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Operator

Good afternoon. My name is John and I will be your conference operator today. At this time I would like to welcome everyone to the Knight-Swift Transportation First Quarter 2024 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. If at any time during this call you require immediate assistance, please press star zero for the operator. Speakers for today's call will be Adam Miller, Chief Executive Officer; Andrew Hess, Chief Financial Officer; Brad Stewart, Treasurer and Senior Vice President of Investor Relations.

Mr. Miller, the meeting is now yours.

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

Thank you, John, and good afternoon, everyone, and thank you for joining our first quarter 2024 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 one hour and, following our commentary, we'll answer questions related to these topics. In order to get to as many participants as possible, we limit the questions to one per participant. If you have a second question, please feel free to get back in the queue. We will answer as many questions as time allows. If we're not able to get to your question due to time restrictions, you may call 602-606-6349.

Now, before we jump into the slides, I want to introduce the two gentlemen that will be joining me on the call today for the first time: Andrew Hess and Brad Stewart. Andrew Hess is our newly appointed CFO. Andrew has been with our Company for the last five years and has served in several financial roles, including the VP of Finance at Knight when he started in 2019, then led our M&A efforts beginning in January of 2021. Andrew played a significant role in closing on the AAA Cooper, MME, and U.S. Xpress acquisitions. And just prior to becoming the CFO, Andrew was leading the finance efforts at Swift, along with continued oversight of M&A. We want to welcome Andrew to the call. And many of you may be familiar with Brad Stewart, as he has been leading our investor relations activity for the past year. Brad is our Treasurer and has held various finance leadership roles in the Knight and Swift businesses over the past several years and Brad has been with the Company for 20 years now. I'm excited to welcome both Brad and Andrew to the call.

And with that, I will now turn the call over to Brad.

Brad Stewart, Senior Vice President, Investor Relations & Treasurer, Knight-Swift Transportation Holdings Inc.

Thank you, Adam.

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

Exchange Commission for a discussion of the risks that may affect the Company's future operating results. Actual results may differ.

Now I will turn to our overview on slide three. The charts on slide three compare our consolidated first quarter revenue and earnings results on a year-over-year basis. Market conditions in the LTL business continue to be solid, while soft demand and excess capacity persist in the truckload space. Revenue, excluding fuel surcharge, increased 11% while our adjusted operating income declined by 68.5%. GAAP earnings per diluted share for the first quarter of 2024 was a loss of \$0.02 and our adjusted EPS was \$0.12. These results include a \$19.5 million operating loss in our third-party insurance business which ceased operations at the end of the quarter. The insurance loss negatively impacted our GAAP and adjusted EPS by \$0.08. Excluding the loss on the insurance business, our adjusted EPS would have been \$0.20. Our results were also negatively impacted on a year-over-year basis by an \$18 million increase in net interest expense or approximately \$0.08 per share.

Now on to the next slide, slide four illustrates the revenue and adjusted operating income for each of our segments. In general, the LTL segment continues to experience a much more supportive market than the truckload, logistics, and intermodal segments do. The first quarter saw a greater than average winter weather disruption, which negatively impacted all of our operating segments. In addition, the pricing and demand environment has proven more challenging than we anticipated for all but our LTL business in the first quarter. The combination of the weather disruption, more challenging bid environment, and ongoing cost inflation weighed on operating results across our businesses during the quarter. U.S. Xpress continues to make progress on cost and contractual pricing in the truckload business and the U.S. Xpress logistics business continues to close the gap, performing in line with our legacy logistics business on gross margin and operating margin for the quarter.

Now on to slide five. For the truckload segment, we did see some recovery following the January weather disruption as well as some seasonal improvement in March, but neither was enough to overcome the negative impact to volumes and operating costs from the poor start to the quarter. Loose capacity continues to plague the truckload market, preventing the ability to recover ongoing cost inflation or attain appropriate utilization levels on our equipment. Combined truckload revenue per loaded mile was down 2.5% sequentially, though our contract rates are largely stable thus far in 2024. The early part of the bid season led to greater than expected pressure on freight rates, as some shippers are still trying to push rates down further. In some cases, we have lost contractual volumes because we were not willing to commit to further concessions on what we view as unsustainable contractual rates. This resulted in more of our capacity being allocated to the spot market, which creates further pressure on revenue per mile and utilization in the near term but positions capacity to react to changes in the market when the market does inflect. U.S. Xpress made further progress on costs and contractual rates through bids, which allowed this business to overcome the weather disruption and some dedicated business losses to stay largely flat on operating ratio from the fourth quarter. On a year-over-year basis, our truckload revenue excluding fuel surcharge increased 26%, reflecting an 11% decline in the legacy truckload business prior to the inclusion of U.S. Xpress. Revenue per loaded mile fell 10% year over year or 9% before including U.S. Xpress. Miles per tractor increased 8% overall, or 6% before the inclusion of U.S. Xpress, largely driven by our earlier decision to reduce the number of unseated tractors in our legacy businesses in order to reduce cost. We have been intentionally trimming our tractor and trailer fleets over the past few quarters in order to improve our cost structure through the down cycle but without cutting so far as to sacrifice our ability to flex when the market does improve.

Now I'll turn the call over to Andrew to discuss our LTL business on slide six.

Andrew Hess, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.

Thanks, Brad.

The benefits of our diversification continue to stand out as market conditions in the LTL industry remain much more supportive than in truckload. Our LTL business grew revenue, excluding fuel charge, nearly 13% year over year as shipments per day increased 6% and revenue per hundredweight, excluding fuel surcharge, increased 13% year over year. With our LTL activities concentrated in regions exposed to the severe weather during the quarter, the disruptions were particularly impactful to our network and operating costs for our LTL segment. In addition, maintenance and labor costs were higher than normal as we stretched to cover growing volumes and extend our reach into new facilities. We anticipate these costs should normalize as we scale volumes and staffing while growing revenue in new locations. The cost pressures contributed to a 90% adjusted operating ratio for the quarter and adjusted operating income declining by over 20% year over year. While this margin level is not up to our expectations

or recent performance, it did improve in each month of the quarter after bottoming in January and continues to progress thus far in April, on track with our expectations to be back on line for the second quarter.

After being impacted by weather disruptions in January, volumes recovered well as average shipments per day in February increased nearly 7% over January and held steady into March. Since acquiring AAA Cooper and MME in 2021, we have acquired or assumed the leases on 56 additional properties. We had brought 14 locations on line prior to 2024 and we opened 7 more during the first quarter. We expect to open another 25 terminals by the end of 2024. Overall, the 32 locations planned to open in 2024 will represent a 16% increase to our door count from the end of 2023, meaningfully impacting the reach of our service offering and increasing the density of our network. Filling out a super regional network in the short term and ultimately creating a national network will allow us to participate in more freight and enable us to find opportunities to further support our existing truckload customers with LTL capacity. Acting on organic and inorganic opportunities to geographically expand our footprint within the LTL market remains a key strategic priority for us.

Now on to slide seven. The logistics market continues to be a challenge, as many brokers have struggled to find enough volume and margins have been compressed while purchased transportation rates offer little room for relief. Being an asset-based logistics provider allows us to provide our customers seamless service, regardless if it is on our own assets or one of our partner carriers. This allows us to provide both committed and surge capacity and drop and hook trailer pool service at scale. Because of this, our logistics business remains profitable, though margins were squeezed by the weather-induced capacity crunch in January and by our decision to divert loads to the asset division to help offset losses of contractual business through bid activity. Overall revenue was down 7% year over year as revenue per load improved 2% and load count declined 10%. The U.S. Xpress logistics business continues to make progress and performed in line with our legacy logistics businesses on gross margin and operating margin for the quarter.

Now moving to slide eight. In our intermodal business, revenue decreased 20% year over year driven by a 19% decrease in revenue per load and a nearly 2% decrease in load count. The decline in project revenue from the prior year largely drove the decline in revenue per load and negatively impacted the adjusted operating ratio, which was largely in line with the fourth quarter. Load count declined 4% sequentially, which is better than the typical seasonal progression coming out of the fourth quarter, and we anticipate sequential volume growth into the second quarter based on progress thus far in bid season.

Moving to slide nine, slide nine illustrates our all other segments, formerly referred to as our non-reportable segments. This category includes support services provided to our customers, independent contractors, and third-party carriers, such as insurance, maintenance, equipment sales and rentals, equipment leasing, and warehousing activities. For the quarter, revenue declined 40% year over year, largely as a result of winding down our third-party insurance business, which ceased operations at the end of the quarter. The \$20 million operating loss within all other segments is primarily driven by the \$19.5 million our operating loss in the third-party insurance business as well as \$8.2 million of severance, legal, accrual, and impairment charges recorded during the quarter within this category. In order to further reduce the risk of ongoing income statement volatility from potential adverse development of the claims of the third-party insurance program, we executed a transaction during the quarter to transfer the majority of the risk to another insurance company. The costs of this transaction are included in the operating loss of the insurance business for the quarter.

Now I will turn the call over to Adam for slide 10.

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

Thank you, Andrew.

Over the next few slides we plan to talk through our structure as a company and how we are positioned to navigate the cyclical freight environment, the strategic intent each of our businesses are measured against, and the ability of our model to generate profits and cash flows and how we manage that capital to drive long-term value for our stakeholders.

We will start with our truckload segment on slide 10. It's no secret that we are in one of the deepest freight recessions the truckload industry has ever felt. And it comes during a time when the rest of the economy is

performing well such that cost inflation continues to be a challenge, labor is staying tight, and interest rates are up significantly. This has resulted in both significant pricing and cost pressures and has led to razor-thin margins and even losses for some of the best-run companies in our industry. This environment, however, comes on the heels of one of the best market our industry has ever seen, where many experienced record earnings and margins. It's clear that the highs during the pandemic have led to the lows in the current environment.

As a cyclical industry, we are accustomed to changes in the market. We have never seen the extremes we are currently experiencing. When we compare our margin performance during this current cycle to previous cycles, we have found that, while the current cycle highs were much higher and the low is much lower, our average margin over this cycle has been very similar to what we have typically achieved. Given that we are at the lowest levels of operating performance our business may have ever seen, we believe we are positioned to benefit from significant operating leverage as business conditions improve. While we can't change the timing of any change in market dynamics, we believe we have positioned our business to endure a difficult market and to be prepared to rapidly improve margins and cash flow when we begin to experience an inflection in the market, similar to our performance in previous cycles.

We have a unique position in our truckload segment as compared to peers. With several large brands between Knight, Swift and U.S. Xpress and several other smaller brands that provide us a view of the markets on a daily basis, we're able to read what is happening to supply and demand in each market and to determine if changes are a result of market trends or specific changes to the network of one of our brands. We believe this provides insight to shifts to the market before most of the industry has visibility. We can leverage technology and automation to connect to customers and find solutions leveraging all of our brands. We have scale that enables us to solve large problems quickly and at a high level of service. We have maintained the majority of our truckload capacity in one way over-the-road service, which becomes very valuable to our customers in a favorable freight market.

We intentionally managed our contractual versus spot exposure through different phases in the cycle in order to create value for customers and for our business. Although we have areas where we can further improve costs, we maintain a culture of cost discipline throughout cycles which allows us to reach levels of industry-leading margins in both good and difficult markets. Now that we have acquired U.S. Xpress and have had time to establish the right rigors around cost and revenue management, we believe this business is positioned to perform at levels significantly better than legacy U.S. Xpress and we expect to close the margin gap within our legacy Knight and Swift fleets when we have a more favorable market. As margins improve, we generate significant amounts of free cash flow that enable us to invest in organic growth, M&A, and other high-return investment opportunities across our segments.

Now if we turn to slide 11, the significant free cash flow generated by our truckload business allowed us to make a meaningful investment in the LTL market in 2021 without meaningfully increasing leverage. We purchased AAA Cooper and MME and have converted them to one platform providing seamless service from the southeast through the northwest. We further identified opportunities to put capital to work to invest in 56 additional terminals to expand our footprint towards building out a nationwide network. We plan to continue down the path of organic growth, but also maintain a desire to acquire LTL companies that will provide a foothold in the southwest and northeast regions. Our goal over the medium term is to achieve a nationwide network with \$2 billion in annual revenue. We believe developing this network will provide access to more freight opportunities with existing and new customers, which should lead to improved margins and create additional synergies with our nationwide truckload network. A nationwide LTL network will also provide a larger base of more stable income that should reduce the earnings volatilities of the Company that come with the cyclical nature of the truckload segment. We also believe that, in the next up cycle, we will grow our logistics business at a rapid pace as it complements our truckload business and provides differentiated value through our scalable power-only solutions. And lastly, in our intermodal business, we continue to build a diverse customer base while developing strategic partnerships with our rail partners in the west, east, and in Mexico. We believe we can build this business back to profitability while offering our customers a sustainable alternative that complements our truckload services. Performing in these three segments, coupled with our truckload business returning to historical margins, will lead to both significantly improved earnings and cash flow.

Now on to slide 12. We outlined how our path to generate strong cash flow from the previous slides combines with our prudent capital structure and disciplined capital allocation strategy to drive long-term value. We have always valued a strong balance sheet to provide us flexibility in a cyclical industry. We are also mindful of optimizing our weighted average cost of capital. We target what we believe is our optimal leverage position of 1.00 to 1.25 turns of

EBITDA. As we execute on M&A, this leverage can flex up, such as when we acquired AAA Cooper in 2021 or U.S. Xpress in 2023, and then we use free cash flow to reduce leverage back to this level to preserve flexibility for navigating cycles and pursuing additional opportunities. We will also prioritize investing in organic growth of our businesses where we believe we can generate double-digit returns throughout cycles. Organic LTL expansion is our near-term focus, but as the truckload market improves we are willing to invest in additional capacity in terminals where we believe we can successfully grow.

At Knight-Swift, we have had several successful large acquisitions and we remain opportunistic with acting on M&A opportunities that drive value for our organization. Currently, our priority is building out our LTL network. As we strengthen our balance sheet, improve the margins of our core businesses to generate additional free cash flow, we will remain open to additional types of M&A outside of LTL. We also remain committed to reviewing our dividend policy on a regular basis and have increased our quarterly dividend \$0.02 per share for five consecutive years now. A flexible balance sheet also gives us the ability to opportunistically repurchase our shares when we believe it is the best return option for our free cash flow. In summary, we are compelled by the outsized runway ahead of us for improving earnings of both our legacy and newly acquired businesses, driving significant free cash flow through cycles, and leveraging a disciplined approach to deploying capital to further increase the capital generating power of our Company through successive cycles.

Now on to our last slide, 13, for our earnings guidance. We have outlined in great detail our key assumptions to our guidance in this slide, which are also stated in the earnings release. I won't plan to read through them all. Because the timing of the inflection has proven especially difficult to predict during this cycle, we are not incorporating an inflection in market conditions for the purposes of these forecasts but rather are basing these ranges on expected seasonality and a continuation of existing market conditions similar to what we've felt in March and April thus far. Based on these assumptions, we expect our adjusted EPS for the second quarter will be in the range of \$0.26 to \$0.30 and our adjusted EPS for the third quarter will be in the range of \$0.31 to \$0.35. Our expected adjusted EPS ranges are based on the current truckload, LTL, and general market conditions, recent trends, and the current beliefs, assumptions, and expectations of management, and actual results may differ.

Now that concludes our prepared remarks and before I turn it over for questions I just want to remind everyone to keep it to one question per participant. John, we can now open the line for questions.

QUESTION AND ANSWER SESSION

Operator

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

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

Ravi Shanker, Analyst, Morgan Stanley

Thanks. Hello, everyone, and congratulations, Adam, Andrew, and Brad on your respective new positions. Adam, your commentary on the average margins being in line with kind of historical levels was interesting. Do you think that's a good benchmark for how we think about normalized mid-cycle margins in the next cycle and beyond that? And the same thing for EPS as well, obviously adjust for U.S. Xpress, or how do you think of what normalized earnings look like? Thank you.

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

Yeah, I think that's a great question, Ravi, and I think that's a good goalpost to use in terms of just trying to gauge what the performance will be across the next cycle. I do believe that we probably don't see the same highs as we saw in the COVID cycle or the pandemic and certainly hoping not the lows that we are currently experiencing right now. I do feel like it won't take long for the U.S. Xpress business to begin to align their performance with Knight and Swift. It may not be right in the first up cycle, but maybe the second one might be when we close that gap, but I think we will make some progress here in the first up cycle.

I think we would also want to look at the performance of our LTL business when you think about earnings potential, because we do believe that will continue to scale and we've laid out the expectation of getting to \$2 billion in the midterm here. And again, that may be a cycle or two before we get there, depending on how quickly we can move on M&A targets. And certainly there's opportunity to improve the margin in that business. I think we're targeting now a mid-80s operating ratio, but there are certainly other companies out there performing much better than that. And having a nationwide network, I think, gives us the opportunity to expand those margins. And I do believe in the next up cycle, intermodal should perform better as we kind of reset how we're building up that business with a diverse portfolio of customers. And really logistics, with layering on U.S. Xpress logistics with the Knight and Swift logistics and the capabilities we have with power-only, I think there's more potential in that segment as well. But when I look at truckload, I think that's probably a good gauge of what that kind of mid-cycle margin may be.

Ravi Shanker, Analyst, Morgan Stanley

Great. Thank you.

Operator

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

Tom Wadewitz, Analyst, UBS

Good afternoon. Thanks for the time and I appreciate the perspective on kind of how to think about cycles. I wanted to see if you could offer some thoughts on, I guess, in the prior two cycles, you know, it seems like the amplitude of the step-up in rates has been even bigger in 2018 with ELD and then obviously, COVID, you know, pretty unusual and a big step up. Do you think that, I mean I guess it's hard to know ahead of time, but do you think that the likely outcome is we'll find another catalyst that gives you a big step up or do you think its base case should be that it kind of ends up being like a slow grind up? And I guess the reason I ask is because we just, as you point out, it's kind of a lower base, and so you think about getting to that mid-cycle margin, it seems like reasonably you get back to that, but it also seems like maybe that takes a long time to get to. So I don't know. My crystal ball is not so clear right now, Adam, so I was wondering if you could offer some more perspective on kind of how we get to that mid cycle. Thank you.

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

I don't know that my crystal ball is any better than yours, Tom. When I think about the last few cycles, I think they've all had unique catalysts that have kind of kicked them off. I think of 2013, early 2014, we've been in a long period of kind of pressure on the carrier and it was somewhat of a severe weather event that kind of kicked that off and all of a sudden it was tough to find a truck. And I think the capacity that had been coming out of the market finally caught up with where demand was and that led to, I think, very healthy rate increases and very strong margins. And then, as you referenced, in late 2017, that was right when we closed the Knight and Swift merger, we saw the market take off and I think that was attributed largely to the ELD mandate. And then obviously we had COVID. That kicked off huge demand.

So it's hard to know what's going to be the catalyst here. Clearly we see capacity coming out of the market when we kind of track what the changes in DOT authorities and then we hear about the kind of anecdotal failures of companies that have been in business for a long period of time and just can't make it through the market dynamics today. It's hard to know when that's going to finally be enough to balance out where the demand side is. I think it's going to be a combination of probably demand beginning to improve as customers are no longer destocking and are now replenishing inventories one for one and eventually they'll have a greater focus on top-line sales and that inventory may grow a bit while you have demand falling. And what we know is this industry rarely stays in balance. At any point in time, it's just like an object motion stays in motion, and that will most likely kick off an opportunity to raise rates. To what degree? I don't know, Tom. It's really hard to try to estimate what that could be. We may find ourselves in a spot where there's maybe a little more progress to be made on the cost side, because that just has not been available in this freight recession because you just haven't had some of the other overall economic challenges that typically lead to relief on the cost side. So I think, when you get back to margins, it won't all be rate. I think that will be obviously a large portion of it, but I think there's some cost help that I think our industry really needs here to get back to those historic margins. But what we do know is it will happen, it's just a matter of when, and right now it's been really hard to predict when that could be. And so our strategy is let's just not, you know, let's not try to make that prediction. Let's try to grind out better margins in all of our segments and control what we can control and position ourselves that, when it does turn, we'll move quicker than anyone in the space.

Tom Wadewitz, Analyst, UBS

Okay, great. Thanks for the time, Adam.

Adam Miller, Chief Executive Officer, Knight-Swift Transportation Holdings Inc

Andrew, did you have something to add?

Andrew Hess, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.

Let me just maybe just add a couple of thoughts to what Adam shared, which I agree with. So yeah, we're deeper than we've ever been, but I would say our operating leverage is higher than it's ever been before. If we truly look at, obviously, rates have been incredibly impactful in terms of getting to the position we're at right now on margins, but volume has also been equally impactful. So, as we really look at our variable costs, we're performing kind of in line with where we've been in the past. In a significant way there's a fixed cost absorption play here, which means, with volume, our costs are going to grow slower on the ramp back up. So that leverage is going to see that curve move quickly north as well as it's gone down because of that lost volume. So, as we've kind of modeled that, it gives us some encouragement that the path back is going to be maybe a little faster than you think, if we can get volume and rate working together.

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

Yeah, it's just rare that you ever see the market move linearly. It's always a pretty rapid change and we've seen it on the up and the down. But we're watching all the signs, Tom, and again, we'll move quickly when we see any of those changes occur.

Tom Wadewitz, Analyst, UBS

It's a good point to consider the volume lever and utilization as well as the price. So yeah, thank you for that point as well, Andrew.

Operator

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

Amit Mehrotra, Analyst, Deutsche Bank

Thanks, operator. Hi, everyone. I think there was some maybe small signs of life as we progressed through the end of March, but it was obviously uncertain if that was the timing around when Easter fell or was it something real. Can you just maybe give us an update on that in terms of if you saw any of that actually carry over into April? And Adam, I think, like I assume one of the reasons for the depths of the decline is because you aren't signing up for contracts and you're participating probably more so in company load boards than you have in the past, and so that obviously has an implication for what the pivot could be. And if you could just talk about the concentration in the spot market and the company load boards today relative to what it is in history and maybe what that means for your ability to participate if the spot market gives you anything to participate with.

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

Okay. I'll answer your three questions in one, Amit, if that works. And hey, that was, I think, the best pronouncement of your name, so credit to the operator there.

Amit Mehrotra, Analyst, Deutsche Bank

I agree.

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

Yeah. So, yeah, in March, and I think we've talked about this, I think, in our preannouncement, I believe, and with some of the analysts, yeah, we did see a little bit of seasonality going to the quarter end. And it's really the first time that we've really seen a change in volume and a few projects here or there in certain markets, the first we've seen that at the quarter end in quite some time. That was short lived and it's a few weeks and then you hit April and usually, and you have a little bit of a lull in April as you get through quarter end, especially, as you mentioned, it was aligned with Easter. And so that's normal. But we are seeing some of that volume come back. Now, it hasn't led to premium pricing, but it has led to additional volume. And so I think there is some encouragement there and I think the read through there is that there's not as much slack in the supply chain as there once was and we're getting closer to a balance of supply and demand when we see just a little bit of an uptick in demand start to eat up capacity in certain

markets. And again, we watch that very closely between all of our different brands and what happens in each individual market and we can see shifts, and sometimes those are weekly, sometimes those are daily, but clearly there are some markets that have firmed up when you see some seasonal lift. And we'll pay attention closely here as you get into the middle of May when the weather heats up, when, as a country, we're moving and consuming a lot more beverage and you have produce heating up, that's when we would expect to see some of that same seasonality pick up. And I think that again will be very telling of where the dynamic is between supply and demand.

And so, in the near term, we've gone through the bids, early part of the bids. We're probably about 40% implemented on new pricing of our freight network, probably have been in some level of negotiation of about 75%, and there's been some puts and takes and there's some where we've been able to get some rate increases to support the capacity we have and others where maybe we were starting at a more premium rate where we gave a little bit and others where we were flat. But there's just some places we just were not willing or not able to go where our customer want to take us and we just couldn't commit to rates that weren't sustainable. And hey, there's this dynamic right now where the large public carriers who have to get a return for their shareholders, who have some type of return expectations, are limited on what they can do with rate, where you have smaller private companies who right now are just trying to keep the doors open in hopes that they can survive to when there's a market inflection and they can make up some of the losses that they've taken on. And that gap is maybe a little bit wider than we've seen in quite some time. And so we get, you know, our customers have a responsibility to manage their budget and their costs, just like we have a responsibility to the returns to our business, and so there's just places where we just decide that maybe it's not a good fit and we'll work and be nimble and try to find other opportunities to support our network. Some of that may be on customer load boards. Some of that may be just winning in bids with other customers. And so where we have some gaps that have been created in our network, we still have many bids that we can work through to try to fill those. So it's a pretty dynamic and fluid process as you work through the bid season.

I think another one positive sign, and again, it's just a very early sign, is as we've seen some of these bids go live and implement, there's been a churn, a churn bid that comes to us so we have an opportunity to maybe pick up some freight that wasn't awarded to us because of a failure of some sort of a carrier or a rejection of the award because of where the pricing is, and that gives us an opportunity to continue to repair our network. Now it may not be at premium pricing today, but pricing that was closer to what we originally bid on. And so it's just been a real consistent theme, not huge, but I think another data point that would tell us that that we're getting closer into balance.

Brad Stewart, Senior Vice President, Investor Relations & Treasurer, Knight-Swift Transportation Holdings Inc.

On the spot exposure compliment to that question, we were high single digits late in 2023 and then through the churn on the contractual volume Adam talked about in the bid season, that's pushed up into the low double digits at this point. And depending on how bid season continues to play out, that could creep up further through the rest of the bid season or maybe it levels off here.

Amit Mehrotra, Analyst, Deutsche Bank

Helpful. Thank you very much.

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

Thanks, Amit.

Operator

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

Scott Group, Analyst, Wolfe Research

Thanks. Good afternoon. So I just want to focus on the guidance a little bit, so Q2 higher than Q1 and then Q3 earnings higher than Q2. Some years Q3 is higher than Q2, but some years worse. So I guess, ultimately, I'm trying to understand here, are you assuming that truckload rates start moving higher in order to get to this guidance or is this assuming rates stay flat? And then on the LTL side you've got rev per hundredweight up low to mid teens in Q2, Q3. That's just, it's a lot of, those are big increases, and just curious your visibility of that, particularly in Q3 once we start to lap Yellow.

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

Hi, Scott. I'm going to have Andrew, he'll kind of dive into some of those questions here.

Andrew Hess, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.

Thank you for the questions. So yeah, I think there's a couple dynamics that need to kind of be clear as we kind of look at the sequential numbers. So Q2 is going to be obviously our strongest quarter from an LTL perspective. It is typically seasonally and it is certainly in our business. So that's generating a significant uplift from Q2 to Q3. But from a rate perspective, we expect some additional rate pressure going from Q1 to Q2, not necessarily in our primary rates. But as we participate in spot rates, it's going to maybe put some additional pressure, not significant, but some downward pressure. And so we're not expecting any, through either of these periods, any rate uplift at all between quarters. So yeah, I would characterize the forecast we have to be capturing what we view as normal seasonality for our business with market conditions as we are experiencing now. So we're expecting some strengthening just seasonally in May and June and then March will or Q3 will follow a similar pattern to Q2. So, no real strengthening in those numbers leading into Q3.

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

Scott, what I would add is, from a rate perspective, I think it's very steady from Q2 to Q3. We don't see a lot of change there. I think some of the margin improvement will be driven more from some of our cost efforts. We're kind of leaning out our trailer fleet right now to get a tighter trailer to tractor ratio. We're seeing better utilization on our seated trucks. And so typically third quarter is one of your better utilization quarters, but I know that sometimes Q2 to Q3 it gets better, it gets worse. We're just thinking just marginally better, really driven by some of our cost initiatives, not expecting the market to really drive that change.

Scott Group, Analyst, Wolfe Research

Okay. Thank you.

Operator

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

Ken Hoexter, Analyst, Bank of America

Great. Good afternoon, Adam and Andrew. Congrats on the roles.

Andrew, you mentioned back on line in operating ratio for intermodal in the second quarter. I don't know what back on line means. What level is that? How much of the fleet is parked right now? And I guess, Adam, what, do you eventually sell this or get out if you can't flip this to profitability? We've been hearing about this for years. And that goes back to, I guess, Knight's historic religious focus on costs. I just guess I'm not clear on what's been lost here. I get the fixed leverage. So do you just get rid of more tractors and get rid of more containers and bring it down if the industry is not doing it? What do you do to focus on those costs?

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

You're talking about on intermodal, specifically, Ken, is your question?

Ken Hoexter, Analyst, Bank of America

The first part was intermodal. The second part is, I guess, just corporate with the religious—the Company used to be known for that religious focus on costs and I heard your leverage before, but I'm wondering why you can't get... Is there other things you can do in this down cycle to pull out cost to focus on that?

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

So I'll hit intermodal first and I think Brad may have some things to touch on as well. When I think about intermodal, so we were actually fairly profitable in intermodal during the pandemic and it was driven on a couple of larger projects we have that we believed were going to be longer term and I think that prevented us from kind of building the more diverse portfolio of customers that would have allowed that profitability to be more sustainable through a challenging market. And so we lost some of that business, it went away sooner than we expected about this time last year, and that led to the decline in margins, and by the time that business exited we were kind of already through the bid season, so it's been more difficult to kind of build that volume back up. And so we've got a new leadership team that started in May of last year with a great amount of experience from a rail perspective and they've been working very closely with our sales team and our pricing team and we've had some very good success here recently in the bids

and so there's a nice pipeline of freight that we believe will come on to get this business back on better footing and profitable. And so we've got some containers in stack that we've taken off just to manage costs in the meantime, but we believe we'll be able to bring those back on once we start to see the volume pick up in this business. We're anticipating we get closer to breakeven in the third quarter and then some small profitability into fourth and you really continue to build it from there. And so that's how we approach intermodal.

On the consolidated company, there's more that we can do with cost. We probably came into this market with a little more overhead and a bit more equipment than we needed. We invested heavily in trailers because power-only was in such high demand and it was very profitable and we found, as the market changed, that that wasn't going to be as sticky as we anticipated and customers converted freight to live load/live unload to pick up the savings. It was less efficient for them, but they like the savings that came from that, and so we found ourselves with more equipment than we really need in this market. So we're in the process now of leaning that out from a trailer perspective. That's where we have the most opportunity. But there are even some tractors that we put to work during the pandemic from a lease perspective and was very profitable and when they've come back we just haven't had the freight to support that equipment and so we'll be leaning that as well and I think there's some nice cost savings that come from that. And really we've got our teams just focused on just the fundamentals, the core, and the goal is we can't have, the plan can't be that the market is going to solve our problems. We have to control what we can control and cost is going to be the biggest focus for us. And that's what's going to drive, I believe, the improvement here into the later part of this year. And hey, if we get the market's help, then great, we'll take it, but we're not going to relinquish anything on the cost side of the business.

Brad Stewart, Senior Vice President, Investor Relations & Treasurer, Knight-Swift Transportation Holdings Inc.

And then I was just going to add, Ken, that initial comment that your question was referring back to was actually a comment to our LTL business, not intermodal, where we stated that we expected, while our operating ratio was out of line in the first quarter, that it would get back in line on a year-over-year basis in the second quarter.

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

Yeah. Because I think we said we ran at 90 on the LTL and there were some factors with weather and then a little bit of additional cost as we rolled out some facilities, but we expect to get back to the mid-80s, similar to what we would have run last year.

Ken Hoexter, Analyst, Bank of America

Great. Thanks for the time. I appreciate the insight.

Operator

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

Jordan Alliger, Analyst, Goldman Sachs

Hi. Just sort of talking about LTL for a second, obviously pretty strong expansion plans for the balance of this year. Can you talk to the ability to get the staffing headcount needed both in terms of drivers and the terminal folks and is there much wage inflation to sort of get these people? And then maybe just an update on how you expect the rollout of the next 25 to go.

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

Yeah, I mean thus far we haven't had a challenge of staffing those buildings. I mean there was obviously a terminal there before and labor that supported those locations, now maybe different labor that we'd be looking for, but thus far that hasn't been the biggest challenge for us. As we kind of manage the rollout of these locations, we want to be very deliberate and not put too much pressure on the cost side of our business, but typically you're going to have some labor and some start-up costs to get a building operating. But because we have great relationships with some larger shippers and some of these locations fill out territories that they would have needs in, we're already connected in and can plug those ZIP codes in, those territories in, and very quickly we start to see freight come our way. So our goal is how quickly can we ramp up the shipping count to cover the cost to get those buildings operating and then certainly to be profitable. And we've got several of them that are going on line or have gone on line in April and we'll have, I think it's what, another 24 for the full year that we'll roll out, and hey, some of that may be done near the end of the third quarter or early fourth quarter. And so our team has been executing on this and so far it's gone as planned. And

if we see anything shift in the market or we see challenges from a cost perspective, we can slow that down if we want to, but right now we're excited about being able to expand this network and move into territories that we don't serve today and find opportunities to grow with existing customers and new customers.

Andrew Hess, Chief Financial Officer, Knight-Swift Transportation Holdings Inc.

I'll just add that we can really right-size the costs. We can grow into the cost. There's very little cost to kind of stand up one of these facilities at the beginning and so we can build into them as we get density. But I think maybe just one other perspective that might be helpful to you as we've watched this network effect on our LTL business. So you'll recall we acquired MME and AAA Cooper in 2021. We integrated them onto the same system about a year later, so early 2023. As we look back now and we look at Q1 volumes between those brands from Q1 of 2023 to Q1 of 2024, it's up 90%. So what it takes, you get some volume initially, but once you can get into the bid process and capture that national freight, the slowdown across our network is great. And the pace of our adding facilities is growing, but we've been adding them throughout this period, and so that's creating kind of this own momentum in the network and that's just going to escalate even further as we add these new facilities. So we've got great conviction, based on our experience thus far, about how adding density and opening new ZIP codes creates a momentum that builds on itself.

Jordan Alliger, Analyst, Goldman Sachs

Thank you.

Operator

Your next question comes from the line of Brian Ossenbeck from J.P. Morgan. Your line is now open.

Brian Ossenbeck, Analyst, J.P. Morgan

Hey, guys. Thanks for taking the questions. Just one for you, Adam. Maybe you can just talk about, I know it's probably a question you get to the bottom of the cycle, what's hopefully at the bottom of cycle, but as we look up and figure out how this can play out, do you think anything has really structurally changed? And this might not be for permanent, but maybe elongating the trough here. When you think about things like there's more guaranteed pay out there, there's more trailer pools that have more capacity, should present more data, obviously you've got the COVID earnings carryover, but I just want to get your perspective on that. And also just more near term, like why are we seeing in some of this revocation data that there's actually truckers coming in on a net basis? I wanted to get your thoughts on that as well. Thanks.

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

Well, I think any structural changes, I really, I don't see anything that has maybe structurally changed in our space or maybe impaired the ability to achieve margins that we typically achieve as we go through different cycles. I think from a trailer perspective, many added trailers during COVID, but it was really the large players who did that, and so you would hear about it and we would see the new headlines around it, but the small guys were purchasing tractors and those were extremely expensive and trailers were expensive as well. So I don't think we saw the same growth from a trailer perspective with the small players. That was maybe largely the larger players who have already a large asset footprint. And I think you're going to see the trailer orders or we already have seen trailers orders really dip as I think there was an oversupply. So I think that will correct itself over time as we've seen the demand from customers has lessened from a trailer pools perspective.

What was your other part of the question? Sorry. Oh, revocation. We track that as well and it's really hard to know what that's telling you, because we look at it directionally, but you can have a trucking company of one start or a trucking company of 100 could go out of business and they're somewhat counted the same because it's just a DOT number. And I think what we're finding is you probably have a lot more of capacity exiting, not from DOTs failing but from companies just shrinking their fleet. And we saw that with, you know, because of the visibility that we had in our insurance business, that may have been one of the few values we got out of that over time was that we had visibility to what's happening with the smaller fleets, and yeah, we saw them shrinking dramatically. Not going out of business completely, but just pulling down their truck count because of the inability to keep the trucks productive enough to support the payments. So that's just, the net revocation is one data point, but it really doesn't tell the full story. There really isn't anything out there that really can tell you what's happening fully across the board, but that's just a data point that we look at. But hey, there's a lot of other things that we look at internally that give us a perspective of what's happening on the demand and the capacity side.

Brian Ossenbeck, Analyst, J.P. Morgan

And that perspective on the capacity side is it is shrinking just not fast enough? Is that what your mosaic is telling you?

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

Yeah. I mean if you look at just how much was added during COVID because of where the spot rates were and how lucrative it was for small truckers and how low the barriers to entries were, yeah, a lot was added, and so we have a lot to work through. And at the same time you saw demand fall off because of what customers were doing with, you know, from an inventory perspective. So we've got both demand and supply that have to come back in line to see this thing flip. And hey, again, it will, eventually, it's just a matter of when that will be. And hey, we're hunkered down trying to manage the cost of our business and do what we can that doesn't, that helps our margins but doesn't impair our ability to react to the market and really drive the best returns when we see an inflection.

Brad Stewart, Senior Vice President, Investor Relations & Treasurer, Knight-Swift Transportation Holdings Inc.

And I would just add there, Brian, in the earlier days of the pandemic, a lot of that swelling of capacity, the one- and two-truck operators made up an outsized share of that swelling of capacity as compared to the complexion of the industry prior to the pandemic.

Brian Ossenbeck, Analyst, J.P. Morgan

Right. Okay. Thanks, guys. Appreciate it.

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

Thanks, Brian.

Operator

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

Bascome Majors, Analyst, Susquehanna

Adam, thank you for that strategic, high-level overview, and it feels like the traditional Knight approach of a cost focus and cyclically aware management and capital deployment and both expanding the portfolio and growing the existing services is very much how you plan to run the business. If we took a more nuanced view into how you plan to lead versus how the business has been led in the last 20 years, is there anything you'd want to highlight that you feel that you might do a little differently that we should pay attention to? Thank you.

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

Well, look, I think our overarching strategy is still intact, right? I've worked very closely with Kevin Knight over the last 20 years, with Dave over the last 20 years, and hey, we kind of view things very similarly. When I think about our strategy on the truckload side, we've got to be an industry leader in the market regardless of the market conditions. So, in a good time we have to have the best operating ratio, be the most efficient, and in more challenging times we again have to have the best operating and be the most efficient. And I think there can be times when a market is really good that you can sometimes take your eye off the ball in a couple of areas on the cost side of the business, and it's easy to do that, and so we have to remain disciplined through good times and bad times to ensure that we always keep that cost advantage over our peers in the industry. We're going to continue to build out the LTL network. I think everyone here is very aligned with that and sees the value in that and we're going to do that organically where we can and, where we think it speeds up the process and we can get good returns, we will look at M&A as an opportunity.

I think from a logistics standpoint, we found that, you know, we really have invested in power-only, but we found that we can do that business, we can operate it with fewer trailers than we have today. And I think that's one of the major adjustments that we're making currently is right-sizing that trailer to tractor ratio without impairing our ability to do power-only. We think there's quite a bit of opportunity to do that and we want our logistics business to complement what we do on the asset side. And in many cases it's there to support from a service perspective but in some cases it's giving freight back to truckload. Now hey, certainly we have direct relationships with logistics with our customers and we like doing that as well, but our logistics business can really ride the wave of being part of one of the best operated truckload businesses in the industry and we need to make sure that we create that alignment. And then I

already talked a lot about intermodal and what we need to do to build the profitability back up there and that's underway. And it will take some time, but we feel confident with the agreements we have with our rail partners and the leadership we have there and the progress we're making in some of the early bids this year that we'll have a pathway to see that profitable. But really, again, we want to keep the nimbleness in the market to be able to react to changes, we've got to have a cost discipline and, again, leverage the unique position we're in as an industry leader.

Bascome Majors, Analyst, Susquehanna

Thank you.

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

And I think, John, I think our time has expired here, so I think we'll go ahead and conclude the call. And for those of you who weren't able to get a question or want to follow up, you can call 602-606-6349 and we'll try to return your call as quick as possible. I appreciate everybody who joined the call and we'll look forward to talking to you later if you have a question.

Operator

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