

Knight Transportation, Inc. (KNX)

Modest 2Q14 Beat; Forward Expectations Unchanged, for Now

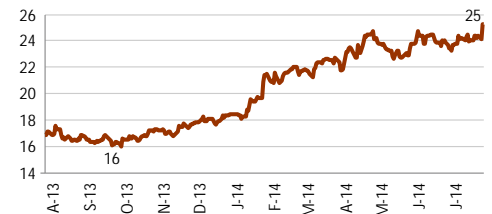
Retain Neutral rating and \$26 price target. Improving spot market trends supported a modest 2Q14 EPS beat. KNX's 3Q14 and 4Q14 outlooks met expectations, which could limit the stock near term. However, we like KNX's hybrid model and the growth channels it opens this cycle. Valuation appears healthy (22.2x NTM P/E), and consequently our Neutral rating is unchanged. But apart from reaccelerating industry fundamentals, we look for traction in growth opportunities to become more constructive with our rating.

- **Modest 2Q14 beat.** EPS of \$0.31 (+32% yoy) was above our \$0.28 estimate, recent \$0.27 consensus and management's \$0.25-0.27 guidance.
- **2H14 outlook within expectations.** 3Q14's EPS guidance is modestly raised (to \$0.24-0.27, from \$0.23-0.26) but within expectations (recent consensus \$0.25). Introduced 4Q14 guidance (\$0.26-0.29) also captured consensus expectations (\$0.29).
- **Growth opportunities developing.** We like KNX's hybrid operating model, which is seemingly well positioned for the changing dynamics in the domestic trucking space this cycle with several channel possibilities for growth:
 - **Fleet count expected to resume in 2H14** and expected to be +5% during 4Q14 (from +1% in 2Q14).
 - **Emerging Logistics (non-asset based) growth solid.** Revenue growth +22% yoy, and expected to be +25% yoy growth in 2H14.
- **But when will we see the growth opportunities materialize into additional upside?** 2Q14's modest EPS beat was its third in three consecutive quarters into accelerating spot market fundamentals during 1H14. KNX's 2H14 outlook is within expectations, which could create some near-term pressure on the stock. We look for development in KNX's longer-term growth channels to drive incremental upside to expectations and sustained 15%+ EPS growth.
- **2H14/2015 EPS estimates unchanged.** Our 2014 EPS estimate is raised to \$1.08 on 2Q14's overage, but 2H14 assumptions unchanged. Our 2015 EPS estimate of \$1.21 is above recent \$1.19 consensus and reflects +11% growth from 2014E.
- **Retain Neutral rating and \$26 price target.** We believe truckload fundamentals this cycle favor carriers, and in particular hybrid operating models such as KNX's. Its low-cost operating model provide share gains in the asset-based trucking market, and shipper concerns about capacity this cycle provide non-asset based growth via its emerging Logistics operation. Risk/reward appears balanced provided current valuation (22.2x NTM P/E) absent incremental signs of strengthening fundamentals, but traction in its growth channels could cause us to reassess our rating.

KNX is a leading truckload carrier providing diversified truckload services, with primary operations in the dry van sector and an emerging non-asset based logistics offering.

ESTIMATE CHANGE

1-Year Price Chart



Stock Data

Rating:	Neutral
Suitability:	Higher Risk
Price Target:	\$26
Price (7/23/14):	\$25.08
Market Cap (mil):	\$2,052
Shares Out (mil):	81.8
Average Daily Vol (mil):	0.60
Dividend Yield:	1.0%

Estimates

FY Dec	2013A	2014E	2015E
Q1	0.19 A	0.23 A	
Q2	0.24 A	0.31 A	
Q3	0.19 A	0.26 E	
Q4	0.25 A	0.28 E	
Fiscal EPS	0.86 A	1.08 E	1.21 E
Previous Est		1.05 E	
Fiscal P/E	29.2x	23.2x	20.7x

Chart/Table Sources: Bloomberg and Baird Data

**Please refer to Appendix
- Important Disclosures
and Analyst Certification**

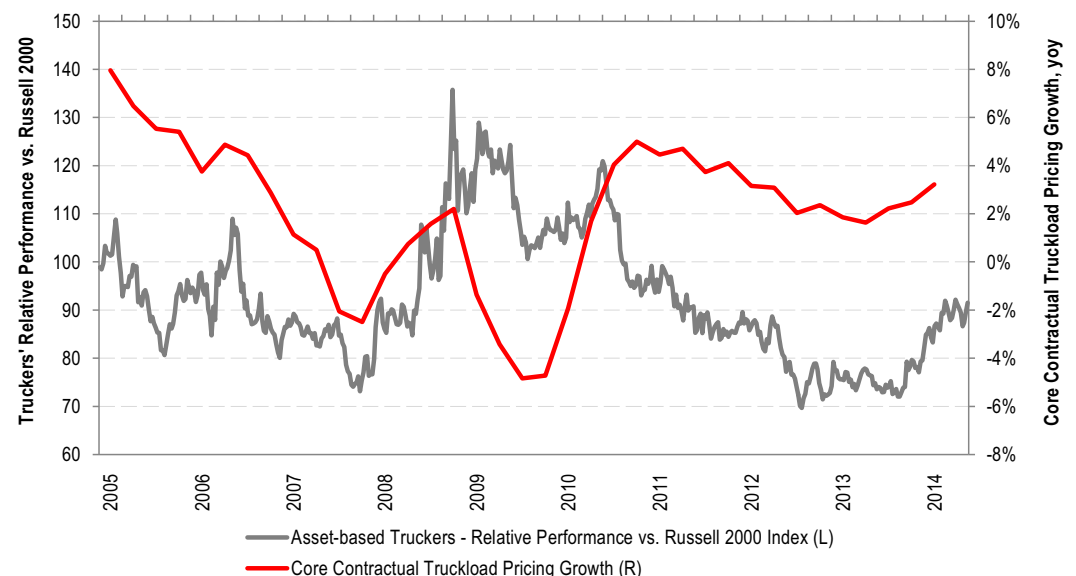
Details

Truckload valuation multiples expected to compress at this point in the cycle; a continuation of improving rate growth a needed catalyst for KNX and truckload carriers broadly. Reaccelerating core contractual rate growth in 2014 has been a fundamental catalyst to the group (see Figure 1). Following 2013's growth of roughly +1-2% yoy, core contractual rate growth has accelerated to an estimated +3-4% yoy in 2014. KNX estimates the current rate environment to be +4-5% yoy and to be sustainable in upcoming quarters given the structural constraints to capacity this cycle.

However, we are at the point in the cycle where compression in truckload valuation multiples should be expected (see Figure 2). We continue to view the backdrop of truckload fundamentals favorably. However, we note that inflationary cost pressure is likely to continue to build, limiting near-term leverage among KNX and truckload carriers broadly. As such, we believe the truckload group needs to demonstrate either reaccelerating rate growth or incremental signs of industry consolidation to drive upside to earnings expectations and offset the expected valuation multiple compression in 2H14.

FIGURE 1: TRUCKERS' RELATIVE PERFORMANCE INFLECTS WITH CORE PRICING GROWTH

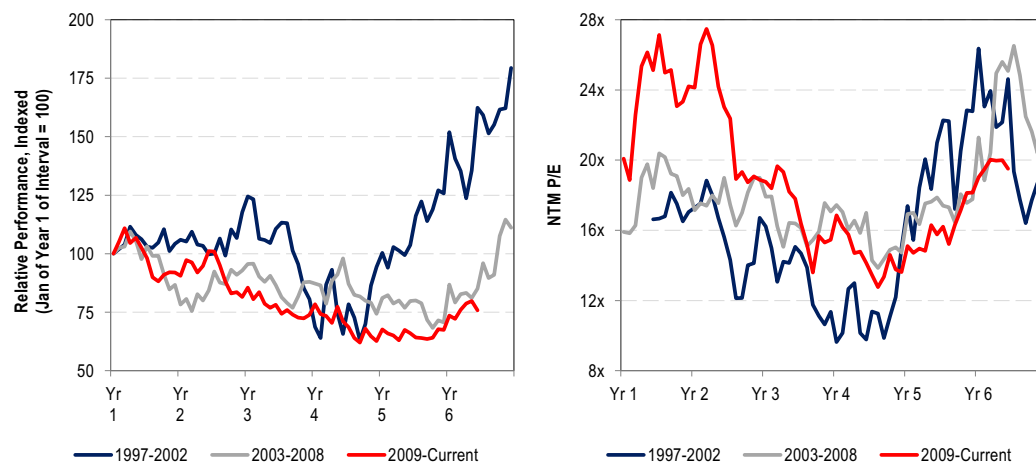
Core contractual truckload pricing growth has reaccelerated in 2014 (to an estimated +3-4% yoy) following above-seasonal spot market trends in recent quarters. Stabilizing trends toward the end of 2Q14 limit near-term catalysts. However, inflationary cost pressures (i.e., driver wages) and incremental spot market tightness in June could support a reopening of early 2014 bid awards and reaccelerating rate growth during 2H14 -- a potential catalyst for the group.



Source: FactSet, Baird estimates

FIGURE 2: TRUCKLOAD STOCKS FOLLOWING SIMILAR CADENCE TO RECENT CYCLES; MULTIPLE COMPRESSION EXPECTED IN 2H14

The charts below highlight Truckload stock relative performance (left) and valuation multiples (right) over the past three cycles. 2014's performance has closely followed that of prior Year 6's: after multiple expansion following the inflection in pricing fundamentals, we expect the group's multiple to compress as forward estimates move higher. However, 2Q14 results limited by inflationary cost pressures limit the magnitude of upward estimate revisions, presenting a near-term headwind for the group's relative performance.



Source: FactSet

KNX's hybrid model is ideally positioned for growth this cycle. We believe truckload fundamentals this cycle favor carriers, and in particular hybrid operating models such as KNX's. Its low-cost operating model provide share gains in the asset-based trucking market, and shipper concerns about capacity this cycle provide non-asset based growth via its emerging Logistics operation. We like KNX's hybrid operating model, which is seemingly well positioned for the changing dynamics in the domestic trucking space this cycle with several channel possibilities for growth:

- **Accelerating fleet count growth.** KNX expects its truck fleet count to resume growth in 2H14, with 200 trucks planned to be added during 2H14. As such, growth is expected to be +5% yoy during 4Q14 (from +1% in 2Q14). KNX's ability to accelerate fleet growth while maintaining fleet utilization, which has been a challenge this cycle, is a critical point to monitor in upcoming quarters.
- **Emerging Logistics (non-asset based) growth solid.** Revenue grew +22% yoy, and growth is expected to be +25% yoy in 2H14. We view KNX's commitment to growing its Logistics offering as an important attribute to its investment thesis this cycle, as we believe economic rents are shifting from providers that can find capacity (a characteristic common during the 2000s) to the providers that can commit capacity (a characteristic that we believe will be common during the 2010s). As a result, the line between asset-based and non-asset based providers is blurring this cycle, and KNX's ability to offer the commitment of asset-based capacity solutions, in our view, provides the ability to take share in the non-asset based Logistics segment.

Estimates. Our 2014 EPS estimate is raised to \$1.08 on 2Q14's overage, but 2H14 assumptions unchanged. Our 2015 EPS estimate of \$1.21 is above recent \$1.19 consensus and reflects +11% growth from 2014E.

Detailed Summary of 2Q14 Results

Knight Transportation (KNX - NYSE)

Quarterly Results and Variance Sheet

	Quarterly Results					Percent of Revenue		
	2Q14	2Q13	Chg	BAIRD	Variance	2Q14	2Q13	BAIRD
Revenue (non-fuel)	218,908	200,104	9%	224,559	-3%			
Fuel Surcharge Revenue	45,247	44,679	1%	47,585	-5%			
Total Revenue	264,155	244,783	8%	272,144	-3%			
Salary & Benefits	64,750	56,807	14%	61,504	5%	24.5%	23.2%	22.6%
Fuel	52,192	52,739	-1%	58,159	-10%	19.8%	21.5%	21.4%
Operations & Maintenance	17,156	15,919	8%	17,864	-4%	6.5%	6.5%	6.6%
Insurance & Claims	7,462	7,295	2%	7,962	-6%	2.8%	3.0%	2.9%
Operating Taxes & Licenses	3,861	3,985	-3%	4,247	-9%	1.5%	1.6%	1.6%
Communications	1,178	1,200	-2%	1,212	-3%	0.4%	0.5%	0.4%
D&A	21,951	21,089	4%	22,319	-2%	8.3%	8.6%	8.2%
Purchased Transportation	56,319	49,883	13%	60,470	-7%	21.3%	20.4%	22.2%
Miscellaneous	387	5,541	-93%	5,769	-93%	0.1%	2.3%	2.1%
Operating Expenses	225,256	212,858	6%	235,207	-4%	85.3%	87.0%	86.4%
Core OR (ex-fuel)	82.2%	84.0%		83.6%				
Operating Income	38,899	31,925	22%	36,937	5%	14.7%	13.0%	13.6%
Pre-Tax Income	41,512	31,776	31%	37,979	9%	15.7%	13.0%	14.0%
Income Tax Rate	37.3%	40.0%		39.8%				
Net Income	25,765	19,064	35%	22,864	13%	9.8%	7.8%	8.4%
EPS	\$0.31	\$0.24	32%	\$0.28	13%			
Consensus	\$0.27							
Diluted Shares	81,835	80,296	2%	82,092	0%			

Source: Company reports, Baird estimates

Volume & Pricing:

VOLUME AND PRICING DETAILS

	2011	2012	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3E	Q4E	2014E	2015E
Revenue Growth	19%	8%	7%	4%	1%	3%	4%	6%	8%	8%	10%	8%	10%
Revenue Growth (ex-fuel)	13%	8%	8%	6%	2%	6%	5%	8%	9%	9%	10%	9%	10%
Operating Income Growth	2%	12%	7%	-1%	-13%	13%	1%	22%	22%	42%	17%	25%	17%
Operating Margin	11.5%	12.0%	10.9%	13.0%	10.1%	12.9%	11.8%	12.5%	14.7%	13.3%	13.8%	13.6%	14.4%
Volume Growth*	4%	4%	0%	-3%	-4%	-3%	-3%	-2%	1%	2%	3%	1%	4%
Pricing Growth (ex-fuel)**	3%	2%	1%	1%	1%	2%	1%	5%	6%	4%	3%	4%	3%
Average Truck Count Growth	2%	5%	2%	-3%	-4%	-4%	-2%	-2%	1%	3%	5%	2%	4%
Utilization***	1%	0%	-2%	0%	-1%	0%	-1%	-1%	-1%	-2%	-3%	-2%	0%

*Volume comprised of loaded miles

**Pricing growth comprised of revenue/loaded mile ex-fuel

***Utilization comprised of miles/truck

Source: Company data, Baird estimates

Balance Sheet and Cash Flow:**BALANCE SHEET AND CASH FLOW (\$millions)**

	2011	2012	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3E	Q4E	2014E	2015E
Net Income	61	65	15	19	15	20	70	19	26	21	23	90	101
D&A	76	85	22	21	22	22	86	22	22	22	22	88	93
Other	27	(4)	(3)	(2)	(3)	(3)	(12)	0	0	0	0	1	1
Working Capital	(3)	5	7	(6)	(5)	(1)	(6)	(5)	(0)	(0)	(0)	(5)	(7)
Cash Flow from Operating	161	151	40	32	28	38	139	36	41	38	40	175	188
Capital Expenditures (Gross)	(173)	(161)	(12)	(30)	(54)	(44)	(141)	(29)	(56)	(28)	(28)	(140)	(150)
Cash Flow from Investing	(140)	(124)	5	(20)	(46)	(25)	(86)	(5)	(56)	(19)	(19)	(99)	(120)
Issuance (Repayment) of Debt	55	25	(37)	(17)	26	(14)	(42)	(26)		(6)	(6)	(38)	
Repurchase of Stock	(77)												
Cash Flow from Financing	(39)	(31)	(41)	(21)	22	(17)	(58)	(23)	-	(11)	(11)	(45)	(20)
Ending Cash Balance	10	6	10	1	5	1	1	10	0	8	18	18	66
Ending Debt Balance	55	80	43	26	52	38	38	12	15	9	3	3	3
Debt / Total Cap (incl Op leases)	11%	15%	9%	6%	10%	7%	7%	3%	3%				

Source: Company data, Baird estimates

Investment Thesis

Current thoughts. 2Q14's modest EPS beat was its third in three consecutive quarters into accelerating spot market fundamentals during 1H14. KNX's 2H14 outlook is within expectations, which could create some near-term pressure on the stock. We look for development in KNX's longer-term growth channels to drive incremental upside to expectations and sustained 15%+ EPS growth. At the moment, however, KNX's risk/reward appears balanced provided current valuation (22.2x NTM P/E) absent incremental signs of strengthening fundamentals. We remain interested in the name but are patient until traction in its growth channels develop, which could cause us to reaccess our rating. Our \$26 price target is unchanged, which reflects 20x forward EPS estimates, one year out.

The truckload growth stock. Knight has established an impressive record, growing earnings and revenue every year since starting operations in 1990. Over the past decade, KNX's revenue and EPS CAGR is 16% and 13%, respectively. In a good economy, KNX should be able to sustain 15-20% EPS growth, while sustaining industry-leading margins.

Decentralized approach is key to Knight's success. Knight decentralizes its operations by managing each service center like an individual small trucking company, thereby avoiding the diseconomies of scale that larger carriers encounter. This approach provides better cost controls, lowers driver turnover, and provides better customer service. The cost controls produce superior margins. Service levels at average to above-average rates produce superior growth. KNX has consistently maintained a low-80s asset-based operating ratio (i.e., 10-20% operating margin).

Geographic expansion -- a significant growth opportunity once macroeconomic trends improve. We believe that KNX can double in size without sacrificing its cost advantage and premium margins obtained through its decentralized approach. Management has identified 55-60 potential dry van markets to expand from its current base of 31 regional service centers. With minimal share of the existing market, we believe KNX's runway for growth is extensive.

Additional service offerings should supplement growth. Efforts to expand into the \$10 billion refrigerated van market and the multi-billion dollar truck brokerage market to produce another attractive growth avenue for KNX. These offerings along with Dedicated and Intermodal could account for up to 40% of KNX revenue over time.

Acquisitions could also accelerate earnings. Knight has completed four acquisitions over the past decade of underperforming carriers and turned these carriers into success stories. KNX's appetite for acquisitions is high. Knight continues to look at a broad range of acquisition opportunities to take advantage of weaker industry participants that can provide the company an entry in to new geographies or new market.

Valuation. While KNX is frequently compared with the peer group (truckload carriers), KNX's performance has historically exceeded its competitors. During good freight periods, KNX historically grew earnings in excess of 20%. During the 2006-2009 freight recession, the model showed increased signs of cyclical growth compared with previous slowdowns, which we believe is a function of the company's larger size and severity of the downturn. Our \$26 price target reflects 20x forward earnings, one year out, consistent with KNX's five-year average 20x NTM P/E.

Risks & Caveats

Cyclical exposure. Freight volume growth is dependent on the growth of the domestic economy. The industry's concentration in retail and manufacturing makes it particularly sensitive to consumer spending and inventory levels.

Explosive growth. During its first decade of operations, KNX opened five service centers. Since 2000, KNX has opened over 20. Continuation of this growth requires qualified personnel to successfully replicate the regional platform.

Highly fragmented industry. The truckload industry is highly fragmented and subject to intense competition and low barriers to entry. Inability to maintain service and scale differentiation could subject leading carriers to increasing price competition and deteriorating margins.

Driver availability. Inability to attract and retain drivers could be the single largest growth impediment.

Rising costs. Inability to pass along rising costs (fuel, driver pay, and equipment costs) could negatively impact margins.

Insurance liability. The truckload industry maintains significant exposure to self-insured liability insurance, which could add to earnings volatility if high safety levels are not maintained.

Company Description

Knight Transportation is a leading truckload carrier providing diversified full truckload services through roughly 4,000 trucks and 9,400 trailers. Primary operations are in dry van trucking, providing both for-hire truckload and dedicated truckload services. Since 2004, the company has been diversifying its business model, opening a refrigerated service as well as a third-party brokerage offering. Management's attention to cost control and operations within a balanced, regional network has resulted in one of the lowest operating cost-per-mile metrics in the industry, generating industry-leading margins and returns. KNX operates through 31 regional service centers and finished 2013 with \$969 million in revenue.

Knight Transportation Co., Inc.
(KNX - NYSE)



Income Statement (\$millions)

Robert W. Baird & Co., Inc.

	2005	2006	2007	2008	2009	2010	2011	Q1	Q2	Q3	Q4	2012	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3E	Q4E	2014E	2015E
Gross Revenue	567	664	714	767	652	731	866	220	236	238	242	936	235	245	239	250	969	249	264	259	274	1,046	1,153
Growth (%)	28%	17%	7%	7%	-15%	12%	19%	18%	3%	5%	8%	8%	7%	4%	1%	3%	4%	6%	8%	8%	10%	8%	10%
Gross Revenue ex-fuel	499	568	601	596	571	616	697	176	189	193	195	752	190	200	196	206	792	206	219	214	227	866	955
Growth (%)	21%	14%	6%	-1%	-4%	8%	13%	17%	4%	5%	8%	8%	8%	6%	2%	6%	5%	8%	9%	9%	10%	9%	10%
Expenses																							
Salary & Benefits	163	192	202	211	199	204	219	57	59	58	60	234	58	57	60	60	234	61	65	61	62	249	261
Fuel (Gross)	133	166	189	238	140	174	226	57	57	59	57	230	56	53	54	52	215	52	52	55	56	216	224
Operation & Maintenance	34	36	39	42	43	47	54	14	15	16	17	62	16	16	17	16	65	17	17	17	17	68	71
Insurance & Claims	25	26	32	26	22	25	30	8	8	8	8	32	7	7	7	8	29	7	7	7	8	31	32
Operating Taxes & Licenses	12	14	15	15	13	14	15	4	4	4	4	16	4	4	4	4	16	4	4	4	4	16	16
Communication	4	6	6	6	5	5	6	1	1	1	1	5	1	1	1	1	5	1	1	1	1	5	5
Depreciation & Amortization	53	60	66	70	71	71	76	20	21	22	22	85	22	21	22	22	86	22	22	22	22	88	93
Purchased Transportation	32	40	52	51	62	82	129	32	36	39	41	148	43	50	46	51	190	52	56	54	61	223	266
Loss/(Gain)	(3)	(8)	(5)	(2)	(3)	(6)	(7)	(3)	(2)	(2)	(2)	(9)	(1)	(2)	(2)	(3)	(8)	(4)	(5)	(4)	(4)	(17)	(6)
Other	11	14	15	17	16	17	18	5	5	5	5	20	5	6	6	7	23	6	5	6	7	24	25
Total Expenses	465	545	611	674	570	633	766	196	204	210	214	824	210	213	215	218	855	218	225	224	236	903	987
Operating Ratio	82.1%	82.0%	85.6%	87.9%	87.4%	86.6%	88.5%	89.2%	86.4%	88.3%	88.2%	88.0%	89.1%	87.0%	89.9%	87.1%	88.2%	87.5%	85.3%	86.7%	86.2%	86.4%	85.6%
Operating Ratio ex-fuel	79.6%	79.0%	83.0%	84.4%	85.7%	84.1%	85.7%	86.4%	83.0%	85.6%	85.4%	85.1%	86.5%	84.0%	87.6%	84.4%	85.6%	84.8%	82.2%	84.0%	83.4%	83.6%	82.6%
EBITDA	154	180	168	162	153	169	176	44	53	50	50	197	47	53	46	54	200	53	61	56	60	230	259
EBIT	102	119	102	93	82	98	100	24	32	28	29	112	26	32	24	32	114	31	39	34	38	142	166
EBIT Margin	17.9%	18.0%	14.4%	12.1%	12.6%	13.4%	11.5%	10.8%	13.6%	11.7%	11.8%	12.0%	10.9%	13.0%	10.1%	12.9%	11.8%	12.5%	14.7%	13.3%	13.8%	13.6%	14.4%
Growth (%)	28%	17%	-14%	-10%	-12%	19%	2%	49%	18%	0%	-2%	12%	7%	-1%	-13%	13%	1%	22%	22%	42%	17%	25%	17%
Other Inc/(Exp)	1	0	2	1	2	2	1	0	0	0	1	2	0	(0)	1	2	3	1	3	-	0	4	2
Pretax Income	103	120	104	94	84	100	101	24	32	28	30	114	26	32	25	34	117	32	42	34	38	146	168
Tax Rate (%)	39.9%	39.1%	39.6%	40.2%	39.7%	39.6%	40.0%	39.8%	40.0%	40.0%	39.1%	39.7%	40.0%	40.0%	40.0%	40.0%	40.0%	39.8%	37.9%	37.9%	37.9%	38.4%	39.8%
Net Income	62	73	63	56	51	61	61	14	19	17	18	69	15	19	15	20	70	19	26	21	23	90	101
Shares Outstanding	86.6	87.1	87.2	85.8	83.6	84.3	81.9	80.0	80.1	80.0	80.0	80.0	80.1	80.2	80.4	80.6	80.3	81.3	81.8	82.3	82.8	82.1	82.8
Continuing Ops EPS	\$0.71	\$0.84	\$0.72	\$0.66	\$0.60	\$0.72	\$0.74	\$0.18	\$0.24	\$0.21	\$0.22	\$0.85	\$0.19	\$0.24	\$0.19	\$0.25	\$0.86	\$0.23	\$0.31	\$0.26	\$0.28	\$1.08	\$1.21
Growth (%)	29%	18%	-14%	-9%	-8%	19%	2%	53%	23%	0%	1%	15%	8%	-1%	-9%	14%	2%	22%	31%	36%	11%	25%	12%
Dividend	\$0.08	\$0.08	\$0.11	\$0.15	\$0.19	\$0.98	\$0.24	\$0.06	\$0.06	\$0.06	\$0.56	\$0.74	\$0.06	\$0.06	\$0.06	\$0.06	\$0.24	\$0.06	\$0.06	\$0.06	\$0.06	\$0.24	\$0.24
Expense Ratios (% rev ex-fuel)																							
Salary & Benefits	32.6%	33.7%	33.6%	35.4%	34.8%	33.1%	31.4%	32.4%	31.3%	30.2%	30.8%	31.1%	30.4%	28.4%	30.7%	29.0%	29.6%	29.5%	29.6%	28.7%	27.5%	28.8%	27.3%
Fuel (Gross)	26.7%	29.1%	31.4%	39.9%	24.6%	28.3%	32.5%	32.6%	30.0%	30.9%	29.1%	30.6%	29.4%	26.4%	27.7%	25.2%	27.1%	25.3%	23.8%	25.9%	24.9%	25.0%	23.5%
Operation & Maintenance	6.9%	6.3%	6.5%	7.1%	7.5%	7.6%	7.7%	7.8%	8.0%	8.4%	8.7%	8.2%	8.4%	8.0%	8.7%	7.7%	8.2%	8.3%	7.8%	7.7%	7.7%	7.9%	7.5%
Insurance & Claims	5.0%	4.6%	5.4%	4.4%	3.9%	4.1%	4.3%	4.4%	4.4%	4.0%	4.3%	4.3%	3.8%	3.6%	3.7%	3.7%	3.7%	3.6%	3.4%	3.5%	3.6%	3.5%	3.3%
Operating Taxes & Licenses	2.5%	2.4%	2.5%	2.5%	2.4%	2.3%	2.2%	2.3%	2.1%	2.0%	2.1%	2.2%	2.1%	2.0%	1.9%	1.9%	2.0%	2.0%	1.8%	1.8%	1.7%	1.8%	1.7%
Communication	0.9%	1.0%	0.9%	1.0%	0.9%	0.8%	0.8%	0.8%	0.7%	0.6%	0.7%	0.7%	0.6%	0.6%	0.6%	0.7%	0.6%	0.6%	0.5%	0.6%	0.6%	0.5%	0.5%
Depreciation & Amortization	10.5%	10.6%	10.9%	11.7%	12.5%	11.5%	10.9%	11.6%	11.1%	11.3%	11.2%	11.3%	11.3%	10.5%	11.2%	10.4%	10.9%	10.6%	10.0%	10.3%	9.8%	10.2%	9.7%
Purchased Transportation	6.4%	7.0%	8.7%	8.6%	10.8%	13.3%	18.5%	18.1%	19.1%	20.3%	21.0%	19.7%	22.6%	24.9%	23.3%	24.9%	24.0%	25.3%	25.7%	25.3%	26.9%	25.8%	27.8%
Operating Stats (yoy change)																							
Rev / Loaded Miles	7.0%	4.5%	-1.1%	0.7%	-1.9%	2.2%	2.7%	3.2%	1.6%	0.9%	0.8%	1.6%	0.7%	0.8%	1.4%	2.5%	1.3%	4.9%	5.6%	4.0%	3.0%	4.4%	3.0%
Rev / Mile	6.7%	3.4%	-1.5%	1.9%	-1.9%	3.6%	2.9%	2.8%	2.1%	0.9%	0.6%	1.5%	0.4%	0.0%	1.5%	3.4%	1.3%	6.6%	7.3%	5.4%	3.9%	5.8%	2.4%
Loaded Miles	13.3%	7.1%	4.7%	-2.9%	-2.3%	4.9%	3.7%	9.6%	2.5%	2.5%	3.7%	4.5%	0.5%	-3.2%	-4.0%	-3.1%	-2.5%	-2.0%	0.8%	2.0%	3.0%	1.0%	4.0%
Deadhead	0.2%	0.9%	0.2%	-1.0%	0.1%	-1.1%	-0.1%	0.3%	-0.4%	0.0%	0.2%	0.0%	0.3%	0.7%	-0.1%	-0.8%	0.0%	-1.4%	-1.4%	-1.2%	-0.8%	-1.2%	-0.7%
Loaded Miles / Truck	-2.3%	-6.2%	-4.6%	-2.7%	-1.6%	2.9%	1.3%	6.9%	-2.6%	-3.3%	-1.6%	-0.3%	-1.9%	-0.6%	-0.4%	0.7%	-0.6%	0.2%	0.3%	-1.0%	-1.9%	-0.6%	-0.5%
Rev/ Truck	4.5%	-2.0%	-5.6%	-0.9%	-4.6%	5.2%	4.0%	10.3%	-1.0%	-2.5%	-0.8%	1.2%	-1.2%	0.2%	1.0%	3.2%	0.8%	5.1%	6.0%	3.0%	1.0%	3.7%	2.5%

Source: Company reports and Robert W. Baird & Co. estimates.
Please refer to Appendix - Important Disclosures and Analyst Certification.

Benjamin J. Hartford, CFA (414) 765-3752

Knight Transportation Co., Inc.
(KNX - NYSE)

BAIRD

Balance Sheet

	2006	2007	2008	2009	2010	2011	2012	2013	2Q14
ASSETS									
Cash and cash equivalents	\$1,582	\$31,308	\$53,904	\$97,754	\$52,392	\$9,584	\$5,684	\$992	\$103
Receivables, net	85,350	88,535	70,969	77,791	79,870	105,221	106,158	117,913	122,678
Deferred Tax Asset	8,759	10,157	12,357	5,755	5,671	2,319	3,409	3,359	3,942
Other current assets	25,296	37,347	21,140	23,152	27,315	42,973	47,846	42,568	35,861
Total Current	120,987	167,347	158,370	204,452	165,248	160,097	163,097	164,832	162,584
Property & equipment, net	433,828	459,548	472,228	461,039	483,709	547,033	584,064	591,791	621,367
Goodwill/Intangible	10,556	10,610	10,529	10,447	10,365	10,295	10,276	10,257	10,247
Other assets, net	4,848	5,859	5,813	10,535	17,665	20,158	25,075	40,241	44,584
Total Assets	570,219	643,364	646,940	686,473	676,987	737,583	782,512	807,121	838,782
LIABILITIES & EQUITIES									
Current debt, Line of Credit	-	-	-	-	-	-	-	-	-
Accounts payable	13,077	17,744	6,195	14,022	7,571	14,322	11,281	14,354	19,394
Accrued payroll	7,411	7,992	7,432	6,170	6,547	9,096	10,489	13,864	17,156
Accrued liabilities	15,184	8,048	6,273	11,199	11,075	13,645	16,020	18,800	18,140
Claims accruals, other	25,926	28,662	15,239	14,368	15,276	12,952	16,033	15,784	17,069
Total Current	61,598	62,446	35,139	45,759	40,469	50,015	53,823	62,802	71,759
Debt, Line of Credit	-	-	-	-	-	55,000	80,000	38,000	15,362
Other LT Liabilities	82,526	93,368	127,897	120,556	129,054	155,818	157,849	153,879	145,547
Shareholders' equity	426,095	487,550	483,904	520,158	507,464	476,750	490,840	552,440	606,114
Total Liabilities and Equities	570,219	643,364	646,940	686,473	676,987	737,583	782,512	807,121	838,782
Balance Sheet Analysis									
Current Ratio	2.0	2.7	4.5	4.5	4.1	3.2	3.0	2.6	2.3
Days Sales Outstanding (DSOs)	45	44	38	42	39	39	41	42	43
Net WC/LTM Revenue	12.6%	14.3%	11.0%	11.6%	12.0%	13.1%	12.8%	12.1%	10.8%
Debt / Total Cap (incl Securitization)	0%	0%	0%	0%	0%	10%	14%	6%	2%
Debt / Total Cap (incl Op leases)	0%	1%	1%	1%	1%	11%	15%	7%	3%
Tangible Book/Share	\$4.77	\$5.47	\$5.59	\$6.08	\$5.89	\$5.85	\$6.01	\$6.73	\$7.28
Book Value/Share	\$4.89	\$5.59	\$5.71	\$6.21	\$6.01	\$5.98	\$6.14	\$6.86	\$7.41

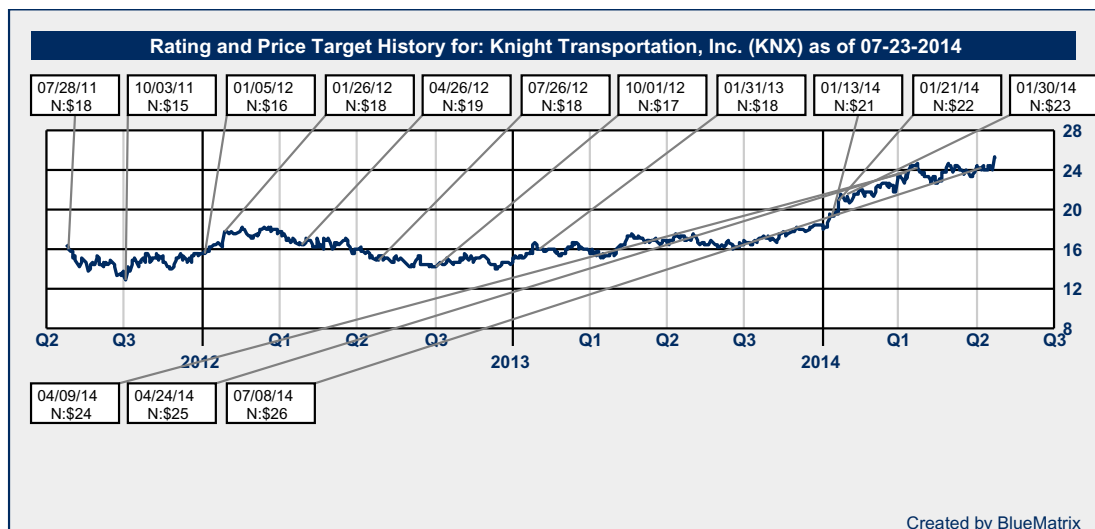
Source: Company reports and Robert W. Baird & Co. estimates.
Please refer to Appendix - Important Disclosures and Analyst Certification.

Cash Flow Statement	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Net Income	\$72,966	\$63,123	\$56,261	\$50,563	\$58,979	\$60,708	\$64,763	\$70,024	\$89,855	\$101,210
Depreciation and Amortization	60,387	65,688	69,821	71,444	70,962	75,832	85,056	86,129	88,189	92,516
Other	(422)	6,487	21,647	4,675	13,043	27,399	(4,111)	(11,750)	500	500
NWC Changes	(2,179)	(9,315)	17,966	(4,718)	(15,438)	(27,621)	5,112	(5,885)	(3,842)	(6,657)
Adj Cash Flow Ops (CFO)	130,752	125,983	165,695	121,964	127,546	136,318	150,820	138,518	174,702	187,569
Capital Expenditures, Net	(127,725)	(91,864)	(81,282)	(55,269)	(91,511)	(138,308)	(120,844)	(85,368)	(100,000)	(120,000)
Free Cash Flow (FCF)	3,027	34,119	84,413	66,695	36,035	(1,990)	29,976	53,150	74,702	67,569
Acquisitions, Net	(16,029)	53	225	-	-	-	-	-	-	-
Dividends	(8,588)	(9,510)	(12,770)	(15,805)	(81,972)	(19,540)	(59,141)	(19,445)	(14,897)	(19,882)
Net Cash Flow (NCF)	(21,590)	24,662	71,868	50,890	(45,937)	(21,530)	(29,165)	33,705	59,806	47,687
FCF/Share	0.03	0.39	1.00	0.80	0.43	(0.02)	0.37	0.66	0.91	0.82
NCF/Share	(0.25)	0.28	0.85	0.61	(0.54)	(0.26)	(0.36)	0.42	0.73	0.58

	2006	2007	2008	2009	2010	2011	2012	2013	LTM
Net Margins (NI/Rev)	10.9%	8.8%	7.3%	7.8%	8.3%	7.0%	7.3%	7.2%	8.0%
Assets Turnover (Rev/A)	1.08	1.18	1.19	0.98	1.07	1.22	1.23	1.22	1.25
Leverage (A/E)	1.35	1.33	1.33	1.33	1.33	1.44	1.57	1.52	1.42
Return on Equity	19.2%	13.8%	11.6%	10.1%	11.8%	12.3%	14.2%	13.4%	14.3%
Return on Assets	13.9%	10.4%	8.7%	7.6%	8.9%	8.6%	9.0%	8.8%	10.1%
ROC	17.9%	13.2%	11.2%	10.0%	11.3%	11.5%	12.2%	11.4%	13.0%

Valuation Measures	2006	2007	2008	2009	2010	2011	2012	2013	LTM
Historical P/E High	26	29	33	33	31	27	22	24	26
Historical P/E Low	19	20	18	20	24	17	16	17	16
Debt Adj. Market Value								Recent Price:	\$25.08
Market Value	1,484,237	1,290,262	1,365,122	1,616,116	1,604,436	1,246,602	1,170,210	1,926,029	2,052,422
ST+LT Debt	-	-	-	-	-	55,000	80,000	38,000	15,362
Cash, Equivalents & ST Invest.	1,582	31,308	53,904	97,754	52,392	9,584	5,684	992	103
Total EV	1,482,655	1,258,954	1,311,218	1,518,362	1,552,044	1,292,018	1,244,526	1,963,037	2,067,681
EBITDA	179,852	168,130	162,479	153,442	168,677	175,853	197,304	200,036	213,859
EV / EBITDA	8.2	7.5	8.1	9.9	9.2	7.3	6.3	9.8	9.7

Appendix - Important Disclosures and Analyst Certification



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