Operator

Good afternoon. My name is JP and I will be your conference operator today. At this time I would like to welcome everyone to the Knight-Swift Transportation First Quarter 2023 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.

Speakers for today's call will be Dave Jackson, President and CEO; Mr. Adam Miller, CFO. Mr. Miller, the meeting is now yours.

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

Thank you, JP, and good afternoon, everyone, and thank you for joining our first quarter 2023 earnings call. Today we plan to discuss topics related to the results of the quarter, provide an update on current market conditions, and update our full year 2023 guidance. We have slides to accompany this call, which are posted on our investor website. Our call is scheduled to go until 5:30 p.m. Eastern Time and following our commentary we'll answer as many questions on these topics as we receive. We're going to limit the questions to one per participant and if you have a second question please feel free to get back into the queue and we'll answer as many questions as time will allow. If we're not able to get to your question due to time restrictions, you may call 602-606-6349.

To begin, I'll first refer you to the disclosures on slide two of the presentation and note the following: This conference call and presentation may contain forward-looking statements made by the Company that involve risks, assumptions, and uncertainties that are difficult to predict. Investors are directed to the information contained in Item 1A, Risk Factors, or Part One 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.

Before we get into the slides, I want to turn the call over to Dave Jackson for a few opening remarks.

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

Thanks, Adam, and good afternoon, good evening, everyone. I appreciate you joining our call. I wanted to begin by acknowledging that we recognize that we can not entirely escape the cyclicality of the full truckload industry, but we have taken intentional steps for years to maximize our performance in every phase of the cycle. This has included truckload acquisitions, the development of technology, and a business strategy to create maximum value for our customers in strong times and to diversify our income streams to mitigate the downside pressure through the bottom of cycles.

When looking at cycles over the last decade, we've performed with higher highs and higher lows in each sequential cycle and we are on pace to do that again this cycle and are already preparing for increasing the high of the next cycle. LTL, or less than truckload, dedicated, and an appropriate strategy of moving away from the spot market well in advance of the downward truckload rate pressure have been major factors in our business continuing to perform in the mid-80s operating ratio range during this current challenging freight market. The most recent strong cycle experienced in 2021 enabled the cash flow to make the strategic investments in LTL in large part to prepare us for the bottom of the cycle, which is where we find ourselves now. We expect the recently announced acquisition of U.S. Xpress to be one of the factors that enables us to achieve yet again another higher high in the strengthening phase as supply attrition makes way for a correction. We have modified our 2023 earnings per share guidance and we'll provide details later in this call on how that change was calculated. As we near the trough of this current cycle, our revised earnings guidance below $4 per share is still significantly higher than the previous cycle trough experienced in the first quarter of 2020.

Now I'll turn it back to Adam for slide three.

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

Thank you, Dave.

So, as we move to slide three, we compare our consolidated first quarter revenue and earnings results on a year-over-year basis. Revenue excluding fuel surcharge declined by 12% while our adjusted operating income declined by 48.9%. GAAP earnings per diluted share for the first quarter of 2023 were $0.64 and our adjusted EPS came in at $0.73. These results were negatively impacted by an $8.5 million pre-tax or $0.04 per diluted share expense within our Truckload segment for the development of certain large prior year insurance claims, the majority of which arose from an unfavorable jury verdict during the quarter, and in addition to a $22.8 million operating loss or $0.11 per diluted share in our third-party insurance business within the non-reportable segments, primarily as a result of increased frequency and unfavorable claim development during the quarter and premium collection issues associated with small carriers. On a year-over-year basis, softer freight demand, lower spot rates, and contract pricing that declined throughout the quarter negatively impacted earnings.

Now let's move to slide four, as it illustrates the revenue and adjusted operating income for each of our segments. Despite a first quarter impacted by consistently low import volumes, weather challenges, and a lack of the typical seasonal uplift in March, our largest segments navigated the soft environment and pricing pressure well. Our Truckload and LTL segments operated in the mid-80s while Logistics produced a 90.4% adjusted operating ratio. Intermodal was largely steady with a 95.4% adjusted operating ratio while growing volumes. Freight demand in the first quarter was below expectations and more persistently soft than typical seasonal patterns. Weak demand pressured volumes and pricing while ongoing inflation was a further headwind on operating income. Various public spot rate indicators had already fallen 30% to 40% year over year by the beginning of the quarter and the persistent softness drove spot rates even lower by the end of the quarter. This also serves to put more pressure on contract pricing throughout the bid season. The chart on the right highlights the percentage of revenue during the first quarter of 2023 from each of our four segments as well as the percentage of revenue from our other services, which include our third-party carrier services, equipment leasing, and warehousing services. We remain focused on service to our customers, reducing costs, and positioning our business for the eventual improvement in demand as we navigate the current operating environment. We continue to work on diversifying our business and developing complementary services that bring strategic value to our customers and partner carriers.

The next few slides will discuss each segment's performance, starting with Truckload on slide five. On a year-over-year basis, our Truckload revenue excluding fuel surcharge declined 8% while our operating income declined 43.5%, reflecting the comparison of an unusually weak first quarter of 2023 against the first quarter of 2022, which was the last quarter to enjoy a combination of solid demand, strong and rising contract pricing, and a largely stable spot environment. With contractual freight tenders coming in below forecasted levels, we had to divert some freight from the Logistics business to the asset fleet and pick up more ad hoc business as well, which served to put more pressure on the overall revenue per mile than expected. Our Truckload business navigated the softness well and operated with an 86.6% adjusted operating ratio as a result of cost control and strong operational execution. During the quarter, revenue per tractor fell 9%, driven by a 5.3% decrease in revenue per loaded mile and a 2.7% decrease in miles per tractor. The decline in revenue per tractor, combined with inflationary pressures, caused the reduction in Truckload operating income. We continue to take steps to align our cost structure with the reduction in volumes and our cost per mile was essentially flat on a sequential basis. Having a diverse group of brands and services, including roughly 4,600 dedicated trucks, provides us with flexibility in strategy. For example, as the over-the-road truckload volumes have softened year over year, our dedicated business has grown top-line revenue and improved margins on a year-over-year basis.

Now on to slide six. Our LTL segment continues to perform well and makes progress on yield and network initiatives, which allowed this business to essentially hold revenue, operating income, and margin flat, despite the softer volume environment. For the quarter, revenue excluding fuel surcharge was $214 million and we operated at an 85.7% adjusted operating ratio. Pricing remains solid as revenue excluding fuel surcharge per hundredweight increased 8.7% year over year. Shipments per day were down 5.7% year over year, but did show stabilization exiting the quarter and into April. The map shows the ACT and MME terminal networks and indicates new locations since the acquisition in 2021 as well as the planned locations in the near future. Filling out a super-regional network in the short term and creating a national network in the long term will allow us to participate in more freight and enable us to find opportunities to further support our existing Truckload customers with LTL capacity.

Now on to slide seven. Our Logistics segment navigated an extremely soft freight environment to perform with an adjusted operating ratio of 90.4%, which was a 470 basis point worse than the first quarter of the prior year. Gross margins remained stable year over year at 19.8% in the quarter. Overall revenue was down 51.2%, driven by a

36.4% decrease in revenue per load from lower spot market rates and a decrease in load count of 23.2%. Load volumes continued to be negatively impacted by lower import volumes, particularly out of the West Coast ports. Despite the challenges in the market, our Logistics business remains disciplined and nimble and maintained near double digit margins. This business also continues to support our Truckload segment in certain markets where we need additional freight to support our drivers, which put additional pressure on logistics volumes, particularly power-only. Logistics has been a great complement to our asset-based businesses.

Customer behavior has exhibited a strong preference for the power-only value proposition over the past few years and we expect this service will be an outsized beneficiary once demand recovers. Our industry-leading trailer network allows our customers the ability to optimize their own warehouse space and labor costs. Third-party carriers prefer power-only 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. On the right of the slide we shown an actual snapshot of our trailer locations at a point in time to illustrate the extensive coverage we have throughout the supply chain network. This network of 79,000 trailers provides us the ability to respond with distinctive scale in both our Truckload and Logistics segments to our customers' needs. 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 better utilize our equipment.

I'll now touch on Intermodal on slide eight before turning the call over to Dave. Revenue increased 1.3%, driven by an 8.5% increase in load count, partially offset by a 6.7% decrease in revenue per load. In addition to the well-known rail service challenges, Intermodal volumes in general are being pressured by the soft rate environment and the current competitive position of the truckload alternative. Customers are leveraging the low spot rates, quicker transit times, and better service in the truckload market. That being said, we are encouraged to see sequential and year-over-year growth in our volumes as well as bid activity yielding promising new volume awards. In addition, the improved hiring success in our drayage fleet is enabling us to internalize more drayage moves, allowing more efficient utilization of our equipment and lower costs. While rail service has been improving, intermodal shippers need to see better service consistently to allow further opportunities for more freight. Labor within the rail network appears to be improving, which should help close the service gap between Intermodal and Truckload and support future growth for this business.

I'll now turn the call over to Dave.

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

Thanks. Slide nine illustrates our non-reportable segment, which includes insurance, maintenance, and equipment sales and rentals under the Iron Truck Services brand as well as equipment leasing and warehousing activities. For the quarter, revenue grew 20.7% year over year to $142 million, though operating income was a loss of $15.6 million, a $27 million reduction from the prior year. While our non-reportable segment has seen strong growth over the past few years, the past two quarters have seen a meaningful shift in the performance of our third-party carrier insurance business. This is primarily driven by a change in the risk profile of the small carriers we cover and their ability to pay insurance premiums. We believe the significant pressure put on their businesses by the unprecedented drop in spot pricing over the past year, combined with persistently high inflation, has had impacts on their businesses, which produce a higher risk than was originally underwritten. As a result, we have decided to temporarily reduce our exposure to this third-party carrier risk at this point in the cycle, effective with the start of the second quarter. This decision will be a headwind to growth for this segment, but we believe it is a prudent move for our business in an unusually difficult trough environment for small operators. Beyond this decision, we are already taking steps to enhance our insurance program, which include higher pricing, improved collections, and more timely cancellations. The other services in this segment continue to perform and are expected to drive modest revenue growth for the year and a return to positive operating income for the non-reportable segments later in the year, though the quarterly run rate will be roughly half of the previous level. We expect to continue growing the revenues and income from these other services over time and believe this effort supports our ongoing diversification objective.

Now on to slide 10. On March 21st we announced the transaction to acquire U.S. Xpress. We expect this transaction to close early in the third quarter. We're excited for this opportunity and have been impressed with U.S. Xpress leadership's willingness to help U.S. Xpress achieve the three-year milestones outlined in this slide; specifically, within three years an, upper 80s OR in the over-the-road truckload and dedicated businesses with an upper 80s to low 90s OR for brokerage. Total Transportation, which is an independently operated truckload carrier in Jackson, Mississippi, has already consistently been in the 80s and we expect to assist them in getting to the low 80s or even better. We have much work to do, but our confidence in achieving these goals has only increased since the announcement was made and we've had the opportunity to engage with a broader group of U.S. Xpress employees and leaders. The incoming president and the incoming CFO of U.S. Xpress have many years of experience at Swift Transportation and were critical in the performance improvement achieved at Swift following the 2017 Knight-Swift merger. We expect to see meaningful earnings progress in 2024 from this $2 billion revenue truckload carrier.

Now on to slide 11. This slide contains our updated outlook on market conditions for 2023. Not much has changed since the last quarter other than we now anticipate somewhat deeper pressure on revenue per mile before stabilizing and eventually improving and that that inflection could be a little later than initially estimated. We still expect the current softness will persist through the first half of 2023 based on indications from shippers on working through their inventory overhang and with the cooler and wetter weather delaying the start of produce season. We now estimate that the average spot rates have fallen below operating costs for a large portion of the industry's carrier base. This soft environment and lower rate expectations, combined with ongoing inflation in equipment, maintenance and insurance, will increase the pressure on carriers, especially smaller and less well-capitalized carriers. Higher interest rates and tightening credit standards are also taking a toll. These factors should serve to accelerate the ongoing capacity attrition. As the year progresses, demand should begin improving as shippers make further progress reducing inventory levels and import volumes return to more normal levels. The combination of demand recovery and supply reduction should lead to improving freight market conditions by the end of the third quarter.

I'll now turn it back to Adam to cover our 2023 revised guidance on slide 12.

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

Thank you, Dave. For the full year 2023 we now expect adjusted EPS to be in the range of $3.35 to $3.55, which is updated from our original guidance of $4.05 to $4.25. We understand this is a significant change, so we plan to walk through the key drivers of this change.

First, as I noted earlier, the persistent weakness in demand has created more pressure on pricing. As a result, we now anticipate that revenue per mile will decline high single digits for the year as compared to our original expectation of being down mid single digits on the year. We project that the path to this annual change includes the year-over-year decline reaching its worst at a high single to low double digits in Q2 before trending to be flat year over year in Q4. We still expect non-contract opportunities combined with some return of peak season volume to support this comparison in the fourth quarter. We still project dedicated rates to increase in the low single-digit rate for the year.

Second, growth in our revenue and operating income in our non-reportable segments will slow as a result of the challenges in our third-party insurance business and our strategic decision to reduce the underwritten risk during this difficult trough environment. What was initially projected to be a growing contribution to earnings from this segment is now projected to be roughly half the adjusted operating income it produced in 2022 before returning to growth in 2024. There are no meaningful changes in the other services within the non-reportable segments and, like we called out on the slide, this is approximately a $0.35 impact to our guidance from what we originally had posted to the update today.

Third, in Logistics, we expect continued pressure on revenue per load to persist through the second quarter, which may impact both margins and revenue as compared to our original assumptions. Logistics OR should remain in the low 90s.

And fourth, we are seeing better progress on operating costs than initially projected. Additionally, gains on sale are now expected to be in the range of $15 million to $20 million per quarter as compared to the initial guidance of $10 million to $15 million per quarter. The decline in secondary equipment prices seems to be slowing at a refresh rate of equipment, of equipment remains behind, or as equipment remains behind historical pace and new equipment prices remain out of reach for many carriers, which is supporting the used equipment alternative.

Our other assumptions saw little change and are as follows: Our LTL segment is expected to see slight improvement in revenue with relatively stable margins. Truckload tractor count should remain sequentially stable throughout the year with miles per tractor reflecting positive year over year in the back half of the year. Intermodal revenue per load will deteriorate in the first half before improving sequentially during the back half. For the full year, we expect the operating ratio to remain in the mid-90s. Inflationary pressure will decelerate as labor loosens and equipment availability improves. And CapEx is still expected to be in that $640 million to $690 million range and our tax rate is expected to be around 25%. The CapEx and the guidance does not include any of the results from U.S. Xpress. We will provide any update required or appropriate once we close that transaction.

So this now concludes our prepared remarks. JP will now open the line for questions.

QUESTION AND ANSWER SESSION

Operator
At this time I would like to welcome everyone to the question-and-answer session. If you would like to ask a question, please press star then the number one on your telephone keypad. Again, this is star one on your telephone keypad. We will pause for just a moment to compile the Q&A roster.

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

Tom Wadewitz, Analyst, UBS

Yeah, great. Thanks, Dave. Thanks, Adam. I wanted to ask you about your thoughts on second quarter and how you think freight may progress. And then, you know, it's been a very unusual seasonal pattern, right, in terms of not seeing the pickup in March and I guess you're saying not seeing it in April, so is there a catalyst for freight to improve within the quarter?

And then, I guess, the contract rates, I don't know how much of the impact you saw in 1Q, but contract rates stepping down seemed like a sequential headwind, so how would you think about Truckload OR in 2Q versus 1Q? Is that potentially under further pressure just given that lower contract rate impact? So, just some thoughts around 2Q in truck. Thank you.

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

Okay. Thanks, Tom. Maybe I'll take the first half of that question, maybe Adam can take that second half. As you noted and we mentioned, we did not see that normal March seasonal uptick like we've seen in virtually every other first quarter, and that's continued in April. And April never is a whole lot to be excited about, just given kind of where it falls in the calendar and the seasons, and that continues to be true this year. It appears that temperatures have been quite cool through the early part of the spring and, as temperatures begin to rise, we expect that that will bring a little bit of a catalyst in the beverage season as that begins to pick up. From the indications that we hear, the wet season throughout the first quarter will lead to a little later produce season, so I do think in the second quarter we have the possibility of seeing that kind of seasonal uplift, which is too early to see in any typical second quarter, but we still could see that as we move deeper into May for beverage and probably closer to June on the produce.

That being said, the other key factor to watch is to start to see imports normalize a bit. Things in the southeast have stayed a little bit busier with the port. I looked at a report just this morning and Savannah has got about ten ships out there and L.A. Long Beach had two. And so it's very rare that you would see Savannah have a multiple like that of ships at dock versus L.A. Long Beach. And so there are some indications that we're starting to see a pickup in some of the volumes that are about to make their way, the containers that are about to make their way over the ocean and come into the West Coast again. And so this has been, you know, I think it's been 20 years since we've seen such a prolonged deficit of imports on the West Coast and so, obviously, we have a fair amount of exposure in the west, and so we've had to navigate that already. It's hard to imagine that we would see a repeat as difficult on imports for a consecutive quarter in the second as we saw in the first. So that would be a positive sign to look at.

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

Sure. And I think, you know, just to dovetail off what Dave said, anecdotally, from some of our larger customers, they feel in a much better position from an inventory standpoint and so I think they expect their orders to ramp up to replenish the inventory as they work through the overhang. That was really spring inventory that they got last year late.

When we think about contract rates, we were through much more bids than we would typically be at this time, as many of our customers were pulling that forward to try to, I think, get some concessions on rates before they normally would bid, and so I think we've felt a lot more of that pressure in the first quarter than we typically would in a normal bid season. But certainly sequentially we would expect to see more pressure on rate per mile and that would weigh on margins. So we are expecting operating margins in the Truckload business to feel some small pressure sequentially and then from there improving as we transition to the back half of the year and third and fourth quarter.

Tom Wadewitz, Analyst, UBS

Great. Thank you very much.

Operator

Your next question comes from the line of Jack Atkins from Stephens. Your line is now open.

Jack Atkins, Analyst, Stephens

Okay, great. Thank you and good afternoon, Dave and Adam. So I guess a two-part question, if I could. So Dave, I guess as you sort of think about, and Adam feel fear to chime in as well, but as you think about the potential for a market inflection or stabilization by the time we get to the fourth quarter, I guess what's giving you the confidence to be able to make that call? We're certainly coming off of an extremely unusual last two and a half, three years and I would just be kind of curious to kind of get you to flush that out a bit. I know it sounds like customers are maybe a little bit more optimistic, but would just be curious if you could maybe talk a bit more about that.

And then, as it relates to the U.S. Xpress acquisition, I've been getting some questions from investors about how much potential revenue cull there might need to be there as you guys implement the profit improvement strategy. So Dave, perhaps you could talk about what may need to happen there in terms of culling some revenue, just like you did at Swift, to be able to get to the profit targets that you're looking for there? Thank you.

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

Okay, Jack, we'll try and give you answers here. Appreciate the questions. I would say, when we look at what gives us the confidence, when we look at the supply-demand equation, despite the fact that demand has been down, it tells us, and things have still been, and it still continues to be weak, tells us that we still have some more supply that needs to be worked through. But we think that we're nearing levels where you start to overcorrect how much supply has come out.

So, if we look at it from a supply posture, there's three key factors. There's what's going on with trucks. And we know that we're now a few years with the inability to produce enough trucks to maintain the refresh rate within the industry and so, as was noted, we're seeing life still in the used market because it's the most viable alternative to a new truck. And that really is not a legitimate viable alternative when you can't keep the refresh rate alone and so, given the challenges in supply chain to deliver the volume of trucks has also led to steep, steep price increases at a time when the rates won't support that. So the first of the three would be look at what's going on with trucks. We would not be surprised if we saw meaningful cancellations. It sure feels like that world has loosened up quite significantly and that typically would have a tendency to overcorrect.

The second would be labor. There are indications that labor seemed to peak sometime last year in approximately the third to maybe the early fourth quarter, but likely in the third quarter when you look at over-the-road employment. It feels like that's been slipping since. We have our own barometers that we look internally when we look at what it takes and how difficult it is to source leads and, in particular, to higher experienced drivers, and so we have seen all the signs of labor shifting away from other businesses. And then we've experienced it with services, obviously, that we provide to third-party carriers, whether it be fuel discounts or insurance, and then other relationships we have in our brokerage. We definitely are seeing attrition. We understand the economics of trucking and when we look at where the spot rate environment is, it's not possible on many headhaul lanes to still be profitable and exceed your cost per mile. So we definitely see the attrition underway in labor and do not see a floor that comes into play to stop that.

And then the third would be, well, what's the buffer? In other words, what is the appetite for financing to allow small businesses, small carriers to be able to weather the storm to get access to funding to replace and replenish very old equipment with slightly newer equipment or to navigate negative cash flow situations? And that is the kind of the third leg here. That has been rather abrupt in terms of banks tightening up the credit there.

So those three factors, you know, in previous cycles, when you have those three things going on, it's just doesn't, it's only a matter of time. And we are arguably into our fifth consecutive quarter of steeply negative spot rates with unrelenting inflationary costs. So we're going to need to see another quarter or two and see where we go, but the combination of another quarter or two where we don't have robust demand, and the supply chains have been able to play a little bit of catch up, they all seem to be pointing to a time where there will eventually, we expect in the fourth quarter, you'll have a more ordinary supply chain flow and it will be met with significantly fewer trucks and drivers and trailers.

Now just my take on your second question about the revenue cull at U.S. Xpress, it's hard to get overly specific until we've closed the deal. There's a lot of information, specifically customer rate, et cetera, related that we won't have access to until we close that likely early third quarter, but I would tell you that we are not going into this with any kind of expectation for a revenue cull. That's not how we look at this. That would probably be the wrong way to look at it as well given where we are timing-wise in the cycle let alone just the way we approach these kind of businesses.

Now I'm sensing that possibly that comment comes because, after the September of 2017 Knight-Swift merger, we saw a decline in revenue, primarily because of a reduction in the number of trucks over the road, but that was a very different scenario. That was a scenario where we had new drivers who were not subject to hair follicle drug testing. And so after closing that deal in the fall of 2017, starting in January of 2018 we began hair follicle drug testing, which disqualified a significant number of drivers, very similar to the number of trucks that ultimately came off the road in the first 18 months. We also had some independent contractor exposure in areas that we weren't comfortable with. And so the combination of increasing safety standards while reducing risk in the independent contractor program and with the drivers hired, that was a very conscious decision we made about what was in the best interest long term of the safety and profitability of Swift. And that had more to do with that than it did somehow trying to cull or trim revenue. And we wish it wouldn't have been that way, but that's how that was. We weren't able to recruit drivers, qualified drivers, at a fast enough pace to replace those that were not qualified. Of course, over time, by changing some of the sources and leads and things with the driver hiring, we've been able to address and deal with that issue.

At U.S. Xpress, they have already adopted hair follicle drug testing and so that bridge has already been crossed. They do not have the same kind of independent contractor exposure that we previously had. And so when you look at U.S. Xpress, what you have as a business that is largely broken up into a few big pieces. You've got a very large dedicated piece, approximately $800 million, that's performing today in, you know, historically, if I look at previous times, based on their public filings, they were performing in the mid-90s. You've got an over-the-road piece that's a very similar size, almost the same number of trucks, approximately $750 million, that's underperforming and hasn't been profitable. And then you have a $300 million independent business in Total Transportation that was performing what appears to be largely in the mid to upper 80s and then a brokerage business that's got a decent operating ratio in the mid-90s. And so really, you break all of that down, and we're not looking at this, Jack, as that there needs to be really any kind of revenue cull. And so we'll work through those details after we close, but I wouldn't be budgeting for that.

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

Yeah, just to add to that, Jack, as Dave mentioned, the issue on the Swift side was more driver-related than a conscious effort to cut back on any customer freight, and when I look at the U.S. Xpress opportunity, I mean there's a very large delta between the turnover at Knight-Swift and the U.S. Xpress turnover. And so for us to put some resources there and make some progress there, they already have a very good recruiting effort, I think gives us some protection from losing some of the drivers that we saw during the Swift merger. So I think we feel confident that we won't see the same type of slip in revenue as you alluded to.

Jack Atkins, Analyst, Stephens

Okay. Thank you for the thoughtful responses, guys.

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

Thanks, Jack.

Operator

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

Ravi Shanker, Analyst, Morgan Stanley

Great. Gents, thanks for the color. So maybe if I just take a step back a little bit and, Adam, I know you gave a bunch of detail on the guidance in the second half and everything else, but just big picture, Dave, kind of when you told us a year ago that you thought the floor of earnings was $4, obviously, you're in the mid-3s right now, kind of what has changed? Has the cycle been more severe than you thought back then? Has the diversification not helped with the cyclicality of earnings enough? Kind of what changed versus that initial view and kind of what's your current view of where peak or normalized EPS is?

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

Yeah, maybe I'll touch on that first, Ravi, and then Dave can add any additional color. So I think about the $4, certainly we were not expecting to see the results in the insurance business that began to show up in the fourth quarter and continued into the first quarter. And some of those would have been attributed to probably a more challenging environment where you have some smaller carriers that are probably pressed to run more miles to make up for lower rates that are challenged to make some of their payments on their insurance premiums. We're feeling the impact of that. As well as just some of the other compliance issues around the program that were a bit challenged of not having equipment available from a camera standpoint when we were in the heart of the pandemic and some of that equipment was not available because of supply chain constraints. And so we were trying to be flexible with some of these carriers and probably found that we had some adverse selection.

So when we pivot the strategy to try to limit the downside on that business, I think, certainly, we're feeling the impact on our guidance. And I mentioned that's probably about half of the change in what we made from what we originally put out. So that was unexpected, not planned for. And then we think about the current environment today, we certainly weren't planning for imports to be at historic lows. When I think of 2021, we saw historic demand, and some of that was just because of constrained capacity from a labor standpoint. We didn't quite know what the backside of that was going to be and it's proven to be a lot more dramatic, the change. Now I think when we look about how we've always tried to forecast this business, we've probably never forecast how quickly it changes from declining as well as improving. And so when we look out to the back half of this year, we still have some optimism, but it's probably been pushed out a bit given the current environment we're in. But hey, that could change more rapidly than we expect.

Again, $4 was a number that we felt we had some confidence around, but hey, there was a few moving pieces we didn't account for. But as Dave mentioned in his opening remarks, and I look at the trough of earnings, assuming that the guidance holds up, it's still much higher than we were in previous cycles, and the businesses we did layer on LTL helped us get there, as you see the stability in that business, and growing Logistics and I think the profitability coming from the Swift business relative to where we were when we first merged have all led to that higher trough number. And then we look out with what we expect to be able to do, the progress we'll make with U.S. Xpress will again reset that number higher, both the trough and the peak of earnings.

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

Well said, Adam. Ravi, I would just add that a 67% decline in our Logistics operating income business for the first quarter, that was quite an adjustment, and for some of the reasons Adam mentioned, right, the decline in imports, which feeds so much of the country from a full truckload perspective. Clearly, our Logistics business helped support a little bit our asset-based business. I will tell you that to take a 51% decline in revenue and a 67% decline in op income in that business and yet still produce a 90.4% operating ratio is rather acrobatic. I mean I don't know that there are many businesses that can withstand that kind of top-line change and yet still be efficient and nimble to move with the market, which they did. It's just that robs some income. And I think that I can't emphasize enough that about 50% of that adjustment below the original guidance is tied to that insurance program. And so I would hate for people to lose that.

Now if you still were to go down to, call it, the midpoint of the new guidance, that still is going to put you more than 60% higher on an earnings per share basis than we were at the trough of the last cycle. And so we're trying to mitigate the cyclicality the best that we can but, more importantly, we're trying to make sure that, as we go from cycle to cycle, the collar of the high and the low continued to increase, and surely that is what we have seen happen now for the last few cycles. And we've been able to exacerbate that by making strategic acquisitions beginning with the Swift acquisition in 2017, announced in April of 2017, which was not exactly a great freight environment, but to be able to make these moves to further amplify and put our free cash flow to work to help us make sure that, from cycle to cycle, we go in improving both the top and the bottom of the performance with our earnings per share. That is a key objective for us and I think that, hopefully, you would agree we're well on our way to set ourselves up to continue to do that for the next cycle.

Ravi Shanker, Analyst, Morgan Stanley

Understood. Thank you.

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

Thanks, Ravi.

Operator

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

Ken Hoexter, Analyst, Bank of America

Hey. Great. Dave, Adam, good afternoon, early evening. Maybe talk a little bit about the outlook on bid season here. Obviously we've got spot rates that have really rolled and surprisingly continue to roll downward, right? We're now into the $1.20. It seems like that has historically been a trough. I don't know, maybe you can comment on your thoughts there and how the trends are going as we kind of move almost two thirds through bid season here. Thanks.

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

Okay, Ken. Thank you. Yeah, I think it does look a little bit like spot rates have maybe hit a floor there. Hard to think, well, hard to imagine that they would have gone that far to begin with, but it seems rational that they would be bottomed where we see them kind of bouncing on the bottom based on certain indices. When we look at the bid season, I would say we've had somewhere between two and three years of truckload rate increases with customers now looking to try and get some of that back. Now those rate increases that we've seen paled in comparison to ocean rates, for example, or some of what they've had to pay for warehousing or other components of the supply chain, but there clearly is an effort to get some of that back.

Now they're also has been an acknowledgment, through the behavior of our customers, that they recognize the value with the committed contractual business that usually involves trailer pools so that they have days to unload a trailer and not two hours to unload a trailer before they're penalized and take increasing cost. And so we think that, of course, that is a component of changing evolving regulation with ELDs and the kind of outsized value that you get with a nationwide trailer pool network. Maybe to support that, if you were to go back and look at the gap between spot rates and contract rates from the 2014 peak to the 2016 trough, that spread between contract and spot was about $0.30. And then if you looked at the most recent previous cycle, which would have been 2018 until probably the first quarter of 2020, the peak spread there was $0.60. And of course, that's the first cycle since we've had electronic logs. So you see this doubled the spread, meaning a significant acknowledgment of the value that trailers can bring. Now if we look most recently, peak to trough on the spread with spot rates now somewhat moderating it looks like, that spread appears to be about $0.78. So, somewhat similar, but even more exacerbated. Perhaps there's a little bit of an effort to try and get a little bit of that back by customers. We see that. It's a fluid situation. And as Adam mentioned, we've been through a significant portion of those bids. We think as many as 70% of our bids have already flown through the network. And so that gives us a little bit of a visibility into what to expect as we see the year play out. And of course, the minute things tighten up, things begin to change and rates change rather quickly in that kind of an environment. So I hope that's helpful, Ken.

Ken Hoexter, Analyst, Bank of America

No, it's helpful, yeah, I think just given the speed of the spot, it's interesting to hear what you're seeing and how that's going to pan out, but I appreciate that historical look back.

Operator

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

Jordan Alliger, Analyst, Goldman Sachs

Hi. I was wondering if we could turn to LTL for a second, maybe talk a little bit about sort of core price environment and the industry. I assume it's generally holding up, maybe some color there, but also a little bit on the demand environment. Obviously we've talked a lot about truckload, but is the timing of things for LTL relatively comparable in terms of your expectations? Thanks.

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

Yeah. We're still new in this. Boy, it's so refreshing compared to what we see in the truckload world and so I think relative to where LTL has always been, you know, they've seen some pressure on shipments. But as we noted, revenue per hundredweight was still up. It was positive 8.7%. And first quarter is seasonally not a great quarter typically for LTL, so I feel very good about the 85.7% operating ratio.

From indications, April is off to a good start in LTL, which is not what we have alluded to already today in the full truckload market. So we're seeing the resilience there. And we've got some difficult comps here for the next couple of quarters on year-over-year shipments, but we remain encouraged there and I would say that business is performing probably most in line with what we would have expected for this year, to answer your question, Jordan.

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

And I would just add, Jordan, we combined the AAA and MME networks on a single platform, we did that in the fourth quarter, and we've kind of work through some challenges that have come from that, as you would expect with any type of integration. And probably by the end of the first quarter we'll have put most of that behind us and so, as we look towards the end of the first quarter and into the second quarter, we've seen some nice volume pickup, particularly in the MME network, as a result of now being part of a larger network with the AAA Cooper Group.

Jordan Alliger, Analyst, Goldman Sachs

Thank you.

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

Thanks, Jordan.

Operator

Your next question comes from the line of Chris Wetherbee from Citi. Your line is now open.

Rob, Analyst, Citigroup

Good afternoon, guys. It's Rob on for Chris.

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

Hi. How are you?

Rob, Analyst, Citigroup

Good. Could you give us a little bit more color in terms of the cost-per-mile outlook that you guys have provided? It sounds like gains on sales will be stepping up. Excluding the gains on sales, what are your thoughts with regard to inflation in the back half of the year? And alongside that, with the gains on sale, are these kind of sales that you guys are doing to the OEMs and you've got good line of sight or is this just based on your expectations of what you're seeing flow through the stores

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

So, to hit on the gain on sale, the lion's share of these sales are going to be to third parties. And it does feel like some of the third parties, because of where new equipment prices have grown to, that I think their only option to improve the age of their fleet, which is certainly going to be older than our fleet or other large public companies, would be to access the used equipment market versus going to new equipment, and so I think we've seen prices hold better than we originally thought because of that dynamic. And so we trade very little now, because we have a pretty good sales force and a network to dispose of the equipment, and so that's what's led us to improve the guidance around gain on sale.

Now absent gain on sale, I think we're still making progress in several areas. Now, hey, it's not easy. I think there are certain vendors who took pricing up quite a bit during the pandemic that we're going back to because some of their raw goods prices have come off, their commodities have come off, and we're seeing some concessions. Now it's slow, but we have quite a bit of purchasing power and so we'll probably get more than our fair share of discounts. And then, hey, when we think about when we do close the deal with U.S. Xpress, it probably gives us even more opportunity to help on the cost front for not only U.S. Xpress but just to leverage that overall spend to get a better deal for all companies in involved.

And then you think about labor has loosened up some for the large carriers because there does seem to be a flight to quality from the small carriers who are failing or don't have the freight opportunities to come to the large carriers and so that's meant we haven't had to do as much in terms of sign-on bonuses or other incentives. We're getting more experienced hires, so not as much training required as we did several years out. So getting some, making some progress, some savings in that area. And then as we get into the back half of the year, if the market plays out like we expect and volume starts to tick up, we expect miles per tractor to improve on a year-over-year basis, which certainly helps cover your fixed costs and lowers your overall cost per mile. So not dramatic moves from where we are, but some small sequential improvement as we progress through the year.

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

And I would just add to that, when you look at the miles piece, so for the back end you'd see our cost per mile was up about 3.7% here in the first quarter. Now that was with miles down approximately 2.7% and yet those miles have been down for some time, several consecutive quarters. And naturally in a market where it's more difficult to find loads and volumes are pressured, we're at a spot where there's a rather significant amount of pent-up operating leverage in the business if we can improve that kind of productivity and what that can help us do with cost. Adam didn't mention this, but we are battling higher interest rate costs on a year-over-year basis when we compare as we move throughout the rest of the year and so that's robbing earnings per share just a little bit as well. So there's been tremendous effort to keep that cost per mile at an increase that's just a low single digit. But there are ways and pent-up leverage that can really help us maximize the earnings and the cash flow that we can create in this business as we get through this toughest part of the cycle, hopefully sooner than later.

Rob, Analyst, Citigroup

Appreciate the color, guys.

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

Thanks.

Operator

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

Bascome Majors, Analyst, Susquehanna

Thanks for taking my questions.

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

Hi, Bascome.

Bascome Majors, Analyst, Susquehanna

Hi. Good evening. Going back to the insurance business, can you walk us in a little more detail through some of the disappointments that you felt in the last couple of quarters between what came from credit risk and non-payment versus underwriting severity and frequency that just didn't meet your expectations? And as you look out it a little bit further, is that a business that can grow again or is something that's going to be deemphasized permanently given the experience over the last couple of quarters? Thank you.

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

Yeah, those are good questions. We just have to recognize this is a new business that has grown rather rapidly for us. The efforts that we have to mitigate risk over time have been a little bit challenged by the ability of some of these carriers to access technology and some things that the carriers had fully intended to do but weren't necessarily always able to do because of supply chain challenges for certain technology components. I would say that the tail in the development on these kind of claims, it takes a bit of time, and so you don't necessarily know exactly how these play out. When you're starting something from scratch and growing it rather rapidly, you don't always know quite how that's going to play out. And so it's played out for the last two quarters in an unfavorable way relative to what we would have expected from a claims perspective and so we had been building quite a surplus it felt based on the claims reserves up until these last couple of months. And then you couple that with a very difficult operating environment where you have carriers that are finally to the point to where they are unable to pay their insurance premiums, which they recognize that means they're going to lose their coverage, which means they're going to lose their ability to haul loads, which further gives us conviction for how difficult the environment is and the likelihood of the continued supply, if not accelerated, supply attrition. But that is now a more recent factor to play out. That was a bigger factor in the first quarter than it was in the fourth quarter. But I would say, between the two quarters, obviously a majority of that expense would be on that insurance and claims due to frequency and severity of the claims that we've experienced. And so, as we noted in the release, you're talking about $0.11 in this quarter and so, hence, we've taken some actions to mitigate that.

Now, as for where do we go from here, there's a lot in the program that are performing well, that is a good return business for us. We operate somewhere in the neighborhood of four million miles a day and we understand safety, we understand risk, and so we do think that there is a very viable business here and a very viable growth opportunity in this business, there just are times where you want to take risk and there are times where perhaps you want to back away. This is the time where we want to back away. It also allows us just to catch up a little bit with the prolific growth that we've had in terms of systems and our ability to manage it and allow supply chains to catch up so that things can function the way that we intend for them to do. But long term, we do see this as a growth opportunity, so this pause and this slowing of growth we view as temporary.

So, we appreciate your question, Bascome, and with that, it looks like we are out of time. JP, we'll turn it back to you to conclude. Everybody, we appreciate you joining our call.

Operator

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