to accomplish that. So we just wanted to make sure that the investment community, the analyst community was aware of that, but we're not prepared to put a number out there for fourth quarter at this point.

Operator

Your next question comes from the line of Richa Harnain from Deutsche Bank.

Richa Harnain

Deutsche Bank

Adam, I wanted to double click on the comment you made around maybe further cost savings in the Truckload segment, I think that's quite an impressive statement given all the success you had there so

far. So maybe you can walk us through some tangible examples of what's on the come in terms of driving more cost improvement? And then if you can clarify where you are now in terms of fixed versus variable costs and I'm trying to get a sense of what the incremental margin potential is? I know you walked through like long-term overall margins. But just as we see the cycle uplift occur, Kind of how should we think about incrementals here given that change in cost structure?

Adam W. Miller

CEO & Director

Yes. So Richa, maybe I'll turn that over to Andrew. He's kind of been a driving force around some of these cost initiatives. So I'll let them kind of walk through some of your questions there around what's going to come there, which I think the slide we tried to highlight some of those and then maybe even a breakdown of upticks versus variable.

Andrew Hess

Chief Financial Officer

Yes, Richa. So yes, what I would say is that we've, in the last year or so, we've really been building the muscle of continuous cost reduction in our organization. So we're using lean management tools to drive a culture of continuous improvement in cost. And it took a little while for that to really start to show results. We're starting to see that in the numbers. So there's a number of areas that we're looking at. We identified a few in the slide. But I would say that our performance on safety is continuing to, for us to be a contra-inflationary area. Now that can change with one large claim. But what we've done is we've generally taken a more proactive position ahead of getting ahead of accruals that could develop adversely than we have in the past. And we don't wait until the end of the year to look at actuaries and adjust those. We look at those each quarter. So we have a better handle on our costs. We're on top of our accruals in a proactive way. So we're less likely to see surprises there. On trailers, on equipment, we still feel like our trailer ratio has an opportunity for us to bring down trailer costs. And we're still well above historic levels that we need to be opportunistic in various market conditions. So we think that's to our advantage. We have implemented a number of and we're in the process of implementing projects enabled by technology. Now that is AI. It's automation of other types. It's using data science. We have a number of tools that we have put significant resources to. And so we're looking across our organization, determining doing value stream assessments, understanding what is a value to our customer and what is not. And if it's not a value, we look at ways to automate it or stop doing it. And so we are using technology to change the core processes of what it costs to serve this business.

So our goal is to dramatically over time, change the cost to serve on the back end of our business in a material way. And we're going to use every tool and invest where it makes sense to go capture that. I would also say we're getting much better at looking across our divisions to improve efficiency there, both in resources and in support levels. We've gotten pretty smart in a way we haven't been in the past about how to move assets between our divisions. So we can take dedicated trucks out of our truckload businesses and use them in LTL day cabs. We have a leasing business for trailers that at end of life, we can bring those trailers to that leasing business. We're moving trailers out of our Swift business to U.S. Xpress and replacing more expensive lease trailers. So we are figuring out how to take advantage of all of our brands to drive efficiencies and processes to get smarter about that.

We've also taken a real hard look at our fixed costs around our facilities. We have, I think, 9 or so truckload facilities, a handful in LTL facilities that were underutilized, aren't going to impact us from an operational perspective, but we are exiting and selling. And so that's going to take a lot of costs out as we do that. We're being very thoughtful. None of these, we believe, impairs our ability to be opportunistic or affects our market, but there's opportunities as we've looked at that.

And then as you've seen, we've made improvement in all of the core variable cost areas. fuel and maintenance, I talked about insurance. The progress that we made are because of initiatives in those areas that we have implemented, and we're seeing results in our actual results. And we are just kind of

early stages on a lot of those projects. So we expect there's going to be continued improvement in those areas. So when it comes down to it, we are looking at cost everywhere. And in a market like this, you start to look at costs in a different way. You start to really assess what are the drivers of your cost, what creates value and where you can take cost out. And so our expectation is we continue to see cost per mile year-over-year improve ongoing where we cover inflation plus. And so that's kind of what the journey we're on, on cost that we think is going to position this business better than ever from a leverage perspective to be really opportunistic because we be more cost competitive, I think, than we've ever been.

Operator

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

Ravi Shanker

Morgan Stanley, Research Division

Apologies if I missed this in your comments, but I think your gain on sale this quarter was meaningfully lower than your initial guidance and looks like that's stepping up versus our expectations in 3Q as well. Can you just talk about some of the moving parts there, please?

Adam W. Miller

CEO & Director

Yes. I mean I think that market just seems to have some starts and stops to it, Ravi. It also will be dependent on the inventory that we have in stock and where the demand is and so we were maybe short on certain items that were in higher demand at the end of the quarter. And as we go into the third quarter, I think we're better positioned from an inventory standpoint, and we've seen some early demand that seems to be positioning that to be stronger than what we saw in the second quarter.

Ravi Shanker

Morgan Stanley, Research Division

So how do we think of that kind of run rate kind of going forward? Is that something that can come back in the back half?

Adam W. Miller

CEO & Director

Well, hey, I mean it's kind of hard, these small carriers it's hard to count on what that trend is going to be on a consistent basis. I think right now, you've seen good demand on the tractor front, maybe not as much on the trailer front. And so that could change in the fourth quarter. It's just it's hard to predict. I think we try to forecast out the first obviously, the third quarter, but the fourth quarter still I don't see deviating dramatically but could be less, could be more, kind of depends on what the trends we're seeing.

Andrew Hess

Chief Financial Officer

Ravi, our CapEx is kind of back-end loaded. So we're going to be bringing more new equipment into our fleet in the back half of the year, it's going to give us more inventory to be able to sell. So I think that's maybe one difference between the first half and the second half.

Operator

Your next question comes from the line of Ariel Rosa from Citigroup.

Ariel Luis Rosa*Citigroup Inc., Research Division*

So I was just hoping you could speak about the impact that brokers are having on the market. Do you think they're driving greater price transparency. Adam, I think you mentioned a couple of service failures on the broker side. Maybe you could talk about that and kind of balance that against is greater participation from brokers or maybe kind of the tech that brokers are bringing to the industry, is that part of what's making it harder for the market to recover?

Adam W. Miller*CEO & Director*

I think there is clearly more transparency in the market than we had 10, 15 years ago, clearly. And I don't know if it's necessarily brokers are doing. I mean there's third-party data sets that all of our customers subscribe to or most of them that have scale, and they can see what's happening to rates. And I think that leads to just a market that's just more efficient. And so when rates are going down, everybody kind of sees that and kind of presses from a procurement standpoint for rate concessions. But it also works the other direction, and we saw this during COVID, when rates are going up, everyone could see and acknowledge it and they use that to go to their leaders to say, "Hey, we need to do something here if we want to secure capacity because it's clear rates are going up". So I just think it gives more insight and probably these cycles move a little faster based on real supply and demand. And it's not necessarily the relationship where you're trying to go get rate and they have to go through procurement and go through the whole process to see what the market will bear like you did 10, 15 years ago. I think it's easier to set up the expectations of rates going up or down. I think brokers out there are really just a function of more small carriers, more small capacity being available in the market. When there's more of that capacity available, you'll have more brokers come into the space. And as that capacity exits, I think you're going to have brokers that exit the space. That's what naturally happens. And I think what we focus on, what we see from our customers is we'll go through a bid process where, they're going to take the third-party data out there and they'll set up their expectations about where rates should go. But you got to remember, that largely is transactions between small carriers and shippers or brokers, and that may not be as indicative of what the larger players are dealing with from a revenue per mile standpoint. But they'll use that to negotiate with, and at times, they may find themselves with more exposure to brokers coming out of their national bid than they're comfortable with. And so we'll start to see mini bids and these mini bids will come to us most likely because you have a carrier that's failing a lane. They just cannot fulfill the demand that the customer has, and then they're looking for a larger player to come in or another player to come in and take over that lane. And in many cases, it's at a rate that's higher than what you bid on in the national bid. And so we're seeing more of that occur. And I think we're having more dialogue with customers about what's causing that. And some of that's going to be the brokers falling off because they don't have the carriers that can support the volume. And in other cases, it's maybe some larger carriers that have come off the lane that aren't necessarily carriers that they're coming through brokers. So that's what we're seeing. Again, it's anecdotal, but it's a trend that is starting to develop.

Ariel Luis Rosa*Citigroup Inc., Research Division*

Adam, if I could just follow up quickly. Is there any dimension in which that greater pricing transparency makes it harder to get to the margin targets that you were discussing earlier?

Adam W. Miller*CEO & Director*

I don't believe so. I think it leads to the cycle moving quicker because it's easier to see what's happening to supply and demand. I think from our standpoint, when capacity gets tight, I mean, that's when a carrier of our size at our different brands has the ability to come in and solve large problems for our customers. And you do it with asset-based capacity that doesn't necessarily get tied to what's

happening in the third party with the small brokers, but it's secure capacity that they can do drop and hook that has security around the freight that we're hauling and that we'll be able to get back to the margins that we've been at. Because if you look at, we have this transparency during COVID, and that led to the best margins we've ever seen. And part of that was because everyone could see that rates were going higher. that everyone could see they were going down. And so procurement leverages that to the negotiation. At the end of the day, it's going to come down, Ariel, to supply and demand and where it's at, and it's just easier to see where that's at in the market today than it was 10 or 15 years ago.

Operator

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

Jason H. Seidl

TD Cowen, Research Division

I wanted to switch back to LTL here. You guys are coming up on your year anniversary of purchasing DHE. I was wondering if you could talk about how building tonnage in the Western network is going? And then broadly, overall, how would you categorize the pricing environment in the LTL marketplace versus the prior quarter? Would you say it's sequentially about the same? Did it worsen a little bit? And then how should we think about the rest of the year?

Adam W. Miller

CEO & Director

So here's what I would say, Jason. Building tonnage has gone well in the West. I think we've seen customers very responsive to it. They like having another option out there and again, leveraging the great relationships that we had with AAA Cooper and MME coming in as we embarked in the West Coast. But there's been challenges as I mentioned earlier, with scaling like we have in the West Coast, while doing a system integration that's put some cost headwinds into the business that, hey, we have initiatives now to work through. So I think tonnage has worked just as expected. I think it's been a bit more challenging on the change management of the process and then some of the costs that we've incurred to build out that tonnage, and that's what we're going to work through. When you think of a pricing standpoint, I mean, it's been relatively consistent. I think the renewals have been still solid in the mid- to upper single digits and I don't think there's anything right now that indicates that that's really changing as we get into the third quarter.

Andrew Hess

Chief Financial Officer

Yes, I just thought I have a little color on kind of the dynamics that are going on there. So we're opening new locations in the West Coast as well. So DHE, we went through the wholesale implementation of their core processes, right, they used to operate in. And that was a big lift. But while we've done that with new volumes and new locations, the team has done a great job with good help from our AAA team there, but that takes time to get fully up to speed. And so I think we feel like there's a lot more opportunity still there. So when we approach this, kind of give you a sense for what you can expect from the business. In a high-growth environment, which we're in and with our top priority being to deliver high service, we brought on capacity and cost, like we've mentioned, ahead of that demand. And sometimes that can be very expensive cost, right? That could be subcontractors, outsourced maintenance, sometimes rented equipment. Meanwhile, we're in the process in those locations where we're seeing a lot of growth of hiring and training and onboarding new employees, and it creates some redundancy, right, in the network. And as you're bringing this new capacity online and opening new locations, that changes your network flow. And sometimes when you do that, you have headcount inefficiencies that are kind of misaligned with your evolving network. So until that stabilizes, you got some inefficiencies you got to work through, and that's kind of where we're at. So as we're bringing these new locations on the West Coast online, it's opening up new opportunity from us. So we are

making sure that we don't bring in more capacity into that part of our business than we can service effectively. We're playing the long game here, right? We're not going to sacrifice short-term margin and long-term opportunity. And so that's where we're at. We're building that efficiency and then we're going to continue to scale and pull more volume into the region.

Jason H. Seidl

TD Cowen, Research Division

Well, that makes sense. If you guys are out there running equipment, that can get very expensive. I did it back in the day. Should we expect maybe CapEx to go up next year? Are you guys going to be purchasing more equipment for next year?

Andrew Hess

Chief Financial Officer

I mean one of the beauties of our, the synergies of truckload and LTL together is that we can run tractors out of our dedicated fleet, day cabs and into LTL, it's feeding our growth in a very cost-efficient way. So we'll look at that, but I don't think that I would expect it to be materially different next year from an equipment CapEx perspective.

Operator

Next question is from the line of Jordan Alliger from Goldman Sachs.

Jordan Robert Alliger

Goldman Sachs Group, Inc., Research Division

I wanted to circle back on the miles per tractor being up 4% this past quarter, which seem pretty strong against some tough comps. Is that some indication, I know you're reducing your tractor fleet, but is that some indication on supply/demand broadly? And do you expect to build on that as part of this thought process for the third quarter and beyond?

Adam W. Miller

CEO & Director

Yes. So there's a couple of factors weighing on the improvement there, Jordan. I mean, one would be disposing of underutilized assets. So if we had unseated tractors and didn't feel like we had the driver pool to be able to fill those nor the freight market, then we would dispose of those, which we did some of that. Clearly, you saw that. You can see that in the tractor count. But also, when you look at production on a seated basis, which we don't provide that number, we are seeing that improve on a year-over-year basis as well. So we are being more productive with the trucks we had seated this year than we were with the trucks we had seated last year. So again, it's another indication that the market is slowly improving. We believe the worst is behind us, and we expect the slow progression of the market to continue into the back half of this year, kind of barring any unforeseen real market disruptions, whether that be tariffs or other policies. But yes, we believe that is a sign and hey, that's something we track on a regular basis and really put a great focus on and does allow us to capture some of the operating leverage in the business when you're running more miles on your fleet. So it's certainly a big focus of ours, Jordan. Okay.

Well, I think we hit an hour. So we appreciate all the questions and interaction from the group. And so we will go ahead and conclude. And again, if we weren't able to get to your question, you can call (602) 606-6349, and we'll schedule a follow-up call. Appreciate it, everyone.

Operator

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

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