



Supply & Demand Tightening Expected to Continue



Images courtesy of ODFL and SWFT

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I. Demand-Side Fundamentals

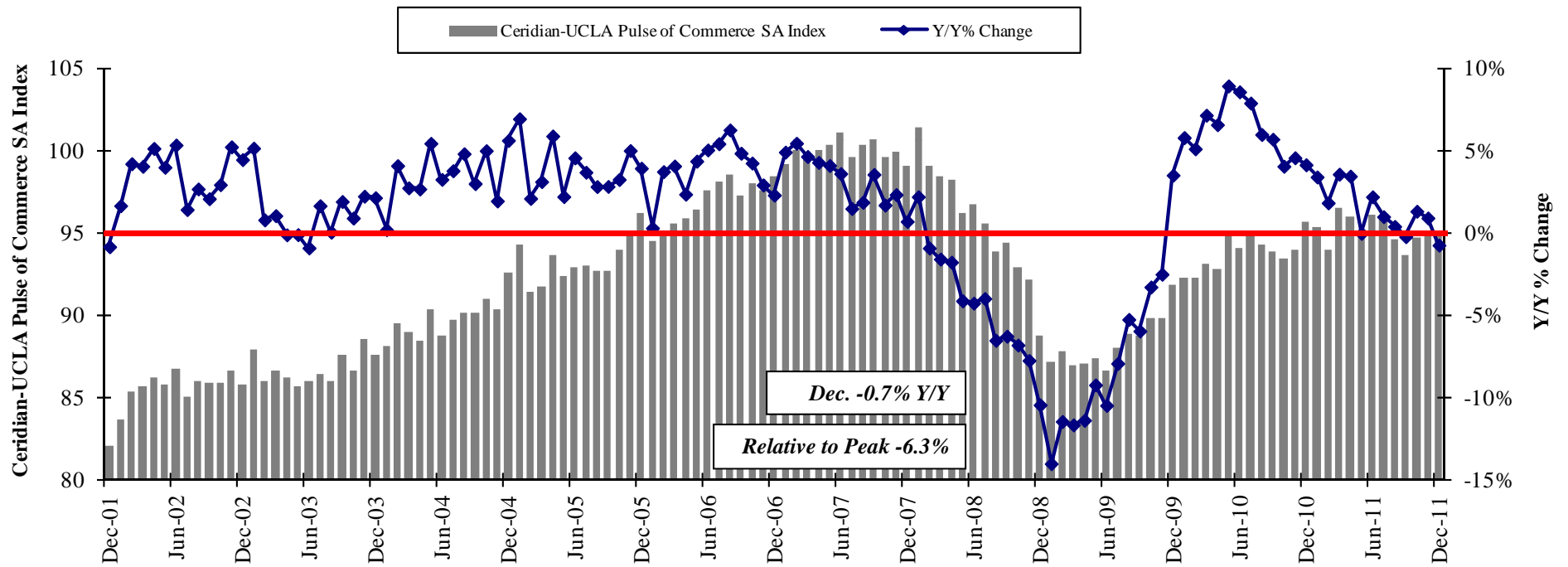
A. Overview of Freight Trends

B. Freight Drivers

II. Supply-Side Fundamentals

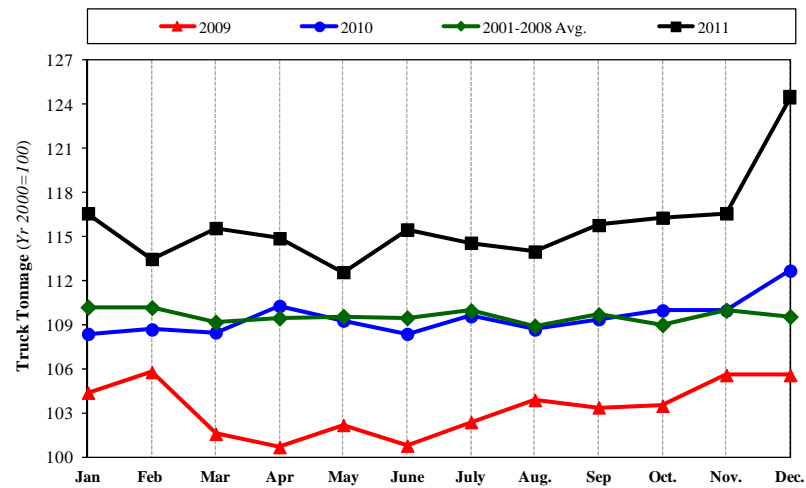
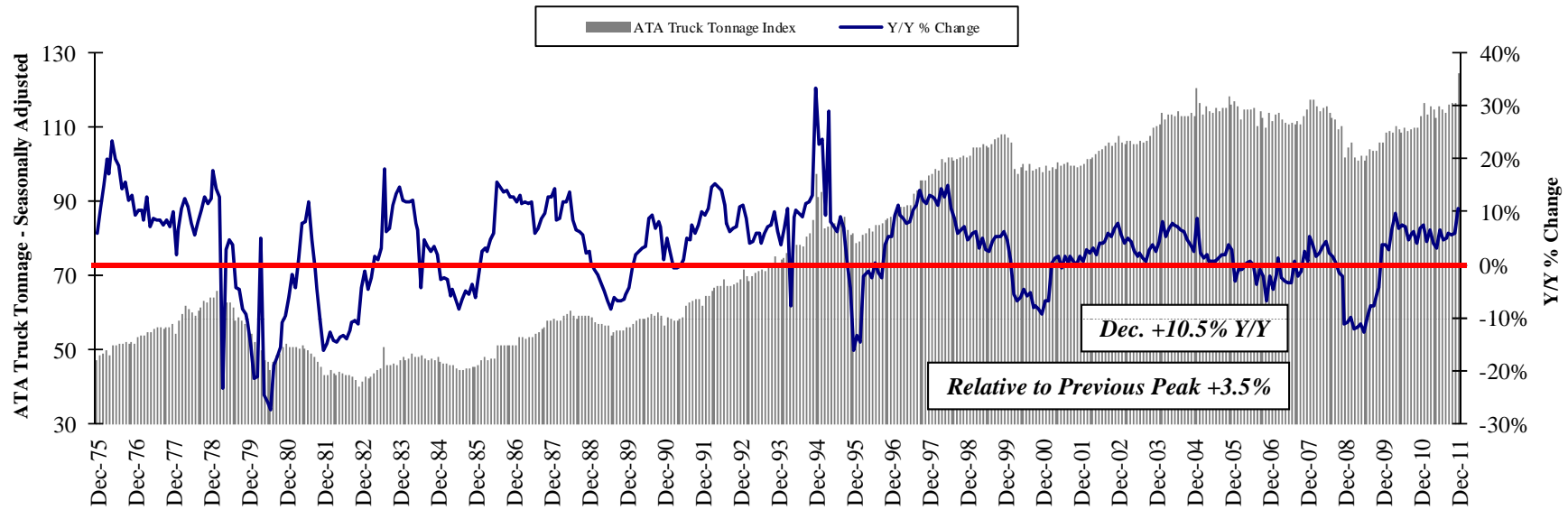
III. Conclusions

As indicated by the Ceridian-UCLA Pulse of Commerce Index, the recovery has been cooling since 2H10



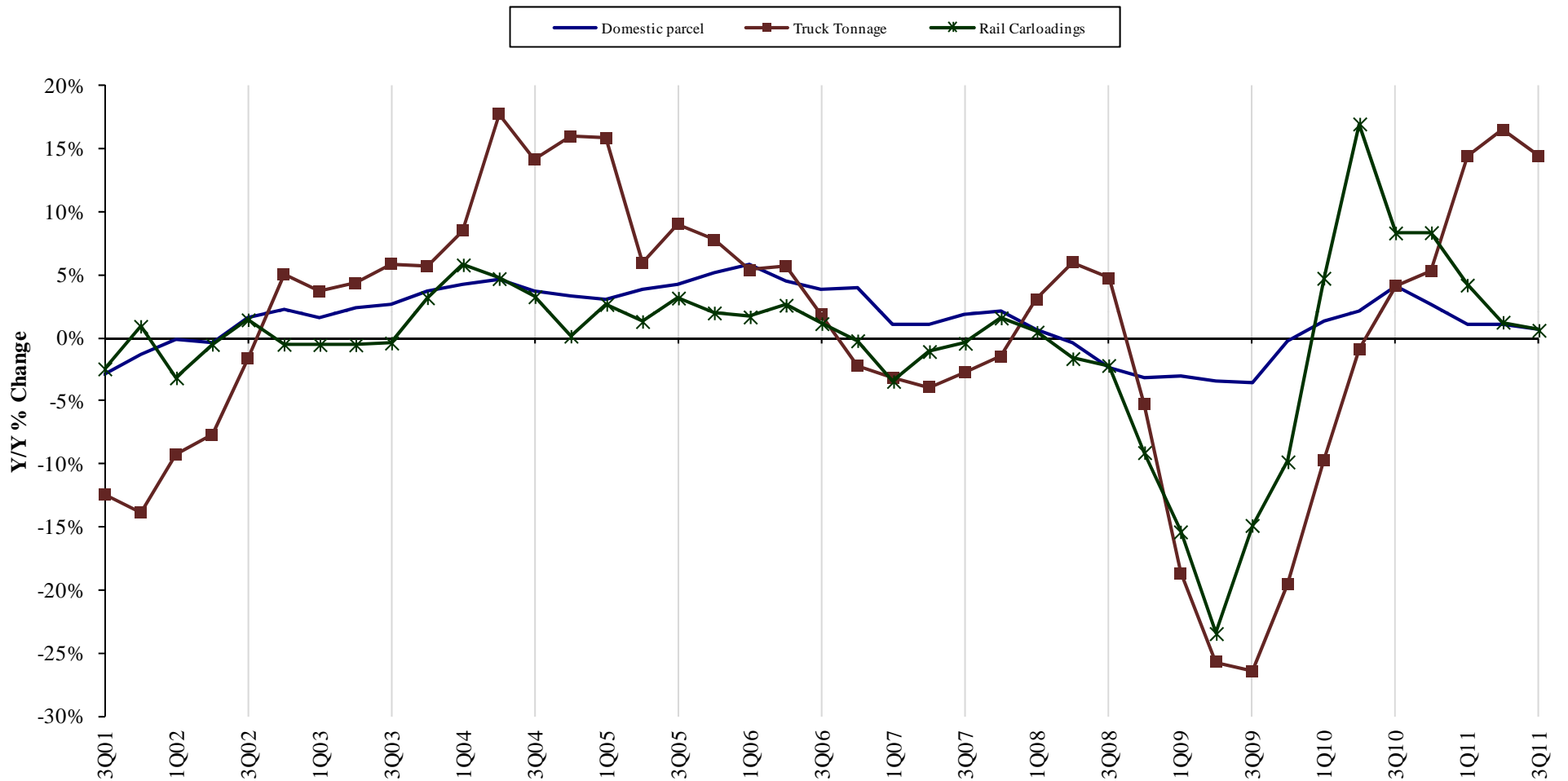
Data through December 2011
Source: Ceridian Corporation, UCLA Anderson School of Management, Charles River Associates

2011 y/y monthly truck tonnage figures are tracking well above 2001-2010 levels



Data through December 2011
Source for all graphs: American Trucking Associations

All modes are generally correlated, although domestic package volumes have been less volatile on a y/y basis



Source: Company data, American Trucking Associations, Association of American Railroads; Domestic parcel includes FedEx U.S. Overnight Box, FedEx U.S. Overnight Envelope, FedEx U.S. Deferred, FedEx Ground, and FedEx SmartPost, as well as UPS Next Day Air, UPS Deferred, and UPS Ground



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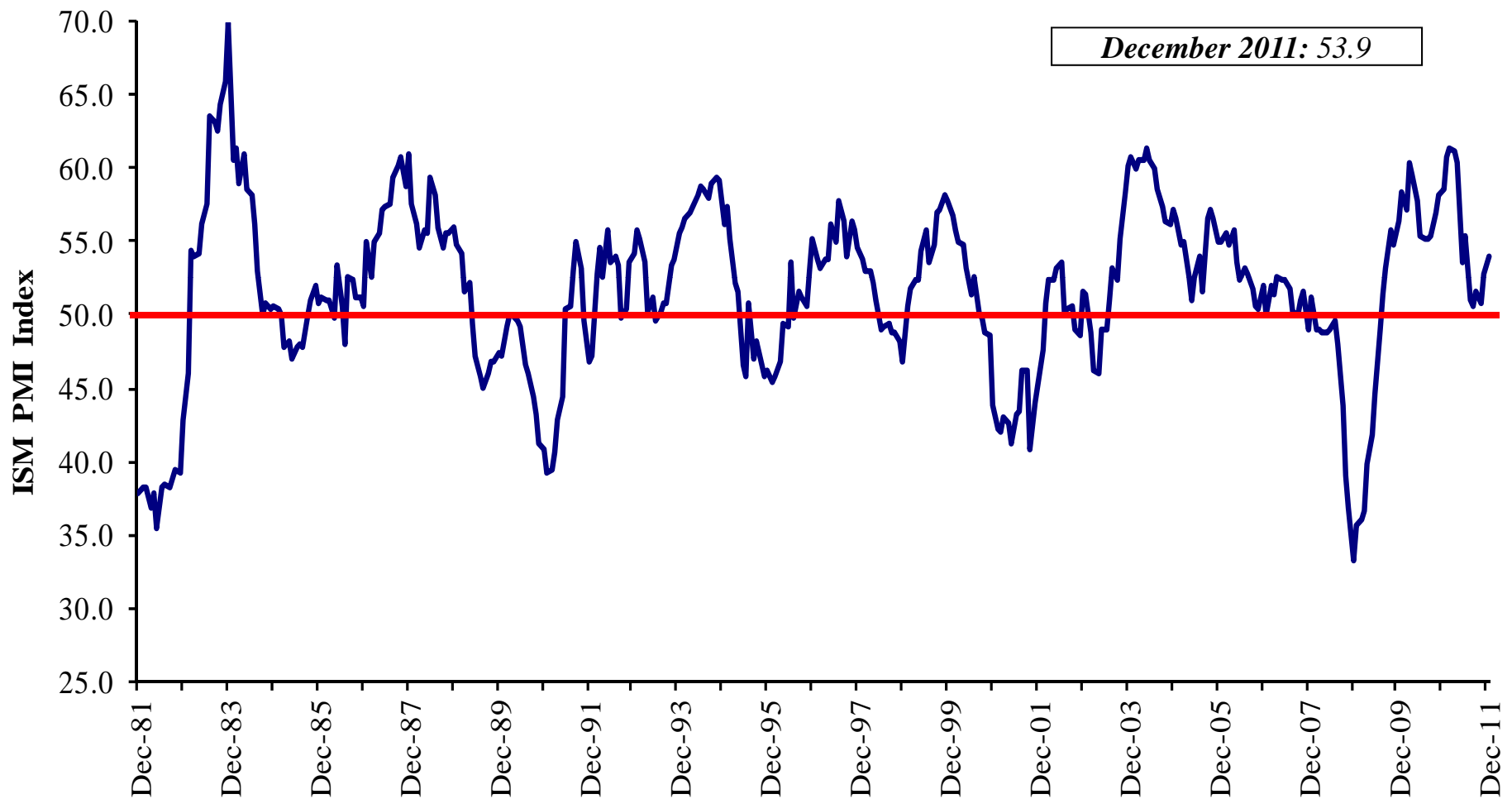
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Manufacturing expansion has been encouraging, as exhibited by ISM index growth since July 2009



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ISM Index values over 50 indicate industrial growth while ISM Index values below 50 indicate industrial contraction.
Source: Institute for Supply Management

Retail spending has rebounded past pre-recession peaks, but growth is slowing and sustainability is in question

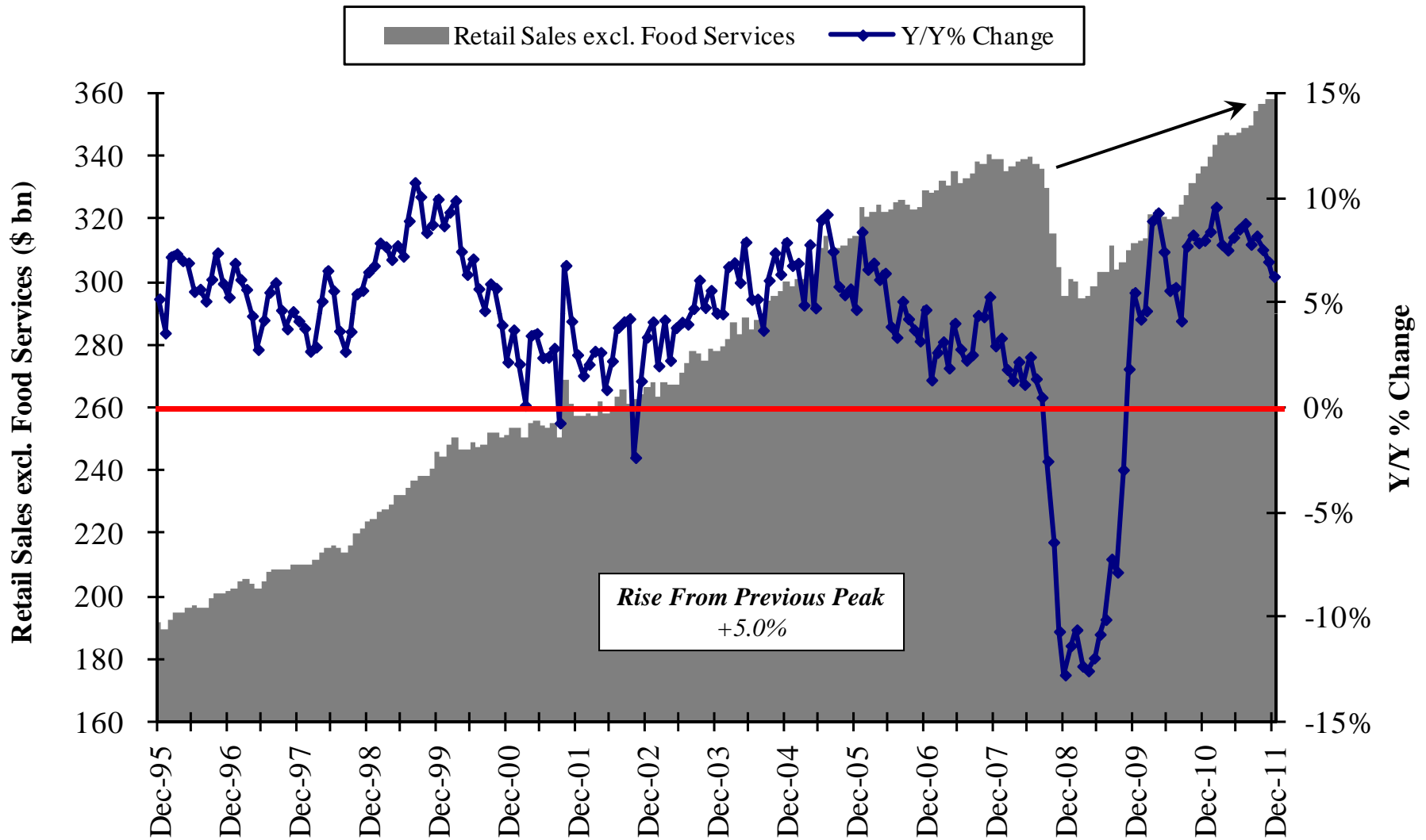
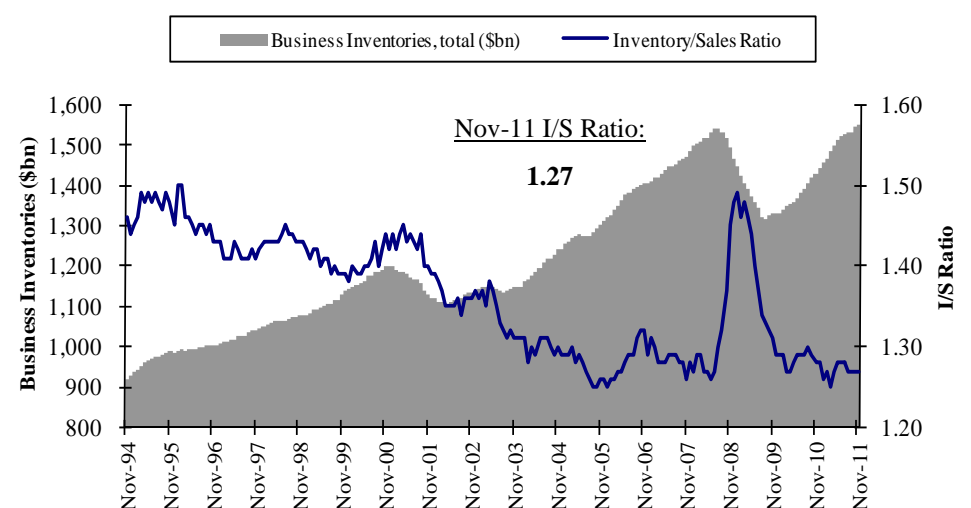
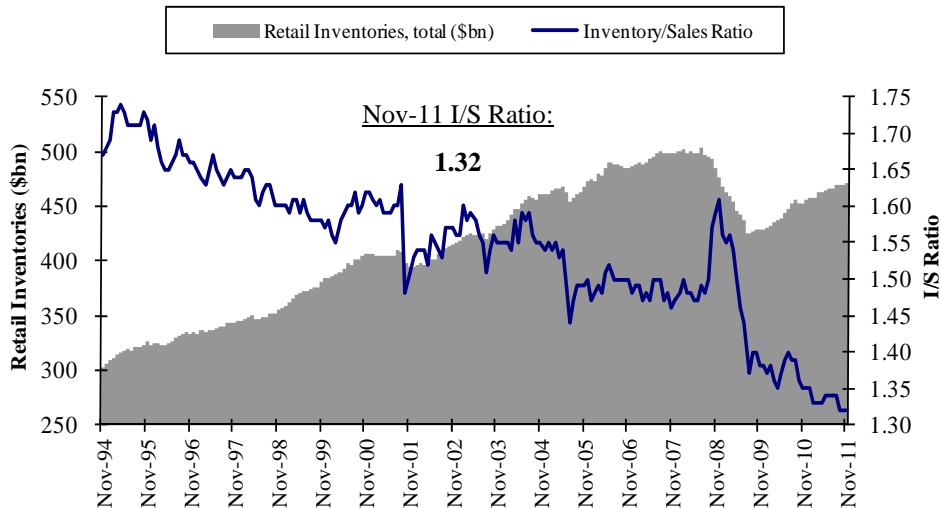
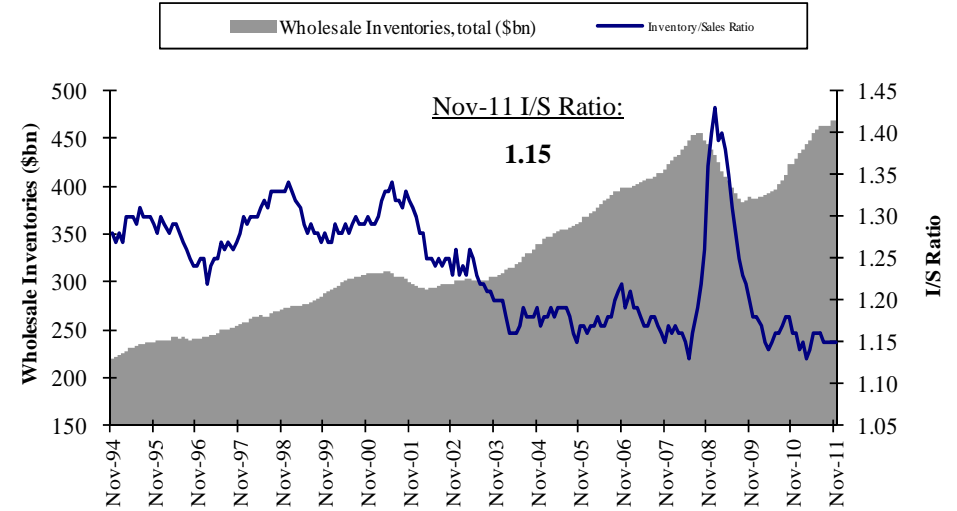
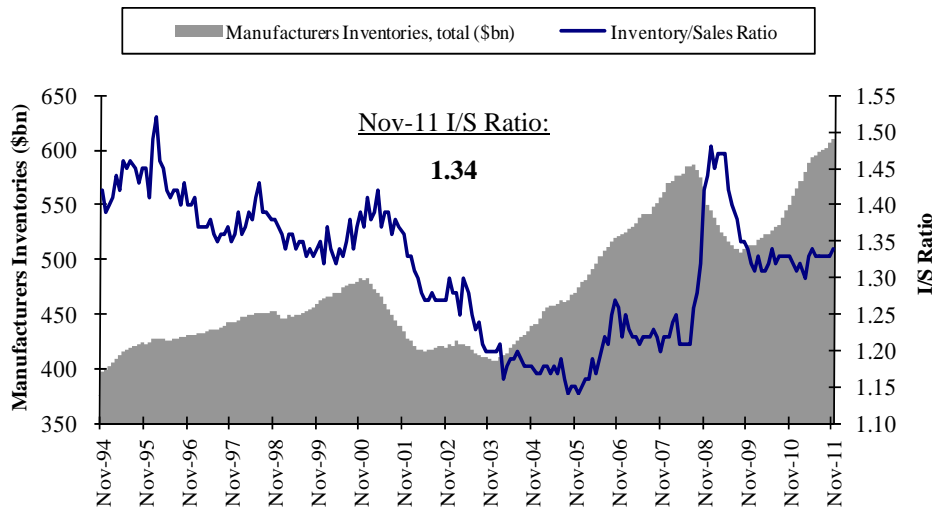


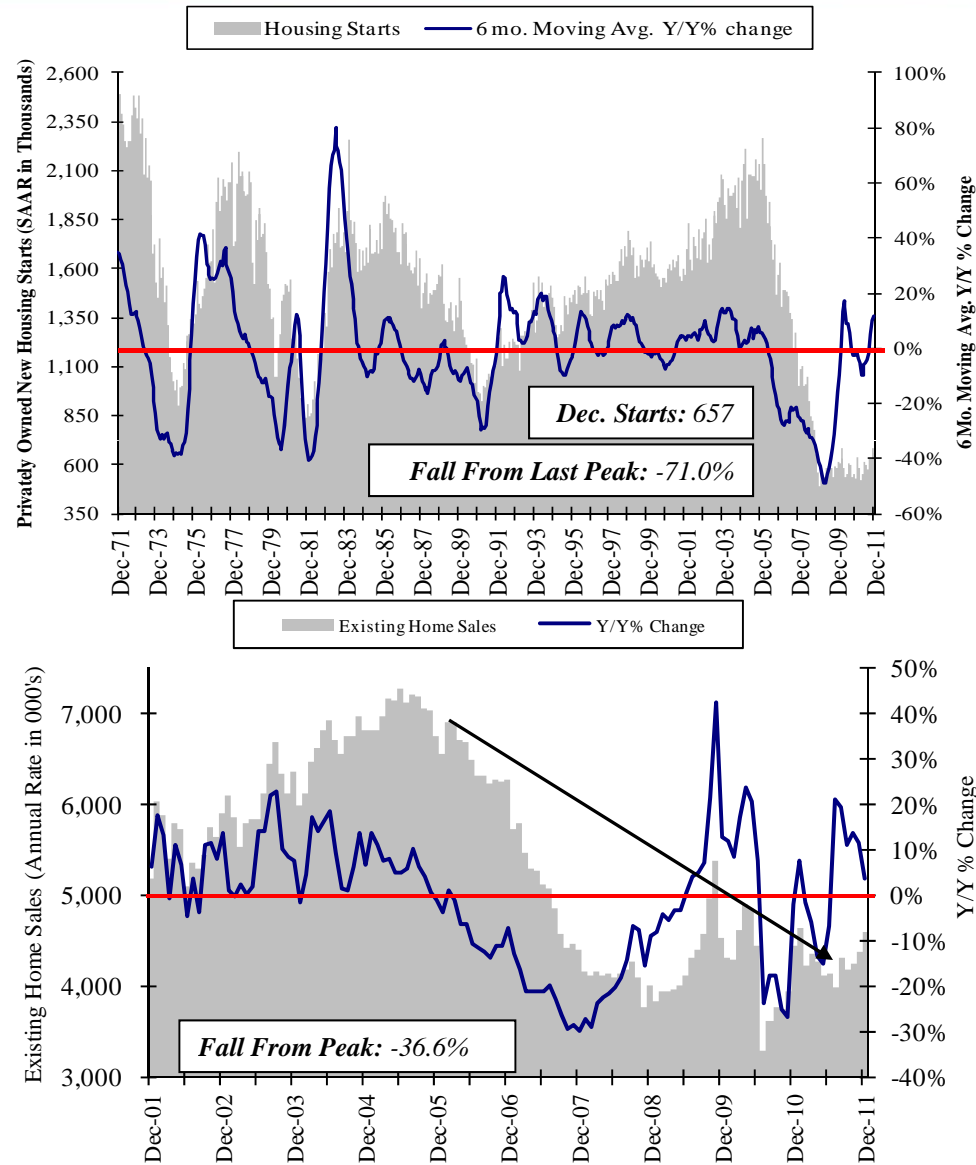
Chart displays seasonally adjusted data
Source: U.S. Census Bureau

While manufacturing I/S ratios have recovered to some degree, retail I/S ratios remain near record lows



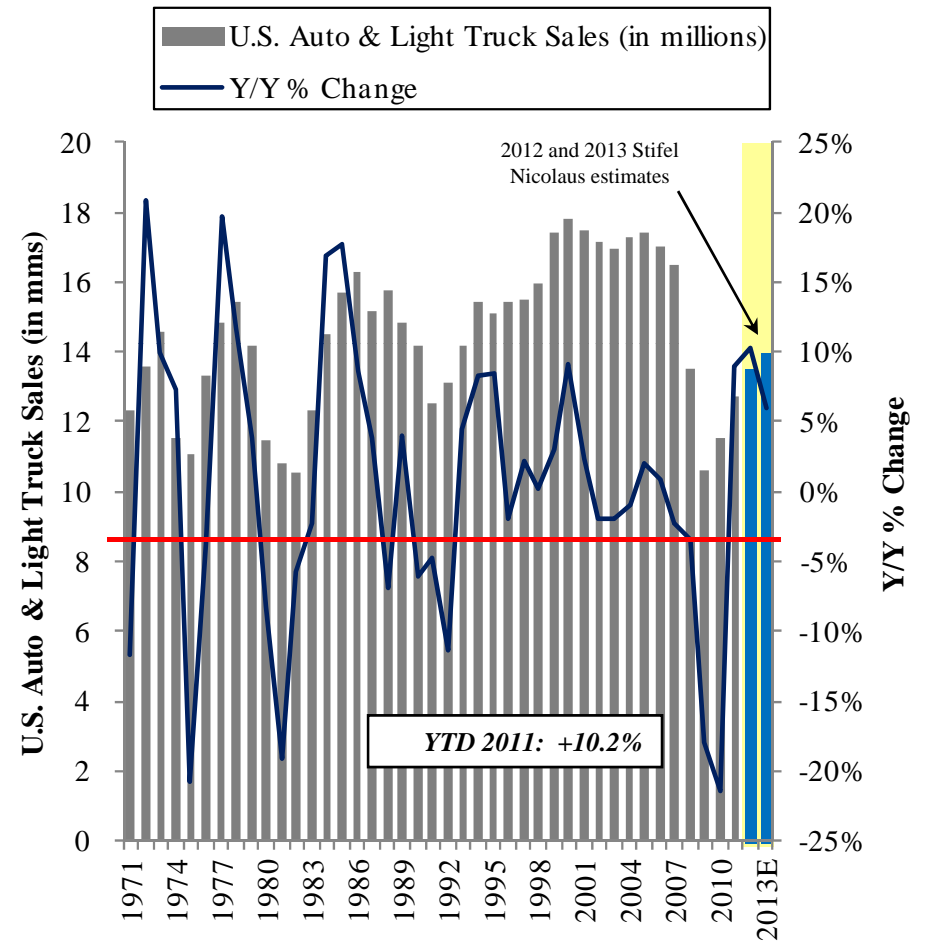
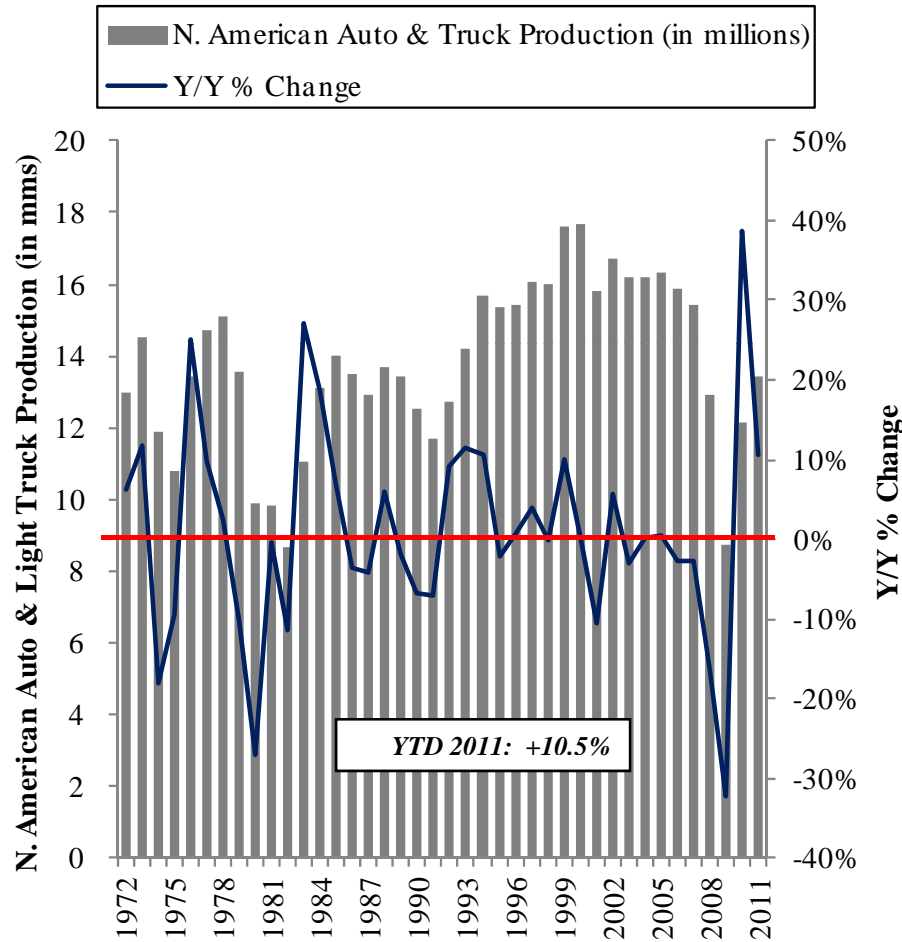
Source: U.S. Census Bureau

Housing market remains depressed – both housing starts & existing home sales remain well below peak levels



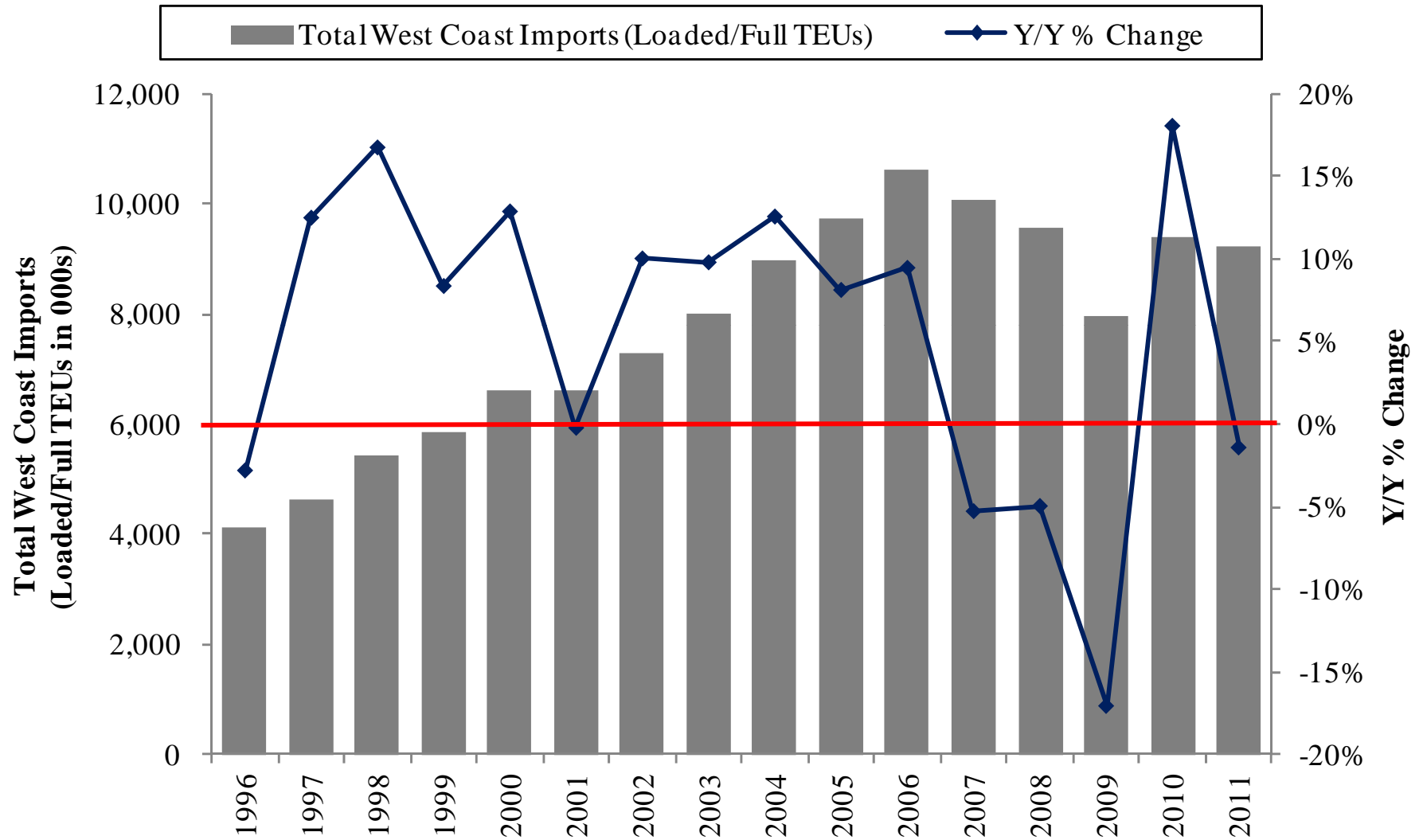
Graphs through December 2011
Source: Top Graph - U.S. Census Bureau, Bottom Graph - National Association of Realtors

The auto sector has partially rebounded; y/y comps show decelerating growth vs. toughening comps



Year-to-date (YTD) figures for both charts through December 2011
 Source: Ward's Automotive Group, Stifel Nicolaus estimates

2011 import volumes finished slightly below 2010 volumes at -1.4% y/y



Data through December 2011

Source: American Association of Port Authorities, Port of Long Beach, Port of L.A., Port of Oakland, Port of Portland, Port of Tacoma, Port of Seattle, Stifel Nicolaus estimates



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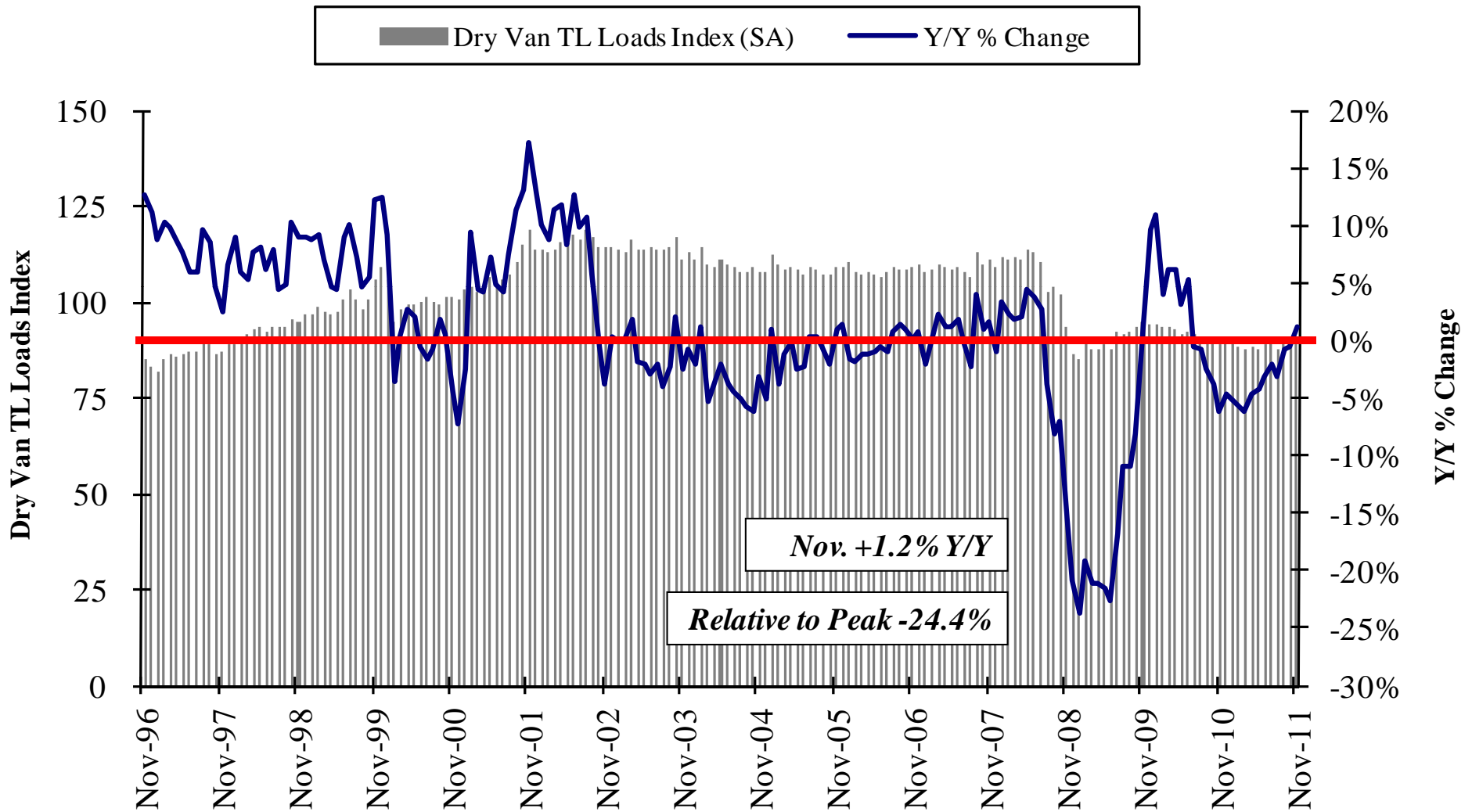
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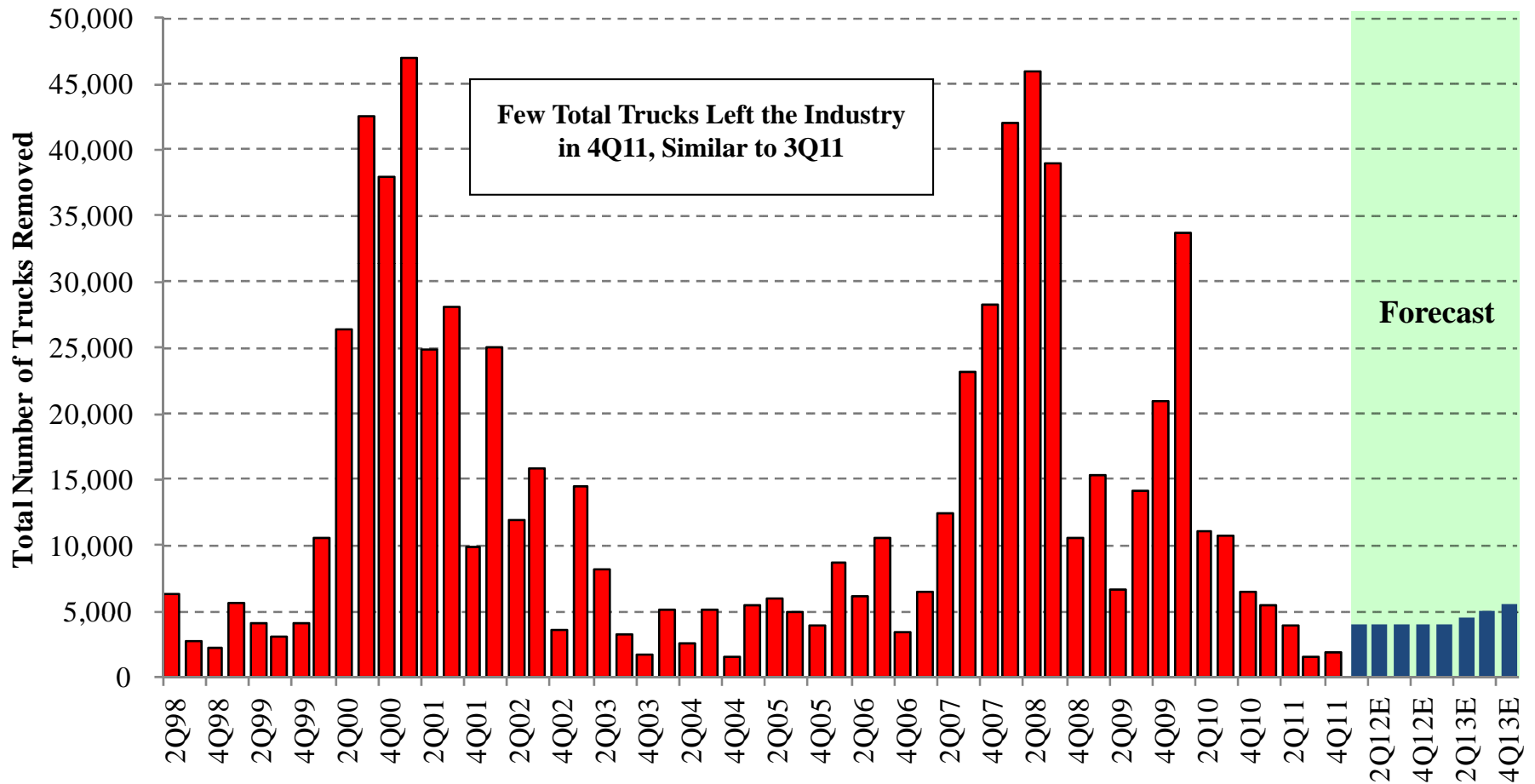
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Dry van truckload volumes are still weak compared to “old normal” levels, but remain steady nonetheless



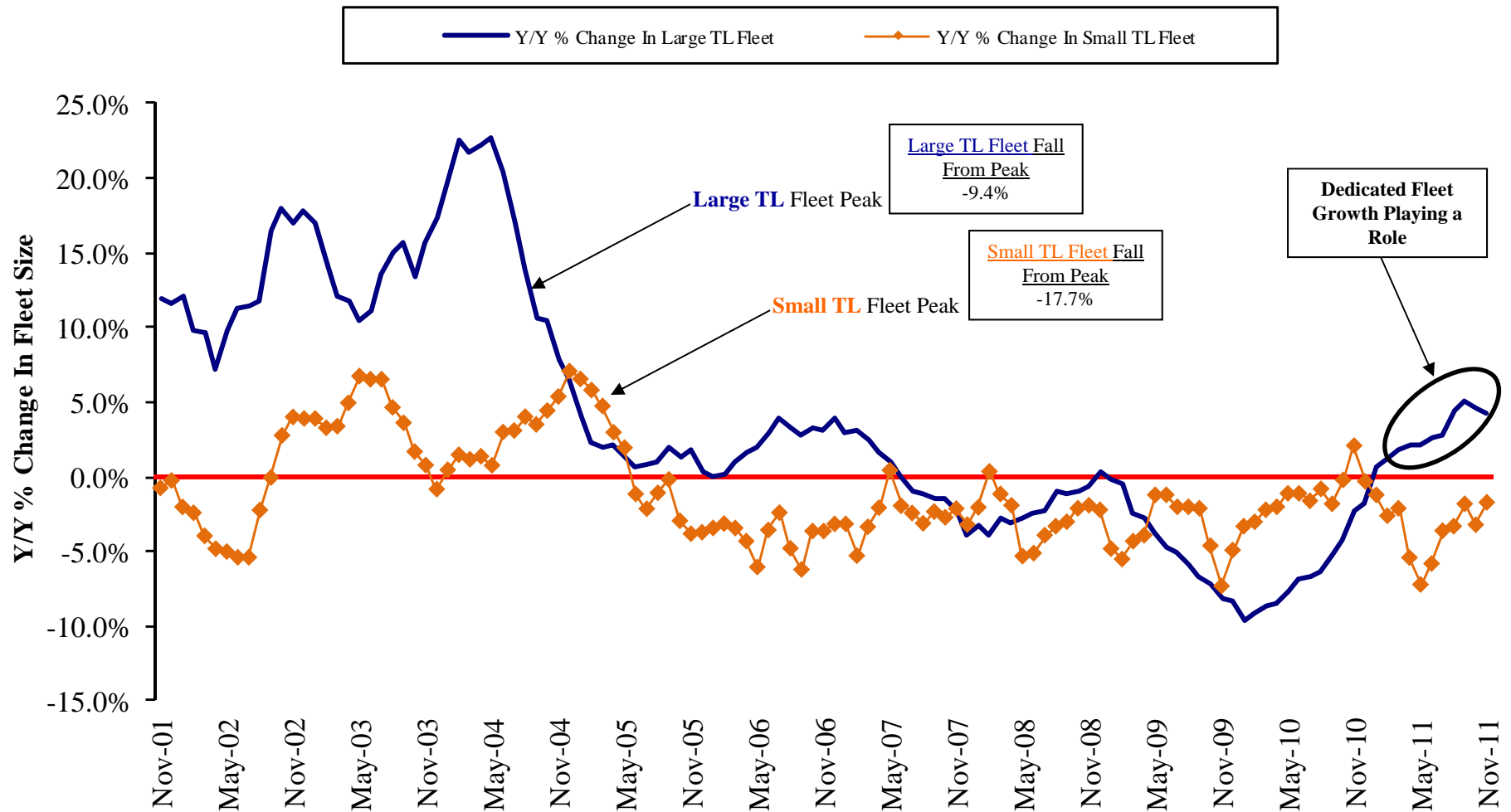
Source: American Trucking Associations

With lower volumes, some fleets couldn't make it, but it looks like failures have bottomed recently



Source: Avondale Partners, LLC, FTR forecast estimates

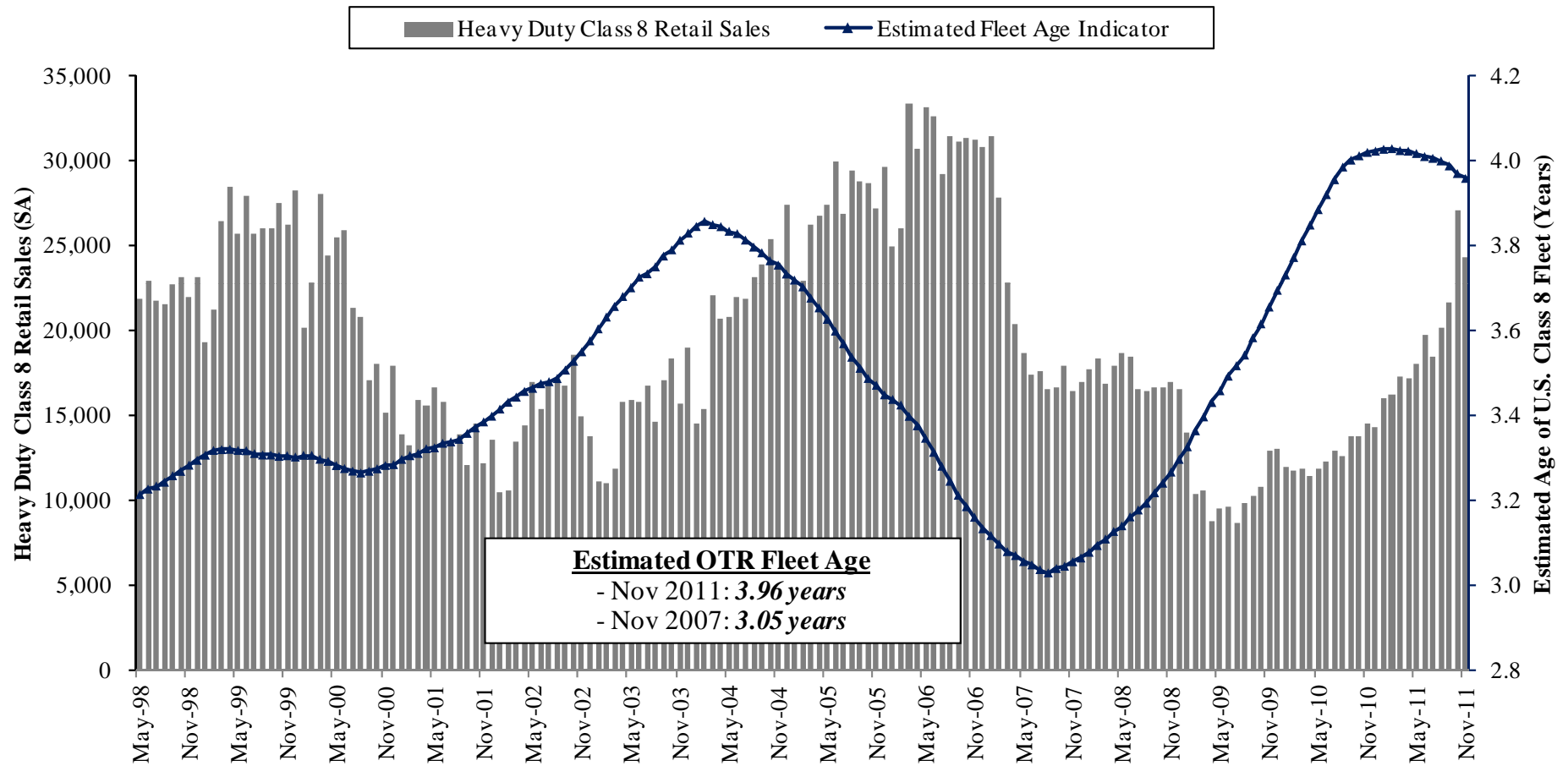
Small fleets began to downsize in mid-2005; large fleets downsized in mid-2007 but resumed growth in Jan. 2011



Data through November 2011
 Large truckload fleets defined as carriers with greater than \$30 million in annual revenue
 Small truckload fleets defined as carriers with less than \$30 million in annual revenue

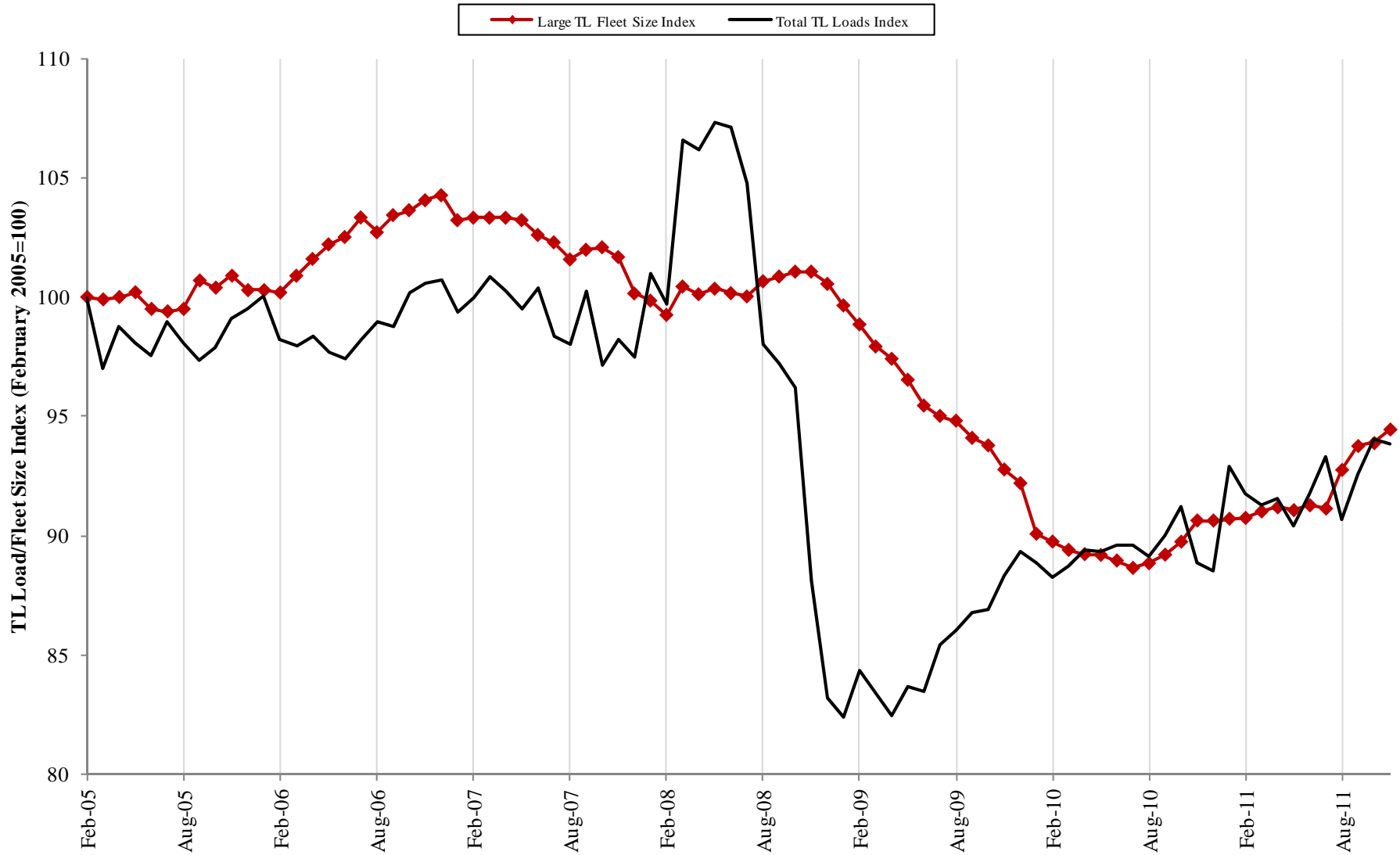
Source: American Trucking Associations

Fleet age still near record highs; 2012 should again see strong sales, but geared toward replacement vs. expansion



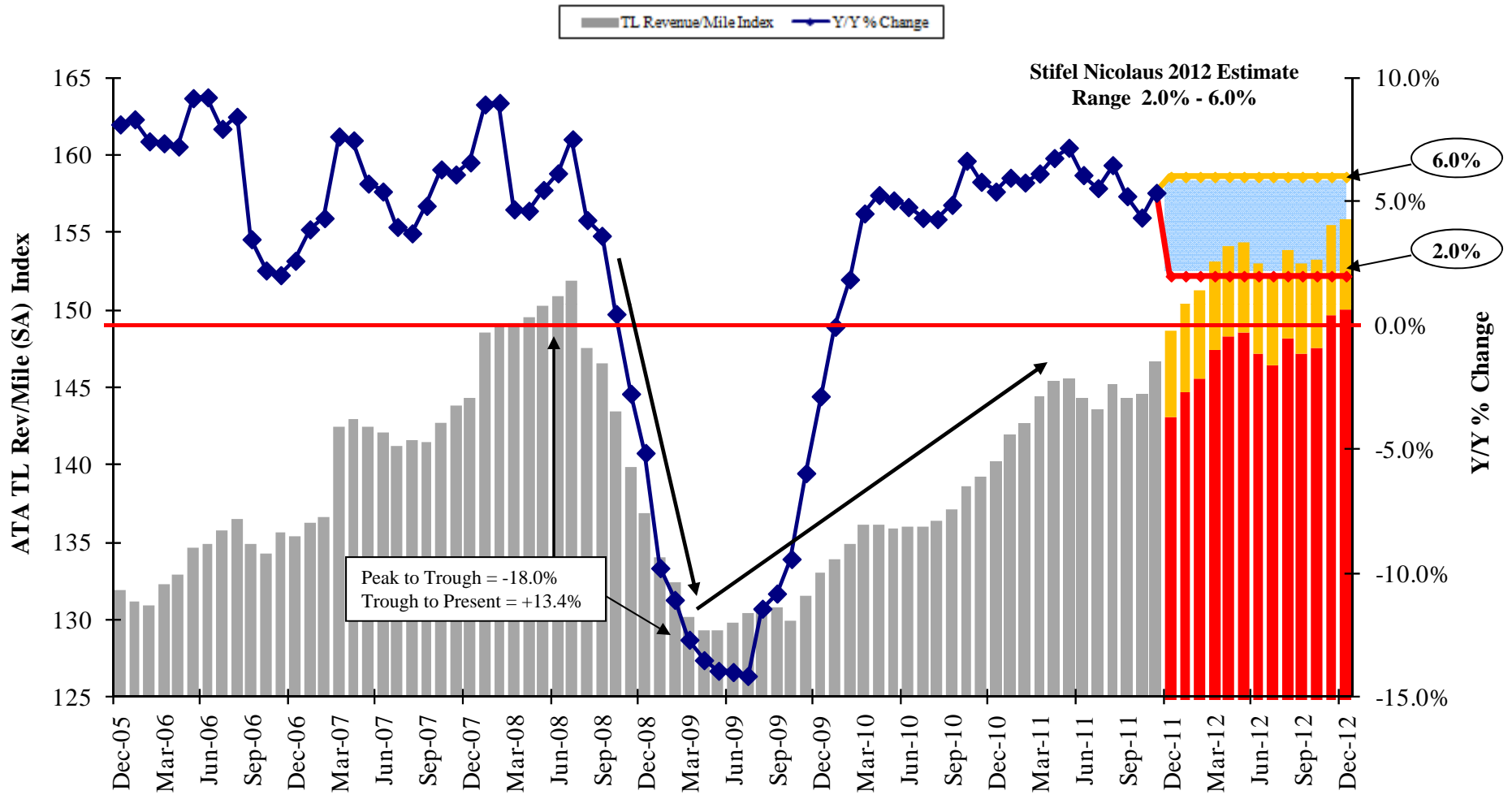
Data through November 2011
 Source: A.C.T. Research

Truckload supply and demand are coming into balance as a result of tightening capacity



Data through November 2011
Source: American Trucking Associations

TL pricing growth is expected to continue as capacity tightens (subject to demand and regulatory variables)



Notes:

- 1) Excludes FSC
- 2) Forecast rates = Stifel Nicolaus estimate range for the public companies we cover
- 3) Includes mostly contract rates as public companies have little spot market exposure

Actual data through November 2011

Source: American Trucking Associations, company data, Stifel Nicolaus estimates

Truckload sector themes



- Lost 20% of capacity during the downturn
 - 15 percentage points due to fleet downsizing
 - 5 percentage points due to bankruptcies, liquidations, and repossessions
 - Supply and demand now roughly in balance (despite weak economic growth)

- Now losing more capacity due to FMCSA regulations
 - Compliance, Safety, and Accountability (CSA) standard (plenty of confusion in the industry on this one)
 - Hours-of-service (HOS) rule changes to go into effect in mid-2013 (new restart rule represents a 17% reduction in theoretical work time per week)
 - Electronic on-board recorder (EOBR) requirements (delayed due to recent ruling—1/3+/- of drivers falsify logs)
 - Speed limiters, revised drug testing procedures, medical certification process, etc. coming down the regulatory pipeline?

- Large carriers diversifying away from conventional truckload
 - Dedicated
 - Short haul/regional
 - Intermodal
 - Drayage
 - Freight brokerage
 - Warehousing
 - Logistics management
 - But intermodal can't fill the void (80% of traffic in only 10 lanes)

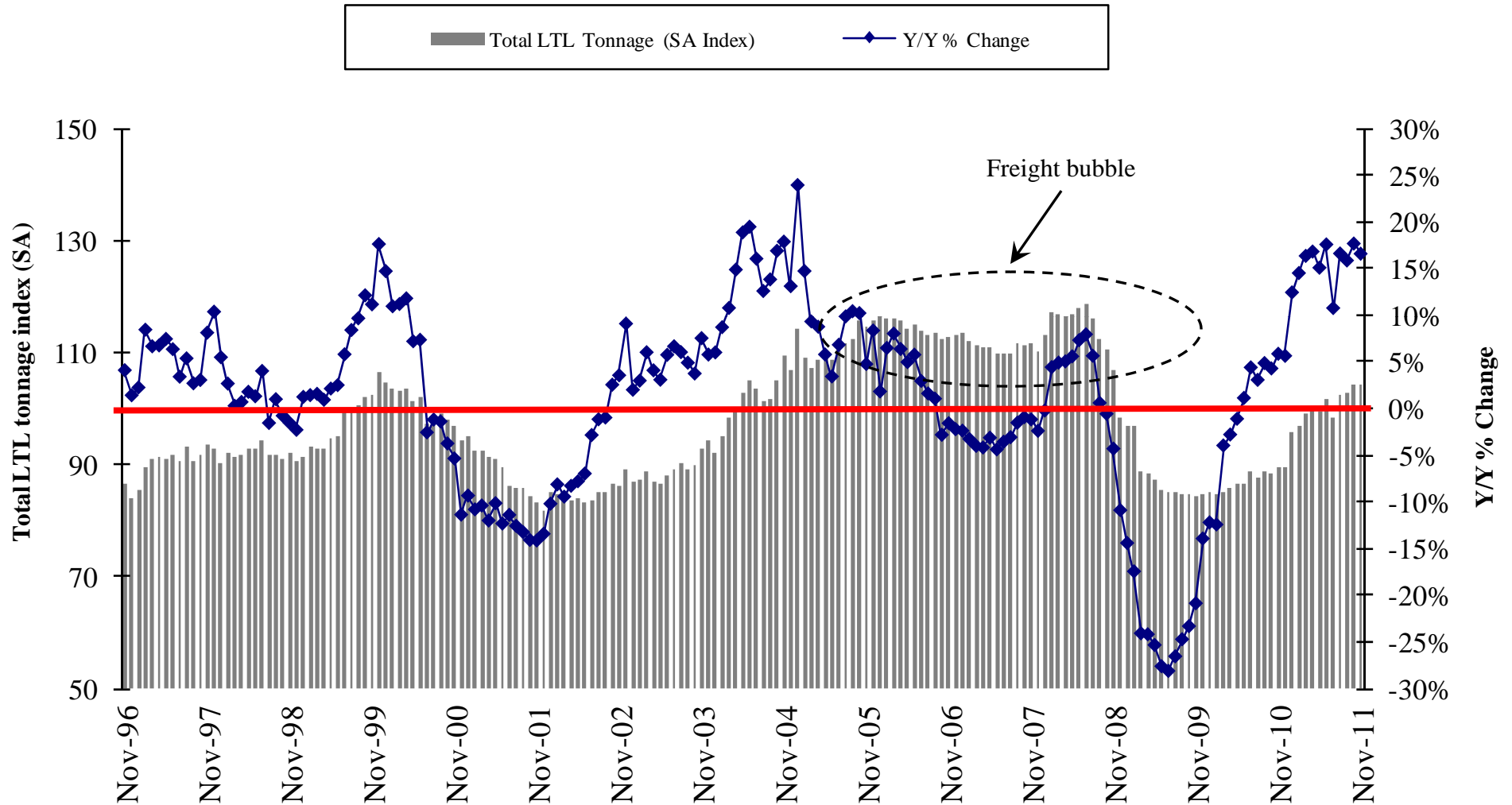
- Rate increases underway as supply and demand have tightened
 - YTD General Spot Rates: +4%-8% y/y
 - YTD General Contract Rates: +6%-7% y/y
 - YTD General Dedicated Rates: +2%-4% y/y

Truckload Rate Increases By Type ¹	
<u>Dry Van</u>	
• Contract	+ 5.6%
• Spot	+ 4.7%
<u>Reefer</u>	
• Contract	+ 5.2%
• Spot	+ 4.1%
<u>Flatbed</u>	
• Contract	+ 8.0%
• Spot	+ 5.7%

¹Year-over-year rate increases: December, 2011

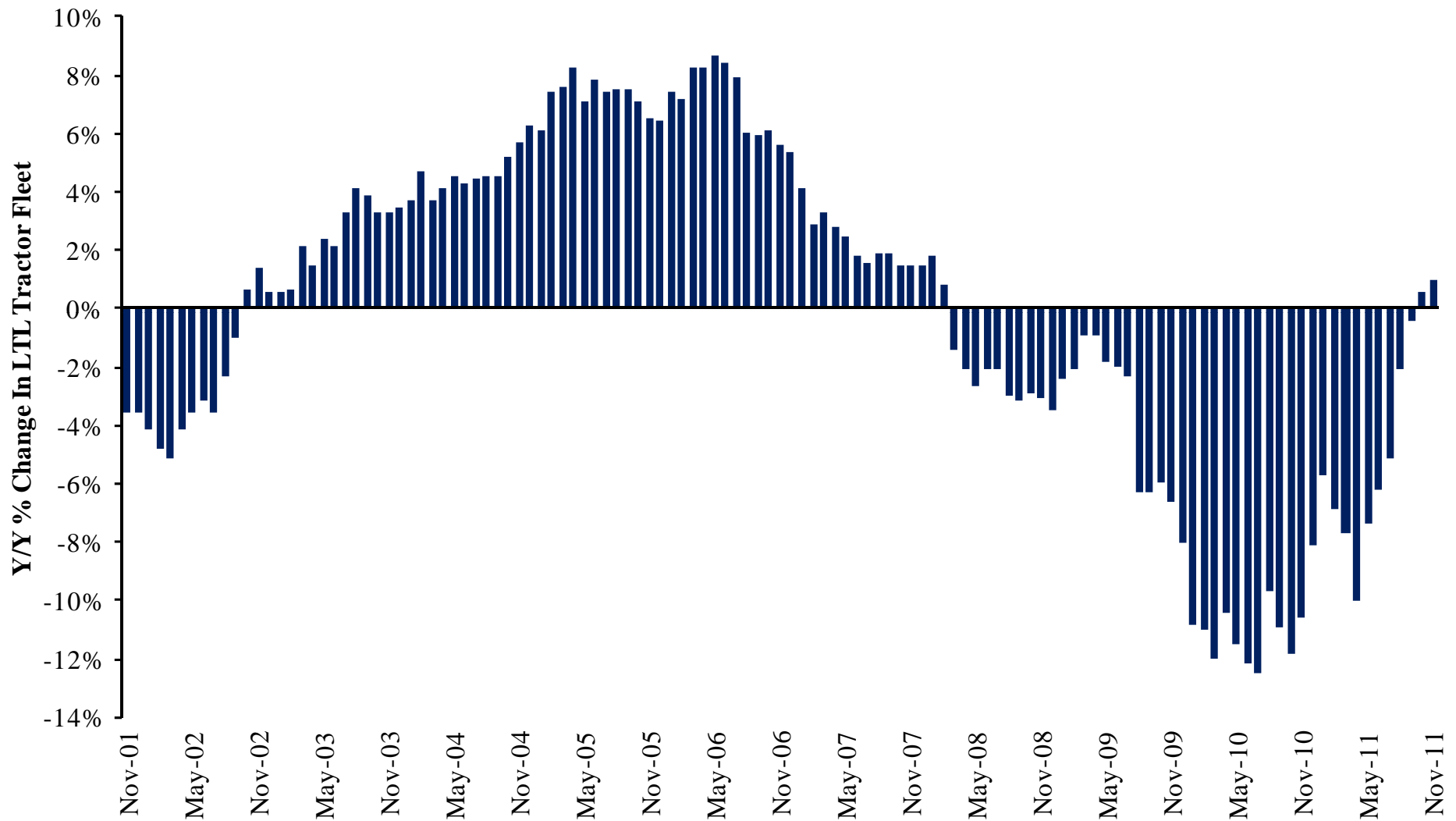
Source: Transcore

LTL volumes have recovered somewhat, but still off from '05-'08 peaks; continued growth uncertain



Source: American Trucking Associations

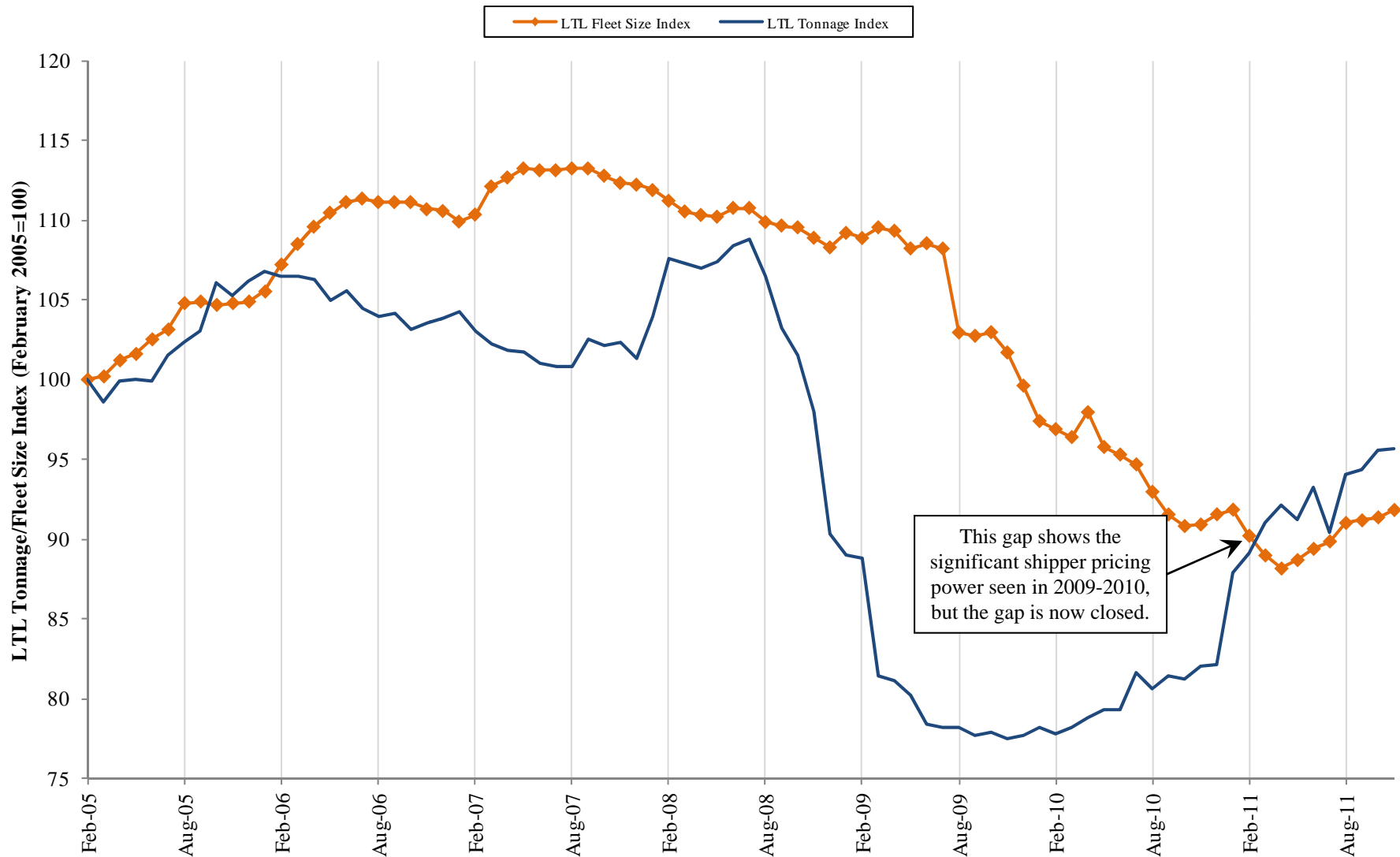
LTL power units turned positive in Oct. 2011 for the first time since March 2008, but are still 19% below peak



Data through November 2011

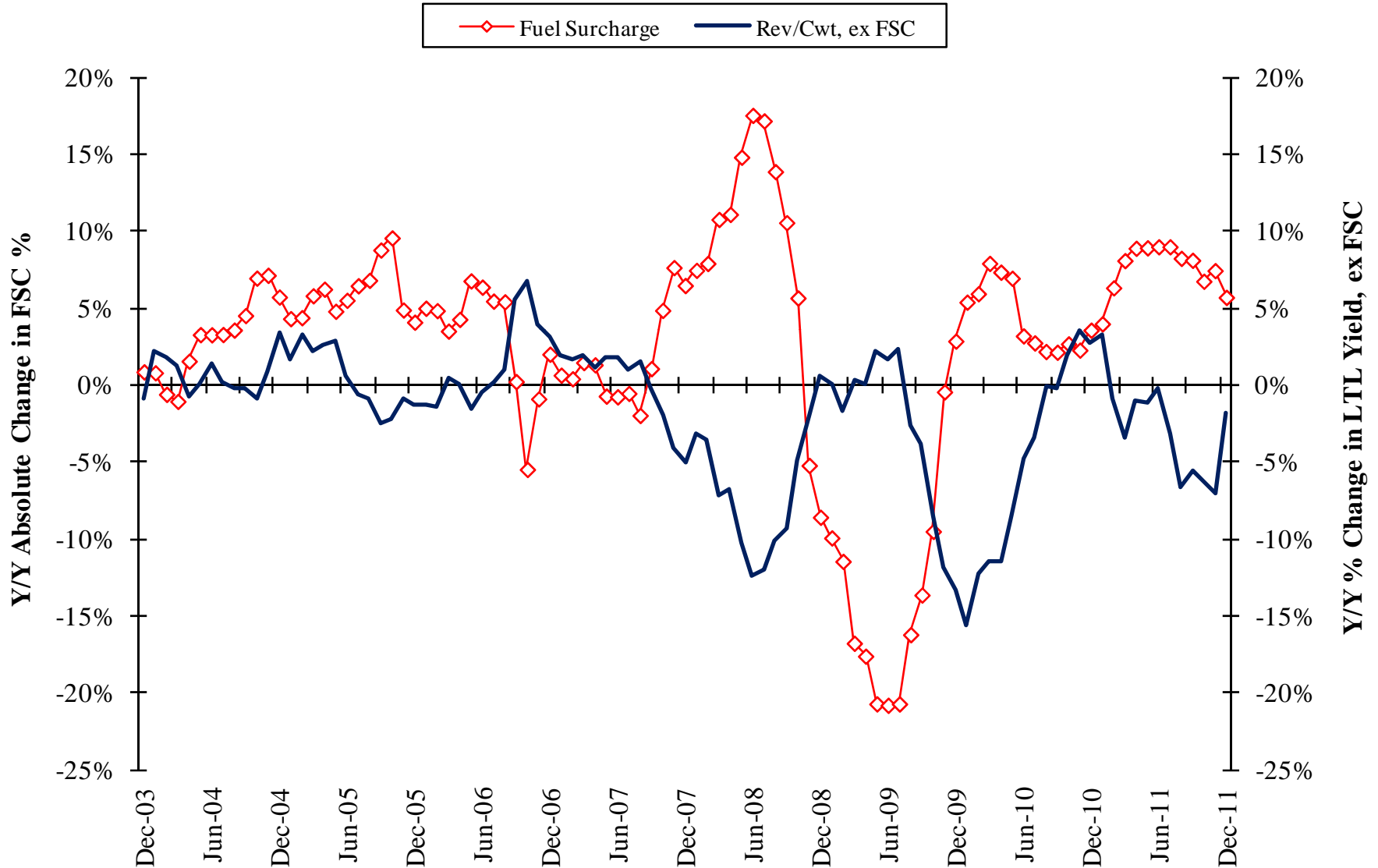
Source: American Trucking Associations

LTL demand now outstrips supply, mainly due to declines in fleet size and some improvement in freight volume



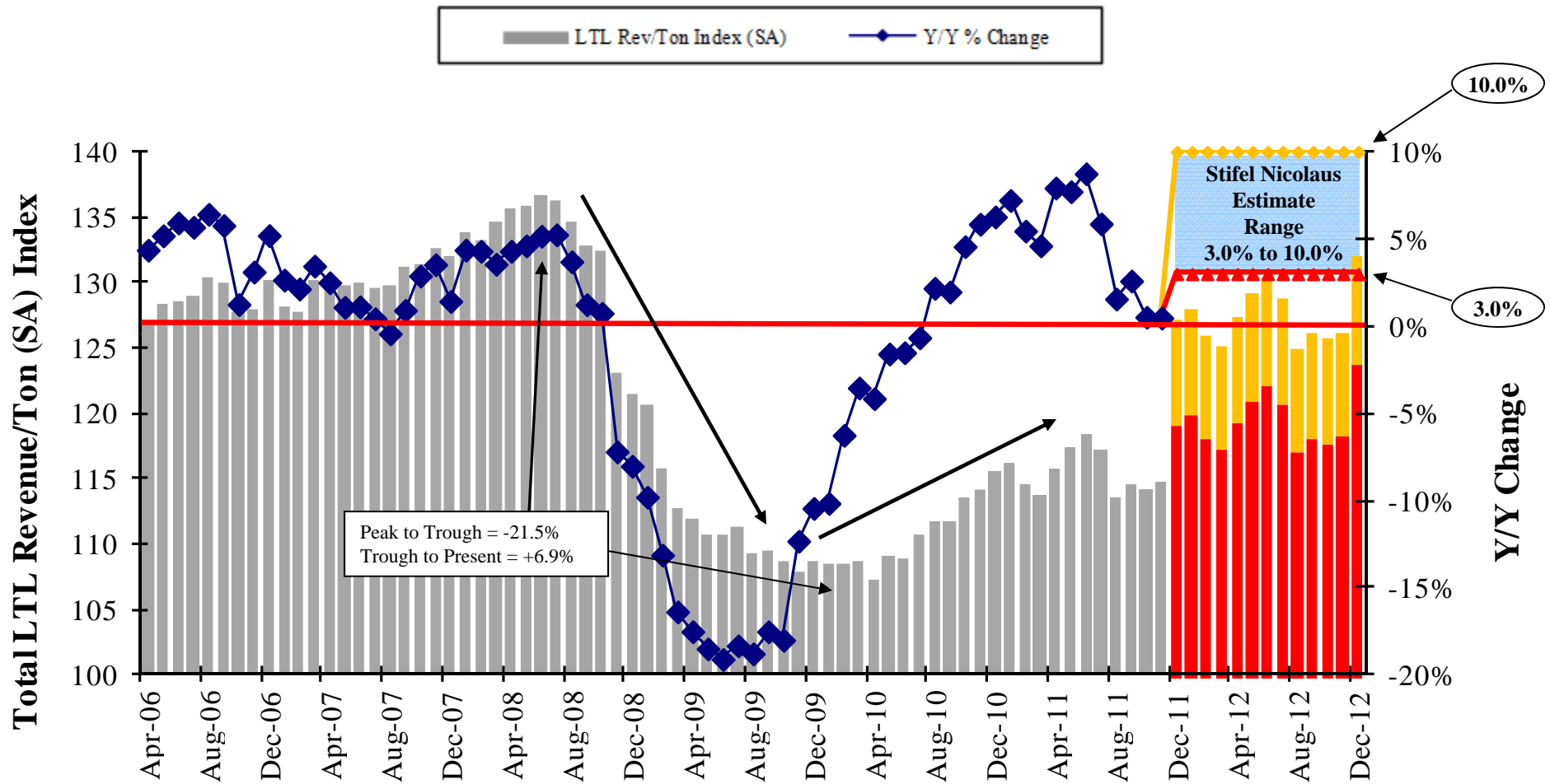
Data through November 2011
Source: American Trucking Associations

Pricing has been moving higher, but higher fuel prices make base rate increases challenging



Source: company data, Energy Information Administration, and Stifel Nicolaus estimates

With capacity in check and volumes holding steady, LTL carriers should be able to recover pricing lost in downturn



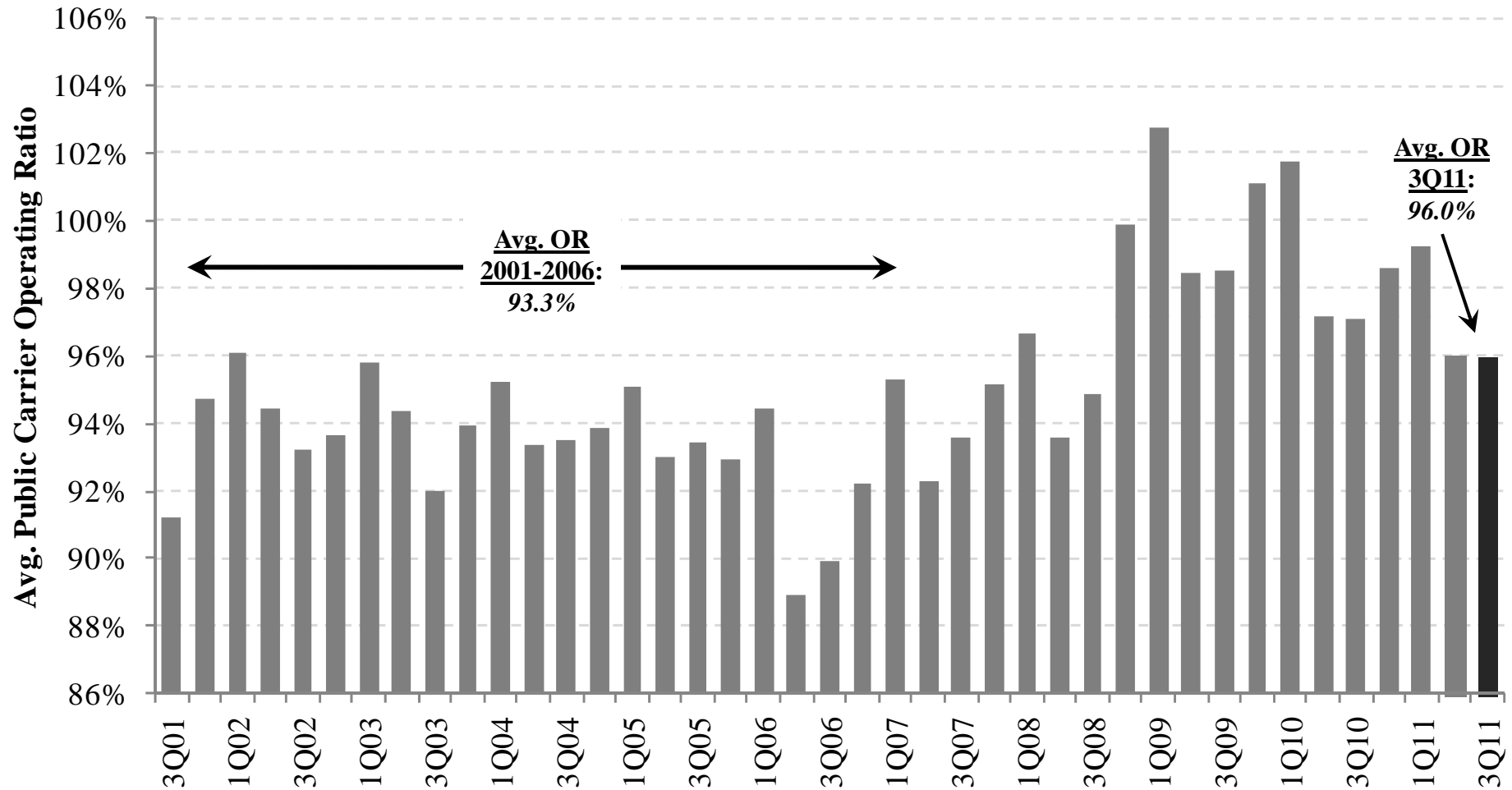
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Actual data through November 2011

Source: American Trucking Associations, company data, Stifel Nicolaus estimates

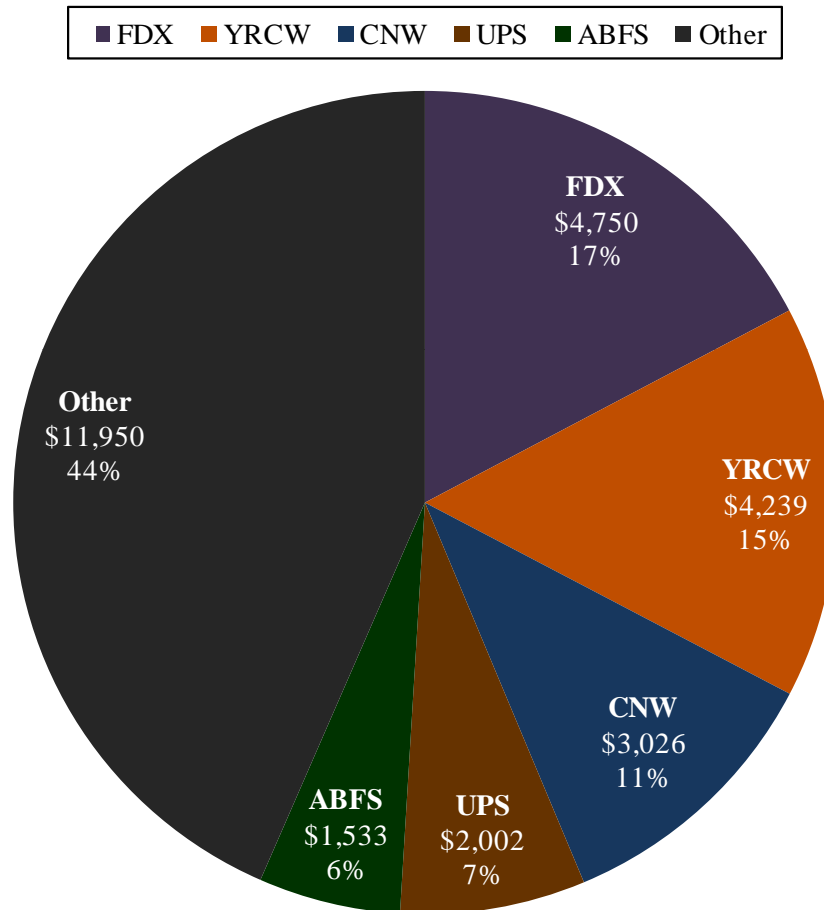
LTL carrier margins are still below historical averages



2001-2006 data includes Central Freight Lines, New Penn, Overnight Freight, Roadway Freight, SCST, USFC, and VPFC where available. 2006-present data includes ABF Freight, Con-way Freight, Fed Ex Freight, ODFL, RRTS, SAIA, VTNC, YRC National, and YRC Regional. Operating ratios may be adjusted for extraordinary items, causing them to differ from reported figures.

Source: Company data, Stifel Nicolaus estimates

Rates should be able to go higher than supply/demand dictates since the LTL industry is fairly consolidated



LTL Carriers by 2010 Revenue

(In \$ millions)

1) FedEx Freight	\$ 4,750
2) YRC Worldwide	\$ 4,239
3) Con-way Freight	\$ 3,026
4) UPS Freight	\$ 2,002
5) Arkansas Best Freight	\$ 1,533
6) <u>Other LTL Carriers</u>	<u>\$11,950</u>
Total Addressable LTL Market	~ \$27,500

Source: Company data, SJ Consulting



- With volumes moving sideways, pricing remains the story
 - LTL industry more consolidated than TL, and the top-5 carriers (representing over 50% of the market) still need price to significantly improve margins
 - Carriers took general rate increases (4.5%-6.9%) in 3Q11 (earlier than in 2010 with 4Q10 increases)
 - Capex bubble for fleet refreshment on the horizon once margins recover; discipline in adding back capacity a big factor in continued traction on price increases
 - Our rate increase estimate, excluding fuel surcharges, is 4%-5% y/y in 2012 but could be significantly higher, depending on TL/LTL industry capacity, freight growth, and carrier capacity/pricing discipline

- YRC 2nd restructuring completed in 2011, but cash remains the concern
 - Restructuring deal significantly diluted shareholders with recent reverse split (1:300) removing the company from penny stock status
 - Former YRC President James Welch is now CEO, but is the debt load too much?
 - We expect deferral of capital expenditures to continue to be an issue with service and costs
 - ABF lawsuit vs. YRC/IBT still pending and could put YRC's viability at risk, in our view

- Modal share losses continue but some may come back in tight TL market
 - 3PLs continue to consolidate LTL shipments into TL quantities
 - TL carriers have been competitively pricing lower weight shipments
 - Parcel carriers have grabbed most non-palletized, "conveyorizable" freight



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- Freight should grow slowly over the next couple of years; secular growth trends should remain B2C/e-commerce, dedicated, and intermodal segments
- Due to first supply-driven tightening since deregulation, shipping costs are going higher. Pricing power has shifted to the carriers and should remain in their favor due to:
 1. Industry consolidation
 2. Rising costs
 3. Driver recruiting/retention difficulty
 4. Carrier discipline (at least in the near term)
- Modal optimization and supply chain redesign should continue
 - Truckload → intermodal
 - Air → truckload/ground
 - Air freight → ocean freight
 - LTL → parcel
 - LTL → truckload, or vice-versa, depending upon capacity
 - Parcel → parcel consolidators
- It's a fragmented carrier and shipper market. Shippers and supply chains remain largely unsophisticated –a fact that will not change quickly
- Brokers should play an increasingly significant role in TL and LTL—not as much in parcel and rail—causing cross-subsidization of rates to end, and large shippers' rates to increase

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HOLD -For U.S. securities we expect the stock to perform within 10% (plus or minus) of the S&P 500 over the next 12 months. For Canadian securities we expect the stock to perform within 10% (plus or minus) of the S&P/TSX Composite Index. For other non-U.S. securities we expect the stock to perform within 10% (plus or minus) of the MSCI World Index. A Hold rating is also used for yield-sensitive securities where we are comfortable with the safety of the dividend, but believe that upside in the share price is limited.

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