STIFEL

July 25, 2013

Swift Transportation Company
SWFT – NYSE
Buy
Trucking/Logistics

Analysis of Sales/Earnings

2Q13 Adj. EPS Beats Street by $0.03; Up 19% Y/Y On Operational Improvement

- **Beat Street: reported adjusted 2Q13 EPS of $0.32, up 18.5% y/y.** Adjusted 2Q13 EPS exceeded the Street consensus estimate (i.e., $0.29) by over 10%. Relative to our Stifel estimate ($0.27), the company's operating ratio was 130 basis points better than our forecast as all four business segments (Dedicated, Truckload, Intermodal, and Other) saw better than anticipated operating ratios in 2Q13. However, we note that the company's 2Q13 adjusted EPS were favorably impacted by higher gains on sale y/y to the tune of ~$0.01.
- **Overall revenue climbed nearly 3% y/y to $898 million.** Excluding fuel surcharge revenue, revenue climbed just over 4% y/y to $726 million.
- **The Dedicated segment continued to show the most progress y/y:** although revenue (excluding fuel surcharge revenue) increased only 0.8% y/y (not terribly impressive, in our view), its operating ratio (net of fuel surcharge revenue) favorably declined by 380 basis points y/y—leading to an operating income increase of 31% y/y.
- **Core Truckload Segment generated a flattish performance y/y as improvements were neutralized by the soft freight environment.** Although revenue (excluding fuel surcharge revenue) was up 3.9%, operating income declined by 5.0% as the Truckload operating ratio unfavorably increased by 130 basis points due to a higher empty mile percentage y/y. Revenue per loaded mile (excluding fuel surcharge revenue) increased 1.6% y/y.
- **Intermodal segment revenue (excluding fuel surcharges) increased 5% y/y** as the company handled 3.4% more loads y/y using a fleet of domestic containers that was, on average, 34% larger on a y/y basis. In addition, revenue (excluding fuel surcharges) per load increased 1.3% y/y net of fuel surcharge revenue.
- **Overall adjusted operating ratio was 86.8%, a 20 basis point improvement y/y.** OR improvement was led by the company's Dedicated segment (OR was favorably lower by 380 basis points y/y) due to culling some non-compensatory contracts and adding some new business.
- **Continues to pay down debt faster than promised:** the company paid down over $73 million in the 1H13. At the end of 2Q13, the company's leverage ratio stood at 2.58x, down from 2.8x at the end of 4Q12.
- **Management reiterated that the company remains on track for 10% to 15% EPS growth for 2013.** We plan to provide a brief update and an updated model after the company's earnings call at 11:00am (for those who wish to listen in, the dial in is 877-897-8479 and conference ID is 11147554).
- **Swift Transportation remains our Best Idea, and we are reiterating our Buy rating on the company's common shares.** Our 12-month target price is currently $20 (or 14.0x our current 2015 EPS estimate of $1.43). Based on last night's closing price of $16.75, our 12-month target price provides over 19% upside potential over the coming year—enough upside potential, in our view, for us to reiterate Swift Transportation's common shares as our Best Idea.

Prices are as of the close 7/24/13.

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All relevant disclosures and certifications appear on pages 4 - 6 of this report.

Swift Transportation reported adjusted 2Q13 EPS of $0.32, up 18.5% y/y. Adjusted 2Q13 EPS exceeded the Street consensus estimate (i.e., $0.29) by over 10%. The 19 analysts publishing quarterly EPS estimates for the company had carried 2Q13 EPS estimates ranging from a low of $0.23 to a high of $0.33. Our Stifel estimate had been below the consensus at $0.27 as we believed the weak freight environment in April and May would weigh on the company's results. However, those soft months appear to be more than made up for by improving June trends, particularly from strength in the Southern and Southeastern portions of the U.S. Relative to our model, revenue growth was in line with expectations, up 2.9% y/y but the company's operating ratio improved by 20 basis points y/y to 86.8% (net of fuel surcharge revenue), whereas we had forecasted overall OR to unfavorably increase by 110 basis points given the softer freight environment. The OR beat was driven by the company's Dedicated segment, but all four segments (including Truckload, Intermodal, and the company's Other Revenue—an amalgamation of Logistics, Brokerage, and revenue generated from support services to customers and owner-operators) saw better than anticipated operating ratios in 2Q13. Additionally, we note that the company's 2Q13 adjusted EPS were favorably impacted by higher gains on sale y/y to the tune of ~$0.01. However, unlike 2Q12—which saw a favorable EPS impact of $0.030 to $0.035 from fuel surcharge lags—2Q13 saw much smaller benefit from the decline in fuel prices during the quarter (we estimate the favorable impact was below $0.01). So, if we were to normalize 2Q12 and 2Q13 earnings for the aforementioned adjustments, the company's y/y EPS growth rate would have been 29% (i.e., $0.31 in 2Q13 versus $0.24 in 2Q12)—a strong y/y EPS growth rate given the weak freight environment, in our view.

Overall revenue climbed nearly 3% y/y to $898 million. Excluding fuel surcharge revenue, revenue climbed just over 4% y/y to $726 million. The company's Dedicated segment continued to show the most progress y/y among the company's business segments. Although Dedicated segment revenue (excluding fuel surcharge revenue) increased only 0.8% y/y (not terribly impressive), its operating ratio (net of fuel surcharge revenue) favorably declined by 380 basis points y/y—leading to an operating income increase of 31% y/y. The company achieved the margin improvement by culling some non-compensatory contracts and adding some new business which meets the company's RONA targets. In addition, the company made some operational improvements that helped drive the margin expansion, enabling a slight (-0.4% y/y) reduction in the average fleet size while increasing revenue per tractor per week (net of fuel surcharge) was by just over 1% y/y. For the full year, the company expects to grow its Dedicated average operational truck count by 100 to 200 units.

The company's core Truckload Segment generated a flattish performance y/y as improvements were neutralized by the soft freight environment. Although revenue (excluding fuel surcharge revenue) was up 3.9%, operating income declined by 5.0% as the Truckload operating ratio unfavorably increased by 130 basis points. The OR expansion was due to empty miles experiencing an unfavorable increase from 10.9% in the 2Q12 to 11.4% in the 2Q13, as well as higher driver and owner-operator pay (which were implemented in 3Q12 and included in our estimates). Top line growth was driven by a 3.2% y/y improvement in revenue (excl. fuel surcharge revenue) per tractor per week to $3,270—driven by a 2.2% increase in loaded miles in combination with an increase of 1.6% in revenue per loaded mile (excluding fuel surcharge revenue). Utilization, measured in terms of loaded miles per tractor week, improved 1.5% y/y. We believe this is impressive given that the company increased its Truckload segment's average fleet by 71 tractors y/y—mainly for growth in the Southeastern and Mexico markets, where freight demand was the strongest. For the year, the company now expects to grow its one-way, irregular route Truckload fleet by 200 to 300 trucks, dependent upon economic conditions and freight volumes.

Intermodal segment revenue (also excluding fuel surcharges) increased 5% y/y as the company handled 3.4% more loads y/y using a fleet of domestic containers that was, on average, 34% larger on a y/y basis. In addition, revenue (excluding fuel surcharges) per load increased 1.3% y/y net of fuel surcharge revenue. Digging further into loads, container on flat car (COFC) loads were up 12.6% y/y while trailer on flat car (TOFC) loads were down 47.6% y/y, presumably as the company's expanded fleet of containers gained increased utilization. The company's Intermodal segment operating ratio (net of fuel surcharge revenue) improved by 90 basis points to 98.9% y/y. The improvement was driven by the increased revenue per load and improved dray efficiencies resulting in a lower drayage cost per load.

Other revenue (Logistics, Brokerage, and revenue generated from support services to customers and owner-operators) grew 12% y/y driven by increases in Brokerage revenue and services provided to owner operators.

The company's overall adjusted operating ratio was 86.8%, a 20 basis point improvement y/y. Note that the adjusted operating ratios remove fuel surcharge revenue from both revenue and expenses. We believe that this adjusted operating ratio calculation better allows investors to compare operating ratios more meaningfully across multiple time periods without the operating ratio being slanted one way or the other due to high (or for that matter low) fuel prices. So, it is clear that revenue growth and operating margin expansion (net of the $0.01 y/y increase in EPS due to increased gains on the sale of used equipment) explain about half of the EPS growth y/y, let's say ~$0.025 of the $0.05 y/y growth in EPS. The other $0.02 of y/y improvement in 2Q EPS was driven by the de-leveraging of the company's balance sheet as quarterly interest expense dropped $5.3 million y/y to $24.3 million.

The company continues to pay down debt faster than promised. So far in 2013, the company has paid down over $73 million in net debt. During its IPO roadshow just over two years ago, the company promised to pay down between $50 and $100 million of debt per year going forward. In 2012, the company paid down a total of $174.2 million in additional debt, ending the year with $1.52 billion in net debt. At that pace, the company could pay down all its debt from internally generated cash flow in approximately 8.8 years, all else remaining equal. At the end of 2Q13, the company's leverage ratio stood at 2.58x, down from 2.8x at the end of 4Q12. Finally, the company's debt re-financing (completed during the 1Q13), which lowered its blended interest rate by approximately 100 basis points, and subsequent voluntary prepayments in 2Q13 on its Term Loan B-1 and A/R Securitization have further improved the company's earnings power and liquidity.

Management reiterated that the company remains on track for 10% to 15% EPS growth for 2013. Our EPS estimates (prior to the company's earnings release) called for y/y EPS growth of 11.0% in 2013, 13.5% in 2014, and 13.5% in 2015—or EPS of $1.11, $1.26, and $1.43, respectively. However, given the favorable earnings report our numbers are under review and we will be listening intently to the company's earnings call at 11:00am (for those who wish to listen in, the dial in is 877-897-8479 and conference ID is 11147554) for management's view on the 2H13 freight environment/economic landscape. Our plan is to provide a brief update and an updated model after the call.

Swift Transportation remains our Best Idea, and we are reiterating our Buy rating on the company's common shares. Our 12-month target price is currently $20 (or 14.0x our current 2015 EPS estimate of $1.43). Based on last night's closing price, our 12-month target price provides over 19% upside potential over the coming year—enough upside potential, in our view, for us to reiterate Swift Transportation's common shares as our Best Idea.

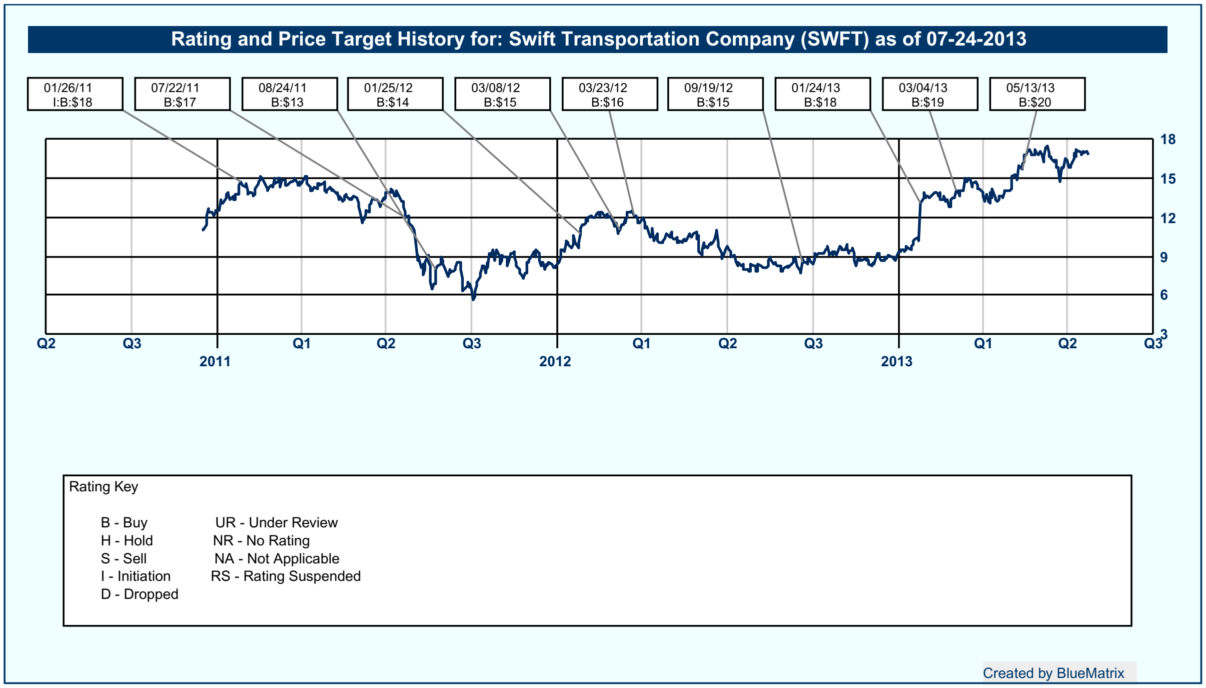
Target Price Methodology/Risks

12-month Target Price: $20 (or 14.0x our 2015 EPS estimate of $1.43)

Risks to Target Price: Economic contraction would impair freight volumes, leading to negative variance between reported EPS and our estimates. Onerous regulations would increase the cost of doing business, which the company may not be able to fully pass on to its customers.

Important Disclosures and Certifications

I, John G. Larkin, certify that the views expressed in this research report accurately reflect my personal views about the subject securities or issuers; and I, John G. Larkin, certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report. For our European Conflicts Management Policy go to the research page at www.stifel.com.



For a price chart with our ratings and target price changes for SWFT go to http://sf.bluematrix.com/bluematrix/Disclosure?ticker=SWFT

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Swift Transportation Company is provided with non-securities related services by Stifel or an affiliate or was provided with non-securities related services by Stifel or an affiliate within the past 12 months.

Stifel expects to receive or intends to seek compensation for investment banking services from Swift Transportation Company in the next 3 months.

Stifel makes a market in the securities of Swift Transportation Company.

Stifel or an affiliate has received compensation for non-securities related services from Swift Transportation Company in the past 12 months.

Stifel research analysts receive compensation that is based upon (among other factors) Stifel's overall investment banking revenues.

Our investment rating system is three tiered, defined as follows:

BUY -For U.S. securities we expect the stock to outperform the S&P 500 by more than 10% over the next 12 months. For Canadian securities we expect the stock to outperform the S&P/TSX Composite Index by more than 10% over the next 12 months. For other non-U.S. securities we expect the stock to outperform the MSCI World Index by more than 10% over the next 12 months. For yield-sensitive securities, we expect a total return in excess of 12% over the next 12 months for U.S. securities as compared to the S&P 500, for Canadian securities as compared to the S&P/TSX Composite Index, and for other non-U.S. securities as compared to the MSCI World Index.

HOLD -For U.S. securities we expect the stock to perform within 10% (plus or minus) of the S&P 500 over the next 12 months. For Canadian securities we expect the stock to perform within 10% (plus or minus) of the S&P/TSX Composite

Index. For other non-U.S. securities we expect the stock to perform within 10% (plus or minus) of the MSCI World Index. A Hold rating is also used for yield-sensitive securities where we are comfortable with the safety of the dividend, but believe that upside in the share price is limited.

SELL -For U.S. securities we expect the stock to underperform the S&P 500 by more than 10% over the next 12 months and believe the stock could decline in value. For Canadian securities we expect the stock to underperform the S&P/TSX Composite Index by more than 10% over the next 12 months and believe the stock could decline in value. For other non-U.S. securities we expect the stock to underperform the MSCI World Index by more than 10% over the next 12 months and believe the stock could decline in value.

Of the securities we rate, 50% are rated Buy, 47% are rated Hold, and 3% are rated Sell.

Within the last 12 months, Stifel or an affiliate has provided investment banking services for 16%, 9% and 3% of the companies whose shares are rated Buy, Hold and Sell, respectively.

Additional Disclosures

Swift Transportation Company is on the Analyst Select List. The Select List includes companies that analysts believe have the most attractive risk-adjusted return potential over the next 12 months. In some cases, analysts who cover more than one sub-sector may have more than one name on the list

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