4Q13 Adj. EPS Beats Lowered Street Expectations by $0.01, Down 12% Y/Y

- **Beat Lowered Street:** Swift Transportation (SWFT: Hold; $19.92) reported adjusted 4Q13 EPS of $0.36, down 12.2% y/y but slightly above the lowered Street consensus of $0.35. The company had guided expectations down to a range of $0.33 to $0.36 at the end of December. Revenue (excluding fuel surcharge revenue) was up 4.8% y/y. However, the increase at the top line was more than wholly outstripped by a 250 basis point deterioration in adjusted operating ratio y/y. The lowered guidance and miss relative to previous expectations was largely driven by unfavorable insurance and claims expense (i.e., $0.06 unfavorable to EPS y/y).
- **The truckload segment generated 0.8% revenue growth** (excluding fuel surcharges), while operating income decreased 21.6% y/y from a 130 basis point unfavorable increase in operating ratio. For 2014, the company expects an improving freight environment over what was experienced in 2013, y/y improvement in utilization, 2.0%-3.0% increases in revenue per loaded mile (excluding fuel surcharge revenue), and a 150-200 truck increase in tractor count.
- **Dedicated's improvement was tempered in the 4Q13 by start-up expenses** relating to accounts added late in the 3Q13 and early in the 4Q13. While revenue (excluding fuel surcharges) was up 3.4% y/y, Dedicated's adjusted operating ratio unfavorably increased by 310 basis points y/y—leading to an operating income decrease of 17% y/y.
- **Swift's Central Refrigerated segment saw solid revenue growth** (excluding fuel surcharges), up 17.0% y/y, driven by additional volume and improved pricing, a 6.2% increase in average operational tractor count and a 7.5% increase in revenue per truck per week (excluding fuel surcharge revenue). Adjusted operating ratio unfavorably increased 390 basis points y/y on higher insurance costs and start-up costs relating to new dedicated business. For 2014, management is targeting a 200 unit increase in truck count and a Central/Swift systems integration on February 1, 2014—which they believe will unlock the previously identified acquisition related synergies.
- **Intermodal showed the largest improvement of the company's reportable segments,** as adjusted operating ratio improved 380 basis points y/y after excluding the impact of a large drayage accident in 4Q12 (570 bps) and a 2008 claim settlement in 4Q13 (240 bps). Intermodal segment revenue (also excluding fuel surcharges) increased 2.8% y/y as the company handled 2.3% more loads y/y using a fleet of domestic containers that was, on average, 1.0% larger on a y/y basis. For 2014, the company is again endeavoring to improve utilization and is aiming to grow volume by 10%-20% without adding any additional containers—though they remain open to doing so if necessary.
- **Balance sheet continues to improve.** The company continues to pay down debt faster than promised. At the end of 4Q13, the company's leverage ratio stood at 2.52x, down from a pre-acquisition ratio of 2.78x at the end of 4Q12. The company remains committed to their goal of a 1.50 leverage ratio by the end of 2017 and have guided debt reduction to be at the high end of their previously disclosed annual range of $50-100 million.
- **Management is targeting annualized adjusted EPS growth of 15% for 2014** off of a recast adjusted EPS of $1.23 with lower returns in the first half of the year, followed by accelerating growth in 2H14. Our EPS estimates (prior to the company's earnings release) called for y/y EPS growth of 13.8% in 2014 and 13.6% in 2015—or EPS of $1.32 and $1.50, respectively.
- **Our current rating is Hold.** Our model and rating are under review and we plan to publish a full note after listening to the company's conference call at 10:00am EST today (for those who wish to listen in, the dial in number is 877-897-8479 and the conference ID is 33277930). Our current fair value estimate is $23 (or 15.0x our 2015 EPS estimate of $1.50) and currently provides over 15% upside potential over the coming year.

Price is as of the close, 1/27/2014.

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Swift Transportation reported adjusted 4Q13 EPS of $0.36, down 12.2% y/y but slightly above the lowered Street consensus of $0.35 Our Stifel estimate had been slightly lower at $0.34. The 19 analysts publishing quarterly EPS estimates for the company had carried 4Q13 EPS estimates ranging from a low of $0.34 to a high of $0.36 after the company guided expectations down to a range of $0.33 to $0.36 at the end of December—the Street consensus had been $0.41 prior to that release. Revenue (excluding fuel surcharge revenue) was up 4.8% y/y. However, the increase at the top line was more than wholly outstripped by a 250 basis point deterioration in adjusted operating ratio y/y. The lowered guidance and miss relative to previous expectations was largely driven by unfavorable insurance and claims expense (i.e., $0.06 unfavorable to EPS y/y).

The truckload segment generated 0.8% revenue growth (excluding fuel surcharges), while operating income decreased 21.6% y/y from a 130 basis point unfavorable increase in operating ratio. The operational fleet of tractors decreased 1.4% y/y due to the movement of 250 tractors from the Truckload segment to the Dedicated segment. To the positive, revenue per loaded mile (excluding fuel surcharge revenue) increased 2.6% y/y, but was partially offset by a 0.4% decrease in utilization—measured in terms of loaded miles per tractor per week and due in part to the newly implemented Hours-of-Service regulations—and a 110 basis point unfavorable increase in deadhead percentage (from 11.3% in 4Q12 to 12.4% in 4Q13). For 2014, the company expects an improving freight environment over what was experienced in 2013, y/y improvement in utilization (weighted towards the 2H14 as the company will begin to lap the July 1, 2013 implementation of the new Hours-of-Service regulations), 2.0%-3.0% increases in revenue per loaded mile (excluding fuel surcharge revenue), and a 150-200 truck increase in tractor count.

Dedicated's improvement was tempered in the 4Q13 by start-up expenses relating to accounts added late in the 3Q13 and early in the 4Q13. While revenue (excluding fuel surcharges) was up 3.4% y/y, Dedicated's operating ratio (net of fuel surcharge revenue) unfavorably increased by 310 basis points y/y—leading to an operating income decrease of 17% y/y. Fleet size increased 7% y/y (primarily from the aforementioned contract wins and new business, which transferred tractors from truckload to dedicated), while revenue per tractor per week (net of fuel surcharge) was down 3.3% y/y.

Swift's Central Refrigerated segment saw solid revenue growth (excluding fuel surcharges), up 17.0% y/y , driven by additional volume and improved pricing, a 6.2% increase in average operational tractor count and a 7.5% increase in revenue per truck per week (excluding fuel surcharge revenue). The division's empty miles percentage increased 60 basis points y/y, primarily due to a new piece of short haul dedicated business added in the 2Q13. Adjusted operating ratio unfavorably increased 390 basis points y/y on higher insurance costs and start-up costs relating to the aforementioned piece of new dedicated business. For 2014, management is targeting a 200 unit increase in truck count and a Central/Swift systems integration on February 1, 2014—which they believe will unlock the previously identified acquisition related synergies.

Intermodal showed the largest improvement of the company's reportable segments, as adjusted operating ratio improved 380 basis points y/y after excluding the impact of a large drayage accident in 4Q12 (570 bps) and a 2008 claim settlement in 4Q13 (240 bps).Intermodal segment revenue (also excluding fuel surcharges) increased 2.8% y/y as the company handled 2.3% more loads y/y using a fleet of domestic containers that was, on average, 1.0% larger on a y/y basis. In addition, revenue (excluding fuel surcharges) per load increased 0.9% y/y. For 2014, the company is again endeavoring to improve utilization and is aiming to grow volume by 10%-20% without adding any additional containers—though they remain open to doing so if necessary.

Other revenue (Logistics, Brokerage, and revenue generated from support services to customers and owner-operators) grew 10.5% y/y driven by increases in Brokerage revenue and services provided to owner operators.

The company's balance sheet continues to improve. The company continues to pay down debt faster than promised. At the end of 4Q13, the company's leverage ratio stood at 2.52x, down from a pre-acquisition ratio of 2.78x at the end of 4Q12. The company remains committed to their goal of a 1.50 leverage ratio by the end of 2017 and have guided debt reduction to be at the high end of their previously disclosed annual range of $50-100 million.

Management is targeting annualized adjusted EPS growth of 15% for 2014 off of a recast adjusted EPS of $1.23 with lower returns in the first half of the year, followed by accelerating growth in 2H14.Our EPS estimates (prior to the company's earnings release) called for y/y EPS growth of 13.8% in 2014 and 13.6% in 2015—or EPS of $1.32 and $1.50, respectively.

Our current rating is Hold. Our model and rating are under review and we plan to publish a full note after listening to the company's conference call at 10:00am EST today (for those who wish to listen in, the dial in number is 877-897-8479 and the conference ID is 33277930). Our current fair value estimate is $23 (or 15.0x our 2015 EPS estimate of $1.50) and currently provides over 15% upside potential over the coming year

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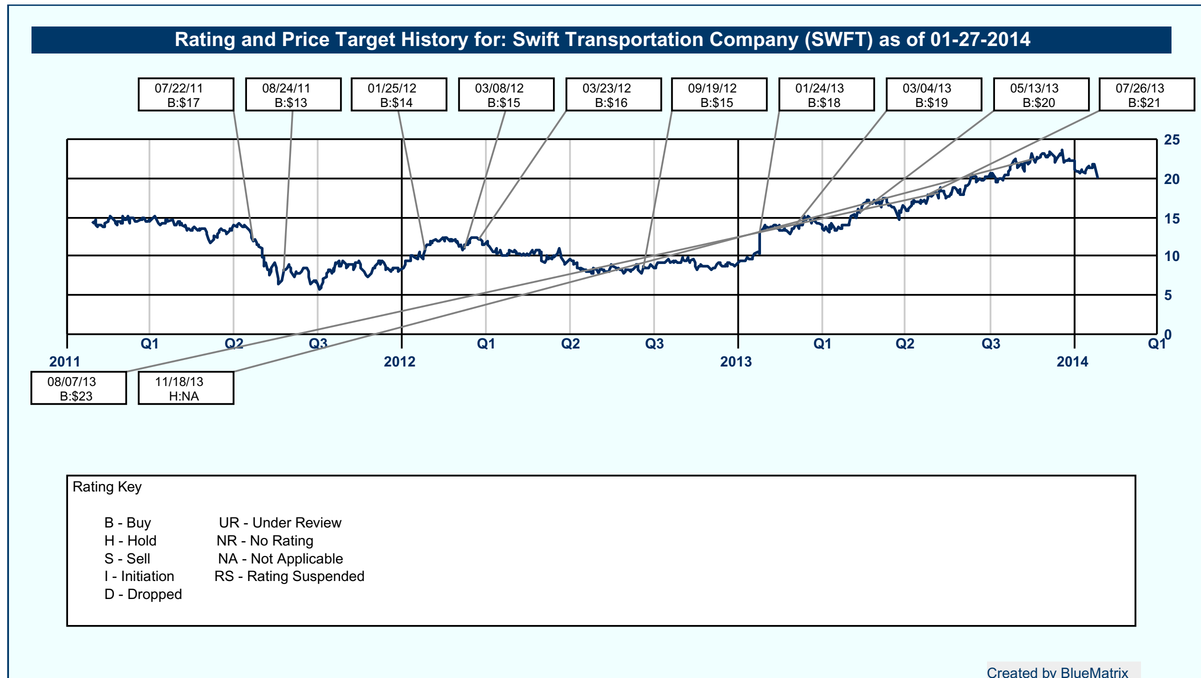

For a price chart with our ratings and target price changes for SWFT go to http://sf.bluematrix.com/bluematrix/Disclosure?ticker=SWFT

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