

Transport Capital Partners, LLC

Business Expectations Survey Results First Quarter 2011



Transport Capital
Partners



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Business Expectations Survey, First Quarter 2011
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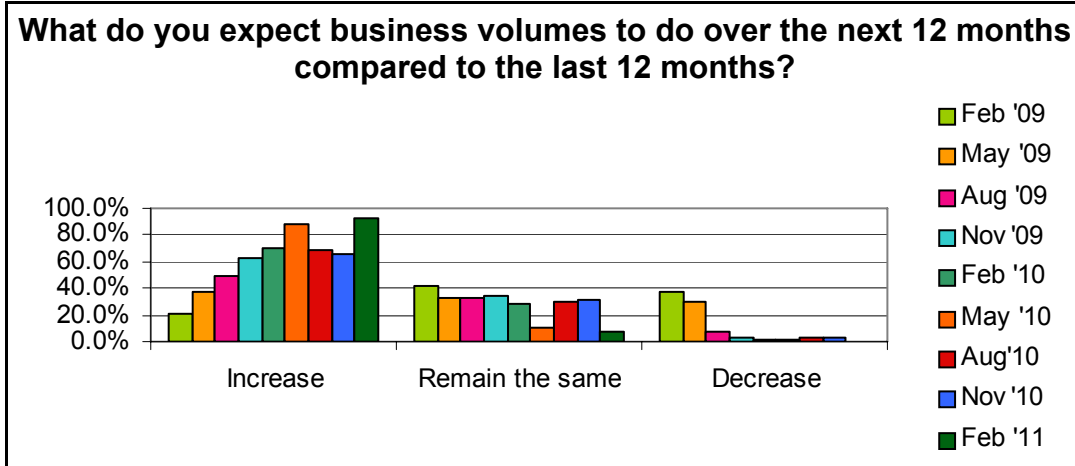
Transport Capital Partners, LLC
Business Expectations Survey Results
First Quarter 2011

Started in the 2nd Quarter of 2008, Transport Capital Partners' quarterly Business Expectation Survey has become a frequently quoted bell-weather indicator of the American trucking industry by taking the pulse of industry executives across the country. The survey asks trucking company executives core questions every quarter on recent rate trends, future volume and rate expectations, and interest in buying or selling their firms in the future. Topical questions are also incorporated in each survey with past topics including: credit and financing, equipment issues and plans, drivers, new regulations, trade cycles, and other fleet sentiment opportunities and concerns.

Transport Capital Partners, LLC is an advisory firm specializing in the transportation industry with regional offices in Florida, Iowa, Colorado, Pennsylvania, Tennessee, and Virginia. Richard Mikes and Lana Batts, both with extensive experience in transportation, directed the survey and analyzed the results. TCP couples the survey findings with conversations they hold with carriers and others in the industry to present an insightful dialogue on key issues. More information is available at the firm's website: www.transportcap.com.

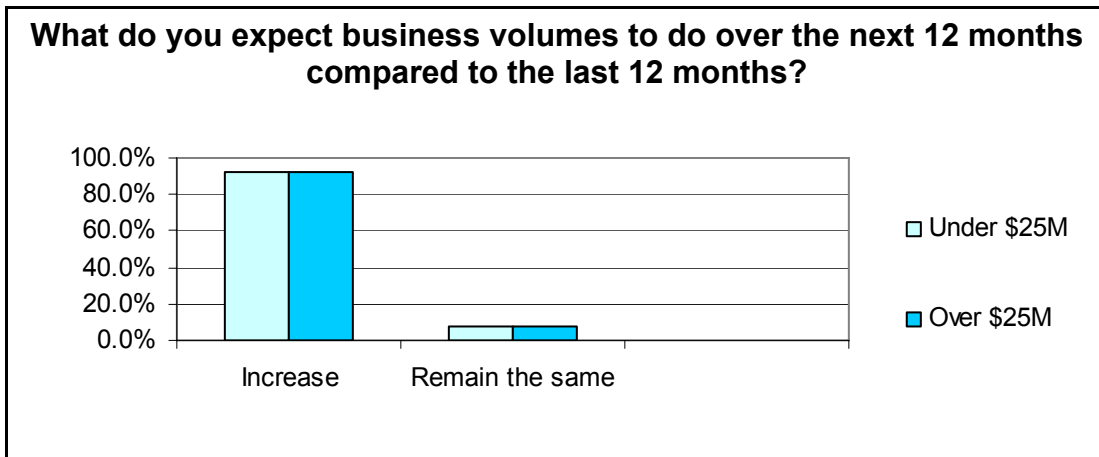


Graph 1a



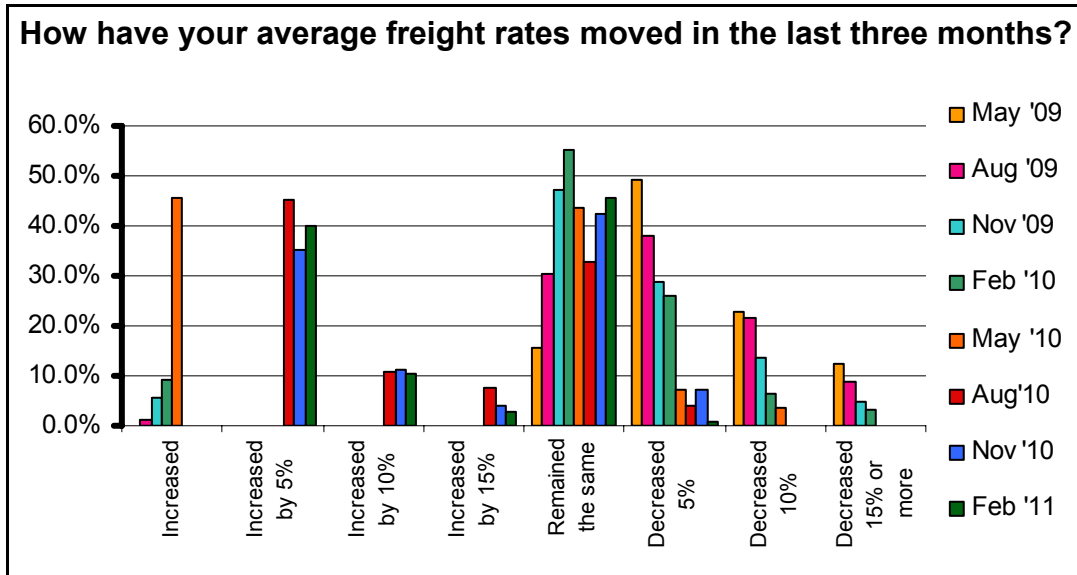
Carriers are extremely optimistic, with 92% expecting volume increases in the year ahead. In fact, the February '11 topped the 88% tally in May '10 and up from the two-thirds level reached in Aug '10 and Nov '10 surveys. For the first time, no one expected to see decreases in volumes.

Graph 1b



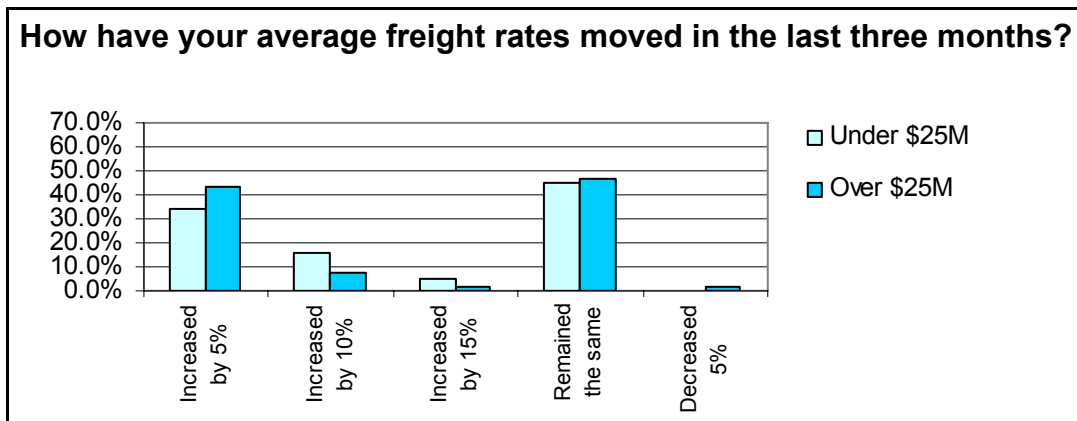
There was no statistical difference between larger and smaller carriers in their response to this question.

Graph 2a



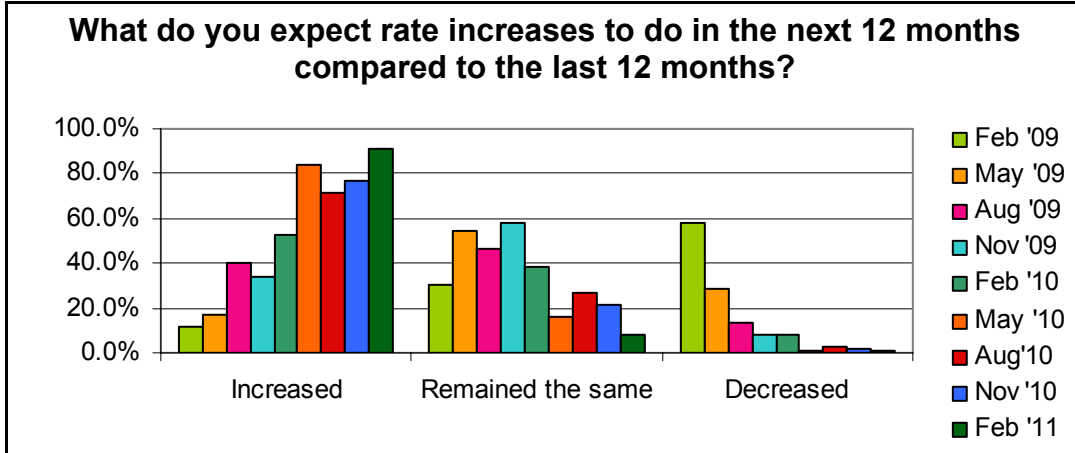
Half the carriers responding indicated that rates have increased, with 35% seeing rates increase between 1- 5%. Yet 42% of the carriers indicated that rates remained the same over the last three months and seven percent reported rate decreases. Possibly the lag in reporting rate increases is (1) this is a reflection of a dampening of the rate of increase of freight volumes in the last quarter (2) major bid packages are primarily in the first and second quarters and many carriers are just engaging in the process or because carriers just haven't asked for rate increases, (3) by equipment type with refrigerated carriers lagging in the spot market due to weather factors on produce loadings, or (4) weaker spot markets in the west.

Graph 2b



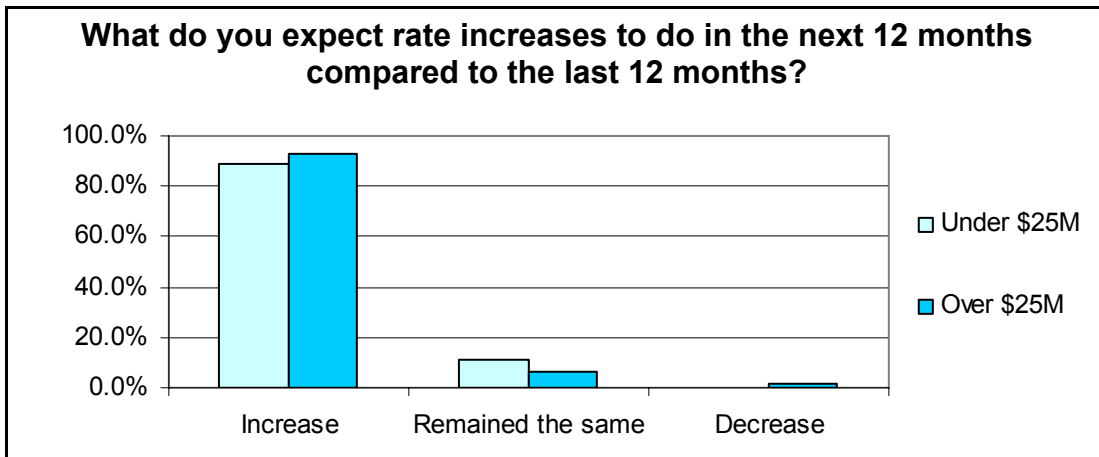
Carriers with more than \$25 million in revenue more predominantly reported rates rising at 5% compared to those under \$25 million (43% compared to 34%). However, smaller carriers reported twice as often as the larger carriers (16% to 7%) to see rates increase in the 10% range. Almost half in both size categories said rates remained the same.

Graph 3a



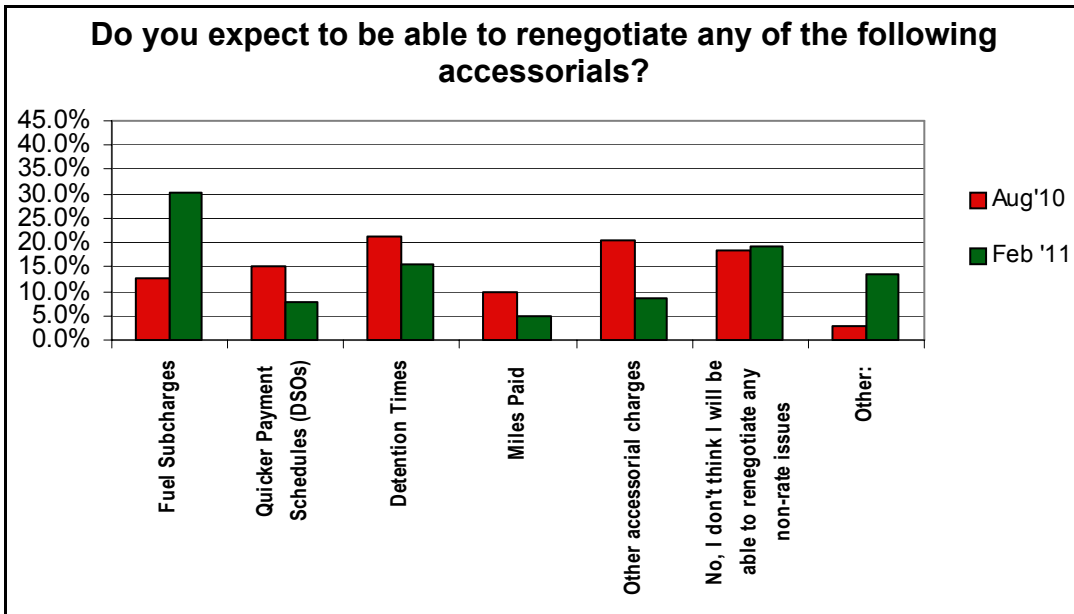
Rates are expected to increase in the year ahead by 91% of the carriers, a record for the survey since its inception and almost identical to the level and trends in the volume expectation question. In the year ahead, volume and pricing are expected to rise in tandem, with the remaining questions to revolve around the level and adequacy of pricing given the rising costs for fuel, drivers, equipment and other costs.

Graph 3b



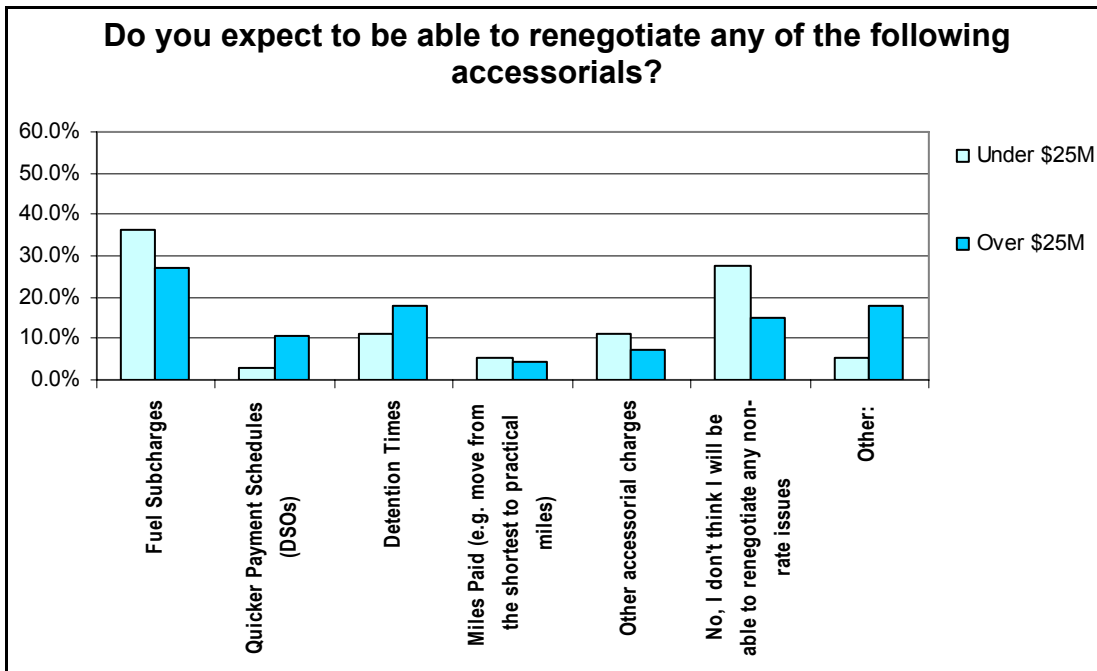
Regardless of carrier size, 90% of the carriers are optimistic they will be able to increase rates over the next 12 months.

Graph 4a



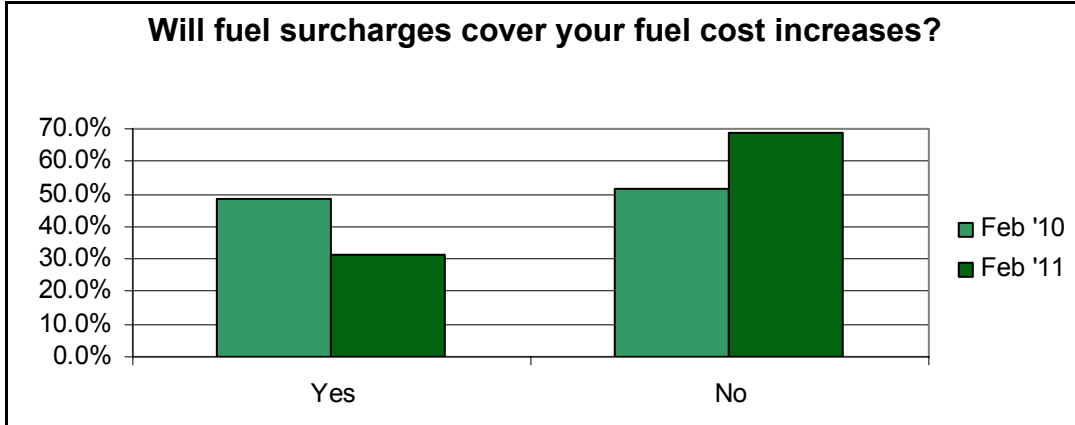
More than 80% of the carriers expect to renegotiate accessorial charges beyond line haul pricing. The largest percentage expect to renegotiate fuel surcharges, up from 13% in August '10 to 30% in Feb. '11. The inadequacies of fuel surcharges are becoming increasingly evident and burdensome as fuel approaches \$4.00. About one in six mention negotiating detention times. About 8% anticipate expect to negotiate payment timings. Only 5% mention negotiating miles paid (practical vs. shortest) down from 10% just six months earlier.

Graph 4b



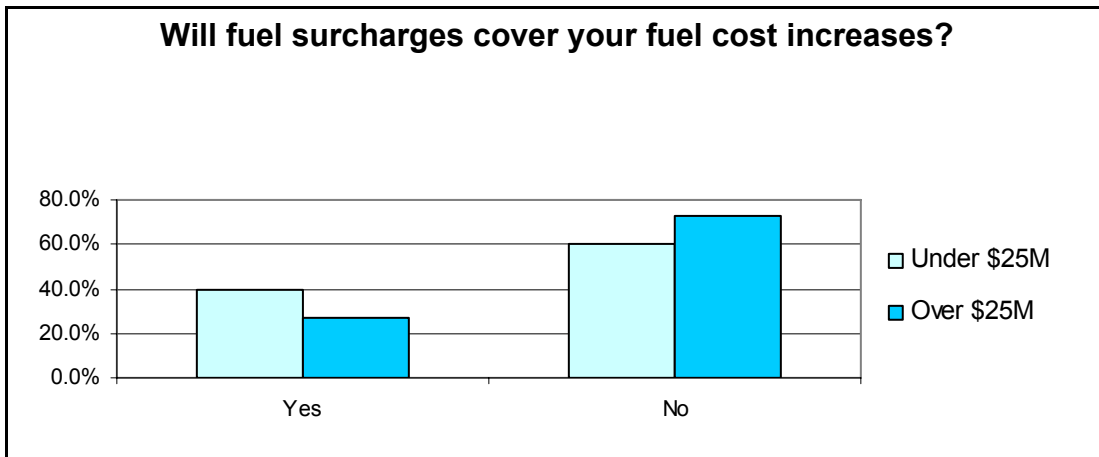
The under \$25 million carriers focused more on fuel surcharges in upcoming negotiations, perhaps because of more usage of brokers who have insufficient fuel surcharges. Quicker payment time desires by smaller carriers may be reflective of more critical cash pressures. Detention times were mentioned more with larger carriers.

Graph 5a



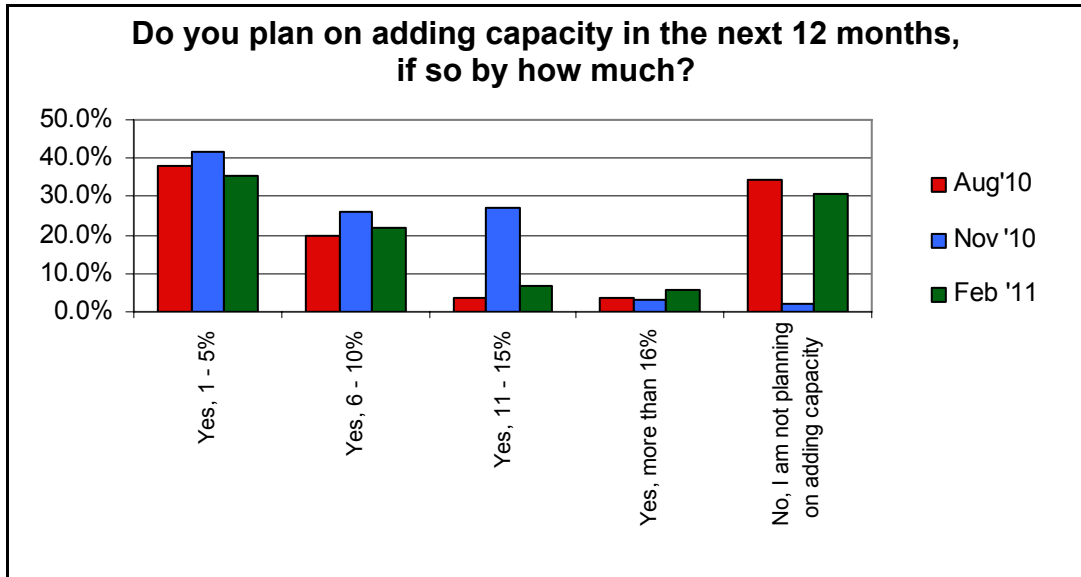
Almost 70% of the carriers report that fuel surcharges will not cover fuel costs up from about half who reported they would not in the first quarter a year earlier. The dramatic rise in fuel prices over the past several weeks has clearly been a major cost factor that is not being adequately covered by surcharges.

Graph 5b



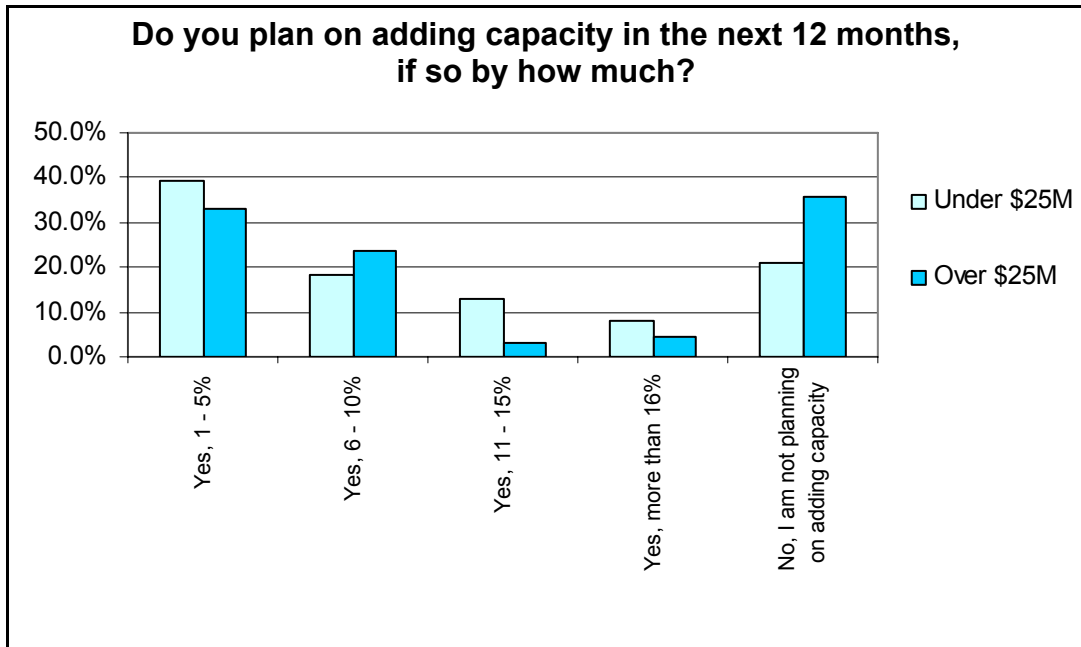
Sixty-one percent (61%) of carriers in the under \$25 million category said that fuel surcharges will not cover fuel cost increases and this was echoed by 73% of the larger carriers.

Graph 6a



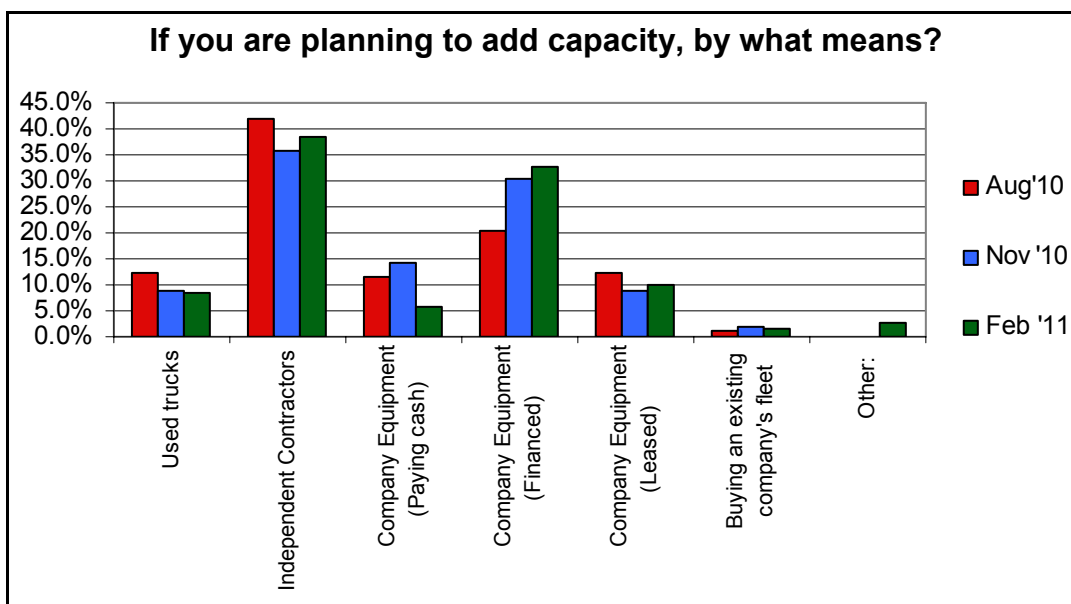
From the November '10 to February '11 survey, carriers are expecting to add less capacity. Thirty percent of the carriers do not plan to add capacity and another 35% only expecting to add less than 5% capacity, Only twelve percent of the expect to add over 11% capacity (but as 6b indicates, this is growth is coming from the smaller carriers). Only twelve percent of the carriers expect to add 11% or more capacity. This reduction between surveys may be a reflection of concerns over dramatically increasing costs without sufficient increases in rates.

Graph 6b



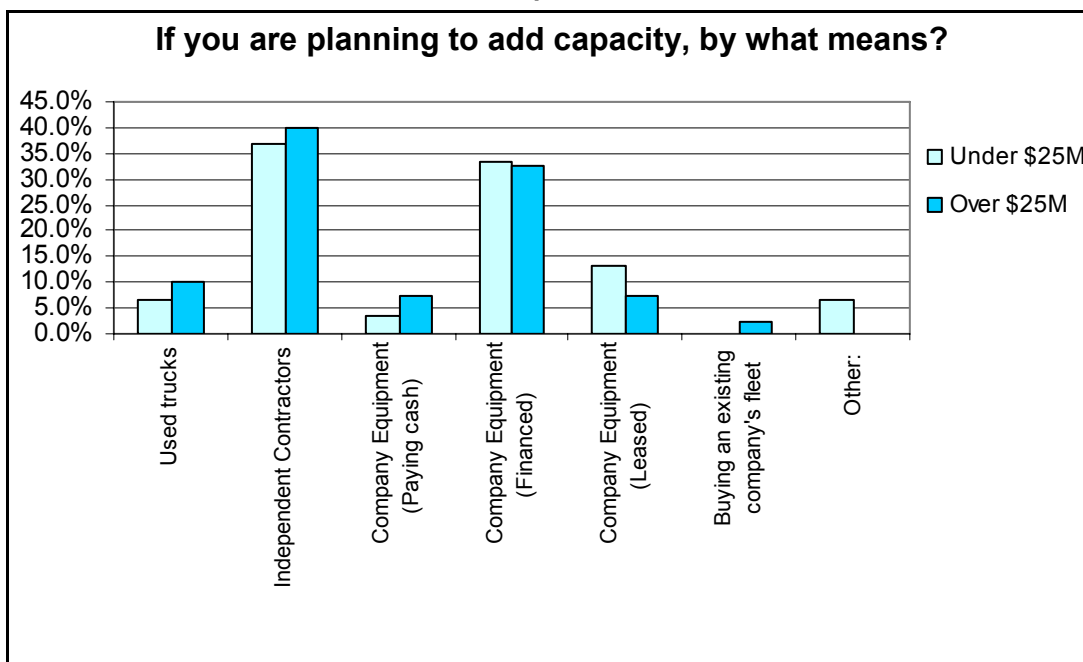
Thirty-six percent of the carriers over \$25 million do not plan on adding capacity, while only 21% of the carriers under that revenue size report they will not add capacity. Of those adding capacity, the most frequently reported rate by all size carriers is a conservative 1% to 5%.

Graph 7a



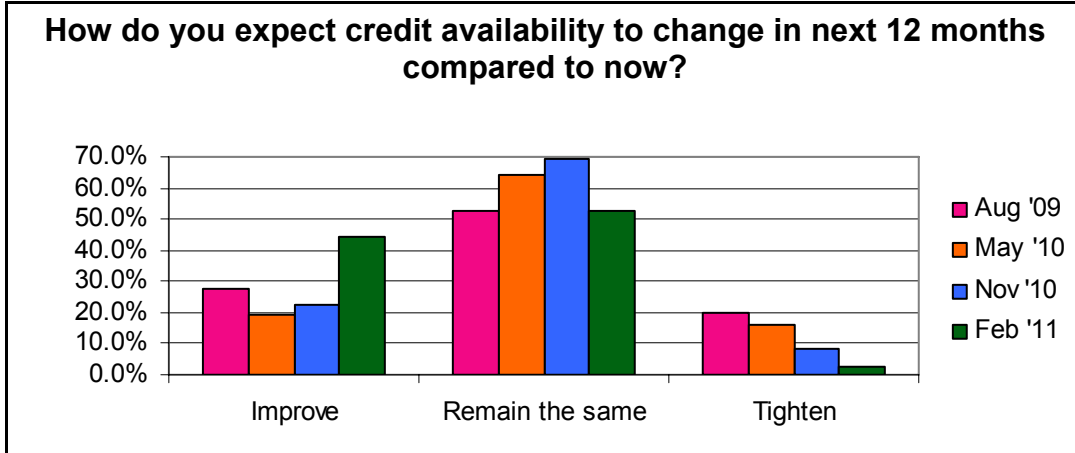
Of those carriers desiring to add equipment, the clearest choice is by attracting independent contractors, followed by company equipment that is financed. A growth strategy based upon attracting contractors has been questioned by some noting that the supply of contractors has been dropping and financing remains scarce and costly for contractors. Clearly as more carriers compete to attract and retain contractors, the compensation rates will increase.

Graph 7b



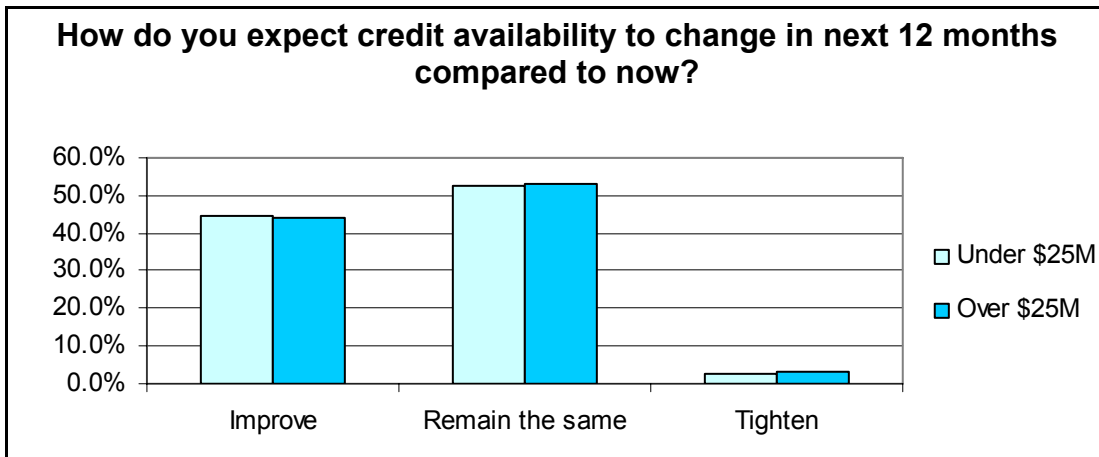
There are really no significant difference in the way large versus small carriers intend to acquire additional capacity.

Graph 8a



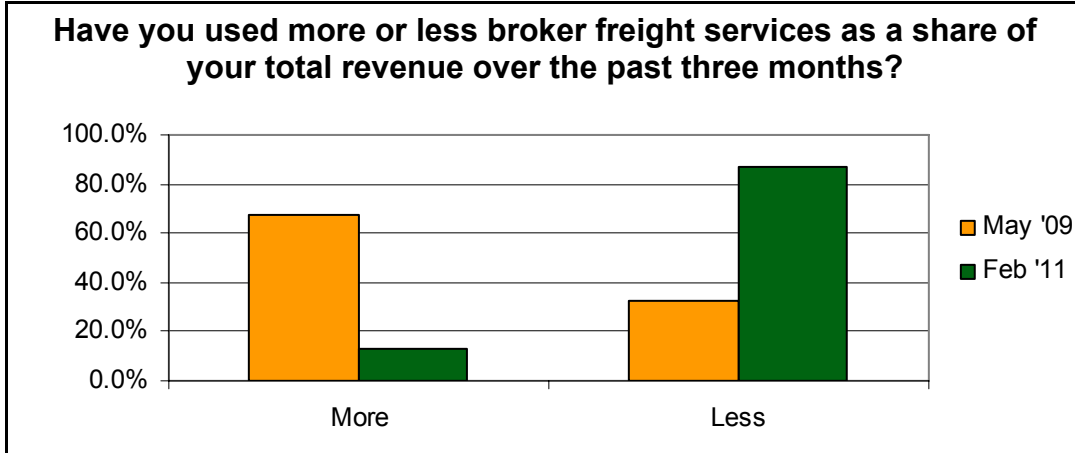
Credit availability is expected to improve by a higher percent, reaching 44% compared to approximately 20% in Aug '10 and Nov '10. This reflects some of the dichotomy of responses we have received in checking dealers on credit availability. A 53% majority of carriers expect credit to remain the same, whether it's current availability for them is adequate or inadequate. It is worth noting, however, that the survey did not ask at what price that credit would be available.

Graph 8b



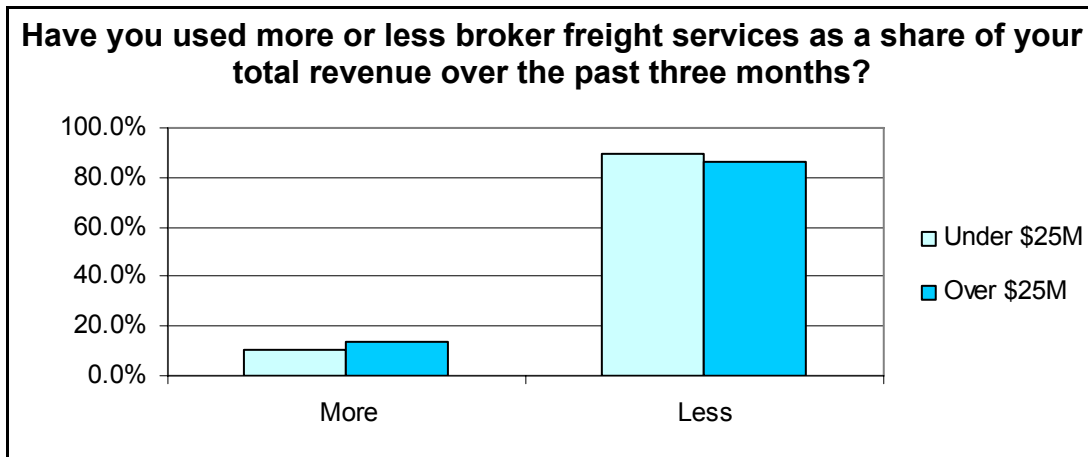
Little difference was noted in responses by carriers over and under the \$25 million revenue level.

Graph 9a



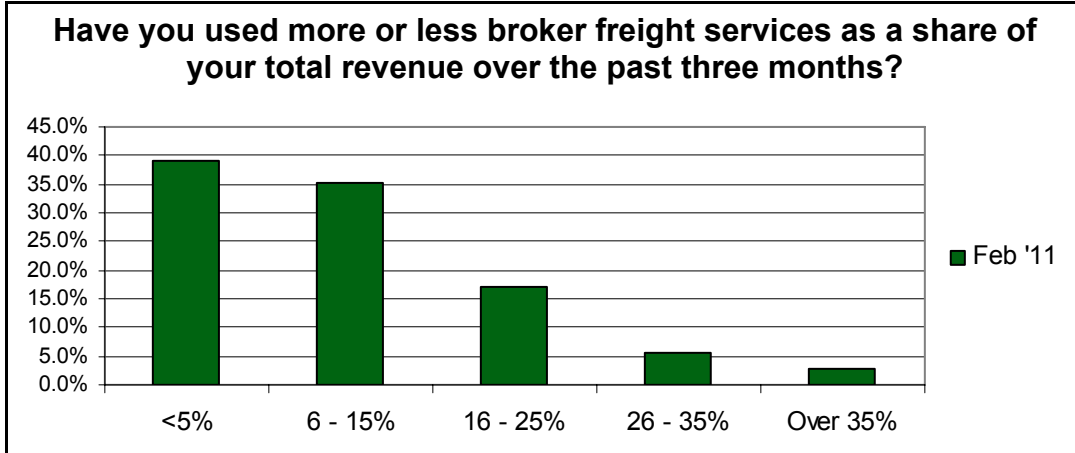
Eighty-seven percent of carriers report using less broker services over the last three months. This reflects the considerable turn around in supply/demand factors since May '09. In May '09, 67% of carriers reported using more broker freight. Carriers prefer direct shipper freight with its generally higher payment and fuel surcharge structure compared to brokers. Although there have been recent reports that spot brokers rates are higher in about 20% of major city pairs.

Graph 9b



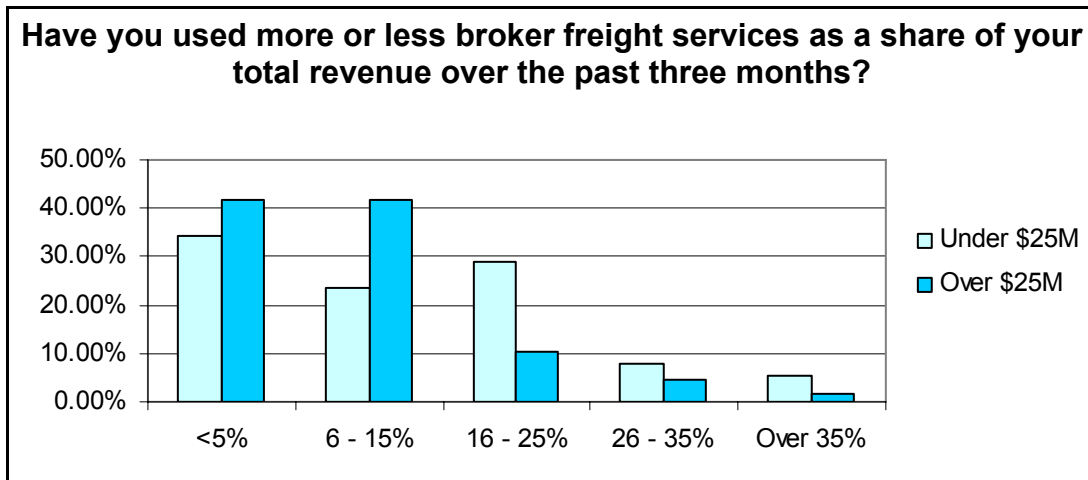
Regardless of revenue category, carriers are using fewer brokers to locate freight.

Graph 10a



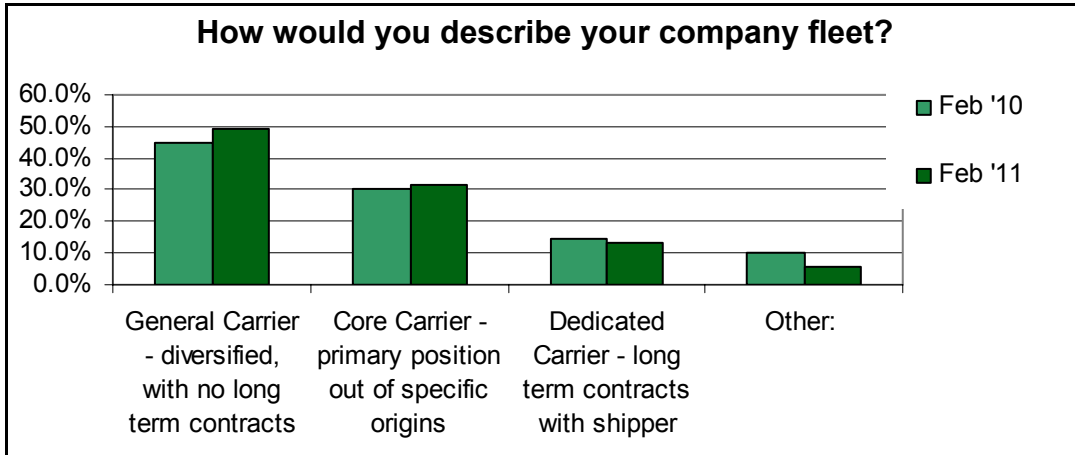
Carriers predominantly depend on repetitive loads compared to spot market loads with almost 40% of the carriers saying that spot loads account for less than 5% of their revenues. Thirty five percent of the carriers indicate that the spot market provides 6-15% of their revenue. Thus, only one quarter of the carriers depend on the spot market for 16% or more of their revenues currently. However as spot market rates increase, carriers may be allocating more capacity to this market, rather than assigning it to the contract rates.

Graph 10b



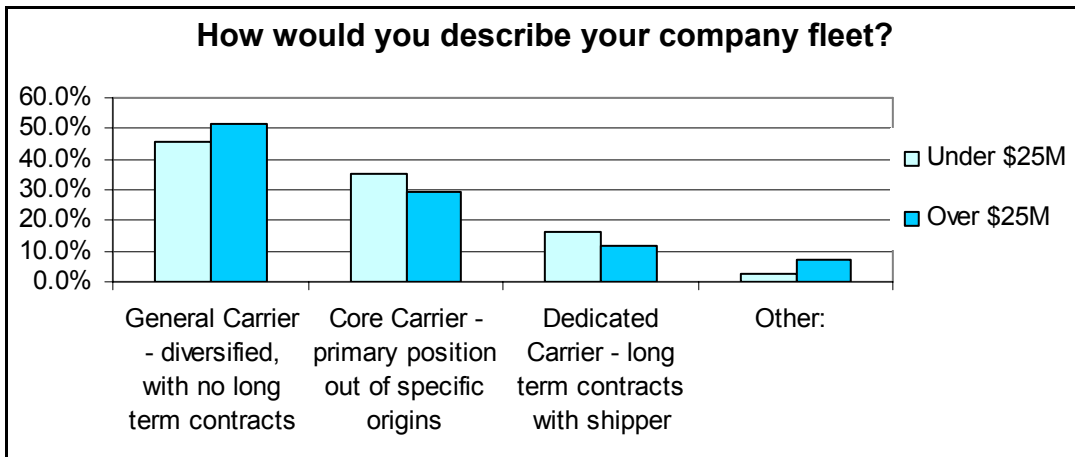
Smaller carriers are more dependent on spot loads according to respondents divided by revenue size over and below \$25 million dollars. However, a large share of revenue for both continues to be non-spot market (as measured by 15% or under by smaller carriers is 74% and by larger carriers is 84%).

Graph 11a



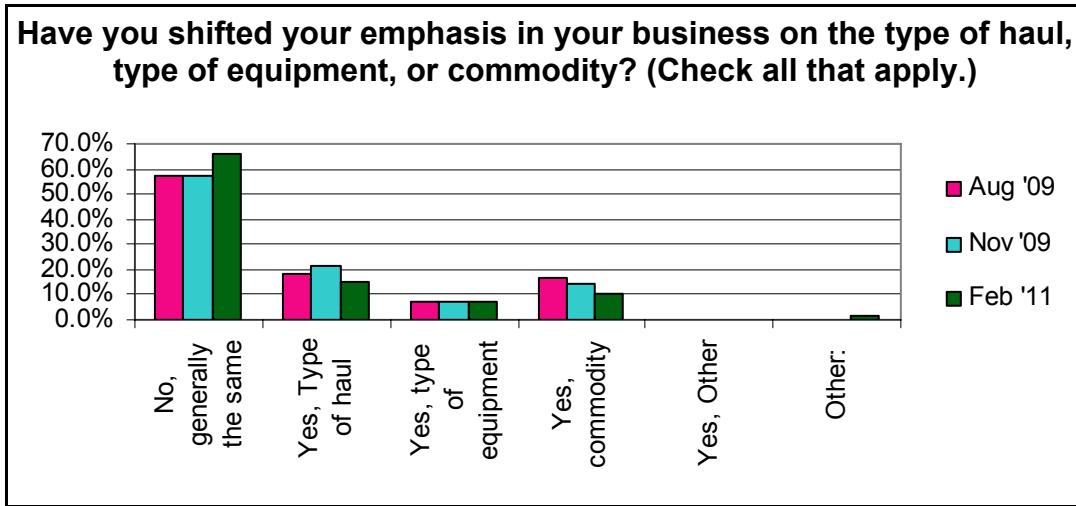
Even though we have seen tremendous changes in volumes, shipping patterns and regulations, carriers have not substantially changed their fleet operations – yet.

Graph 11b



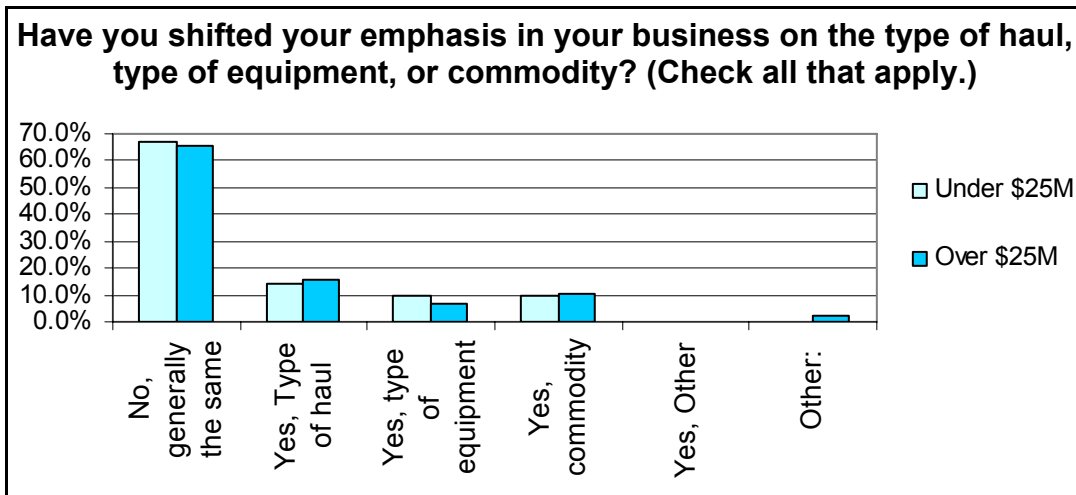
Revenue size of carriers showed little difference in the description of their fleets.

Graph 12a



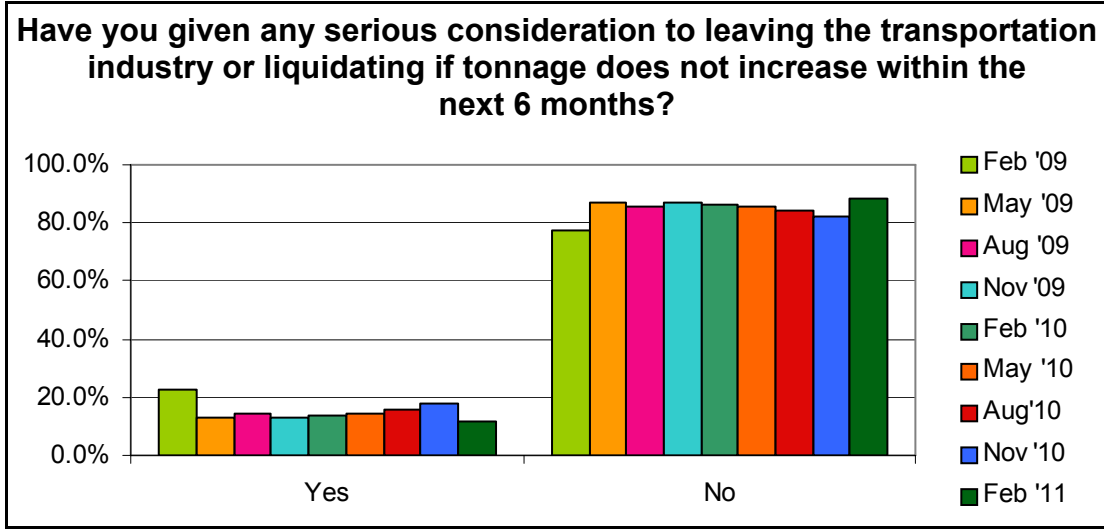
In general, carriers have remained stable since Nov. '09 with fewer attempting to change their type of haul, equipment or commodities.

Graph 12b



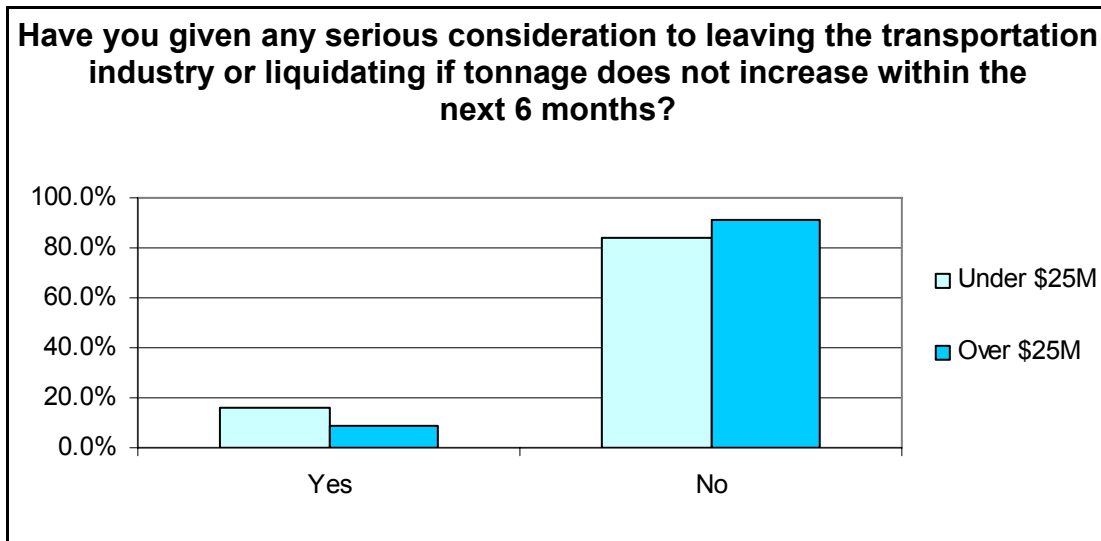
Little difference was noted in the response levels by size of fleet.

Graph 13a



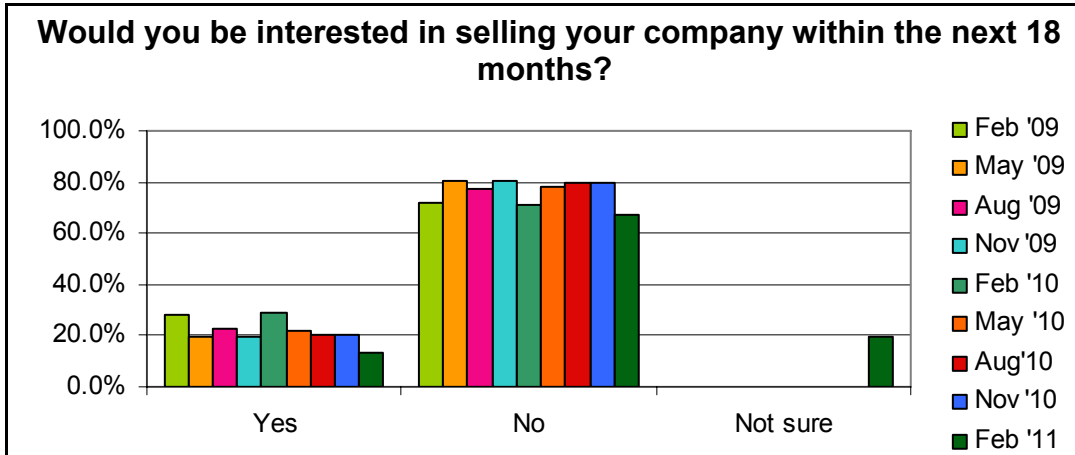
Respondents remain clearly optimistic with only 11% stating they have given consideration to leaving the industry if tonnage does not increase within the next six months. This is literally one-half of the number who responded with a "yes" in the 'dark days' of February 2009 – two years ago.

Graph 13b



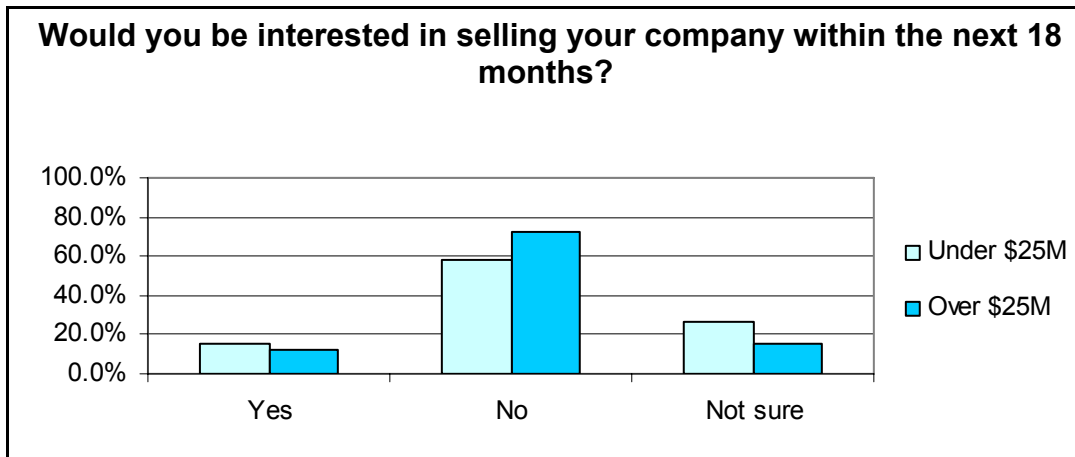
While only 9% of the larger carriers have considered leaving the industry in the next six months, almost twice as many smaller carriers have (16%).

Graph 14a



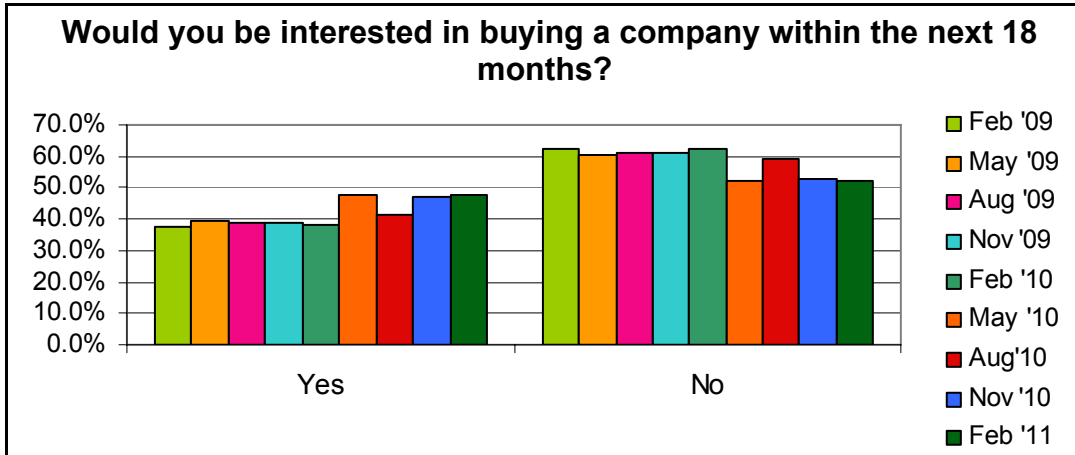
The number of carriers saying they would be interested in selling dropped dramatically in the quarter to 13% from approximately 20% in the past three quarters. Buyers have been reluctant to pay much above hard asset values for carriers with modest profitability and this is likely another contributing factor along with financial concerns. TCP expects to see a gradual increase in pricing parameters as economic conditions in the industry improve. We are also seeing 20% of the carriers not sure whether they want to be a seller in the next 18 months. We suspect that they want to see what happens with their earnings before entering the market.

Graph 14b



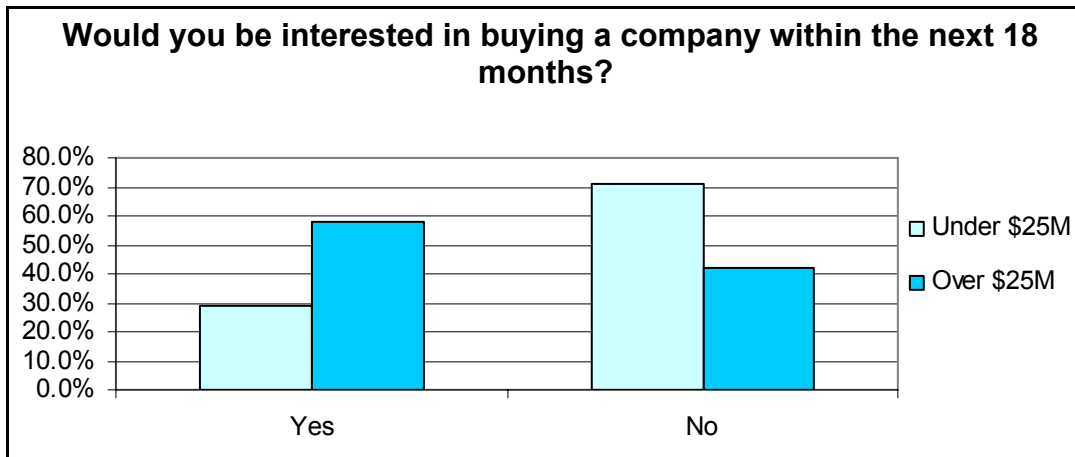
Carriers under \$25 million were more disposed to selling or not sure than larger carriers.

Graph 15a



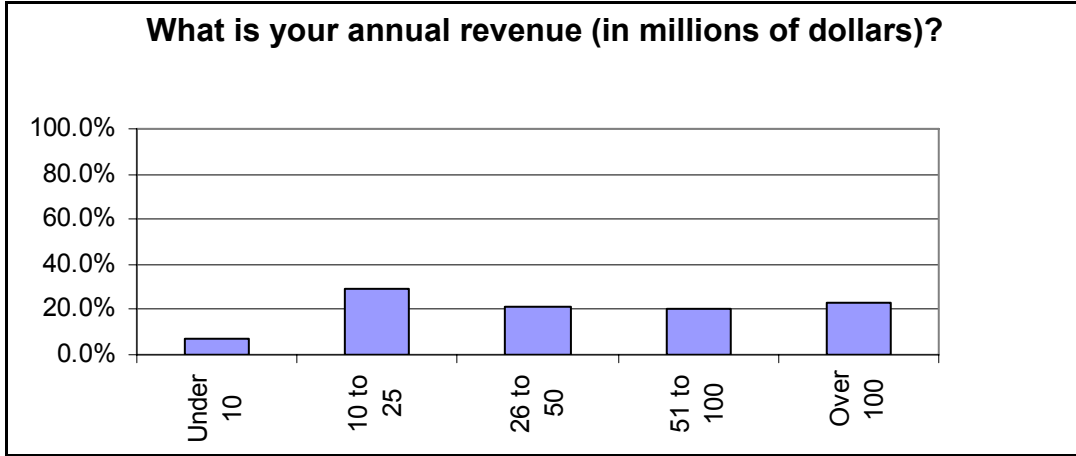
Buyer interest has remained relatively the same for the past four quarters in the high 40% range. However, TCP experience and discussions indicate very specific metric preferences on strategic acquisitions and extended acquisition processes. With a decreased interest in selling by the under \$25 million revenue category, buyers have fewer sellers to examine and this may result in increased focus and potentially higher acquisition pricing in the improving economy.

Graph 15b



Carriers over \$25 million are most interested in buying a company within 18 months with a 58% to 29% response rate between the two size categories. Larger carriers maybe better positioned with financing.

Graph 16



Graph 17

