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Ben Hartford *Robert W. Baird & Co. - Analyst*

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Chris Wetherbee *Citi - Analyst*

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Scott Group *Wolfe Research, LLC - Analyst*

Tom Wadewitz *UBS - Analyst*

PRESENTATION

Operator

Greetings, and welcome to Schneider National 2017 Second Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Pat Costello, Director of IR. Please go ahead.

Pat Costello - - *Director of IR*

Thank you, operator. Good morning, everyone, and thank you for joining our second quarter earnings call.

By now you should have a copy of the earnings release for the company's second quarter 2017 results. If you do not have one, it is available on our website.

Joining me on the call today are Chris Lofgren, our Chief Executive Officer; Mark Rourke, our Chief Operating Officer; and Lori Lutey, our Chief Financial Officer.

Before I begin, I would like to remind you that some of the comments made on today's call, including our financial guidance, are forward-looking statements. These statements are subject to risks and uncertainties, including those described in the company's filings with the SEC. Our actual results may differ materially from those described during the call.

In addition, any and all forward-looking statements are made as of today, and the company does not undertake to update any forward-looking statements based upon new circumstances or revised expectations. Also, non-GAAP financial measures discussed during this call are reconciled to the most directly comparable GAAP measures in the tables attached to our press release.

I would now like to turn the call over to our CEO, Chris Lofgren. Chris?

Chris Lofgren - - *Chief Executive Officer, President and Director*

Thank you, Pat and good morning. We are pleased with our second quarter results as we saw the capacity demand relationship start off somewhat sluggish at the beginning of the quarter but continue to improve through the end of June. Additionally, we saw pricing improve, which was more from our ability to exercise choice in tighter markets with our Quest platform than from significant changes in contract rates. However, this pricing improvement was offset by driver pay and recruiting expenses.

In our business, we compete for drivers in the same way we do freight. The market required us to take on increases in driver-related costs faster than we were able to see gains in pricing. This is something we do only in rare circumstances.

We saw growth in our Intermodal business in a very competitive market. Although this growth came at reduced margins, we continue to effectively implement our owned versus leased chassis program, and we are pleased with both the cost and productivity impacts being realized.

Our growth rate in the Logistics segment was less than our historic levels, but this demonstrated the impact of our Quest technology, allowing us to balance growth against acceptable operating contribution to lessen the margin and earnings degradation in this business.

June marked the 1-year anniversary of our purchase of both Watkins & Shepard and the Lodeso businesses. Without any doubt, we have been pleased by customer response to adding to these 2 businesses, creating a national footprint, first-to-final mile capability for hard-to-handle freight.

The synergies expected have been delivered in a timely manner. Our efforts to reshape the middle-mile network in response to the growing e-commerce business while bringing these businesses on to our Quest pricing platform will ultimately produce a unique and profitable growth engine for the company looking forward.

Looking out to the remainder of the year. We've become more bullish as it relates to pricing from the market across all of our segments. The annual DOT road-check event validates our estimate of a minimum of 2% to 3% truck capacity coming out of the market when full enforcement of the ELD mandate becomes reality. The impact on the spot rates and significant number of oversold markets associated with the week of road check and the volume surge at the end of the second quarter give us confidence looking out to the rest of the year.

Additionally, we had an unusually large number of customer wins in the second quarter for our dedicated contract offerings, and we're starting to see the beginnings of increases in contract rates for our network businesses. July is historically a slow month of the year, and this year will not be an exception. We will look to August as the bellwether month to establish our expectations on the market for the remainder of the year.

Finally, we are pleased with the early results of programs put in place to improve driver recruiting and retention. This will continue to be an area of intense focus for us throughout the remainder of the year.

With that, I will turn it over to Mark to provide more color and commentary on our operating results.

Mark Rourke - - *Chief Operating Officer and Executive Vice President*

Thank you, Chris. I'll open with a few macro environmental comments and then quickly transition into specifics around our 3 business offerings.

First, we experienced improved freight demand conditions throughout the second quarter, particularly in our for-hire-based networks in both Truckload and Intermodal. Increased demand for our services in Truckload was evidenced by marked increases in daily prebook percentages, turndown volume of freight orders and double-digit increases in rate per mile in the spot market as we compare back to Q2 of 2016.

Inflationary cost pressures persisted in the second quarter in the driver-related expense categories, and our ability to execute positive price movement across most of our Truckload services was not yet sufficient to overcome the driver-related expense inflation and the erosion year-over-year in the used equipment disposal gains.

Now moving on to Truckload specifically. Our Truckload revenue per truck per week match rate excluding fuel surcharge improved 2.9% over Q2 of 2016. The improvement was a combination of price gain and asset productivity gains.

The for-hire standard, the largest segment of Truckload, increased revenue excluding fuel surcharge revenue 3.4% year-over-year in the quarter, and we do expect tractor count to grow slightly in the second half.

The for-hire specialty business experienced the largest tractor growth within the Truckload segment, and that's largely represented by June's acquisition of a year ago of our first-to-final mile capability serving large format freight commodities.

As Chris mentioned, our dedicated business, both standard and specialty, had a successful quarter of new business contract closures that will result in over 300 driving positions and work configurations that we expect to be highly desirable by the professional driver community. Most of those contracts implement in the third quarter with a few starting early Q4.

As we turn towards our Intermodal segment, our Q2 Intermodal volume count grew by 11% over the prior period of Q2 of '16. The East remains the fastest growing element of our network as shippers, we believe, are beginning to strategically convert to Intermodal from over-the-road perhaps in preparation for the pending ELD mandate. While 80% of the growth occurred in the East and the intra-West regions of our network, accelerated growth of the transcon movements is a positive sign for volumes in the second half of the year.

Our revenue per order was 6.2% lower versus prior year but improved from our Q1 8% reduction. And this reduction is nearly evenly distributed between change in network mix with our length of haul and price impacts, again, primarily due to the second half 2016 award allocations. Furthermore, if you consider the $1.6 million of duplicate chassis rental cost that we experienced within the quarter, our margin contracted 70 basis points in comparison to Q2 of '16 or 6.6% margins on an adjusted basis.

Finally, the Logistics segment grew revenue 7.2%, excluding fuel surcharge revenue, compared to Q2 of '16. Our brokerage order-per-day growth did slow within the quarter to 8%. We did trade off volume growth to adapt to the rising purchase transportation costs to focus on margin performance. Brokerage growth margins compressed as contract pricing remains muted, and that contributed to 100 basis point margin reduction year-over-year to 3.4%.

I will now invite Lori to cover the enterprise financial summary.

Lori Lutey - - *Chief Financial Officer and Executive Vice President*

Thank you, Mark. For the second quarter of 2017, enterprise operating revenue increased 8.1% year-over-year to $1.1 billion, while adjusted enterprise revenue, excluding fuel surcharge, increased 6.5% to $982.6 million. Enterprise income from operations for the second quarter of 2017 was $79 million, a decrease of 0.8% compared to the second quarter of 2016 primarily due to inflationary driver cost and lower gain on sales equipment. We did see improved freight conditions throughout the quarter, particularly in June.

The company made 2 adjustments to earnings during the second quarter to arrive at adjusted income from operations. First, the company eliminated the impact of the $12.9 million contingent consideration liability true-up related to the acquisition. The adjustment, which was recorded in other, was caused by an update to the contingent liability, which was based on 3-year growth targets established by the seller as part of the purchase agreement.

Second, the company recorded an adjustment to remove $1.6 million as duplicate traffic cost from its income from operations as owned units replaced rented units, a process we expect to be completed by the end of 2017. Adjusted income from operations for the quarter was $67.7 million, a decrease of 15% compared to second quarter of 2016.

Net income for the quarter was $46.5 million or $0.27 per diluted share as compared to $44.2 million and $0.28 a year ago. On an adjusted basis, EPS for the second quarter was $0.23. Adjusted EBITDA for the quarter was $136.3 million, a decrease of 5% compared to second quarter of 2016. Adjusted EBITDA as a percent of enterprise revenue, excluding fuel surcharge, was 13.9% for second quarter 2017 compared to 15.6% for second quarter of 2016.

Second quarter operating ratio increased 70 basis points year-over-year to 92.7%, an increase 170 basis points year-over-year on an adjusted basis to 93.1%. Adjusted operating ratio improved 200 basis points from first quarter.

Now turning to our results from a segment perspective. In our Truckload segment, revenue, excluding fuel surcharge, was $543 million. Operating income was $53.2 million. In our Intermodal segment, revenue was $194.3 million, and operating income was $11.2 million. Finally, in our Logistics segment, revenue was $191.8 million. Operating income was $6.6 million.

As of June 30, 2017, Schneider had a total of $449.6 million in outstanding debt in various instruments compared to $699.4 million as of the end of December 2016. At June 30, 2017, our cash and cash equivalents totaled $259.9 million compared to $130.8 million at the end of December 2016. These changes in capital were driven by the IPO proceeds.

Our free cash flow increased $23.2 million during the first half of 2017 compared to the first half of 2016. The market conditions we experienced in the first quarter continued, however, June indications of improved market conditions began to appear, and as such, we're cautiously optimistic that we will see the strengthening in the second half of the year.

Based on these expectations and our efforts to increase driver capacity and newly won dedicated contracts, we are increasing our full year 2017 net CapEx to be in the range of $350 million to $400 million, which includes approximately $100 million for chassis. Additionally, we are raising the bottom end of our guidance for the full 2017 adjusted diluted earnings per share to be in the range of $0.94 to $1.02.

Operator, I'd like to now open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today comes from Tom Wadewitz of UBS.

Tom Wadewitz - *UBS - Analyst*

Yes, good morning. I wanted to ask you along the lines of how you think that the progression in second half in terms of revenue per tractor per week and I think in for-hire standard in particular. I don't know, you can comment more broadly, and also how you would anticipate some of the fleet growth [we've] progressed in that area, I guess, recognizing that there's some constraints in terms of driver availability.

Chris Lofgren - - *Chief Executive Officer, President and Director*

Good morning, Tom, this is Chris. I'm going to have Mark take your question.

Mark Rourke - - *Chief Operating Officer and Executive Vice President*

Morning, Tom. Just commenting on, perhaps, on maybe what you started there with the for-hire standard. We've had some success in the last, really, 6 weeks of improving our driver count there, so we're increasingly confident. We've been working on a number of initiatives to do that. Obviously, it's the market that's most exposed to the spot market, and we're also pursuing a number of elements relative to contract pricing that we've had some early success. So our confidence is increasing there. It's our most responsive segment, our largest segment, and we're not going to close the full GAAP of tractor count from a year ago, but we think we can increase evenly throughout, so we're prepared for the surge period in the fourth quarter.

Tom Wadewitz - *UBS - Analyst*

Okay, and how quickly does the tightening in the market affect your revenue per tractor per week. Is that something you would expect in a meaningful way? Or just given the kind of bid season, is that something you're just more optimistic on contract rates next year?

Mark Rourke - - *Chief Operating Officer and Executive Vice President*

Well, I think a little bit of both. Certainly, we think of price and revenue per tractor improvement being in 2 areas, first in increased choice relative to our platform and making better decisions on the mix of freight that we can do every day, and the second piece is the market responding to some of these inflationary pressures, which it has to do relative to the driver community, and again, we believe that is playing out both in the dedicated specialty contract at renewals and even out-of-cycle increases. So to us, that's a both exercise to drive revenue per truck per week.

Operator

The next question is from Chris Wetherbee of Citi.

Chris Wetherbee - *Citi - Analyst*

Wanted to touch a little bit on sort of preliminary reads in the third quarter. I know in the press release you mentioned that you'd have a better sense you got into the sort of middle of August, but seeing that we have the entire month of sort of July in the rear view, just want to get a sense of how you're seeing those trends develop relative to expected seasonality in the Truckload space, specifically?

Chris Lofgren - - *Chief Executive Officer, President and Director*

Good morning, Chris. Historically, July coming off of the holidays and kind of in the mid-part of summer is just never been a great month, and one we typically don't want to use as a big indicator. I think Mark has some good views into that, and it's positive, but it's not the month we would choose to use to be the -- draw the trend lines for the rest of the year. But Mark, maybe you can follow up.

Mark Rourke - - *Chief Operating Officer and Executive Vice President*

Yes, if I interpret the question correctly, it's certainly -- July moderated a bit from June, but from a seasonality standpoint in virtually every metric similar to what we discussed about the second quarter around prebook percentages, turned down spot rates, all of those were above typical July seasonality, but it still moderated a bit and moderated throughout the month, so -- but still, as we look at the other indices, a pretty positive metric month from that perspective.

Chris Wetherbee - *Citi - Analyst*

And then, follow-up just on the logistics side of the business, trying to get a sense of maybe the timetable of some improvements there. Obviously we've seen the cost of purchase transportation rise. Just want to get a sense of how normal you should think about the lag between that increase in purchase transportation and the profitability of the segment.

Chris Lofgren - - *Chief Executive Officer, President and Director*

Well, it's going to get -- this is Chris. It's going to get driven by 2 things. It can change and change very, very fast. It will be availability of capacity -- will be a big trigger for that. But it's also sort of the demand and who has, in some sense, relationships out there. So it can change fast, I think. It's going to be a little bit of a demanding market, given where we sit. I think we're just going to continue to operate in a very disciplined fashion, and I think we'll probably see some improvement, not great improvement, as we get through the year, but let me just check with my colleague Mark, and see if he shares my perspective on that.

Mark Rourke - - *Chief Operating Officer and Executive Vice President*

Yes -- no, I think so much of this business is what's your mix between contract and spot. Contract generally lags change in the market, either up or down, and we're not immune to that facet. But we have a good portion of our exposure in that brokerage business in the spot market, which allows us to be a bit nimbler. I think, as we held on to margin fairly effectively, still obviously, we eroded a bit year-over-year, and we would expect that trend to continue.

Operator

The next question is from Ben Hartford of Baird.

Ben Hartford - *Robert W. Baird & Co. - Analyst*

Chris, you'd mentioned in your openings remarks that you decided to take this driver-related and other costs onboard ahead of rates. And I think you had acknowledged that this is a rare circumstance to do that. Why make that decision this quarter? What is rare? What is unique about this period to go ahead and make that decision, make that commitment here?

Chris Lofgren - - *Chief Executive Officer, President and Director*

Good morning, Ben. Typically, we know that we have to bring our drivers along with us, and as we can get rate, we understand we have to bring them along with that. What was different this quarter is that it was highly, highly competitive out there. We couldn't just sit back and watch our competitors put price increases -- or I mean, pay increases into play, and we had to get more effective in terms of advertising and sign-on bonuses and all kinds of other things to make sure we had the capacity we needed, because if you don't have the trucks filled, one thing you know for sure, their revenue per truck per day is 0. And so we just knew with, I think, a belief this year that things would tighten, and we wanted to make sure we were in a position to have the trucks to put into the market and to ideally benefit in some upside here. So Mark, I don't know if you want to add to that or...?

Mark Rourke - - *Chief Operating Officer and Executive Vice President*

No. It's good.

Chris Lofgren - - *Chief Executive Officer, President and Director*

Okay.

Mark Rourke - - *Chief Operating Officer and Executive Vice President*

I would say there's also pressures in the labor market that extend beyond trucking options and where the economy is. So it's a broader pressure point than just the competitive set.

Ben Hartford - *Robert W. Baird & Co. - Analyst*

Understood. And turning to the second half outlook and some of the cautious optimism that you do have. CSX has run into some service issues that have been noted here in recent weeks and months. You've been experiencing healthy load growth in the East. But to what extent does that -- does some of the service issues and experiences of late temper any second half outlook as it relates to Intermodal's growth in the back half of the year?

Chris Lofgren - - *Chief Executive Officer, President and Director*

Ben, Chris. I'll just start by saying we have a terrific relationship with the CSX railroad, we believe long term the precision railroading approach is going to deliver great service on that product. So I will say, from a long-term standpoint, we're supportive and committed, and we appreciate that relationship, but I think Mark has some views into this, and I think that's probably the detail you're looking for here. So Mark?

Mark Rourke - - *Chief Operating Officer and Executive Vice President*

I think you captured the key component of that. While the actions are predominantly targeted towards the carload business, there is secondary effects, and we've experienced some growing pains as CSX transforms their network, but we have experience working with precision railroading in our past and highly confident when that is fully implemented, CSX will have a network that's faster, more reliable from a transit -- time standpoint, which is all very conducive to our goal to be positioned, particularly in the East, for over-the-road conversion. So we're working closely. We have to make sure that our interest and our customer interests are protected, but in the end, we think overall, this will be very good for the Intermodal business and our ability to grow share.

Operator

The next question is from Ken Hoexter of Merrill Lynch.

Ken Hoexter - *Merrill Lynch - Analyst*

Chris, you gave a bit of caution on July in one of the earlier answers and, I guess, a bit surprising given the bid wins you've noted, you anticipate a rebound in August. But just wondering what leads that confidence if you're seeing a continued deceleration in that pace through July?

Chris Lofgren - - *Chief Executive Officer, President and Director*

Sure. Good morning, Ken. July is just notoriously -- you sort of see a little bit of the pressure coming off of the accelerator. So this is a seasonal issue that shows up -- at least for us, every year, and while we look at it and understand it, we don't simply start using that as a major point to draw a trend line. A lot of the business that we have won in the second quarter starts being implemented later in the third quarter. So that's the other part of it. And I think, as Mark mentioned earlier, if we look at the metrics, we see generally stronger than typical, like in '16, so it's not that it was worse than 2016, but it's just not a strong month from which you want to be deriving all of your views looking out into the future. I don't know, Ken, did that help your answer or not?

Ken Hoexter - *Merrill Lynch - Analyst*

I guess if I -- just a follow-on to understand maybe a little bit further, but you're talking about a tough driver market, so you're having -- you're raising rates there. You're increasing CapEx, so you're accelerating the build. I'm just a bit confused by the message that you want to go faster, maybe it's because you've won the contracts already. Was it because of price? Was it just a better environment? I'm just trying to understand why the conflicting signals of the deceleration but yet we're going to go and spend more. We're going to -- even despite raising -- rising driver pay.

Chris Lofgren *- - Chief Executive Officer, President and Director*

Sure. The spending is going to happen around business that we have won. There's 300 drivers that are coming on. We're not going to put stuff and sit it out there before we can get it rolling. So that was a full year number, and most of that will start kicking in, in the late August time frame for us. Mark, I don't know if you want to add to those comments or...

Mark Rourke *- - Chief Operating Officer and Executive Vice President*

Yes. I -- maybe Ken can clarify what we're confusing you on, I'm sorry.

Ken Hoexter *- Merrill Lynch - Analyst*

No, I think that's -- I guess that's it. It's coming on -- the confidence of the contracts coming on in late August, so that's where the confidence comes in of increasing spend. I guess that's the message, right.

Mark Rourke *- - Chief Operating Officer and Executive Vice President*

Yes, absolutely. We've -- and these are -- when I mentioned the 300 driving plus positions, those are closed contracts that are closed in the second quarter and predominantly implemented in the third, and it's a combination of private fleet replacement. It's very broad relative to retail manufacturing, food and beverage, home improvement, so we feel very good about those prospects, and the other part I feel good about is the work configuration is generally very attractive to the driver community, so that allows for better retention. That allows for better attraction and all the things that, I think, we need to do to set up to be a very attractive -- from a work balance standpoint for our driver community.

Ken Hoexter *- Merrill Lynch - Analyst*

Can I just get a quick clarification from Lori on the Watkins contingent adjustment? Is that because you anticipate a lower growth rate so you're paying out less or maybe just can explain that adjustment there?

Lori Lutey *- - Chief Financial Officer and Executive Vice President*

So we structured the purchase agreement based on the fair market value using the last 12 months of EBITDA. The sellers believe that there was significant growth potential in the next 3 years of -- for EBITDA, we wanted an opportunity to have them participate if they delivered on those numbers. So as a result, we booked an initial estimate as part of the purchase accounting, and that -- they're not quite hitting those incentive levels, so we've had to make that adjustment.

Operator

Your next question is from Scott Group of Wolfe Research.

Scott Group *- Wolfe Research, LLC - Analyst*

So first just wanted to ask within the for-hire Truckload piece for utilization -- or revenue per truck was up a little over 3%. Can you give us some directional breakdown of price versus utilization in the quarter, and then Chris, when you talk about getting more bullish on pricing for the year, can you just put some numbers around where you're seeing contractual increases come in right now?

Chris Lofgren - - *Chief Executive Officer, President and Director*

Sure. I'm going to have Mark just start with your first question.

Mark Rourke - - *Chief Operating Officer and Executive Vice President*

So as you noted, Scott, the for-hire standard, a little over 3%. That's about 60% price and about 40% productivity. Again, price is a combination of contractual increases and our ability to just make better choices relative to our network, which from a contribution standpoint, price plays a part in that, so that's how it played out in the quarter.

Scott Group - *Wolfe Research, LLC - Analyst*

And just on contractual increases you're seeing right now.

Mark Rourke - - *Chief Operating Officer and Executive Vice President*

Yes, we're up for a series of renewals on dedicated contracts, and also the bid season is largely complete, not completely done but largely complete in the second quarter. And we went out and had some success from an incumbent standpoint of improving our price position knowing and talking to our customers about the inflationary cost position and what's ahead of us relative to the tightening of the market. So it's a broad combination across really all of our segments. We're not back to 2014 heyday, but we are making positive progress relative to the contractual price line.

Scott Group - *Wolfe Research, LLC - Analyst*

I guess just a thought like, I mean, Chris mentioned you're getting -- I think he said more bullish on pricing. So are you seeing those contractual increases accelerate as bid season went on or to the extent there's still some bidding activity going on right now. I just want to understand the commentary on being more bullish on pricing.

Mark Rourke - - *Chief Operating Officer and Executive Vice President*

Yes. Certainly, it's improved from the first quarter part of the bid process. The second quarter has been more effective relative to those increases and, as I mentioned, a number of contract renewals in the dedicated space.

Chris Lofgren - - *Chief Executive Officer, President and Director*

And the other thing that does happen, Scott, is that clearly, the investments we have made is -- allows us as markets tighten to have a pretty significant impact as to what is the realized price that we run across the assets because of our ability to choose and understand market dynamics. And so that's also -- we got some good increases, not great increases, because we're not sitting quite on top of this mandate yet, but -- boy, as we saw the road check environment kick in, in end of second quarter. We feel good about our ability in tightening markets to have realized price move, in many cases, stronger than the contracts, which are going up.

Scott Group - *Wolfe Research, LLC - Analyst*

Makes sense. And then just lastly just for Lori, can you give us just some guidance for third quarter on tax rate and the other income that I think was a small positive in the second quarter? Do you think that continues in third? And as we think about your guidance, some Truckload guys have earnings that typically are lower in the third quarter than the second quarter. Are you seeing -- are you expecting that? Or do you think you'll have better earnings in the third than the second.

Lori Lutey - - *Chief Financial Officer and Executive Vice President*

All right. Let me try to unpack those. I'll start with your final question on guidance for -- we only provide annual guidance, and we don't provide guidance by segment. So I'll just stand by the guidance that we've published. From a tax perspective, we did have the resolution of a tax credit that impacted our tax rate this year -- or this quarter. I do think that, over time, you'll see our tax rate fluctuate because we're always pursuing tax credits that are really just a part of our business, and we do those, really, as just part of our operating performance. [Think] it'll moderate in terms that this was a little bit of an unusual quarter and that we did have the resolution of a particular distinct credit, that said I think it'll moderate. From what happened in other, that is where we booked -- it's important to note that's where we booked the $12.9 million adjustment. It captured in other. So if you adjust out for that, it'll look more normalized from what we guided in the past on other, but that's a onetime item that we adjusted out.

Scott Group - *Wolfe Research, LLC - Analyst*

Sorry, I was talking about the other income that was like a positive below operating income that was a little over $200,000 that we thought was going to be a negative.

Lori Lutey - - *Chief Financial Officer and Executive Vice President*

Oh, okay. That is -- that's really related to some realized gains in foreign currency exchange rates. I'm sorry. I thought you were talking about the other segment.

Operator

The next question is from Ravi Shanker of Morgan Stanley.

Ravi Shanker - *Morgan Stanley - Analyst*

Mark, thanks for clarifying earlier that July was running above seasonality, which I think is more consistent with all your peers have said, but if I can just follow up on that. Can you help us understand either quantitatively or qualitatively what your internal contribution margin metrics have done in 2Q and in July? I'm just looking for -- like has there been a consistent trend of improvement in that number?

Mark Rourke - - *Chief Operating Officer and Executive Vice President*

Well, as you look across our various segments of Truckload, in particular, Ravi, you note that, particularly in dedicated -- we know where we're seeing the improvement in revenue per truck per week. On a contribution basis, though, we've had offsets there, particularly year-over-year because in contribution is the driver-related expense line in particular, so while we're improving across the business to the tune of about 2.9% on the Truckload side on revenue per truck per week, not completely offsetting some of all really 2 primary components, which center around the driver-related expense and then year-over-year changes to equipment gains based upon the used equipment market. So that's how I'd represent where we are in the contribution basis. So doing better on the revenue line but not covering all the cost creep.

Ravi Shanker - *Morgan Stanley - Analyst*

That's helpful. And can you elaborate a little bit more on the, as you said, the unusually large number of dedicated customer wins in the quarter? Was this a particular effort that you guys made to chase that business? Was it something -- was it a competitive condition? Can you help us with like the sustainability of this win rate, the profile to the customer? [Anything helps].

Mark Rourke - - *Chief Operating Officer and Executive Vice President*

Yes, Ravi, it's probably a little unusual because we didn't have a great deal of new business start in the second quarter, and so either as a function of our pipeline and where things came to closure, so it wasn't any particular change to our approach or change to our methodology to go out and grow dedicated. It just, as opposed to those hitting and starting in the second quarter, they hit from a closure standpoint in the second quarter and will start predominantly in the third quarter. So that's the unusual part. We're usually a little smoother throughout the year relative to that, so we're down a bit in the second quarter and start-ups, and we're going to be up quite a bit in the third quarter in start-ups.

Operator

The next question is from Allison Landry of Credit Suisse.

Allison Landry - *Credit Suisse - Analyst*

Earlier, you mentioned an acceleration in transcon Intermodal. So are you expecting that to help from a mix standpoint in the third quarter? And then, it sounds like you sacrificed price in favor of volumes during the first half of the year. So should we think about market share growth as a strategy going forward? And if so, how should we think about segment margins in the foreseeable future?

Chris Lofgren - - *Chief Executive Officer, President and Director*

Good morning, Allison. I think that we were a little surprised at the growth that we saw in the transcon. Again, some of that could be just the configuration of freight in some of the opportunities that we can be more competitive when we land on the CSX in the East. We're delighted, happy about it. What -- we're not going to have a strategy in Intermodal to chase market share. You can't just completely ignore the market and just walk away from things, but we're not going to have a market share view into this business. We think the business is running well. We think that the chassis program is helping us execute and be a lot more effective with the assets that we have in it, but I'll let Mark follow on, but I wouldn't want you to think -- when we can win business and win it at a reasonable return, we're going to do that, but we are not going to chase market share. Mark?

Mark Rourke - - *Chief Operating Officer and Executive Vice President*

Yes, from a transcon standpoint, we have been shrinking on that because of the highly competitive nature and particularly a competitor that has some distinct advantages there. And so we did have a good, solid quarter. Perhaps, that's allocation methodologies by customer. But it also, I think, points to the health of the West Coast relative to the Intermodal market, and that gives us some confidence when we see our share growing there that, that portends well for volumes, at least in our view, in the second half. So our strengths continue to be the Intra-West and the conversion from over-the-road in the East, but we're very pleased to see the growth that we experienced in the transcon business.

Allison Landry - *Credit Suisse - Analyst*

Got it. I wanted to ask about the Quest platform just given your earlier remarks about the upside from better choice, better freight selection and how that should help to increase the realized price. So, with that in mind, is there a way to frame how much upside you have left from Quest from a margin standpoint?

Chris Lofgren - *- Chief Executive Officer, President and Director*

Well, this is Chris. Our response to that, when we were on the roadshow was we're in the sixth to seventh inning, a little different across each of these businesses. We continue to look at the investment that we make in analytics to continue to squeeze out the opportunities. This -- where this -- where your question comes is in the area of dynamic contribution so the ability to recalculate the value of a given piece of freight on a given day out of a market into a market that we will be sending that asset into. And so it's a -- this ability to choose, particularly as you get into very, very tight markets, is -- it's probably as good as any direct contract price increase you can get as well, and you can do it in a way that is allowing you to essentially preserve customers and not necessarily always have to rely on the spot market as the vehicle in which to get that. Does that help you?

Allison Landry - *Credit Suisse - Analyst*

That does help. I guess, maybe just to qualify the sixth to seventh inning, is that in terms of the implementation or, I guess, the margin potential from the investment?

Chris Lofgren - *- Chief Executive Officer, President and Director*

I would tell you to say the sixth and seventh inning is really based on -- I mean, it's implemented. A lot of it is we continue to refine the analytics, and they're not just analytics looking backwards. It's really predictive analytics, and we're spending more investment to get to predictive analytics that allow us to -- or I mean prescriptive analytics that really let us hone in on those numbers. So that's, I think, the opportunities that we've got, and it is different across these different businesses, I think, on the truck side where we were in early and that we really proved out a lot of this work. That's where we're probably a little bit further down the road. That said, bringing that capability and technology into Watkins & Shepherd is going to be an accelerator for us there.

Operator

The next question is from Brian Ossenbeck of JPMorgan.

Brian Ossenbeck - *JPMorgan - Analyst*

Just going back to the adjustment for the contingent liability, the payout for the acquisition, I think it was recorded on the books for $13.5 million. It's almost all been reversed. It was contingent on hitting, I think, 80% of EBITDA target. So I heard Lori's earlier comments. I was just wondering if you can expand a little bit on that. I know you're making some heavy investments in the first quarter. That's probably tailed off, but maybe a little more context is as you get into this business after 12 months now, what's been things that have caused this to kind of back off here, and on the same token, what's actually been a little bit more positive than you first expected?

Chris Lofgren - *- Chief Executive Officer, President and Director*

Sure, Brian, this is Chris. I won't go into complete depth, but essentially, when we go and look at purchasing a company, a lot of the debates come around people want to be paid for the future, and what we're certain of is the present and the past, and so earn-outs are a way to get at that. And the structure that we used in this case was a cumulative earn-out. So if things got missed in the first year that wasn't just paid in the second year, it's kind of a rolling thing, and as we looked at the contribution -- operating contribution where we were at, we're just pretty difficult. We would be thrilled to have them catch up and move ahead, but looking at where things are today from an accounting standpoint, we were required to bring that back. What's going well? Boy, I'll tell you what, we've picked up about 2,000 new customer logos that we're serving today that we weren't before, industries where we hadn't really played so the customer response has been very good. In some cases, on the e-commerce side, it's a longer sales cycle. But we're delighted at what's happening on the revenue side of the business. And even the costs and that on the first-and-final mile, but what we've found is that there's opportunities to improve pricing, and there's opportunities to improve the productivity and cost structure in what I refer to as the middle mile of the network. And that's where we're focusing our efforts. We would like to, obviously, be further down that path, but we have a clear line of sight to what has to be done, and the work is ongoing and -- so in general, we continue to be very, very positive about the acquisition, but we got plenty of work to do here.

Brian Ossenbeck - *JPMorgan - Analyst*

Okay. That's good detail. And I guess a quick follow-up to that would be do you think you need to get bigger in terms of scale? Sounds like you picked up a lot of customer wins but as far as executing on that and perhaps attracting more, getting to a critical mass. Is that something you can do organically? Or do you have to add on some other capabilities or perhaps geographies?

Chris Lofgren - - *Chief Executive Officer, President and Director*

You are correct. That clearly -- and that you can -- it can be a little bit lumpy, but across an asset base, growth and more volume changes the expense-to-revenue ratios, and so you move the margin that way. We think, right now, we are able to grow organically when we look at the pipeline that we've got and the interest that we've got. So some of it is growth, and then some of it is execution of the growth.

Brian Ossenbeck - *JPMorgan - Analyst*

Just one last one on the tractor count. You mentioned growing a little bit in the back half of the year for the standard. Just give us an update on the used vehicle market. You said it's stabilizing a little bit. Would you expect to see [Eon sale clearance] coming down [from all] industry year-over-year. I think the last guidance we had there was just the proceeds about $60 million to $70 million. I was curious as to what sort of gains were embedded in the forecast and if that included some growth in the fleet here in the back half of the year.

Chris Lofgren - - *Chief Executive Officer, President and Director*

Brian, I'll have Mark take it and see if Lori wants to follow up.

Mark Rourke - - *Chief Operating Officer and Executive Vice President*

Yes, we don't have really any different guidance relative to what we've already provided prior on the proceeds, and you're right, the market has stabilized. It's not as attractive, obviously, as it was 1 year ago or 2 years ago, but we don't see it getting any worse. And it's really a tale of 2 cities. The trailing equipment is doing very well, and the tractor equipment is a bit more challenged, but it's certainly stabilized really the last quarter.

Chris Lofgren - - *Chief Executive Officer, President and Director*

Lori, is there anything you want to add?

Lori Lutey - - *Chief Financial Officer and Executive Vice President*

There's nothing to add. The -- I'm just looking at our forecast now, and the proceeds is pretty much exactly where we were before. There's not any real update to that.

Brian Ossenbeck - *JPMorgan - Analyst*

Okay, then no gains embedded in that, that you've shared or can update us on.

Lori Lutey - *- Chief Financial Officer and Executive Vice President*

No.

Operator

(Operator Instructions) The next question is from Ben Hartford of Baird.

Ben Hartford - *Robert W. Baird & Co. - Analyst*

Yes, I'll just sneak another one in. Mark, maybe this is for you, more conceptual. There's been a lot of talk about autonomous vehicles and electric vehicles and the impact on truckloads. I'm curious how you think about kind of both facets: autonomous vehicles and electric vehicles and the time line of adoption. Is one more of a relevant concept than the other in terms of autonomous versus electric? But maybe give us kind of a 5-year view on some of the -- 2 of those topics there and how you see some of the applications in your own business and the opportunities and threats if there are any.

Mark Rourke - *- Chief Operating Officer and Executive Vice President*

Yes, Ben, obviously, a top-of-mind item for us in a whole host of ways, and we've gotten a little bit closer, particularly on the electrification process. And quite honestly, we're very impressed. And the question is, can you scale the production? And can you do some things relative to the players that are currently doing that? So very encouraged by what that does from at least the testing that we've done with the current players. So we think that's real, and we think that's -- we're going to play a much bigger role in the future. Autonomous, we are adopting everything we can, reference things that advance along that pathway just because of the benefit that we get from a safety performance standpoint. So we're going to embrace the future as it relates to that, and then we're staying very, very close, whether I can be smart enough at this juncture to give a time line reference where we see all of that exactly playing out, I'm not comfortable yet doing that. But there's -- we're not denying the future here and encouraged by both of those elements and think we'll be a significant player as those things develop.

Ben Hartford - *Robert W. Baird & Co. - Analyst*

And then maybe in that vein, the used equipment markets, obviously, you noted the headwind here in the second quarter, but it sounds like perhaps some bottoming out on the weakness, particularly among the newer Class 8 equipment. But what is the overall state of the used equipment market as you see it? What are the expectations for the back half of the year '17 and into '18?

Mark Rourke - *- Chief Operating Officer and Executive Vice President*

You know, at present, we believe we're going to be bumping along about where we are for the remainder of '17, so we don't really see any improvement and as our planning for '18 very similar in that regard. As I mentioned just prior the trailing equipment market has held up much, much better than the tractor market and just based upon how many -- you just have to look back at how many purchases of 3 and 4 years ago and you can pretty much predict what's going to happen 3 or 4 years out, and so we think we're in this bumping along stage here at least for the next 18 months.

Chris Lofgren - *- Chief Executive Officer, President and Director*

And the challenges you think about the used equipment market out in '18 is clearly if we're correct in our belief that capacity will exit, the question is, will it create a glut of equipment, or will that equipment be of such quality that people will want to essentially go and purchase it? And that's a -- we'll know when we get there and when we see it, but that I think is the open question as to what will happen as you look out into '18.

Operator

The next question is Ravi Shanker of Morgan Stanley.

Ravi Shanker - *Morgan Stanley - Analyst*

Just a follow-up to your last response on the truck electrification. Very [useful] to hear your takeaways there. I mean clearly, we have an upcoming catalyst here with Tesla showing us a prototype of a truck release in a couple of months. Without getting into any specifics on your tests or who you're working with, can you just share kind of some of your early learning so far? I mean, what do you think might be the hurdles to putting this on the road? And what are you seeing in terms of the early benefits?

Mark Rourke - - *Chief Operating Officer and Executive Vice President*

Well, what -- my comments, Ravi, were more as our delving into the engineering side of all of this and seeing in some test track and some performance related to that. Obviously, battery life and how it all plays together, we're not quite sure where all that stands and don't have full confidence there yet, but certainly the early work, if you go into those things just a little bit skeptical, you get your eyes opened, and we're very encouraged and will be doing much more around that in the coming quarters.

Operator

The next question is from Tom Wadewitz of UBS.

Tom Wadewitz - *UBS - Analyst*

I don't want to cause you to run over an hour, but there are a couple minutes left here. So Chris, I guess, there haven't really been questions on consolidation in the industry. I think you probably had chances to comment on Knight-Swift before, but then you have [Hartland] with their acquisition that's a little more recent. How would you -- I don't know if you can comment on highly fragmented industry when you see some consolidation among big players. Can that be helpful to you if you say, well, the biggest shippers work for the biggest carriers? Or is that something that the market is just so fragmented that you'd be surprised if you really see any impact as you see some of these sizable players that have gotten together recently or at least in [unsealed.]

Chris Lofgren - - *Chief Executive Officer, President and Director*

Sure. Well, first of all, I don't want to get in the business of speaking for my competitors because they are terrific, and we have a great deal for respect for them. I think the Swift organization and the Knight organization are both terrific competitors. They certainly haven't -- had a different view of sort of how they came into the market and how they competed. I'm confident that, that will be a strong and competitive organization, and it will, from our standpoint, we're watching very closely to understand how we're going to compete with it in total and in those separate parts. I think when you think about the customer base, Tom, I always draw this long-tail chart, and if you rank shippers from the ones with the largest budget to smallest and you put that budget on the vertical axis, it really is this very interesting typical long tail kind of a curve, and on that far left area, the large shippers need large carriers because of the investment that they can make in trailer pools, because of how they can respond to their capacity needs, and so that's a little different than as you get out on that long tail where you'll see more people who do live load and unload and have a much smaller tractor or trailer to tractor ratio, and it is a fragmented industry. I think if you look at -- at least from my perspective what [Hartland] had a very, very specific objective that I think they were trying to meet. I'll let them give you their view on that. But -- so I think these things can make sense if you're either acquiring a geography or you are moving into a set of customers that you have not been able to sort of reach back into. From our standpoint, we find it a little bit hard to see how we would go and make a big drive-in acquisition given what we think is our ability. We've got a network. We've got the customers. And so it's more organic in its nature, and again our strategy, as we look at acquisitions, is going to be around specialty areas where we can acquire new customers, new capabilities, and that there is in some cases, some defensibility in terms of ease of entry into those businesses.

Tom Wadewitz - *UBS - Analyst*

So that all makes sense. I guess one element that I'm not sure if you touched on in that is, is it an incremental positive for you if what's perceived to be players with a little more price discipline acquire players with a little less price discipline. So is that an incremental positive to pricing? Or it's just too fragmented a market to matter?

Chris Lofgren - *- Chief Executive Officer, President and Director*

No. I think, clearly, particularly as you get into that part of the market to the left of that curve, it is helpful because there's costs that are inflationary in this business. Now we've seen fuel do things that at one point a few years ago that we were all talking about. $100-plus a barrel oil, and it's a different world today, but every industry can benefit from disciplines around pricing. The reality is, is that it's a fragmented market, and people who have the means to come in and serve the large shipper, if they're not disciplined, then that kind of opens up the lid and that's what the rest of us have to essentially figure out how we have to deal with and compete with. So in general, I think -- the 2 that you mentioned, I think, are good for the industry.

Operator

Our final question today comes from Matt Young of Morningstar.

Matt Young - *Morningstar - Analyst*

Just a quick follow-up on Intermodal. I think you guys mentioned you're seeing hints of better truck-to-rail conversion activity. Could you just comment on the general magnitude of that? Would you say the market's in the very early stages of recovery for conversions? Or are you actually seeing material acceleration at this point?

Chris Lofgren - *- Chief Executive Officer, President and Director*

Mark, why don't you take that.

Mark Rourke - *- Chief Operating Officer and Executive Vice President*

Good morning. A catalyst for Intermodal conversion is truck availability and truck pricing and where it is in the cycle, and so those conditions I still think will be the catalyst for material conversion, but we can make some of these assessments by looking at the bid activity coming through the second quarter and knowing what moved over-the-road prior and is now moving on an Intermodal conversion opportunity just because we had some insight into the before and the after. So that's the basis for the comment, and it's not robustly accelerating, but it's noticeably different than what we've seen, certainly, in last 18 months.

Matt Young - *Morningstar - Analyst*

So we're still in the early stages here. Appreciate it.

Operator

There are no additional questions at this time. I'd like to turn the call back over to Chris Lofgren for closing remarks.

Chris Lofgren - - *Chief Executive Officer, President and Director*

Well, first of all, thank you for joining us this morning. I just want to reiterate that while we were still kind of coming out of a difficult environment in the second quarter, we're pleased with how we weathered that. We spent some time talking about our wins and how we started to see some movement in price. My colleagues slipped me a little note while we were sitting here saying, Chris, jeez, you're kind of hard on July. I don't want to come across that way. I just never use the month of July as the definitive metric for how we want to think about the year. We are cautiously optimistic here because of the things that we've been able to see in our contract renewals, what we've seen in terms of business that we've been able to win and what we've been able to see relative to metrics in these markets that we serve and that we think are very good indicators of what we will see as we get out into the latter part of third and fourth quarters. So I would want you to walk away with -- I think, the operative word is we're cautiously optimistic, and we've seen some things. And I always use August as a strong indicator personally as to what I think we should be driving towards and holding ourselves to as we get out towards the end of the year. So with that, let me just thank everybody for their time. Appreciate the coverage that people have provided us and hope you all have a great day.

Operator

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