

Transportation & Logistics Research

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The following is an edited transcription of a presentation John Larkin delivered January 31, 2012, at the National Industrial Transportation League (NITL) sponsored Special Highway Transportation Meeting. The presentation included a discussion of supply and demand balance in the trucking industry, the effect of the Federal Motor Carrier Safety Administration's (FMCSAs) recently implemented and proposed regulations, as well as our rate outlook based on those regulations. We have attempted to recreate the experience of attending the presentation live in the ensuing pages, having placed the relevant exhibits referred to in the presentation throughout the document.

John Larkin

Good afternoon, everyone. If any of you are not convinced that we need a Highway Bill, I recommend that you fly into Richmond in the morning, rent a car, and then drive north on I-95 to Boston; I guarantee you that by the time you get to Boston you will be convinced that a Highway Bill is needed. I-95 can be virtually a parking lot the entire way. How the truckers deal with that is unclear to me.

As a Sell-Side Analyst for Stifel Nicolaus, I am in the business of helping investors understand what is happening in the transportation industry, broadly defined. My roots are in trucking because while I was with Alex Brown we took a fair number trucking companies public, not the least of which was J.B. Hunt, Swift, and Werner as well as some names from the past like M.S. Carriers; we also took some truck brokers public, like C.H. Robinson and some others. So I have been around the space for a long time and this whole regulatory regimen that we have seen coming down the pipeline over the last few years, and that we will continue to see over the next few years, is very important in terms of understanding the supply-demand dynamic in the transportation industry.

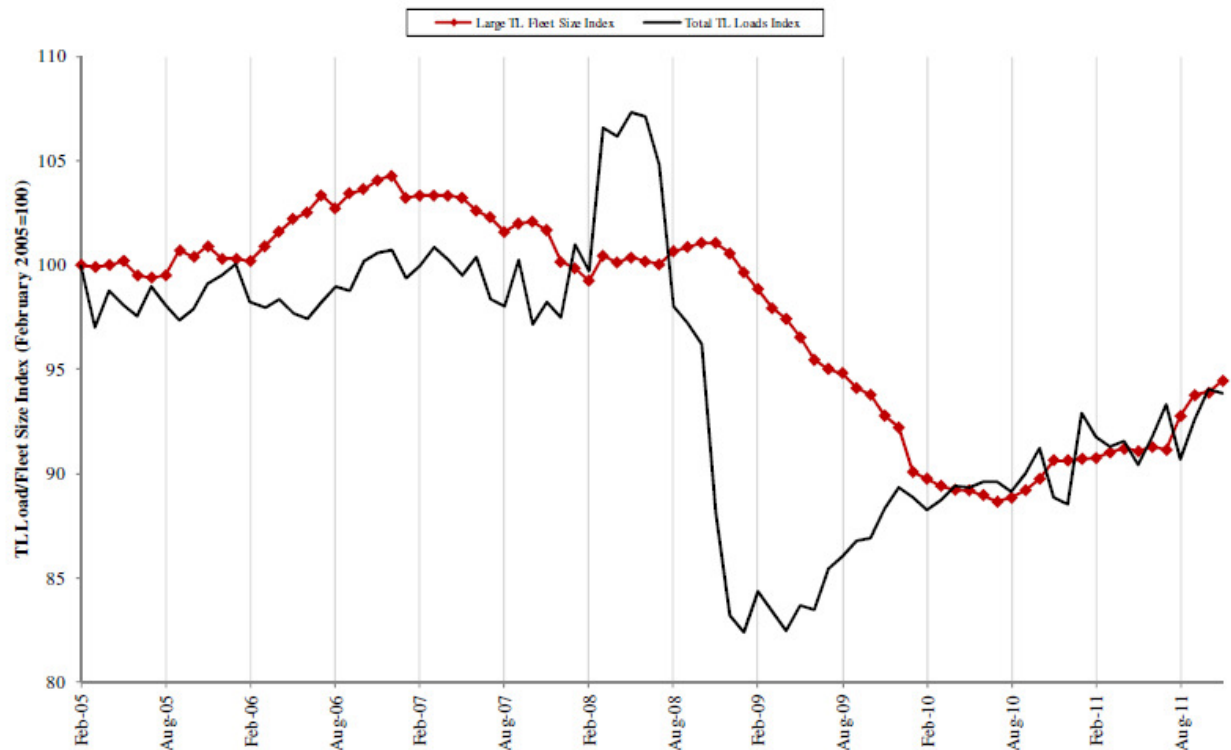
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All relevant disclosures and certifications appear on pages 16-17 of this report.

Exhibit 1 shows the truckload industry supply and demand; the data within the exhibit was sourced from the American Trucking Associations Trucking Activity Report that is put together by Bob Costello. Bob is my favorite economist because he is the only one I can understand. He actually speaks in plain English and tends to be a very good communicator in terms of what is happening in the economy. The red line in **Exhibit 1** is basically a proxy for capacity in the truckload industry; it represents the large truckload fleet size, which are those fleets with over \$30 million in annual revenue. One can see that for all truckload carriers with revenue greater than \$30 million a year, how much capacity was lost during the great recession of 2009. Essentially, the industry downsized to what I call the "new normal" demand. This is represented by the black line, which is the number of truckloads coming from the Trucking Activity Report. Around the early part of 2010, supply and demand more or less came into balance and that is where the carriers have felt confident enough to start taking price up. Prices are not quite back to where they were prior to the downturn, but they have made a lot of headway—we will talk about that a little bit more later. So supply and demand is already in balance and if the regulations take more capacity away, or if the economy accelerates and generates more freight, we are basically going to have too much freight and not enough trucks to handle all of it. It will have a very negative effect for shippers in terms of pushing prices up fairly dramatically.

Exhibit 1: Truckload Supply & Demand is Tight

Truckload Supply-Demand Coming in to Balance as a Result of Tightening Capacity

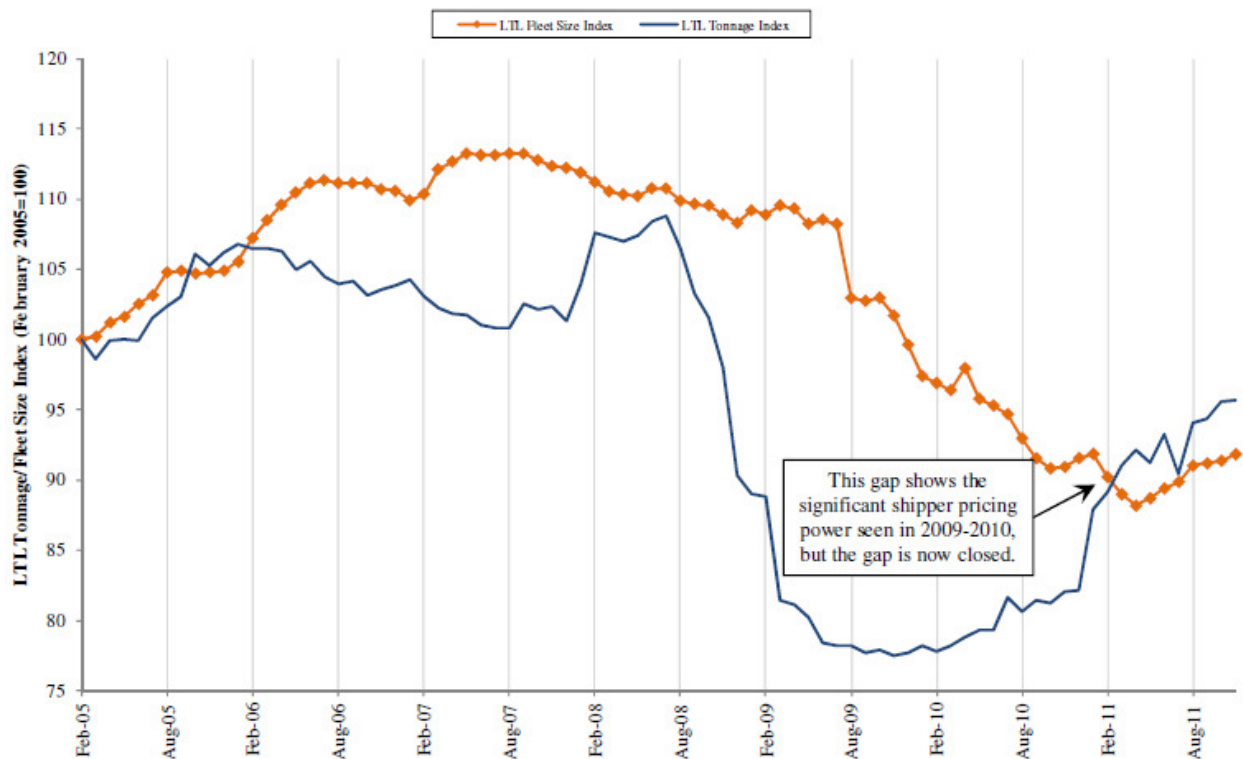


Data through November 2011
Source: American Trucking Associations

The less-than-truckload (LTL) chart looks somewhat similar, as shown in **Exhibit 2**. The orange line represents capacity in terms of active trucks operated by large LTL carriers and the black line is LTL tonnage. From the most recent data points, it appears that the supply-demand balance even favors the carriers a little bit more here than we saw on the truckload side. So LTL is back in balance, pricing is moving up, and we are not seeing carriers endeavoring to put Yellow Roadway out of business anymore. They have figured out that that does not work. So we are in balance even with the economy growing at a fairly mediocre clip of roughly 2% growth; we had 2.5% growth in the fourth quarter but about two-thirds of that was inventory replenishment, which almost by definition, cannot go on forever. I think we are currently getting a boost from the warm weather here in January, but we are not always going to have 60 degrees in Washington in February or late January.

Exhibit 2: Less-Than-Truckload Supply & Demand is Tight

LTL Demand Now Outstrips Supply Mainly as a Result of Declines in Fleet Size Combined With Some Improvement in Freight Volume



Data through November 2011
Source: American Trucking Associations

The objective of these regulations that the Federal Motor Carrier Safety Administration (FMCSA) has been working at for many years, and are now just being launched, obviously is to create a higher degree of safety on the highways. Essentially the objective is to injure fewer people, do less damage to property, and generate fewer fatalities.

It is hard to argue with that logic; but like all good things there is a cost associated with this social betterment. Let us talk a little bit about what those costs might be.

Exhibit 3 shows the regulations that are in various stages of development or implementation. We have all read a lot and heard a lot about CSA (Compliance, Safety, Accountability)—it used to be called CSA-2010, it is now just CSA. It basically provides a safety grade for carriers and that safety grade is a roll up of the individual safety ratings of drivers. The safety ratings of drivers are essentially a compilation of all the tickets that they have picked up over a three year period. For instance, speeding, a left

Exhibit 3: A Plethora of FMCSA Regulations Have Been Recently Implemented or are in the Development Pipeline

- CSA – Carrier Safety Scoring System
- HOS – Defines Timetable for Driver's Work Week
- EOBR's – Eliminates Log Book Falsification
- Speed Limiters – Caps Maximum Speed and Limits Fuel Consumption
- Drug Testing Methodology – Eliminates Most Attempts to Mask Test Results
- Certification of Doctors Performing Driver Physicals – Homogenizes a More Comprehensive Physical Examination
- More Coming ????????????

turn without signaling, overweight, equipment that is not in good shape, tires with insufficient tire tread, et cetera. There is a lot of concern about CSA, a lot of concern about how shippers should interpret it, and a lot of concern about how third parties and brokers should interpret it, but I will leave that for another day. We think this has taken some of those precious drivers, which we have too few of to begin with, off the highway—we will quantify that in a minute.

Next is the hours-of-service (HOS) rule. We saw this delayed, over and over again, and then the updated rule was brought forth in late December 2011. The new hours-of-service left, at least for the time being, the number of hours one can drive per day at 11 hours, but took the number of maximum hours a truck driver can work per week down from 82 to 70. So for the long-haul carriers that are out there running around outside of their region, the lower maximum work hours per week can have a debilitating impact on productivity.

The next rule deals with electronic on-board recorders (EOBRs). I just read an article this morning that quoted Anne Ferro, who is the FMCSA Administrator, saying that they intend to rectify the problem with the EOBR ruling. The previous ruling was challenged in court by the Owner Operator Independent Drivers Association (OOIDA) suggesting that EOBRs were a tool that could be used by management to harass drivers. Imagine management trying to manage their employees—I guess that constitutes harassment; maybe I will use that at my year-end review next week and see how well that goes over, probably not too well. Regardless, Anne thinks the FMCSA can change the language to legally to get around the concern that the OOIDA folks have regarding

EOBRs. As a result, that rule is coming; we are going to see 100% application of EOBRs over the next couple of years. Many of the large carriers are already putting them into place; some are saying that they are losing productivity because there is absolutely zero logbook falsification allowed under this system. Others are saying that they are actually gaining a little productivity because now they know exactly how many hours a driver has left at the end of the day and can actually get him or her started on their next trip if they have got a couple of hours remaining for that particular day. However, I think at the end of the day the EOBR ruling is a negative and takes effective capacity away from the industry.

Coming down the regulatory pipeline next, I think, will be speed limiters. Many of the large companies already have speed limiters because speed is related to fuel consumption; basically fuel consumption rises exponentially with speed. If one were to cut the speed of a Class-A truck from 75 mph down to 55 mph, they would save more than 13% on fuel consumption. I am not sure what the engineering is behind that, but that relationship seems to hold. What the FMCSA is really after is to cut down on the lane-changing which is really what creates blind spots and many of the accidents. This would also be a big saver on fuel consumption across the industry but it would take more capacity out of the industry.

The drug-testing methodology that has been used for years is the urine-based test. There are some companies that are now voluntarily using the hair follicle test. They are finding that roughly 10% to 12% of those who pass the urine-based test are failing the hair follicle test, which is much more difficult to mask. One could imagine what would happen if you apply that hair follicle test to the whole industry. Right now there carriers struggling to find drivers; if you took 10% of the driver capacity right off the top it would become a huge problem for our country, for our shippers, and the trucking industry.

Then there is the standardization of driver physicals, which has really not been screwed down very tightly within the industry over the last 10, 20, or 30 years. There is going to be a process whereby doctors receive training as to how to perform the physicals and what is involved in the physical. This would ensure that all the doctors that are certified to perform the physical will administer them in the same way across the whole industry and across all the states. With sleep apnea being a problem, drivers suffering from heart problems, et cetera, we could actually disqualify current drivers from remaining in the industry.

It is also conceivable that there will be more rules and regulations coming; they seem to be never-ending. I think the highway safety lobby probably will not be satisfied until there are no more accidents on the highways, no fatalities, no injuries, and no loss of trucks or automobiles.

Exhibit 4 shows the current average driver demographics. The average driver is 50 years old; we have not brought any young people, or bring many at least, into the industry. The average life expectancy is 61 years; that compares to mid to upper 70s for the rest of us. Our average driver is overweight; roughly 260 pounds on average, which means there are some 350-pound people offsetting some 150-pound people. Only 10% of drivers admit to getting any kind of exercise, which I think includes darts and bowling. The sleep patterns, almost by definition, are irregular, especially for the team drivers that are sleeping in the sleeper compartment of the truck in the middle of the day, while the next day it may be in the middle of the night—it is pretty difficult to get high quality sleep. The

Exhibit 4: Driver Dynamics Are Not Pretty!

- Average Age: 50 Years
- Average Life Expectancy: 61 Years
- Average Weight: 260 lbs.
- Average Number Admitting to Regular Exercise: 10%
- Sleep Patterns: Irregular
- Diet: Often High Fat, High Sugar Content/Fast Food
- Smoke: Often
- Drink: Off-Duty

Source: Stifel Nicolaus estimates

driver's diet is often not very good as the food available at truck stops often is not very good, especially since some of the more modern truck stop chains have gone exclusively to fast food. Some of the drivers have smoking issues or drinking issues. This is essentially a recipe for heart attack if one were to lay out the criteria. So that is the nature of the beast that we are trying to deal with and this does not represent every driver accurately but it is a snapshot of what we are looking at.

One of the things that we have heard, over and over again, as well as during the fourth quarter earnings calls which took place last week, that it does not matter whether a carrier has a high pay scale per mile, a brand new fleet, whether they give drivers a lot of tender, love, and care, or even a lot of miles, literally everyone is struggling to find CSA-compliant drivers right now. There is this view on Wall Street, which I happen to disagree with, that suggests if carriers take driver pay up, then they will attract new drivers from the vast number of unemployed in America who we keep hearing about. The fact of the matter is that most of those unemployed people have no interest in becoming a truck driver, at any price, and many of them do not meet the minimum criteria. So until we rebuild our driver training infrastructure, which consists of things like driver training schools and community colleges that will actually crank out a fresh CSA-compliant Class-A truck driver, this problem will continue to exist. Already we have seen the turnover rate, which bottomed-out around 50% at the nadir of the recession, has already bounced back to 100% and it appears that within another year or two we could be right back at the all-time high of about 150%. What does that mean? If I had 1,000 trucks in my fleet, I would have to recruit 1,500 drivers per year. Think about that for a minute. To net one driver I may have to process 50 to 100 applications, telephonically. Oftentimes the turnover is very high in the first few days of their employment, so it is a very difficult prob-

lem to get one's arms around if they operate a large fleet. What many companies have done is to actually move away from the conventional truckload business, on account of this problem as well as other issues, and move into brokerage or intermodal, or more local/regional activities to try to move away from the driver problem or to try to manage the driver problem by getting those drivers home more frequently within a regional type of operation.

At the end of the day, as I suggested earlier, any acceleration of the economic growth rate—we have had some fits and starts here, about 2.5% in the fourth quarter was sustainable, on our way to 3% to 3.5%, which might be the long run capability of the economy—or if the driver supply or driver productivity were to drop due to the existing FMCSA regulations and the others in the pipeline that we talked about, we would see further tightening between supply and demand within the industry and an increase in the price of trucking services. If we stop and look at the

Exhibit 5: Estimated Impact of FMCSA Regulations

- CSA – Reduces Workforce by 2%-4%
- HOS – Reduces Productivity by 2%-4% (Would Have Been 5%-7% If Driving Hours per Day Were Cut From 11 Hours to 10 Hours)
- EOBR's – Reduces Productivity by 2%-4% (Elimination of Falsified Hours Partially Offset by Better Utilization of Available Legal Hours)
- Speed Limiters – Could Cut Productivity by 3%-5%
- Drug Testing Methodology – Could Reduce Workforce by 8%-12%
- Physical Exams – Could Reduce Workforce by 5%-10%

Source: Stifel Nicolaus estimates

mathematics here, we think that CSA may, when all is said and done, over a couple-year period, reduce the workforce by somewhere between 2% and 4% because the chronic offenders, those with six and seven speeding tickets over three years, are effectively going to be pushed out of the industry (**Exhibit 5**). The data now exists so that carriers can actually go in and check a driver's record for a modest cost of \$10 per check.

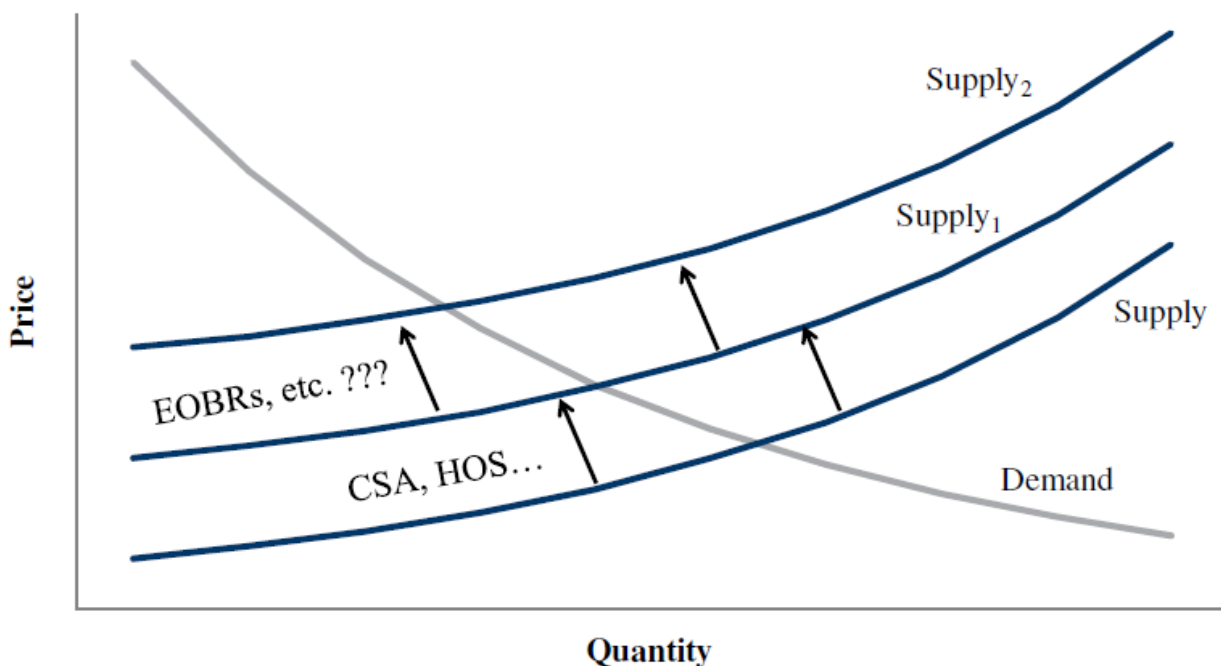
The hours-of-service rules, which maintain the 11-hour-per-day rule—which is still subject to further analysis—will probably reduce productivity somewhere around the 2% to 4% range. This would have been 50% to maybe almost double that estimate range if they had cut the number of hours per day to drive down from 11 to 10 hours. Regarding EOBRs, which reduce all of the logbook falsification, I have spoken with a number of industry folks on this topic and they believe that upwards of 40% to 45% of the drivers at large and small companies are falsifying their logs. Essentially they drive for 14 hours but make it look like they only drove 11 hours. This is not always by the direction of management but that is what happens because driver pay is a function of miles driven and if they have been sitting in a traffic jam then they are not generating much income. So when a driver gets free and clear on the open road, they want to run hard and start accumulating those miles and in turn their pay; EOBRs would eliminate all of that.

Speed limiters, all the large companies already have them but the smaller companies generally do not. If one drives through Pennsylvania on I-81, as I do once or twice in the summer, they will see some of the smaller company's trucks—this is not meant to be a blanket generalization—all running 80 mph down the hill and 45 mph up the hill. What does that mean? They pass everyone going down the hill and then everybody passes them going up the hill. Thus, there are more opportunities for accidents due to lane-changing.

The drug-testing methodology, if the preliminary results from C.R. England, J.B. Hunt, and others are correct and universal across the whole industry, could have a massive negative impact on the availability of drivers. The physical exams, given that average driver profile we went over previously, could force another effective drop in the size of the workforce.

When this is all taken into account, Economics 101 says that there will be higher prices as a result of the reduction in supply. As shown in **Exhibit 6**, which graphs price versus quantity, the lines moving from the lower left to upper right are the supply curves and demand is running from upper left to lower right. The regulations essentially reduce the supply, which moves the equilibrium point or the price up. We have already begun to see this take effect; some shippers are very nervous about running out of capacity and are beginning to exchange rate increases for capacity commitment going forward. In my opinion, we are just seeing the tip of the iceberg of this problem.

Exhibit 6: Economics 101 Says...



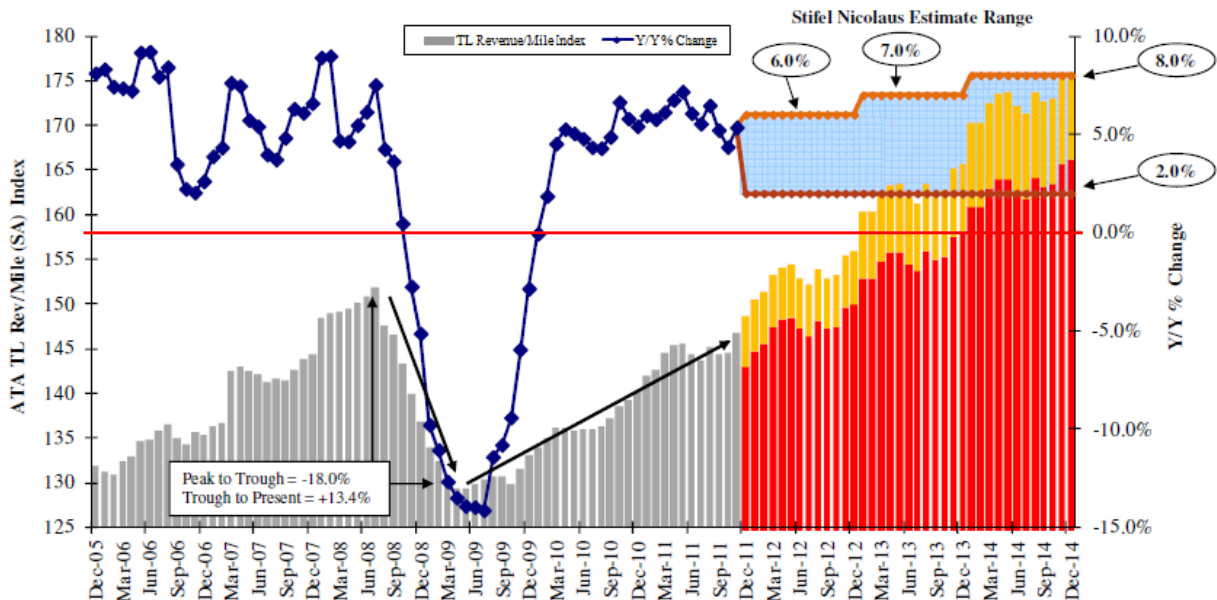
--- Regulations Will Drive Up Shipper's Trucking Costs and be Passed Along to the Consumer

Exhibit 7 contains a somewhat complicated chart, but it basically charts the American Trucking Associations (ATA) truckload revenue per mile index, i.e. pricing, over time. Truckload revenue per mile rose up until about the middle of 2008 and then cratered, literally when the great recession hit. The industry has partially recovered, but has not fully recovered to a similar pricing level seen prior to the steep decline in late 2008. However, we think that the pricing will continue to recover. We think that there is going to be a range in year-over-year pricing; it could be as low as 2% a year going forward or as high as 6%, 7%, or 8% going forward as these incremental regulations are implemented. The variables driving that range are going to be things like: how did the shipper treat the carriers during the downturn? Did they beat them up on price like some shippers did? Or did the shipper essentially stick to their contract and renegotiate the rate at the end of the contract? Carriers are going to be more willing to keep a lid on price increases with the latter kind of shipper. I would not want to be the shipper who beat the carrier over the head to drive prices down dramatically back in 2009 in this kind of a scenario.

The rate of economic recovery also plays a big role in future price increases as well. The economy has still been stumbling along and the housing market is essentially flat, while the auto industry has only partially recovered. There is still a fair amount of retail consumption, but even retail began to slow a bit in the fourth quarter; in par-

Exhibit 7: Truckload Pricing and Projections

Truckload Revenue per Mile Increased 5.4% Y/Y in November and is Expected to Continue Steady Growth as Capacity Tightens; Strength of Pricing a Function of Customer-Specific Pricing History, Rate of Macroeconomic Growth, and Impact of FMCSA Regulations



Actual data through November 2011

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

Notes:

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

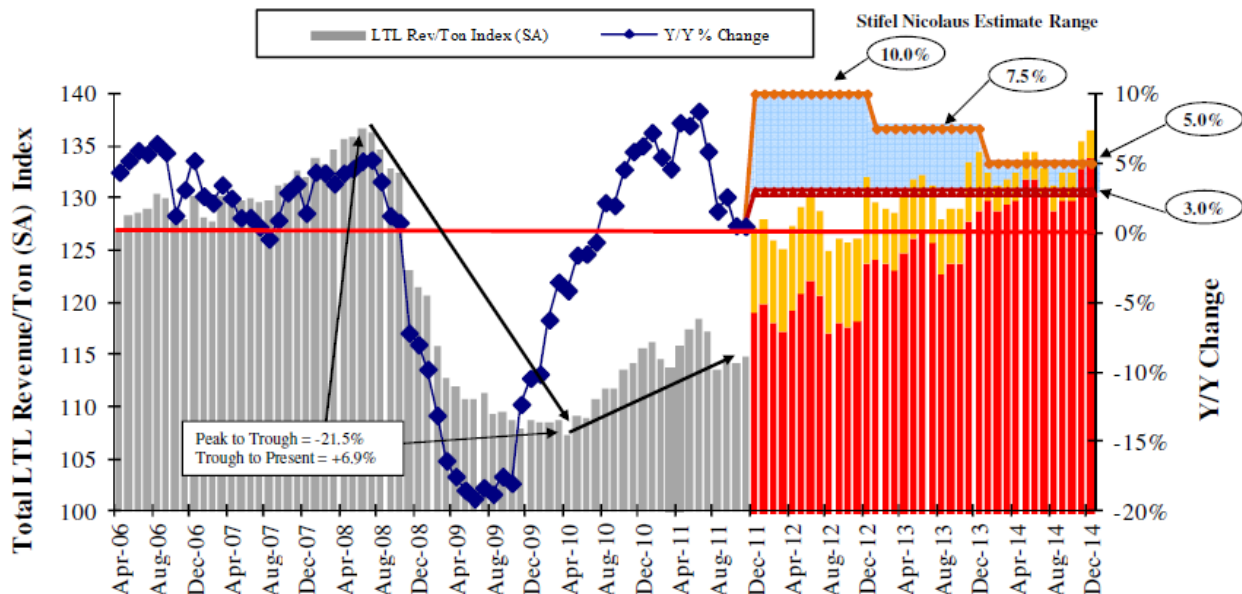
ticular towards the end of the fourth quarter we began to see people shift back towards spending a little less and saving a little more, which for the long run will be a good thing, but from a freight volume point of view it is not a positive in the short term.

So there is quite a broad range of potential price increases that we think are possible going forward. If we compound the 7% on top of the 6% and then 8% on top of 7% on top of 6%, we are talking about major moves in pricing. Of course, our forecasted rate increases are all exclusive of the fuel surcharge, which is a whole other point of discussion that we could spend a significant amount of time on, specifically in terms of where energy prices are going to go. We have an opportunity in this country to develop our own energy self-sufficiency; if we can, and do that in an environmentally safe way—which I think we can, however there is a lot of political pressure to hold the lid on this exploration—it is another factor regarding truckload rates.

On the LTL side, as shown in **Exhibit 8**, pricing also dropped dramatically. It has recovered only a little bit; we see fairly dramatic price increases going into effect in the near-term and forecast that will continue to be the case. We think the year-over-year price increase range for LTL could be anywhere from 3% to 10%. We think it will

Exhibit 8: Less-Than-Truckload Pricing and Projections

With Capacity Held In Check And Volumes Gradually Rising Through 2014, We Expect Carriers To Continue Recovery of Pricing Lost In the Downturn



Actual data through November 2011

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

Notes:

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

begin to tail off a bit to 7.5% and then 5% on the upper end of the potential range over the next few years. There are a few other variables, aside from the economy, aside from some of the driver regulations—which do not really impact the LTL industry quite so much—one of which is the future of Yellow Roadway. No more than five minutes ago I just read that Yellow Roadway is getting out of the regional business, i.e. their next-day business, which was a fairly big initiative of the company; instead, they plan to concentrate only on long haul, i.e. 500 to 3,500 miles. But long-haul LTL is pretty vulnerable to substitution where shippers will use truckload for the line haul and then local regional carriers for the assembly or the distribution. Right now Yellow Roadway probably represents 10% or 12% of the LTL industry's capacity; before the recession they were in the low 20% range. The fact that they have downsized so dramatically has really brought supply and demand into balance and has really created the opportunity for prices to take off.

Question and Answer

Mike Regan: I just added the numbers up from **Exhibit 5**; if I take a look at your best-case scenario of current and upcoming regulation's (CSA, HOS, EOBRs, and speed limiters) combined effect on productivity, I think the number I got on the low side is a 9% reduction in productivity, as the best case—the worst case for just those four regulations being a 17% reduction. Adding in the drug testing methodology and the physical examinations, those two would reduce the workforce by another 13% in the best case and the worst case would be a further reduction of 22%.

John Larkin: Correct. This is a big deal and it is not just the trucking industry, it is all of what we used to refer to as "blue collar jobs." The folks that run the maintenance shop at trucking companies cannot find good mechanics. Coal mining companies cannot find coal miners. I am not sure what exactly the problem is, but I think it has to do with over-educating our populace. That is what has created the Occupy Wall Street movement.

Mike Regan: Taking that topic and incorporating per mile driver rates, one of the things that we have been saying is that the driver pay rates for companies that have very competitive driver pay rates are going to go potentially higher than what that they have budgeted. But incorporating the potential decrease in productivity and the driver pool as a result of increased regulation, what does this mean to driver pay rate structure one year out or two years out? For example, if you cannot find drivers, would a carrier not ultimately start paying drivers more, say \$0.55 to \$0.60 a mile, in order to attract people into the driver pool?

John Larkin: Well I think many of you may know Lana Batts, who used to be the President of the Truckload Carriers Association. She and her partners at Transport Capital Partners do a survey once a quarter and the most

recent analysis said that about 75% of all trucking company executives believe that driver pay has to go to \$60,000 or greater in order to solve the problem. My view is a little bit different than that. I think companies have to do what Stevens Transport, CRST, or Swift Transportation are doing, which is to invest in bringing new people into the industry, be they former members of the U.S. Military or other qualified candidates and actually train them to be professional truck drivers. Whether it is \$55,000, \$60,000, or \$65,000, in today's world without any new people being infused into the industry, it does not really solve the problem. All the increased driver pay rates really do accelerate the rate at which drivers jump from company to company for an extra couple of cents a mile.

Mike Regan: To give a frame of reference, if it was \$50,000 or \$55,000 to attract new labor into the driver pool, what is the average pay today?

John Larkin: I think the average pay is probably in the mid-\$40,000s. As a percent it would roughly be a 30% to 35% percent increase to the average. Some carriers pay less, while other carriers pay a lot more; but even the ones who pay a lot more are struggling to find and keep drivers. Higher driver pay is not the panacea that some people think it is.

Mike Regan: So if a carrier cut its productivity by 9%, and in essence pay the drivers \$60,000, ultimately what they are paying per mile has to increase very much?

John Larkin: Yes. If the driver drives 100,000 miles a year on average, to get that driver \$10,000 more dollars a carrier has to pay him \$0.10 more a mile; so there is a \$0.10 increase right there. The gap in pay may be more likely \$15,000 or \$20,000 at the end of the day, so we are looking at an additional \$0.15 to \$0.20 a mile just to keep the carriers whole. However, since the revenue is going to be rising due to the additional cost and the increased revenue only offsets the cost, essentially keep the carrier whole, the carriers' margins will actually contract. So the carrier will want to earn a little profit on that extra rate as well. Therefore, this is not going to be like a fuel surcharge, where the objective is not to earn incremental margin.

This is a situation that is much different than anything we have seen before. The driver shortage has been a problem for decades, but this time around it is exacerbated by some of the demographics, i.e. the fact that the driver population is older, the laundry list of FMCSA regulations that are coming down the pipeline, and the fact that the mindset of the Gen X/Gen Y generation is that they want to have your job or my job, or they want to be a doctor or a lawyer, and they just think somebody else is going to be the truck driver. We need to somehow create the image that being a truck driver is a profession. Truck drivers can earn a good living and support a family; however, it is tough work. In order to keep the logistics of supply chain in this country running we are going to need a lot of truck drivers. Intermodal is not going to be able to handle all the freight. Intermodal only operates in the long-haul high density lanes. All the small ramps have been shut down, so the vast preponderance of the freight in this

country going forward—I think Bob Costello has done some excellent studies on this—is still going to move over the highway. Absent anything to offset this driver shortage, like size and weight law changes—which I know Congress is toying around with the possibility of maybe rolling those into the Highway Bill this time around—we are going to have a big capacity shortage that could end up being a constraint on this economy's ability to grow at 3% or 4%, which is the growth rate needed to really solve the broader economic issues that the country is facing.

END

STIFEL NICOLAUS		Equity Comps - Transportation																				
		Comparative Valuation Matrix																				
Company name (Ticker)	Rating	Closing Price / 2/7/2012	Diluted S/O	Market cap.	Total Debt	Cash & equiv.	TEV ^(a)	Equity value as a multiple of			Enterprise value as a multiple of				TTM ROA	TTM ROE	TTM ROIC	PEG ratio ^(d)	Div. Yield	2012E FCF/Yld		
								2011E ^(b)	2012E ^(b)	2013E ^(b)	Book value	TTM Revenue	2012E EBITDA	TTM EBITDA							TTM EBITDAR ^(c)	EBIT
Less-Than-Truckload																						
Arkansas Best Corp. (ABFS)	Buy	18.70	25.4	475.3	91.8	141.3	412.0	NM	15.6x	10.4x	1.0x	0.2x	3.0x	4.9x	4.5x	NM	0.7%	1.3%	0.8%	NM	0.6%	10.2%
Con-way (CNW)	Buy	30.86	56.1	1,731.8	794.3	438.0	2,088.0	18.5x	14.7x	10.3x	2.3x	0.4x	4.5x	5.1x	4.7x	10.0x	3.1%	11.8%	8.1%	1.2	1.3%	1.9%
Frozen Food Express (FFEX)	NR	1.21	17.7	21.4	15.0	0.6	35.8	NE	NE	NE	0.3x	0.1x	NE	NM	3.9x	NM	-11.2%	-19.9%	-17.7%	NM	0.0%	NE
Forward Air Corp. (FWRD)	Hold	36.55	30.4	1,112.7	51.0	87.5	1,076.2	23.1x	20.5x	17.8x	4.1x	2.1x	9.7x	11.6x	10.1x	14.9x	12.3%	17.1%	14.4%	1.7	0.8%	4.9%
Old Dominion Freight Line (ODFL)	Buy	44.10	57.4	2,533.2	269.2	75.9	2,726.6	18.1x	16.3x	14.5x	3.0x	1.4x	7.1x	8.4x	8.1x	11.6x	10.1%	18.3%	14.4%	1.1	0.0%	-2.6%
Roadrunner Transportation Svcs. (RRTS)	Buy	15.87	31.2	495.1	145.6	1.4	639.4	19.3x	15.1x	12.7x	1.7x	0.8x	9.1x	12.4x	11.5x	13.5x	5.2%	8.3%	6.7%	1.3	0.0%	5.0%
Saia, Inc. (SALA)	Buy	16.72	16.1	270.0	72.9	1.3	341.5	23.9x	14.2x	10.3x	1.2x	0.3x	4.0x	5.2x	5.0x	12.1x	2.5%	5.3%	6.0%	1.6	0.0%	-6.1%
Vitrans Corp. (VTNC)	Buy	7.10	16.3	115.9	79.4	0.0	195.4	NM	15.8x	5.9x	1.3x	0.3x	5.1x	11.9x	6.4x	NM	-1.1%	-2.6%	0.2%	NM	0.0%	6.4%
YRC Worldwide (YRCW)	Hold	13.41	6.9	91.9	1,341.1	162.8	1,267.6	NE	NE	NE	NM	0.3x	NM	19.2x	10.0x	NM	NM	NM	NM	NM	0.0%	NM
	Min			21.4	15.0	0.0	35.8	18.1x	14.2x	5.9x	0.3x	0.1x	3.0x	4.9x	3.9x	10.0x	-11.2%	-19.9%	-17.7%	1.1	0.0%	-6.1%
	Mean			760.8	317.8	101.0	975.8	20.6x	16.0x	11.7x	1.9x	0.7x	6.1x	9.8x	7.1x	12.4x	2.7%	5.0%	4.1%	1.4	0.3%	2.8%
	Median			475.3	91.8	75.9	639.4	19.3x	15.6x	10.4x	1.5x	0.3x	5.1x	10.0x	6.4x	12.1x	2.8%	6.8%	6.4%	1.3	0.0%	4.9%
	Max			2,533.2	1,341.1	438.0	2,726.6	23.9x	20.5x	17.8x	4.1x	2.1x	9.7x	19.2x	11.5x	14.9x	12.3%	18.3%	14.4%	1.7	1.3%	10.2%
Stifel Nicolaus Transportation Average				7,510.5	1,496.3	298.1	8,706.6	20.0x	16.2x	13.6x	3.4x	1.7x	7.5x	9.9x	8.1x	12.9x	5.1%	9.8%	9.8%	1.3	0.6%	2.7%

(a) Total Enterprise Value = Market Capitalization of Equity + Total Debt - Cash + Market Value of Minority Interest

(b) Stifel Nicolaus estimates for those rated and First Call mean estimates for unrated securities

(c) Enterprise value adjusted to include the capitalization of off balance sheet operating leases with lease expense (or rent expense) being added back to EBITDA, for the valuation multiple calculation

(d) 2012E P/E divided by First Call mean or Stifel Nicolaus estimated long-term growth rate

Excludes non-recurring items

Calculations may vary due to rounding

Source: Company data, First Call, and Stifel Nicolaus estimates

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Of the securities we rate, 51% are rated Buy, 47% are rated Hold, and 2% are rated Sell.

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Economic Implications of the Federal Motor Carrier Safety Administration's (FMCSA) Final Hours-of-Service (HOS) Rules on the Trucking Industry



Images courtesy of SAIA and SWFT

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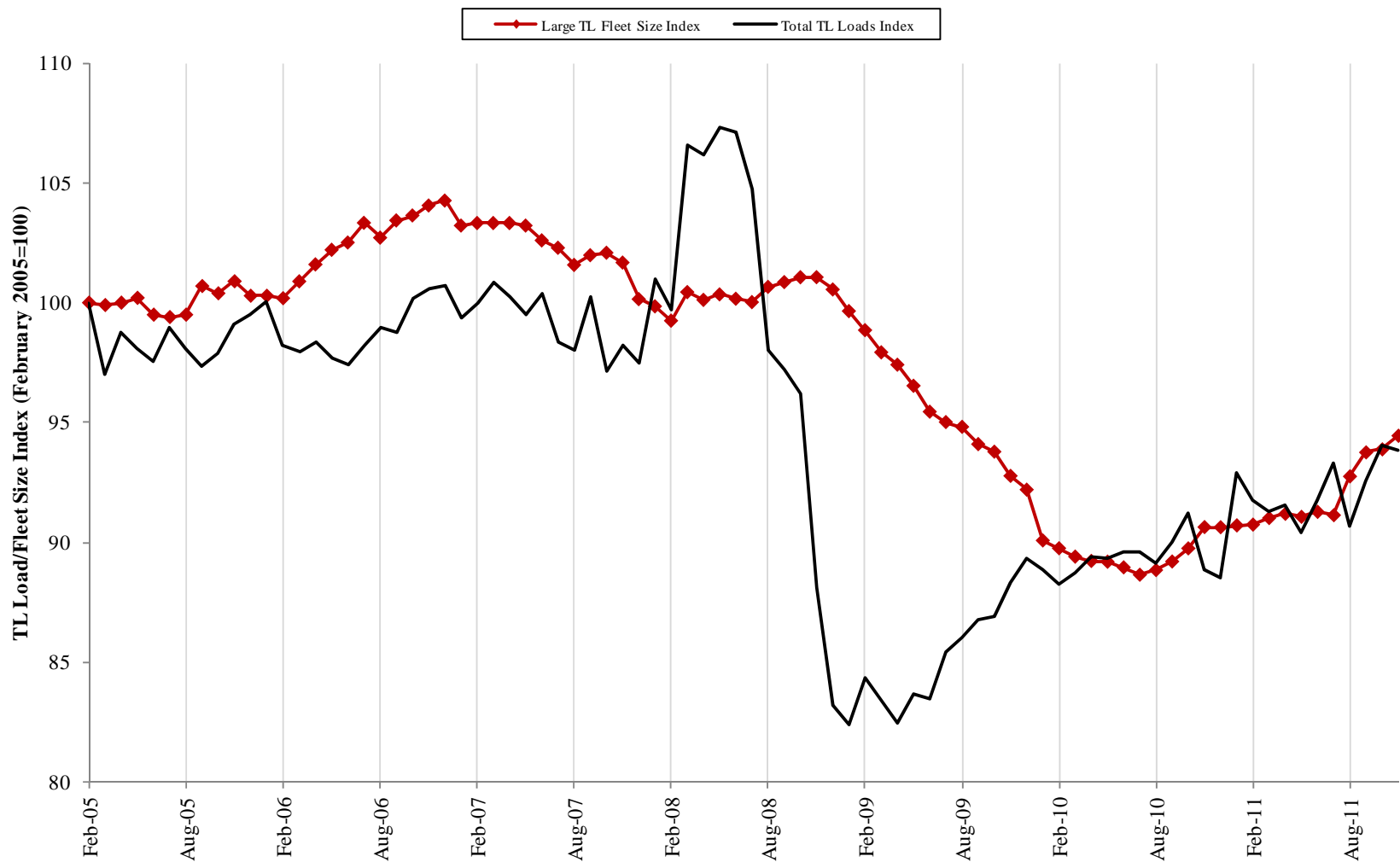
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Truckload Supply & Demand is Tight



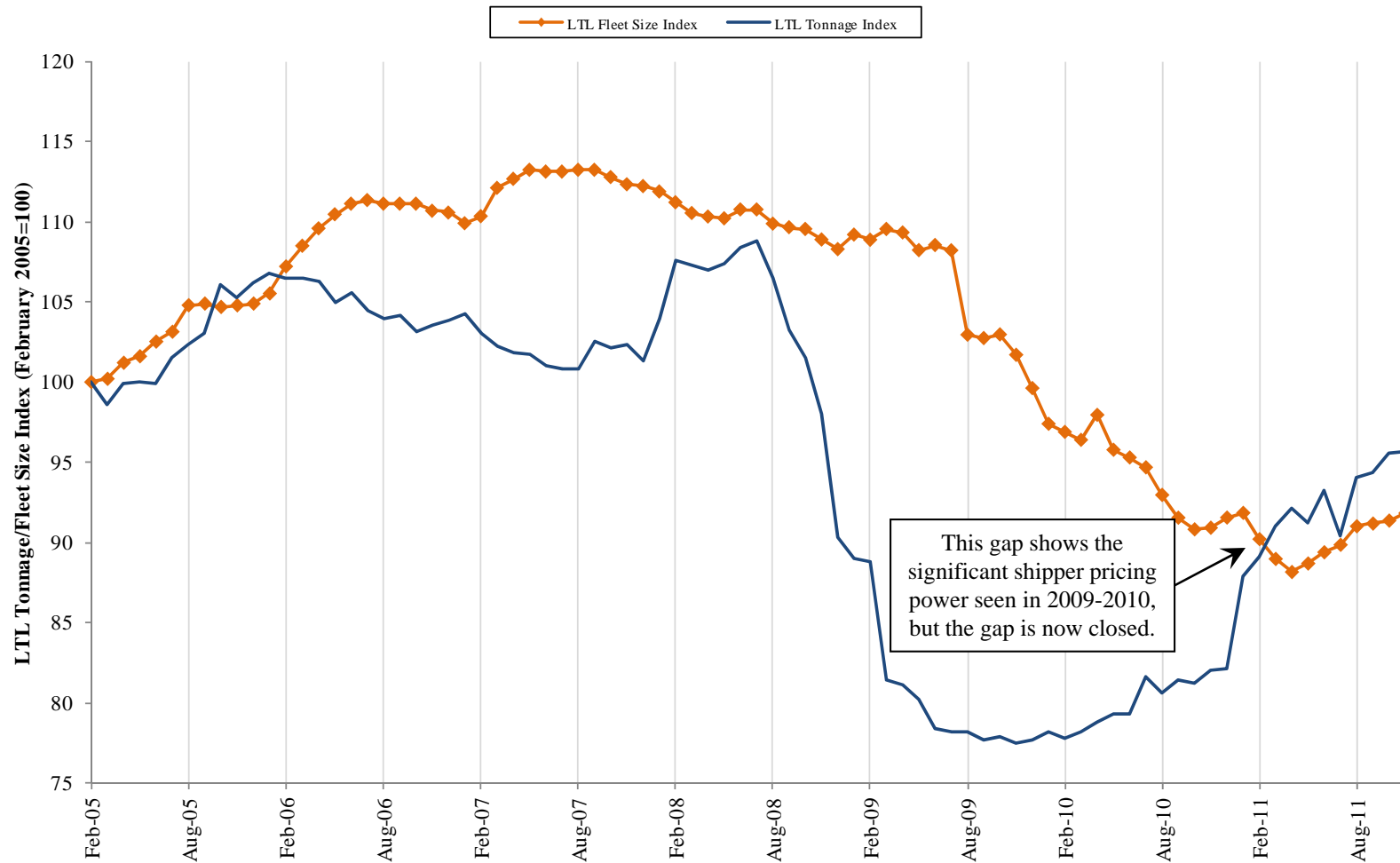
Truckload Supply-Demand Coming in to Balance as a Result of Tightening Capacity



Less-Than-Truckload Supply & Demand is Tight



LTL Demand Now Outstrips Supply Mainly as a Result of Declines in Fleet Size Combined With Some Improvement in Freight Volume





- Objective: Safety, Fewer Accidents, Less Severe Accidents, Fewer Injuries, and Fewer Fatalities
- Hard to Argue with the Objective
- But, the Accomplishment of such Social Betterment Objectives Carries a Cost



- CSA – Carrier Safety Scoring System
- HOS – Defines Timetable for Driver’s Work Week
- EOBR’s – Eliminates Log Book Falsification
- Speed Limiters – Caps Maximum Speed and Limits Fuel Consumption
- Drug Testing Methodology – Eliminates Most Attempts to Mask Test Results
- Certification of Doctors Performing Driver Physicals – Homogenizes a More Comprehensive Physical Examination
- More Coming ??????????????

Driver Dynamics Aren't Pretty!



- Average Age: 50 Years
- Average Life Expectancy: 61 Years
- Average Weight: 260 lbs.
- Average Number Admitting to Regular Exercise: 10%
- Sleep Patterns: Irregular
- Diet: Often High Fat, High Sugar Content/Fast Food
- Smoke: Often
- Drink: Off-Duty



- Carriers with:
 - High Pay
 - New Fleets
 - High Utilization
- Struggle to Find Drivers Just Like Everyone Else

- Driver Shortage Will Continue Until More Carriers Start/Tap into Driver Training Schools to Bring Fresh Talent into the Industry

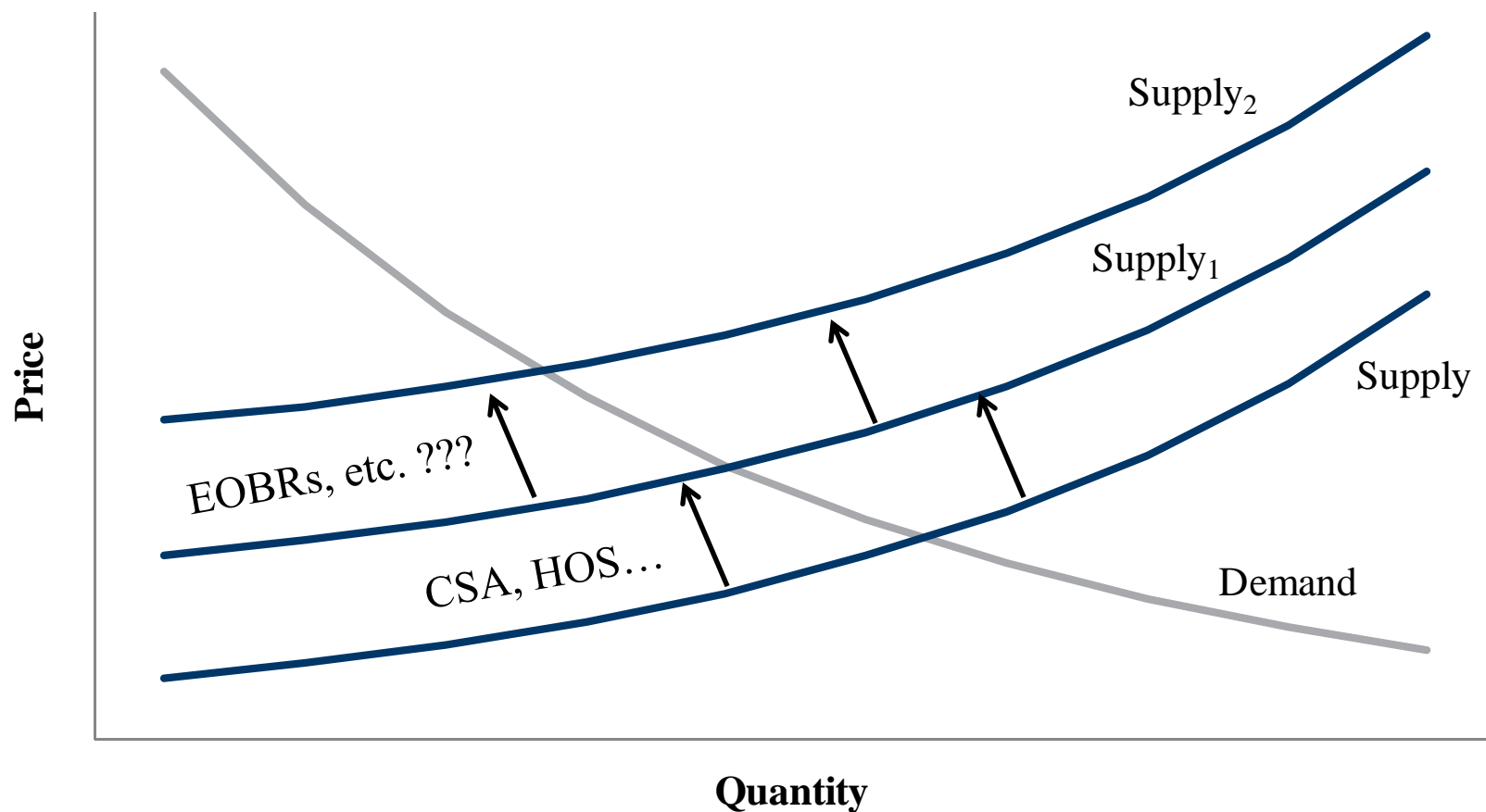
So With Trucking Supply and Demand In Balance...



- Any Acceleration in the Economic Growth Rate
- Or Any Reduction in
 - Driver Supply
 - Driver ProductivityDue to FMCSA Regulations
- Will Further Tighten Supply and Demand and Further Drive Up the Price of Trucking Services



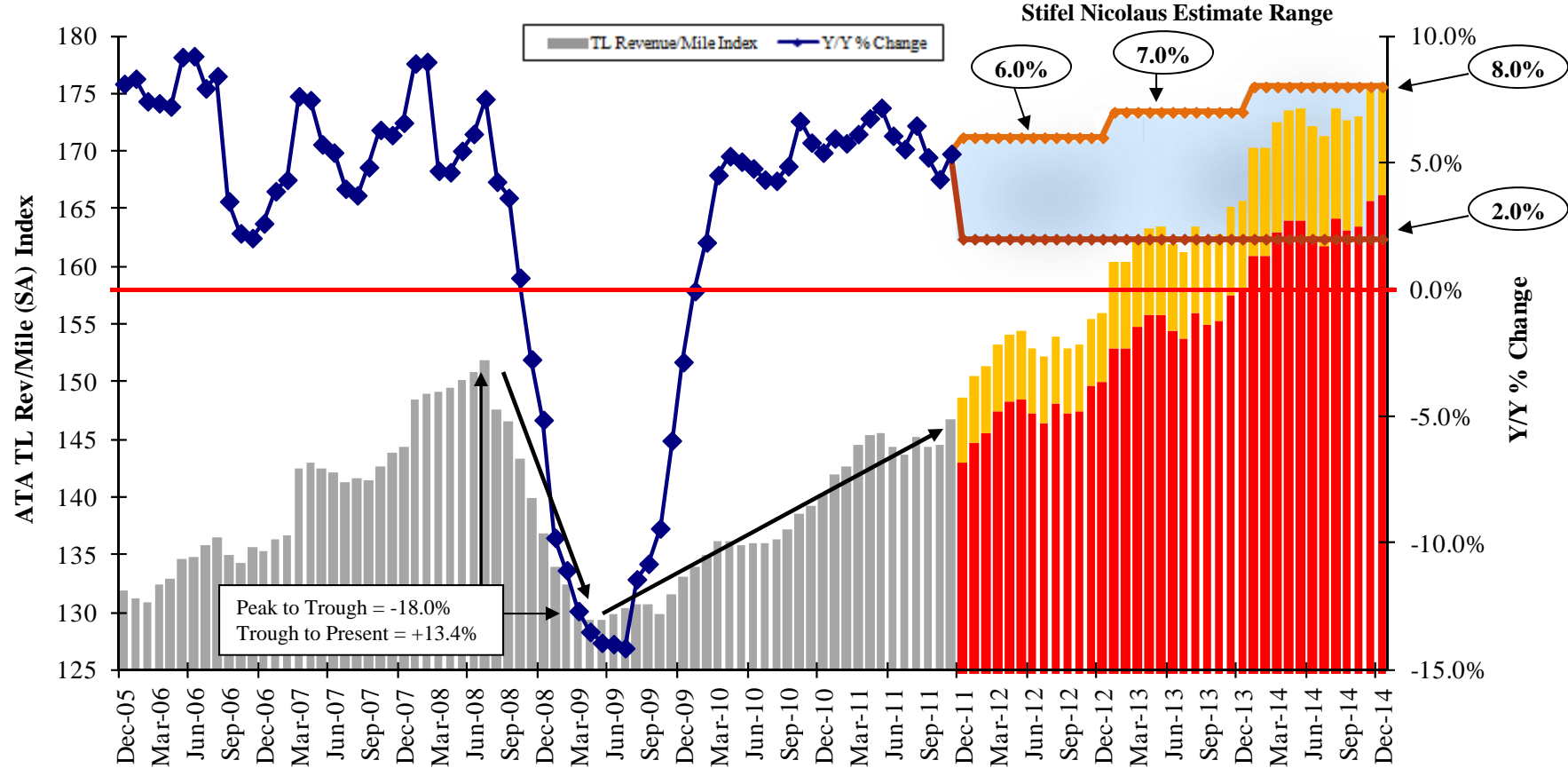
- CSA – Reduces Workforce by 2%-4%
- HOS – Reduces Productivity by 2%-4% (Would Have Been 5%-7% If Driving Hours per Day Were Cut From 11 Hours to 10 Hours)
- EOBR's – Reduces Productivity by 2%-4% (Elimination of Falsified Hours Partially Offset by Better Utilization of Available Legal Hours)
- Speed Limiters – Could Cut Productivity by 3%-5%
- Drug Testing Methodology – Could Reduce Workforce by 8%-12%
- Physical Exams – Could Reduce Workforce by 5%-10%



--- Regulations Will Drive Up Shipper's Trucking Costs and be Passed Along to the Consumer



Truckload Revenue per Mile Increased 5.4% Y/Y in November and is Expected to Continue Steady Growth as Capacity Tightens; Strength of Pricing a Function of Customer-Specific Pricing History, Rate of Macroeconomic Growth, and Impact of FMCSA Regulations



Notes:

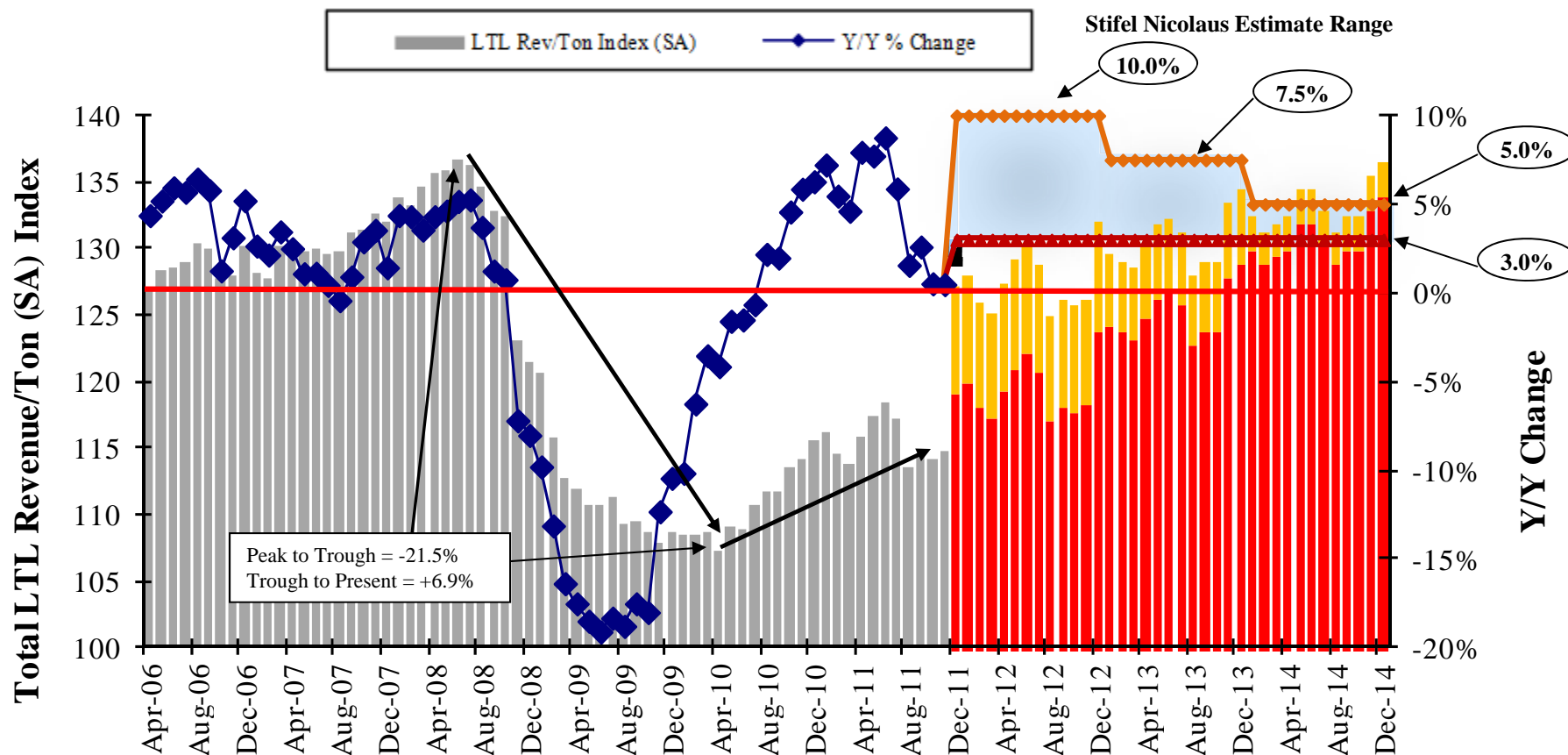
- 1) Excludes FSC
- 2) Forecast rates = Stifel Nicolaus estimate range for the public companies we cover
- 3) Includes mostly contract rates as public companies have little spot market exposure

Actual data through November 2011

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



With Capacity Held In Check And Volumes Gradually Rising Through 2014, We Expect Carriers To Continue Recovery of Pricing Lost In the Downturn



Notes:

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Actual data through November 2011

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

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