Knight-Swift Transportation Holdings Inc.

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Earnings Call

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Call Participants

EXECUTIVES

Adam W. Miller
Chief Executive Officer & Director

Andrew Hess
Chief Financial Officer

Brad Stewart
Treasurer & Senior VP of Investor Relations

ANALYSTS

Brian Patrick Ossenbeck
JPMorgan Chase & Co, Research Division

Christian F. Wetherbee
Wells Fargo Securities, LLC, Research Division

Daniel Charles Moore
Robert W. Baird & Co. Incorporated, Research Division

Jonathan B. Chappell
Evercore ISI Institutional Equities, Research Division

Kenneth Scott Hoexter
BofA Securities, Research Division

Ravi Shanker
Morgan Stanley, Research Division

Richa Harnain
Deutsche Bank AG, Research Division

Scott H. Group
Wolfe Research, LLC

Presentation

Operator

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

Mr. Stewart, the meeting is now yours.

Brad Stewart
Treasurer & Senior VP of Investor Relations

Thank you, Constantin. Good afternoon, everyone, and thank you for joining our fourth quarter 2025 earnings call. Today, we plan to discuss topics related to the results of the quarter, current market conditions and our earnings guidance. We have slides to accompany this call, which are posted on our investor website. Our call is scheduled to last 1 hour. Following our commentary, we will answer questions related to these topics. In order to get to as many participants as possible, we limit the questions to 1 per participant. If 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 questions due to time restrictions, you may call (602) 606-6349.

To begin, I will first refer you to the disclosures on Slide 2 of the presentation and note the following. This conference call and presentation may contain forward-looking statements made by the company that involve risks, assumptions and uncertainties that are difficult to predict. Investors are directed to the information contained in Item 1A, Risk Factors, or Part 1 of the company's annual report on Form 10-K filed with the United States SEC for a discussion of the risks that may affect the company's future operating results. Actual results may differ.

Now please turn to Slide 3, and I will hand the call over to Adam for some opening remarks.

Adam W. Miller
CEO & Director

Thank you, Brad, and good afternoon, everyone. During the fourth quarter, the truckload market saw demand that was generally stable, but lacking the typical broad-based seasonal lift in demand until late in the quarter. Seasonal project activity occurred in October, but wound down quickly in early November. As a result, truckload volumes were lower than we expected. While we did see some improvement in overall demand and a tightening spot market in December, it was a reduction in available capacity that seemed to be the primary driver of the tightening market. The pressure on capacity also may be affecting the secondary equipment market as we experienced slowing equipment sales trends and falling average prices during the quarter. Developments such as these are often a precursor to a more healthy market. Thus far in January, network balance is running better than typical seasonality as capacity continues to be under pressure. We are pleased that our people were able to deliver meaningful sequential operating margin improvement in our Truckload segment, even while demand was short of our expectation for much of the quarter. For the full year, our progress on structurally cutting costs out of the business helped us overcome a $125 million decline in truckload revenue, excluding fuel surcharge, but grew adjusted operating income $28 million in this segment. At the same time, the Truckload business overcame inflation pressures to hold its 2025 cost per mile flat with 2024 despite miles declining 3.6%.

Our LTL team was able to produce year-over-year shipment growth for the fourth quarter in a lower demand environment even after lapping the DHE acquisition in the prior quarter as our expanding network continues to help us create new opportunities. This team also responded quickly to the changing environment, stepping up the intensity of our cost initiatives to deliver operating margin within 60 basis points of the prior year levels, even while shipment count growth fell well below that of the growth in facilities and door count year-over-year.

As we move into a new year and with anticipation building for a turn in market conditions, we felt it would be helpful to review our company's profile and to highlight some of the things we are focused on to better position ourselves for earnings growth moving forward. I won't touch on every part of our business here, but I wanted to share a few thoughts.

First, we operate the largest fleet in the truckload industry and roughly 70% of our fleet is deployed in one-way or over-the-road service. It is true the one-way market has been the most difficult place to be over the past 3-plus years as this market has felt the brunt of the influx of capacity since the pandemic, but one-way service is what typically improves first and most in a tightening market. Our unique ability to deliver responsiveness at scale and with industry-leading trailer pool flexibility are competitive differentiators that attract opportunities, especially in a tightening market.

Second, the significant progress we have made cutting costs out of our truckload business has driven year-over-year earnings growth despite lower revenue. Further, while the deleveraging effect of lower miles has masked some of our progress in reducing cost per mile, we believe most of the fixed cost reductions are permanent and position us for better incremental margins as volumes and pricing recover. The incremental margin opportunity is further enhanced by the room to improve utilization on the existing fleet.

While we have made meaningful progress on cost to date, there are still a number of opportunities to further improve and to scale our business efficiently. We have been investing in internal development and external products to facilitate tech-enabled efficiency gains as well as better revenue capture, including through AI and other methods. We expect the benefits to begin to be realized in 2026 as we more fully roll out these technologies and as an improving marketplace provides us opportunity to scale more efficiently.

Finally, our entry into the LTL industry and subsequent expansion over the past few years is just the beginning of what we believe will be a multiyear journey with an attractive runway for reinvesting free cash flow towards improving revenues, margin and earnings stability. As we have grown our facility count faster than our shipment count over the past 2 years, this has weighed down margins, but we expect a more deliberate pace of network expansion in the near term will allow us to restore margins as we continue to grow into these investments. We believe the existing infrastructure has capacity to support annualized revenue of $2 billion. As we continue growing into these investments, the operating leverage will be further enhanced by building density and optimizing our cost structure to help us reach our goals of steady margin improvement.

Then, when we look externally, there are a number of factors that increasingly indicate the truckload market could begin to grow stronger in 2026.

First, capacity reduction is clearly underway. Regulatory enforcement of qualifications and safety standards was arguably the most welcome development in 2025 for our industry. The influx of capacity from 2021 to 2024, much of which was played by a different set of rules and operating with different cost structures has distorted pricing behaviors and cyclical patterns. The ongoing efforts of the FMCSA and DOT to prevent and revoke invalidly issued CDLs, shut down noncompliant CDL schools and address hour of service abuses should, in our view, have an outsized impact on the lowest priced capacity in the one-way truckload market.

Aside from the regulatory cleanup, capacity continues to erode, especially in the one-way truckload market where struggling carriers are running out of liquidity and large players continue to shift towards dedicated services.

Second, market data trends have improved of late. Despite muted demand, rejection rates climbed in recent months and are hanging in above year ago levels in early January. Similarly, market spot rates and the spot versus contract spread improved exiting 2025 to the best level seen since early 2022. These market trends align with those seen within our own businesses.

And finally, the inventory pull forward appears largely worked off as a result of solid holiday sales, and there is a potential for stimulative support for demand from the tax bill and Fed rate cuts. It appears the market has progressed to a point where even small increases in demand can cause disruption and our industry-leading over-the-road capacity is uniquely positioned to create value for our customers and capture opportunities for our business. The market and regulatory developments in the back half of 2025 give us increased confidence in the path to return our Truckload segment back to mid-cycle margins. We are not here to call the turn by any means, but we are closely monitoring market trends, bid developments and signals from our multiple nationwide truckload networks and are prepared to execute our playbook for deploying capacity towards the most valuable opportunities as the landscape shifts.

We remain committed to thoughtfully deploying capital, intentionally leveraging our strengths and creatively unlocking synergy opportunities across our business. And with that, I will turn the call over to Andrew and Brad to review the results of the quarter and our guidance.

Andrew Hess
Chief Financial Officer

Thanks, Adam. The charts on Slide 4 compare our consolidated fourth quarter revenue and earnings results on a year-over-year basis. Before getting into the comparisons, it's important to note that our GAAP results for the current quarter include $52.9 million of noncash impairment charges, primarily related to our decision during the quarter to combine our Abilene Truckload brand into our Swift business. Impairments have been adjusted out of our non-GAAP results as shown in the reconciliation schedules following this presentation.

Revenue, excluding fuel surcharge, decreased slightly by 40 basis points and operating income declined by $51.5 million year-over-year, largely due to the $52.9 million of impairment noted above. Adjusted operating income declined 5.3% year-over-year as a result of lighter truckload and LTL demand environments compared to the fourth quarter of 2024. GAAP earnings per diluted share for the fourth quarter of 2025 were a loss of $0.04, primarily related to the impairments noted above. GAAP earnings per diluted share in the prior year quarter were $0.43, which included a $36.6 million benefit for a mark-to-market adjustment of certain purchase price obligations associated with the U.S. Xpress acquisition. Adjusted EPS was $0.31 for the fourth quarter of 2025 compared to $0.36 for the fourth quarter of 2024. Our consolidated adjusted operating ratio was 94%, up 30 basis points year-over-year and 20 basis points sequentially. The effective tax rate of 21.6% on our GAAP results was 820 basis points higher year-over-year. The effective tax rate of 23.1% on our non-GAAP results was 460 basis points higher year-over-year.

Slide 5 illustrates the revenue and adjusted operating income for each of our segments for the quarter. Overall, truckload grew as a share of our consolidated revenue quarter-over-quarter as the fourth quarter is typically the strongest season for this business, while it is the softest for LTL. We would anticipate LTL returning closer to its recent 20% share next quarter as LTL seasonality begins to improve. We have been enhancing our ability to generate revenue synergies across brands and lines of service. The key levers are intentional leadership to drive powerful collaboration and deploying technology to foster seamless connectivity. Leveraging excess capacity in one brand against excess demand in another effectively increases our ability to search and capture a greater share of market opportunities while solving internal network imbalances. To be certain, we have leaned on each other before, but these advances make such practices systemic, more responsive and scalable. These are calculated investments designed and prioritized based on their ability to propel our business.

Now we will discuss each of our segments, starting with our Truckload segment on Slide 6. As Adam mentioned, volumes in the Truckload segment were lower than expected with generally lower demand than the prior year period until late in the quarter. Additionally, seasonal project activities in October had shorter duration than in the prior year, likely due to some freight having been moved earlier than normal given trade and tariff disruptions throughout 2025. Additionally, blockades of the Mexico border during the quarter were a headwind to productivity, especially for our TransMex division.

While demand did show some improvement late in the quarter, which helped support spot rates, this could only partially overcome the muted November results. The secondary equipment market weakened during the quarter, which appears to be at least partially related to the impact of regulatory enforcement on smaller carriers, which caused gains on sale to come in roughly $4 million below the prior quarter level and our expectations.

On a year-over-year basis, revenue excluding fuel surcharge declined 2.4% and adjusted operating income declined $9.2 million or 10.7% year-over-year, largely as a result of the 3.3% decline in loaded miles. Revenue per loaded mile, excluding fuel surcharge and intersegment transactions increased 0.7% year-over-year and sequentially improved 1.4% over the quarter.

The fourth quarter combined adjusted operating ratio was 70 basis points higher year-over-year. Excluding U.S. Xpress, the Legacy Truckload brands operated at a 91.6% adjusted operating ratio, while U.S. Xpress improved its adjusted operating ratio 430 basis points year-over-year to the mid-90s as the seasonal project participation was at its highest since the 2023 acquisition.

Finally, during the fourth quarter, we decided to combine the Abilene trucking operations into our Swift business to improve efficiency and enhance the productivity by incorporating these assets and freight flows into a more robust network with more freight opportunities. We continue to make tangible progress improving our cost structure to position our business to generate meaningful returns as market conditions recover.

Moving on to Slide 7. Our LTL business grew revenue excluding fuel surcharge 7% year-over-year with shipments per day up 2.1%, a lower growth rate than the previous quarter as we lapped the acquisition of DHE on July 30 and as market demand moderated at the beginning of October. Revenue per hundredweight, excluding fuel surcharge, increased 5% year-over-year. Adjusted operating income decreased 4.8% and adjusted operating ratio increased slightly by 60 basis points year-over-year. As Adam noted, in response to the moderating demand environment during the quarter, we stepped up the cost initiatives we had announced last summer to mitigate pressure on margin. We are taking action where prudent in the short term, but without sacrificing our ability to respond to growth opportunities through ongoing bids as discussions around bids currently in process are encouraging.

During the fourth quarter, we opened one new service center and replaced another with a larger site, bringing our growth in door count to 10% year-over-year.

We have opportunities to optimize our operations and cost structure as our network and business mix mature, and we have confidence in our plans to achieve this. Our solid service levels, growing customer base and ground to make up on pricing provides a compelling runway for the value to be generated by this business.

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

Brad Stewart
Treasurer & Senior VP of Investor Relations

Thanks, Andrew. Logistics revenue for the fourth quarter declined 4.8% year-over-year as volumes were down 1%, while revenue per load was 4.1% lower due to mix change. Third-party carrier capacity grew noticeably more difficult to source during the quarter, which pressured gross margins. Gross margin of

15.5% for the fourth quarter declined 230 basis points from third quarter levels and 180 basis points year-over-year. Adjusted operating ratio was 95.8% for the quarter.

Another recent trend is the increase in cargo theft in the industry. While fraud and theft in the industry has been on the rise over the past couple of years, channel checks indicate a rash of theft in the quarter, some of which appear to be related to operators being forced out of the business through either financial struggles or regulatory enforcement. If these trends continue, it could further encourage shippers to allocate more business to direct asset-based carrier relationships. For our part, we have been further tightening our already rigorous carrier qualification standards and narrowing the existing carrier base that we tender loads to.

Also, if upward pressure on third-party capacity cost continues, this could cause further pressure on gross margin in the near term as capacity continues to erode. However, given the relationship between our Logistics segment and our Asset-Based Truckload segment, we believe these dynamics would ultimately benefit both our asset and logistics businesses over time.

Our Logistics business has demonstrated its agility in navigating a volatile market the past few years by maintaining its operating margin close to target levels through disciplined pricing and cost management. This team is now further leveraging technology to take cost efficiencies to a new level as well as to improve our responsiveness and ability to capture opportunities in the market, which we expect will contribute to earnings in 2026. These enhancements, combined with its complementary relationship with our asset business, position our Logistics business to accelerate revenue growth and the return on our trailer assets in an improving market.

Now on to Slide 9 for a discussion of our Intermodal business.

The Intermodal segment improved its adjusted operating ratio 140 basis points year-over-year to 100.1%, driven by a 2.8% increase in revenue per load as well as structural cost reduction and improvement in network balance, which led to significant year-over-year reductions in empty repositioning, trade and chassis costs. Revenue declined 3.4% year-over-year on a 6% decrease in load count, partially offset by the increase in revenue per load.

On a sequential basis, revenue grew 1.7% up 2.6% increase in load count, with both measures reaching their highest marks for the year. We look forward to leveraging the new chapter in our rail partnerships in an improving market. And in the meantime, we remain focused on delivering excellent service and driving appropriate returns through growing our load count with disciplined pricing, cost control, network balance and equipment utilization.

Slide 10 illustrates our all other segments. This category includes support services provided to our customers, independent contractors and third-party carriers such as equipment sales and rentals, equipment leasing, warehousing activities, insurance and maintenance.

For the quarter, revenue increased 17.7% and the operating loss in the seasonally slow period for this category improved $5.9 million or 37.3% year-over-year, primarily driven by growth in our warehousing and leasing businesses.

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

Based on our assumptions, we project our adjusted EPS for the first quarter of 2026 will be in the range of $0.28 to $0.32. In general, this guidance for the first quarter assumes current conditions remain stable and that we experience some seasonal slowing in the truckload market and seasonal recovery in the LTL market. The key assumptions underpinning this guidance are listed on this slide.

I won't take time to read through all of our assumptions here, but I do want to touch on a couple of the more significant moves other than the typical seasonality in truckload. We expect a strong bounce back in our all other segments category after its seasonal slow period in the fourth quarter, and we have significantly reduced the range for expected gain on sale based on the secondary equipment market trends that we noted in our earlier comments.

Now this concludes our prepared remarks. And before I turn it over for questions, I want to remind everyone to please keep it to one question per participant. Thank you. Constantin, we will now open the line for questions.

Question and Answer

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

Richa Harnain
Deutsche Bank AG, Research Division

I guess maybe we can start with the outlook. Adam, you walked through some various items to be -- look forward to in 2026, some tailwinds. Maybe you can just elaborate on like in light of those tailwinds, why we're not seeing maybe a more robust outlook for Q1? And I understand that there's some seasonality, but maybe you can just talk about that. And then just generally speaking, like any sort of guidance on how we should think about Q1 relative to the entirety of the year? Has seasonality shifted at all? And given the incremental margin should maybe be better, given all the good work you did on costs, like how should we think about how margins could progress as the year goes on?

Adam W. Miller
CEO & Director

Yes. Okay. Thank you, Richa. So just to go through the outlook here. Maybe I'll start with just maybe walking through Q4 and then how that kind of sets up in Q1 and then maybe how we're looking out beyond that. I won't give any guidance in terms of EPS beyond Q1, but I can give you my view of how I think the market may progress. When we came into the fourth quarter, I think on our last earnings call, we talked about having some projects in the queue, some of them we haven't seen in several years and those did materialize in October. And typically, when you see projects like that materialize, you have other types of projects that just kick off during the fourth quarter where you have customers that have acute needs and those typically drive a stronger November and build up through Thanksgiving and then you have a little bit of a lull coming out of that and then you could finish the quarter strong.

Once we got through our projects in October or maybe early November, we did not see the strength continue and it was a bit disappointing the volumes in November, and it was just tough to overcome that even with some of the strength we saw in the back half of December. And we don't get too wrapped up in the spot market jumping up for a couple of weeks because we're still largely contractual, but we did see some of the lift, but it wasn't enough to overcome the slower November and then just the disruption you get in productivity during the holidays. But as we saw that market kind of continue in or bleed into the first couple of weeks of January, I think we became a bit more constructive on maybe the balance between supply and demand. And so as we sit in early January, we're feeling a bit better about our ability to push rates in the bid season and maybe find some ways to even get some premium spot opportunities early in the first quarter, which has been some time since we've been able to do that. But when I look out to what that means for the first quarter, a lot of the work that we do in the bids, we don't really feel the benefit of that or see the benefit of that until you get into the second quarter, earlier or mid-second quarter and then throughout the back half of the year. So I think the first quarter, we may be in a period where we feel better than we look in terms of the results, but the confidence in our ability to start to push rates higher and to restore or begin to restore our margins. And I think we've started off the bid season with far more constructive conversations with customers where the discussions are starting around securing incumbent lanes with positive rates. Now I think what we'd be pushing for would be low to mid-single digits and improvements in contract rates and maybe closer to mid than low. And maybe that may not align with what our customers want to see in a pre-bid. And so some of this stuff is going to go into a bid to see where the market is from a balance standpoint. And we've already heard from several customers about wanting to shift a bit more volume from brokers to assets because of the spot market trends that we've been seeing and then some of the capacity that's been coming out of the market from a regulatory perspective. So I think that gives us more confidence in where this market is headed. But I don't know that we really feel the full benefit or see the full benefit of that in the first quarter. But again, we're not trying to call the inflection yet. We've seen head fakes before, but I think we're feeling better about where this market is headed and we do feel better about what the DOT and the FMCSA are doing to clean up capacity in our industry. And I could tell you our Knight, our Swift and especially now our U.S. Xpress business is well positioned and prepared with the tools, even the culture around what we're going to do to find opportunities to really leverage the scale and the flexibility that we have in our network. And so we're encouraged about what that could mean here in the back half of this year.

Andrew Hess
Chief Financial Officer

Richa, I mean, Q1s are always a hard quarter to really flex, right, just based on that seasonality. You rarely and I don't expect rate will be much of a lift for us year-over-year in Q1. And we're operating on a smaller fleet than we were last year. So I think all those go together, we do expect continued progress on cost. And I think that's our expectation here in the first quarter, improvement in cost per mile year-over-year. And I guess the other side, we talked a lot about truckload but LTL, I mean, I think we're still watching how the volumes build back and that's, to some degree, going to determine how this quarter plays out. We're encouraged as kind of watching the early build back of volumes here in January, but there's still a lot of kind of runway ahead of us to see really where volumes build to in the quarter. So our guidance range that we've provided does not, we think reflects a reasonable kind of middle lane view of how the quarter plays out. But certainly, if market conditions improve or worsen, there is a degree of variation around the guidance we're providing here.

Operator
Your next question comes from the line of Jonathan Chappell from Evercore ISI.

Jonathan B. Chappell
Evercore ISI Institutional Equities, Research Division

Adam, as it relates to the priorities and the strategic goals, almost every single segment you highlight cost to serve, technology, automation, optimization, et cetera. So when we think about your margin progression from 1Q, do you kind of view this as all the things you're doing on the cost side and the efficiency side could make margins improve even without a true inflection of the market? Or is it more you need price, price kind of drives an exacerbated move in margins and kind of higher highs and higher lows.

Adam W. Miller
CEO & Director

Yes. I mean, really, Jon, we really want to see both. But if the market doesn't play out on the revenue side, like we're maybe expecting in the back half of the year. We're not going to be a victim of that. We're going to go after as much as we can on the cost side to improve margins on a year-over-year basis. But certainly, when you have a lift in rates in the spot market, that's going to help you get to kind of normalized margins. I don't think you get to normalized margins just on cost alone. You'll need some lift in the market. But we look at it as, hey, we fight both battles on a regular basis. And really, the wins we've had have been more on the cost side in the last couple of years. And I think we're due on the revenue side, but our goal is to make progress on both.

Andrew Hess
Chief Financial Officer

It's really a 3-pronged approach, right, to full repair margins. It's capturing price. It's bringing volume back into the business, and reducing our cost per mile. We expect each one of those independently to contribute in 2026 to margin improvement. And the price, obviously, is going to be very much market dependent and to some degree, the miles, but we expect cost alone should drive margin expansion in 2026.

Operator
Your next question comes from the line of Brian Ossenbeck from JPMorgan.

Brian Patrick Ossenbeck
JPMorgan Chase & Co, Research Division

Maybe if you can expand a little bit more what you're seeing in the LTL market. It sounded, I mean, you guys called out things were softer than I think most others saw last quarter. So that seemed to play on October, but it hasn't really built back the way you might have thought. So I wanted to see if you can elaborate on that, if it's more of a market perspective or maybe something with the network as you expand it and then just some quick color on, you mentioned expanding the length of haul for the network like how does that, how long does that take? And what does that really mean from a margin perspective as you go throughout this year?

Adam W. Miller
CEO & Director

Yes. So I think we talked about how we saw a shift downward of demand starting early in October, and that really progressed throughout the quarter. So we've had to make some adjustments on the cost side of the business to adjust for that. But also factoring in that with our expanded network now, we're now going to have an opportunity to bid with larger shippers that we just hadn't had an opportunity with before because we didn't have the breadth of the network that would support what they're looking for in a carrier. And so a lot of those loads may be heavier loads, may have a longer length of haul. And this is where we tap into the relationships that we have on the truckload side of the business to provide opportunities for our LTL business to bid on that volume. So it's kind of still a little too early to tell how is volume really, is it really picking up? Are we seeing a shift from Q4 into Q1. I think the margins were okay to start, but we're looking for a greater lift. But we have a lot in the pipeline right now in terms of bids that we think could be impactful to the shipment volume of our LTL business because we just have new customers that we have opportunities to grow with. So we're kind of working through those, still early progress on that, and I think more to come. But we're just kind of balancing what you do on the labor front to manage your expense in a market where you have volumes lower than I know what we can handle, knowing that we could have an opportunity to see those volumes shift up, and we want to be prepared to handle that with a high level of service.

Andrew Hess
Chief Financial Officer

Yes, Brian, maybe one point I would add to that is one of the things we identified last year was even though we had integrated from a back-end perspective and systems between the 3 businesses that we have combined, it was creating confusion in our sales efforts and as we took our business to the market, and so we announced in the third quarter, we're moving to a unified brand. We've already seen that really help us in our sales efforts that we can present a single face to our customers and get them comfortable with our ability to deliver across our network in a way that meets their needs. So we think that is enhancing our sales efforts. We think that's going to help in addition to just the design of our network that we're going through. I mean it is a process to really put our network as we understand how our freight is flowing with these customers, there's been a process of doing that network design that we've been going through. And I think we're getting to the point where we've managed a lot of those bottlenecks. It's really put in a position on bid on business that we have not been able to participate on before. And so there's a lot of tailwind here in terms of we think the strength that's going to build in our ability to sell and build volume into the business that we built this structure on.

Operator
Next question is from the line of Ravi Shanker from Morgan Stanley.

Ravi Shanker
Morgan Stanley, Research Division

Maybe as a follow-up to that, kind of in the past, I think you've said you're keeping the brands that you've acquired, protecting them so that you don't have any customer losses, driver losses and kind of other negative implications in taking those brands away. So, a, how do you protect against that? B, what does this mean for the other separate brands in your portfolio? And if I can squeeze a really quick one in, kind of you spoke about LTL bid season going well. Any early comments on TL bid season would be great as well.

Adam W. Miller
CEO & Director

Sure. I touched on TL already, but I'll come back to that to Ravi. Yes. So if I look over the last 2 quarters, we've made a couple of adjustments to our strategy around some of our brands. On the LTL front, I think what we realized going into the strategy we had with buying multiple brands is the outsized benefit you get on the LTL front when you have one distinct network, one pro number, just one voice to the customer. I mean that is what they long for. They don't like the interline approach. And even though we had the systems integrated, the visibility was similar across the different brands regardless of the website, it still didn't feel like one company and one carrier to them. And so we felt like we needed to shift that strategy around LTL to provide one brand, one voice to the customer in order to really maximize the potential of the network that we've built. And so that wasn't an easy decision. We put a lot of thought into it, but we still think that was the right approach.

Now you may have seen or we did comment on rolling Abilene Motor Express into our Swift Transportation business. Abilene Motor Express was a smaller company that we purchased in 2018, and it had gotten down to around 300-plus trucks and was really struggling. And what we found was given the size of that company and maybe the lack of brand recognition with some of our customers, it was really tough for them to break through with freight opportunities that was going to support their network. And we had some change in leadership that came from the Swift business to help right the ship at Abilene. And ultimately, we made the decision that it would be best for the Abilene employees, the drivers in particular, to run under a more robust network under Swift, we're trying to convert as many of the Abilene customers that went direct with them to the Swift network. And we had a lot of overlap of customers. So we're in that process right now of keeping that freight within Swift, but then supporting Abilene with backhauls and things that allow them to be far more efficient from a network perspective. We don't have another brand out there that we own that we believe we would ever need to take this approach with. This was one that really saw margins degradate over the last several years and didn't have a clear path to profitability, and we felt like this was the fastest way to get that business back to generating a reasonable turn for the assets that we have and then allow us to reduce some overhead and put our drivers in a position to be successful. So again, this isn't something that we would take lightly, but this was the right decision for the situation we were in.

On the TL bid, again, it's early, but we've had constructive conversations with our customers around rates being positive. And we're not having discussions about having to reduce rates to retain volume. And now it's just a matter of where can we get comfortable about where rates need to settle out in the bids. And some may be done in pre-bid negotiations, others it will probably have to go to the bid, so the customers can really vet where the market is. But I feel more confident going into this bid season that rates are --

contract rates are going to be up and I think that will build as capacity continues to exit. I mean we have some cliff events coming potentially with capacity, Ravi, where we've already seen with English proficiency, nearly 12,000 drivers who've been put out of service since June. We have with California, there's 17,000 non-domicile CDLs potentially expiring in March. New York has a similar number that isn't further that far out from there. Really all states other than, I think, one are not issuing non-domicile CDLs. So you kind of shut off that funnel of capacity coming in. And then there are several countries where the temporary protective status is ending as well in Somalia, Ethiopia, and Haiti, where I would believe actually, you're going to have some of those individuals that are driving the truck. That may not be legal to be able to do that any longer. And then I mentioned just in my opening remarks about all the schools that are being shut down. I think there were 3,000 schools recently removed because of noncompliance and another 4,000 schools that have placed on notice for noncompliance. There are audits out there being completed. Two of our schools at Swift were audited and hey, we passed with flying colors as we'd expect. So it is real. It is happening. And so I think, again, constructive on early bid, but I think we'll start to see rate improve as the bid season progresses.

Andrew Hess
Chief Financial Officer

And I think maybe just one note to add to that is we've had customers share with us that one of their objectives out of the bid season is to increase their asset coverage I think we're seeing customers looking at the market, looking at the regulatory changes and realizing that this could be particularly more strategic procurement organizations are looking at this as a chance to increase their coverage of asset. And I think that's helpful in our conversations in the bids.

Operator
Your next question is from the line of Dan Moore from Robert W. Baird.

Daniel Charles Moore
Robert W. Baird & Co. Incorporated, Research Division

I think everyone realizes that you're positioned, first of all, that you're under-earning along with everybody else in the space, and secondly, that you're well positioned here from the standpoint of starting to get some momentum in terms of rate. I guess two questions, I'll call it one, two things that I'd like to get some perspective on is one, cost-out story. You guys have been very focused on cost, lane balance, improving your landed cost. Where are you with that? And then, i.e., how much is left? Or are you at a pivot point there where you really need to be more focused on rate? And then to the extent that the rate environment improves over '26, is there an opportunity to go back to customers in the early innings that try and lock in at rates that are noncompensatory? That's it. And I appreciate the time again.

Adam W. Miller
CEO & Director

Yes. So Dan, maybe I'll hit on rate, and I'll let Andrew talk about cost. Rate is pretty fluid in terms of how it works in our markets because you got to realize we're not locking up with guaranteed volumes with a customer on the over-the-road space. Now dedicated is a little bit different, but the 70% that we do over-the-road is pretty fluid. And when the market begins to shift and it becomes tougher to find capacity, even if we've done contractual rates, we're managing commitments. We start to get overflow volumes, which sometimes can be at a premium. You get backup rates where in a market like this would typically be higher than your contractual rate. You'll have spot opportunities that are ad-hoc on our customer load boards that sometimes can be a premium. And so we can move pretty quickly to adjust to the market if we see it changing. And so even if you've kind of locked up rates early in the bid cycle, there's still opportunity with that customer, even if it's not going back and changing what you've already agreed to, it's just doing more for them because it's tough for them to find capacity in a more challenging market, and that's where you can at times charge a premium. And so you've got to know what your commitments are, be able to adjust those, manage it very closely. And that's what Knight historically has always done. We brought that logic to Swift, and they've employed that extremely well. And that logic is there with U.S. Xpress now. And so I think we're well equipped to be able to react to the market and again, we're watching this every single day. We have network maps that are unique to each brand that we see trends before probably many in our space would see those trends. And we have API, we have algorithms that we can adjust on the fly if we see the market changing. I feel like we will be well positioned to get the most value out of the market if it indeed does change. Andrew, do you want to handle the cost?

Andrew Hess
Chief Financial Officer

Yes, maybe I'll give you a little perspective on cost and kind of how I rate our performance as I look back on 2025 and give you a sense for how much more ahead of us is in 2026. So when you look at an environment like 2025 when we got less than 1% on rate, you're not even covering inflation, which probably wants to be 3% to 4%. So you're not getting a lot of help from the market. And so if you look at our Truckload segment, where our costs are down something like $150 million, probably 2/3 of that reduction is variable, maybe 1/3 of that is fixed. And so you put that all together and you get about, I think, an 80 basis points improvement on OR year-over-year. And so when you think about the variable costs, it probably drove half of that OR improvement. So you've covered inflation plus some margin expansion from these areas. So at the beginning of the year, we put initiatives in place to drive cost out of what we viewed as the biggest opportunity, 3 variable cost areas of maintenance, fuel and insurance. All of those areas improved, obviously, from a dollar perspective. But I think even more meaningful is that each one was lower in 2025 as a percentage of revenue in 2024 and on a cost per mile basis. So real improvement, not just volume-driven reduction.

So those projects are continuing. And just to give you a sense for some of the work we're doing there is we're working with our drivers to create new routing and fuel optimization processes to really get more efficient in our routes and identify the lowest cost fueling solutions. So we have technology that we are deploying that is largely going to benefit us in 2026. But also another project that we're really encouraged by some additional tools to drive advanced auto planning technology to just help us optimize our freight routing and load assignments. We think this has a chance to really help us drive driver and asset utilization and reduce deadhead and just improve our overall network efficiency. So we're going to continue to deploy these tools to drive variable cost per mile down.

On fixed costs, we made so much progress there. Obviously, you lose 3% or 4% miles are really, it's hard to show up in your P&L because of the fixed cost leverage. But as a percentage of revenue, it also declined in 2025 versus 2024 even with that loss in volume. So we view these as structural in nature that won't come back. It will lever really well. And I think it's going to come in 3 areas: equipment and cost and productivity. There, you saw that in our utilization improving 2 or 3 percentage points last year over the year before. Our real estate costs, look, we've done some really smart, in my view, facility rationalization, we exited and sold, I think, 13 locations that we're looking at this very long term. These aren't things that are going to impair our ability to capture opportunities, but drove -- are going to drive cost out of our business just in how we manage our facility costs. Our facility maintenance costs are down about 4% last year. We want to do that again in 2026. Our overhead costs are the other big area we're focusing, I think in the truckload space, we're about 5% down on nondriver headcount after doing 5% or so the year before. So a lot of the AI initiatives that we've made reference to or we're rolling out in 2026 are really going to help us identify opportunities in G&A. And we talked about Abilene. That's going to be an area that's also going to create some opportunity for more efficiency in the cost of our business. So the costs are a huge area of focus for us. We're attacking it from a lot of different angles, and we're optimistic about the momentum we're building on our strategy and costs.

Operator
Your next question is from the line of Chris Wetherbee from Wells Fargo.

Christian F. Wetherbee
Wells Fargo Securities, LLC, Research Division

I guess maybe kind of curious if you could elaborate a little bit on what you're hearing from shippers as you're going through the beginning of bid season here. I guess maybe specifically around capacity reductions, I guess, is there any sense of urgency from the shipper community to kind of think about covering some capacity needs as we, and maybe doing that on the earlier side? Just kind of thoughts about how they're thinking about it. And then maybe related to that, I know you're doing a lot of work on the cost side. But as you think about the potential for driver wage increases through the cycle, obviously, the enforcement focus is on the driver side, and we're seeing that pool shrink. Do you think there's risk to the upside in terms of the traditional relationships that we think about a point of price getting a portion of that to the driver? Does that change at all as we go through the cycle given what this enforcement action looks like?

Adam W. Miller
CEO & Director

Well, so Chris, on the shipper commentary, I mean, look, we're in early bid season. So everyone is always negotiating at this point. So I think there are certainly some that acknowledge that there's potential risk. Some would push that risk out a little bit further into the year and may not feel some of that pain today. There's others that recognize that they most likely want to get ahead of it, especially if they have a higher percentage of their freight running through brokers where their real exposure is. But again, it's still kind of early on where it's more of a discussion point rather than them taking real action on it right now. So I think we'll -- again, we're going to watch that. We continue to have dialogue. And again, they may not always be so upfront with us because we're in the process of negotiating rates.

On the driver front, this is always the question we get, hey, when rates go up, do you have to share that with driver wages? And I think historically, we would typically share, it's probably around 25% to 30% of our revenue per mile would go to drivers. Now in this cycle, it may feel a little different. There's a lot of margin to restore given how low that margin has gotten over the last few years. And so I think we've got to take some of that margin to the bottom line before doing a blanket driver wage increase unless we feel like there's enough momentum where we're going to have plenty of revenue per mile to share. But we just watch, are we able to hire? Are we able to retain? I think our drivers get just a noticeable increase in pay just from running more miles on the truck. And so typically, when in an environment that's improving, you're going to get better utilization, which we're already seeing that out of our trucks, which is naturally raises the wages for our drivers. But hey, if we find the driver market gets really tough kind of given with the tightness of capacity and we are compelled that rates are going to be improving, then yes, we may share with the drivers so we can ensure that we have enough capacity to meet the needs that our customers have in terms of operating loads. So it's pretty dynamic. And hey, we wouldn't -- we would look at it in pockets, and we would look at it specific markets rather than historically, we've done across-the-board approaches. We would be very dynamic based on the region and where we have challenges retaining and hiring, and that's where we put our resources.

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

Kenneth Scott Hoexter
BofA Securities, Research Division

Adam and team, just want to revisit a couple of your comments, right, so you said recent trends in truckload have continued into the early part of January, modestly better than typical seasonality. So I just want to understand, is that -- are you making a comment on anything demand led? Is that just the capacity side? Is that weather? So maybe dig into if there's anything in there on demand side as we go into the first quarter and your thoughts as we go forward. And I guess the same for LTL, it seems like you said same thing, modest volume improvement. Is that just share gains? Or are you making a demand commentary there, too?

Adam W. Miller
CEO & Director

Yes. I think on the truckload side, what I'm referring to is every day we'll come in to the office, and we get a look at the market in terms of the relationship of number of loads versus number of trucks that we have available. And in the first quarter, a lot of times, you're having to dig out every morning needing additional loads to feed the trucks that are available to operate a load. So every morning, we get these maps, it gives us an idea of the kind of the balance in the network. And so early part of January, those maps are far more balanced than we would typically see in the first quarter, meaning you’re very close to relationship of having enough loads for every truck that you have available and you're not having to book as much same-day freight. It's hard to know if that's demand or capacity. I would lean towards capacity, Ken, simply from the third-party data that we have that's available out there where load tenders are still relatively low, even if you look at the last 3 years, yet rejections are higher. And that would align with what we're seeing in our rejections as well. Now our load tenders are still better. So I do feel like there's maybe a flight to quality in terms of customers shifting loads to the Asset-Based carriers. But from an industry perspective, I think it's more driven by capacity tightness versus demand, which I think is encouraging because that tells me any uplift in demand is just going to be that much stronger for the market. It will be that much more disruptive potentially.

Then on the LTL side, I would say, I think we always see some real softness at the tail end of the fourth quarter, particularly with our customer base. We're a bit more retail than maybe some of the larger peers out there. And so we're just seeing that shipment count restore to kind of more normalized levels. But I don't know that we've really seen a big shift in demand that I would call out. And so for us, we're looking at through the bid season, can we pick up share through the customers that are newer to us, but again, that the larger shippers that now we have an opportunity to participate with.

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

Scott H. Group
Wolfe Research, LLC

So Adam, just a bigger picture. If you look back at prior cycles, you've gotten a lot of price, but utilization usually goes down, maybe seated tractor counts go down or something like that, driver pay goes up a lot. It sounds like from one of the last questions, you don't think we have to give up maybe as much driver pay this time. And then maybe the other piece, like do you think you can get a, can we get a pricing cycle where we also get utilization at the same time? And so if we have good price and utilization, maybe we don't have as much driver pay, it sounds like you're doing some stuff on technology productivity. Like could that relationship between price and margin be much better? Meaning like if historically, 10 points of price is 5 points of margin, do you think it's a lot better this time around?

Adam W. Miller
CEO & Director

So Scott, our goal, what we intend to accomplish is to get some utilization along with price. So then, yes, that price goes a lot further because you've got that utilization that also helps cover your fixed costs. And so if I look at the last cycle with COVID, I mean, the labor market was totally disrupted. And so I think that made it very challenging to source drivers and so then obviously, rates were incredibly high and even that shifted our network to where we were doing shorter length of haul at higher rates because that's where the needs were with the customer. So I think it really distorted the metrics if you're trying to look at it historically. I look at this as maybe a more typical cycle and the adjustment up and I would think that we would be able to achieve better utilization with our equipment, the key is going to be what happens in the labor force. But we believe that with the academies that we have, the ability to train drivers at a very high level and reducing competition from other academies that I think are not compliant, that we'll be in a good position to source drivers, get volume while rates are improving.

Andrew Hess
Chief Financial Officer

Scott, I would just make one point that one thing we've not had in prior cycles is we spent most of 2025 developing the capability to match up our demand between our different brands, between our large truckload brands and even LTL and truckload to find efficiencies where there's excess capacity in one place and demand, we can match them up. That is not a toolkit we've had at scale with the level of sophistication that we're going to go into this next cycle with. So I think that's going to help in filling some of those gaps to drive utilization up.

Adam W. Miller
CEO & Director

So that will conclude our call. We appreciate all the interest and all the questions. If we didn't -- if we weren't able to get to your question, you can dial (602) 606-6349, and we'll try to get back to you as soon as possible. Thank you, everyone.

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