

Knight-Swift Transportation Holdings Inc.

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Earnings Call

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Call Participants

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Presentation

Operator

Good afternoon. My name is Jillian Robinson, and I will be your conference operator today. At this time, I would like to welcome everyone to the Knight-Swift Transportation Third Quarter 2026 Earnings Call.

Speakers on today's call will be: Adam Miller, Chief Executive Officer; Andrew Hess, Chief Financial Officer; Brad Stewart, Treasurer and Senior Vice President of Investor Relations.

Mr. Stewart, the meeting is now yours.

Brad Stewart

Treasurer & Senior VP of Investor Relations

Thank you, Jillian. Good afternoon, everyone. Thank you for joining our third quarter 2026 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. The call is scheduled to last 1 hour. Following our commentary, we will answer questions related to these topics. We will answer as many questions as time allows. If we are not able to get to your question due to time restrictions, you may call (602) 606-6349.

And 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 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.

Now I'll hand the call over to Adam for some opening remarks.

Adam W. Miller

CEO & Director

Thanks, Brad, and good afternoon, everyone. Just want to let you know I'm getting over a cold here, so I might have some lingering cough that come through, so if you hear any noise in the background, that would be me, I apologize for that, but I wanted to make sure I was available for the call here.

So first, I'd like to start by recognizing our team and the progress we have made in each of our distinct brands. We continue to build out our diversified service model and saw solid performance across each of our segments this quarter. In addition, I was very encouraged to see the improvement in our core truckload margins that are far approaching recognizable territory after such a long and difficult down cycle. We are so grateful for the focus, teamwork, and commitment of our professional drivers and driver support personnel, who brought us through the past cycle and whose creativity and collaboration will help us navigate the new one. There is much work yet to be done to return to normal operating levels but the good news is we see many opportunities for improvement to get us there and to help our organization chart new heights moving forward. We truly have an amazing team, and I look forward to navigating this next cycle together.

Yes, we believe the new cycle still has plenty of gas left in the tank. The truckload freight market continues to remain tight and while broad measures of industry demand have been largely stable, demand for our capacity has been strong. We have more peak season project arrangements in place than at any time since the pandemic and freight tenders have already started under several of these projects. We believe we are well positioned to generate distinctive results for 2 main reasons: the differentiation in our service mix and in our business model.

So regarding service mix, our single largest service is the one-way truckload market, a space experiencing a supply-driven tightening after 3-plus years where artificially low pricing drove unusually weak industry margins. During the downturn, many carriers either went out of business, partially liquidated fleet assets, or shifted one-way capacity into dedicated services where there was less competition from noncompliant operators. Because we have remained committed to one-way truckload service and operate the largest one-way fleet in the industry, we are now seeing consistent opportunities to deliver valuable capacity solutions to our customers in this space experiencing the most supply contraction. We believe this is contributing to our spot rates and low tender rejection rates trending stronger than broad market indicators on these metrics. Also because one-way service is the most flexible, our industry-leading one-way scale and history of responsive problem-solving means, we are often the first call large shippers make when they have an acute need for transportation service. The one-way market also has an active spot market where rates that are highly responsive to the supply contraction not only accelerate our rate recovery but also help provide insightful observations on price discovery, particularly as our spot rates are often much stronger than public spot rate data.

Regarding our differentiated business model, there are a few things I would highlight that are already serving us well and which will be the key to delivering industry-leading margins.

First would be our market management practices, a unique purview on the freight market. We are continually refining our playbook for how we read and respond to signals in the market and how to manage the deployment of capacity in support of service and yield. We couple this with distinctive competitive intelligence provided by our industry-leading scale and combination of multiple truckload brands in the marketplace, which further enhances our ability to read market signals and respond with agility. Related to this area is our intentional practice of engaging in spot-rated transactions and modulating our spot exposure based on the phase of the cycle. This enhances our signal detection and allows for faster price recovery and up cycles.

Next would be our large academy network and driver training program through which we source and develop a significant portion of our professional driver base. This is helping to somewhat blunt the negative impacts of the tight driver market on the business -- on our business and will be key to helping us seat more trucks and increase utilization to capture more opportunities.

Next would be our large terminal network and decentralized operating model. This has allowed us to construct a dense freight network that is primarily built on regional freight, which allows us to minimize empty miles and maximize revenue per truck relative to costs. Such a network also supports driver recruiting, retention and development as well as internalizing maintenance at advantageous cost.

And finally, I would call out our intense culture focus on cost and execution, which allows us to convert opportunities into earnings. Of note lately, our disciplines around fuel procurement, efficiency, and recovery are helping us mitigate the negative impact of record-high diesel as best we can, but to be clear, we're not immune from cost pressures, but we are focused on doing everything we can to mitigate cost impacts and recover inflation through pricing. We remain encouraged by momentum in the market and strong early progress in our core Truckload business, we are pleased with the significant progress the team at U.S. Xpress has made in improving costs service, safety, business mix, and pricing, and we look forward to making further progress.

We have also significantly reduced our floating interest rate exposure to our 1% convertible bond offering in the spring and are making meaningful progress reducing our acquisition-related leverage as free cash flow continues to improve, we anticipate being back to our target leverage range, not before long and will again have maximum flexibility as we consider opportunities for organic growth, M&A and share buybacks.

And with that, I'll turn the call over to Andrew and Brad to review the results and our guidance.

Andrew Hess*Chief Financial Officer*

Thanks, Adam. The charts on Slide 3 compare our consolidated third quarter revenue and earnings results on a year-over-year basis.

Consolidated revenue increased 14.2%, and consolidated revenue, excluding Truckload and LTL fuel surcharge, increased 7.7% year-over-year. Operating income grew \$128 million or 255.1% year-over-year. Adjusted operating income grew \$93 million or 87.4% year-over-year. The improvement in earnings was primarily driven by pricing and network efficiency gains across our asset-based businesses in addition to gross margin recovery in our Logistics business. GAAP earnings per diluted share for the third quarter of 2026 were \$0.72 compared to \$0.05 in the third quarter of 2025. Adjusted EPS was \$0.83 for the third quarter of 2026 versus \$0.32 last year. Our consolidated adjusted operating ratio was 89.3%, a 450 basis point improvement year-over-year.

Slide 4 illustrates the revenue and adjusted operating income from each of our segments for the quarter. Overall, the relative share of our various service offerings remained largely consistent. Intermodal again gaining slightly over the previous quarter as it grew revenue 8.4% sequentially.

Now I'll discuss each of our segments, starting with our Truckload segment on Slide 5.

Our Truckload segment is making meaningful progress, restoring margin through disciplined yield management and cost control. After being driven by spot rates in the second quarter, realized revenue per mile accelerated in the third quarter, driven by contract rate changes primarily within our One-Way division. This quarter marks the first one in few years, the operating margins for our One-Way service exceeded those of our Dedicated division.

We continue to see opportunities through mini bids, turnback bids, while peak season projects have started to move even while conversations on late developing needs continue to surface. We are leveraging collaboration to support our various brands and service lines while providing greater capacity solutions to our customers.

There are many reasons to be encouraged and plenty of levers to drive further improvement. One of the biggest priorities across our operations is seeding more trucks increasing utilization. This will allow us to attain more opportunities and grow revenue at compelling incremental margins. We are leveraging our academy and training network to navigate driver sourcing challenges and to manage cost. We have 12 CDL academies across the U.S. with plans to open a few more in the coming months, plus partner schools operating on-site at 7 additional terminals. After graduating from CDL school, the next phase is our finishing program, where we have more than 2,000 qualified mentors who train new CDL holders over the road to ensure the readiness to be safe, productive, and successful. After years, we have built a training program at U.S. Xpress modeled after our legacy program and student count continues to climb.

Our scale is a distinct advantage in Dedicated where start-up costs on new fleets can pressure margins because equipment must be positioned and trucks must be staffed before they're fully productive. When we onboard a new dedicated fleet, we can draw upon equipment and drivers from our national one-way network, along with our academies program. Only in certain markets, are we limited to recruiting experienced drivers at a premium. This helps us manage margin pressure from growth. Recently, we have been having success in growing our dedicated fleet, which has grown approximately 3.5% since mid-Q2. Our dedicated revenue, excluding fuel surcharge, grew nearly 4% sequentially between Q2 and Q3. Operating margin is essentially unchanged.

The investments we made in the quarter in recruiting, training, and driver pay have helped us to stabilize our truck count. We are preparing further targeted measures to improve our driver development and enhance utilization given that our Truckload margins are progressing according to plan, and our load rejection rates continue to run at a strong levels well ahead of the market. We continue to closely monitor driver market conditions as well as our own metrics around seated tractor utilization and pay as

a percentage of revenue to gauge appropriate action and invest where it generates a return. We are balancing the need to restore margins with opportunities for growth.

Turning to Slide 6. I'd like to spend a few minutes on truckload costs. Recently, investors seem to be indicating some level of concern that cost inflation could consume too much or perhaps even all of the rate gains being made in the industry. However, our model is generating meaningful margin progress through the combination of our significant exposure to the one-way truckload market, which is benefiting the most from capacity reduction and our distinctive approach to yield management and cost control, as Adam touched on earlier.

The table on the left is the headline. Year-over-year gains in revenue per mile, excluding fuel surcharge, have accelerated from 2.5% in Q1 to 12.2% in Q3. Over the same period, cost per mile stayed in a tight range between 3.3% and 3.8%. The result is that 68% of our third quarter rate improvement flowed through to margin, up from 50% in the second quarter. Note that while we typically cite rate per loaded mile metrics, these rate gains are stated in terms of rate per total mile in order to make comparable to cost per total mile figures.

It also helps to look at this over the full cycle. From 2019 through 2025, our cost per mile grew at an average annual rate of 4.5%, that period includes the inflation surge of 2021 and 2022. Thereafter, we structurally reduced costs that allowed us to hold cost per mile flat from 2023 through 2025 as pricing and volumes declined. A 3.5% cost per mile increase this year is below that recent average and much of it reflects deliberate reinvestment now that the rate opportunity supports it. That's clear as when you separate our 2 largest businesses. Dedicated, rate has largely kept pace with modest cost growth and margins have stayed in a stable range through the cycle. In our One-Way business, rates fell sharply from 2022 through 2025, and we responded by taking out cost. With One-Way rates rising significantly year-over-year, our tender rejections running strong, it's time to begin investing again in that business, and we're investing primarily in drivers.

So to be clear, we're not immune to inflation, driver pay and fuel are currently the most acute cost pressures while insurance and claims may continue to be volatile. Equipment costs continue to rise. However, we're offsetting these specific pressures cost discipline and efficiency. On driver pay, we're not making broad across-the-board increases. Pay actions are targeted by market, fleet and tenure, where they improve retention and seat trucks. On fuel, operationally, we're focused on fuel procurement, efficiency and recovery. We held fixed costs flat year-over-year despite higher equipment costs, with fewer nondriver roles, real estate rationalization, AI automation and lower vendor costs. The fleet is also more productive. In the third quarter, miles per seated tractor rose 2.7% and empty miles fell 170 basis points year-over-year.

To sum up, cost per mile is currently growing at fairly normal inflationary pace, below our recent average, while rate is accelerating. That combination is why the majority of our rate improvement is now contributing to margin.

Now on to Slide 7 for a discussion of our LTL business. The LTL demand environment was steady with pockets of improvement. Third quarter trends generally followed normal seasonal patterns, so our average daily shipments showed a modest sequential outperformance. Our network and freight mix continue to evolve from the regional routes to a national profile as seen in further year-over-year growth with length of haul and weight per shipment. After slightly decreasing during July and August, weight per shipment rebounded in September to our highest mark in 3 years, continuing its evolution and building greater density and longer haul shipments should facilitate better network efficiencies, less touch points, better transit, and enhanced service over time.

The pricing environment remains steady to slightly improving with renewals at mid-single-digit pace. Our focus continues on optimizing freight mix and network efficiency and efforts to improve margin, protect service, and position us for further growth. We expect that over time growing into our network investments and maturing freight mix improve the network density and continuously refining our

operational and cost execution will allow us to drive sustained, methodical improvement in operating margin.

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. In our Logistics segment, we leveraged our efficient model and our disciplined pricing approach to profitability and carrier selection to drive a nearly 20% year-over-year improvement in adjusted operating income despite revenue falling 1%. The third quarter adjusted operating income and adjusted operating ratio were the best quarter marks in 3 years. This margin recovery was partly driven by our progress in resetting contractual pricing to align with the tighter market conditions as well as the seasonal easing in spot market capacity costs during the quarter, yielding the first year-over-year improvement in gross margin percentage in 4 quarters. We anticipate the third party capacity will seasonally tighten again during the fourth quarter, and we're beginning to see the early stages of this in October.

We continue to hear customers express a preference for asset-based providers and customers are increasingly asking about carrier qualification practices. At this point, we really feel like they're still trying to understand what the evolving broker liability landscape will ultimately mean for businesses. And with capacity remaining tight, we believe many shippers are not yet hurrying to materially reduce the number of brokerages that they work with. After periodically developing new refinements to our carrier vetting protocols over the past several quarters, we saw our third-party carrier count largely stabilized during the third quarter. Now we will continue to evaluate the feasibility and effectiveness of potential additional refinements moving forward as access to new or improved data elements develops. Our company's long-standing commitment to safety and operational execution extends to our Logistics business, and we believe the new risk landscape enhances the value proposition of these principles in the eyes of our customers.

Over time, we expect our Logistics business to benefit from share gains as shippers become more selective and as brokers with less robust safety or compliance infrastructure are pressured by increased costs from compliance, insurance, and third-party capacity.

Now on to Slide 9 for discussion of our Intermodal business. The Intermodal segment posted strong year-over-year growth in revenue and load count for the second consecutive quarter, reaching the highest quarterly load count in over 5 years. Our concerted efforts to improve service and network balance in recent years have earned the trust of shippers, allowing us to capture business with new and existing customers, especially as they are more open to intermodal service in the face of tight trucking capacity as well as record high diesel prices. We are cross-selling our intermodal offering to our broad network of truckload customers to help add more value where we cannot allocate more trucks. Our pipeline is strong and supported by mini bid and turn bid activities in addition to the modal conversion opportunities. We are encouraged by the potential to drive further improvement in this business.

The supportive setup has helped pricing progress notably in recent months, as shown in the 15.2% year-over-year increase in revenue per load or a 5.5% increase when excluding fuel surcharge revenues. We were able to drive recovery and pricing while meaningfully growing volumes and further addressing network balance in pursuit of sustainable profit improvement.

Now drayage capacity has become tighter in a number of markets around the country, though the fact we use outside drayage for a low single-digit percentage of our moves has helped to insulate us somewhat from the cost impact. We anticipate further rate progress in the upcoming bid season given the ongoing pressure on trucking capacity and inflation in the cost base, and we will maintain our focus on service and disciplined pricing and cost management to drive profitable growth.

Slide 10 illustrates our All Other Segments. This category includes warehousing activities and support services provided to our customers, independent contractors and third-party carriers, such as equipment sales and rentals, equipment leasing, insurance and maintenance. Additionally, beginning January 1, 2026, All Other Segments also includes the cost of our accounts receivable securitization program that was reported below the line in interest expense in prior years.

Now for the quarter, revenue increased 41.8% year-over-year reaching the highest mark in 3 years, driven primarily by growth in warehousing and independent contractor services activities. Last 2 quarters have been particularly strong for our warehousing business as new business growth and some project activity have driven strong top line and bottom line results. This growth in revenue and our corresponding growth in our facility footprint creates a challenging sequential comparison setup as the activity that drives revenue recognition typically slows down meaningfully in the fourth quarter without a corresponding decline in the now-higher fixed cost base.

Our independent contractor services have grown as the number of contractors on our platform has grown meaningfully this year. We expect further opportunities to attract more owners to our platform given the reach and the density of our freight network and the cost structure advantages we can facilitate in support of their businesses.

On Slide 11, we've outlined our guidance and the key assumptions, which are also stated in the earnings release. Actual results may differ from our expectations.

Based on our assumptions, we project our adjusted EPS for the fourth quarter of 2026 will be in the range of \$0.78 to \$0.84. Our projections reflect recent trends in volumes, spot rates, bid activity, and driver hiring as well as expectations for seasonal project activity in Truckload. The key assumptions underpinning this guidance are listed on this slide.

I won't read through all of these components here. But I do want to highlight the seasonal cadence of some of our business units for the fourth quarter. In summary, we project Truckload operating income to meaningfully improve sequentially into the fourth quarter. That's driven by further rate realization and seasonal project activity. At the same time, we expect the typical seasonal step down in LTL and All Other Segments earnings in the fourth quarter. In fact, we anticipate the All Other Segments will produce an operating loss for the fourth quarter as noted on this slide. In our warehousing business, the majority of our revenue is recognized based on certain activity drivers under our customer contracts. Given the heavy retail mix, our customers prefer to minimize disruption in the holiday shopping period which means the drivers of revenue decline in the fourth quarter. In addition to the normal seasonal slowdown in revenue recognition, our recent growth in our facility footprint to support growing revenues has increased the fixed cost base. Therefore, costs remain in the fourth quarter without the corresponding revenue. This dynamic is factored into our full year pricing agreements.

And finally, All Other Segments' fourth quarter projection also includes an estimated \$6.5 million of costs for our AR securitization facility that were recorded in interest expense below the line in prior years. So the sequential decline in these 2 segments is expected to offset the projected ramp-up in our Truckload profits.

This concludes our prepared remarks. Thank you. Jillian will now open the line for questions.

Question and Answer

Operator

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

Christian F. Wetherbee

Wells Fargo Securities, LLC, Research Division

I guess maybe we can just hit on sort of maybe the contractual rate environment kind of curious of how that's sort of trending or sort of post the traditional bid season, but I think there's still rate activity going on. And then as we think about '27, I think there's an expectation that we need to see the spot rate environment kind of improve seasonally through the peak season to put us in a position where we can kind of achieve maybe that high single digits or maybe even low double digits again in '27. So let's sort of hear your perspective on what you're seeing in the environment now from a contract perspective and maybe what the outlook is the early outlook for '27 is?

Adam W. Miller

CEO & Director

I appreciate that, Chris. We've largely gone through the large national bids through the bid season. So there's not a lot of work being done like a national bid standpoint. There's still a lot of turn back bids or mini bids, securing capacity for the short-term or even medium-term. And that can vary widely in terms of where we're at in specific markets and what the need will be from a volume perspective. But certainly, there's still a good strength around how we're pricing that business and what that would look like compared to a year ago. I do think there's still a lot of strength even for the setup for 2027 in terms of where contract rates will at least start the bid process. We're early on in having discussions, the bid season really starts to kick off in November, you have some larger customers that kick off their bid then, you had some where we had maybe some pre-bid negotiations. I certainly feel like we're in a position to start with at least double-digit increases as we get going in this bid season, and we'll see how the market progresses from here. It's going to be quite dependent on what happens with capacity. And if it continues to exit the market, given some of the regulatory push, it will vary based on what happens with demand because I think as everyone is well aware of, the challenges in the market have not been demand-driven. It's been more capacity driven. Demand has been relatively stable, if we get any type of lift there, I think we could see the contract rate market even improve from low double digits. It will also depend on when you're addressing the rates. If you have a customer who had their rates renewed further into the bid season this year, then maybe their rates are in a better position when we look at renewing them versus a customer who had their rates renewed earlier in the bid season this year. So it really depends on when you're going to the bid when you're going to be addressing the rates of the customer, also depend if you did a mid-cycle adjustments, which we've had to do in many cases, where rates just fell short based on where the market had turned to. But again, easy way to answer that is I think we'll start the bid season with the idea of probably low to mid-double digits and see how it develops from there, Chris.

Operator

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

Ravi Shanker

Morgan Stanley, Research Division

Adam, you did a great job in your prepared remarks. I hope you feel better soon. But if I can shoot a question your way, just to follow up on your comments on demand there. Potentially record peak season notwithstanding, are you concerned about demand at all? And kind of what you're seeing out there? You said it was stable. Should we expect to see better than that? And do you think supply alone can drive an up cycle if demand doesn't show up?

Adam W. Miller

CEO & Director

I think supply alone is already driven an up cycle here, Ravi. And when we look at the peak season opportunities that we're seeing today, many of them will have to see what that demand comes in. You kind of set the pricing and what the surge capacity would cost and then you have to see how demand materializes. But so far early on in the peak season, we're seeing things develop as expected largely. I

mean, some will a bit more, some will be a little bit less. But in discussions with our customers, they aren't deviating from their forecast. So I feel like even just demand being stable, we're still in a position with where capacity is, what our turn downs have been, what the mini bid activity has been, where there's still opportunity for rate to improve. I mean we could see our margins have improved meaningfully, but still nowhere near where they would be in the midst of an up cycle. So I think there's still a lot of room for that to run. And then if you look at the broader industry, there's some of the private guys, I don't know, we don't see those results, but just with channel checks, they haven't seen the margin improvement yet. We've had some peers report. There's still some room to improve margins, certainly, I believe, from their perspective in terms of how they performed in up cycles. So I think there's still a lot of room to run there, and we're kind of in the early innings on this.

Operator

Your next question comes from the line of Tom Wadewitz with UBS.

Thomas Richard Wadewitz

UBS Investment Bank, Research Division

Yes. So Adam, I wanted to get your thoughts on just like, you've got kind of a unique backdrop with Montgomery and rising insurance and these things that could put a lot of pressure on the small carrier. I guess the backdrop is it's been really tough for a big trucker like you to grow organically with the fleet count over time, right? You used to do that in a really big way, but it's been tough for a while. Do you think there's -- like can you actually grow, let's say, over the road fleet count and driver count in '27? Or is there kind of a path to that? Or maybe it's more owner-operators help you to grow there. But yes, just kind of wanted to get your thoughts on how you would approach that? And what's maybe realistic? Or what kind of visibility do you have to that happening?

Adam W. Miller

CEO & Director

Yes, certainly. That's a great question, Tom. And that's been a challenge for all large carriers over the last couple of cycles, because I think largely the growth that's come in during an up cycle has been from the very small carriers with low barriers to entry and many of those not being as compliant as the large carriers have had to be. So that's been a challenge to grow in that type of market. I feel like we're finally seeing some level of barriers to entry, and I feel like the carriers that really understand how to develop drivers and develop safe quality drivers have a shot at growing next year. Now it won't be easy. And so we're being very mindful about where we're making our investments to position to grow. We've been very targeted and tactical about where we do driver pay and ensuring that we have the rate and the margin to support it. And I think we've done a good job managing that. And we've done some things on owner operator front because I do feel like the small independents that want to come in to access this market, they may come in under the cover of the large carrier from an insurance perspective. And so I think we've done some things to be very dynamic to the market and provide kind of market-based pricing for owners, which is different than what we've done historically. And we've seen some good demand there and some growth in owner operator count the last 9 months. So we're encouraged with that, and we're going to continue to invest in that area. I told our team that over the next 12 months, we'd be somewhat disappointed if all of our growth has come from just rate, right? We want the growth to come from running more miles with our existing trucks, growing into open trucks that we have and then ultimately growing our truck count. So that's probably our #1 priority as we get rate, as we improve margins is to try to grow organically into this market.

Thomas Richard Wadewitz

UBS Investment Bank, Research Division

What's your confidence you can actually do that, though?

Adam W. Miller*CEO & Director*

Yes, I would say we've made some early investments there with really growing our recruiters, and it takes time for that to be trained and start to really contribute the way that we would expect. We've done some things on the driver pay front that we're just kind of testing between different brands on what's the most effective at bringing on new recruits and retaining drivers. And so we're learning from that. And the strategy that we have of being able to do things different at each brand allows us to test things and then compare them against others and then eventually harmonize to what we think works best. And so I think the early results are, I think are encouraging, but there's still a small sample size right now. So I'm encouraged, but not -- there's still to be seen if it's something that's sustained through the holidays and as we lap into 2027, if we still see some momentum there, then I would feel better about saying, yes, I have confidence in doing this. It just hasn't been anything really, the large carriers have done over the last probably decade. And so we're cautious before calling, "hey, a success there." But certainly, an area that we're greatly focused on and plan to invest in the future because we think that's the biggest opportunity for us to show earnings growth is really get the margin through rate, but also grow our fleet.

Andrew Hess*Chief Financial Officer*

One insight I would add Tom, is that our view is that broad driver pay wages don't necessarily buy growth. The competitive price for experienced drivers is very high. So when we look at where we deploy our capital from a driver pay perspective or from recruiting, we're able to test out different areas in our different brands. And we think our thesis is that we target pay where it improves retention in our student profile. We think that is, from our evidence, from our history, that's where we direct resources, where we've seen growth in the past it's when we direct resources there. So we're going to be opening up new academies, new partner schools. We've deployed resources to assist our recruiting teams using AI to help with recruiting, onboarding, retention, training, and, like Adam mentioned, we're staffing up our recruiting team. So look, fourth quarter is tough. It's hard to grow your seated truck count in the fourth quarter for that's what our evidence shows historically. But I think the setup is pretty positive that with the fertile ground we have with our academy network with the very targeted approach we have to our investment that we stand a good shot of seeing progress in our seated truck count in 2027.

Operator

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

Scott H. Group*Wolfe Research, LLC*

So I thought that was a really helpful slide on price/cost and wanted to get some perspective there. So that, I guess, [8.5-point] price/cost spread in Q3, how do you see that evolving into next year? Do you think -- it sounds like you think the price will stay up double digits into next year? Do you think the cost sort of stays in that 3% to 4% range? So I guess, ultimately, like that 70% margin flow-through you saw in Q3, do you think that's sustainable? And I guess, Adam, what do you think that means for like where margins ultimately can go this cycle?

Adam W. Miller*CEO & Director*

Yes. Well, I mean, we're going to see where how that develops, Scott. I do think I have confidence on the cost side that we can really manage that effectively. Again, we're going to invest when we have margin to do so, right? And so we laid out kind of what historic normal inflation, how that trended over the last cycle, and we think we can manage costs within that range. I think there's still a lot of question about what equipment pricing is going to be with the new EPA regulation. We're working through that. If we get -- make more progress on the dedicated rate, which I do think we'll be able to do that next year, then we'll

make some investments in driver pay on the dedicated side. We just -- we typically don't do that until we have rates to support it. So the cost inflation will be somewhat dependent on what we see on the rate front. But we know that we need additional margin expansion. And I think we're pretty vocal about that earlier in this year. It might have been the first quarter call, where, hey, when we get rate, it's going to go to margin first because where margins have been are not sustainable. And I think we're finally getting to the point where we're getting to more familiar territory but still don't feel like we're where we need to be, and that needs to continue. So yes, I do expect to see a spread there. I don't know if it's going to be the exact same spread as we saw in the third quarter here. That was pretty healthy, but hey, coming from an easier comp perspective from a rate standpoint. But certainly, over the next year, if we're able to get rates in the double-digit range, at least starting the bid season, I certainly see an opportunity for that to continue to flow through to the bottom line.

Andrew Hess

Chief Financial Officer

Scott, the way to think about it is we're not going to see in the areas of driver pay and recruiting, significant pressure Q3 to Q4. The 2 things I would point out to you that are somewhat variable that can change. One is insurance liability claims, so development on prior year claims, new large cost settlements and rates can drive a lot of variability. And it's going to change 1 quarter to the next based on timing. We think -- we view that as fairly transitory. So those are going to, in the short term, affect the results. But certainly, as we go into 2027, we'll continue to decide what is the right level of investment on drivers for us to make based on where the market is and our view on it. So -- but from a fundamentally from a perspective, I think the takeaway is that we've got a pretty dialed-in way we're managing cost. And we're pretty confident in our ability to manage that from a base inflationary perspective.

Operator

Your next question comes from the line of Dan Moore with Baird.

Daniel Charles Moore

Robert W. Baird & Co. Incorporated, Research Division

Real quick, a lot has already been covered. But one thing I'm curious about, and it's kind of a soft touch item. But in a post-Montgomery world, it strikes me that ordinary care, while that's historically been the standard for hiring a carrier, things like collision avoidance systems, drug and alcohol testing, established safety cultures and practices, they're probably taking on a much more important role in the counterparty equation of your customers. And so if you could maybe just opine for a minute around how that's influencing the market. It strikes me the top 10 truckload carriers are probably 5% of the total market. And so for really large retailers, there are a very limited number of companies that they can go to, to presumably get the highest standard driver and capacity in the market. If you could just address that for a minute, that would be great, and I appreciate all the context.

Adam W. Miller

CEO & Director

Yes. So if I understand your question correctly, it's just how do you, at least the conversation we're having with our customers, how are they viewing the safety of the carriers that are ultimately hauling their freight.

Daniel Charles Moore

Robert W. Baird & Co. Incorporated, Research Division

Yes. And I guess -- maybe just to add one piece to it, too, and I'm sorry, Adam, but it strikes me the Dedicated market has changed a lot in the last 6 to 9 months. We're certainly seeing that with some of your peers. And so it seems like there's a big change that's developing. It certainly hasn't been volume. The housing market is a disaster. Automotive is a disaster. Cost of capital is meaningfully higher. So sort of fuel prices. So I'll just stop there, sorry.

Adam W. Miller
CEO & Director

Okay. I'll take a stab at answering your question, too. So with our discussions with our customers, I think they're trying to understand, I think, what they should be asking or what they should be looking for in terms of trying to understand if a carrier should be viewed as a safe carrier, right? And the challenge is there is limited data out there. I mean you'll have the ratings through FMCSA. They're very limited because there are so many carriers out there, and there's not enough for the staff to really do proper ratings. You have CSA data that you can look at. It doesn't always correlate perfectly with safety, but it is something that's out there that you could look at. And then there's third-party services that gather information that we would leverage to try to pull together our own algorithm of what we feel like is do care in the carriers that we would hire. And we've been sharing our view on that with our customers because we would, I think, have a different view of it because we understand what it takes to have a safe driver in our own fleet. The challenge is you can't have that same type of control with a third party. And so you have to rely on the information you have readily available and then do whatever diligence you can on the actual driver hauling the load, and that's what we've done from our logistics standpoint, which is why we've really limited the carriers that we have access to and why we took the approach of let's maintain profitability with good safe carriers as opposed to chase load count that may expose us to risk or lack of profitability. And I think our customers are asking like what should they be asking the brokers that they work with to ensure that they have safe carriers and what their criteria is. And so it's -- I think it's a process of learning and it's been evolving really since Montgomery. And I think it will take some time before you see some of the change really be invoked, and that could be from our customers asking brokers to have a certain standard. It could be from insurance companies requiring a certain standard to be covered with the insurance policy. So I think there's more to come there, but we're constantly watching it and evolving just as we gather more data and as we just kind of learn from what others are doing. And I think our customers are doing the same thing. And as it relates to Dedicated, like any time you see capacity over the road, one-way capacity become constrained and then the pricing rise as rapidly as it has, you'll see customers start to be a bit more interested in Dedicated. Dedicated the last couple of years has not been in vogue because it's typically a more expensive proposition because you're paying round trip for the capacity and you're required to keep it highly utilized. And when over-the-road capacity is cheap and widely available, you've seen customers kind of move volume away from Dedicated to over the road. And now you see them shifting potentially some of that back to Dedicated if they assume the rate market is going to be --continue to rise and capacity will continue to be constrained. And we're starting to see that. We talked a little bit about the growth we've seen in Dedicated. We're starting to see that from some customers who really even haven't done Dedicated in the past just to look to say, "Hey, can you look at my market, can you look at my network to see would Dedicated be a fit anywhere. So we're starting to explore that, but I still think it's early on in that process. But that's typically how these cycles play out over the road gets really tight, Dedicated gets a little bit more popular with our customers. I hope I answered your question, Dan.

Operator

Your next question comes from the line of Bascome Majors with Stephens Inc.

Bascome Majors

Stephens Inc., Research Division

Can we go back to the "All Other" and the warehousing and independent contractor services, the trajectory from 3Q to 4Q? And just how to think about that business and the cadence off of the 4Q guidance you gave as we get into next year with some of the investments you're making?

Adam W. Miller
CEO & Director

Yes. Figure, that would be a question given the volatility we're expecting for Q3 to Q4. Thinking about

this, particularly on the warehouse business. So it's a business where we're investing in leases to manage warehouses. And generally, the customers that we work with, we bill based on activity. And in the fourth quarter, because of the nature of our customers, there's not as much activity that flows through to not disrupt anything going into their stores during the holiday season. So your cost is fixed throughout the year, so you recognize that evenly through the year, but your revenue can be volatile based on how much activity runs through the warehouses. And so it's priced in for a full year to work really well for us, but you see somewhat of an outsized amount of revenue in the first 3 quarters, particularly second and third, and then you see the dip in fourth quarter. And as we've grown this business, which we have this year, that means your cost basis grows each quarter, yet you still see the dip in revenue in the fourth quarter. Now there's times in years where we've gotten projects thrown at us during the fourth quarter, that would be something that we wouldn't have anticipated been able to project and that kind of softens the volatility from Q3 to Q4. As of today, where we sit, we don't see a line of sight to that. It doesn't mean it couldn't happen. And so we're kind of giving you our best forecast of what we expect to occur, which would be a drop in your normal activity, but with a higher cost basis that's impacting Q4.

Andrew Hess

Chief Financial Officer

And Bascome, for 2027 until we give guidance, probably the best assumption is to assume the same quarterly cadence in 2027 as 2026. So not speaking to the amount of revenue and margin, but just the cadence should be roughly similar next year.

Brad Stewart

Treasurer & Senior VP of Investor Relations

And one element I would add, Bascome, this is Brad, in terms of making sense of the volume or the activity in our warehousing slowing down in what would be a high activity quarter in the holiday shopping season is that more of what our warehousing business traffic in is the store infrastructure relative to the stores products on the shelves. And so that's why you're seeing less of that activity in the fourth quarter.

Bascome Majors

Stephens Inc., Research Division

Just the big picture, I think what I'm hearing is that the fixed cost structure of the business is higher as you've grown it and just the degree of quarter-to-quarter seasonality is more significant based on the way you recognize revenue there, but the underlying annual earnings potential isn't changing here. Is that a fair assessment without getting the guidance?

Adam W. Miller

CEO & Director

Yes. I would say the annual earnings have improved as we've grown. And so yes, so it's still a profitable business for us, one that does really well. And -- but yes, it has this volatility, you just have to live with.

Operator

Your next question comes from the line of Ari Rosa with Citigroup.

Ariel Luis Rosa

Citigroup Inc., Research Division

Adam, I was hoping we could stay on the subject of Montgomery and just broadening out a little bit. I'm curious kind of 2 parts. So one, are you seeing shifts in customer behavior and more inbound requests, especially on kind of the asset-based side? And then second, just given how many trucks you're running, it seems to me that like accidents are inevitable in this industry. How are you thinking about insulating

yourself from that risk? I mean even the best operators, it seems to me are vulnerable when nuclear verdicts are being handed out in the kind of magnitude that they are. What steps are you guys taking? Or is there anything you're doing differently now versus, say, 6 months ago?

Adam W. Miller

CEO & Director

Well, here's what I would say, Ari, is unfortunately, the truckload guys have been dealing with nuclear verdicts for quite some time. So I think the brokers are now welcome to the party with us. And so we've been thinking about this address trying to mitigate our risk here for years. And so we buy a certain level of insurance. We keep some exposure to ourselves. We've got highly evolved training programs. We have a lot of technology in the truck. We do a lot of coaching with our drivers. And we just try to put ourselves in the best position to defend our driver even if they're in an accident. It can never be perfect. We know that. And so we try to protect ourselves with a certain amount of insurance, but also really, it's all about how you can prevent the accident. And so we put a lot of focus on that. And so really, the changes we've made is ensuring that we have the right criteria for our third-party carriers to ensure that, that doesn't expose us any further than what we have on the asset side. But this is not a new topic for us whatsoever. I think a beacon of light has been shined on it because of now the brokers be liable for it and then some of the big verdicts that have been out there. But this has been something top of mind. I think every large carrier would tell you the same thing for probably over a decade now. In terms of shifts from customers, I mean, we're seeing a lot of that. And I think it's hard to know if that's driven by changes from wanting to move freight from non-asset to asset, and we've heard that from some shippers or could you see capacity is just extremely tight and they're trying to find capacity with a provider who can solve acute problems. And I think we noted in our prepared remarks, given our scale, we usually get one of the first calls when there's a project or an acute need because we can typically round up capacity because of how much exposure we have in the one-way market when that may take 10 or 15 calls with smaller carriers. So we are seeing a lot of that inbound. You just don't know if it's because they're intentionally shifting away from brokers or it's because just capacity as a whole is tight.

Ariel Luis Rosa

Citigroup Inc., Research Division

Do you think it's a net positive to your business?

Adam W. Miller

CEO & Director

Yes. No, absolutely. I think any time that our industry can ensure that we have good, safe capacity on the road, that's a positive to everyone in our industry. And I think this is going to make it difficult for noncompliant carriers who are just entering the market, haven't gone through proper training, right, and don't care about safety like the large carriers, it's going to make it more difficult for them to access the freight market. And I think that's good for everyone involved. It doesn't mean there won't be some pain along the way, maybe with some of the brokers who really leaned on that type of capacity. But at the end of the day, I think we're in a better space as an industry because we have safer drivers on the road.

Operator

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

Kenneth Scott Hoexter

BofA Securities, Research Division

So great thoughts on the rate versus cost and the All Other Segments. Thanks for that insight. Really interesting and great to see the rate flow through at Intermodal finally. So just jumping over to LTL. Maybe thoughts on where you stand, right? Density, progress on if you're doing the Northeast expansion. You noted September weight per shipment rebounded to the highest mark in 3 years. Maybe what's

driving that? And then your thoughts on the operating ratio fourth quarter into '27. How do we think about this business now as it keeps growing?

Adam W. Miller
CEO & Director

Yes, I'll give you a little color and then Andrew, I know he loves to spot out LTL stats. In terms of our business and how that's progressing, we're still going through this evolution from a regional player to a national provider. And it's quite honestly, taking a little longer than we probably anticipated, but hey, we've never done this before. But we are seeing a shift from really the lion's share of loads or shipments that we would have hauled 2 years ago at a 1- to 2-day transit. And now we're seeing that shift to where we're seeing an elevated percentage of shipments that are moving 3 to 4 and some even beyond 4 days. And so that tells you it's a longer length of haul, a heavier shipment and it represents more of the kind of national network we want. I think part of the challenge is you don't have the density quite yet, your line haul is still less efficient on moving that across your network you have too many touch points along the way as you build density, you can kind of zone skip and go direct into markets without having to stop at certain locations. And so it introduced a little more cost to the line haul service while you're making this transition. And we've got great tools that are identifying where that is, and we're building out plans on how we mitigate that and how we go try to address the freight needs that we have to build the density. And so there's been this evolution that we're just still working through. But we're really encouraged with the progress. Last year, from the transition from third to fourth, you typically see a little bit of a lull in demand. Last year, we saw kind of a healthy step back more than we anticipated, and we're not seeing that to the same extreme this year. We're seeing volumes are much more steady. And I feel like on a year-over-year basis, we'll see some good volume comparables. And look, we're encouraged about where this business is headed. And really, I think 2027 is set up to where we'll probably start to organically grow into the Northeast. We've got several locations already picked out that I think would work from a location standpoint. And if the volume continues to hold in and we continue to make progress on managing the cost of that business, we'll start expanding to the Northeast and we'll be very deliberate. We'll be really focused on managing our costs and the impact to the OR, but ultimately, we want to start growing into that market.

Andrew, I don't know if you have anything you want to add.

Andrew Hess
Chief Financial Officer

I guess I would add that there's some noise in our metrics as we're going through this transition. So I would just make maybe 3 points how we see our results. We view what you should see in these results as steady both pricing. I think that's how we view it. Second, underneath the results, there's a lot of work that Adam referred to, to build the efficiency in the network. So it's a situation where there's a lot more going on, and there's a little lag before we start to see the results, but we feel really good about the work that's being done. And then there is volume and momentum building. You saw a little bit of that from Q2 to Q3. We saw our OR progress got better every month of the quarter. And so we feel like there's good momentum. Now we're going to see our normal Q4 seasonality, our more retail exposed profile of our business just typically sees Q4 soften up quite a bit. But as Adam mentioned, we're seeing it better than last year. And so that's a function of changing mix of customers we're developing more industrial and some growth, some new wins that are coming into the business. So a lot of foundational things happening that I think set us up to see margin improvement as we move into next year.

Adam W. Miller
CEO & Director

And Ken, I want to say thank you for recognizing the Intermodal margin. I think our team there has been hard at work, and I think they were very proud to be in the black and seeing some good momentum on volume and price. And hey, they're going to continue to push forward to sustain profitability. But glad you

mentioned that here at the tail end of the call here.

Kenneth Scott Hoexter

BofA Securities, Research Division

Adam, we picked on it on the other side for long enough. So great to see. Thanks for the thoughts.

Adam W. Miller

CEO & Director

I think we wrapped up the call here. Appreciate everyone who's joined us. Again, if you wanted to follow up call, if we didn't answer your questions, you could call us at (602) 606-6349. And I'll hand it back to you, Jillian.

Operator

Thank you, Adam. This concludes today's call. Thank you all for attending. You may now disconnect.

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