Knight-Swift Transportation Holdings Inc.

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Presentation

Operator

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

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

Mr. Stewart, the meeting is now yours.

Brad Stewart
Treasurer & Senior VP of Investor Relations

Thank you, Jillian. Good afternoon, everyone, and thank you for joining our second quarter 2026 earnings call. Today, we plan to discuss topics related to the results of the quarter, current market conditions and our earnings guidance. We have slides to accompany this call, which are posted on our investor website. 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 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. And if we are not able to get to your question due to time restrictions, you may call (602) 606-6349.

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

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

Adam W. Miller
CEO & Director

Thank you, Brad, and good afternoon, everyone. So the truckload freight market has rapidly progressed over the past few months, with spot rates trading well ahead of normal seasonality, tender rejection rates reaching levels not seen since 2021, and contractual bid activity growing increasingly supportive. This has continued to be largely supply-driven, though signs of improving demand are starting to emerge.

We believe our business is positioned particularly well for environments such as this with our leading over-the-road scale, agility in the market to optimize yield, collaborative cross-brand solutions to meet shippers' needs, and industry-leading academy network and training infrastructure to source professional drivers and an intense cultural focus on cost and excellence in execution to convert opportunities into earnings. Further, we believe demand for our truckload service offering is outpacing the market as evidenced by our tender rejection rates running roughly twice the level of public indications in the second quarter.

Realized revenue per mile was just beginning to recover in the second quarter as contract rate improvement in the period was largely driven by bids priced early in the year. Revenue per mile accelerated in June as the more recent bids reflecting the tighter backdrop started taking effect. These bid outcomes largely brought double-digit percentage gains in pricing. In the third quarter, the planned annual bid events typically wind down, though mini bid and turnback bid activity is persisting, if not increasing in the recent weeks. Additionally, we continue working on rate reviews on existing business to address rates that are below market where the next scheduled bid is too far out to be sustainable.

We believe the efforts of the FMCSA and DOT, including initiatives to prevent and revoke invalidly issued CDLs, prevent cabotage, shut down noncompliant CDL schools and address hour of service abuses are in the early stages and will continue for some time. This cleanup effort should, in our view, have an outsized impact on the one-way truckload market, particularly on the lowest price capacity. The service that was under the most pressure over the past few years is now benefiting the most from capacity exiting the system, a dynamic we expect will continue.

Beyond the regulatory-driven pressure on supply, we believe the recent Montgomery ruling by Supreme Court will add to the tightening in the truckload market as marginal carriers will likely be squeezed out through a combination of higher insurance costs and higher shipper and/or broker selection standards. Given our longstanding commitment to safety and our significant investments made in support of it over many years, this ruling should not add cost to our asset business but rather should bring opportunities.

As for brokers, we have a brokerage business as well, the Montgomery ruling could structurally change the economic incentives for a large share of the brokerage space that all too often have pursued the cheapest possible capacity with less regard for carrier safety and quality. And it will likely take time for cost pressures from insurance and litigation to drive behavior change for many, but shipper behavior could bring that about sooner to the extent shippers stiffen requirements or allocate freight differently to mitigate risk. Some shippers are starting to ask for higher insurance limits from brokers and carriers, ask questions about carrier vetting practices or even insist on having the right to approve broker carriers before they can be assigned.

On the insurance front, our view has been that premiums for broker liability insurance will climb over time as underwriters work through a reevaluation of the risk and as litigation emerges. Our brokerage insurance actually expired in June, and we were in the market working towards a renewal when the Montgomery ruling came out, and that significantly impacted our renewal efforts. We have seen firsthand some of the changes that are just starting to develop in the insurance market. In addition to a significant reduction in insurance capacity, insurers are seeking to introduce exclusions regarding carrier vetting practices into the policies, which, if not strictly followed would lead to a lack of coverage altogether for an accident. The good news is that feedback from insurers was that our carrier vetting is as rigorous as they've seen. But despite this, our premium rates increased to multiples of our prior coverage within just a few weeks of the Montgomery decision. So we expect insurance costs in this space will continue to climb.

Improvements in carrier vetting will noticeably pressure the carrier base and gross margins for brokers who will need to make meaningful changes to their approach. While we regularly review our vetting approach, and we'll continue to evaluate whether further refinements are feasible and effective, we believe our standards are already more stringent than most and are reflected in the size of our carrier base and our purchase transportation costs.

The situation is very fluid and shippers, carriers and brokers will navigate their respective risks and decisions as they see fit, but we believe the incremental opportunities for our business are greater than the incremental costs, especially for our asset division.

Shippers continue to reduce usage of brokers and aligned with quality asset-based capacity. Our customers also generally have solid outlooks for their respective businesses in the near term and discussions about peak season demand support have continued.

With the tightening in market conditions, recruiting and retaining quality drivers have become more challenging. The constrained driver market is affecting over-the-road dedicated LTL and drayage markets to varying degrees. We believe we have an advantage with our terminal network, academies to source, develop drivers, a diverse service offering. The truckload market is most affected, and we are making thoughtful targeted investments to aid our efforts starting in the third quarter, generally in the form of hiring and productivity incentives. We continue to closely monitor the driver market conditions as well as our own metrics around seated tractors, utilization and pay as a percentage of revenue to gauge appropriate actions as we balance the need to restore margins with opportunities for growth.
We are encouraged by the momentum in the market and strong early progress in our core truckload business.

We remain focused on increasing our seated truck percentage and optimizing yield. We are continually refining our cyclical playbook and have been preparing for this phase, which is typically a pivotal point. We have worked intentionally towards reducing costs, preparing to scale efficiently, investing in recruiting and training capacity and driving collaboration and technology towards maximizing opportunities in order to enhance the contributions of our operational and market management strategies. And with the acquisitions over the past 5 years, we have a larger revenue base to work with than we have entering any prior up cycle.

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

Andrew Hess
Chief Financial Officer

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

Consolidated revenue, excluding truckload and LTL fuel surcharge increased 5.5%, and operating income grew $32.2 million or 44.4% year-over-year. Adjusted operating income grew $47.2 million or 45.5% year-over-year. The improvement in earnings was primarily driven by pricing and network efficiency gains across our asset-based businesses. GAAP earnings per diluted share for the second quarter of 2026 were $0.26, a 23.8% increase year-over-year. Adjusted EPS was $0.63 for the second quarter of 2026, an 80% increase year-over-year.

Our consolidated adjusted operating ratio was 91.4%, a 240 basis point improvement year-over-year. The effective tax rate on our GAAP results was 34.1%, and our non-GAAP effective tax rate was 24.4% for the second quarter.

Slide 4 illustrates the revenue and adjusted operating income for each of our segments for the quarter. Relative share of our various services offerings remained largely consistent quarter-over-quarter, with intermodal gaining slightly over the first quarter as it grew revenue 21.2% sequentially. All reportable segments other than logistics improved their operating margins and income contribution year-over-year.

Now we will discuss each of our segments, starting with our Truckload segment on Slide 5. Our Truckload segment grew revenue excluding fuel surcharge by 2.8% and grew adjusted operating income by 69.4% year-over-year through disciplined network management and strategic deployment of capacity. Revenue per loaded mile, excluding fuel surcharge and intersegment transactions increased 5.5% year-over-year for the quarter. Network efficiency gains amplified the margin opportunity as a 140 basis point reduction in deadhead miles produced even greater improvement in revenue per total mile.
The adjusted operating ratio improved 360 basis points year-over-year to 91%, yielding the best adjusted operating margin for the combined Truckload segment in over 3 years.

Year-over-year rate improvement progressed through the quarter, driven by spot and project opportunities that developed within the quarter. As Adam noted, rate improvement accelerated in June as more recent bids started taking effect with Truckload revenue per loaded mile, excluding fuel surcharge, increasing 8.4% and revenue excluding fuel surcharge per tractor increasing 10.1% year-over-year.
Results for the over-the-road service were even stronger as there is -- as this is the most capacity-constrained part of the market.

US Xpress is making greater rate gains than our legacy brands, which was a key pillar in our thesis with the acquisition given the relative starting points on the pricing portfolios. We are excited to finally be in an improving market where we can act -- fully act to reset rates, which is what we had called out as the biggest synergy opportunity. This rate progress helped bring the US Xpress Over-the-Road division to its first profitable quarter since the acquisition, an important milestone for what was the most challenged part of the business at acquisition.

With the normal bid season winding down, at this point in the calendar, we are focused on ongoing opportunities to drive rate recovery as mini bids, turnback bids and rate reviews continue.

While our total miles per tractor declined year-over-year for the first time in 8 quarters, this was primarily due to the reduction in empty miles as we drove network efficiencies. Q2 loaded miles per tractor improved year-over-year for the seventh consecutive quarter. Importantly, the strengthening rate backdrop and improving network efficiencies have ongoing implications for our business.

With driver availability becoming a utilization and volume headwind, we are taking targeted actions in Q3 on driver pay with the goal of improving seated-truck count and opportunity capture. We remain focused on margin restoration alongside these efforts and are calibrating investments based on sustainable rate gains.

Now on to Slide 6 for a discussion of our LTL business. While the LTL sector has not seen the same sharp tightening as truckload, demand that has been generally stable is seeing pockets of improvement in addition to some indirect benefits from truckload tightness. Our freight mix continues to improve, and rate renewals have remained steady at a mid-single-digit pace. We are focused on optimizing freight mix and network efficiency and efforts to improve margin while protecting service and positioning us for further growth.

LTL revenue, excluding fuel surcharge, declined 1.4% year-over-year, driven by a 3.7% decrease in shipments per day as we metered certain volumes as part of our initiatives around freight mix and network efficiency. Improvements in freight mix drove 4% growth in our daily tonnage, 7.9% growth in our weight per shipment and a 5.3% increase in our length of haul year-over-year. Additionally, both daily shipments and tonnage trends showed momentum as the quarter progressed. Revenue per hundredweight, excluding fuel surcharge fell 4.2%, driven by the strong increase in weight per shipment, while revenue per shipment, excluding fuel surcharge increased 3.4% year-over-year. The adjusted operating ratio improved 100 basis points year-over-year to 92.1% and adjusted operating income grew 13.3%.

While we anticipate that fuel will be a quarter-over-quarter headwind in Q3 based on recent trends, we aim to offset this margin headwind with further efficiency gains, volume recovery and pricing progress. We expect that over time, growing into our network investments, maturing freight mix, improvement in network density and continuously refining our operational cost execution, will allow us to drive sustained methodical improvement in operating margin.

Now I'll turn it over to Brad for a discussion of our Logistics segment on Slide 7.

Brad Stewart
Treasurer & Senior VP of Investor Relations

Thanks, Andrew. The Logistics segment grew revenue 8.9% year-over-year, driven by a 29.6% increase in revenue per load, partially offset by a 16.4% decline in load count as we maintain a disciplined approach to profitability and carrier quality. Tightness in third-party carrier capacity continued through the second quarter as gross margin of 15.4% for the second quarter declined 350 basis points year-over-year and 120 basis points from first quarter levels. The adjusted operating ratio was 96.4%, a 160 basis point degradation year-over-year.

As contractual pricing is reset through bid activity and proactive rate reviews, we expect to grow volumes at appropriate gross margins moving forward. Also, over time, we expect our Logistics business to benefit from share gains as brokers with less robust safety and compliance infrastructure are pressured out of the market following the Montgomery ruling, as noted earlier. This team continues to leverage technology to take cost efficiencies to a new level as well as to improve our responsiveness and ability to capture opportunities in the marketplace, which we expect will contribute to earnings in 2026.

Now on to Slide 8 for a discussion of our Intermodal business. The Intermodal segment grew revenue 34.9% and improved its operating ratio by 470 basis points year-over-year through a 19.6% increase in load count, a 12.8% increase in revenue per load and improvements in costs and network efficiency. On a sequential basis, load count grew 9.7% and revenue per load grew 10.4% over the first quarter levels.

Load count improved progressively throughout the quarter, and core pricing also improved throughout the quarter as revenue per load increased 2.4% year-over-year before factoring in fuel surcharge revenue fluctuations. In addition, mix was a headwind to pricing as we've increased our backhaul volumes to improve network balance. While outside drayage service is affected by the constrained driver market, we outsource only a low single-digit percentage of our drayage needs, which should provide some insulation from the tightening in drayage capacity.

Though the intermodal pricing environment remains more competitive than truckload, we are encouraged by ongoing opportunities to leverage our strong service performance and our truckload relationships to continue growing our volumes at improving rates. Our pipeline is strong and supported by mini bid and turnback bid activities as well as modal conversion opportunities.

We remain focused on delivering excellent service and driving appropriate returns through growing our load count with disciplined pricing through cost control, network balance and equipment utilization.

Slide 9 illustrates our All Other Segments. This category includes warehousing activities and support services provided to our customers, independent contractors and third-party carriers, such as equipment sales and rentals and insurance and maintenance. Additionally, beginning January 1, 2026, all other segments also includes the cost of our accounts receivable securitization program that was reported below the line in interest expense in prior years.

For the quarter, revenue increased 41.8% year-over-year, reaching the highest mark in over 3 years, driven by growth in warehousing and trailer leasing services. While the operating businesses in this category grew their income contribution year-over-year operating results overall declined to an operating loss due to the inclusion of $5.8 million of costs for the accounts receivable securitization program as well as an $18.2 million severance charge, primarily related to the retirement of our former Executive Chairman.

On Slide 10, we highlight our convertible bond issuance during the second quarter and the benefits to our company.

We've been monitoring the convert market for a long time and view this as an attractive opportunity to provide immediate meaningful earnings accretion, increase our flexibility and support our ongoing deleveraging efforts. This instrument allowed us to monetize our combination of strong credit and stock volatility while our stock was trading near all-time highs.

By issuing bonds at 1% to pay off floating rate debt around 5%, we expect to generate annual savings of approximately $44 million pretax after accounting for deal costs.

Beyond the immediate interest savings, the convert also helped us to extend maturities, reduce floating rate exposure, and reduce the outstanding capital among our banking relationships.

Additionally, as we are bullish on the opportunities ahead for our company, we used $107 million of the proceeds to purchase a call spread that increased the effective conversion price from roughly $80 per share to $105 per share. As a result, shareholders received the benefit of the interest savings today, while dilution remains limited until the stock appreciates substantially. And as illustrated on the slide, if the stock were to appreciate 87% from issuance to a hypothetical share price of $115, dilution will be approximately 1% of our current shares outstanding.

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 third quarter of 2026, to be in the range of $0.71 to $0.77. Our projections reflect recent trends in volumes, spot rates, rate activity and driver hiring as well as expectations for continued seasonal patterns for both truckload and LTL services. The key assumptions underpinning this guidance are listed on this slide.

Now this concludes our prepared remarks. And before I turn it over for questions, I just want to remind everyone to keep it to 1 question per participant. Thank you. Jillian, we will now open the line for questions.

Question and Answer

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

Kenneth Scott Hoexter
BofA Securities, Research Division

Maybe just delve into the utilization or miles per tractor, the deadhead impact, right. So how do you adjust that? And then the timing of rolling in the out-of-date contracts with the new pricing? Maybe just talk scale or speed with which we could see that both of those ends, utilization and pricing start to really roll in.

Adam W. Miller
CEO & Director

Yes, I do appreciate that, Ken. Well, any time you go through bid season, you're going to have some level of churn where you're losing some of the incumbent business and you're picking up new lanes and so when we have maybe a greater amount of freight being awarded to us than really we can handle, we have an opportunity to kind of pick and choose the lanes that create some additional efficiency in our network. So we've been going through that process as we've been getting awards from our customers. Then even on the spot market, there's more opportunities there to fill in empty lanes that we've had historically and so every business has just been going through and trying to build some efficiency into their network and that will be something that we'll be continually doing as we find more opportunities and get more awards for our customers.

In terms of the pace of how the rates are playing out, I think as we touched on in the prepared remarks, we saw that really accelerate in June. We had a lot of the bid activity get implemented in June, and we'll have some additional activity get implemented in July. But quite honestly, this is going to be an ongoing process. And we are constantly getting these mini bids or even churn bids where a customer has gone and awarded business, and you've had carriers who've had to reject certain amount of awards because of the lack of available capacity or just a lack of a fit in their network, and then they have to go source some additional capacity to not be in the spot market. We're seeing a lot of those. Obviously, the spot market is robust and so we are creating a greater amount of exposure to the spot market. I think this year, we started the year probably around 10%. We're now kind of mid-teens in terms of our spot market exposure. And then you also have projects that will build and sometimes those can come without notice, sometimes they're planned. We had a good amount of projects that built into the back half of June as customers were needing capacity going into the Fourth of July holiday. That slows a little bit as you come out of the holiday, but I would expect that to pick up probably in September, and then that really lead to what we believe would be a strong peak season. So I expect some normal seasonality to play out, but also I do think there's just the robust spot market and mini bid activity that allows us to continually improve rate. Then, hey, once you get through what we believe will be a strong fourth quarter peak season, you're kind of right back into bid season where you're able to address rates that may be outside of the market.

Andrew Hess
Chief Financial Officer

And just on your point on deadhead empty miles, let me point to 2 factors that are allowing, enabling us to drive this improvement. First, we've been in the process and development and have been implementing in the last months some enhanced planning tools that are significant in our ability to reduce our empty mile percent, but we've seen that really take traction. And so the momentum on our empty miles has been building over the last few quarters. But in an environment like this, in a good market, we have an opportunity to really build a more efficient network. And so when we're taking kind of the fundamental changes we've made in our structural processes on how we plan along with the market where you have an opportunity, those are sustainable changes for the foreseeable future that we think are going to enable us to do that and so that's obviously creating some noise on our total miles per truck. But when you look at our loaded miles per truck, we are in a healthy trend that continues just to build. So our biggest opportunity is going to be seating trucks that are not active, so our unseated trucks where we do have a lot of opportunity there. Obviously, we put a lot of that cost into the system. So it's going to lever really well as we are able to put those trucks to work.

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

Scott H. Group
Wolfe Research, LLC

So Adam, you talked about ELD and hours of service enforcement. It feels like we haven't really seen that yet. So maybe talk about what could be coming because I think that could be another big sort of opportunity on the capacity side. And then I guess just along those lines, listening to you, it sounds like with Montgomery and all these regulations, it sounds like you think large asset-based carriers should be the beneficiaries here. It's been a really long time, but do you see opportunity to start growing your fleet organically?

Adam W. Miller
CEO & Director

Yes. So let me hit that, Scott. So first question on these hours of service enforcement. I think this administration has a lot of things on their agenda that they plan to push to clean up the environment. There have been a lot of ELDs that have been self-certified in our industry that we don't believe can stand the rigors of real compliance. And I think we've seen this administration going through and invalidating some of these devices and be much more strict on roadside inspections. And so I think that's just going to be part of the equation of just managing non-compliant carriers out there, and I think they're in the early innings of really pushing that. I think there's just a lot of ELD providers out there to work through. Just like there would be CDL schools. There are so many out there that they're cracking down on that were created that again were self-certified. And I know that's important to this administration. So I think those will be areas that will just continue to push out the noncompliant carriers, which typically are those that are much cheaper in terms of how they price their capacity. In terms of Montgomery, I do believe that the quality asset-based carriers would be a large beneficiary from this ruling as we've had many customers reach out to divert some volume that was with brokers to the asset-based carriers. And we've also had customers who use our brokerage, who want to understand how do we vet carriers and what are the things that we look at as important to ensure that we're putting a safe carrier, and more importantly, a safe driver behind the wheel that's hauling their freight and we've done a lot on that front even before the Montgomery ruling that I think, has put us in a good position relative to many in the space.

But we continue to look through that and to ensure that we're mitigating risk best as possible, but being balanced with having capacity available for our customers. It's certainly with where the freight market is. I've always said in transportation and trucking, you either have freight or you have drivers. It's rare that you have them at the same time. And so clearly, we're focused on maximizing the opportunities in the market today with the freight that's available and we are looking towards how do we maximize the utilization of our existing equipment. And then once we feel like we're in a good position there, we would like to grow the fleet. Driver availability, quality driver availability will be the one relegating factor and so we're trying to put together some really thoughtful approaches to how we incentivize drivers in our company, how we recruit drivers for our different companies.

I know a big question is what happens with driver pay as the rate market improves and we're committed to preserving rate best we can to enhance margins because there's a lot of margin that we have to get back into our business. And I think a lot of our peers are in the same place on that front. Now I think the good news is the last up cycle we had, we were competing against government incentives, and we're competing against a very tight labor market, where that is -- I think this market is very different than then. And so we don't have to spend as much to incentivize drivers to come to our company. So we've already done some things that are very tactical and very strategic in where we're going to put dollars around production incentives, maybe some sign-on bonuses and just key markets, not broad-based, not near the expense we would have done during the last up cycle. We're taking different approaches business by business and learning from them. And then at some point, we'll maybe harmonize them to what got the best results and the greatest return based on the investment. Yes, but you're right, ultimately, we want to be able to grow organically in this market. But hey, we've got some utilization to improve before we get to that point, but I'd like to think that we'd be able to achieve that and begin to grow.

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

Brian Patrick Ossenbeck
JPMorgan Chase & Co, Research Division

Maybe a first quick follow-up for Adam. Do you think that some of these seated tractors can be filled here in the near term? It sounds like there are some approaches already in flight. So do you feel like you'll get some progress there? And I know it's maybe a sensitive number, but any relative percentage you can give us in terms of we have been historically with unseated tractors might be helpful to figure out where that trend is going. And then maybe for Andrew, if we can hear just a little bit more about the LTL trends. What was the month? How was that progressing? Were there any capacity constraints that you ran into there that we're sort of hearing across different parts of the industry? And then I guess lastly, the fuel headwind comment got a lot of attention so maybe you can just walk through what you expect on that.

Adam W. Miller
CEO & Director

Yes. Look, I'd say from a seated tractor standpoint, we're just going to make incremental progress there, would be my expectation, Brian. I'd say, overall, for our company, it's stable. We have some businesses that have seen some good progress and others that have seen a little bit of pressure there. But overall, it's been relatively stable. We don't give a percentage out there. So it doesn't differ much from where we've been over the last year or two. But it's definitely a focus of ours, given the amount of freight opportunities that we have. I mean we're rejecting twice as much as the industry. And so those are going to be freight opportunities that we could leverage in our markets if we had more seated trucks. And so now that we have the ability to do a little bit on the driver pay front that can help support bringing more drivers in and enhancing our recruiting, I think it's a good opportunity for us, and so we're highly focused on that.

Andrew Hess
Chief Financial Officer

Brian, on LTL intra-quarter trends. Let me just give you some of the numbers, so you have them, and then I'll give some context around it. But if you look at our shipments per day, which we described are down year-over-year as we've had this freight mix change with higher wage shipments. But in April, we were down 6.5% year-over-year. May, we were down 3.2%. And in June, we were down 1.3%. So we saw our shipments per day grow from April to May to June. We implied it in the discussion in our comments earlier. But early in the quarter, we metered some of our demand to protect service as we wanted to make sure we were balanced on our inbound and outbound freight. And so we restricted for a period of time early in the quarter, our demand to make sure that we could maintain service. We feel like that we were able to open that up as we got into the middle of the quarter. And so we see a good environment in LTL. We hope to build off of the volumes that we experienced in Q2 and grow into Q3. The comments on fuel is, I was just saying, it is an unpredictable line of our P&L. We know that it helped us some in Q2. What we're seeing early in the quarter, I would say maybe not, but that is a line we can't really foresee. There is a high degree of variability and so we're just going to watch how that plays out. We just wanted to introduce the idea that, that is an uncertain line that could provide benefit or cost into Q3.

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

Jonathan B. Chappell
Evercore ISI Institutional Equities, Research Division

Adam, you mentioned in the prior answer, I don't think it was asked directly, but you answered it anyway, about the driver pay and kind of relative, like it's a big question that's being asked right now. I just want to kind of simplify it, if you can. Can you compare and contrast the driver wage inflation potential today versus what it was in kind of late '20, early '21 and then to take the next step forward, how do you see either overall industry or Knight upside margin potential or call it peak margin potential, given the similarities and potential differences of wage inflation versus price.

Adam W. Miller
CEO & Director

Yes. Well, again, like I mentioned, it's a very different labor market, this go around that we saw in 2021, where we were competing with governments incentives or stimulus and just an overall very tight labor market, where there were other significant number of opportunities, alternatives for that vocational labor. Drivers are always tight. I mean they always have been. We did a lot in pay in '20 and '21. So we caught up quite a bit of where we were lacking as an industry, we haven't taken any of that back. Even though rates went back 20%, driver pay is held as a per mile basis and has put pressure on margin as a result of that. So I think there's a lot of rate to get back, and there's some room on driver pay, certainly, but not near the extent that we had in '20 and '21. And so I do think we'll see margins, I would believe, improve faster in this cycle because of that, but we're starting at a much lower level, right, clearly. So I don't know that I'm really willing to say that the peak of margin changes from historical patterns versus this market because, again, where we are starting that. But we're in the early innings of this shift in the market and what's unique about it is it's supply-driven largely. Again, we saw kind of a couple of anecdotes of demand starting to improve, certainly not broad-based yet. So because it's supply-driven, it does feel like it could be a bit more durable, but it could be a little bit more linear in terms of how we see the results improve than maybe when it's really driven by a significant increase in consumer demand. Because when demand jumps up, shippers really need capacity because they're missing sales, and it's a new opportunity for shippers and so they're a bit more willing to pay to rate increases to get that capacity. In the market today, it's we're moving the same goods for the same sales, just lot fewer trucks to service that. And so you have to really negotiate and push to get the rates that you need to support your fleet and to get the return. So again, I don't know how this all plays out down the road in terms of peak margins, but I definitely feel like we'll have an opportunity to flow through the rate increases to improve our margin while doing a little bit for drivers where it makes sense in the markets where we need it.

Andrew Hess
Chief Financial Officer

Jonathan, our approach, Jonathan, is kind of 5-pronged in terms of outside of driver pay, but like 5 things that we're doing as we look at how we navigate a tighter driver market. So we've put money to work in marketing, that would be the first. We've built up our recruiter base as we've been going through this year. So we've put money kind of ahead of those areas to focus on. Third, I would say we are leveraging tools we haven't had in the past. AI tools, including others to help us be more efficient in our recruiting and our training, retaining and rehiring. Fourth is leveraging our academy network and something that we've probably not done as well in the past is leveraging between our brands, our academy network to help all of our brands benefit from the academy network we have. And the fifth is so much more in terms of the tools we have around driver pay. We've deployed new tools about how we pay our owner operators that are market-based pay. We've got better tools around market intelligence. So the decisions that we're going to be making around driver pay, like Adam mentioned, are going to be tactical, data-based, market-based, specific to the fleet needs. Our approach is going to be more precise than blunt, which we've done in the past. We think that is going to help us be really smart how we deploy resources in driver pay to accomplish both things, grow our fleet and capture margin recovery.

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

Ravi Shanker
Morgan Stanley, Research Division

Adam, how are your shipper customers talking about TL versus intermodal right now? I think you're seeing a bit of a switch to intermodal, kind of do you think this is opportunistic given the gap in rates? Do you think it switches back to TL when demand tightens up and kind of how agnostic or not are you to that switch?

Adam W. Miller
CEO & Director

Yes. I think it's been, for us, been maybe more anecdotal than anything, Ravi. We haven't seen a wide shift from a wide group of customers. But there are certainly some where they have a longer length of haul or it's a great fit, where the freight is close to the ramp pairs where the gap has grown enough to where they'll give up some transit time or service to move intermodally. And we're seeing some of that, but I don't think it's material to the amount of opportunities we have on the truckload side, but it has helped with some of the growth in our intermodal business. So I mean, we're open to it because a lot of the stuff is the longer length of haul. Much of this freight, we probably wouldn't have been hauling anyways in our truckload fleet because of how regional our fleet is. And so we're very open to it. But again, I think it's still relatively small to the amount of freight that's moving by truck today.

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

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

I guess maybe a little shorter term, sort of like hone in a little bit on the third quarter truckload guidance, I guess, revenue up mid-single digits year-over-year, you talked about the exit rate on a revenue per truck basis being in the 10% range. So I guess I'm just kind of curious about some of the moving parts there. We talked a little bit about seated tractors before. Do we assume that we actually will see more slippage sequentially in terms of the total fleet count? Just want to get a sense of how we should think about sort of squaring that revenue per tractor number relative to the potential total revenue number, just to get a sense of how you're thinking about the puts and takes and if there's any sort of updates you might want to give in terms of what that June number might look like as we transition over into July or the third quarter.

Andrew Hess
Chief Financial Officer

Yes. So yes let me give you a couple of the dynamics that are going on there. As you look at the Q2 to Q3. So we expect the rate momentum that we saw coming out of Q2 will continue. At the end of the quarter, we saw a lot of project activity, seasonal activity that came with very healthy spot rates. As you move into Q3, you see some of those go down that is typical in the July, August period. We think there's some indication that those will be strong as we enter the back period of Q3, but we'll have to see. What we're seeing otherwise is a building contract volume. We still have a lot of the rates that have been negotiated going into effect in July and August. And so we'll continue to see that rate build. And that is what's driving the incremental EPS contribution to the business. Now there's some factors that may act as a little bit of a headwind. I talked about fuel. We'll have to see where fuel rates go. But that is something we're watching carefully because we can be very impactful, particularly on the timing of that. Q2 was a large quarter for us on gains. We expect that to be less based on the amount of inventory we expect to sell in the third quarter, so that's going to provide us some degree of sequential cost pressure. And then driver pay, we talked about may provide a little bit of cost pressure, although we think it's relatively small at this point because of the approach we're taking. So those are factors I'll consider. And I think we're going to see that benefit clearly in our one-way business. I would say, for the rest of our portfolio, our dedicated business, LTL, intermodal, logistics, the Q2 to Q3 is more steady in terms of contribution, and so obviously, those parts of the business aren't going to contribute sequentially a significantly different EPS contribution. So those are the dynamics I would point you to for the sequential look on the quarters.

Adam W. Miller
CEO & Director

Yes. And Chris, I know you mentioned about truck count. I mean we feel like truck count is going to be stable sequentially, miles picking up a little bit just from seasonality. So I think that would be part of the equation as well. But we expect the truckload business in the aggregate, including our dedicated to operate in the high 80s. It's been quite a few quarters since we've been there. So we feel encouraged about that. And hey, we feel we'll build from there into fourth quarter.

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

Ariel Luis Rosa
Citigroup Inc., Research Division

So Adam, maybe you're the best person to ask this question. I think it's similar to Chris' question, just now. But if we look at truckload revenue ex fuel up about 3% year-over-year in second quarter and the guide for mid-single-digit growth in the third quarter. Compare that against the spot rate, which we're seeing up significantly above that. I understand, obviously, there's a big difference between spot and contract. But looking at the last cycle, obviously, we were getting to double-digit type of increases on revenue per load mile. What's the cadence? Or what's the expectation on when that can flow through or when we might expect that? Just given the kind of severe tightening that happened in capacity. Like I don't want the question to sound overly critical, but I guess I'm just surprised that, that number isn't a bit higher or accelerating faster and I understand you guys gave some of the guidance on -- that's accelerating or accelerated through the quarter. But should we expect that getting to like double digits as we think about beyond third quarter?

Adam W. Miller
CEO & Director

Ari, just to clarify, you're saying which metric double digits, talk about revenue per mile or just overall truckload revenue. I just want to clarify.

Ariel Luis Rosa
Citigroup Inc., Research Division

Yes, revenue per load mile, specifically.

Adam W. Miller
CEO & Director

Yes. No. So we came out of the quarter. We mentioned in June, we were on a revenue per total mile over 10% on a loaded basis, over 8% on a year-over-year basis. Now we did have some projects in June, which that drives a lot of premium freight, and look, we're still 70-plus percent on the contract side, 50% is spot.

You have some backup that we take. And so when you look at the spot rates, I mean, that's not really the market that we operate in, and it's small relative to the overall. But our goal is to have good sustainable contract rates and have flexibility to do projects and take advantage of the spot where it makes sense for our business. Now do I feel like you always take a little bit of a step back seasonally from projects as you go past the Fourth of July. July is still strong, just your normal business, but you may not have premium projects. We believe that will build into the back half of the quarter, particularly into September and so I think rates could start to trend in that double-digit range as you get into September. And then I feel like if things play out as expected, fourth quarter would really see a ramp-up as you'd expect to have a good amount of projects and a heavy amount of spot opportunities and even some backup opportunities as we go into the fourth quarter.

Andrew Hess
Chief Financial Officer

Ari, now we are securing, for the most part, double-digit rates in our bids and in negotiations. So that is the rate we're getting. You've got to remember, 1/3 of our fleet are dedicated, and that's going to follow a different cadence. We think the benefit will we'll come to dedicated to the market, but that doesn't happen in such a short time. So I think those are factors you got to make sure you include as you model the projection in the short term.

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

Thomas Richard Wadewitz
UBS Investment Bank, Research Division

So I know you've gotten a bunch of kind of questions on price that are kind of near term. Maybe, Adam, if I take a step back from that and say, we've got a couple of cycles to look at and how much did spot rates go up, how much did contract rates go up in, say, 2013, '14, '17, '18 and in the COVID cycle. Does this cycle we're in right now feel to you like your crystal ball that it's a lot more like the COVID cycle, and if that's the case, do you think that it's reasonable to think your rates up, call it, high single digits for the year this year and then you can get to like mid-teens next year. I guess in COVID, you probably got even more rate than that of 2 years, but your best look on how this cycle plays out maybe from a kind of, to your perspective?

Adam W. Miller
CEO & Director

Yes. So Tom, I want to refrain from giving any kind of future guidance beyond what we gave for the third quarter. What I would tell you is, again, this cycle feels a bit different because it's more supply-driven than demand. And so as I mentioned, when it's driven by demand, I think rates can come even faster, but it can be fleeting when that demand shifts like we saw during COVID. I think the rate will progress, and it may be a little bit slower than previous cycles and how it progresses, but I think it's going to be more durable. The real question, if we start to get demand, if you get some good seasonality in the fourth quarter and that can continue into next year, then I think you layer that on top of the supply constraints and what I think is going to continue, then yes, you're in a place where you could see rates move at a very rapid pace. But I think there's still a lot of things that have to play out for that to come into effect. So right now, it's we're giving guidance as we have for the third quarter. We're not -- we don't have guidance out for fourth, but I could tell you, I feel pretty bullish about how that could play out. But I don't know that I put a number to it yet, Tom. It's still kind of early innings on that.

Thomas Richard Wadewitz
UBS Investment Bank, Research Division

Would you compare it to a prior cycle? I mean, I guess you're saying it's rates happening a little slower. To me, it feels like rates happening really fast. So I don't know. I mean, do you think it's fair to compare it to the COVID cycle or you don't want to do that?

Adam W. Miller
CEO & Director

I guess what I would say during the COVID cycle, rates happened really fast because customers had all these sales that they were potentially losing if they didn't move the goods, right, and they had a lot of incremental demand, right? We've seen rates, we felt this thing turn over a quarter ago, well over that, and we didn't really start to see the real impact here until probably late second quarter. I believe that's going to continue. I think it's somewhat like a 2018 where you had ELDs that went into effect that restrained capacity. But I feel like this is going to be even more durable than that. We've just never seen the FMCSA and the DOT with the push that they're making on cleaning up our industry and taking the noncompliance of the bad actors out of it. So I don't think this cycle is anything that can really compare to over the past other than I feel like it's going to be more durable based on what this administration is doing. And I do feel like it probably raises the floor of where rates can go to when you have obviously, when the cycle begins to turn the other direction, assuming we don't go back to allowing maybe some bad actors into our space.

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

Richa Harnain
Deutsche Bank AG, Research Division

Okay. So just some clarification questions. I'll try to make it quick. Sorry to beat a dead horse, but just the guidance, revenue up only mid-single digits that ex fuel in Q3 year-over-year. Rate would be up more than that. So is utilization going to be down again year-over-year? And is that leading to the more muted top line, I assume? And then you still have OR improving 700 bps. So without as much utilization, I would just want to understand better what's driving that strong operating leverage, assumption? Is it just rate? Or are there big cost-out actions embedded? And then lastly, on the question regarding driver pay. I think you said, Adam, in the past on these calls. At the high end, something like 30% of rate is typically shared with drivers in an up cycle. Is that a good rule of thumb to consider this cycle? Or given all the creativity, Andrew, I think you described it pretty well, you're taking on to improve conditions for drivers or whatever, maybe it could be less than that? Just trying to understand on that nuance.

Adam W. Miller
CEO & Director

Well, that was a long question to squeeze in there, Richa, but we'll try to do our best to try to cover that. So on the driver pay front. I know I shared that, that's what we've done historically. I don't feel like we're in a position right now that that's what we would have to do with the rate that we're picking up. We're going to have to take more of that rate to improve the margin because of where that starting point is. So it's going to be much on the lower end of that or even below the low end that we typically do at with that 25% to 30% because the driver pay as a percentage of revenue has crept up over the years because we haven't reduced driver pay while we've seen rate reduce. And so we're going to have to get some of that back. So I would not model that much flowing through the driver pay based on the rate that we pick up. I think we talked quite a bit about the guidance there. From a miles per tractor standpoint, I mean, we think that's pretty flat sequentially. We do expect rates to continue to build. And as Andrew mentioned, the dedicated piece of the business, that will take more time to build as you go through contracts as they renew. And so we'll have some opportunity there, but that will be a slower part of it. But on the over-the-road side of the business, we expect to see that momentum continue to build for the business.

Andrew Hess
Chief Financial Officer

So just to be clear, we guided the truck count to be relatively stable into Q3, but we're lower than last year.

So you're comparing year-over-year, that's also contributing to the revenue number, but utilization is going to be relatively in line.

Operator

That concludes today's call, everyone. Thank you so much for attending. You may now disconnect.