

Conf. Call Takeaways: Impact of Fuel Prices on Supply Chains

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On Wednesday October 28, 2008, we hosted a conference call regarding the impact of higher fuel prices on supply chain design and the transportation industry. Our four guest speakers were Dr. "Chip" White (Schneider Professor of Logistics at Georgia Tech), Thomas Jones (Senior Vice President and General Manager of U.S. Supply Chain solutions for Ryder System, Inc.), Terry Matthews (Executive Vice President of Sales and Marketing at J.B. Hunt Transport Services, Inc.), and Lana Batts (former President of the Truckload Carriers Association and Partner at Transport Capital Partners). The following paragraphs reflect our interpretation of the key thoughts mentioned by each of the speakers in their formal remarks and the incremental points that were raised during the question and answer session:

Summary of Opening Remarks by Dr. "Chip" White

Logistics 101 suggests that as lead times and lead time variability increase, logistics costs increase.

In addition to lead time variability increases, the need for increasing holding stock (i.e., inventory) to avoid stock-outs also increases. It was suggested that many may have underestimated the increases in lead times and lead time variability associated with shipments such as those that might move from "central China to Baltimore." The implication was when rising fuel costs are added into the logistics cost equation, economics may drive shorter supply chains rather than longer supply chains which have been in vogue over the past 15 years or so.

International border crossings and congestion within the U.S. portion of an international freight move tend to increase lead time and lead time variability.

As international freight volumes have increased over the past 10 to 20 years, as international border security has tightened, and as U.S. transportation infrastructure nears its capacity, transit delays have increased. The only way to avoid stock-outs in such an environment is to extend lead times and to anticipate greater lead time variability.

NAFTA trade should be a beneficiary of the trend towards shorter supply chains.

Mexican production for export is already experiencing a growth spurt. Mexico provides access to lower cost labor without the complexity and the risk associated with intercontinental supply chains.

Shippers are increasingly exploring the use of lower cost modes of transport in response to high fuel prices even if increases in buffer inventories are required.

Rail seems to be one of the major beneficiaries of this accelerating trend. All-water service from the Pacific Rim to East Coast ports also appears to be benefiting with land bridge rail intermodal costs having risen so sharply of late. Labor issues and potential labor issues at West Coast ports along with the improved quality of all-water service are also factors favoring the shift to East Coast ports. Less long-haul surface transportation (i.e., rail intermodal and long-haul truckload) from West Coast ports to the East and more short-haul trucking and some short-haul intermodal from East Coast ports can be expected.

Inventory strategies can be fine tuned to combat the impact of higher fuel prices.

Distribution centers still typically have more inventory than is needed to avoid stock outs. Logisticians should work harder to right-size inventories and to reduce unneeded buffer stock. Information technology can also be better harnessed to optimize inventory size and location.

Transportation capacity reduction should improve the fate of survivors.

Fuel price increases and carriers' inability to recover the entire incremental cost of fuel is driving carriers to downsize and/or exit the business altogether. Surviving carriers will have their day in the sun once demand begins to recover.

Summary of Opening Remarks by Thomas Jones**Ryder is focusing on the minimization of fuel consumption more than ever now that it has become the number one cost component of transportation.**

The company is endeavoring to provide the most fuel-efficient equipment for its full-service lease customers. In addition, the company has reduced unnecessary idling time from 10 to 5 minutes and has reduced the maximum speed on its trucks from 65 miles per hour to 63 miles per hour.

Ryder's Supply Chain Solutions unit has, for many years, employed the strategy of helping customers move more freight with fewer resources, including less fuel.

Customers are increasingly examining the complete redesign of their entire supply chains. Everything from product design, to sourcing decisions, to distribution center locations, to mode selection, is currently on the table. Changes to minimize logistics costs in this high fuel price environment often result in the permanent reduction of ton-miles out of the customer's supply chain.

The company also offers green vehicles to its full service lease customers.

These vehicles may cost more but emit fewer carbon emissions. These vehicles are outfitted with equipment that monitors every element of fuel economy.

Supply chains are generally moving to a less costly modal mix and often successfully trading-off higher inventory levels against a greatly reduced transportation spend.

There is little expectation that fuel prices will decline anytime soon, so it is safe to suggest that these changes in modal mix are likely to be permanent.

Summary of Opening Remarks by Terry Matthews**Shipper reengineering of supply chains is not particularly new. It started in 2003 and 2004 in the presence of capacity disruptions at West Coast ports, carrier price increases, and freight network capacity constraints.**

Shippers have shifted to producing products in multiple locations rather than one location. In so doing, they have taken hundreds of millions of truck-miles out of the nation's supply chain. We are now embarking on the second wave of this trend as the spike in fuel prices has provided the incremental impetus. Companies are trying to produce products even closer to the end user. Those who believe that fuel prices will be high indefinitely are being more aggressive with these changes to their supply chains than those shippers who still believe that fuel prices will dramatically retreat from current levels.

Minimization of products is another major trend.

J.B. Hunt is seeing customers produce a condensed version of many products including electronics, antifreeze, soap, cleaning products, etc. This trend should be accelerating due to the high cost of fuel.

The packaging revolution is underway.

Smaller and less voluminous packaging strategies are considered "green" plus shippers can move more products in fewer trailers/containers, thus saving greatly on their transportation costs. One toy shipper simply folded up the arms and legs of a popular figurine within a package and was able to eliminate 7,000 containerloads of imports last year alone.

Conversion from truck to intermodal is gaining momentum in light of high fuel prices.

Intermodal pricing is typically below truck pricing and intermodal fuel surcharges are half that charged by many truckers. Also, rail service has improved fairly dramatically since 2005 so lead time and lead time variability (relative to truck) is not as great as it once was. This implies that less intermodal cost savings needs to be applied to offset increased buffer inventories. Many shippers are trying to locate new facilities (i.e., distribution centers and warehouses) within close proximity to intermodal ramps thereby making intermodal a more viable option for many than it has been in the past.

Some shippers are offering price discounts to those receivers that are willing to take shipments directly from

the manufacturing plant (thereby bypassing the distribution center and all the attendant handling required). Others are offering discounts based on the mode selected. In other words, the receiver can make his transportation cost/inventory carrying trade-off him/herself.

If housing/auto were to begin to show signs of recovery, we could see tightness between supply and demand return to the nation's supply chain.

If these sectors fail to recover, transportation capacity reductions may equalize the reduction in demand caused by redesigned supply chains, product minimization, the packaging revolution, etc.

Summary of Opening Remarks by Lana Batts

The freight recession does not appear to be as bad as the downturn experienced in 2000 and 2001.

It is the skyrocketing fuel prices that are causing most of the distress amongst carriers.

Most carriers want to keep fuel surcharges separate from freight rates because they view fuel surcharges as non-negotiable.

Still, fuel surcharges are based on billed miles not actual miles. Most carriers don't charge for out-of-route miles. Empty miles, idle time, traffic congestion costs, and refrigeration unit fuel burned are not included in most fuel surcharges. Therefore, the average carrier recovers only 75%-80% of his incremental fuel cost above a fuel price of about \$1.15 per gallon. Shippers are also extending their payables, especially larger shippers, as the economy slows. This phenomenon puts even more pressure on the working capital needs of the average trucker. Many carriers are factoring their receivables for the first time in order to deal with these difficult shippers. Often, this practice just delays the inevitable. Two percent of the trucking companies running 5 or more trucks went out of business in the first quarter. That pace probably continues into 2Q08.

Most trucking companies are reducing their average speed.

A five mile per hour reduction increases one's fuel efficiency by one-half mile per gallon but could effectively remove two to three percent of capacity from the industry assuming all carriers follow this logical approach. This could speed up the timing of the tightening of supply and demand within the freight transportation space.

Some estimate that 15%-20% of drivers are not going to qualify for the Transportation Worker Identification Credential at the Southern California ports.

The debate surrounding more restrictive driver hours-of-service rules will continue. New driver training standards are likely to reduce the inbound supply of driver recruits as would any tightening of drug testing standards. Given this regulatory avalanche and the pressures associated with rising fuel prices, many motor carriers are not interested in adding capacity. In fact, many are continuing to reduce their average fleet size. They believe that they are not being rewarded for owning hard assets. So why not get into asset-light trucking (i.e., brokerage, intermodal, etc.)? When the supply/demand relationship turns around, rates will go up and survivors should be in good shape. Surviving the current stormy waters in order to ultimately experience the coming good times is presently the major challenge for most motor carriers.

Question and Answer Session

What impact will rising fuel prices have on the warehousing industry?

Five areas around the country (i.e., southern California, Texas, Atlanta, East Coast, and Chicago) are always going to be warehousing hot spots as the entire country is within a day's drive of these locations. Warehousing space could be at a premium in those major markets if modal mix changes lead to the need for greater buffer inventories.

Will the shift to East Coast ports drive a warehousing boom near East Coast ports?

East Coast port cities like Savannah will develop more warehousing as all-water services from the Pacific Rim focus more intently on East Coast ports. These facilities can be used as warehouses (to store buffer inventory), distribution/fulfillment centers, cross docking facilities, and/or transloading centers. Note: Transloading centers facilitate the reloading of freight from international steamship containers into larger, typically more efficient domestic trailers or containers.

Why haven't carriers used fuel hedging more aggressively?

Fuel hedging is not much of a viable alternative with fuel prices at current levels. Most of the time, shippers will not

share in the risk associated with fuel hedging. Many shippers, it seems, only want to participate in the benefits. Therefore, almost all carriers shy away from fuel hedging strategies presently.

Nearly the entire truckload industry is reducing maximum tractor speeds to save fuel. Won't drivers, therefore, have to work more hours to generate the same income?

This makes an unattractive job even less attractive as carriers haven't seen a need to compensate drivers for the reduced speed given the softness in the current labor market. This phenomenon may ultimately exacerbate the shortage of drivers because a driver can only drive so many hours. Given that drivers are normally paid by the number of miles driven, if you slow a driver down, the driver will usually drive fewer miles provided he is remaining compliant with the hours-of-service rules.

Will we see a pre-buy of truck tractors prior to the 2010 EPA emissions standards coming into effect?

Few carriers will engage in a pre-buy this time around as they are still reeling from the effects of the last pre-buy in 2006 (for the EPA emission standards implemented in 2007). Essentially, capacity was added just as the freight market was turning over. Plus, all but the large carriers lack the cash to do much in the way of pre-buying this time around. Interestingly, most of our guests had heard that the 2010 engines might be a little more fuel efficient relative to the 2007 models. The new 2010 engines are expected to cost about \$5,000 more per engine than the 2009 models. Note: The 2007 model engines cost about \$10,000 more per copy than the 2006 engines.

Margin deterioration has the potential to be worse in 2Q08, relative to 1Q08, due to the sharp rise in fuel prices.

Those expecting to see the benefits of tightening supply and demand reflected in 2Q08 results could be in for a rude awakening.

Note: It is our intention to publish a verbatim transcript of this conference call within the next week or so. Please keep an eye out for the transcript in your e-mail inbox.



Equity Comps - Transportation

Comparative Valuation Matrix

(figures in \$US millions, except per share amounts)

Company name (Ticker)	Rating	Price 5/28/2008	Diluted S/O	Market cap.	Total Debt	Cash & equiv.	TEV ^(a)	Equity value as a multiple of				Enterprise value as a multiple of					TMM	TMM	TMM	PEG ratio ^(d)	Div. Yield	2008E FCF Yld
								2008E ^(b)	2009E ^(b)	2010E ^(b)	Book value	TMM	2008E EBITDA	TMM EBITDA	TMM EBITDAR ^(c)	TMM EBIT						
Truckload																						
Celadon Group (CLDN)	Hold	10.79	23.5	253.3	97.0	2.6	347.7	21.2x	16.3x	12.4x	1.8x	0.6x	6.3x	6.4x	4.5x	15.1x	3.3%	6.8%	5.5%	1.26	0.0%	4.9%
Covenant Transport (CVTI)	NR	4.95	14.0	69.4	136.8	4.5	201.7	NM	NM	NM	0.4x	0.3x	NE	6.2x	4.3x	NM	-4.9%	-12.8%	-4.8%	NM	0.0%	NE
Frozen Food Express (FFEX)	NR	7.43	17.0	126.0	3.5	4.5	125.0	NE	NE	NE	1.2x	0.3x	NE	16.7x	5.1x	NM	-4.5%	-7.2%	-6.9%	NM	1.6%	NE
Forward Air Corp. (FWRD)	Hold	36.78	29.6	1,089.7	42.1	3.8	1,128.0	21.9x	18.9x	16.6x	6.0x	2.7x	12.2x	13.4x	12.0x	15.7x	18.7%	24.3%	21.8%	1.37	0.8%	3.5%
Heartland Express (HLLD)	Hold	15.45	96.2	1,485.6	0.0	16.2	1,469.5	22.1x	19.1x	16.6x	4.5x	2.5x	10.5x	10.1x	10.0x	14.9x	11.1%	16.2%	16.2%	1.59	0.5%	5.2%
J.B. Hunt Transport Svcs. (JBHT)	Hold	35.90	129.7	4,657.8	865.2	16.2	5,473.3	21.6x	17.5x	15.4x	12.6x	1.5x	9.1x	9.5x	9.2x	14.8x	11.0%	37.9%	19.2%	1.09	1.1%	4.9%
Knight Transportation (KNX)	Hold	18.39	87.0	1,600.4	0.0	28.6	1,571.8	28.7x	23.9x	19.6x	3.3x	2.2x	10.0x	9.6x	9.6x	16.2x	9.7%	12.8%	13.4%	1.59	0.9%	0.2%
Landstar System (LSTR)	Hold	54.67	53.5	2,922.6	174.9	105.0	2,992.5	25.5x	22.3x	19.5x	13.9x	1.2x	14.5x	14.4x	14.0x	15.8x	17.8%	50.6%	31.4%	1.49	0.3%	5.2%
Marten Transport (MRTN)	Hold	17.19	22.0	377.9	30.4	2.9	435.9	27.7x	20.2x	17.2x	1.6x	0.8x	5.7x	6.0x	6.2x	17.5x	3.1%	5.5%	5.3%	1.69	0.0%	13.7%
P.A.M. Transportation Svcs. (PTSI)	NR	15.40	9.7	149.5	46.2	0.4	195.4	NM	30.2x	27.0x	0.9x	0.5x	NE	5.2x	5.2x	NM	-0.5%	-0.8%	0.1%	2.52	0.0%	NE
Quality Distribution (QLTY)	Hold	3.78	19.1	72.4	355.4	2.7	425.1	29.1x	7.6x	5.4x	NM	0.5x	48.3x	-3.6x	-4.4x	-3.2x	0.5%	7.5%	-7.5%	0.50	0.0%	4.6%
Universal Truckload Svcs. (UACL)	Hold	25.00	16.1	402.8	0.9	19.3	384.4	20.5x	17.6x	15.6x	2.6x	0.6x	10.0x	10.3x	10.1x	13.3x	9.1%	12.7%	12.7%	1.07	0.0%	10.2%
USA Truck (USAK)	NR	12.48	10.2	127.8	113.4	9.0	232.1	NM	26.6x	NM	0.9x	0.5x	NE	3.9x	3.6x	24.4x	0.3%	0.7%	0.9%	1.87	0.0%	NE
Werner Enterprises (WERN)	Hold	18.66	72.0	1,342.7	0.0	77.9	1,264.8	20.5x	15.5x	13.3x	1.6x	0.6x	4.6x	4.4x	4.4x	10.3x	5.1%	8.5%	8.1%	1.15	1.1%	6.1%
Min				69.4	0.0	0.4	125.0	20.5x	7.6x	5.4x	0.4x	0.3x	4.6x	-3.6x	-4.4x	-3.2x	-4.9%	-12.8%	-7.5%	0.50	0.0%	0.2%
Mean				1,048.4	133.3	21.0	1,160.5	23.9x	19.6x	16.2x	3.9x	1.0x	13.1x	8.0x	6.7x	14.1x	5.7%	11.6%	8.2%	1.43	0.4%	5.9%
Mean (Asset-based TL only)				1,019.1	129.2	16.3	1,131.7	23.6x	21.2x	17.4x	2.9x	1.0x	7.7x	7.8x	6.2x	16.2x	3.4%	6.8%	5.7%	1.59	0.5%	5.8%
Median				390.4	44.1	6.8	430.5	22.0x	19.0x	16.6x	1.8x	0.6x	10.0x	7.9x	5.7x	15.1x	4.2%	8.0%	6.8%	1.43	0.1%	5.1%
Max				4,657.8	865.2	105.0	5,473.3	29.1x	30.2x	27.0x	13.9x	2.7x	48.3x	16.7x	14.0x	24.4x	18.7%	50.6%	31.4%	2.52	1.6%	13.7%
Stifel Nicolaus Transportation Average				7,512.9	1,381.8	193.6	8,700.3	20.8x	16.8x	14.3x	4.0x	1.9x	11.1x	9.3x	8.1x	13.3x	7.3%	15.6%	11.7%	1.21	0.7%	5.0%
Less-Than-Truckload																						
Arkansas Best Corp. (ABFS)	Hold	36.04	25.4	914.8	13.5	197.0	731.3	14.4x	11.3x	9.6x	1.4x	0.4x	4.5x	4.3x	4.2x	8.0x	6.4%	10.0%	9.7%	1.31	1.7%	4.8%
Con-way (CNW)	Buy	45.38	48.1	2,184.7	954.3	158.1	2,981.0	13.8x	11.2x	9.4x	2.3x	0.6x	5.8x	6.3x	6.0x	10.0x	5.9%	19.0%	11.4%	0.86	0.9%	5.9%
Frozen Food Express (FFEX)	NR	7.43	17.0	126.0	3.5	4.5	125.0	NE	NE	NE	1.2x	0.3x	NE	16.7x	5.1x	NM	-4.5%	-7.2%	-6.9%	NM	1.6%	NE
Forward Air Corp. (FWRD)	Hold	36.78	29.6	1,089.7	42.1	3.8	1,128.0	21.9x	18.9x	16.6x	6.0x	2.7x	12.2x	13.4x	12.0x	15.7x	18.7%	24.3%	21.8%	1.37	0.8%	3.5%
Old Dominion Freight Line (ODFL)	Buy	28.15	37.3	1,049.6	257.1	34.8	1,271.8	15.2x	12.2x	10.2x	2.1x	0.9x	5.9x	6.2x	5.9x	10.3x	6.9%	14.5%	10.4%	0.76	0.0%	-0.1%
Saia, Inc. (SAIA)	Buy	13.80	13.4	185.6	185.3	5.3	365.6	21.9x	10.8x	7.1x	0.9x	0.4x	5.4x	5.1x	4.5x	11.4x	2.3%	6.3%	5.2%	0.72	0.0%	13.3%
Vitrans Corp. (VTNC)	Hold	14.86	13.6	201.6	129.7	0.0	331.4	14.9x	10.2x	7.8x	1.1x	0.5x	7.1x	8.1x	6.8x	17.2x	3.0%	6.4%	6.7%	0.68	0.0%	11.8%
YRC Worldwide (YRCW)	Sell	16.31	57.9	944.9	1,174.5	59.8	2,059.6	25.1x	15.7x	16.3x	0.6x	0.2x	5.3x	4.9x	4.5x	13.0x	1.1%	3.2%	4.2%	1.77	0.0%	5.8%
Min				126.0	3.5	0.0	125.0	13.8x	10.2x	7.1x	0.6x	0.2x	4.5x	4.3x	4.2x	8.0x	-4.5%	-7.2%	-6.9%	0.68	0.0%	-0.1%
Mean				837.1	345.0	57.9	1,124.2	18.2x	12.9x	11.0x	1.9x	0.7x	6.6x	8.1x	6.1x	12.2x	5.0%	9.6%	7.8%	1.07	0.6%	6.4%
Median				929.8	157.5	20.1	929.6	15.2x	11.3x	9.6x	1.3x	0.4x	5.8x	6.2x	5.5x	11.4x	4.5%	8.2%	8.2%	0.86	0.4%	5.8%
Max				2,184.7	1,174.5	197.0	2,981.0	25.1x	18.9x	16.6x	6.0x	2.7x	12.2x	16.7x	12.0x	17.2x	18.7%	24.3%	21.8%	1.77	1.7%	13.3%
Stifel Nicolaus Transportation Average				7,512.9	1,381.8	193.6	8,700.3	20.8x	16.8x	14.3x	4.0x	1.9x	11.1x	9.3x	8.1x	13.3x	7.3%	15.6%	11.7%	1.21	0.7%	5.0%

(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) 2008E 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



Equity Comps - Transportation

Comparative Valuation Matrix

(figures in \$US millions, except per share amounts)

Company name (Ticker)	Rating	Price 5/28/2008	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	2008E FCF Yld	
								2008E ^(b)	2009E ^(b)	2010E ^(b)	Book value	TTM Revenue	2008E EBITDA	TTM EBITDA	TTM EBITDAR ^(c)							TTM EBIT
Asset-Based Logistics																						
Con-way (CNW)	Buy	45.38	48.1	2,184.7	954.3	158.1	2,981.0	13.8x	11.2x	9.4x	2.3x	0.6x	5.8x	6.3x	6.0x	10.0x	5.9%	19.0%	11.4%	0.86	0.9%	5.9%
FedEx Corp. (FDX)	Buy	90.82	313.4	28,461.1	2,024.0	1,011.0	29,474.1	16.2x	13.2x	11.0x	2.0x	0.8x	5.6x	5.7x	5.5x	9.2x	7.9%	14.4%	12.3%	1.10	0.4%	2.7%
Ryder System (R)	Hold	73.26	59.4	4,350.2	2,796.5	114.6	7,032.1	15.5x	14.0x	12.6x	2.3x	1.1x	5.0x	5.0x	4.9x	12.2x	3.7%	14.1%	7.6%	1.27	1.3%	1.6%
United Parcel Service (UPS)	Hold	70.54	1,035.5	73,046.8	7,297.0	1,484.0	78,859.8	17.2x	14.9x	13.6x	6.3x	1.6x	8.8x	9.1x	9.3x	11.5x	12.0%	31.6%	22.8%	1.15	2.6%	4.9%
Min				2,184.7	954.3	114.6	2,981.0	13.8x	11.2x	9.4x	2.0x	0.6x	5.0x	5.0x	4.9x	9.2x	3.7%	14.1%	7.6%	0.86	0.4%	1.6%
Mean				27,010.7	3,268.0	691.9	29,586.7	15.7x	13.3x	11.6x	3.2x	1.0x	6.3x	6.6x	6.4x	10.7x	7.4%	19.8%	13.5%	1.09	1.3%	3.8%
Median				16,405.6	2,410.3	584.5	18,253.1	15.8x	13.6x	11.8x	2.3x	0.9x	5.7x	6.0x	5.7x	10.8x	6.9%	16.7%	11.8%	1.12	1.1%	3.8%
Max				73,046.8	7,297.0	1,484.0	78,859.8	17.2x	14.9x	13.6x	6.3x	1.6x	8.8x	9.1x	9.3x	12.2x	12.0%	31.6%	22.8%	1.27	2.6%	5.9%
Stifel Nicolaus Transportation Average				7,512.9	1,381.8	193.6	8,700.3	20.8x	16.8x	14.3x	4.0x	1.9x	11.1x	9.3x	8.1x	13.3x	7.3%	15.6%	11.7%	1.21	0.7%	5.0%

Non-Asset-Based Logistics

C.H. Robinson Worldwide (CHRW)	Hold	63.55	174.6	11,098.5	0.0	414.7	10,683.7	29.3x	25.4x	22.3x	10.3x	8.3x	17.0x	19.1x	18.6x	20.1x	19.0%	32.7%	32.7%	1.69	1.4%	2.2%
Expeditors International (EXPD)	NR	45.81	222.7	10,203.4	0.0	575.3	9,601.3	31.8x	26.9x	21.9x	8.3x	6.6x	NE	20.8x	19.3x	22.7x	13.8%	23.4%	23.4%	1.55	0.6%	NE
Forward Air Corp. (FWRD)	Hold	36.78	29.6	1,089.7	42.1	3.8	1,128.0	21.9x	18.9x	16.6x	6.0x	2.7x	12.2x	13.4x	12.0x	15.7x	18.7%	24.3%	21.8%	1.37	0.8%	3.5%
Hub Group (HUBG)	Hold	36.32	37.4	1,358.0	0.0	38.9	1,319.1	22.0x	19.5x	17.3x	5.1x	5.7x	12.9x	13.5x	11.6x	14.1x	12.2%	22.4%	22.4%	1.30	0.0%	4.9%
Landstar System (LSTR)	Hold	54.67	53.5	2,922.6	174.9	105.0	2,992.5	25.5x	22.3x	19.5x	13.9x	1.2x	14.5x	14.4x	14.0x	15.8x	17.8%	50.6%	31.4%	1.49	0.3%	5.2%
Pacer International (PACR)	Buy	21.88	34.9	764.4	60.8	9.2	816.0	12.9x	11.5x	10.4x	2.4x	1.7x	7.7x	7.1x	5.7x	7.5x	11.0%	19.8%	17.4%	0.96	2.7%	6.7%
Quality Distribution (QLTY)	Hold	3.78	19.1	72.4	355.4	2.7	425.1	29.1x	7.6x	5.4x	NM	0.5x	48.3x	-3.6x	-4.4x	-3.2x	0.5%	7.5%	-7.5%	0.50	0.0%	4.6%
Universal Truckload Svcs. (UACL)	Hold	25.00	16.1	402.8	0.9	19.3	384.4	20.5x	17.6x	15.6x	2.6x	0.6x	10.0x	10.3x	10.1x	13.3x	9.1%	12.7%	12.7%	1.07	0.0%	10.2%
UTI Worldwide (UTIW)	NR	23.26	100.9	2,347.5	382.8	289.1	2,374.3	21.3x	18.3x	15.7x	3.0x	1.6x	NE	11.9x	9.6x	14.9x	5.6%	14.9%	11.0%	1.11	0.3%	NE
Min				72.4	0.0	2.7	384.4	12.9x	7.6x	5.4x	2.4x	0.5x	7.7x	-3.6x	-4.4x	-3.2x	0.5%	7.5%	-7.5%	0.50	0.0%	2.2%
Mean				3,362.1	113.0	162.0	3,302.7	23.8x	18.7x	16.1x	6.4x	3.2x	17.5x	11.9x	10.7x	13.4x	12.0%	23.1%	18.4%	1.23	0.7%	5.3%
Median				1,358.0	42.1	38.9	1,319.1	22.0x	18.9x	16.6x	5.5x	1.7x	12.9x	13.4x	11.6x	14.9x	12.2%	22.4%	21.8%	1.30	0.3%	4.9%
Max				11,098.5	382.8	575.3	10,683.7	31.8x	26.9x	22.3x	13.9x	8.3x	48.3x	20.8x	19.3x	22.7x	19.0%	50.6%	32.7%	1.69	2.7%	10.2%
Stifel Nicolaus Transportation Average				7,512.9	1,381.8	193.6	8,700.3	20.8x	16.8x	14.3x	4.0x	1.9x	11.1x	9.3x	8.1x	13.3x	7.3%	15.6%	11.7%	1.21	0.7%	5.0%

(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) 2008E 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



Equity Comps - Transportation

Comparative Valuation Matrix

(figures in \$US millions, except per share amounts)

Company name (Ticker)	Rating	Price 5/28/2008	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	2008E FCF Yld	
								2008E ^(b)	2009E ^(b)	2010E ^(b)	Book value	TTM Revenue	2008E EBITDA	TTM EBITDA	TTM EBITDAR ^(c)							TTM EBIT
Intermodal																						
Hub Group (HUBG)	Hold	36.32	37.4	1,358.0	0.0	38.9	1,319.1	22.0x	19.5x	17.3x	5.1x	5.7x	12.9x	13.5x	11.6x	14.1x	12.2%	22.4%	22.4%	1.30	0.0%	4.9%
J.B. Hunt Transport Svcs. (JBHT)	Hold	35.90	129.7	4,657.8	865.2	16.2	5,473.3	21.6x	17.5x	15.4x	12.6x	1.5x	9.1x	9.5x	9.2x	14.8x	11.0%	37.9%	19.2%	1.09	1.1%	4.9%
Pacer International (PACR)	Buy	21.88	34.9	764.4	60.8	9.2	816.0	12.9x	11.5x	10.4x	2.4x	1.7x	7.7x	7.1x	5.7x	7.5x	11.0%	19.8%	17.4%	0.96	2.7%	6.7%
	Min			764.4	0.0	9.2	816.0	12.9x	11.5x	10.4x	2.4x	1.5x	7.7x	7.1x	5.7x	7.5x	11.0%	19.8%	17.4%	0.96	0.0%	4.9%
	Mean			2,260.0	308.7	21.4	2,536.1	18.8x	16.2x	14.4x	6.7x	3.0x	9.9x	10.0x	8.9x	12.1x	11.4%	26.7%	19.7%	1.12	1.3%	5.5%
	Max			4,657.8	865.2	38.9	5,473.3	22.0x	19.5x	17.3x	12.6x	5.7x	12.9x	13.5x	11.6x	14.8x	12.2%	37.9%	22.4%	1.30	2.7%	6.7%
Stifel Nicolaus Transportation Average				7,512.9	1,381.8	193.6	8,700.3	20.8x	16.8x	14.3x	4.0x	1.9x	11.1x	9.3x	8.1x	13.3x	7.3%	15.6%	11.7%	1.21	0.7%	5.0%
Domestic Marine																						
American Commercial Lines (ACLI)	Buy	15.06	51.1	769.5	473.6	6.9	1,236.2	18.8x	13.7x	10.8x	6.0x	1.1x	NM	8.4x	7.6x	12.3x	6.2%	19.2%	11.0%	1.14	0.0%	3.5%
Horizon Lines, Inc. (HRZ)	NR	11.90	29.9	355.8	635.4	3.3	987.9	8.3x	6.0x	3.9x	2.3x	0.8x	NE	7.2x	6.1x	10.9x	4.7%	23.9%	10.3%	0.54	3.7%	NE
Kirby Corp. (KEX)	Hold	55.08	54.3	2,988.8	283.2	5.1	3,266.9	19.3x	17.5x	15.7x	3.7x	2.7x	9.1x	10.1x	8.1x	13.6x	10.0%	18.5%	13.9%	1.46	0.0%	2.6%
Trailer Bridge Inc. (TRBR)	Buy	6.74	12.2	82.5	107.4	2.1	187.8	NM	11.2x	8.4x	NM	1.6x	10.1x	11.1x	9.2x	16.9x	1.1%	NM	6.7%	1.02	0.0%	1.1%
	Min			82.5	107.4	2.1	187.8	8.3x	6.0x	3.9x	2.3x	0.8x	9.1x	7.2x	6.1x	10.9x	1.1%	18.5%	6.7%	0.54	0.0%	1.1%
	Mean			1,049.1	374.9	4.3	1,419.7	15.5x	12.1x	9.7x	4.0x	1.5x	9.6x	9.2x	7.7x	13.4x	5.5%	20.5%	10.5%	1.04	0.9%	2.4%
	Max			2,988.8	635.4	6.9	3,266.9	19.3x	17.5x	15.7x	6.0x	2.7x	10.1x	11.1x	9.2x	16.9x	10.0%	23.9%	13.9%	1.46	3.7%	3.5%
Stifel Nicolaus Transportation Average				7,512.9	1,381.8	193.6	8,700.3	20.8x	16.8x	14.3x	4.0x	1.9x	11.1x	9.3x	8.1x	13.3x	7.3%	15.6%	11.7%	1.21	0.7%	5.0%
Railroads																						
Burlington Northern Santa Fe (BNI)	Hold	109.16	354.5	38,701.0	8,644.0	525.0	46,820.0	18.3x	15.8x	13.6x	3.5x	2.9x	8.8x	9.4x	8.9x	12.8x	5.8%	17.7%	11.9%	1.17	1.2%	2.4%
Canadian National (CNI)	Buy	56.18	493.7	27,733.7	6,143.0	324.0	33,552.7	15.6x	13.9x	12.2x	2.8x	4.4x	9.3x	9.9x	9.5x	12.3x	7.4%	17.9%	12.6%	0.87	1.6%	2.2%
Canadian Pacific (CP)	Hold	74.31	156.2	11,603.5	4,234.4	69.2	15,768.8	16.4x	14.4x	12.9x	2.2x	3.4x	9.4x	10.2x	9.8x	14.4x	5.6%	13.3%	9.7%	1.23	1.3%	2.3%
CSX Corp. (CSX)	Hold	68.00	419.5	28,526.0	8,210.0	1,639.0	35,097.0	18.9x	15.6x	13.6x	3.3x	3.4x	9.5x	10.9x	10.1x	15.0x	5.0%	14.4%	9.8%	0.98	1.1%	3.0%
Genesee & Wyoming (GWR)	NR	39.60	36.3	1,437.0	258.9	38.7	1,740.2	23.7x	20.2x	18.2x	3.2x	3.3x	NE	14.1x	12.9x	19.3x	5.6%	12.8%	9.1%	1.06	0.0%	NE
Kansas City Southern (KSU)	NR	49.00	99.8	4,891.6	1,819.2	72.5	6,651.4	24.9x	19.3x	15.5x	2.8x	3.7x	NE	12.2x	10.8x	17.4x	3.2%	9.3%	7.3%	1.29	0.0%	NE
Norfolk Southern Corp. (NSC)	Buy	64.19	384.7	24,697.1	6,493.0	364.0	30,826.1	15.7x	13.7x	12.1x	2.5x	3.1x	8.4x	8.6x	8.4x	11.0x	5.6%	15.2%	10.9%	1.05	1.8%	1.8%
Union Pacific (UNP)	Buy	157.58	263.7	41,547.4	8,118.0	827.0	48,838.4	18.9x	15.1x	12.1x	2.7x	2.9x	9.3x	10.3x	9.7x	14.4x	5.0%	12.2%	9.6%	1.01	1.1%	2.0%
	Min			1,437.0	258.9	38.7	1,740.2	15.6x	13.7x	12.1x	2.2x	2.9x	8.4x	8.6x	8.4x	11.0x	3.2%	9.3%	7.3%	0.87	0.0%	1.8%
	Mean			22,392.2	5,490.1	482.4	27,411.8	19.0x	16.0x	13.8x	2.9x	3.4x	9.1x	10.7x	10.0x	14.6x	5.4%	14.1%	10.1%	1.08	1.0%	2.3%
	Mean (Class I Rails only, ex. KSU)			28,801.5	6,973.7	624.7	35,150.5	17.3x	14.7x	12.8x	2.8x	3.3x	9.1x	9.9x	9.4x	13.3x	5.7%	15.1%	10.7%	1.05	1.3%	2.3%
	Median			26,215.4	6,318.0	344.0	32,189.4	18.6x	15.4x	13.3x	2.8x	3.3x	9.3x	10.3x	9.7x	14.4x	5.6%	13.8%	9.7%	1.06	1.1%	2.2%
	Max			41,547.4	8,644.0	1,639.0	48,838.4	24.9x	20.2x	18.2x	3.5x	4.4x	9.5x	14.1x	12.9x	19.3x	7.4%	17.9%	12.6%	1.29	1.8%	3.0%
Stifel Nicolaus Transportation Average				7,512.9	1,381.8	193.6	8,700.3	20.8x	16.8x	14.3x	4.0x	1.9x	11.1x	9.3x	8.1x	13.3x	7.3%	15.6%	11.7%	1.21	0.7%	5.0%

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(d) 2008E 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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