Swift Transportation Co. Inc. (SWFT)

Wage Inflation Greater than Thought, but Cycle Story Appears Intact

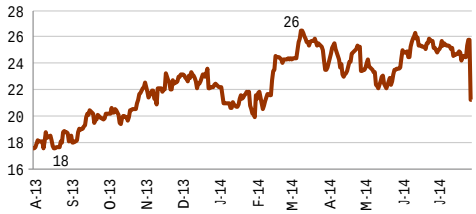
Buyers after Friday's -18% pullback. Below-consensus 2Q14 operating result (in-line EPS helped by gains) and lowered 2014 outlook on intensifying driver recruitment/retention issues, limiting fleet productivity and adding pressure to margins. Lack of operating leverage from strengthening pricing growth during 2014 a surprise to investors; however, we believe continued improvement in truckload fundamentals likely, leaving SWFT's long-term investment thesis intact. Near-term sentiment challenged given recent EPS misses, but valuation at current levels (14.0x NTM P/E) appears compelling versus peers' 19.6x average.

- **2Q14 EPS.** Adjusted EPS of $0.33 (-6% yoy) consistent with our consensus-matching estimate, but gains on equipment sales contributed ~$0.03 relative to expectations.
- **Full-year 2014 EPS guidance lowered.** Adjusted 2014 EPS guidance of $1.24-1.33 lowered from $1.31-1.41, below recent $1.34 consensus. Inflationary cost pressures from an increasingly challenging driver market driving the shortfall, a risk we highlighted in early July. Guidance also assumes an incremental $6-8 million (~$0.03/sh) contribution from gains in 2H14 ($10-12 million total, from an estimated $4 million).
  - **3Q14 EPS guidance below consensus:** $0.33-0.37 versus below $0.40 consensus.
  - **4Q14 EPS guidance (unnecessarily) aggressive:** $0.47-0.52, capturing recent $0.49 consensus and aided by freight seasonality, pricing gains, operational improvements and new business wins.
- **Reducing 2014/2015 EPS estimates** to $1.29/1.59; see our reconciliation to 2015 EPS on page 3.
- **Buyers after Friday's pullback.** SWFT's near-term catalysts admittedly limited given 1) technical break of its 200-day moving average, and 2) questions around management's ability to manage portfolio and investor expectations following several consecutive EPS misses. However, we see credible support for the stock given:
  - **Strengthening pricing growth provides a silver lining.** Core Truckload yield (revenue/loaded mile) growth accelerated to +3.7% yoy in 2Q14, and management expects +4-5% yoy growth in 2H14. Accelerating pricing growth needed to offset greater-than-expected inflationary cost pressure from driver wages but is also a fundamental catalyst to the stock and the truckload group broadly.
  - **Industry remains at the front end of a potential multi-year truckload story,** and we still believe SWFT's model is the most favorably positioned to benefit were one were to develop given: 1) its growth potential in Dedicated/Intermodal, 2) potential margin improvement through productivity and pricing gains in its Truckload segment, and 3) valuation multiple expansion from continued balance sheet deleveraging.
  - **Current valuation (14.0x NTM P/E) appears compelling** relative to peer's average (19.6x).

Swift Transportation Co., headquartered in Phoenix, AZ, is a $4 billion transportation services provider, and one of North America's largest asset-based truckload carriers.

LOWERING PRICE TARGET

1-Year Price Chart



Stock Data

Rating:	Outperform
Suitability:	Higher Risk
Price Target/Previous:	▼$27/$30
Price (7/25/14):	$21.20
Market Cap (mil):	$3,040
Shares Out (mil):	143.4
Average Daily Vol (mil):	1.77
Dividend Yield:	0.0%

Estimates

FY Dec	2013A	2014E	2015E
Q1	0.24 A	0.12 A	
Q2	0.35 A	0.33 A	
Q3	0.29 A	0.36 E	
Q4	0.36 A	0.47 E	
Fiscal EPS	**1.23 A**	**1.29 E**	**1.59 E**
Previous Est		1.33 E	1.73 E
Fiscal P/E	17.2x	16.4x	13.3x

Chart/Table Sources: Bloomberg and Baird Data

EPS (Net): EPS excludes customer intangibles, interest rate swaps; non-cash pre-IPO expenses

Please refer to Appendix - Important Disclosures and Analyst Certification

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Details

Continued patience required, but we believe SWFT's attractive long-term positioning remains in place. 2Q14 EPS met our consensus-matching estimate (helped by $0.03 in gains), but full-year 2014 EPS guidance was lowered due to inflationary cost pressures from an increasingly challenging driver market--a key risk we highlighted in July Freight Flows. At that time, we spoke of needing patience on SWFT into 2Q14 results, and patience will continue to be required: on a technical basis, SWFT failed its 200-day moving average ($23.31) on Friday, closing at $21.20. In addition, SWFT will also have to deal with management credibility gap after four consecutive quarterly EPS misses and another 2014 guidance reduction.

However, there are two points that we believe credibly support the stock: 1) pricing growth is expected to accelerate in 2H14 (to +4-5% yoy), which is expected to mitigate the cost pressures into year-end 2014; and 2) we believe the truckload industry remains in front of a potential multi-year upcycle, to which SWFT remains favorably positioned (growth in Dedicated/Intermodal, potential margin improvement through productivity and pricing gains, balance sheet deleveraging). We recommend using Friday's pullback as an entry point, understanding that the story is shifting from one of a beat-and-raise (2013's theme) to now a "show-me" story and near-term catalysts are limited. However, seasonal demand strengthening in September and into 4Q14, attaining 3Q14 and 4Q14's guidance and clarity to accelerating EPS growth in 2015 are catalysts to the stock into year-end. And after Friday's pullback, SWFT's valuation is once again compelling (14.0x NTM P/E, versus the recent truckload group average of 19.6x).

Why is driver wage inflation affecting SWFT more than other truckload carriers? Questions about management's ability to properly manage both an expanding product portfolio and investor expectations have risen given SWFT's recent string of EPS misses. Our view is somewhat sympathetic, given the reasons for the misses have been outside of SWFT's control: 3Q13 due to a weak freight environment affecting transports broadly, 4Q13 due to higher insurance & claims expenses, 1Q14 due to weather and 2Q14 due to intensifying driver competition.

Why is driver wage inflation affecting SWFT more than other truckload carriers? We see a few reasons: at ~16,500 units, SWFT has the largest truck fleet in the industry, leaving them vulnerable to rising driver pay, diseconomies of scale managing the driver base and competing carriers looking for available drivers. In addition, SWFT's Dedicated exposure (4,400 units) leaves it more vulnerable to cost inflation that exceeds expectations than carriers with proportionally lower Dedicated fleet exposure. SWFT is addressing the driver availability issue by issuing its largest increase to driver pay (an undisclosed amount) in its history during 3Q14, while simultaneously readdressing rates with customers in order to recoup the higher wages.

The silver lining: contractual rate growth acceleration set to resume in 2H14. Core Truckload yield (revenue/loaded mile) growth accelerated to +3.7% yoy in 2Q14, and management expects +4-5% yoy growth in 2H14 given the tightness in industry capacity and efforts to recoup rising driver wages. After normalizing during May (when dry van spot rate growth decelerated to +3% yoy after peaking at +25% yoy in February), spot conditions tightened again in June (into which spot rate growth accelerated to +9% yoy to end the month). Conditions have remained above seasonal in July (see Figure 1 below), supporting continued strengthening in spot rate growth (+16% yoy in mid-July) and providing the basis for a continuation of accelerating contractual rate growth in 2H14. Accelerating pricing growth is needed to offset rising inflationary cost pressure from driver recruitment/retention issues, but it is also a fundamental catalyst to the stock and the truckload group broadly (see Figure 2).

Bridging the gap to 2015 EPS. We are reducing our 2015 EPS estimate to $1.59 (from $1.73 and versus recent $1.71 consensus). Estimated year-over-year growth of +24% is well above SWFT's stated long-term EPS growth target of +15%. Our bridge from 2014 to 2015 EPS is as follows:

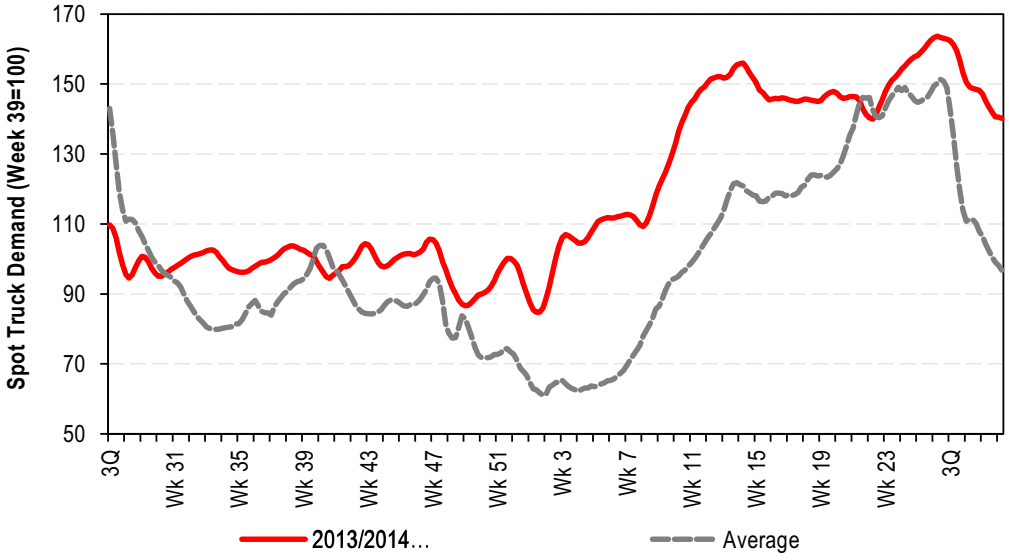
- Roughly $0.12 in "one-time expenses" in 1H14 ($0.06 from weather in 1Q14, $0.03 from Central integration and $0.03 from Dedicated start-up costs and resulting lost Truckload revenue), offset by roughly $0.05 in lower assumed incremental gains in 2015.
- From a "pro forma" EPS of $1.36 in 2014 (our $1.29 estimate, less the $0.05 in gains plus $0.12 in "one-time" expenses during 2014), we assume roughly 6% yoy core EPS growth to arrive at ~$1.45 in 2015 EPS.
- Plus, an incremental ~$0.14 in assumed accretion from the anticipated refinancing of the remaining balance of the $500 million Senior Second Priority Secured Notes (yielding 10.00%).

Buyers after Friday's -18% pullback. As mentioned, SWFT's current valuation is compelling (14.0x NTM P/E, versus the recent truckload group average of 19.6x) after Friday's pullback. We are buyers relative to our lowered $27 price target, which reflects 16x our forward EPS estimate, one year out, a target multiple reduced from 16.5x to reflect our expectation for gradually compressing truckload industry multiples in upcoming quarters (see Figure 3 below). While we recognize that the group's expected multiple compression during 2H14 can present a headwind, we believe 1) SWFT's pullback discounts this risk given its relative valuation to the group, and 2) outperformance for the group can continue provided fundamentals continue to strengthen--which SWFT's 2H14 pricing growth outlook suggests.

Now, the focus turns to the potential multi-year industry consolidation theme. Current conditions create the potential for a period of truckload industry consolidation similar to that during the early 2000s. The confluence of the Federal Motor Carrier Safety Administration (FMCSA) -led regulatory changes: its Compliance, Safety, and Accountability (CSA) initiative, introduced in December 2010; new drivers' Hours-of-Service rules, introduced in July 2013; and the proposed industry-wide mandate of Electronic Logging Devices (ELDs), which could become effective in late 2016, could lead to industry consolidation this cycle and a multi-year period of pricing above inflation for large TL carriers. The ELD program in particular has the potential to tie together the FMCSA's prior two initiatives and lead to a meaningful level of capacity reduction (through fleet productivity restrictions) and attrition in the industry. In totality, SWFT's competitor WERN believes the cumulative effect of the three series of initiatives (CSA, HOS and ELDs) could reduce industry capacity by 10%. We believe that such a level of attrition in industry capacity could lead to greater concentration of share by the large TL carriers (presently, the largest 10 carriers possess roughly 10% market share) and above-inflation pricing in 2015 and potentially beyond.

FIGURE 1: SPOT DEMAND VS. AVERAGE TREND

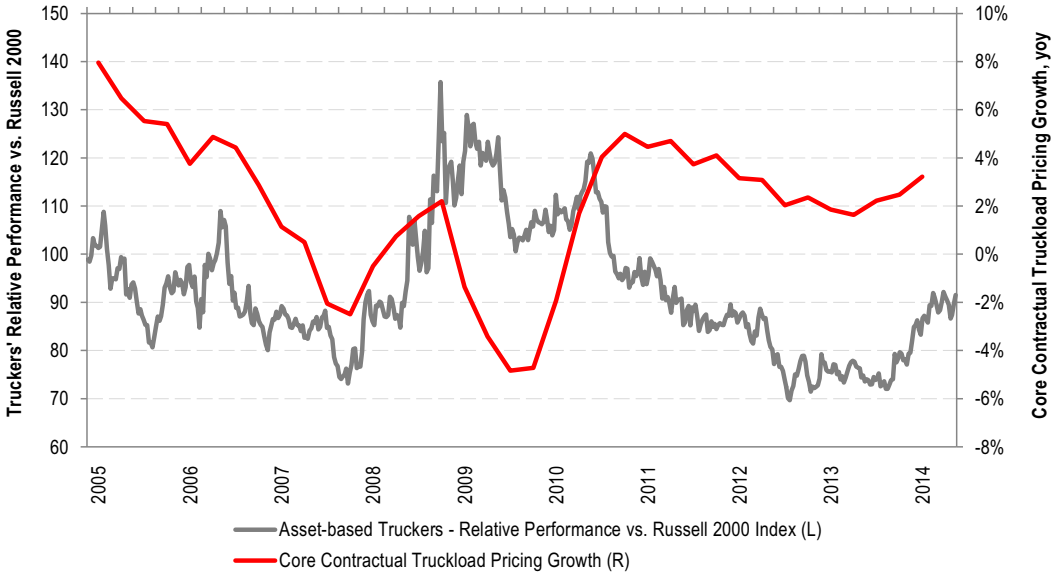
After above-seasonal spot market trends in 4Q13 and 1Q14, trends began to normalize during May. Spot activity strengthened seasonally in June into the seasonal demand build and ongoing truckload capacity tightness -- which could set the stage for a resumption in accelerating rate growth during 2H14, an incremental catalyst for the group.



Source: Industry data, Baird estimates

FIGURE 2: TRUCKERS' RELATIVE PERFORMANCE INFLECTS WITH CORE PRICING GROWTH

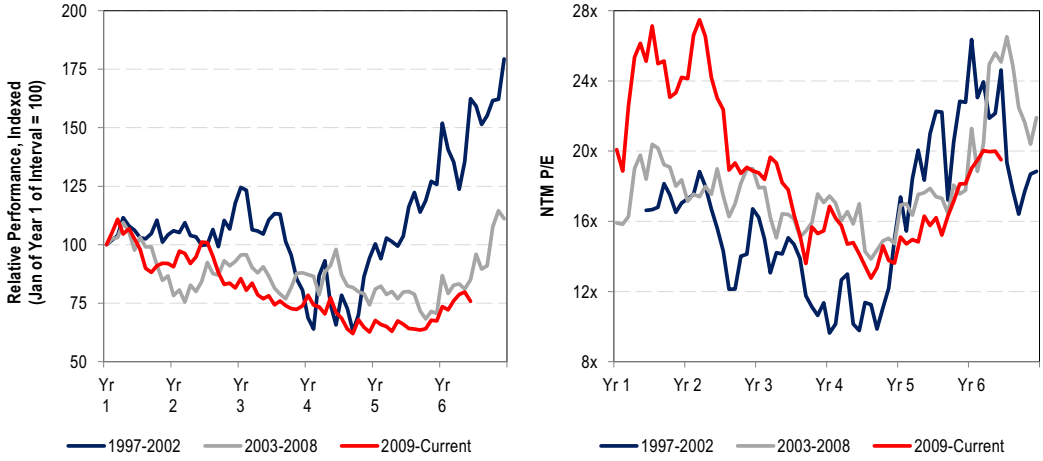
Core contractual truckload pricing growth has reaccelerated in 2014 (to an estimated +3-4% yoy) following above-seasonal spot market trends in recent quarters. Stabilizing trends toward the end of 2Q14 limit near-term catalysts. However, inflationary cost pressures (i.e., driver wages) and incremental 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 3: 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

Detailed Summary of 2Q14 Results

Swift Transportation Company (SWFT - NASDAQ)
Quarterly Results and Variance Sheet

	Quarterly Results					Percent of Revenue		
	2Q14	2Q13	Chg	BAIRD	Var.	2Q14	2Q13	BAIRD
Gross Revenue	1,075,898	1,029,071	5%	1,094,211	-2%			
Salary & Benefits	238,093	223,852	6%	235,121	1%	22.1%	21.8%	21.5%
Operating Supplies	84,077	78,996	6%	84,225	0%	7.8%	7.7%	7.7%
Fuel	153,677	160,886	-4%	145,169	6%	14.3%	15.6%	13.3%
Purchased Transportation	340,249	308,117	10%	349,728	-3%	31.6%	29.9%	32.0%
Rental Expense	56,135	42,996	31%	48,504	16%	5.2%	4.2%	4.4%
Insurance & Claims	33,321	33,597	-1%	35,821	-7%	3.1%	3.3%	3.3%
Depreciation	58,994	61,083	-3%	75,035	-21%	5.5%	5.9%	6.9%
Communications	7,716	5,901	31%	6,292	23%	0.7%	0.6%	0.6%
Taxes & Licenses	17,926	18,520	-3%	18,859	-5%	1.7%	1.8%	1.7%
(Gain)/Loss on Equipment Disposal	(8,312)	(5,143)	NM	(2,000)	NM	-0.8%	-0.5%	-0.2%
Operating Expenses	981,876	928,805	6%	996,752	-1%	91.3%	90.3%	91.1%
Other Inc (Exp)	(28,659)	(23,424)		(25,163)		-2.7%		
Income Taxes	25,165	26,963		27,836	-10%			
GAAP Net Income	40,198	49,879		44,461				
Pro Forma EPS	$0.33	$0.35	-6%	$0.33	-1%			
Diluted Shares	143,393	141,838	1%	143,289	0%			

Source: Company reports, Baird estimates

	Segment Results					Percent of Gross		
($000)	2Q14	2Q13	Chg	BAIRD	Var.	2Q14	2Q13	BAIRD
Truckload	575,481	588,724	-2%	586,064	-2%	53%	57%	54%
Dedicated	223,098	182,651	22%	226,056	-1%	21%	18%	21%
Central	106,911	111,238	-4%	113,329	-6%	10%	11%	10%
Intermodal	100,911	90,994	11%	106,306	-5%	9%	9%	10%
Gross Revenue	1,075,898	1,029,071	5%	1,094,211	-2%	100%	100%	100%

						Operating Ratio		
Truckload	69,596	64,614	8%	64,322	8%	87.9%	89.0%	89.0%
Dedicated	21,112	24,263	-13%	25,508	-17%	90.5%	86.7%	88.7%
Central	3,662	566	547%	2,933	25%	96.6%	99.5%	97.4%
Intermodal	(495)	788	NM	921	NM	100.5%	99.1%	99.1%
Operating Income	94,022	95,172	-1%	97,459	-4%	91.3%	90.8%	91.1%

Source: Company reports, Baird estimates

Truckload (54% of 2Q14 revenue)

Total revenue declined 2% yoy; revenue ex-fuel also declined 2% yoy as yield (revenue per loaded mile, ex-fuel) improved 3.7% yoy offset by loaded mile decline of 5.5% yoy on a 7.2% smaller average truck fleet. Beginning in 4Q13 and continuing through 2Q14, SWFT shifted trucks from its truckload fleet into its dedicated fleet to support new business wins; SWFT also shrunk its Truckload fleet through disposal of idled equipment, to preserve fleet utilization given driver retention issues. Core operating ratio (ex-fuel) improved 140 bps yoy to 84.8%, likely aided by higher gains on sale. Productivity (revenue/tractor/week) improved 5.6% yoy, on a 3.4% yoy increase revenue per total mile and a 1.8% increase in loaded miles/truck/week.

FIGURE 4: KEY 2Q14 TRUCKLOAD OPERATING RESULTS

	YOY Change										
	Rev x-fuel	Vol	Rev/Load Mile	LOH	Fleet Count	EPS	Margin x-fuel	YOY bps Chg	EPS	Cnss*	EPS vs. Cnss
JBHT	8%	-8%	0%	-6%	-8%	7%	9.3%	+640	0.79	0.78	1%
SWFT*	-2%	-6%	4%	N/A	-7%	-6%	15.2%	+140	0.33	0.33	0%
WERN	4%	3%	1%	6%	-1%	1%	11.5%	-10	0.35	0.35	0%
KNX*	9%	1%	6%	3%	1%	31%	21.0%	+270	0.31	0.27	+15%
MRTN	5%	0%	3%	1%	-2%	4%	9.2%	+20	0.24	0.26	-8%
CVTI	1%	-2%	4%	N/A	-8%	NM	6.6%	+200	0.25	0.19	NM
LSTR*	23%	9%	13%	N/A	5%	25%	7.2%	+70	0.80	0.78	3%

JBHT operating metrics reflect Truck segment results
SWFT operating metrics reflect Truckload segment results
KNX revenue, ex-fuel, estimate excludes asset-light revenue
LSTR revenue "Total Truck", incl fuel; volume and pricing growth based on BCO statistics; margin includes fuel
*Consensus EPS reflects EPS estimate immediately prior to preannouncements (KNX, SWFT)
Source: Company filings, Baird estimates

TRUCKLOAD SEGMENT DETAILS

	2011	2012	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3E	Q4E	2014E	2015E
Revenue Growth	12%	-2%	2%	2%	3%	-1%	1%	-1%	-2%	-2%	5%	0%	3%
Revenue Growth (ex-fuel)	5%	-2%	2%	4%	3%	1%	2%	0%	-2%	-2%	5%	0%	3%
Operating Income Growth	15%	10%	-9%	-5%	8%	-22%	-8%	-25%	8%	13%	25%	8%	7%
Operating Margin	9.5%	10.8%	7.6%	11.0%	10.0%	10.4%	9.8%	5.8%	12.1%	11.5%	12.4%	10.5%	10.9%
Volume Growth*	2%	-5%	0%	2%	0%	-2%	0%	-3%	-6%	-6%	-2%	-4%	1%
Pricing Growth (ex-fuel)**	5%	3%	2%	1%	2%	1%	2%	2%	3%	4%	7%	4%	3%
Avg Truck Count Growth	2%	-9%	-2%	1%	2%	-1%	0%	-1%	-7%	-7%	-3%	-5%	0%
Utilization***	0%	4%	2%	2%	-1%	0%	1%	-1%	2%	2%	2%	1%	1%

*Volume comprised of loaded miles
**Pricing growth comprised of revenue/loaded mile ex-fuel
**Utilization comprised of miles/truck
Source: Company data, Baird estimates

Dedicated (21% of revenue)

Total revenue +22% yoy; revenue ex-fuel grew 23% yoy due to new customer growth. Revenue per truck declined 6% yoy on a 31% higher tractor count yoy with start-ups negatively impacting revenue per truck per week. Dedicated OR worsened 480 bps yoy to 88.5% due to new customer start-up costs, equipment costs and workers comp expenses. SWFT expects Dedicated OR to return to historical range of 86-87% as early as year-end as new business layers on and start-up costs normalize. Truck count expected to grow 300-400 units in 3Q14 from 2Q14.

DEDICATED SEGMENT DETAILS

	2011	2012	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3E	Q4E	2014E	2015E
Revenue Growth	22%	16%	4%	0%	1%	2%	2%	8%	22%	38%	33%	25%	10%
Revenue Growth (ex-fuel)	14%	15%	3%	1%	0%	3%	2%	9%	23%	39%	34%	26%	11%
Operating Income Growth	5%	6%	31%	31%	20%	-17%	13%	-39%	-13%	22%	46%	3%	22%
Operating Margin	11.2%	10.2%	10.6%	13.3%	11.1%	10.3%	11.3%	6.0%	9.5%	9.8%	11.3%	9.3%	10.3%
Avg Truck Count Growth	14%	13%	4%	0%	0%	7%	3%	16%	31%	38%	30%	29%	8%

Source: Company data, Baird estimates

Central (10% of revenue)

Total revenue declined 4% yoy; revenue ex-fuel declined 1% yoy. Central OR (ex-fsc) of 95.7%, pressured 220 bps yoy due to a smaller fleet given driver retention issues and challenges stemming from a large dedicated customer win during 2Q13. Management noted continued driver market challenges are expected to pressure truck growth, and caused lower than average 2Q14 ending truck count (-6% yoy). 3Q14 average operational truck count expected to be roughly 100 units below the 2Q14 average, before growing approximately 100 trucks in 4Q14.

CENTRAL SEGMENT DETAILS

	2011	2012	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3E	Q4E	2014E	2015E
Revenue Growth		8%	5%	7%	11%	12%	9%	0%	-4%	-9%	-5%	-4%	3%
Revenue Growth (ex-fuel)		8%	6%	10%	15%	18%	12%	2%	-1%	-8%	-5%	-3%	4%
Operating Income Growth		86%	27%	-12%	-24%	-42%	-17%	-49%	-35%	160%	189%	48%	21%
Operating Margin	3.6%	5.1%	4.4%	5.1%	3.0%	3.2%	3.9%	2.3%	3.4%	8.5%	9.8%	6.1%	7.1%
Volume Growth*		4%	2%	6%	3%	6%	4%	-9%	-13%	5%	6%	-3%	4%
Pricing Growth (ex-fuel)**		4%	4%	4%	11%	12%	8%	13%	13%	-13%	-11%	-1%	-1%
Avg Truck Count Growth		5%	7%	10%	9%	9%	9%	6%	-6%	-10%	-7%	-4%	-1%
Utilization***		0%	-5%	-4%	-5%	-3%	-4%	-14%	-7%	17%	14%	2%	6%

*Volume comprised of loaded miles
**Pricing growth comprised of revenue/loaded mile ex-fuel
**Utilization comprised of miles/truck
Source: Company data, Baird estimates

Intermodal (9% of revenue)

Total revenue grew 11% yoy to $101 million in 2Q14 as core revenue (ex-fuel) improved 12% yoy to $81 million. Core revenue growth was a factor of 11% yoy volume (loads) growth and 1% yield (revenue per load) improvement. OR (ex-fuel) declined 170 bps yoy to 100.6% on increased insurance and drayage costs. SWFT expects to add 500 containers toward the end of 3Q14 to accommodate new business awards. As SWFT continues to grow its scale, profitability initiatives focused on improving capacity utilization (loads/container), lane balance (through targeted growth), and drayage cost efficiency will over time allow SWFT to improve intermodal returns, and the company expects the segment to be profitable in 2H14. Notably, the in-house drayage fleet grew 46% yoy, and over 70% of drayage is now completed with SWFT power.

INTERMODAL SEGMENT DETAILS

	2011	2012	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3E	Q4E	2014E	2015E
Revenue Growth	12%	42%	13%	6%	5%	1%	6%	10%	11%	11%	16%	12%	16%
Revenue Growth (ex-fuel)	6%	42%	12%	7%	6%	3%	7%	12%	12%	12%	16%	13%	16%
Operating Income Growth	-46%	-311%	-58%	459%	-168%	-941%	-187%	-42%	-163%	11%	24%	13%	177%
Operating Margin	1.3%	-1.8%	-1.9%	0.9%	1.6%	4.7%	1.5%	-1.0%	-0.5%	1.6%	5.0%	1.5%	3.6%
Volume Growth*	0%	38%	10%	5%	5%	3%	6%	8%	11%	11%	15%	11%	14%

*Volume comprised of loads
Source: Company data, Baird estimates

Balance Sheet and Cash Flow

SWFT ended 2Q14 with $152 million in cash ($74 million unrestricted). On the debt side, SWFT ended 2Q14 with a net debt balance of $1.45 billion, down from 1Q14 as a result of repayments. SWFT's debt/capitalization ratio was 78% with a net leverage ratio of 2.51x. SWFT intends to repay roughly $100 million of debt in 2014. SWFT generated $81 million in free cash flow during 2Q14 on $107 million cash from operations and $26 million net cash capital expenditures. We estimate net cash capital expenditures of ~$230 million in both 2014 and 2015, supporting free cash flow of $145 million and $217 million, respectively, supporting continued balance sheet deleverating. However, while SWFT does not have an existing share repurchase authorization approved by its board of directors, its new credit agreement allows for repurchases and the board appears open to the potential of using excess cash to buy back stock.

BALANCE SHEET AND CASH FLOW ($millions)

	2011	2012	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3E	Q4E	2014E	2015E
Net Income	91	115	23	43	44	45	155	12	40	49	65	166	221
D&A	245	227	56	57	69	67	250	63	62	64	68	257	227
Other	66	112	26	32	3	26	87	(6)	(16)	12	12	2	10
Working Capital	(61)	(6)	6	2	(6)	(42)	(39)	7	22	(39)	(39)	(50)	(10)
Cash Flow from Operating	**340**	**447**	**111**	**135**	**110**	**97**	**453**	**76**	**107**	**87**	**106**	**376**	**448**
Capital Expenditures (Gross)	(250)	(314)	(62)	(103)	(73)	(81)	(318)	(60)	(75)	(82)	(82)	(300)	(300)
Cash Flow from Investing	**(150)**	**(169)**	**(26)**	**(63)**	**(187)**	**(15)**	**(291)**	**(25)**	**(21)**	**(87)**	**(87)**	**(219)**	**(231)**
Issuance (Repayment) of Debt (net)	(217)	(307)	(71)	(29)	(17)	(80)	(196)	(47)	(211)	(25)	(18)	(300)	(100)
Sales (Repurchase) of Stock (net)	63	-	-	-	-	-	-	-	-	-	-	-	-
Cash Flow from Financing	**(156)**	**(306)**	**(100)**	**(67)**	**84**	**(74)**	**(156)**	**(64)**	**(59)**	**(25)**	**(43)**	**(191)**	**(100)**
Ending Cash Balance	**154**	**128**	**114**	**113**	**126**	**136**	**136**	**119**	**152**	**127**	**103**	**103**	**220**
Ending Debt Balance	1,769	1,637	1,506	1,491	1,671	1,603	1,603	1,535	1,521	1,496	1,478	1,478	1,378
Debt / Total Cap (incl Op leases)	94%	85%	86%	84%	88%	86%	86%	85%					

Source: Company data, Baird estimates

Investment Thesis

Current thoughts. 2Q14 EPS met our consensus-matching estimate (helped by $0.03 in gains), but full-year 2014 EPS guidance was lowered due to inflationary cost pressures from an increasingly challenging driver market--a key risk we highlighted in July Freight Flows. At that time, we spoke of needing patience on SWFT into 2Q14 results, and patience will continue to be required: on a technical basis, SWFT failed its 200-day moving average ($23.31) on Friday, closing at $21.20. In addition, SWFT will also have to deal with management credibility gap after four consecutive quarterly EPS misses and another 2014 guidance reduction. However, there are two points that we believe credibly support the stock: 1) pricing growth is expected to accelerate in 2H14 (to +4-5% yoy), which is expected to mitigate the cost pressures into year-end 2014; and 2) we believe the truckload industry remains in front of a potential multi-year upcycle, to which SWFT remains favorably positioned (growth in Dedicated/Intermodal, potential margin improvement through productivity and pricing gains, balance sheet deleveraging). We recommend using Friday's pullback as an entry point, understanding that the story is shifting from one of a beat-and-raise (2013's theme) to now a "show-me" story and near-term catalysts are limited. However, seasonal demand strengthening in September and into 4Q14, attaining 3Q14 and 4Q14's guidance and clarity to accelerating EPS growth in 2015 are catalysts to the stock into year-end. And after Friday's pullback, SWFT's valuation is once again compelling (14.0x NTM P/E, versus the recent truckload group average of 19.6x).

New operating philosophy supporting substantive improvement in profitability. An intense focus on profitability, instigated by new leadership within Swift and necessitated by heavy debt levels amid a deep recession, supported meaningful operational improvement in recent years. SWFT continues to focus on three drivers of improvement: profitable revenue growth, improved asset utilization, and cost controls. During the previous cycle, SWFT's peak operating ratio was 92.2%, achieved in 2006. During 2010, SWFT achieved a 90.6% OR; given real industry pricing growth and sustainable operational improvements, a mid-80s OR is achievable. Every 100 bps operating margin improvement generates roughly $0.18 in EPS.

"Perfect Storm" creates the potential for significant industry capacity constraints. Industry fundamentals are facing a "perfect storm" of sustained truckload capacity constraints. Conditions supporting the perfect storm include an industry fleet age at generational highs, regulatory changes (both CSA 2010 and Hours of Service revisions), tighter credit standards, unhealthy carrier balance sheets, and rising operating costs (truck prices, driver pay). Given more than two-thirds of SWFT's

overall revenue is directly linked to general, over-the-road truckload trends, we believe the company is well positioned to capitalize on this looming inflection point for truckload fundamentals.

SWFT's size and scale an advantage in an increasingly capacity-constrained environment. Swift is the largest asset-based truckload carrier in North America, with 34 major terminals in the US and Mexico. We expect the large, well-run truckload carriers to disproportionately benefit from an increasingly capacity-constrained environment as shippers rely on larger carriers as primary sources of reliable capacity. Previous cycles rewarded scale players with market share gains and revenue growth. But this cycle represents the first opportunity for scale benefits to materialize at the operating profit level.

Diversifying revenue base toward higher-growth, less asset-intensive channels. Like many traditional truckload operators, Swift is also expanding complementary, less asset-intensive service offerings to drive growth and reduce capital commitments. Areas include: 1) diversification into intermodal, port drayage, dedicated, cross-border Mexico, and freight brokerage and logistics; 2) improved utilization of existing fleet and independent owner-operators; and 3) strategic acquisitions.

Seasoned management team. SWFT's senior leadership team has an average of nearly 20 years' industry experience among its 12 members. Founder and CEO Moyes provides a deep understanding of Swift's customer relationships. Richard Stocking has held various positions within Swift over the past 19 years, and has executed many of the operational changes driving the improvement to profitability since being appointed President and COO in January 2009; and Virginia Henkels (CFO since May 2008) joined Swift in 2004 following various leadership positions at Honeywell.

Valuation. Our $27 price target reflects 16x our forward EPS estimate, one year out (including accretion from note call in November 2014), an ~18% valuation discount to high-quality TL peers' 19.6x current average multiple on NTM EPS given SWFT's leverage and recent inconsistent results—a discount we expect to narrow. Alternatively, 16x our forward EPS multiple, one year out, is above SWFT's 14.6x multiple from 2004-2007. Our $27 price target is 8.2x EV/forward EBITDA, similarly above SWFT's 5.8x EV/EBITDA from 2003-2007 prior to its May 2007 LBO. We believe our target multiples are appropriate given SWFT's demonstrated operational improvement and ongoing deleveraging, with further upside potential given continued execution of its strategy and/or a strengthening macroeconomic environment.

Risks & Caveats

Limited financial flexibility. As of 1Q14, SWFT carried $1.49 billion in debt and a Debt/EBITDA ratio of 2.54x. Additionally, SWFT's ability to borrow is restricted by debt covenants on its existing senior secured notes, which could negatively impact its ability to fund capital expenditures in the near term.

Sustainability of operational discipline. Investors will be focused on whether management is able to maintain its operational discipline experienced in recent years. Inability to retain recent operational improvement will limit margin expansion opportunity and earnings growth potential.

Acquisition risk. Swift intends to complete tuck-in acquisitions, which heightens the company's execution risk. Acquisitions can destroy value and divert management attention. We are cautious on Swift's underlying acquisition strategy.

Related-party transactions and corporate governance. CEO Moyes is affiliated with a number of related parties with whom Swift regularly transacts. Transactions with these entities can create a conflict of interest for Moyes and/or Swift.

Rising operating costs. The truckload industry faces numerous sources of cost inflation, including higher equipment prices, rising driver pay, and higher maintenance and operating costs. SWFT's inability to offset these cost pressure through rate increases to customers can negatively impact operating profitability.

Customer concentration. SWFT has a high degree of customer concentration, with its five largest customers accounting for over one-fourth of its revenue, and its top 25 customers generating over half its revenue. Loss of key customer relationships could negatively impact productivity and operating results.

Economic sensitivity of freight demand. As a transportation and logistics model, SWFT's performance is sensitive to the broader economic environment. Periods of poor economic growth will impact SWFT's ability to grow earnings.

Company Description

Swift is the largest truckload carrier with a fleet of roughly 18,000 trucks and 57,300 trailers. Though primarily focused on asset-based truckload transportation, Swift provides a variety of transportation services including dry van, dedicated, flatbed, and refrigerated truckload, as well as intermodal rail, port drayage, cross-border Mexico/US transit and brokerage/logistics services. The company began an operating model transformation in 2008 with impressive results; from 2007-2010 SWFT led its peers in operating margin improvement despite a roughly 9% revenue contraction. By focusing on three parameters (profitable revenue growth, improved asset utilization, and cost controls), we believe SWFT can drive toward a mid-80s OR next cycle. The company finished 2013 with $4.1 billion in revenue and an operating ratio of 91.3%.

Swift Transportation Company
(SWFT - NASDAQ)

BAIRD

Income Statement ($ millions)

Robert W. Baird & Co.

	2006	2007	2008	2009	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14	3Q14E	4Q14E	2014E	2015E
Revenue																						
Truckload					2,079	2,336	551	575	565	591	2,282	560	589	579	585	2,313	553	575	568	616	2,312	2,388
Dedicated					514	625	172	182	183	188	724	179	183	185	193	739	194	223	254	256	927	1,023
Central						447	101	104	104	107	416	106	111	115	120	453	107	107	105	114	433	446
Intermodal					212	238	74	86	92	104	355	83	91	96	105	376	91	101	107	122	422	488
Gross Revenue	**3,174**	**3,264**	**3,400**	**2,571**	**2,930**	**3,779**	**944**	**992**	**993**	**1,048**	**3,976**	**982**	**1,029**	**1,032**	**1,075**	**4,118**	**1,008**	**1,076**	**1,097**	**1,188**	**4,370**	**4,666**
Growth (%)	-1%	3%	4%	-24%	14%	29%	10%	3%	2%	7%	5%	4%	4%	4%	3%	4%	3%	5%	6%	11%	6%	7%
Growth (x-fuel surcharge, %)	-3%	3%	-4%	-14%	9%	18%	8%	4%	3%	17%	8%	4%	5%	4%	5%	5%	4%	5%	7%	11%	7%	7%
Expenses																						
Salary & Benefits	905	949	893	729	741	861	219	218	219	225	880	226	224	220	233	904	229	238	234	254	955	1,013
Operating Supplies	269	286	272	210	218	282	66	74	75	75	290	72	79	85	83	319	81	84	87	82	334	358
Fuel	634	699	769	386	469	699	169	162	169	168	669	168	161	161	150	640	156	154	161	163	634	666
Purchased Transportation	586	630	741	620	771	1,055	277	298	306	314	1,195	292	308	318	337	1,256	319	340	342	375	1,377	1,469
Rental Expense	57	78	77	80	77	122	33	36	39	41	149	41	43	46	50	180	52	56	47	59	214	241
Insurance & Claims	159	127	142	81	87	111	34	29	29	29	122	32	34	35	42	142	42	33	36	39	150	160
D&A	231	282	276	254	219	236	59	59	58	59	236	59	61	62	60	243	60	59	64	68	252	227
Communications	29	29	30	25	25	28	7	7	7	6	26	7	6	7	6	26	7	8	7	7	29	31
Operating Taxes & Licenses	59	66	68	57	56	72	18	18	17	18	72	18	19	19	19	74	18	18	19	20	75	77
(Gains) Losses	(2)	(1)	(6)	(2)	(8)	(9)	(3)	(5)	(4)	(4)	(17)	(3)	(5)	(6)	(9)	(23)	(3)	(8)	(5)	(5)	(21)	(8)
Total Expenses	2,927	3,149	3,260	2,439	2,655	3,457	880	897	915	929	3,622	912	929	948	973	3,761	962	982	992	1,062	3,998	4,235
Growth (%)	-2%	8%	4%	-25%	9%	30%	9%	1%	3%	6%	5%	4%	4%	4%	5%	4%	6%	6%	5%	9%	6%	6%
Op Ratio	92.2%	96.5%	95.9%	94.8%	90.6%	91.5%	93.3%	90.4%	92.2%	88.7%	91.1%	92.9%	90.3%	91.8%	90.5%	91.3%	95.4%	91.3%	90.4%	89.4%	91.5%	90.8%
Op Ratio (x-fuel surcharge)	90.9%	95.9%	94.8%	94.2%	89.0%	89.1%	91.6%	88.0%	90.4%	85.9%	88.9%	91.1%	88.0%	89.9%	88.3%	89.3%	94.3%	89.3%	88.3%	87.0%	89.6%	88.7%
EBITDA	478	397	415	386	493	559	123	154	135	177	590	129	161	147	163	600	107	153	169	194	623	658
EBITDA Margin	15.0%	12.2%	12.2%	15.0%	16.8%	14.8%	13.0%	15.6%	13.6%	16.9%	14.8%	13.1%	15.7%	14.2%	15.1%	14.6%	10.6%	14.2%	15.4%	16.4%	14.3%	14.1%
Truckload					193	223	47	68	54	78	246	42	65	58	61	226	32	70	65	76	243	260
EBIT Margin					9.3%	9.5%	8.4%	11.8%	9.5%	13.1%	10.8%	7.6%	11.0%	10.0%	10.4%	9.8%	5.8%	12.1%	11.5%	12.4%	10.5%	10.9%
Dedicated					67	70	15	19	17	24	74	19	24	21	20	84	12	21	25	29	86	105
EBIT Margin					13.0%	11.2%	8.5%	10.2%	9.3%	12.7%	10.2%	10.6%	13.3%	11.1%	10.3%	11.3%	6.0%	9.5%	9.8%	11.3%	9.3%	10.3%
Central						16	4	6	5	7	21	5	6	3	4	18	2	4	9	11	26	32
EBIT Margin						3.6%	3.7%	6.2%	4.3%	6.3%	5.1%	4.4%	5.1%	3.0%	3.2%	3.9%	2.3%	3.4%	8.5%	9.8%	6.1%	7.1%
Intermodal					6	3	(4)	0	(2)	(1)	(6)	(2)	1	2	5	6	(1)	(0)	2	6	6	18
EBIT Margin					2.7%	1.3%	-5.2%	0.2%	-2.4%	-0.6%	-1.8%	-1.9%	0.9%	1.6%	4.7%	1.5%	-1.0%	-0.5%	1.6%	5.0%	1.5%	3.6%
EBIT Total	**247**	**114**	**139**	**133**	**274**	**322**	**64**	**95**	**77**	**118**	**354**	**70**	**100**	**84**	**103**	**357**	**46**	**94**	**105**	**126**	**371**	**432**
EBIT Margin	7.8%	3.5%	4.1%	5.2%	9.4%	8.5%	6.7%	9.6%	7.8%	11.3%	8.9%	7.1%	9.7%	8.2%	9.5%	8.7%	4.6%	8.7%	9.6%	10.6%	8.5%	9.2%
Growth (%)	19%	-54%	22%	-5%	107%	18%	28%	25%	-16%	13%	10%	10%	5%	9%	-13%	1%	-34%	-6%	24%	23%	4%	16%
Other Inc/(Exp)	(24)	(254)	(250)	(241)	(174)	(161)	(35)	(31)	(28)	(27)	(122)	(20)	(23)	(23)	(24)	(91)	(23)	(21.669)	(25)	(21)	(91)	(72)
Pretax Income	223	(139)	(111)	(108)	101	162	28	64	49	91	232	50	77	61	78	266	23	72	80	105	281	359
Tax Rate (%)	32.1%	NM	NM	NM	NM	36.7%	NM	39.3%	34.9%	30.8%	27.9%	38.5%	38.5%	34.9%	42.3%	38.5%	38.5%	34.8%	38.5%	38.5%	37.5%	38.5%
Net Income	**152**	**(142)**	**(122)**	**(436)**	**34**	**103**	**32**	**39**	**34**	**63**	**167**	**31**	**47**	**35**	**45**	**158**	**14**	**47**	**49**	**65**	**175**	**221**
Pro Forma Net Income					**80**	**118**	**22**	**43**	**32**	**58**	**155**	**33**	**50**	**41**	**51**	**175**	**17**	**48**	**53**	**68**	**186**	**234**
Shares Outstanding	60.7	60.7	60.1	60.1	139.5	139.7	140.4	139.6	139.5	139.6	139.8	141.3	141.8	142.3	142.7	142.0	143.0	143.4	144.8	146.1	144.3	147.2
PF EPS (x-derivative, x-amort)					**$0.57**	**$0.85**	**$0.16**	**$0.31**	**$0.23**	**$0.41**	**$1.11**	**$0.24**	**$0.35**	**$0.29**	**$0.36**	**$1.23**	**$0.12**	**$0.33**	**$0.36**	**$0.47**	**$1.29**	**$1.59**
Growth (%)	36%	NM	NM	NM	NM	49%		60%	-12%	30%	31%	51%	14%	23%	-14%	11%	-48%	-5%	27%	30%	5%	24%
GAAP EPS	**$2.26**	**($2.54)**	**($2.43)**	**($7.26)**	**($1.16)**	**$0.73**	$0.07	$0.27	$0.24	$0.40	**$0.98**	$0.20	$0.33	$0.22	$0.32	**$1.07**	$0.10	$0.33	$0.34	$0.44	**$1.21**	**$1.50**
Expense Ratios																						
Salary & Benefits	28.5%	29.1%	26.3%	28.3%	25.3%	22.8%	23.2%	21.9%	22.0%	21.4%	22.1%	23.1%	21.8%	21.3%	21.7%	22.0%	22.7%	22.1%	21.3%	21.4%	21.9%	21.7%
Operating Supplies	8.5%	8.8%	8.0%	8.2%	7.4%	7.5%	7.0%	7.5%	7.6%	7.1%	7.3%	7.3%	7.7%	8.3%	7.7%	7.7%	8.0%	7.8%	7.9%	6.9%	7.6%	7.7%
Fuel	20.0%	21.4%	22.6%	15.0%	16.0%	18.5%	17.9%	16.4%	17.0%	16.0%	16.8%	17.1%	15.6%	15.6%	14.0%	15.5%	15.5%	14.3%	14.7%	13.7%	14.5%	14.3%
Purchased Transportation	18.5%	19.3%	21.8%	24.1%	26.3%	27.9%	29.4%	30.0%	30.8%	29.9%	30.1%	29.8%	29.9%	30.8%	31.3%	30.5%	31.6%	31.6%	31.2%	31.6%	31.5%	31.5%
Rental Expense	1.8%	2.4%	2.3%	3.1%	2.6%	3.2%	3.5%	3.7%	3.9%	3.9%	3.8%	4.1%	4.2%	4.5%	4.7%	4.4%	5.1%	5.2%	4.3%	4.9%	4.9%	5.2%
Insurance & Claims	5.0%	3.9%	4.2%	3.2%	3.0%	2.9%	3.6%	3.0%	3.0%	2.7%	3.1%	3.2%	3.3%	3.4%	3.9%	3.5%	4.2%	3.1%	3.3%	3.2%	3.4%	3.4%
D&A	7.3%	8.7%	8.1%	9.9%	7.5%	6.3%	6.3%	6.0%	5.9%	5.6%	5.9%	6.0%	5.9%	6.1%	5.6%	5.9%	6.0%	5.5%	5.9%	5.7%	5.8%	4.9%
Expense (yoy chg)																						
Salary & Benefits	-9.2%	4.8%	-5.9%	-18.4%	1.7%	16.2%	2.9%	-1.2%	1.7%	5.2%	2.1%	3.4%	2.9%	0.7%	4.0%	2.7%	1.3%	6.4%	6.2%	8.9%	5.7%	6.0%
Operating Supplies	-5.9%	6.2%	-4.9%	-22.8%	3.8%	29.3%	-3.1%	7.4%	3.0%	4.7%	3.1%	9.2%	6.1%	13.1%	10.8%	9.8%	12.2%	6.4%	2.1%	-1.2%	4.6%	7.3%
Fuel	3.8%	10.2%	10.0%	-49.8%	21.5%	49.1%	2.1%	-12.8%	-4.7%	-0.6%	-4.3%	-0.7%	-0.9%	-5.0%	-10.5%	-4.3%	-7.2%	-4.5%	0.3%	8.4%	-1.0%	5.1%
Purchased Transportation	0.5%	7.4%	17.7%	-16.3%	24.3%	36.8%	20.5%	12.5%	10.1%	11.1%	13.2%	5.3%	3.4%	4.0%	7.5%	5.1%	9.2%	10.4%	7.5%	11.3%	9.6%	6.7%
Rental Expense	-1.7%	38.0%	-1.7%	3.8%	-4.1%	59.8%	18.3%	23.6%	15.2%	32.2%	22.2%	22.5%	18.0%	18.1%	24.1%	20.7%	27.3%	30.6%	1.6%	16.3%	18.4%	12.6%
Insurance & Claims	1.5%	-20.1%	11.8%	-42.7%	7.5%	26.6%	31.3%	-8.7%	15.7%	6.2%	10.0%	-7.7%	14.5%	19.1%	46.3%	16.9%	34.6%	-0.8%	2.3%	-8.0%	5.7%	6.7%
D&A	15.5%	22.4%	-2.3%	-8.1%	-13.5%	7.8%	2.9%	0.0%	-1.8%	-2.1%	-0.3%	-0.7%	2.9%	7.3%	2.6%	3.0%	2.2%	-3.4%	3.1%	12.9%	3.7%	-9.9%

Source: Company reports and Robert W. Baird & Co. estimates.

Please refer to Appendix - Important Disclosures and Analyst Certification.

Robert W. Baird & Co.
Benjamin J. Hartford, CFA (414) 765-3752

Swift Transportation Company
(SWFT - NASDAQ)

BAIRD

Balance Sheet ($ millions)

Balance Sheet	2006	2007	2008	2009	2010	2011	2012	2013	2Q14
ASSETS									
Cash and cash equivalents	$48	$101	$76	$141	$132	$154	$128	$136	$152
Accounts receivable, net	308	320	113	102	277	324	393	419	460
Other current assets	131	102	66	111	103	190	222	179	140
Total Current	**487**	**523**	**256**	**354**	**512**	**668**	**742**	**734**	**752**
Property & equipment, net	1,514	1,588	1,583	1,365	1,340	1,300	1,398	1,448	1,450
Goodwill/Intangible	91	708	666	642	622	604	587	570	562
Other assets, net	19	110	143	153	94	69	66	57	51
Total Assets	**2,111**	**2,929**	**2,649**	**2,514**	**2,568**	**2,640**	**2,792**	**2,809**	**2,815**
LIABILITIES & EQUITIES									
Current debt, cap leases	-	14	28	47	66	59	73	75	86
Accounts payable	100	99	119	71	90	82	113	118	142
Accrued liabilities	63	114	94	111	80	101	108	111	127
Claims accrual	140	136	156	92	87	73	87	75	76
Other Liabilities	1	15	30	50	3	1	2	5	6
Securitization of A/R	180	200							
Total Current	**484**	**578**	**427**	**370**	**326**	**317**	**383**	**384**	**436**
Long-term debt, leases	200	2,413	2,466	2,420	1,708	1,530	1,360	1,264	1,116
Claims accruals	109	169	157	167	136	96	99	119	136
Deferred income taxes, other	303	31	25	389	310	399	444	488	457
Fair value of interest rate swaps	1	35	17	33	-	10	11	7	4
Securitization of A/R	-	-	-	-	172	180	204	264	319
Shareholders' equity	1,014	(298)	(444)	(866)	(83)	108	290	284	348
Total Liabilities and Equities	**2,111**	**2,929**	**2,649**	**2,514**	**2,568**	**2,640**	**2,792**	**2,809**	**2,815**

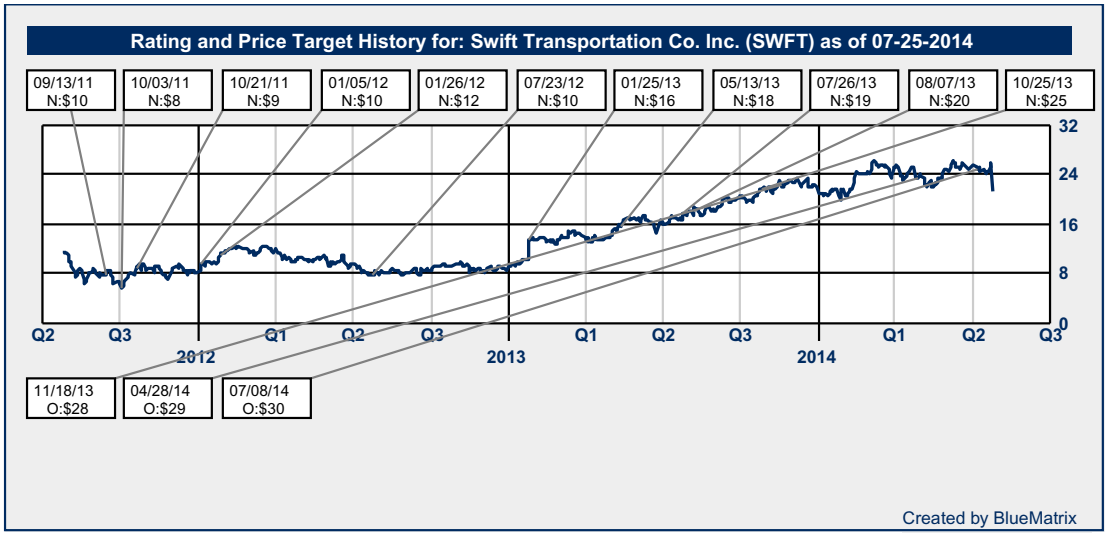
Balance Sheet Analysis	2006	2007	2008	2009	2010	2011	2012	2013	2Q14
Current Ratio	1.0	0.9	0.6	1.0	1.6	2.1	1.9	1.9	1.7
Days Sales Outstanding (DSOs)	37	35	23	15	24	29	33	36	36
Debt / Total Cap	27%	113%	122%	154%	105%	94%	83%	83%	78%
Debt / Total Cap (incl Op leases)	31%	112%	120%	150%	105%	94%	85%	86%	82%
Debt / EBITDA	0.8x	6.6x	6.0x	6.4x	3.9x	3.2x	2.8x	2.7x	2.7x
Interest Coverage	17.8x	1.5x	1.7x	1.6x	3.2x	3.8x	4.8x	6.0x	6.1x
Tangible Book/Share	$12.17	($13.38)	($14.77)	($20.07)	($5.06)	($3.55)	($2.12)	($2.01)	($1.49)
Book Value/Share	$13.37	($3.96)	($5.91)	($11.52)	($0.60)	$0.77	$2.08	$1.99	$2.43

Cash Flow Statement	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Net Income	$141	($138)	($147)	($436)	($125)	$91	$115	$155	$166	$221
Depreciation and Amortization	232	287	282	264	240	245	227	250	257	227
Other	(4)	109	21	322	74	66	112	87	2	10
NWC Changes	(4)		(37)	(35)	(131)	(61)	(6)	(39)	(50)	(10)
Cash Flow from Ops (CFO)	**365**	**258**	**120**	**115**	**58**	**340**	**447**	**453**	**376**	**448**
Capital Expenditures, Net	(139)	(227)	(137)	(1)	(126)	(172)	(171)	(199)	(231)	(231)
Free Cash Flow (FCF)	226	31	(17)	114	(68)	168	276	254	145	217
Acquisitions	-	-	-	-	-	-	-	(150)	-	-
Dividends	-	-	-	-	-	-	-	-	-	-
Net Cash Flow (NCF)	**226**	**31**	**(17)**	**114**	**(68)**	**168**	**276**	**103**	**145**	**217**
FCF/Share	2.98	0.41	(0.22)	1.51	(0.49)	1.20	1.97	1.79	1.01	1.47
NCF/Share	2.98	0.41	(0.22)	1.51	(0.49)	1.20	1.97	0.73	1.01	1.47

	2006	2007	2008	2009	2010	2011	2012	2013	LTM
Net Margins (NI/Rev)	4.8%	-4.4%	-3.6%	-17.0%	2.7%	2.7%	4.2%	3.8%	3.4%
Assets Turnover (Rev/A)	1.48	1.26	1.22	1.00	1.15	1.45	1.46	1.47	1.54
Leverage (A/E)	2.30								
Return on Equity	16.2%								
Return on Assets	7.1%	-5.5%	-4.4%	-16.9%	3.1%	3.9%	6.2%	5.6%	5.2%
ROC	11.4%	3.6%	3.7%	4.3%	10.1%	11.7%	11.8%	11.4%	10.9%

Valuation Measures	2006	2007	2008	2009	2010	2011	2012	2013	LTM
Historical P/E High	18				27	18	12	19	24
Historical P/E Low	11				19	6	7	6	15
Historical P/FCF High - current yr	11					13	7	13	26
Historical P/FCF Low - current yr	7					4	4	4	16
Enterprise Value								**Recent Price:**	**$25.81**
Market Value	1,994				2,044	1,166	1,275	3,452	3,701
ST+LT Debt (incl Securitization)	380	2,627	2,494	2,467	1,886	1,769	1,637	1,603	1,521
Cash, Equivalents & ST Invest.	48	101	76	141	132	154	128	136	152
Total EV	2,327	2,526	2,418	2,326	3,798	2,782	2,785	4,919	5,070
Adjusted EBITDA	478	397	415	386	493	559	590	600	569
EV / EBITDA	4.9	6.4	5.8	6.0	7.7	5.0	4.7	8.2	8.9
EV / EBITDA (+Op Leases)	4.9	6.5	6.0	6.2	7.7	5.2	4.9	8.3	9.0

Appendix - Important Disclosures and Analyst Certification



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