Operator: Good afternoon, ladies and gentlemen. My name is Colin. I'll be your conference operator today. At this time I'd like to welcome everyone to the Knight-Swift Transportation Third Quarter 2022 Earnings Call. All lines have been placed on mute to prevent any background noise. If at any time during this call you require immediate assistance, please press star zero for the operator.

Mr. Miller, the meeting is now yours.

Adam Miller Chief Financial Officer, Knight-Swift Transportation Holdings Inc.: Thank you, Colin, and good afternoon, everyone and thank you for joining our 3rd quarter 2022 earnings call. Today we plan to discuss topics related to the results of the third quarter, provide an update on current market conditions and update our full year 2022 guidance. We have slides to accompany this call which are posted on our investor website.
Our call is scheduled to go until 5:30 PM Eastern Time.

Following our commentary, we will answer questions related to these topics. In order to get to as many participants as possible, we are going to limit the questions to one per participant. If you have a second question please feel free to get back in the queue. We will answer as many questions as time allows. If we 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 page two of the presentation and note the following:
This conference call and presentation may contain forward-looking statements made by the Company that involve risks, assumptions, and uncertainties that are difficult to predict. Investors are directed to the information contained in item 1(a), 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 on to slide three. The charts on slide three compare our consolidated third quarter revenue and earnings results on a year over year basis. Revenue, excluding fuel surcharge, grew by 9.2% while our adjusted operating income declined by 1.4%. GAAP earnings per diluted share for the third quarter of 2022, were $1.21 and our adjusted EPS came in at $1.27. On a year over year basis, higher interest expense, lower gain on sale, and a higher tax rate impacted Adjusted EPS by approximately $.10 per share.

Now let's move to the next slide. Slide four illustrates the revenue and adjusted operating income for the third quarter and year-to-date periods in each of our segments. Despite a changing freight market, our performance remained strong across each of our segments. Our truckload segment operated in the low 80's, while logistics continues to generate mid-teens margins. Intermodal continues to make year over year improvements and our LTL segment is outperforming the targets we set at the time of acquisition. We remain focused on continuing to diversify our business and develop complementary services that bring strategic value to our customers and partner carriers.

The chart on the right highlights the percentage of revenue during the third quarter of 2022 from each of our 4 segments as well as the percentage of revenue from our "other" services which include our rapidly growing insurance, equipment maintenance, equipment leasing and warehousing services. We believe this diversification positions our company to successfully navigate what could be a more challenging freight environment in the coming quarters.

We are encouraged with how well our different brands and services continue to collaborate to find new opportunities to grow with existing customers and forge relationships with new customers. Our company is made up of unique brands that have different strengths and provide different services throughout the supply chain. We bring creative solutions with scale to solve difficult challenges. We value vertical accountability for performance in each business but also horizonal collaboration across our brands to optimize and fully leverage our capabilities. Because of this structure and the leaders we have on our team we feel well positioned to successfully navigate the changing market.

The next few slides will discuss each segment's operating performance starting with Truckload on slide five.

On a year over year basis, our truckload revenue excluding fuel surcharge grew 3.7% while our operating income declined by 14.9%, as we operated with an 81.8% Adjusted Operating Ratio.

During the quarter revenue per tractor grew 1.8% driven by an 8.1% increase in revenue per loaded mile and a 4.2% decrease in miles per tractor. The improvement in revenue per tractor was more than offset by inflationary pressures across our business. Most notably, we continue to see cost pressures in driver related expenses, equipment cost and maintenance, and insurance. Within our Truckload Segment we adjust to market conditions and having a diverse group of brands and services, including nearly 5000 dedicated trucks, which provides us with some flexibility in strategy. For example, as over the road truck load volumes have become less robust year over year, our dedicated business has grown top line revenue and improved margins on a year over year basis.

Freight demand trended below typical seasonal patterns in the back half of the third quarter and these trends have continued into October. Given these trends we are expecting a muted peak season this year. Spot opportunities have declined significantly, and we have been pivoting towards making more commitments through the bid season to reduce our exposure in the spot market since the beginning of this year. Small carriers, who typically have significant spot exposure, are now dealing with depressed rates, higher fuel prices, higher fixed equipment costs, rising insurance costs, and now elevated interest rates that will most likely continue to rise. These factors have led to capacity attrition we are currently seeing and will most likely accelerate in the coming quarters.

Despite the changing market, our customers still value trailer pool capacity at scale and we see this demand in both our truckload and logistics segments. We continue to invest in our already industry leading trailer fleet, which grew sequentially to just over 75,000 trailers. We believe our scale in trailers is a competitive advantage and provides our customers capabilities that are extremely difficult to replicate.

Now on to slide six. Our LTL segment continues to perform well and is exceeding the goals we set at the time of acquisition. For the quarter, revenue excluding fuel surcharge was $224M and we operated at an 84.5% adjusted operating ratio. This represents a 300 basis point improvement from the third quarter last year, which was the first quarter including AAA Cooper. Volumes followed normal seasonal trends while pricing remains strong. Our revenue, excluding fuel surcharge, per hundred weight increased 15.5% year over year.

We have been extremely impressed with the leadership at both AAA Cooper and MME as we work toward merging our systems this quarter to create seamless connectivity for our customers, while maintaining the culture and brands of each company. We believe this positions us to provide additional services to existing customers as well as create new customer relationships. Our Knight and Swift brands have deep relationship with large shippers who in many cases deal with larger LTL providers. Creating a super regional network in the short term and a national network in the long term will enable us to find opportunities to further support our existing truckload customers with LTL capacity. We also believe this approach is very welcoming to other LTL companies who may choose to join this network. Again, we are very encouraged by the LTL results and our conviction for synergy achievement continues to grow.

Now on to slide seven. Our logistics segment continues to grow volume, with load count up 20.1% year over year. As compared to the third quarter of 2021, revenue was down just 5.2%, despite a 21.0% decrease in revenue per load. Gross margin also expanded to 20.9% in the quarter compared to 18.1% last year, leading to an 86.8% adjusted operating ratio. This resulted in a slight improvement in operating income compared to the same quarter last year.

Our customers continue to value the power only services we provide, which led to a 33.3% growth in power only load volumes. Our vast and growing trailer network allows our customers the ability to optimize their own warehouse space and labor costs. Third party carriers prefer power only business because it saves them hours at each load and unload location, lowers their capital investment and risk, reduces their operating costs, and gives them access to freight they historically wouldn't be able to participate in.

We continue to be excited about this business and have several technology initiatives ongoing that will improve the experience for our third-party carriers as well as provide more seamless information internally and to our customers that will lead to more opportunities to utilize our equipment.

I'll now touch on Intermodal on slide 8 before turning the call over to Dave.
Revenue grew by 16.0% while operating income increased by 34.5%, as the operating ratio improved from 91.5% to 90.2%. Volumes in the quarter were negatively impacted by the potential for a rail strike but have now rebounded to

normalized levels. We expect load count to inflect positive year over year during the fourth quarter. Revenue per load remains strong and was up 27.5% year over year and helped offset the impact of a 9.0% decline in load volumes.

Network fluidity and chassis availability remains a challenge within the network, however, we have made progress through the bid season to better align our freight network with our rail partners in both the West and the East.

Our goal is to continue to grow intermodal through improved box turns as well as expanded capacity, as we added approximately 650 containers during the third quarter this year.

I'll now turn it over to Dave

David Jackson, President & Chief Executive Officer, Knight-Swift Transportation Holdings Inc.

Okay. Thanks, Adam, and good afternoon, everybody.

Slides nine illustrates the growth in our businesses that are included in the non-reportable segment. For the quarter, we had a 56% increase in revenue and a 97% increase in operating income.
These increases in revenue and earnings are from our overall strategy to develop essential services for third party carriers. As outlined last quarter, the three primary objectives in these carrier services are:

1. Introduce new, profitable revenue streams with growth potential that further diversify our company
2. Leverage existing expertise in areas where we've proven industry leading results such as: risk management, maintaining equipment, and purchasing.
3. Provide these services in a way that benefits the relationships we have with small carriers as we build a much, much larger network using their power with our trailers and freight network

Many of these services are branded under our Iron Truck Services Brand.
We have found tremendous interest in our offerings from smaller third-party carriers interested in purchasing insurance, maintaining their equipment in our nationwide shop network, leasing equipment, and leveraging our buying power to purchase fuel. These new and expanded services, along with warehousing and equipment leasing, have nearly quadrupled revenue and are on pace to generate over $500M of revenue this year with projected operating income of over $60M compared to a loss of $68M in 2019.

Now to slide ten. This slide illustrates the progress of the intentional changing of the composition of our business into an Industrial Growth company.

The chart on the left shows the percentage of adjusted operating income from each of our segments and our other non-reportable services since the Knight and Swift merger in 2017 through the third quarter of 2022. We are pleased to report meaningful contributions in earnings from each area.

These diversification efforts make us a less volatile company and we expect will help us mitigate the downside through truckload freight cycles.
Our truckload earnings now represent only 63% of earnings which represents a meaningful shift from where we were in 2017 following the Knight Swift merger.

This reduction in our truckload earnings percentage has changed while at the same time significantly improving our truckload earnings from a 2017 full year combined proforma Knight and Swift earnings of $319M to $840M for the third quarter trailing twelve months.

The chart on the right shows our rolling 4 quarter adjusted earnings per share since the Knight and Swift merger. During this time, the EPS has moved from $2.16 per share to $5.64 per share for the trailing 12 months

Moving to slide eleven. Strong earnings have driven increases in our free cash flow which was $1.0B through the third quarter over the trailing twelve months. Year-to-date, we have used cash to increase our dividend to shareholders by 20%, repurchased $300M worth of shares and paid down $396M in long term debt and leases.

Since the 2017 Knight Swift Merger, we have invested $1.6B in acquisitions. Making acquisitions remains a high priority and our strong cash flow generation provides us with ample capacity for M&A opportunities. Our balance sheet is strong and we are well positioned to: invest in organic growth, pursue acquisitions, purchase more shares, increase dividends, and/or pay down debt. We are constantly evaluating market conditions to maximize our use of cash to create value for our shareholders.

On to slide twelve, Return on net tangible assets remains a key metric for us. Over the past 12 months, we have achieved a 22.4% return on net tangible assets which you can see from the graph is a substantial improvement from where we have been the past few years. Our goal is to improve this metric by focusing on 3 key areas 1) Growing our less asset intensive businesses, 2) acquiring and improving businesses, and 3) expanding margins in existing operations. During the third quarter, we made significant progress in many of these areas. In our less asset intensive businesses we saw 20% increases in load volumes for our Logistics business with a large part of those increases coming from our power-only service offering. We saw warehousing revenue increase over 60% year-over-year, and our iron services revenue increased over 140%. We have experienced synergies and improvement in every business we have acquired, be they warehousing, asset truckload, less then truckload, or truckload brokerage. In LTL, we are expanding our network in the fourth quarter with the addition of 4 new terminals and over 125 doors We believe our focus in these 3 key objectives leverage our core competencies in areas of opportunity unique to us, and will allow us to continue to generate significant returns to our shareholders over time.

Now on to the next slide, slide thirteen, and I'm going to take just a moment and give a little bit of background and kind of view into the market as we see it, so bear with me as I kind of walk through this. I won't hit each one of those bullet points, but I'll try and kind of, ah, I'll cover them one way or another, but just give some commentary here on what we're seeing in the market. We've been preparing for the next freight downturn since before the last one. When we saw the unexpected disruption from COVID-19 in the April and May timeframe of 2020, we quickly jumped into action, made immediate changes to adapt and to perform. The changing freight market, from the all-time high demand experienced that started really in the summer of 2020 and continued into a more typical seasonal demand, which we started to see at the beginning of this year, and now in some ways we're seeing sub-seasonal demand as we come towards the end of 2022 and head into 2023, has been a little easier to anticipate, predict, and even prepare for than what we originally saw back at the start of COVID-19. Now, although we've been hoping that the strength would continue, over the last year we have followed our playbook in preparing for the economy and the truckload market to slow. We reduced our exposure to the spot market at the beginning of the year and have made certain cost adjustments throughout the year. Mitigating the volatility associated with the full truckload market has long been a major focus for our company and something we frequently talk about with investors.
A major part of the rationale for our entrance into the LTL market was the reduced volatility in the LTL market, which has considerably high barriers to entry and has performed with remarkable consistency over the last two decades. It used to be that the truckload carriers' only real option for mitigating cyclicality was to increase the percentage of their business that's dedicated as opposed to a regular route. Our industry-leading OR and size have afforded us the meaningful cash flow to invest in related but less cyclical industries such as LTL or insurance or maintenance and, maybe even more impactful, to increase our already industry-leading largest trailer fleet, but to continue to increase that to create more value and reduce volatility with increased trailer pool business with our truckload customers by providing the truck and driver to power from one of our partner carriers in our massive portfolio of third-party carrier relationships.

The ability to provide access to concentrations of trailers in all 48 states is unique to us. It maximizes supply chain efficiencies, has a very high barrier to entry, and we operate trailers at what may very well be the industry's lowest operating cost per mile. These trailer pools offer customers flexibility in loading and unloading trailers based on their labor availability as opposed to unloading or loading when the truck arrives and the driver is waiting. Since the electronic log mandate nearly four years ago, most loads accrue additional charges to the shipper if not unloaded in two hours when a driver is waiting. The flexibility from our pools to unload in a day or two creates value and helps our contract rates and awards for both our own trucks and for loads that we secure for partner carriers. There are massive challenges facing small carriers today and they are unprecedented and we expect they will further intensify and result in further rationalization of industry capacity or supply. Similar to 2019, we expect that this will be a tale of two cities with shorter-term challenges for the well-capitalized, highly profitable carriers versus those already challenged in what has been a very strong freight market. We expect meaningful attractive acquisition opportunities over the next few quarters.

I'll now turn it to Adam to finish up with our guidance slide.

Adam Miller: Thank you, Dave.

So we'll turn to slide 14, which outlines our guidance for the full year 2022. We now expect full year 2022 adjusted EPS to be within the range of $5.17-$5.22 which is down from our previous quarter's guidance of $5.20 - $5.40.

For the fourth quarter, we expect a muted seasonal freight environment combined with significantly fewer spot market opportunities. This is expected to cause rates to turn negative on a year-over-year basis. Keep in mind that is a result of a more difficult comparison rather than rates meaningfully declining sequentially.

We continue to increase the number of seated trucks. As a result, our year over year change in miles per truck has improved each quarter in 2022. We expect the year over year deficit in miles per truck will improve in the fourth quarter as our truck count remains stable

Miles per tractor typically decline sequentially from the third to the fourth quarter due to the holiday disruptions. Normally, we would have significant spot opportunities and projects that more than offset the decline in productivity. Absent those opportunities, we expect our adjusted EPS to be lower in the fourth quarter than the third quarter

We expect our LTL business to improve both revenue and margin year over year, but Q4 will follow typical seasonal patterns in LTL with the fourth quarter not being as strong as Q3.

Logistics load volumes and revenue per load are expected to be consistent with Q3 with an operating ratio in the mid to high 80's.

Intermodal margins to remain in the high single digits with volumes improving year over year.

We expect other revenue and income to grow when compared to the prior year as outlined in slide 9

Inflationary pressures from driver expenses, maintenance, equipment, and non-driving labor will continue

We expect total gains on sale from equipment to range between $10M and $15M in Q4 as the used equipment market continues to moderate.

Due to rising interest rates, interest expense will continue to increase
Net Cash Capex for the full year to be in the range of $525 - $575M and our tax rate is expected to stay around 25% for the year.

These estimates represent Management's best estimates based on current information available. Actual results may differ materially from these estimates. We would refer you to the Risk Factors sections of the Company's annual report for a discussion of the risks that may affect results.

This concludes our prepared remarks. We would like to remind you that this call will end at 5:30 Eastern. We will answer as many questions as time allows. Please keep it to one question. If we are not able to get to your question due to time constraints, please call 602-606-6349 and we will do our best to follow up promptly.

We will now entertain questions Colin.

QUESTION AND ANSWER SESSION

Operator:
Thank you. At this time I would like to remind everyone, in order to ask a question, please press star followed by the number one on your telephone keypad. Again, this is star followed by one on your telephone keypad. We'll pause for just a moment while we compile the Q&A roster.

Your first question is going to come from Todd Fowler from KeyBanc Capital Markets. Please go ahead.
Todd Fowler, Analyst, KeyBanc Capital Markets Inc.
Great. Thanks. Good afternoon. Hey, Dave. Hey, Adam. So, Dave, maybe just to start, I know that this is a very difficult comp in the fourth quarter. Fourth quarter last year, I mean everything just really lined up and it was a fantastic quarter, but when I think about the implied fourth quarter guidance it's down almost 30%, about 27% at the midpoint or so. Is that what we should think about as a proxy, you still have difficult comps in the first part of 2023, or are there some other levers that you can pull on the cost side? Just trying to think about the order of magnitude of earnings here in the fourth quarter and kind of the run rate into next year. Thanks.

David Jackson: Thanks, Todd. I think, as you noted, last year we had about everything working for us. There was significant project freight, there was a significant peak, capacity was tight, and pricing was strong. And I would say that as we move into this, as we're moving now into what would be normally a peak season, things are much more orderly. It appears that there isn't the same kind of urgency that we saw last year. Inventories appear to be or are high and I think we're seeing that in the pull through. We're seeing that in the muted imports coming in. And so it feels like there's some catch-up going on and it appears that our customers aren't, they definitely don't have the level of project business that we had last year. So, on that year-over-year comparison for the fourth quarter, I wouldn't say that that is the same comparison, but the reasons for that to be off the way that it is doesn't hold true as we move into next year. Now all indications are the economy is going to continue to soften, but we don't normally see the kind of project business and we don't have a peak in a first quarter and so I would be careful, Todd, to try and extrapolate or read through what you see for fourth quarter into first and second.

Adam Miller: Todd, I'd also add to that, I think. I wouldn't model the normal seasonal change from Q4 to Q1 in terms of what happens with EPS as you transition, because you just don't have the uplift into Q4 that you typically would, so I think Q1 would be, you know, we haven't put out guidance yet for next year but I think you would see less volatility in EPS from Q4 to Q1 than you typically would.

Operator: Your next question comes from Jack Atkins from Stephens. Jack, please go ahead.
Jack Atkins, Analyst, Stephens Inc.: Okay, great. Good evening and thank you for taking my questions, guys. So I guess, Dave, maybe, and Adam, feel free to chime in on this as well, but I'm imagining top of mind for most investors after the cut to the guidance and the modest miss is really sort of, you know, things are slowing down faster than you would have anticipated 90 days ago, maybe even 45 days ago. Could you maybe update us on that trough earnings outlook that you provided six months ago? I think you said $4 plus. I think any sort of help you could give us around what that would assume in terms of a magnitude of just a freight recession or a macro recession and has your level of confidence in that $4 number changed at all based on what you've seen here over the course of the last few months.

David Jackson: Yeah. Appreciate the question, Jack. We continue to have conviction for that floor that is north of $4 a share. You look at the kind of performance that we've been able to do the last three quarters in what has been a changing environment where the spot market has been almost nonexistent and things have worked in a much more seasonal-type pattern, and now maybe even sub-seasonal now as we go into a fourth quarter, and you see the way that we've continued to perform in our business. And it isn't just one business in particular, but you can look at the low 80s OR on the truckload side, you can look at low to mid-80s on the LTL side, you can look at still being in the upper 80s in our Logistics side, and low 90s in Intermodal. I mean those are remarkable numbers in what has been a market that has not given a lot of spot. And so I don't know that that's totally appreciated maybe by the market and I don't know that people appreciate how durable the earnings per share of this business really are. So we continue to have good conviction for that and, Jack, I would say that we continue to pile up free cash flow. And it has not been a buyer's market. And things are working in our favor a little bit here as things start to adjust that will give us, hopefully, better opportunities and more opportunities to acquire businesses that are transportation-related, not just… We've

obviously talked about LTL quite a bit, but transportation-related and transportation companies. And so that's going to afford us a wonderful opportunity to continue to grow our business even in kind of an uncertain time.
I would also add that, from prior cycles we've learned this, that as supply rationalizes in the full truckload market, we can see, we usually see, and we expect to see that the truckload freight market will recover before the broader demand market recovers, because supply eventually gets to a point where enough has come out that you find that at least equilibrium or maybe at that point where you're undersupplied in a market even though you might have muted demand. And so there has not been, in this last cycle there has not been the kind of capacity additions that we've seen in previous cycles. And we've never seen, that we've noted, we've never seen capacity come out as early as we've seen it come out of this cycle. Really, before contract rates were even negative we saw capacity slipping away and we believe that that's accelerating right now. And so there are few industries that have a prospect of recovering before the broader economic demand has a chance of recovering. And so the full truckload, I think, is one of those.
Adam, anything?

Adam Miller: I mean just to reiterate, Jack, the plight for the small carrier may not have ever been as severe as it is right now. If you think about the higher fixed costs have been locked in with the very elevated used equipment that's been purchased over the last couple of years and now, with rising interest rates, the inability to finance new equipment is a real challenge, or if they do it's at very elevated rates. And we're seeing signs just even from third-party data, we're seeing from the FMCSA authority net revocations are down and BLS data shows truck employment off over 11,000 just last month. Drug and Alcohol Clearinghouse was at a very elevated range, just under 7,000 for the month of August and is trending 20% higher year over year. We've had a lot of anecdotal scenarios with just carriers that we deal with, even what we're seeing on the used equipment market where demand has fallen off pretty sharply here the last couple of weeks, and there's probably several factors impacting that. So we've talked about demand has not been as robust, I think that's pretty clear, but the fact that we believe capacity will rationalize much quicker than it has over other cycles still gives us great confidence in the $4 trough.

David Jackson: Can I continue to stay on this topic for one more second here, Jack?
So, you know, as we sit here and we talk about supply eroding out of the space, what does that have to do with $4 a share? Well, for our business to give up that much earnings per share, what that would mean for a typical carrier, for even many of the midsized, even some larger carriers, but especially the small carriers, what it would take, what they would have to give up for us to get down to $4 a share is unsustainable. It wouldn't work. We don't see it getting that far. And that would assume that we wouldn't be in a position also to continue to acquire and improve businesses over time as well. So there's a myriad of reasons and rationales that help us to have conviction that our earnings per share doesn't drop below a $4 handle.

Operator: Your next question comes from Ken Hoexter from Bank of America. Please go ahead, Ken.
Ken Hoexter, Analyst, Bank of America: Great. Good afternoon, Dave and Adam. Yeah, hey, how are you? So I want to stick on that theme a little bit, right, because I think that you set the bar with that $4 discussion, right, and so now you're looking at that dollar kind of run rate in the fourth quarter. And so, as you think about into early 2023 and the demand level, I get that you're saying you're seeing... Are you saying you're already seeing that pace of carriers leaving? And I just want to understand, maybe talk about your thoughts on your breakeven costs, where rates are relative to that, what the market, you know, just so we understand kind of how it differs for you versus the market in terms of those costs, just given it seems like the fourth quarter is trending toward that $4 number you're talking about.

David Jackson: Well, we see signs all around that small carriers are having difficulty. I think we saw that earliest materialize by midyear when we had significant interest in our owner-operator program where individuals that had previously owned a truck and appeared to be upside down in their truck and were getting out of a truck and looking to find somebody else that would put them into a truck. The used equipment market went from all time high to very difficult to find anybody interested. I can assure you that's not because everybody's average age of a truck is so young that they don't have to do that. I mean the need is real and acute for this industry. This industry should be buying or upgrading eight-year-old and nine-year-old equipment to four and five-year-old equipment at a record pace right now. The truck orders, the new builds, should be massive right now for what wasn't built over the last two and a half years that should have been built to maintain an average age. And so completely contra trend based on the average age and the way it's always worked. You have small carriers that anybody who did get their hand on a used truck over the last year and a half has grossly overpaid based on where valuations are today. And I think that's just beginning. Anecdotally, we hear from those that have receivables with small carriers and it has turned ugly very, very

quickly for them. It began early part of the year, and it has accelerated dramatically. And so the pressures just continue to mount. I wouldn't be surprised if there aren't many small carriers that were just holding out hope for the fourth quarter, a strong fourth quarter, to bail them out of a tougher summer with no spot. Because many of them have found themselves very dependent on the spot market or very dependent on a non-asset broker who used to be able to charge a much higher rate to the customer and pass a lot of that through. And so that has changed.
And so what is that different to us? Well, Ken, we're not one truck and one driver that needs to be unloaded when we roll in. We have deep contractual commitments where we know our customers' supply chains and we provide them all kinds of trailing capacity and a high level of service and help to try and help them smooth out supply chains that have been distorted and disrupted over the last couple of years. And so, as a result of that, the contractual market has not experienced anything close to what the spot market has been experiencing for the last eight or nine months. And so naturally, as the economy cools and there's not urgency, you start to see pressure on contractual rates, but it's been a much different story than what happened to spot rates. So I think that's one of those factors. And so there is rightsizing that's happening as we speak. I think, as Adam quoted the BLS data from the most recent month that they've reported, which was August. I don't think it was September. I think it was August. For the trucking employment to be down 11,400, when it was not oversupplied to begin with, that's meaningful. Net revocations of nearly 7,000. And you continue to have, which we're grateful for, the Drug and Alcohol Clearinghouse. And it's at record high rates of drivers that are not qualified. So we definitely have not been in a mode for now multiple quarters of any kind of growth and it's all about attrition and we expect that that will continue.

Operator: Thank you. Your next question comes from Ravi Shanker from Morgan Stanley. Ravi, please go ahead.
Ravi Shanker, Analyst, Morgan Stanley: Thanks. Good afternoon, Dave, Adam. So I think, just to touch on something that came up earlier in the Q&A, I think your tone and your message and the content of your message has fairly significantly changed since you were at our Laguna conference a little over a month ago. Again, not just to you. A lot of your peers have done the same thing. Can you just help unpack that for us? Kind of you mentioned in your release kind of the last few weeks of September saw a decline. Kind of how has that kind of unwind kind of panned out? What is your current view of peak season? What are your customers telling you their inventory situation looks like? Basically how long do you think this downturn will last? Do you think it's more like a 2019 or a 2016, a light freight downturn, a broad consumer recession? Kind of what's your thinking right now?

Adam Miller: There's probably a lot to unpack with that question, Ravi, so I'll take a stab and then let Dave clean up anything I miss there. But, you know, we were out there in Laguna. We still didn't have perfect visibility of what we were expecting for fourth quarter, right? It's rare that you go into a fourth quarter and not see some type of seasonal uplift in projects and spot opportunities and, especially with companies of our scale, we typically get some of these large kind of difficult projects to handle and they typically pay a premium. And so, as we got closer into the fourth quarter and realized none of that stuff materialized, I think we would certainly view the market a bit differently. And how that translates into next year, I still think we've got to see how that plays out, but it'd be rare to see a second fourth quarter in a row to have that type of lack of spot opportunities, right? We just have never seen, I think, a period of time that's lasted that long without any type of spot opportunities. And as we talked about earlier with great detail about the attrition of capacity, we think that's probably coming out faster than we've seen really in any other cycle.
And just say anecdotally, talking with customers, I think they all have, in their own unique ways, some inventory overhangs they've got to deal with, and in most of our conversations they feel like those are resolved over the next six to nine months. And it's probably going to be unique by each customer depending on the industry they're in and the strategy of their business, but they do feel like it's a shorter-term issue that they can solve and I think that's why we're just not seeing the urgency to move goods in Q4 that we typically would. But eventually I think inventories will be rationalized and during that process capacity will come out and I think we'll be in a position, and that could be just a few quarters from now, where the market is much more balanced and the large players that bring value with scale and trailer capacity are in a position to see opportunities at premiums to help support our customers.

Operator: Your next question comes from Amit Mehrotra from Deutsche Bank. Please go ahead.
Amit Mehrotra, Analyst, Deutsche Bank: Thank you very much. I guess I have maybe one question. So, if I look at the quarter, yield was up 8%, utilization was actually better sequentially, but yet operating ratio deteriorated 400 basis points, which obviously reflects the project work, the freight selection opportunities, all the stuff that you mentioned, but we haven't really seen like the real crack in contract rates at all, and so I'm trying to sensitize the model. You seem convicted in the $4-plus EPS trough number, but we actually haven't seen the real pain as it relates to contract rates coming down. And so, Dave, I'd love to get your kind of latest and greatest crystal ball estimate about how you think contract rates kind of evolve over the next 12 months and if you're actually starting to

see, you know, obviously you're the largest asset-based provider, if you're seeing contract rates start to crack a little bit. And Adam, you've talked about kind of this mid-80s OR as being kind of a very defensible line in the sand in a bad market. Is that kind of what's underwriting that $4-plus number? Or do you feel like the combination of weaker contract rates and then still a weaker freight selection or project environment can actually take you a little bit worse than that?

David Jackson: Okay, Amit, we're going to try and answer all three of your questions here, okay? So I'll start and maybe, Adam, you can pick up that last one. So first, this idea of the progress, the progress in utilization and the deterioration in the operating ratio, I think that this somewhat is, the explanation there, I think, is instructive as you look forward to contract rates. What that tells you is there is meaningful inflation for our business. There has been and it continues. We've done a fair job of mitigating and managing it throughout the downturn. I mean we're fortunately not in a situation where you're trying to buy a microchip that used to cost you $3.50 that now costs you $200 or something, but our driver wages have gone up materially over the timeframe, and it was needed, it was appropriate, and you don't just backtrack on that. That's not how that works. Costs for equipment, costs for maintenance items and the maintenance service, as we look around, we're affected by inflation, and so I do believe that does create a bit of a floor in terms of pricing. I wouldn't be surprised if the non-asset-based brokers don't feel a little bit of pinch in this fourth quarter as they're finding a floor in pricing that carriers can haul a load for while maybe, you know, with the lack of project freight and whatnot, not able to get as much from a customer. And so, if we look at what our rate per loaded mile did in our Truckload business, this was the first quarter in quite a while where the rate was only up single digits. And clearly our costs are up more than single digits on a year-over-year basis. So that is the reality. That is the reality that we are facing as truckload carriers going into the bid season. And I would say that, based on our operating ratio, I'm not sure that there's anybody in this industry that's managed the cost better than the way that we have and how we've performed. And so we go in and compete with other carriers and just only have so much room to work with for contract rates.

Second thing I would note about, you know, in trying to predict and anticipate contract rates, the best example we have to go with, Amit, would be to go back to 2019 where, over that 15-month period when we went from peak to trough, it took 15 months, give or take a few weeks, to go from the lowest and to see the highest rate. We went from an unbelievable period of 2018, grossly oversupplied the industry, saw the downturn take place, and then by late spring of 2020 things had bounced back. Over that timeframe we saw a massive drop off, 50% to 55%, in spot rates. Now arguably what we've seen this year may even be more than that for small carrier spot rates. And we saw contract rates only off approximately 5% in that full 15-month period. So, as we go into a bid season with legitimate imputed cost, operating cost per mile increases that are in many cases irreversible, I'm not expecting that there's the kind of room to retrench a whole lot on contractual rates. Now, as we go through this process, we have some customers where perhaps we can do things a little bit more efficiently. Or based on the timing of the renewals maybe there's an opportunity for us to do something and secure some volume. We've been doing that since the first of the year, since January. And those results are in our numbers thus far. And so we'll continue to provide a deal if we can find a more efficient way to do this. And one of the things that we have going for us is we have economies of scale that are unique to our business where there are sometimes some things and efficiencies that we have and we can offer that maybe others can't. And those are some of the things we've already exploited thus far this year. There is more we're going to do. This is partly why we talk so much about power-only. We were able to find small carriers to come and haul loads at rates that gave us meaningful margins in our Logistics business when they had all kinds of other opportunities. And you can imagine right now the interest in small carriers to want to come and partner up where we have loads and we have trailers, I mean it's definitely more than we can keep up with. And so we're finding ways to create efficiencies and to create wins as we move through the bid season.

Adam Miller: Yeah, just to add, Amit, I think you've got to recall how the bid season really played out this year. About this time last year is when it started, spot rates were still elevated, there was probably opportunity to move contract rates up that needed to be, but as you got it halfway through the bid season spot rates had come off and so there wasn't a lot of contract rate improvement on a year-over-year basis in the back half of the bid season. And so as you go through this year's bid season there's not going to be near the movement needed with those customers in those lanes based on what they renewed at. So I just want to make sure we realize that, you know, the bid season kind of played off, there's a tale of two cities there. Also, as you go into a more difficult environment, the large, well-capitalized fleet typically see more labor come to the large, well-capitalized fleets with stable networks. And so we'll have an opportunity to seat more trucks, most likely be more productive. Our goal is to reduce our empty mile percentage to allow us to really run more miles with our seated trucks to help offset any of the rate pressure we may feel. And then certainly, I think you know our culture, we'll become very cost disciplined. We already are, but we'll dig deeper into our organization and most likely make progress where we can from a cost standpoint.

Operator: Your next question comes from Tom Wadewitz from UBS. Tom, please go ahead.
Thomas Wadewitz, Analyst, UBS Securities LLC: Dave and Adam, good afternoon. Dave, I think you had some comments about M&A that seemed to indicate that you have some optimism. I think you said maybe the next several quarters. You also referred to transportation-related and kind of said, well, it doesn't have to be LTL. I think most people are focused on LTL. I wanted to see if you could offer some further perspective. Are you optimistic you might be able to do an LTL deal in the next several quarters or would you point us more to other things? And then when you say transportation-related, I don't know if you can give us a little more perspective on what you mean by that. Thank you.

David Jackson: Okay. Thanks, Tom. I think, if you'd noticed some optimism, I think that's fair. Boy, we've worked really, really hard and looked at many, many deals. I would say that I've certainly seen an influx of deals, particularly it appears like a lot of private equity are looking for a new home here before we enter into a different economic environment. And so a lot of things we've looked at. Timing is everything in these kind of situations. We feel like there's a lot of individuals that have watched us closely, are probably watching us closely to understand how serious we are about preserving local brands and then trying to collaboratively help their business be better and the other multiple businesses that we have. So we feel like we're somewhat auditioning, if you will, for others that we've had conversations with. So that's all underway and I feel like we're making some headway.

I think when you see a change in the environment, you know, when it's a little harder for individuals to get access to capital, it is we feel like we've got some good headway there and some good relationships. Our interest in acquiring only continues to grow and we can be a source of capital and solve some issues for individuals that are looking for what's next for their business. Now, that being said, continue to be very interested in LTL. It feels like LTL has been through perhaps a peak there in valuation and we've been through an unbelievable time there and we still think that that business will navigate well whatever is coming our way economically relative to other businesses. And so that's one that we continue, Tom, to be very optimistic that we're going to have some matches to expand our superregional network. We talked about this in the release that here in the fourth quarter we're going to have MME and AAA Cooper, two totally independent brands, working under one network together in a seamless way. And there have already been efficiencies with the way we've already worked together, and this will take it to a new level. So we're just over a year into LTL already and we love everything we've seen and so that is very interesting to us.

I would say that typically, as we roll over on cycles, we start to see valuations change over time in the full truckload world, and so I don't know that full truckload companies have been given the kind of reward that historically they deserve in a time like this. If you look at our PE multiple in particular, especially given the return on tangible net assets of 22.4% the last 12 months, just to name a stat, and what kind of a multiple you would normally see a business like that trade at, and so it's times like this that we often have interest in full truckload again because where we anticipate the market to be going and moving as well as, in times like these, sometimes businesses reassess what their game plan is. So when I say transportation-related, it would be in part because we've bought a variety of different types of companies just over the last year and a half between tech and an expedited broker non-asset and two LTL firms, but we may be overdue for some truckload business and there is no shortage of truckload businesses out there and we feel like we know how to do truckload for sure and that would be interesting to us. So that's what I intended with what I shared earlier, Tom.

David Jackson: Thanks well, that concludes the time for our call. I will tell you it appears that we still have nine analysts that are in our call queue that we were not able to get to your questions and so, again, we would refer to you to the phone number we gave earlier to give us a phone call and reach out if you'd like to still have a discussion. Thanks for everyone's interest. Be safe.

Operator: Ladies and gentlemen, this concludes your call for today. We thank you for participating and ask that you please disconnect your lines.