

Industrial Research

March 14, 2013

State of Transportation

If you would like to be added to our monthly research distribution list, which we make freely available, please email me at bhartford@rwbaird.com

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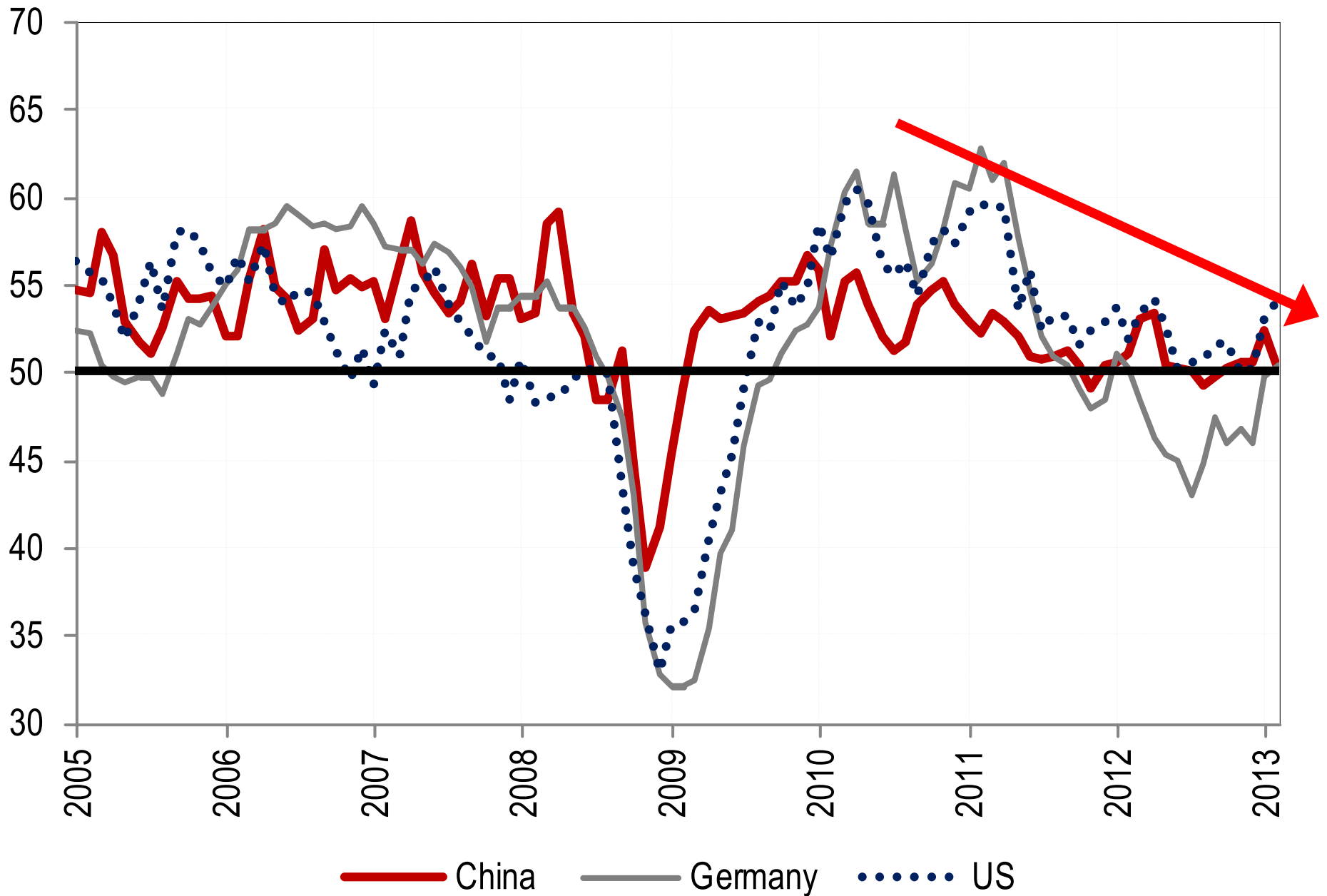
An Economy and an Industry at an Inflection Point

- What does the economy look like?
- What is the stock market telling us?
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 - **Maturing growth:** across modes in recent years, and likely will continue
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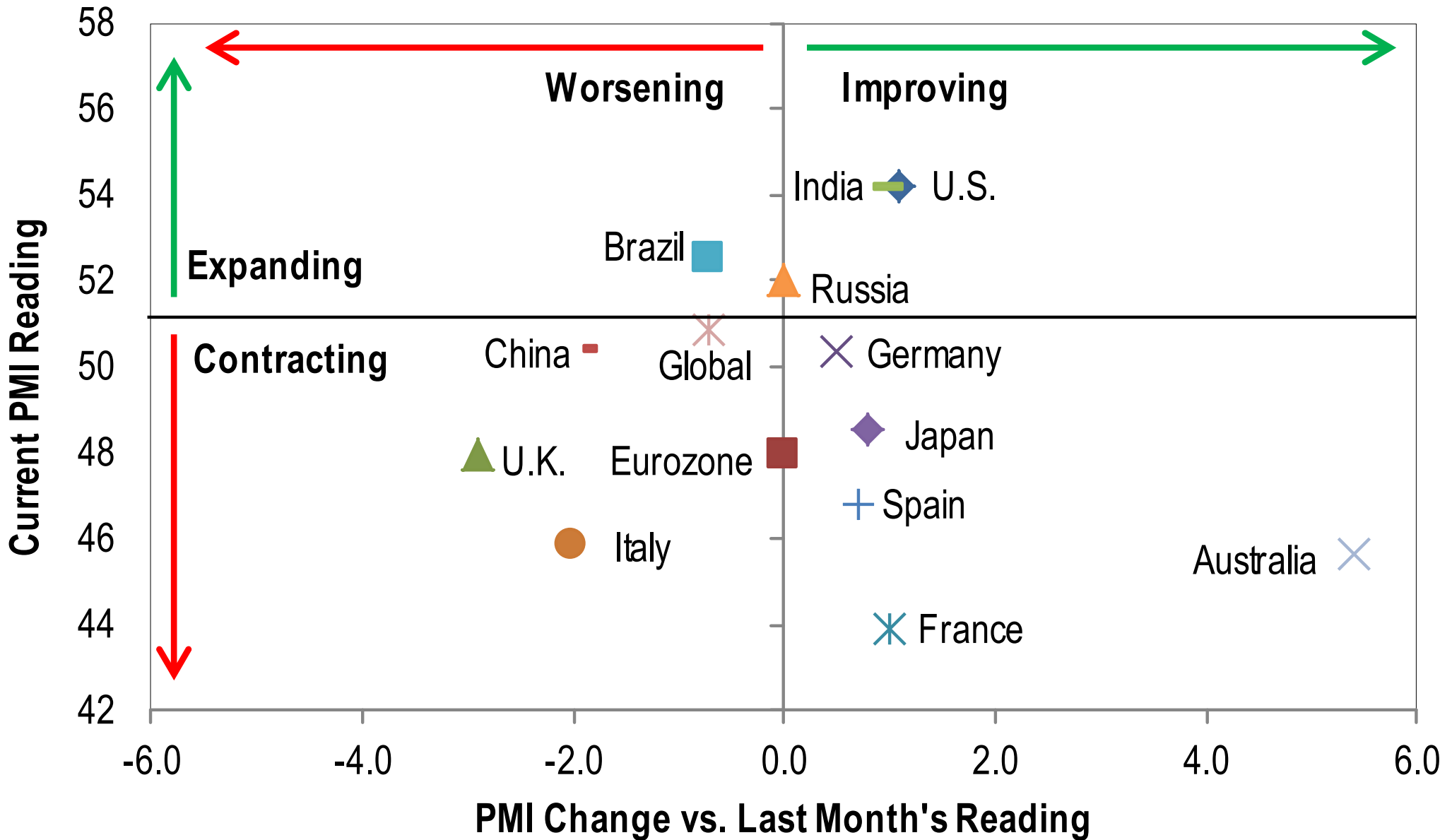
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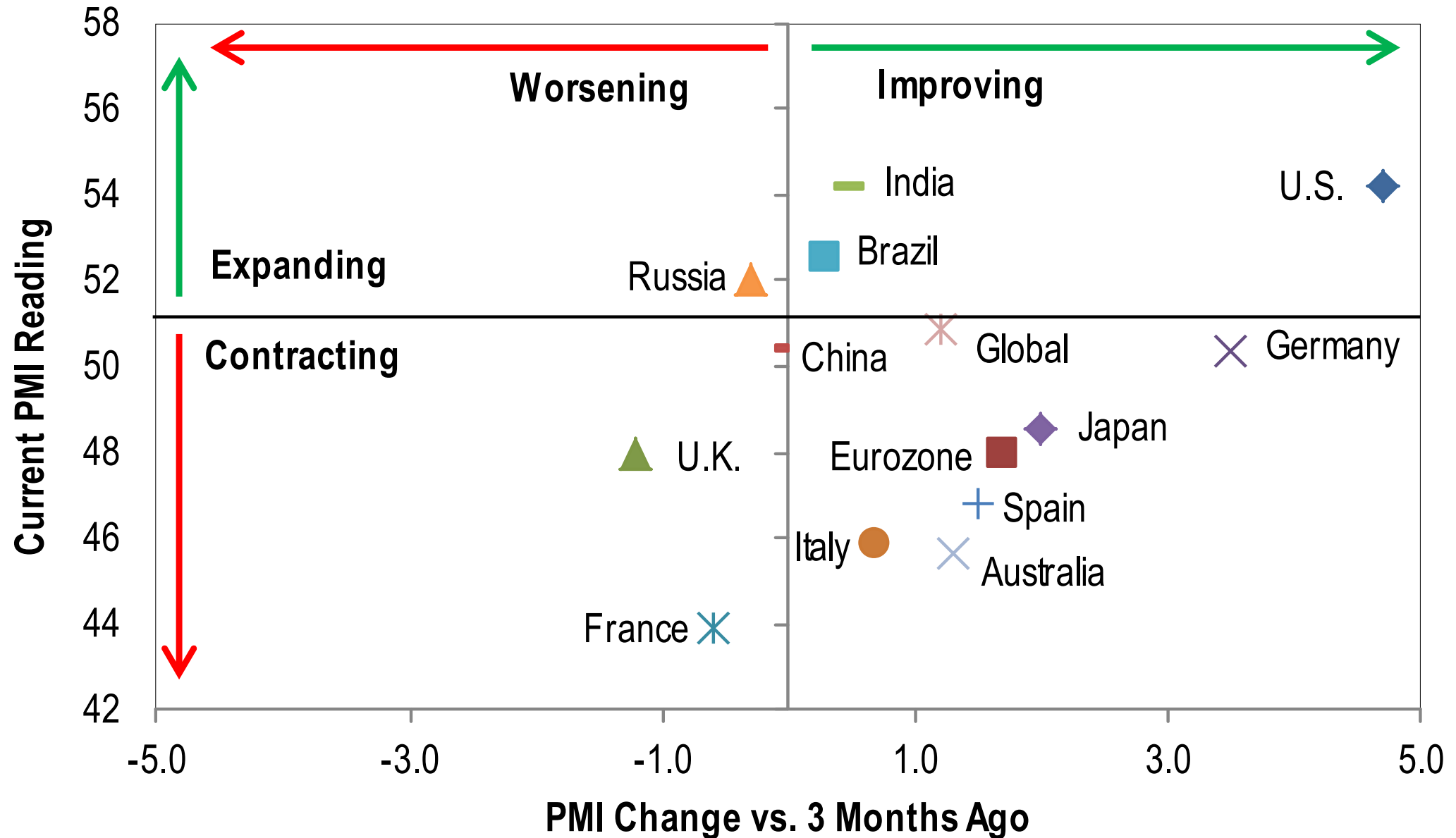
Industrial Trends Have Moderated Since 2010



Current PMI Readings Mixed...

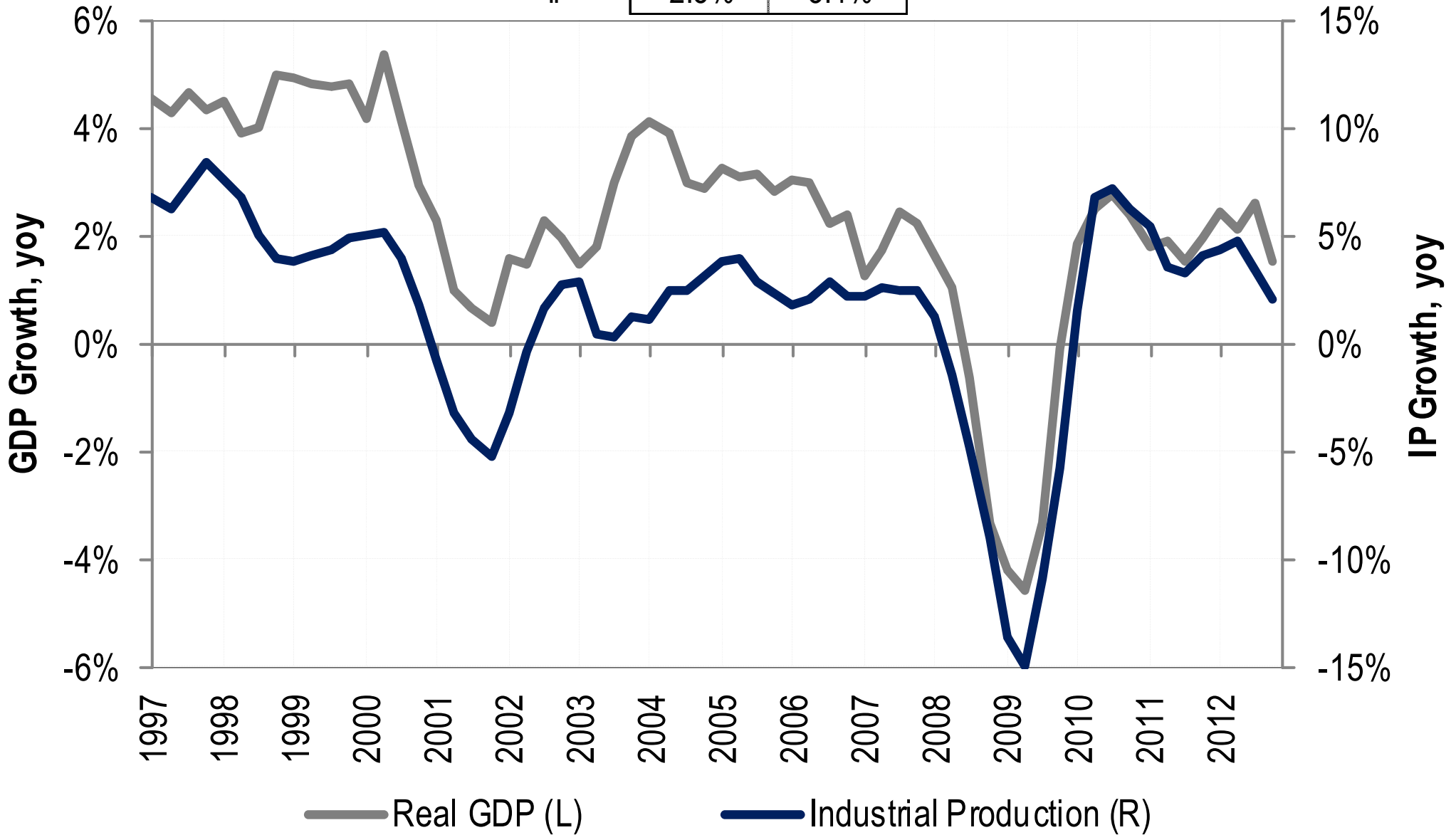


...but Improved from Three Months Ago

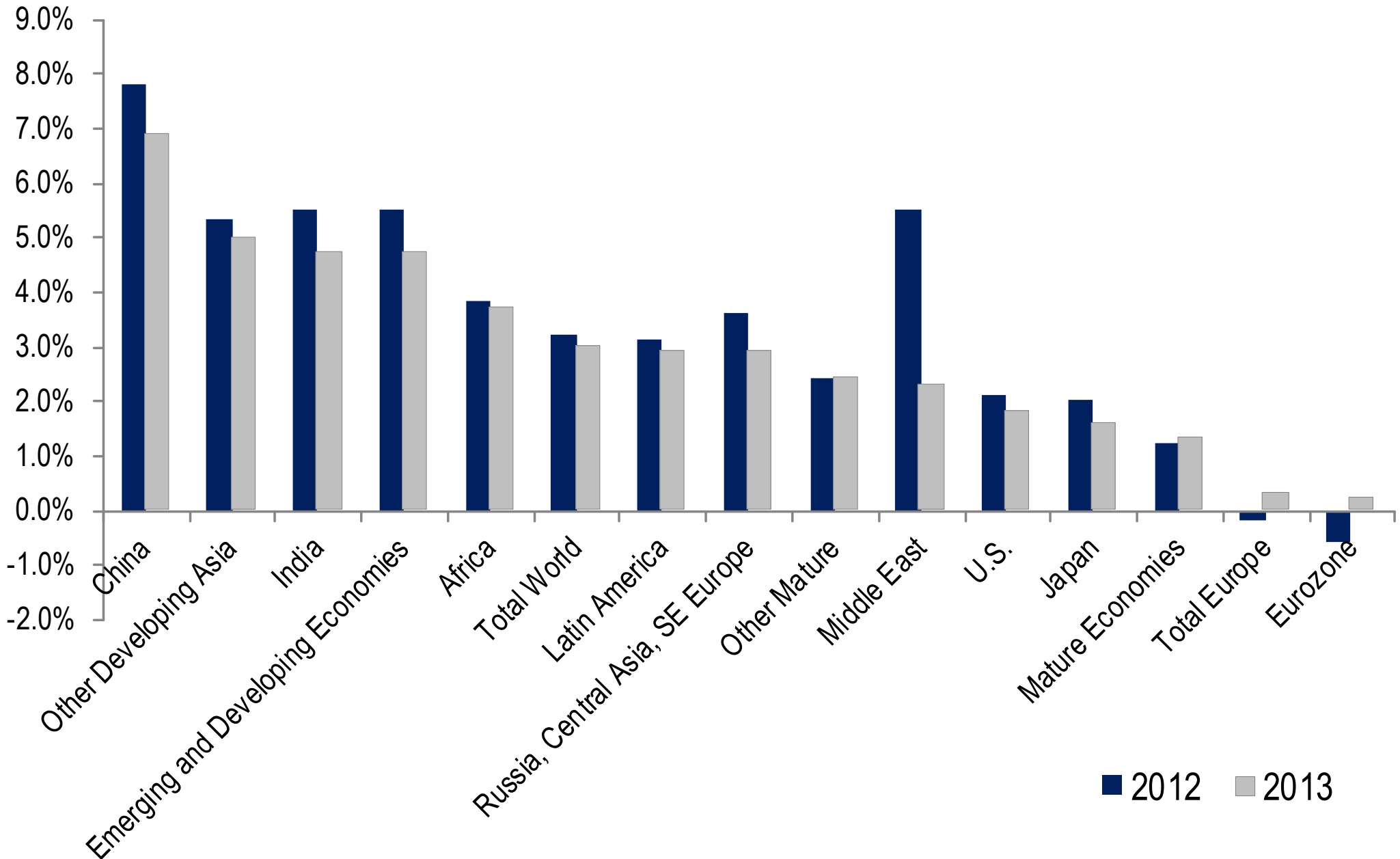


And GDP Outlook Implies Slow Freight Growth

	2013E	2014E
GDP	1.9%	2.7%
IP	2.5%	3.4%



GDP Growth in 2012/2013 by Region



■ 2012 ■ 2013

2013 Demand Outlook Summary

Domestic US outlook

- Industrial: Industrial production > GDP growth
 - Recovering end-market demand in housing
 - US manufacturing renaissance?
- Retail: Cautious inventory strategies limit downside; upside depends on consumer confidence

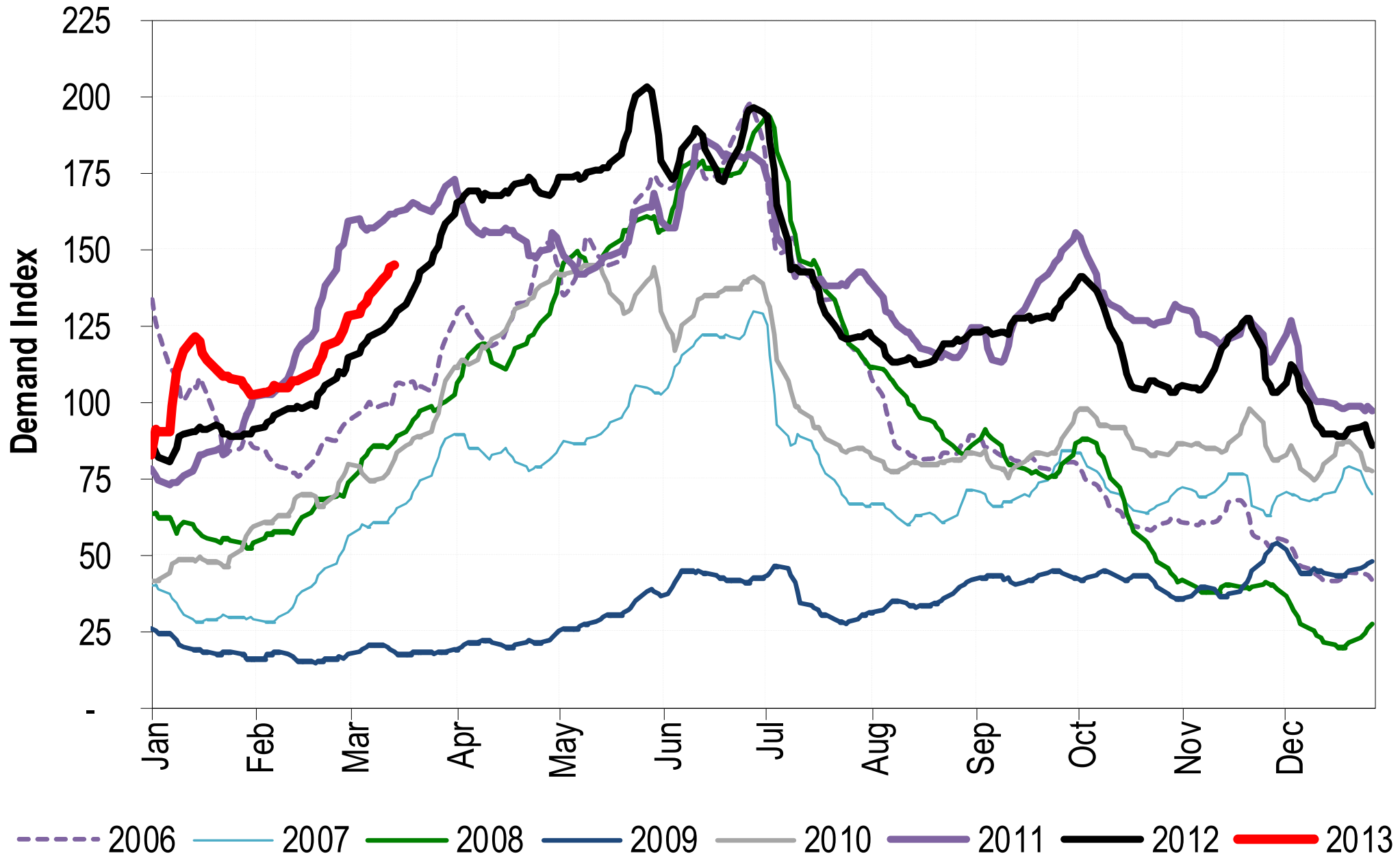
International trends stabilizing after disappointing 2012

FREIGHT DEMAND GROWTH BY MODE

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013E
Truck	4%	4%	1%	-1%	-3%	-10%	5%	4%	3%	0-2%
Domestic IM Container	4%	0%	5%	9%	7%	3%	13%	10%	7-8%	6-8%
Intermodal	10%	6%	5%	-1%	-3%	-15%	15%	5%	4-5%	3-5%
Rail	4%	1%	1%	0%	-3%	-18%	9%	3%	-2%	0-2%
Airfreight	13%	5%	5%	4%	-4%	-10%	21%	-1%	-2-3%	1-3%
Ocean Freight	11%	10%	10%	9%	0%	-10%	12%	5%	2-3%	3-5%

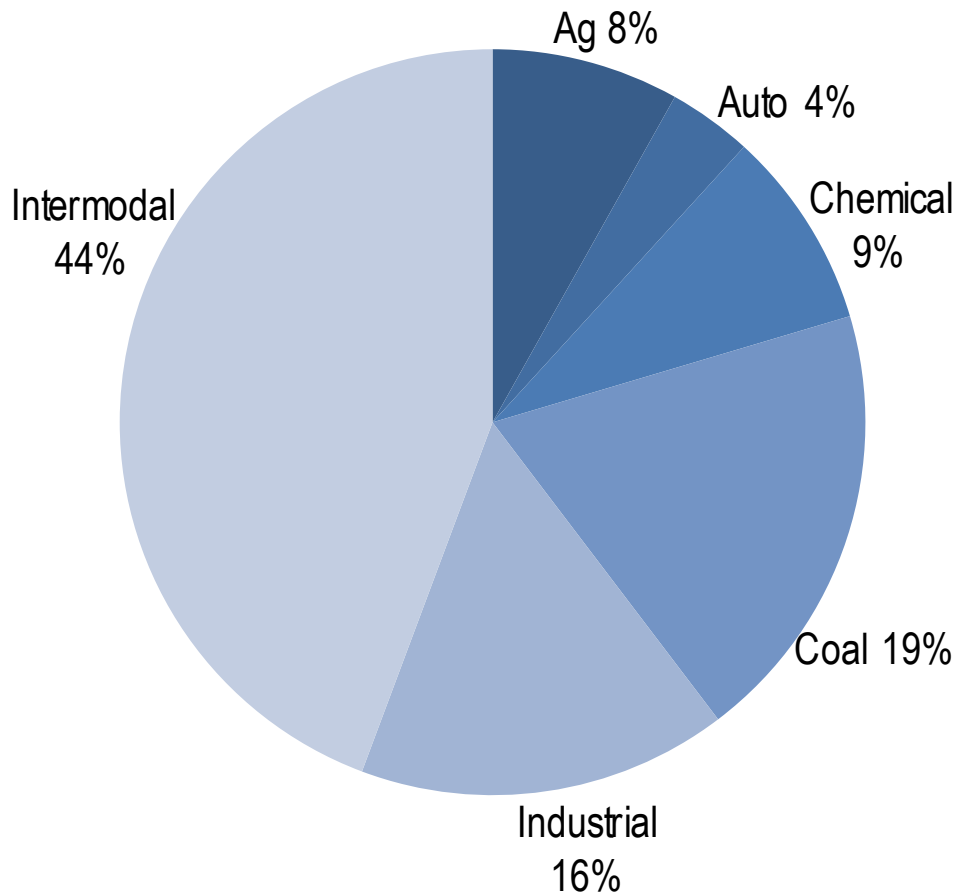
Spot Truck Demand Improving Seasonally into March

BAIRD

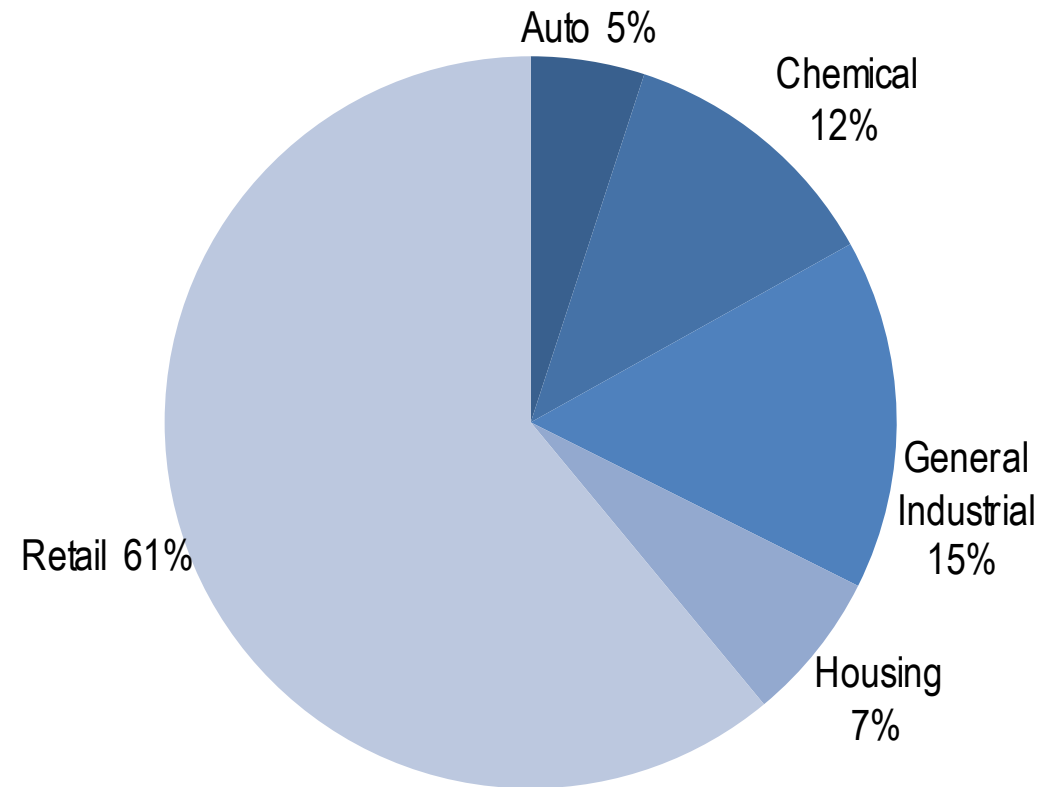


Downside Protection for Majority of Freight

2012 Rail Carload Breakdown

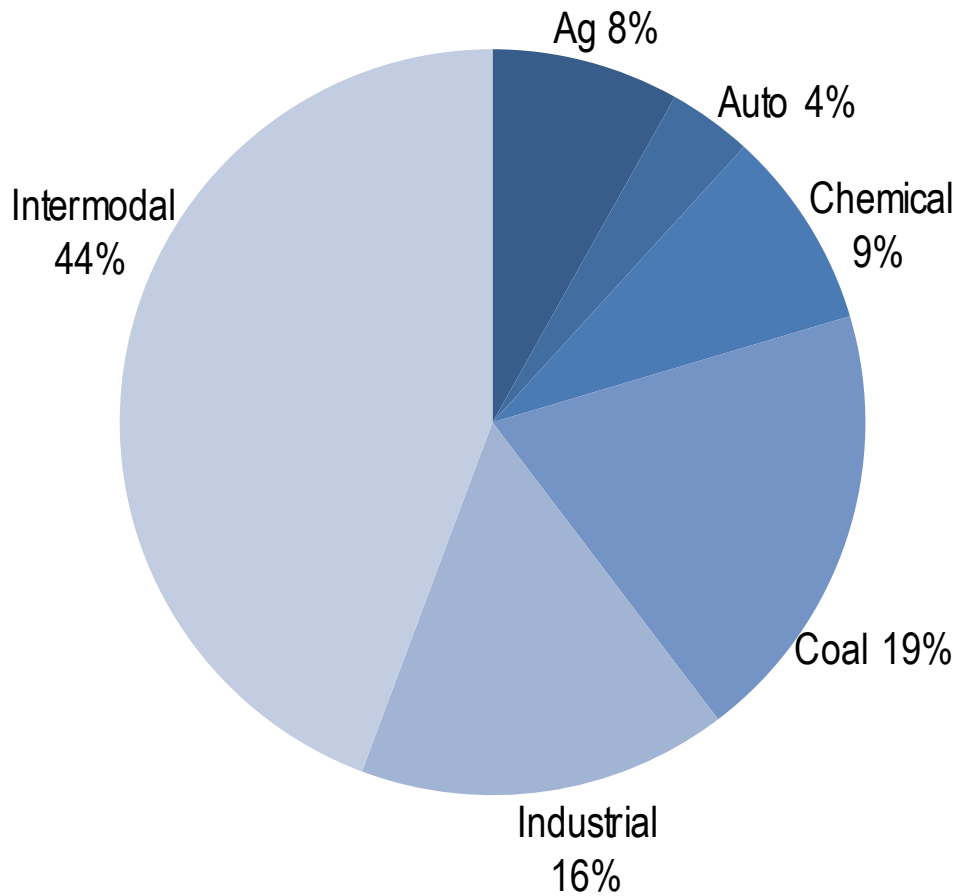


2012 Rail Carload Breakdown, ex-bulk (coal, ag)

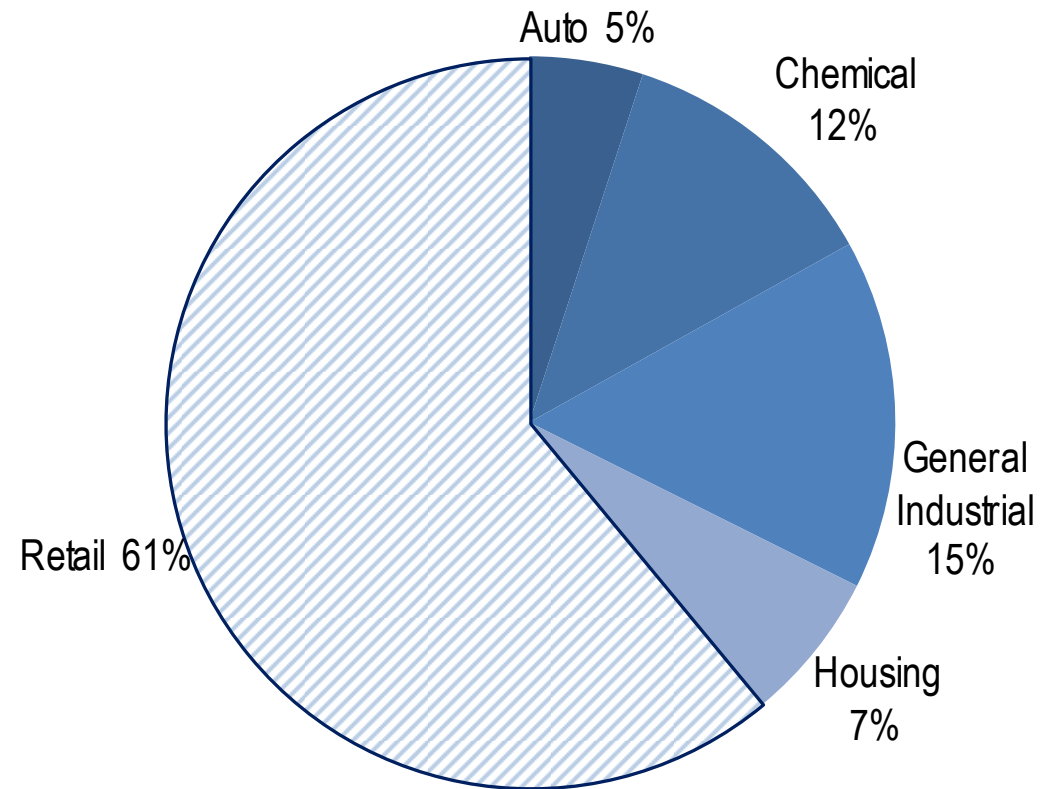


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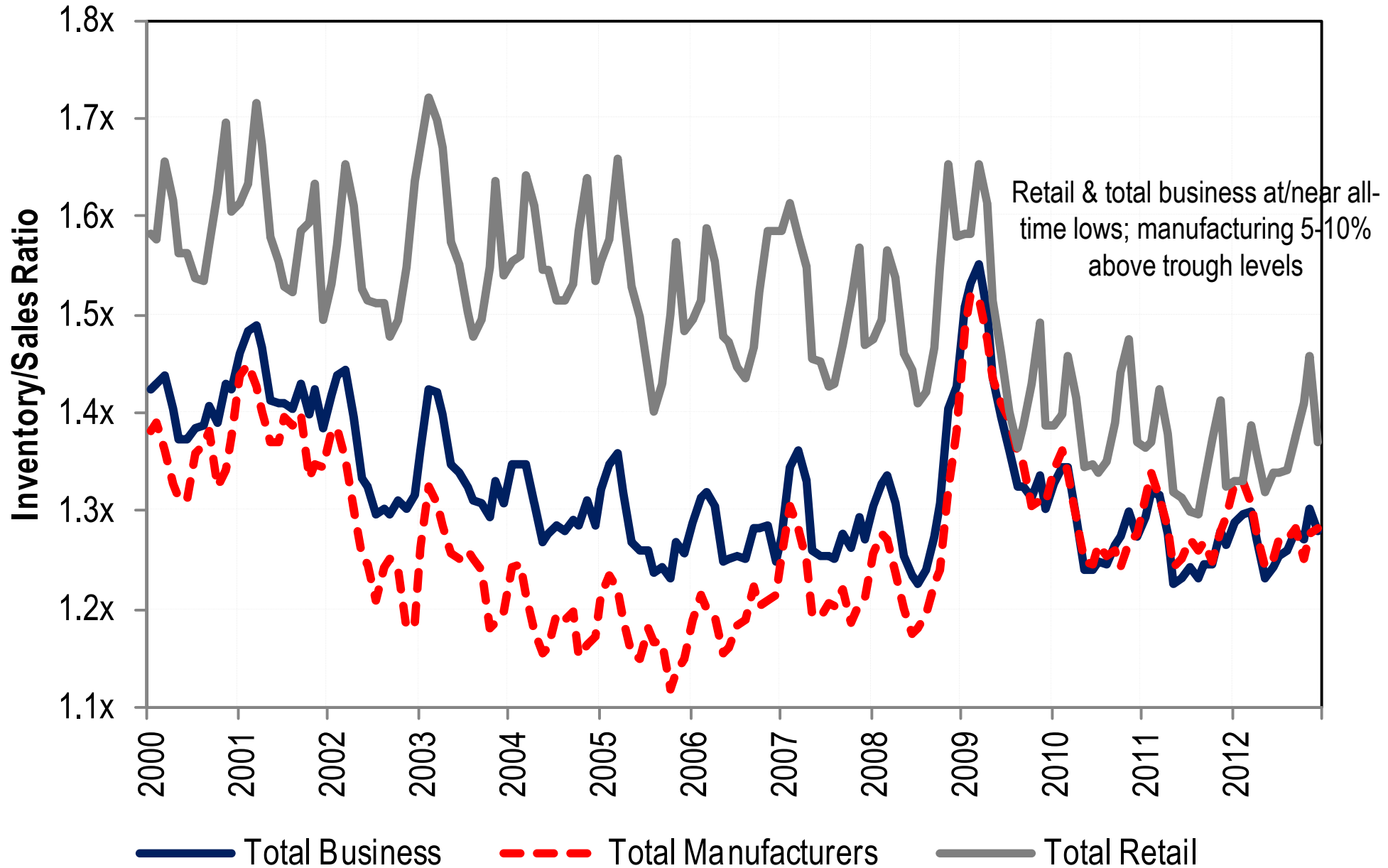
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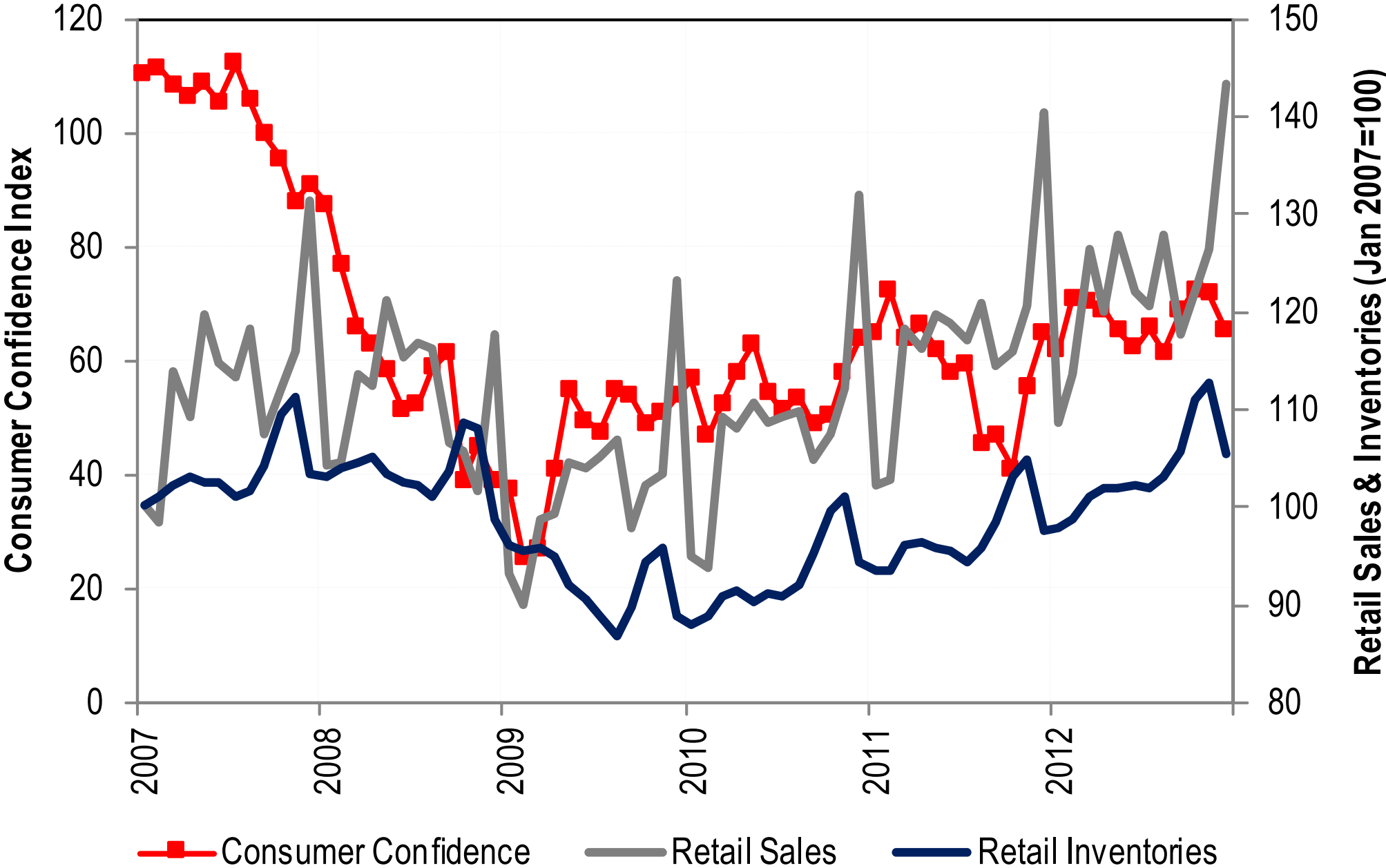
2012 Rail Carload Breakdown, ex-bulk (coal, ag)



Inventories At/Near All-Time Lows, Particularly Within Retail

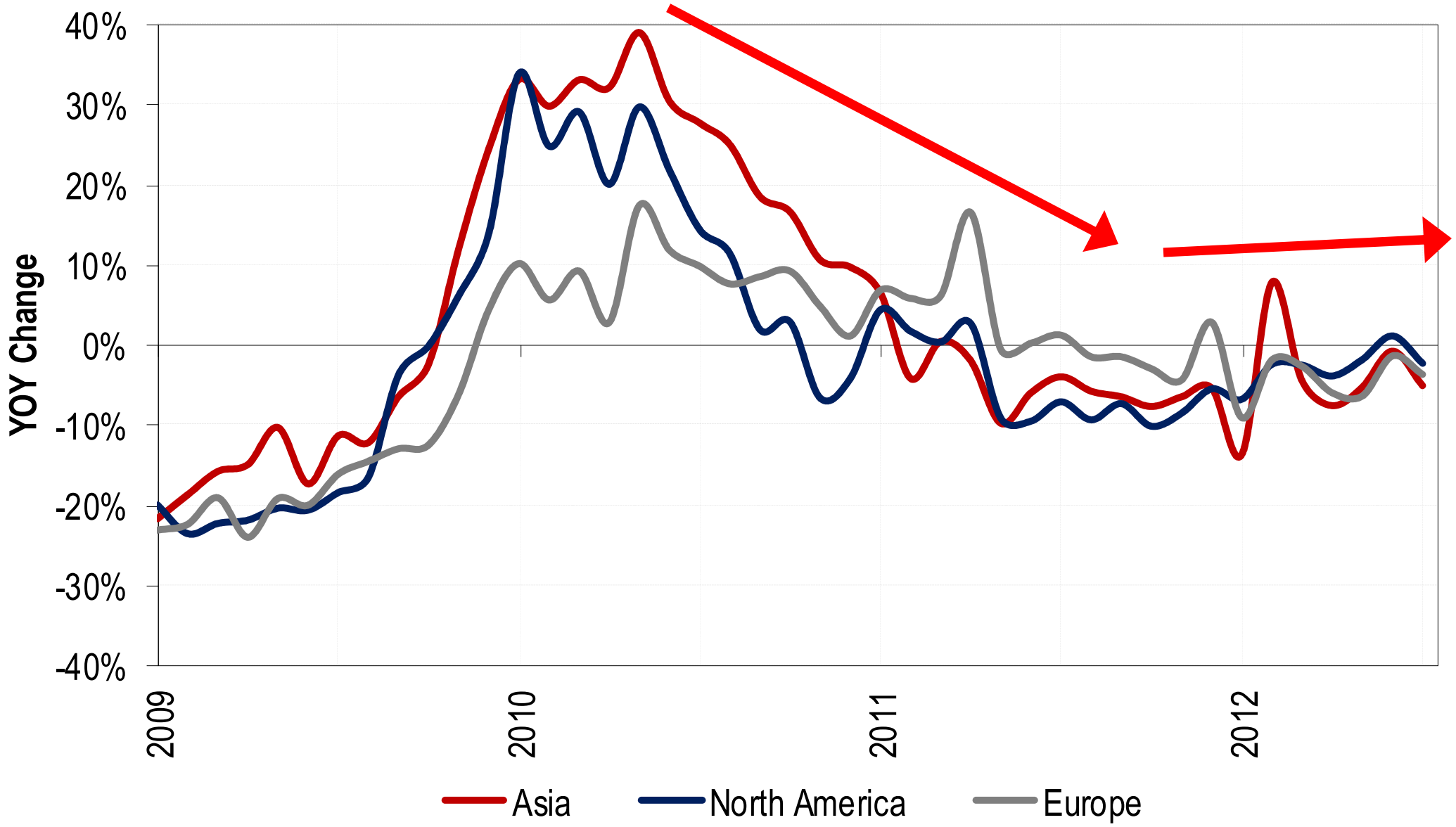


Consumer Confidence Is Low, but Improving

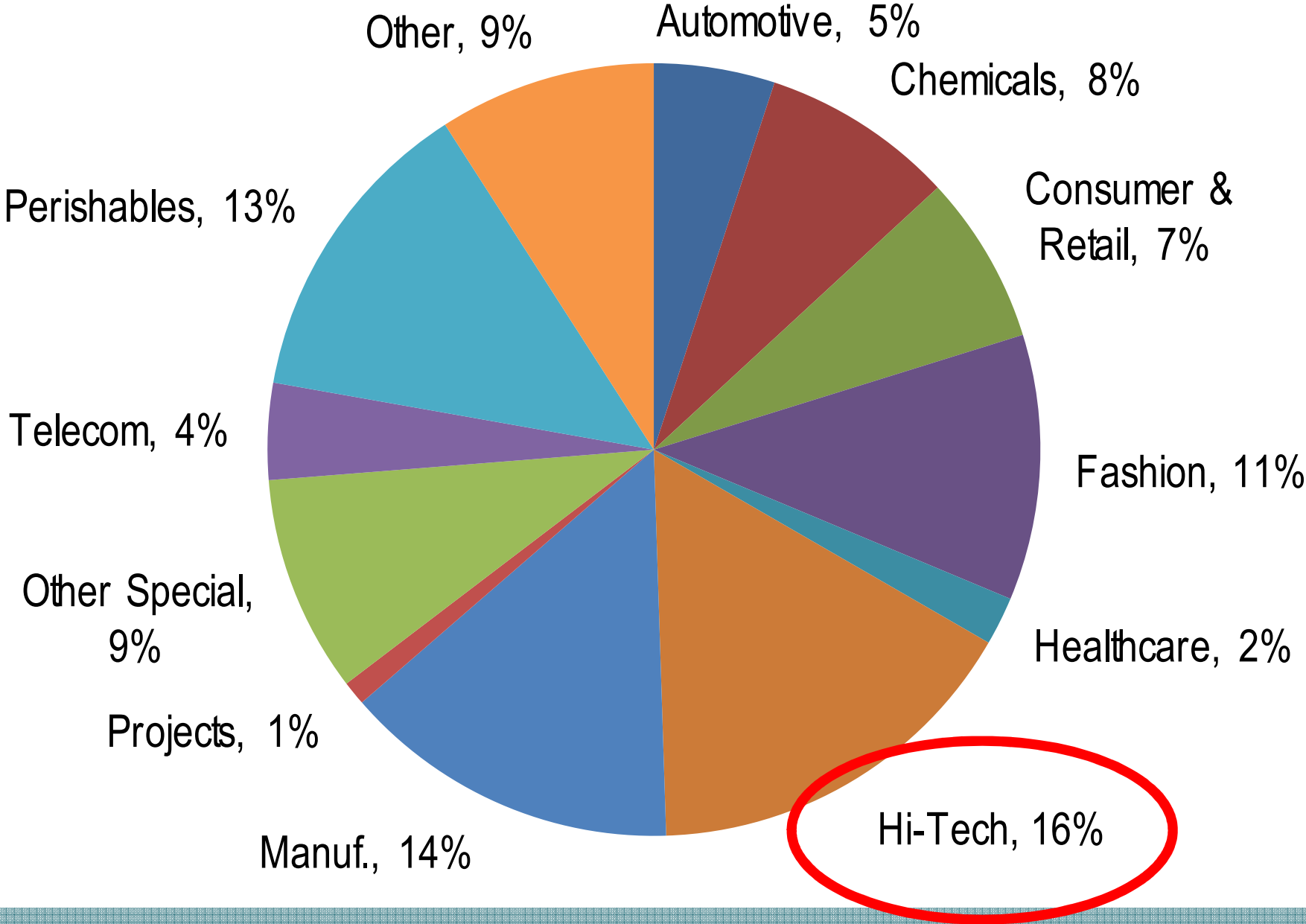


Source: Conference Board, US Census Bureau, Baird estimates

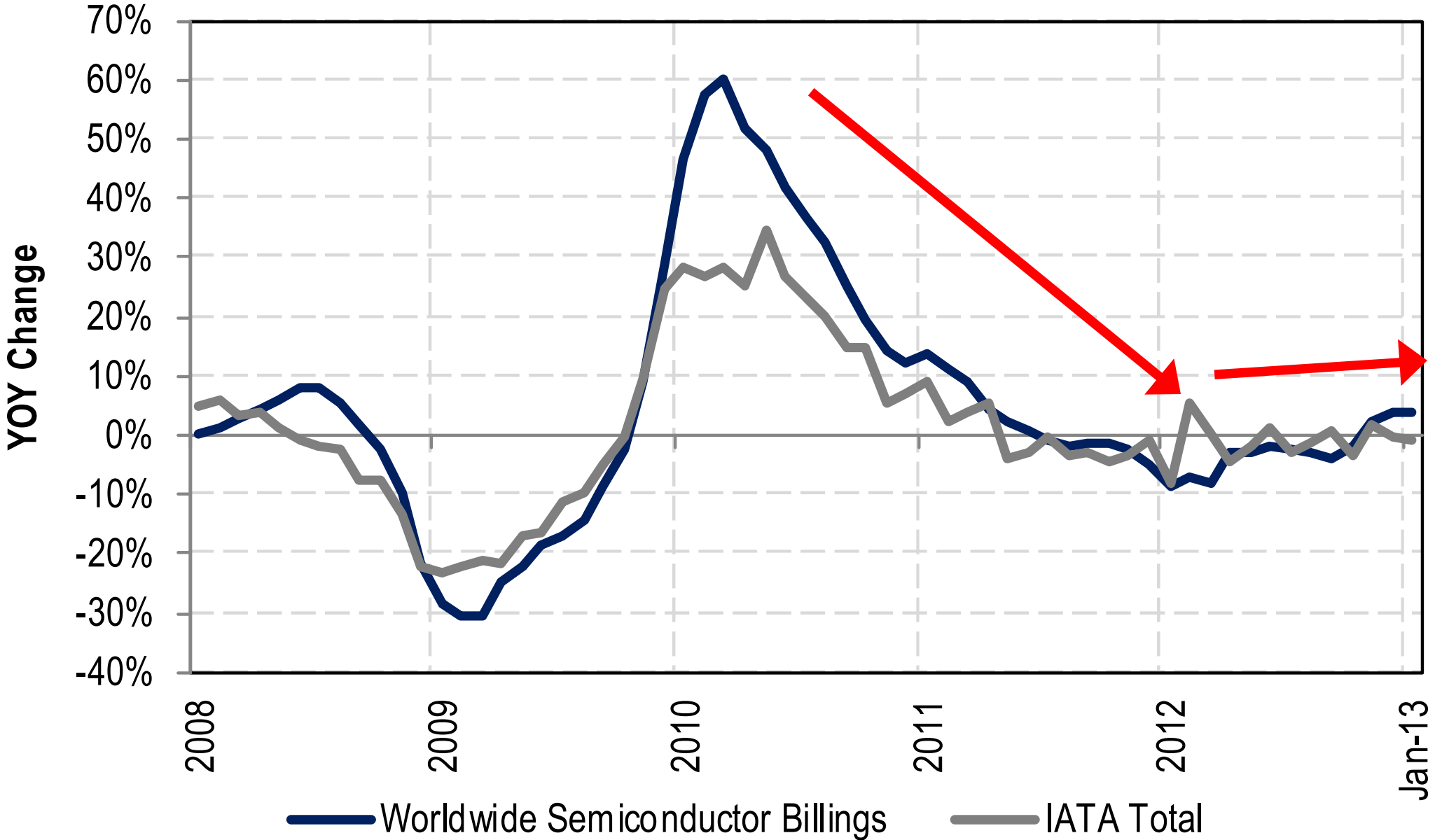
Regional Airfreight Volume Growth Has Been Slowing; but Could 2012 Represent a Trough?



Airfreight Industry Verticals

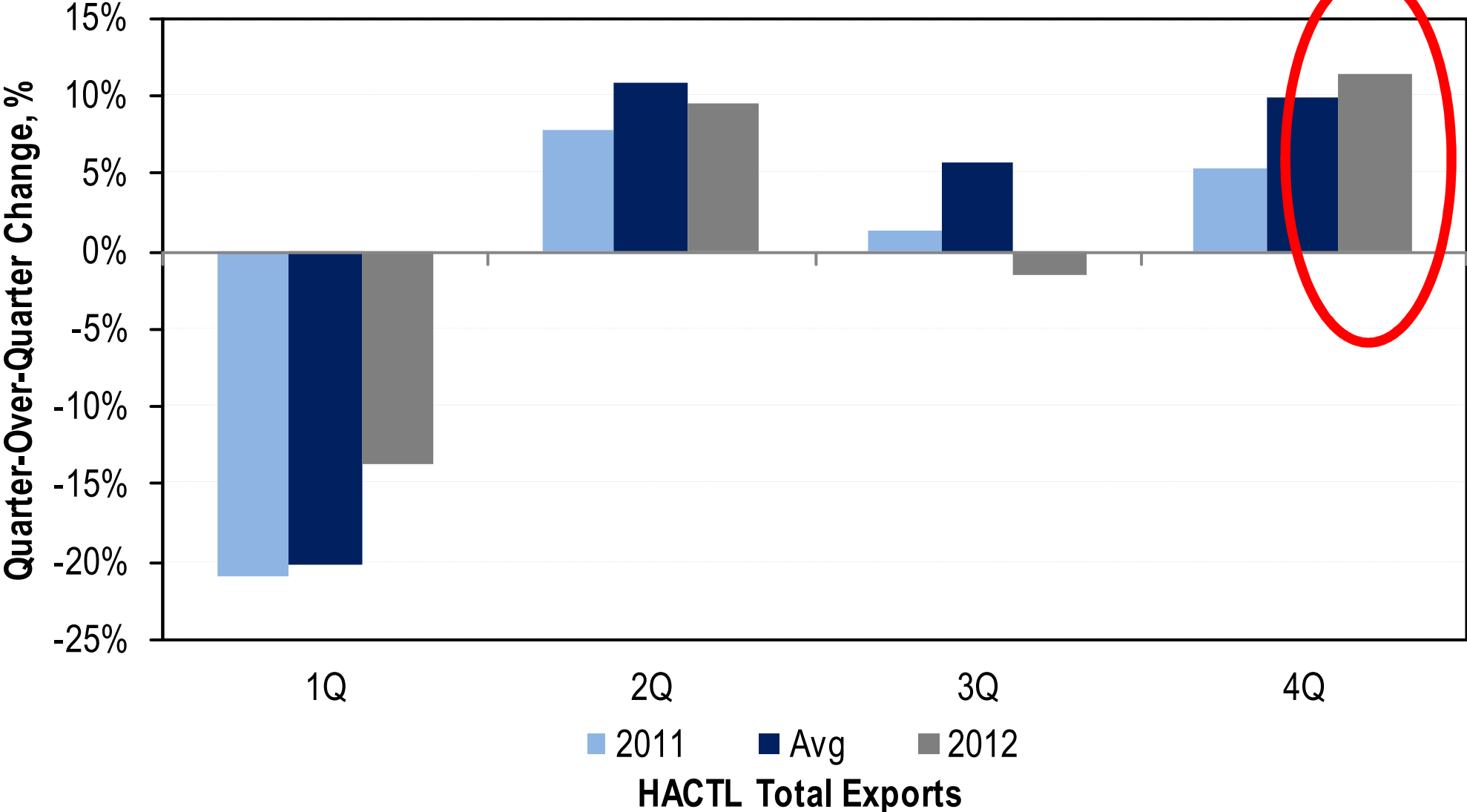


Bottoming Tech Inventory Correction Cycle Supportive of Stabilizing AF Demand Fundamentals

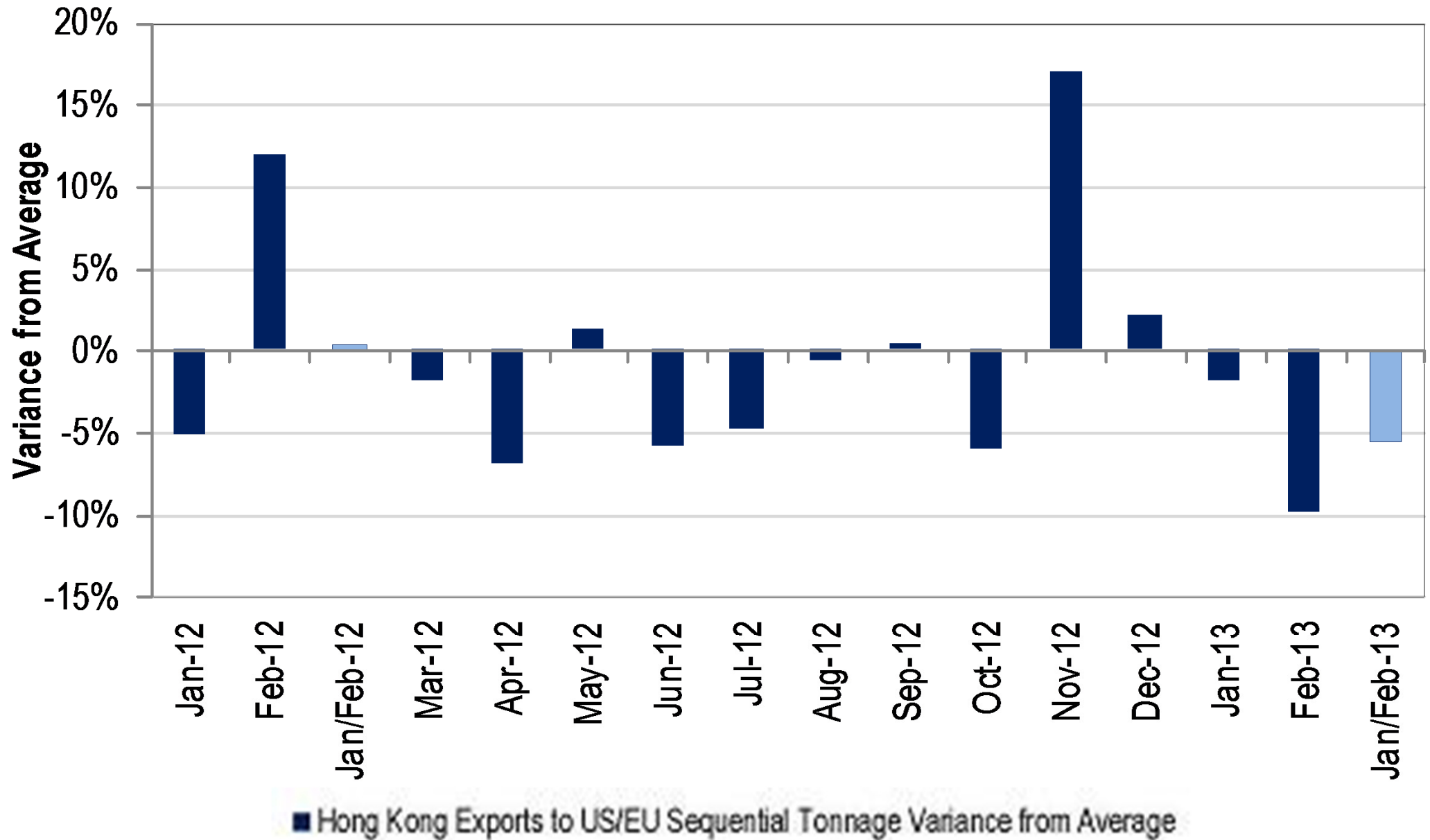


Source: International Air Transportation Association, Semiconductor Industry Association

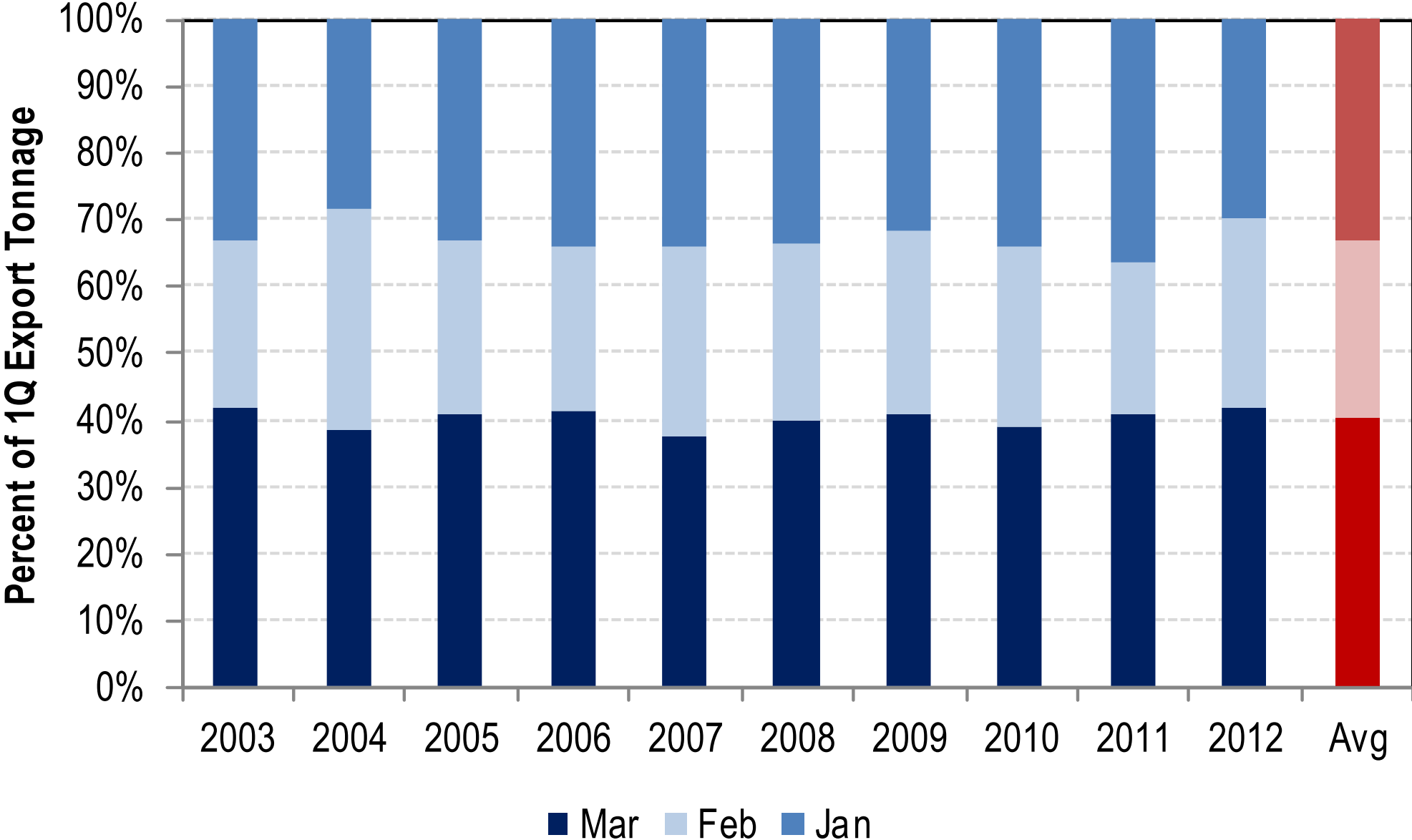
Airfreight Volumes Out of Asia Stabilizing in 4Q12



International AF Trends Stable but at Weak Levels

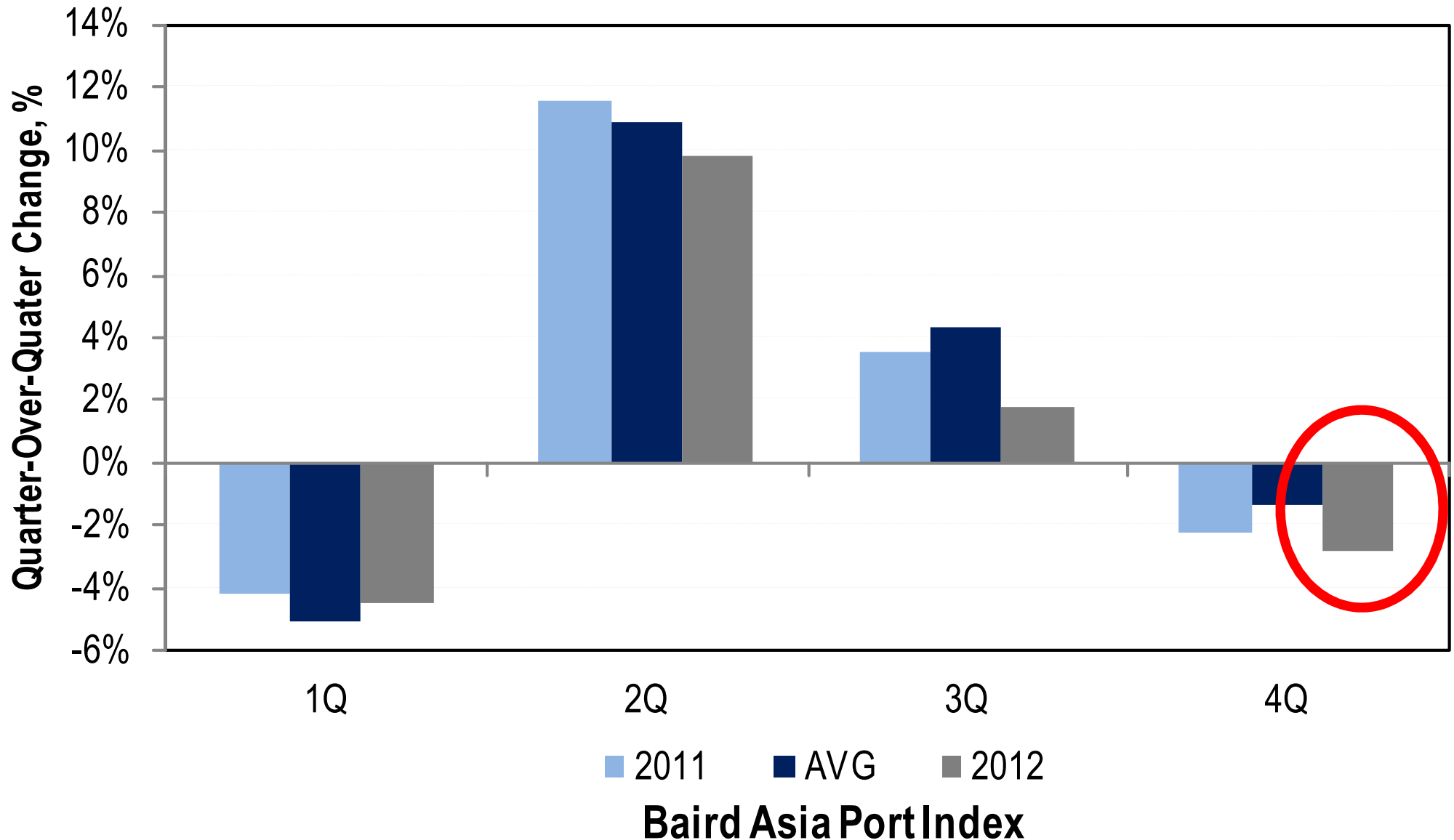


March AF Export Tonnage as a Percentage of 1Q Export Tonnage



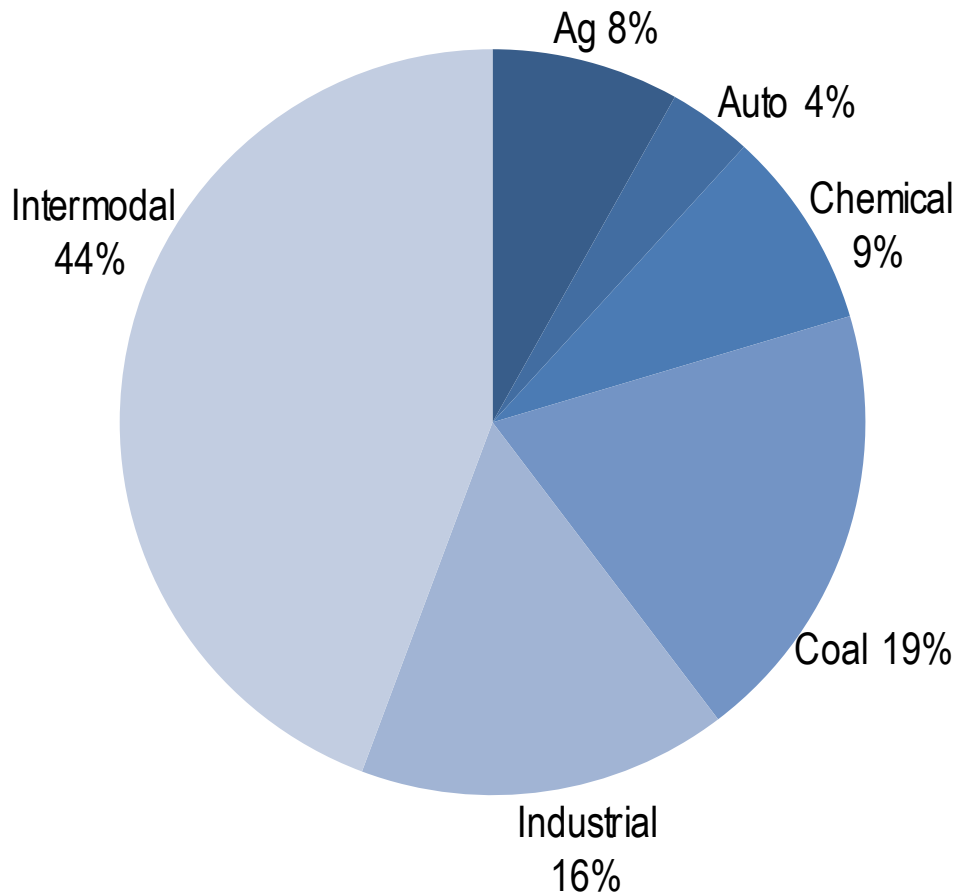
Source: HACTL, Baird estimates

Sluggish 4Q12 Ocean Freight Trends in Asia Suggest AF's Recent Strength Was Episodic

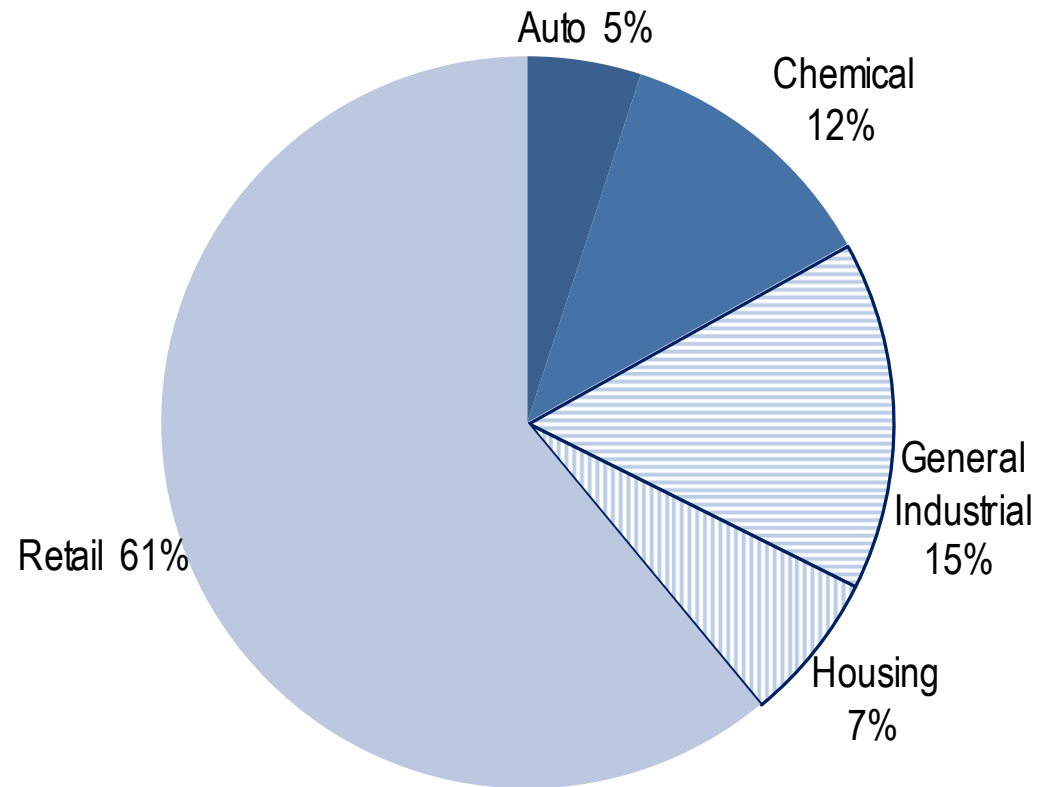


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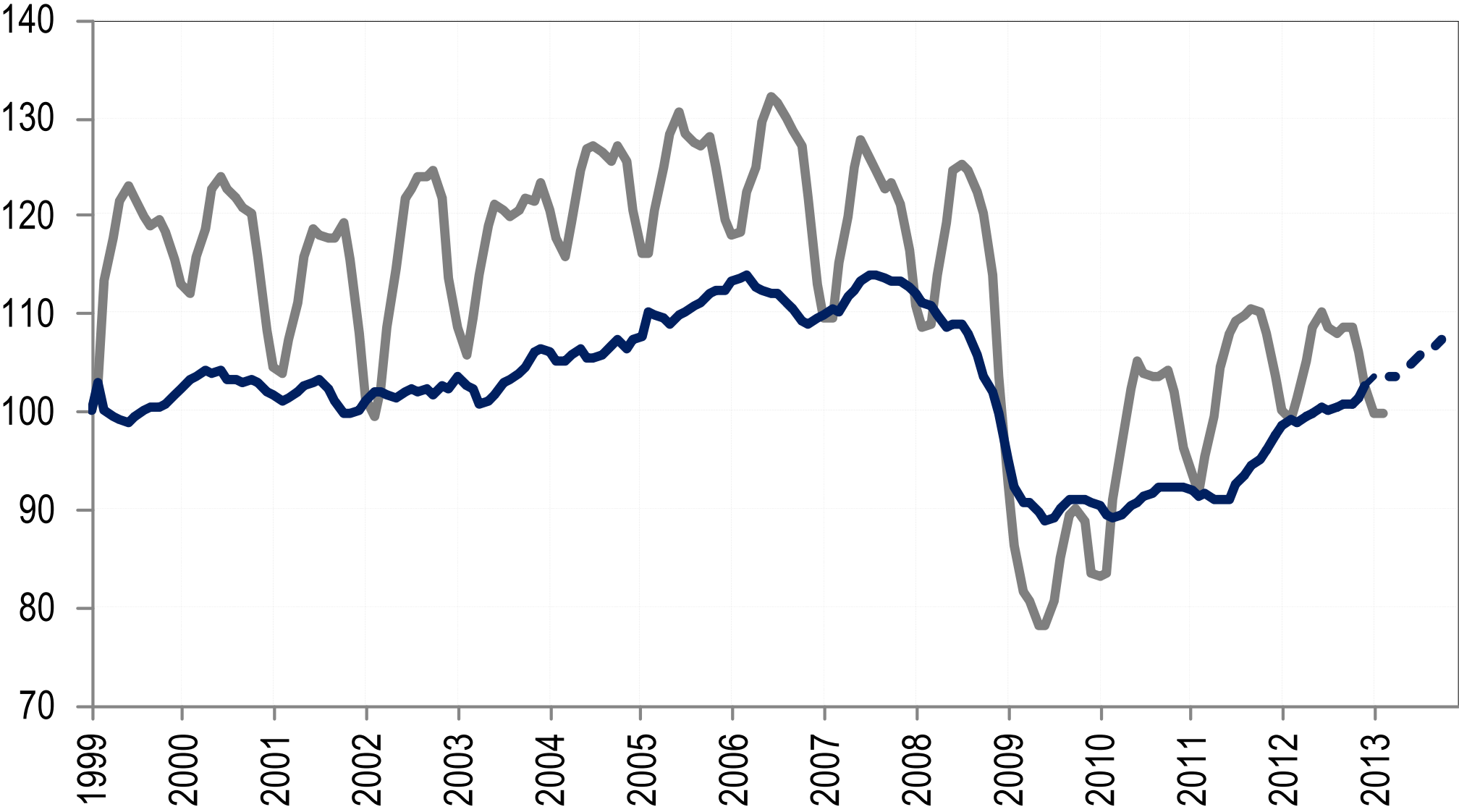
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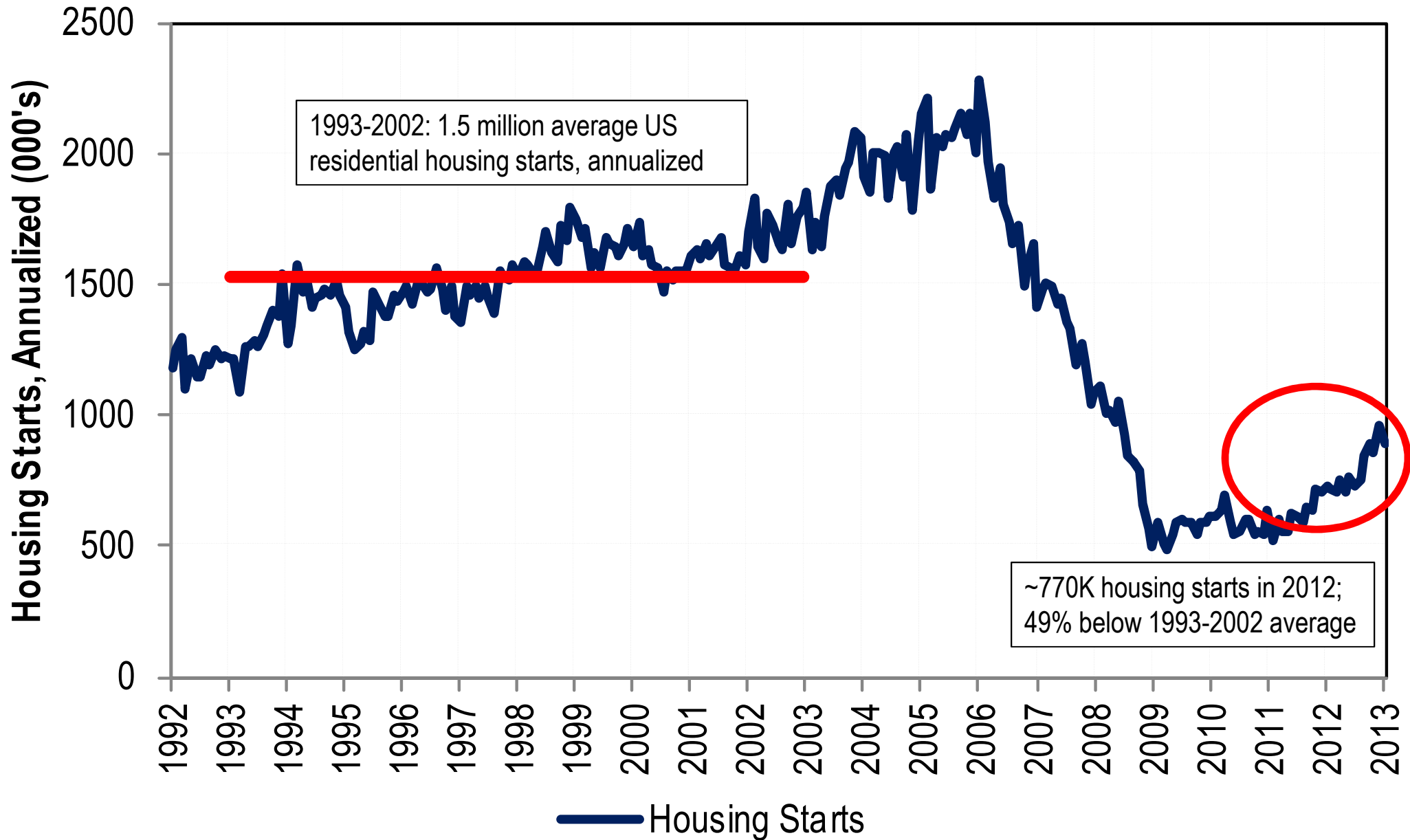
Industrial End-Market Recovery Supports Freight Outlook



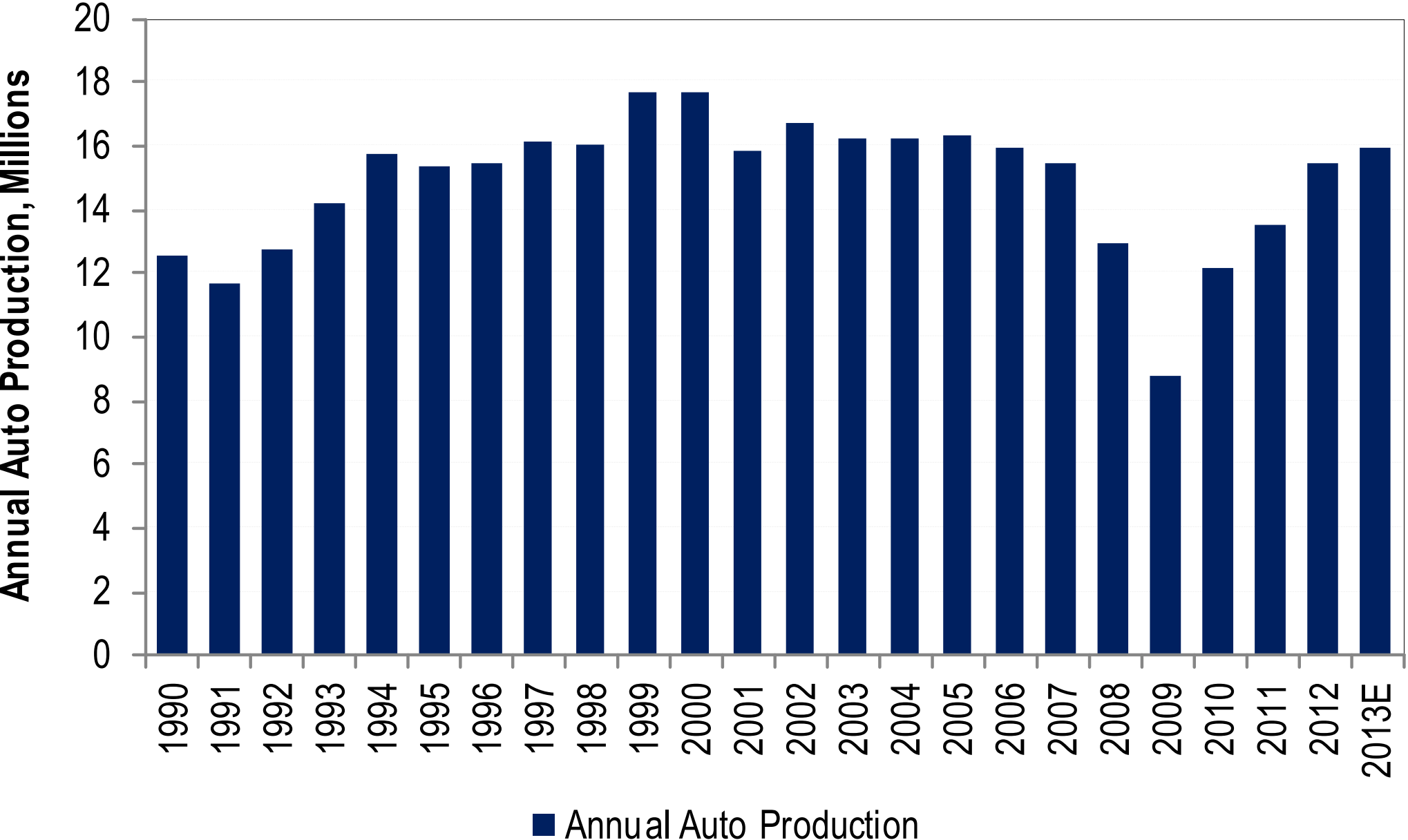
— Industrial Carload Index — Baird Industrial Freight Composite

*Composite includes Housing Starts, Non-Residential Construction, Industrial Production, N.A. Light Auto Production

Real Signs of a Housing Bottom

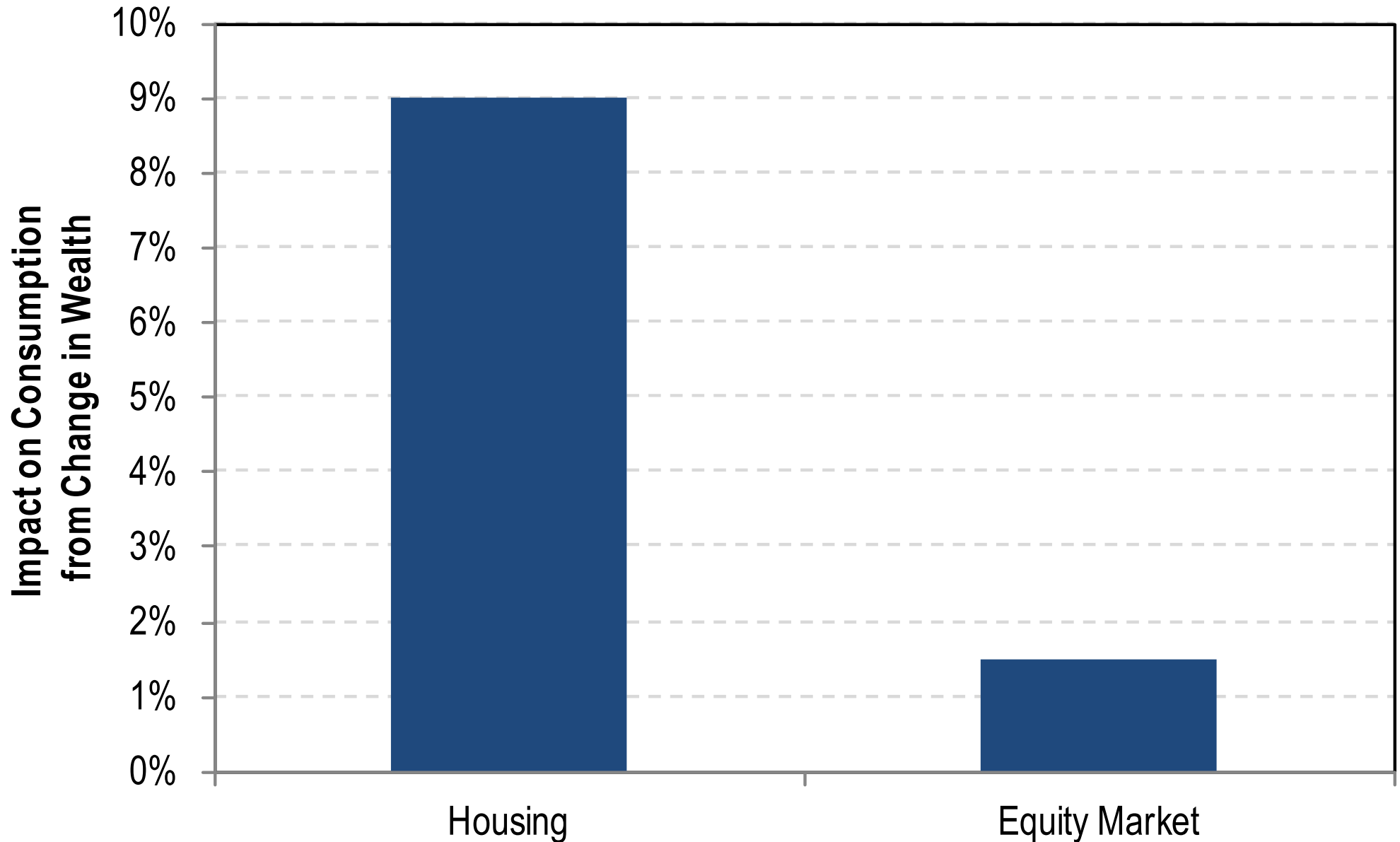


Automotive Market Recovering from Recessionary Lows



Housing's Wealth Effect 6x Greater than Stocks'

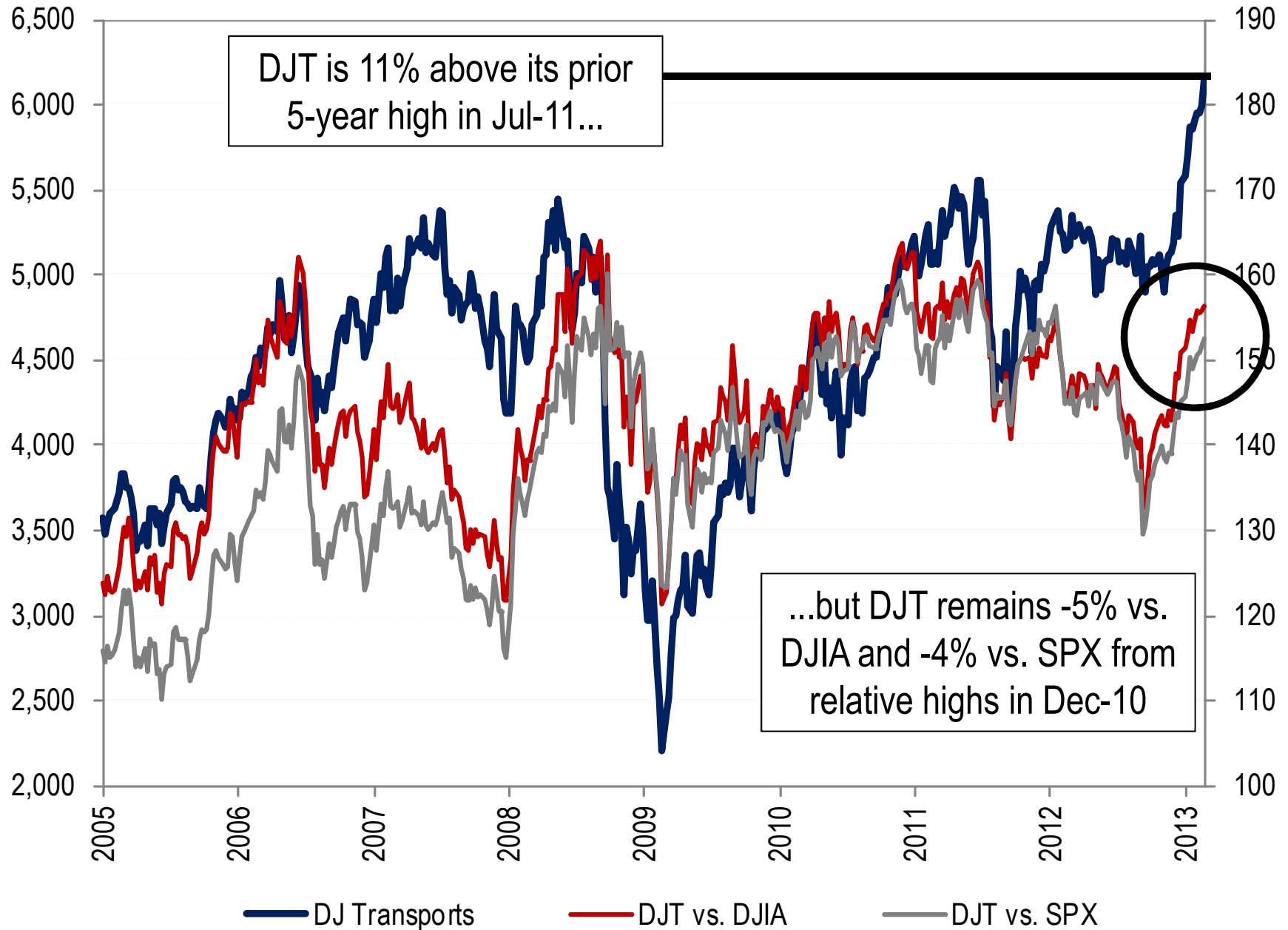
- Support for US consumer demand



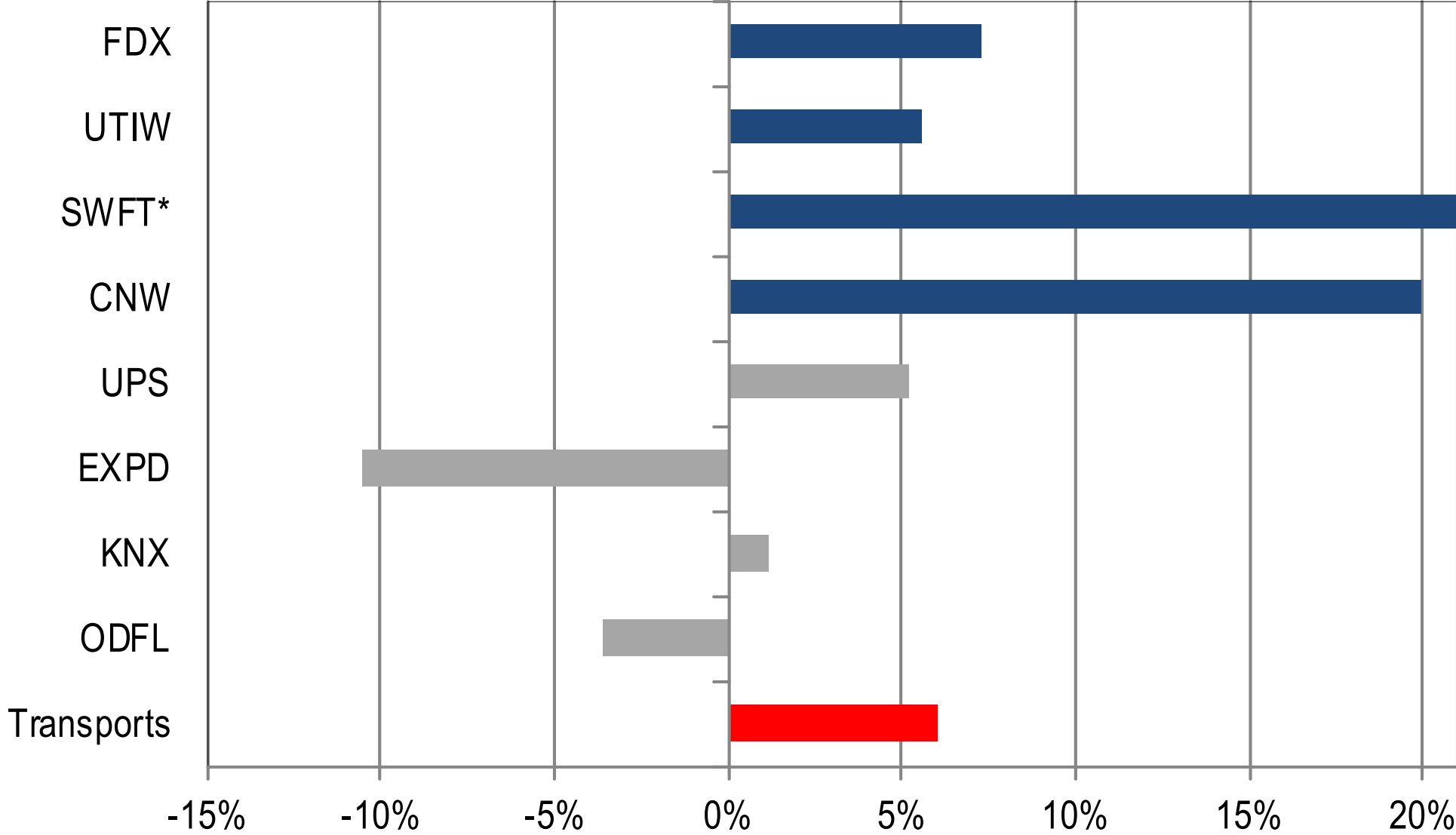
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Dow Jones Transports vs. Benchmarks

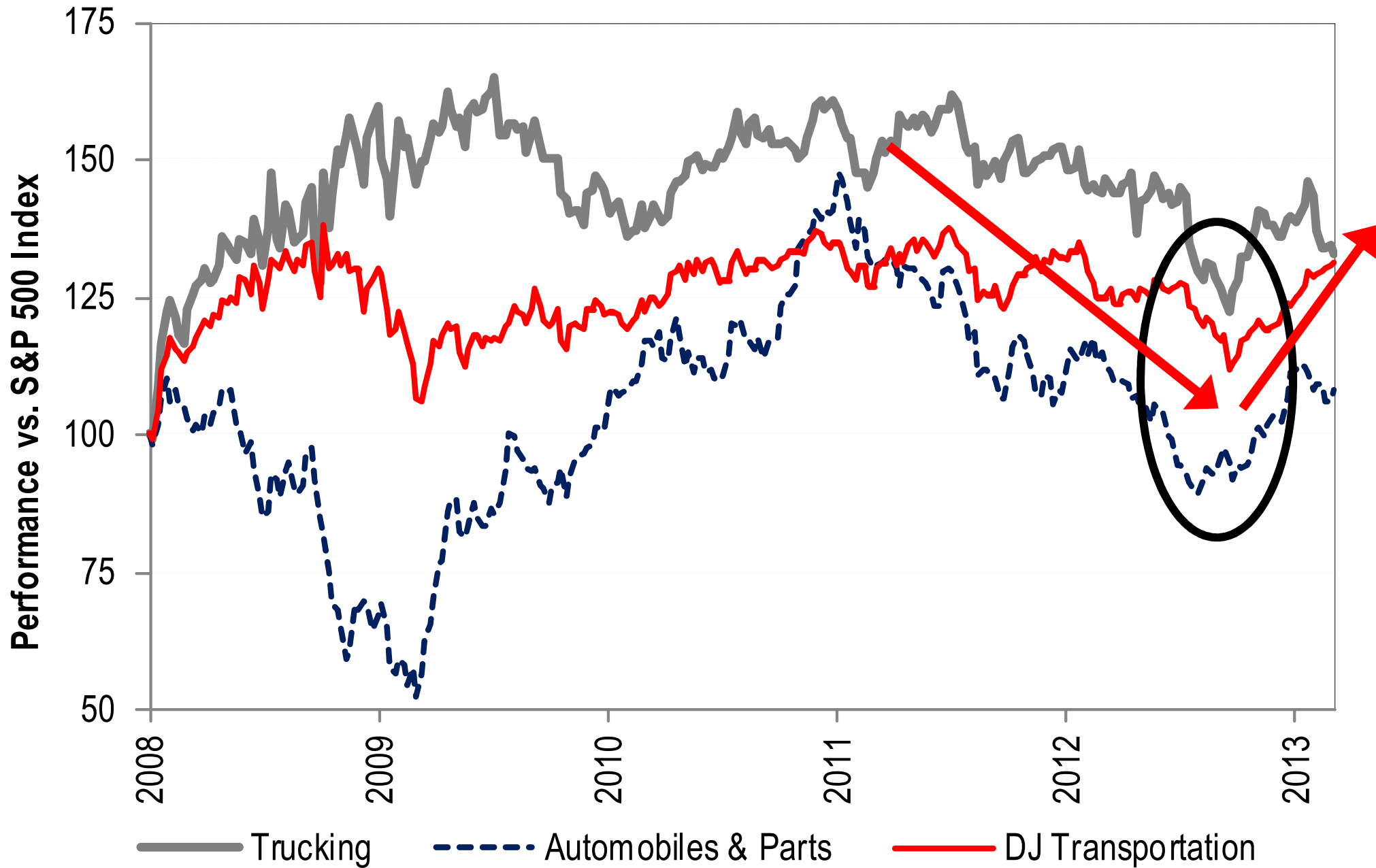


Performance vs. S&P 500 2013 YTD Through March 11

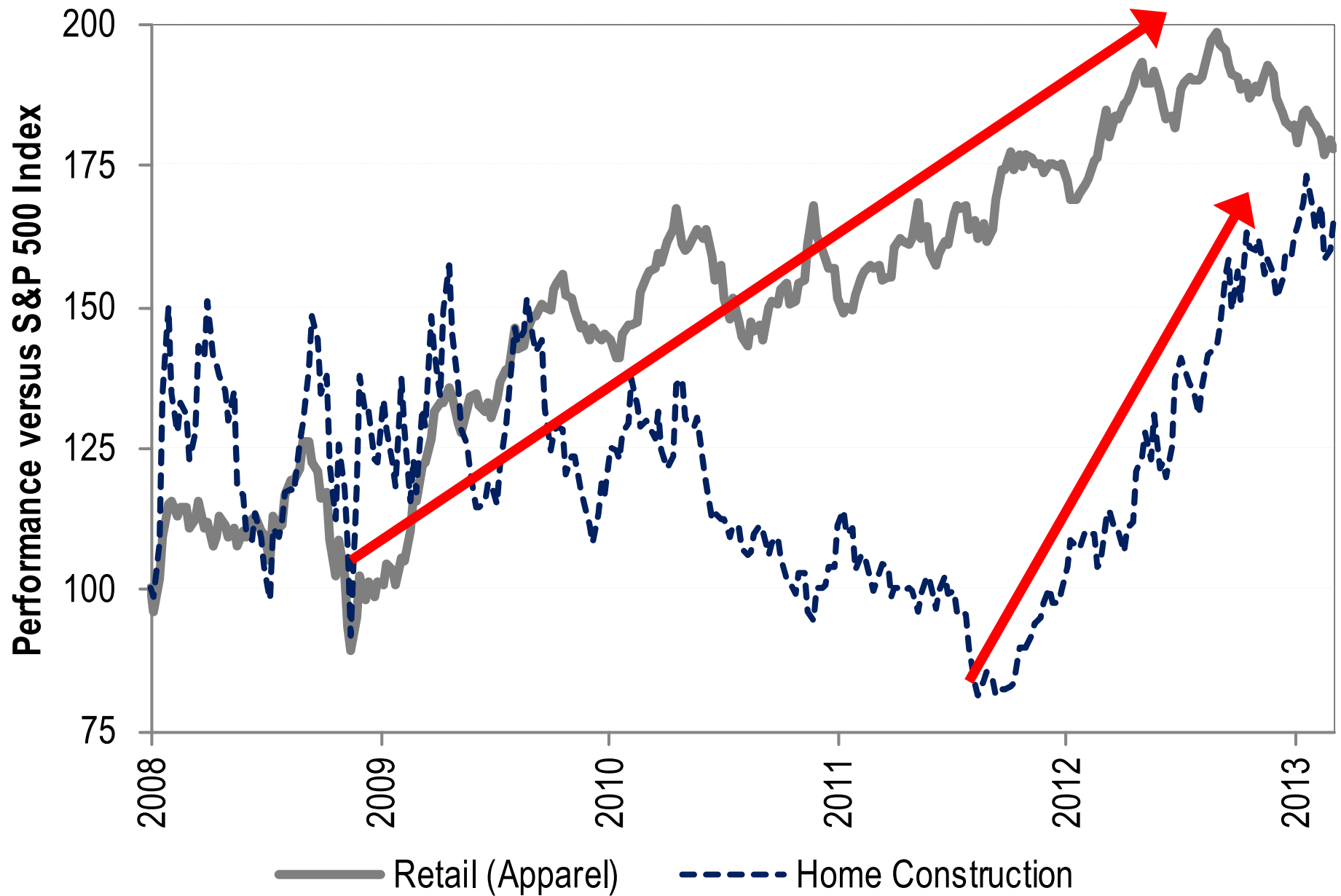


*SWFT +41% YTD

Early-Cycle Industrials' Stock Performance Inflected in Late 2012...



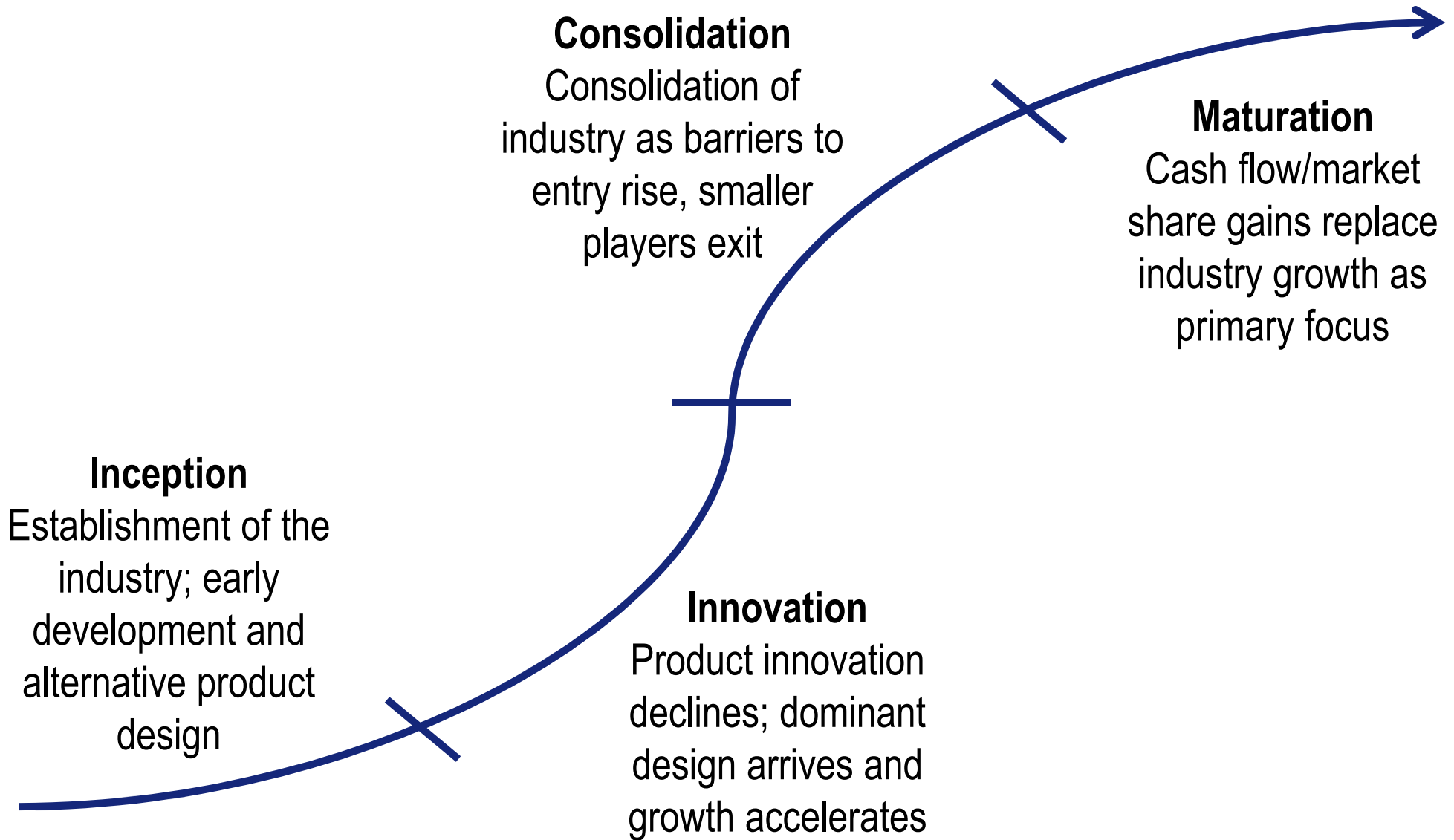
...Finally Following Freight-Sensitive Stocks



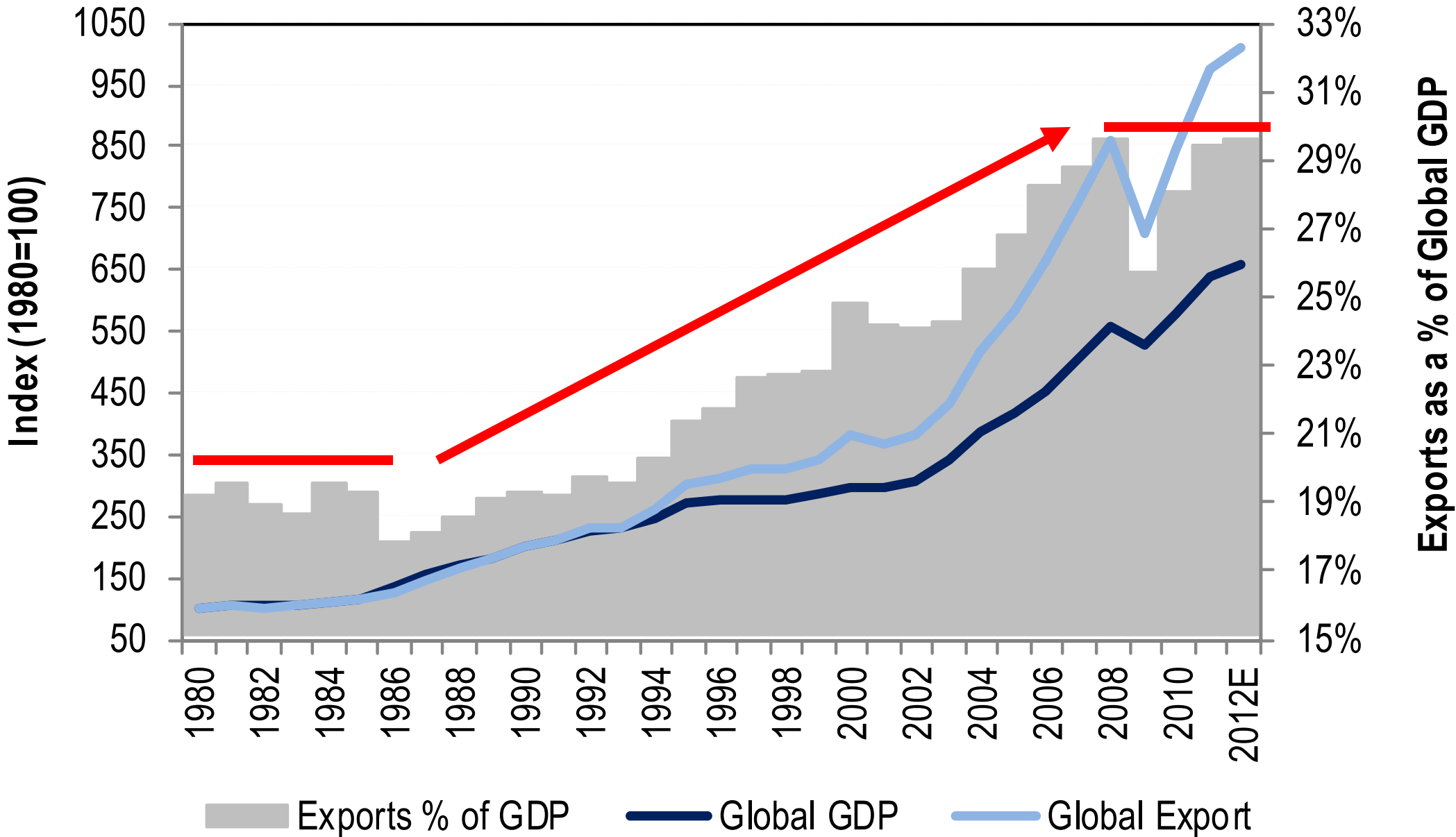
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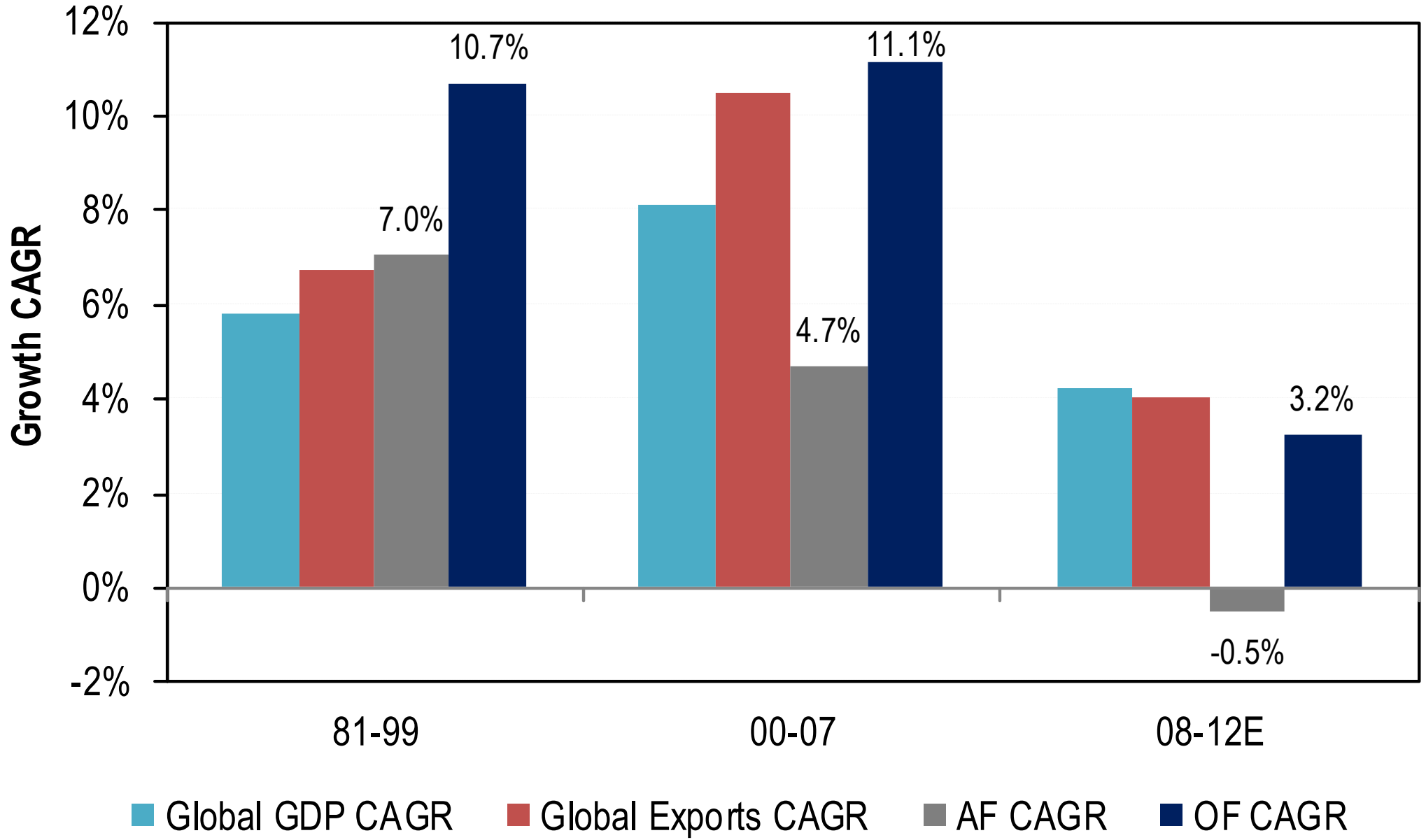
Life Cycle of an Industry



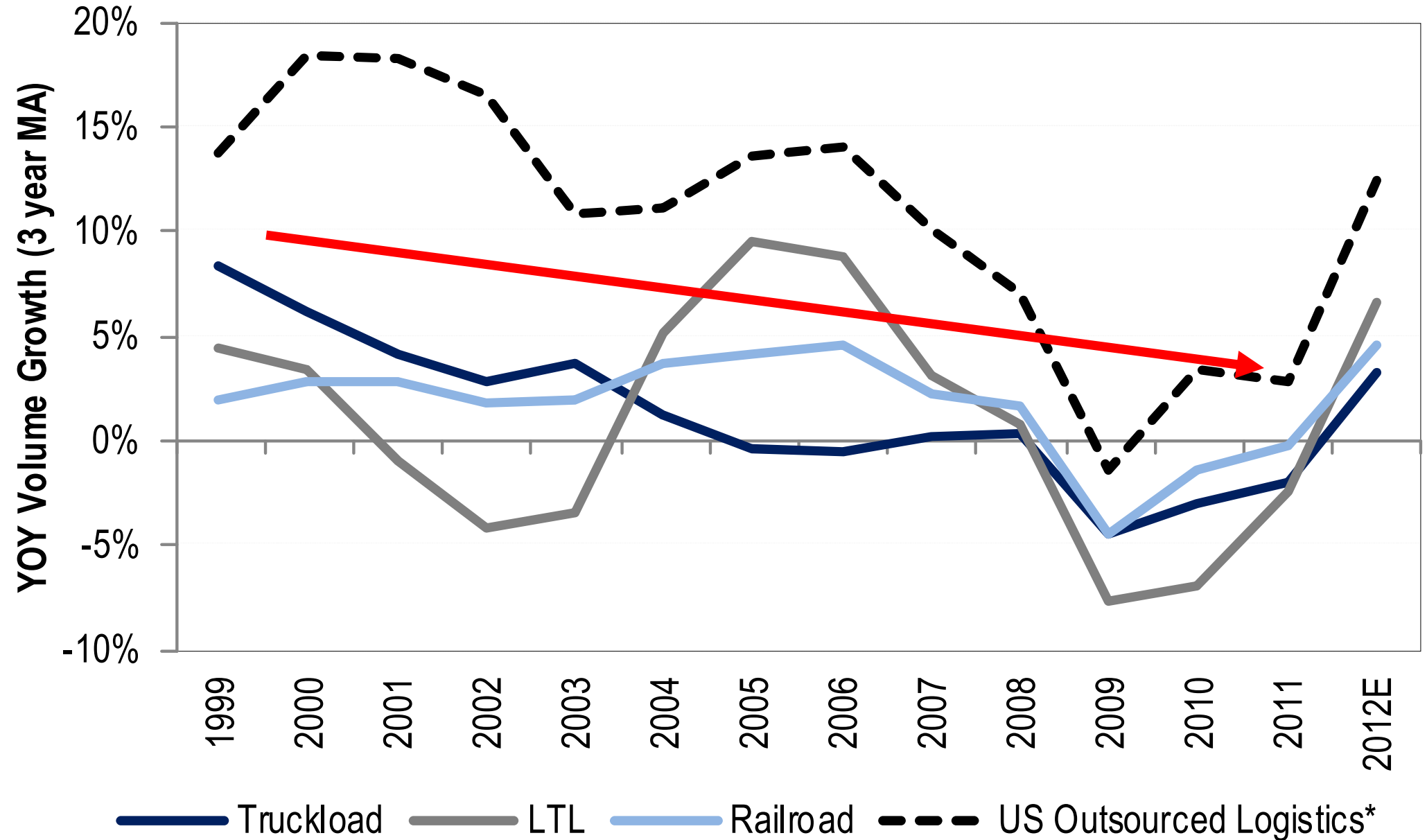
Exports' Penetration of GDP Plateauing



Slowing Growth Has Been a Theme for Years, if Not Decades

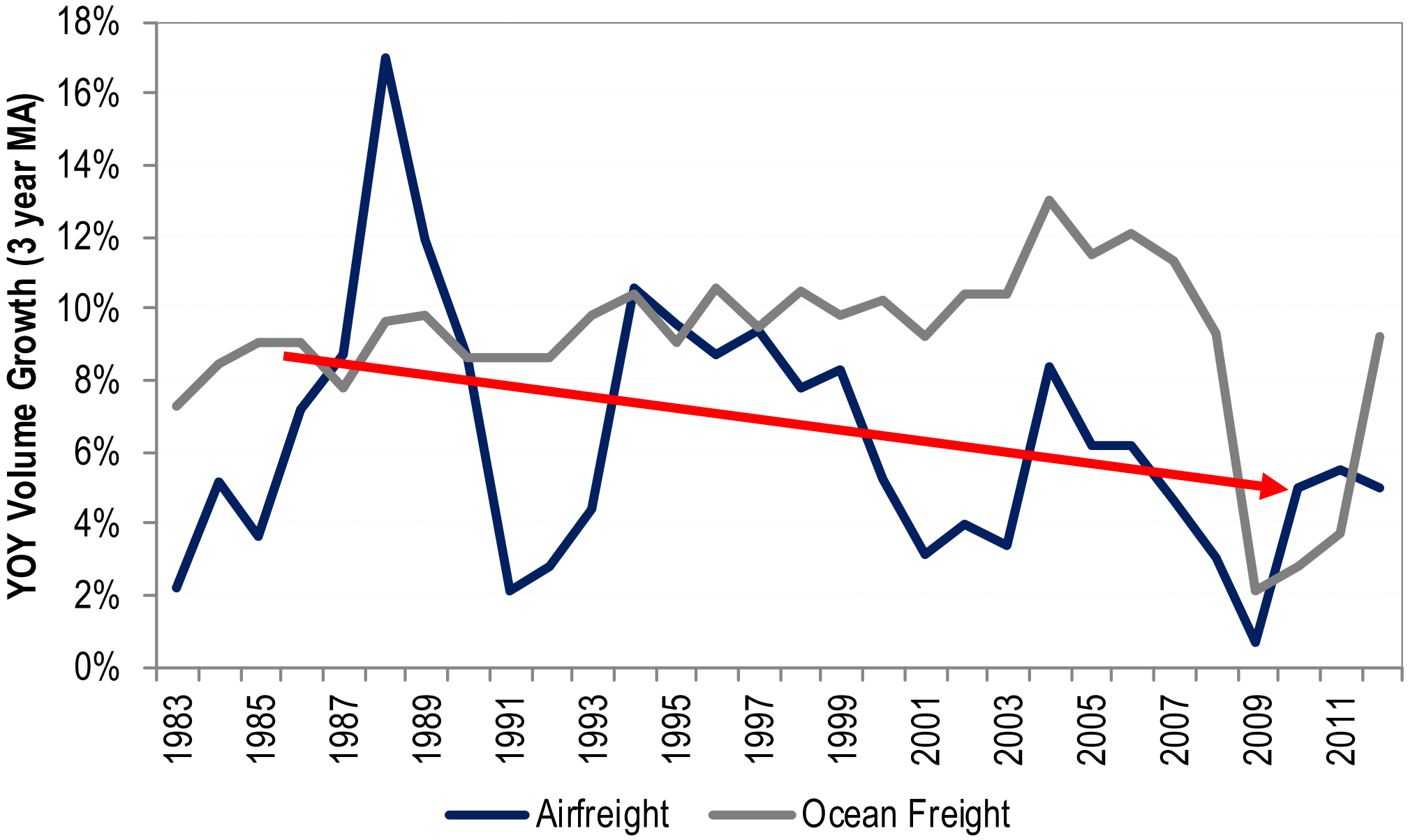


Growth of Logistics Has Slowed in Recent Years



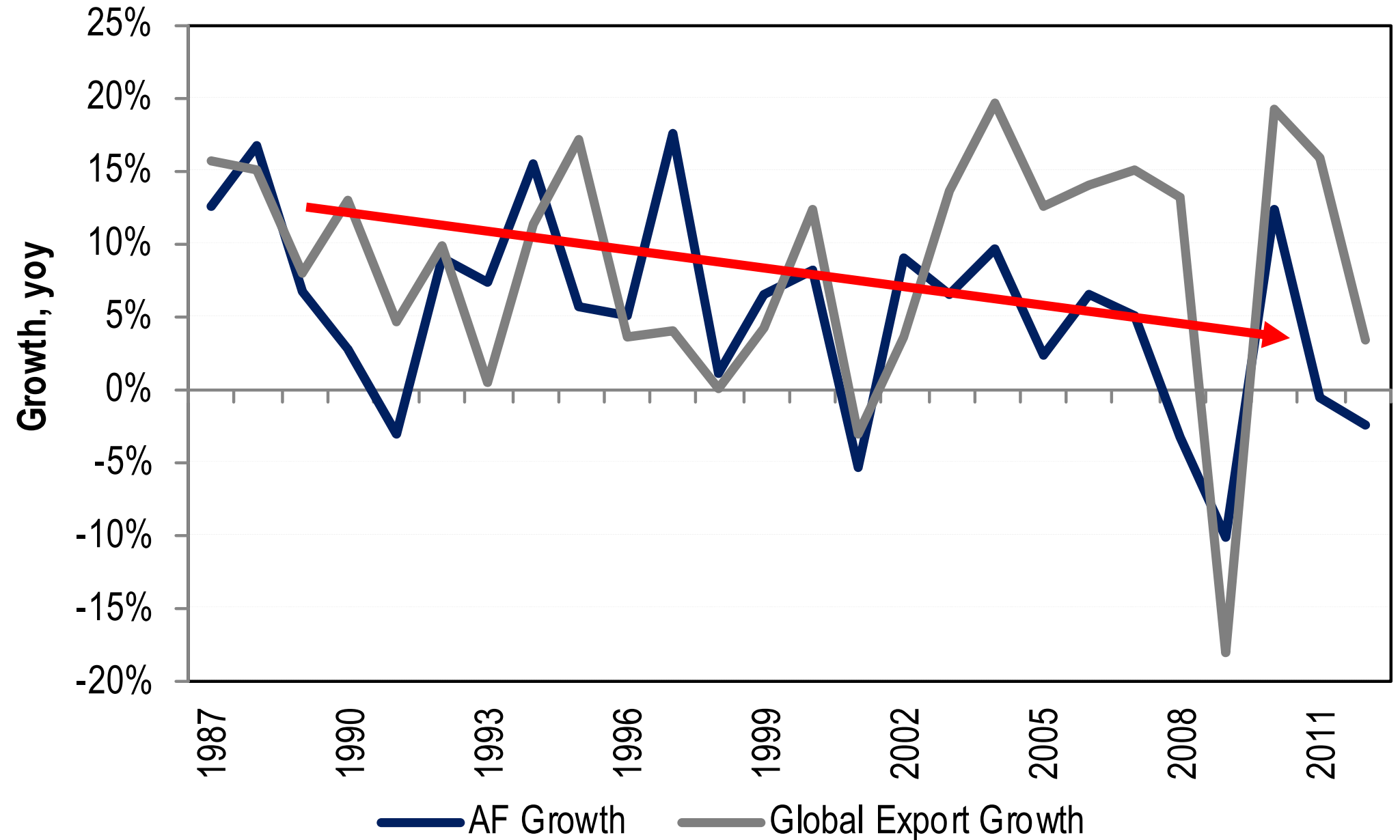
*Outsourced Logistics growth measures revenue
 Source: ATA, AAR, Armstrong & Associates Company data, Baird estimates

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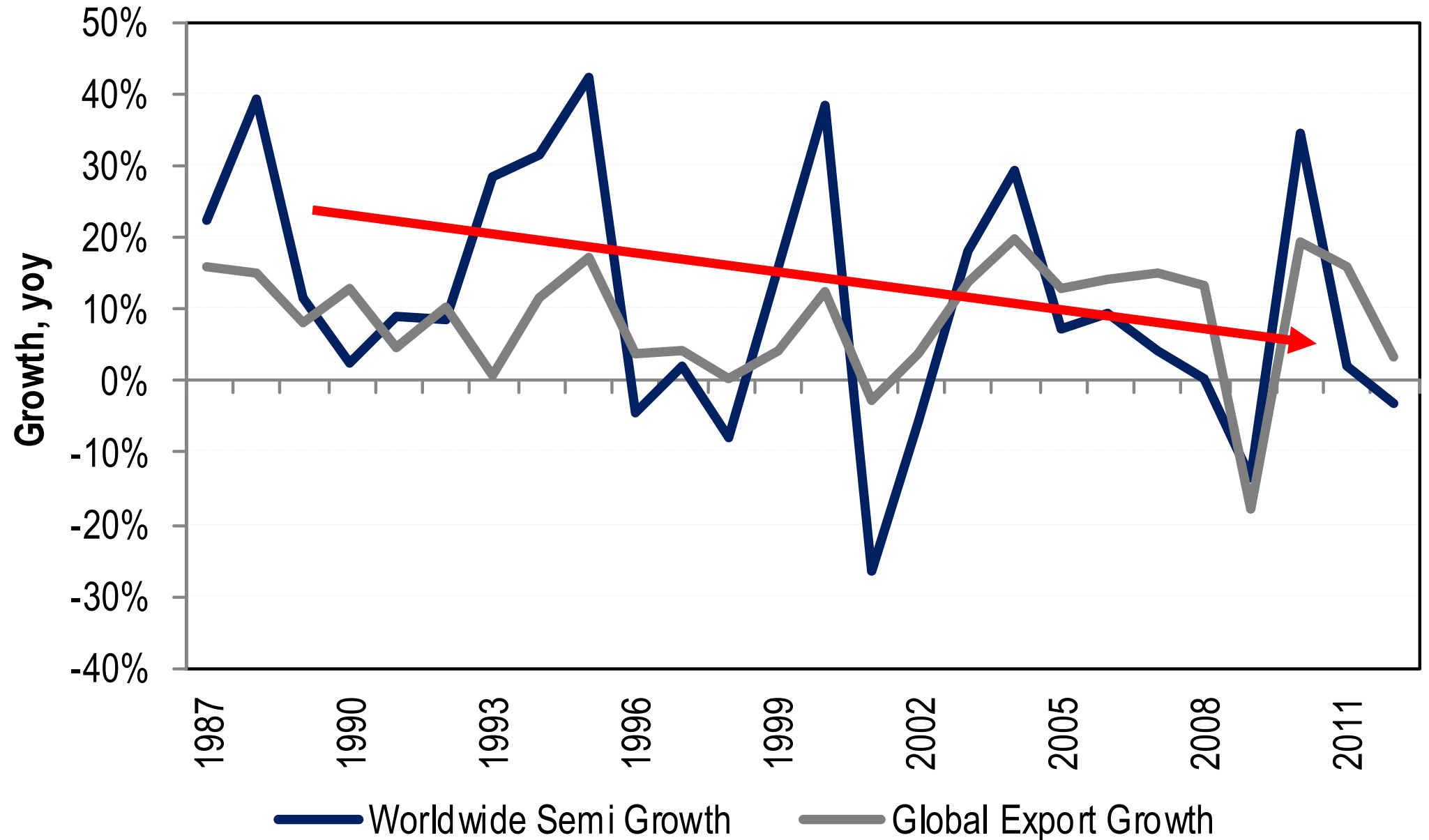
Source: IATA, AAWW, Clarkson's, TAL, Boeing, Baird estimates

Growth Slowing in Key AF Volume Drivers

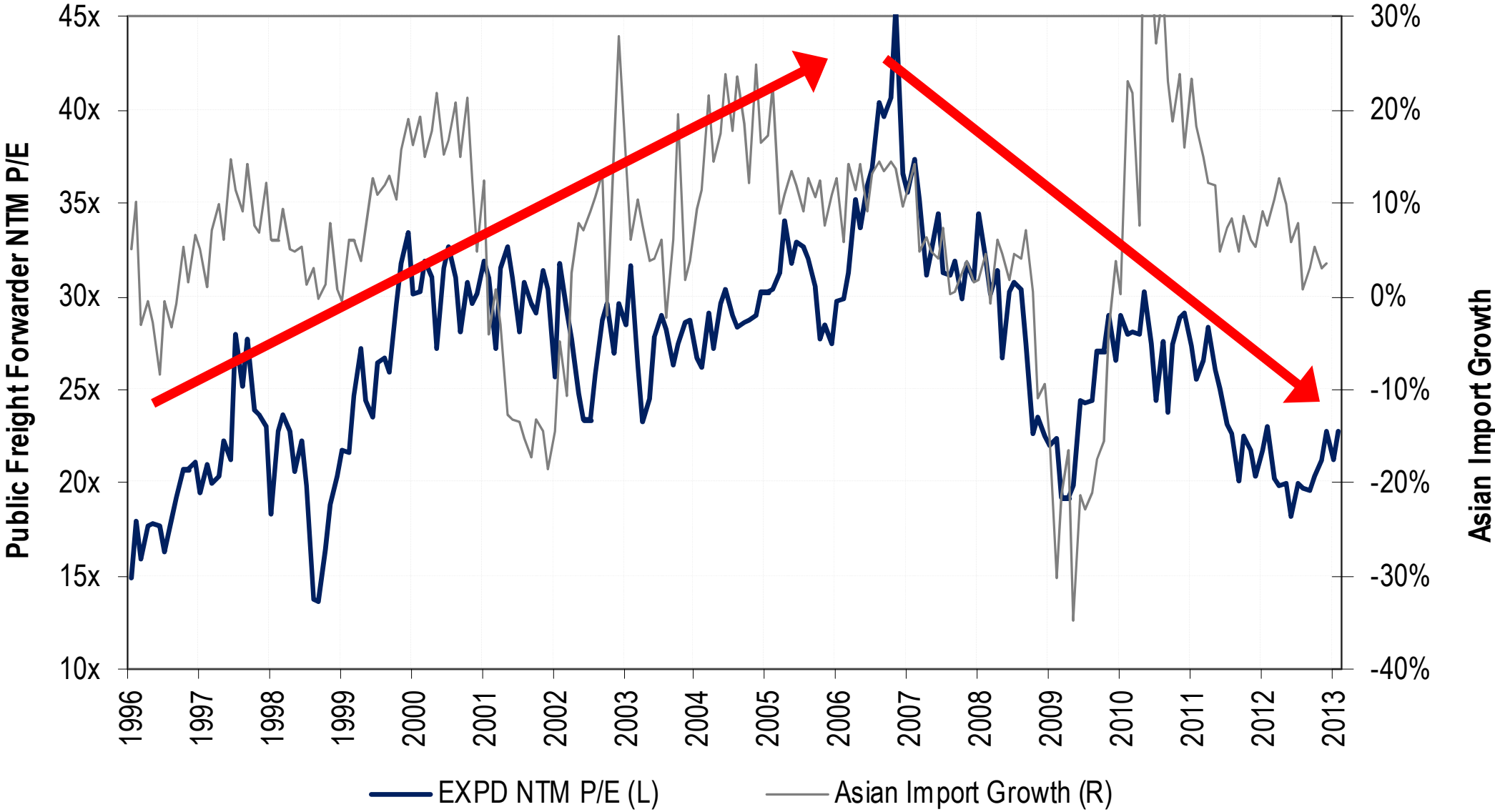


— AF Growth — Global Export Growth

Growth Slowing in Key AF Volume Drivers



Freight Forwarders' Valuation (and Growth) Closely and Logically Linked with Trade Growth

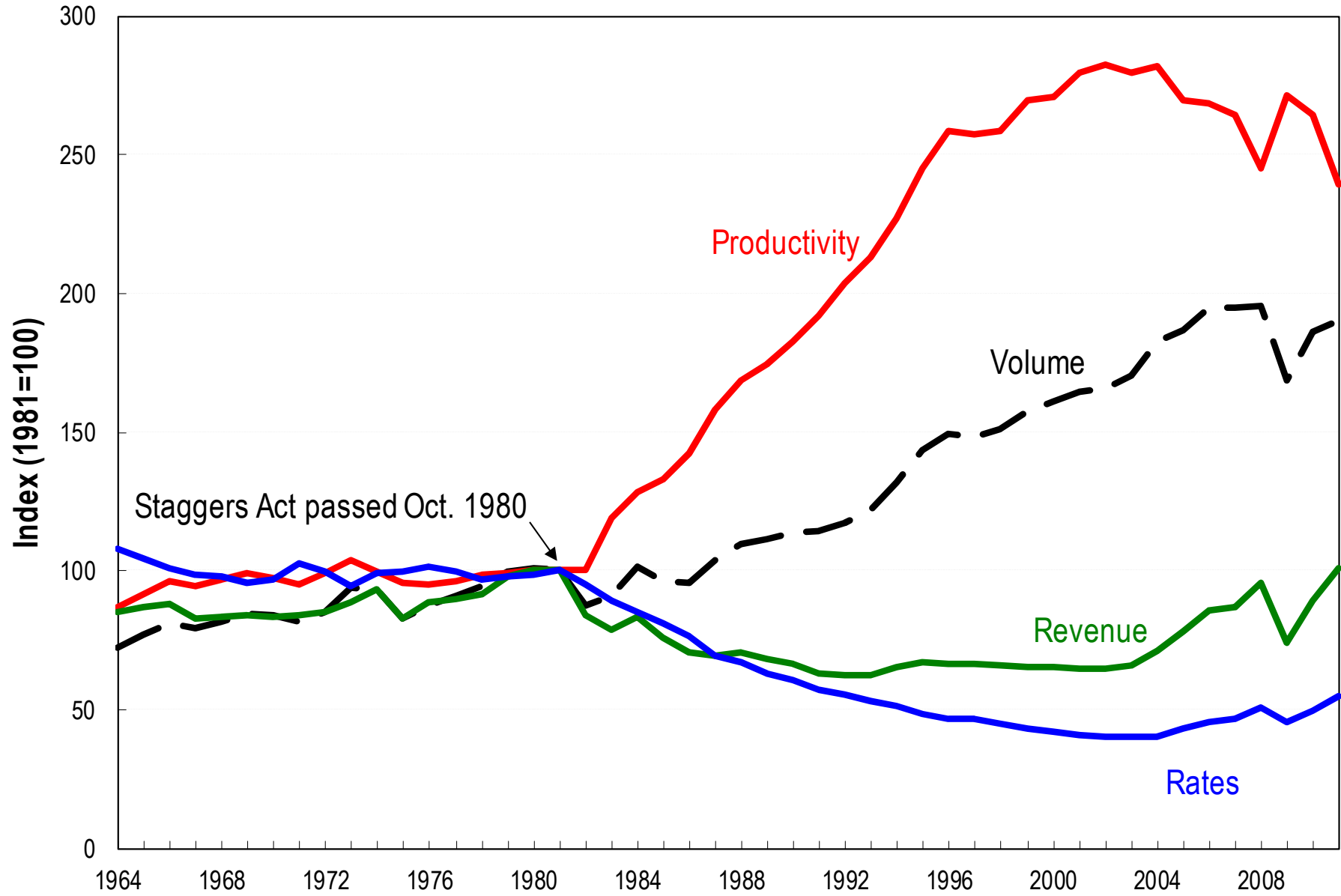


Source: FactSet, IATA

An Economy and an Industry at an Inflection Point

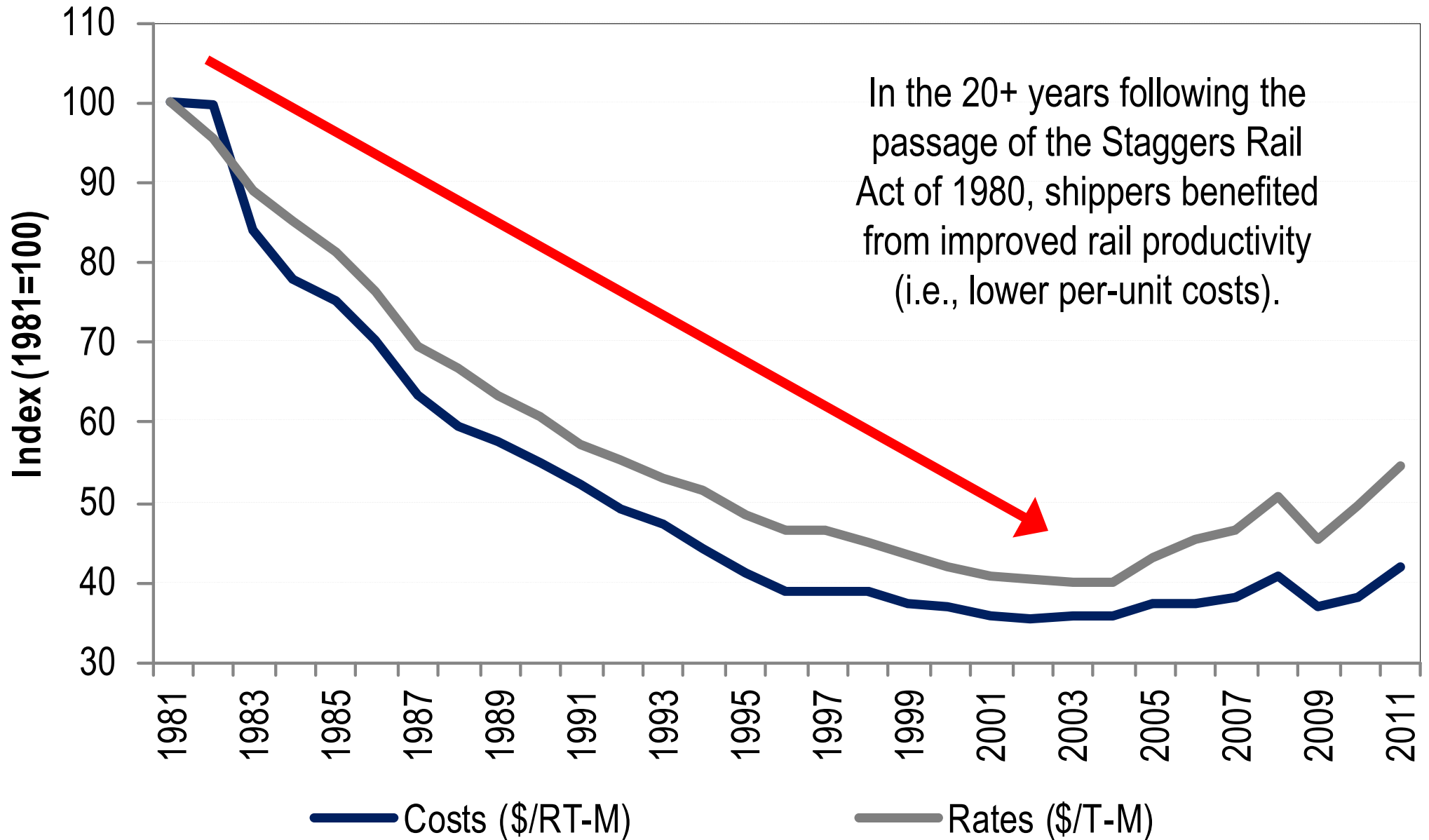
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Rail Pricing “Renaissance” Coincided with Slowing Productivity Gains

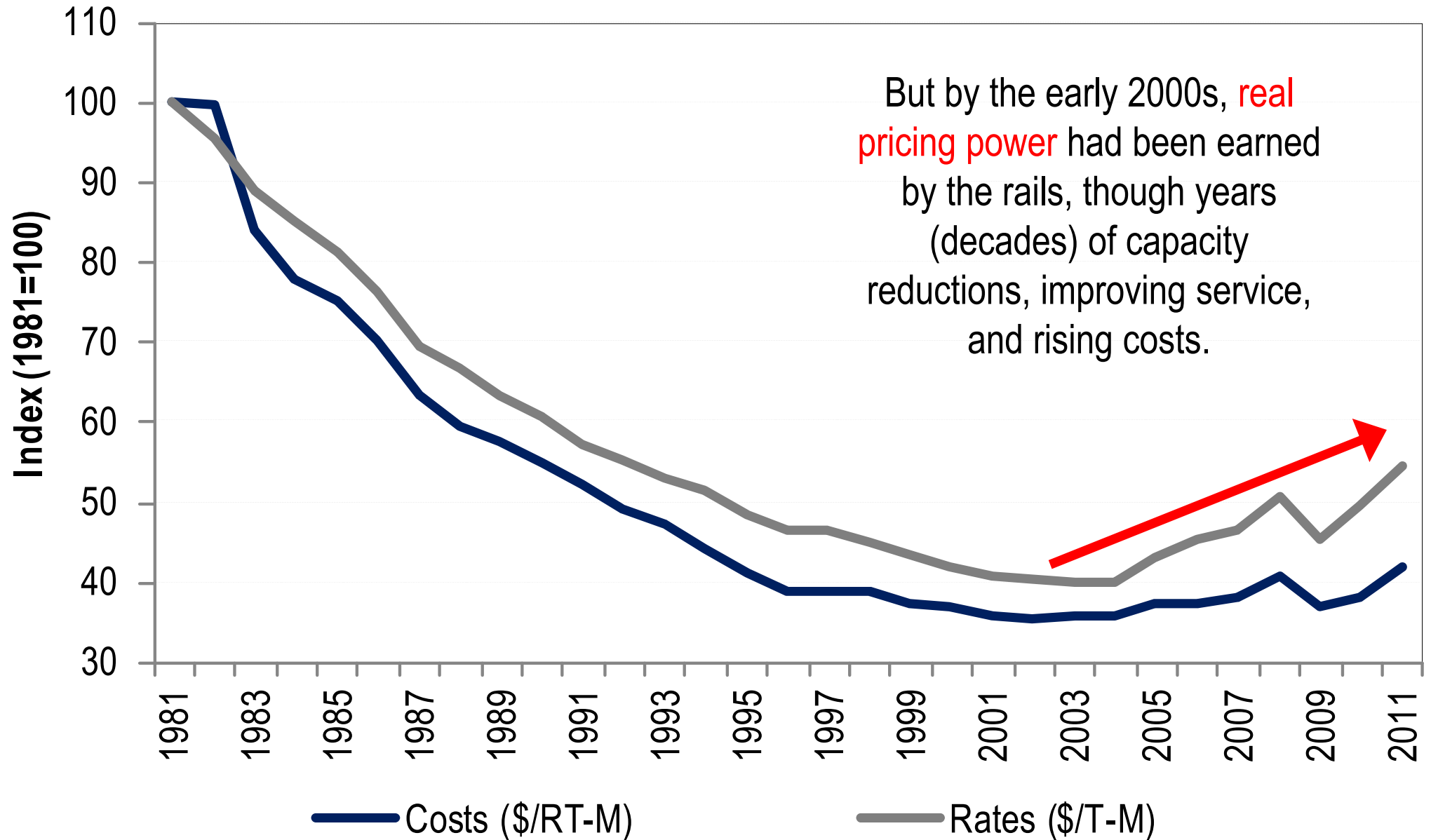


p - preliminary Rates are revenue per ton-mile; volume is ton-miles.

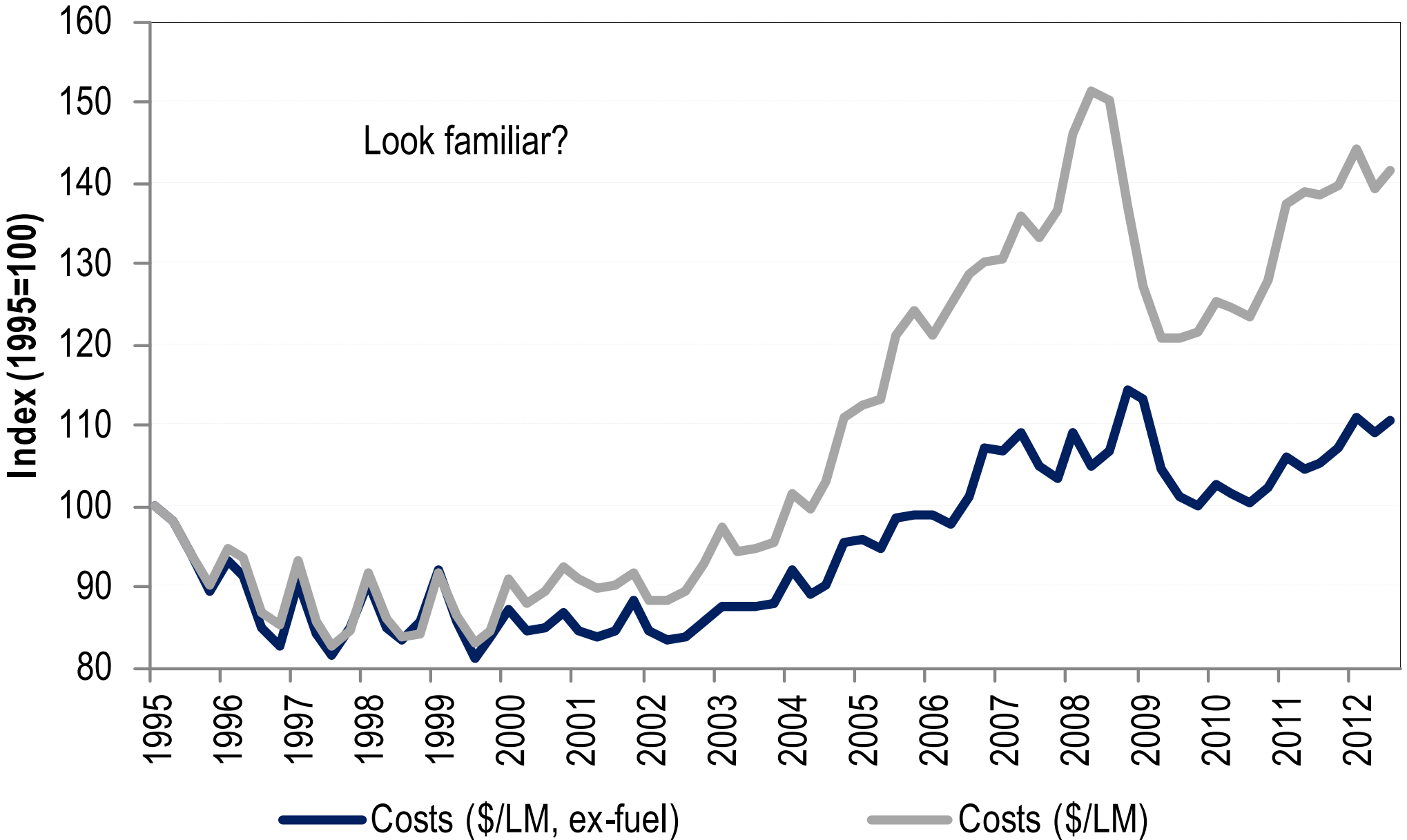
Rising Rail Costs Supported the Need for Higher Rates from Shippers



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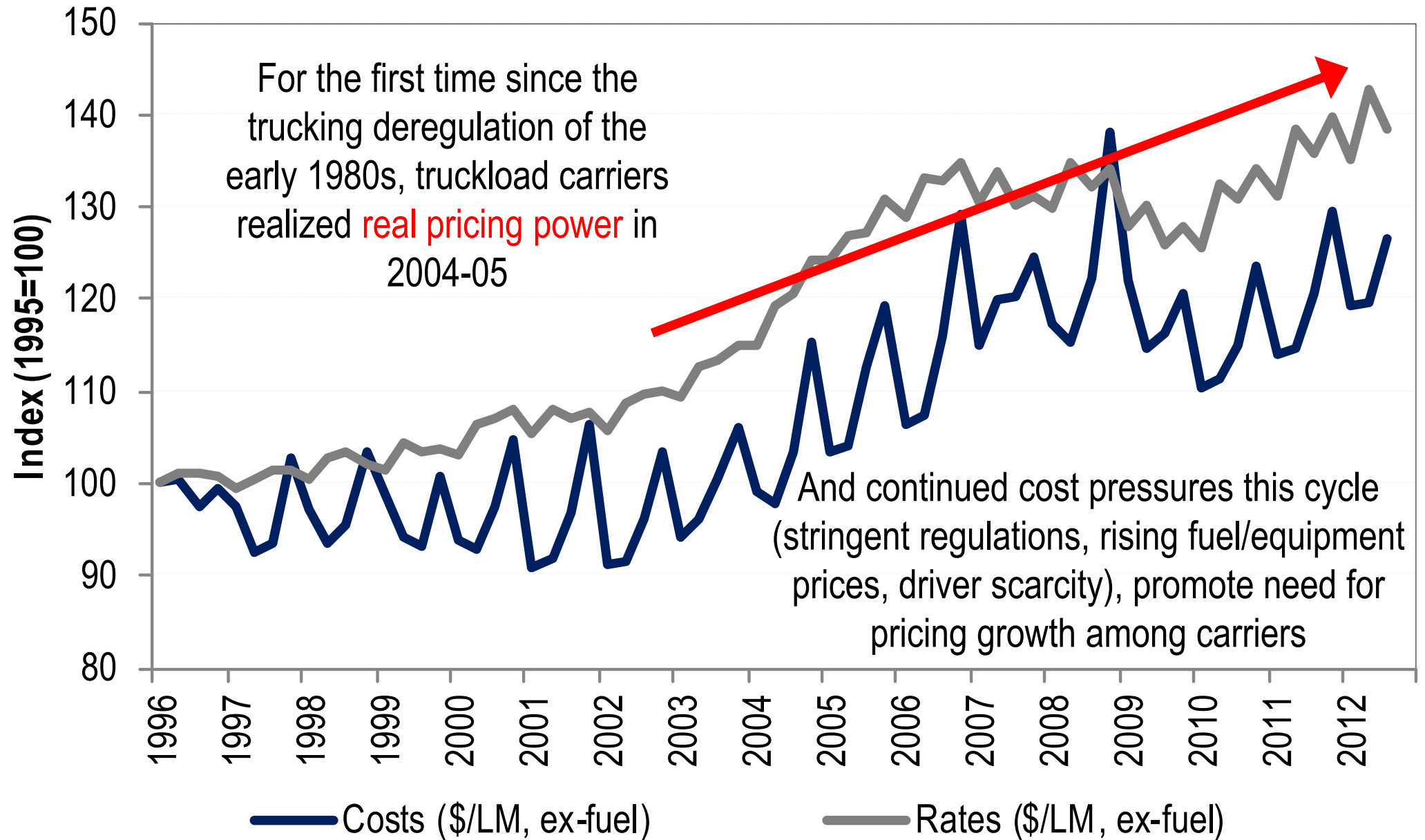


A Similar Dynamic Has Emerged in Trucking...



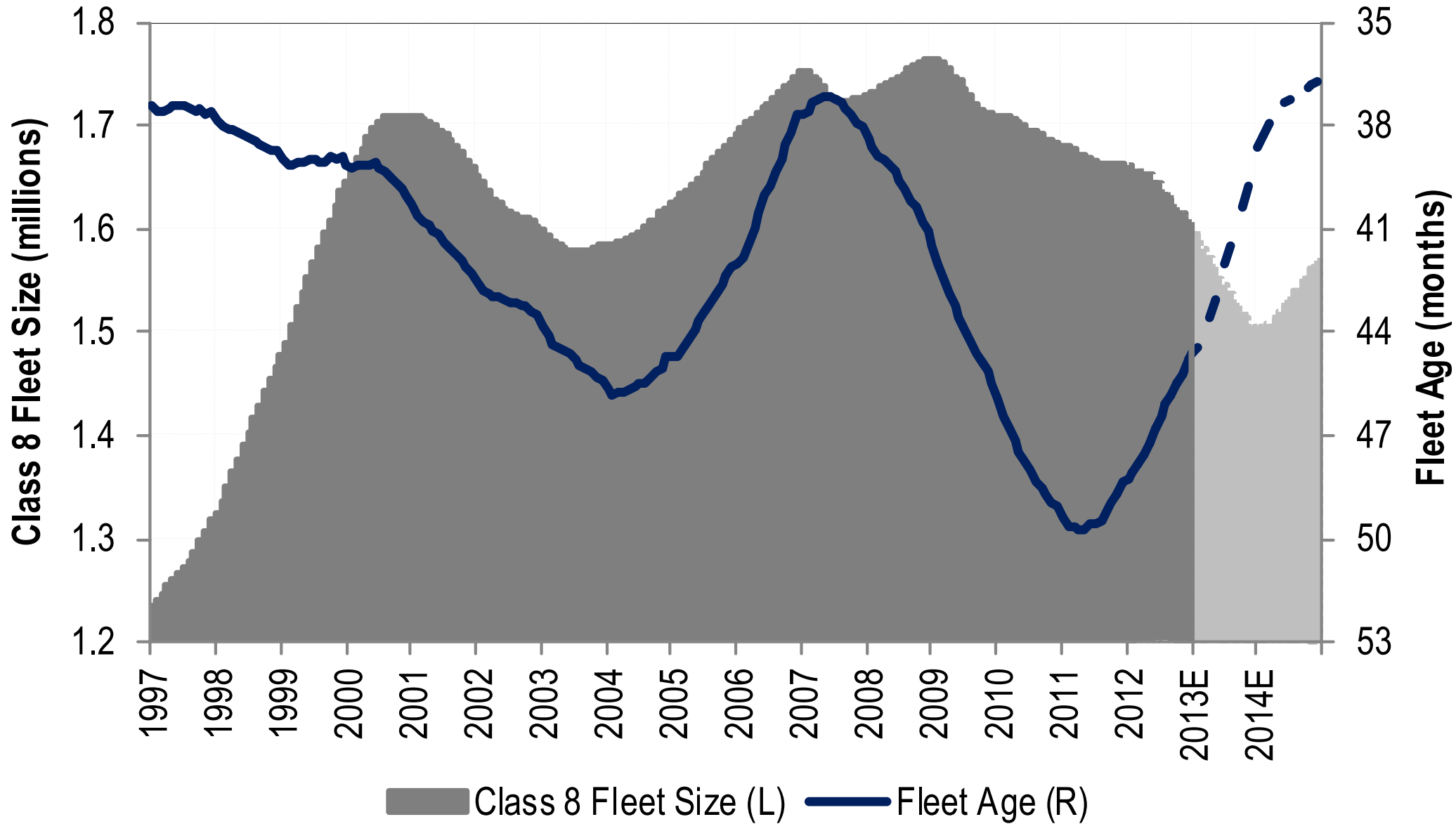
Source: ACT Research, Company data, Baird estimates

...Supporting Higher Truck Rates

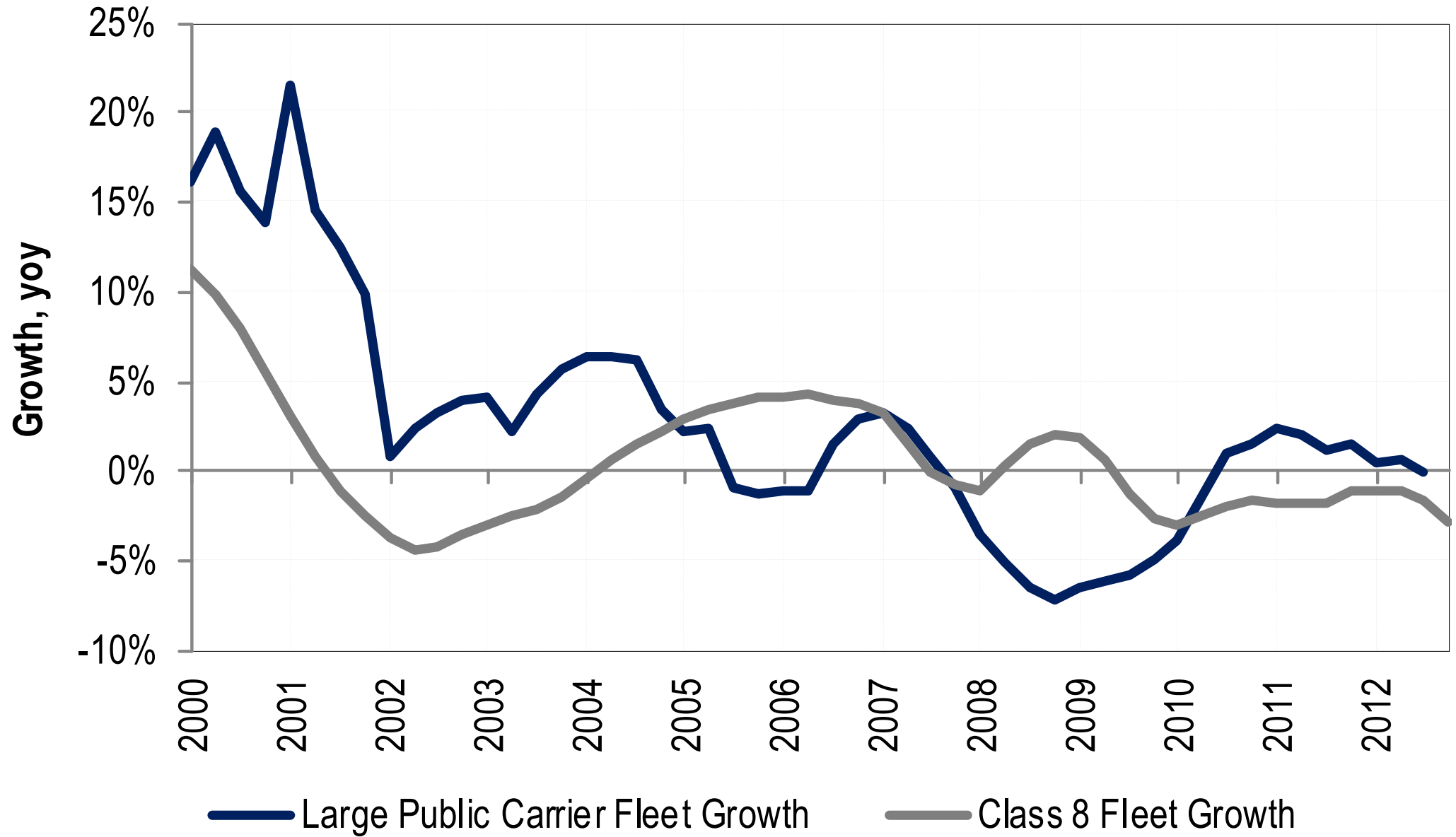


Source: ACT Research, Company data, Baird estimates

The Class 8 Fleet Is Shrinking...



... as Fleet Growth Has Remained Constrained



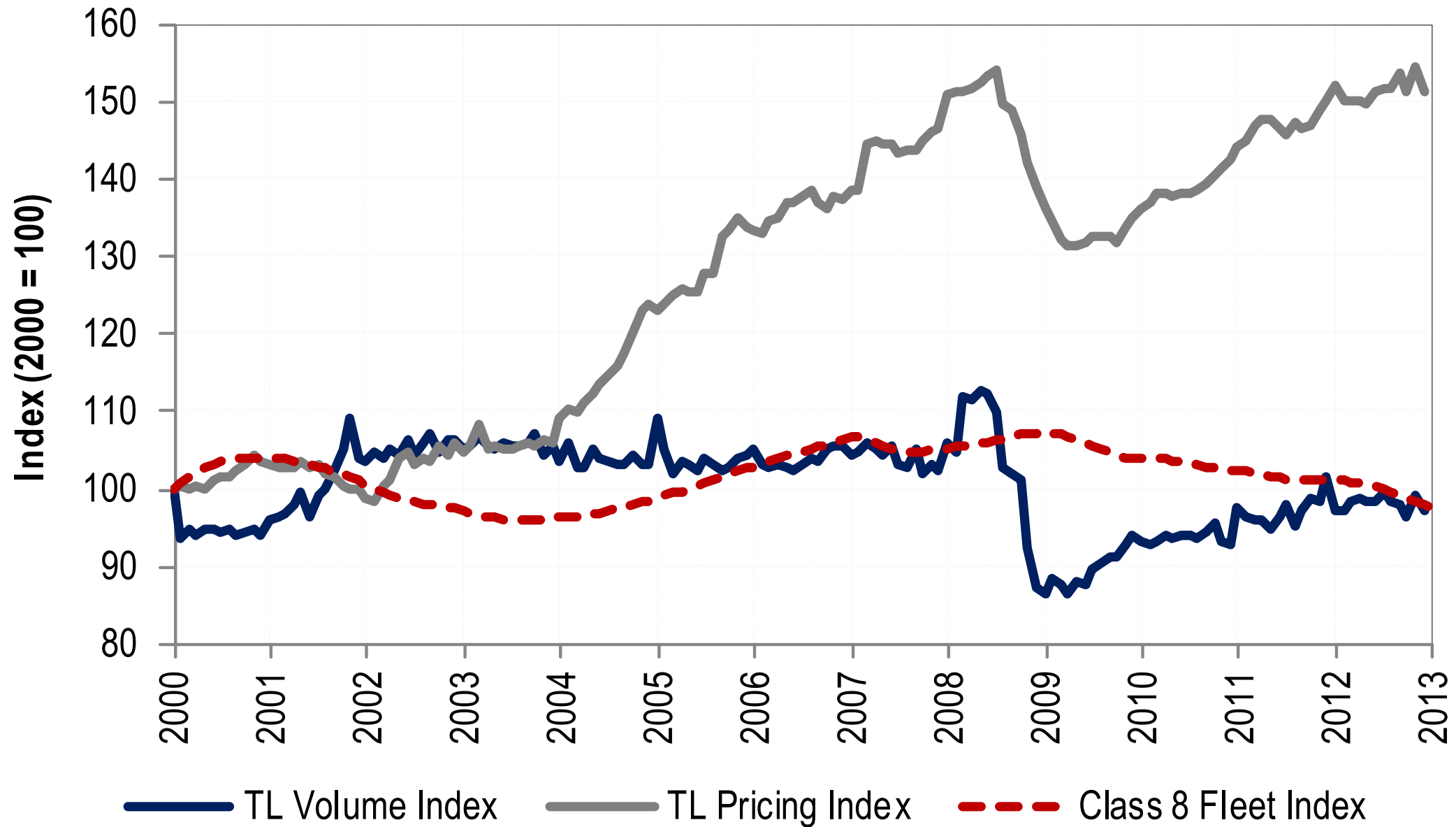
Large Public Carrier Fleet Growth

Class 8 Fleet Growth

Increasing Regulations Also a Constraint

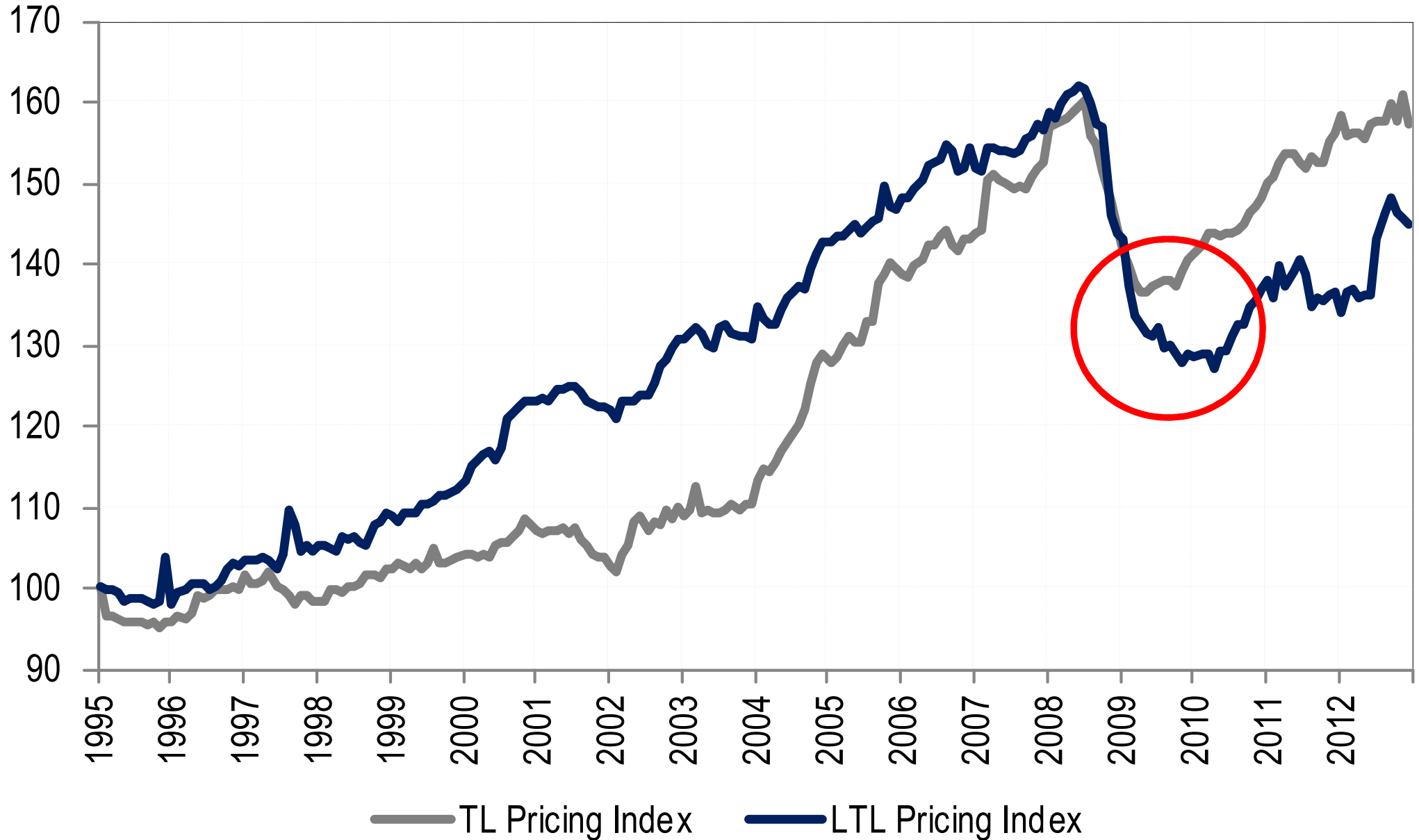
Regulatory Action	Implementation	Description	Effect
Compliance, Safety, Accountability (CSA)	2011-13	Initiative to improve truck safety by evaluating driving performance of carriers and drivers. Evaluation process evolving.	Estimated to reduce carrier capacity by 3-9% and driver capacity by 9% (Schneider Trucking).
Hours of Service (HOS)	Mid-2013	DOT proposal mandates breaks every 8 hours and adjusts restart provisions.	Estimated to reduce industry productivity by 2-3%.
Electronic On-board Recorders (EOBRs)	Uncertain	Mandated devices on tractor-trailers that record driver behavior in order to prevent violation of driving laws.	\$500-\$2,000 per truck.
Moving Ahead for Progress in the 21st Century Act	2013	Increases regulation of freight brokers and forwarders by increasing bond requirements, disclosure and registration.	Reduces number of freight brokers and carriers offering brokerage services.
Governor Regulations	Uncertain	Mandatory speed limiters on all Commercial Motor Vehicles.	Reduces productivity.
Entry-Level Driver Training	Uncertain	Investigating mandatory training requirements and institutional accreditation for final rule October 2013.	Alter new driver certification process.

Capacity Restraint Has Improved Pricing

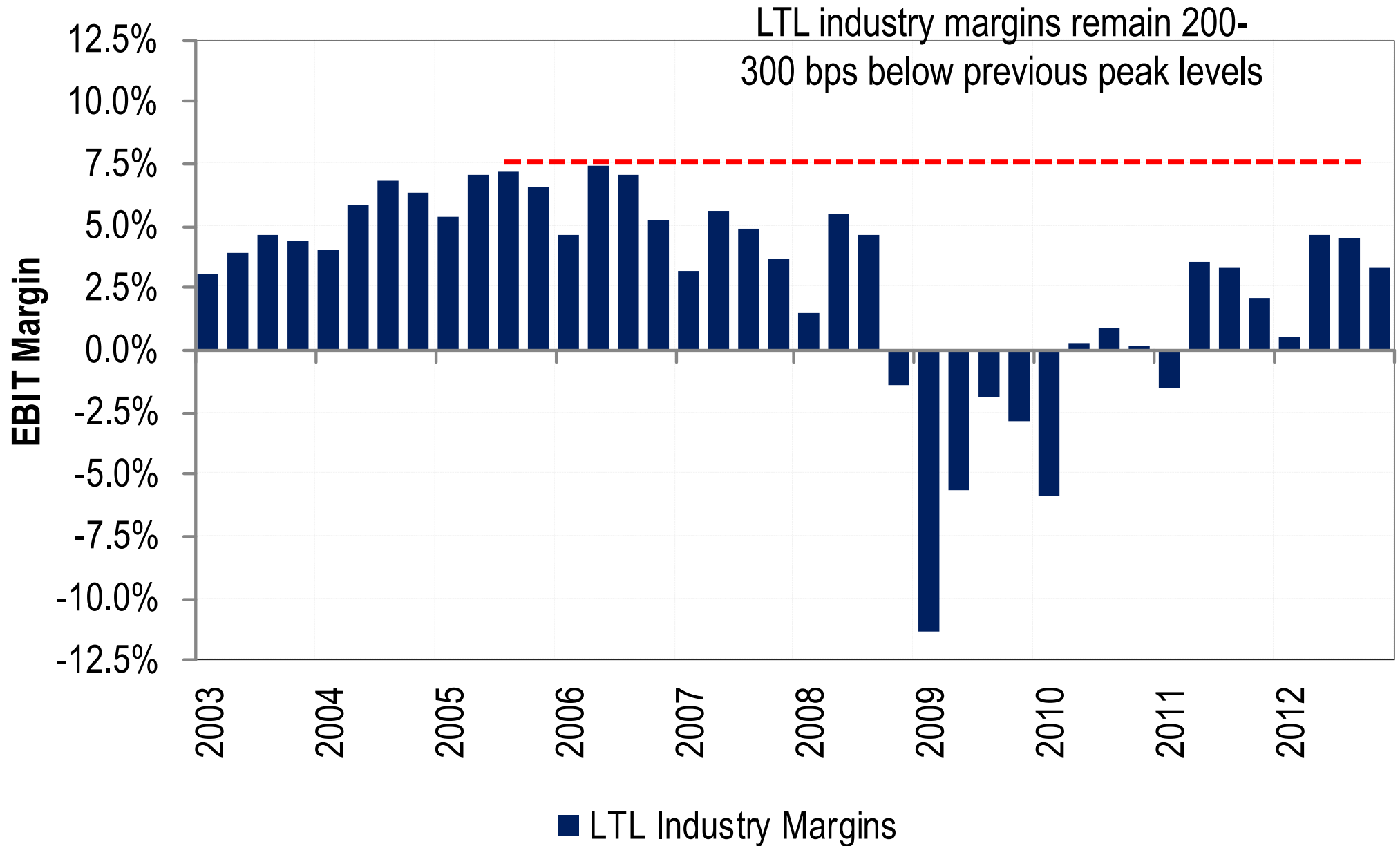


Why Does This Matter for LTL?

Historical LTL Pricing Trends Are Coincident with TL

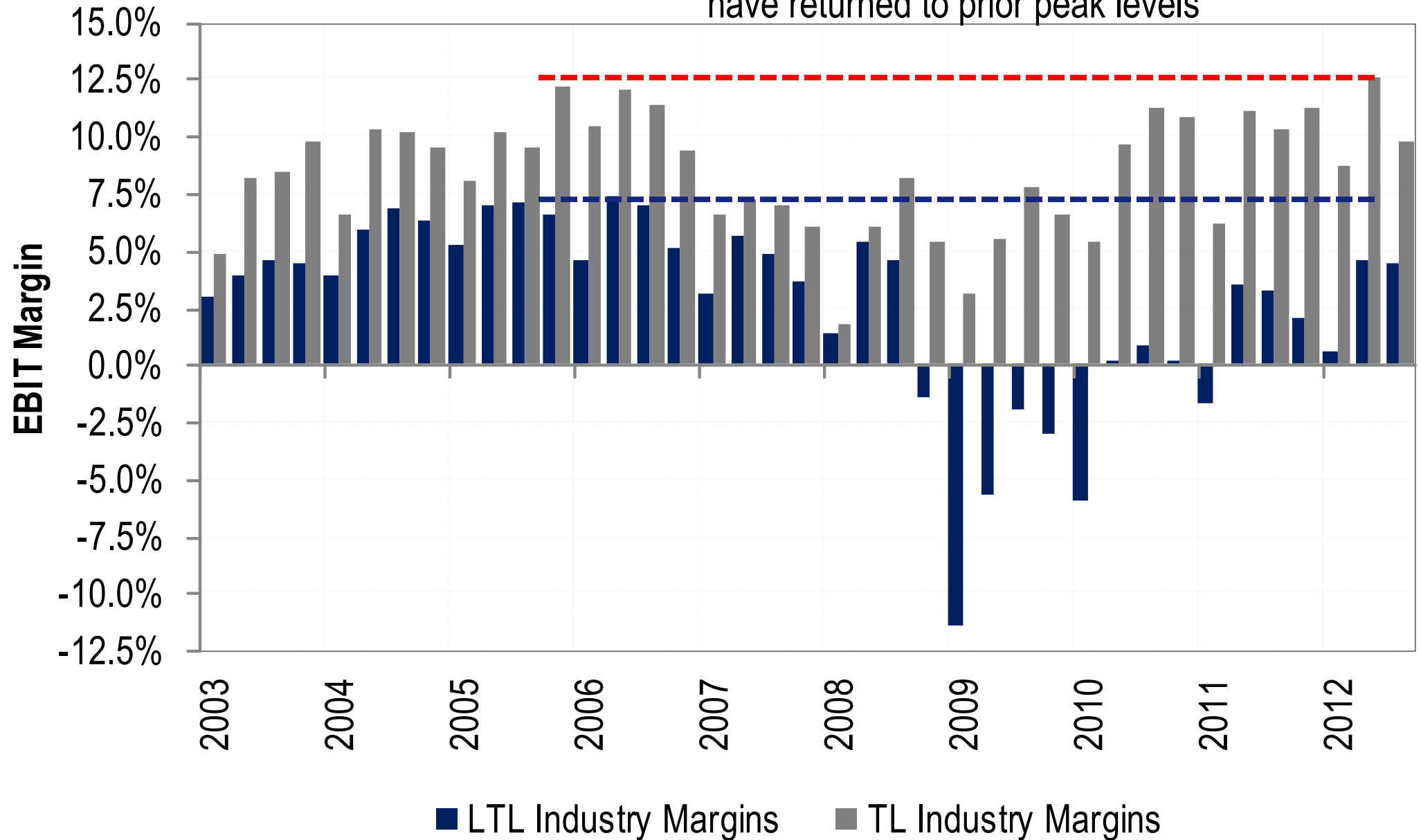


LTL Margins Have Recovered from Cycle's Lows...



...but Still Lag Truckload Margins

While (public carrier) truckload industry margins have returned to prior peak levels



Real Pricing Power Emerging Across Domestic Modes

Truckload

- A new era of truckload regulation
- Operating cost pressures (equipment, fuel, driver pay)
- Capital constraints

LTL

- Pricing discipline emerging
- Depressed industry margins
- Capacity rationalized to lower volumes

Parcel

- DHL exit in 2009
- USPS struggles continue

Rails

- 40% of revenue modal competitive
- Inadequate capital returns; higher rates support continued investment

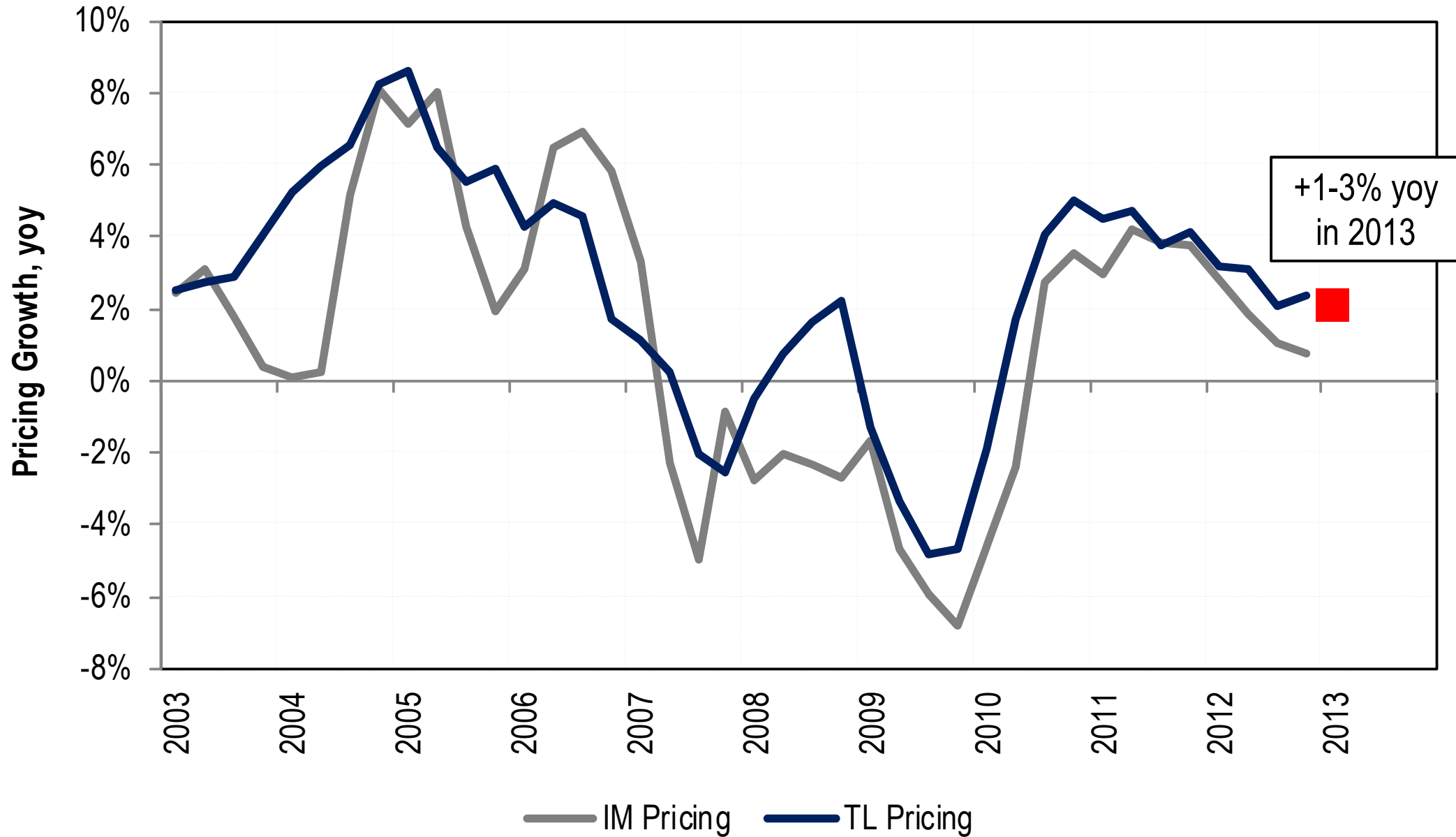
2013 Domestic Pricing Outlook Summary

- Truckload market in equilibrium
- Strength of demand will determine upside to rate growth expectations
- Tight truck capacity (TL roughly 70% of US domestic freight spend) supports positive rates in other modes

FREIGHT RATE GROWTH BY MODE

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013E
Truckload	6%	5%	2%	-2%	-3%	-6%	1%	4%	2-3%	1-3%
Less-Than-Truckload	3%	3%	6%	-1%	-2%	-10%	-2%	5%	3-4%	2-4%
Rail	5%	6%	6%	6%	7%	5%	5%	5%	3-4%	2-4%
Domestic Intermodal	3%	4%	3%	1%	0%	-5%	0%	4%	2-3%	1-3%

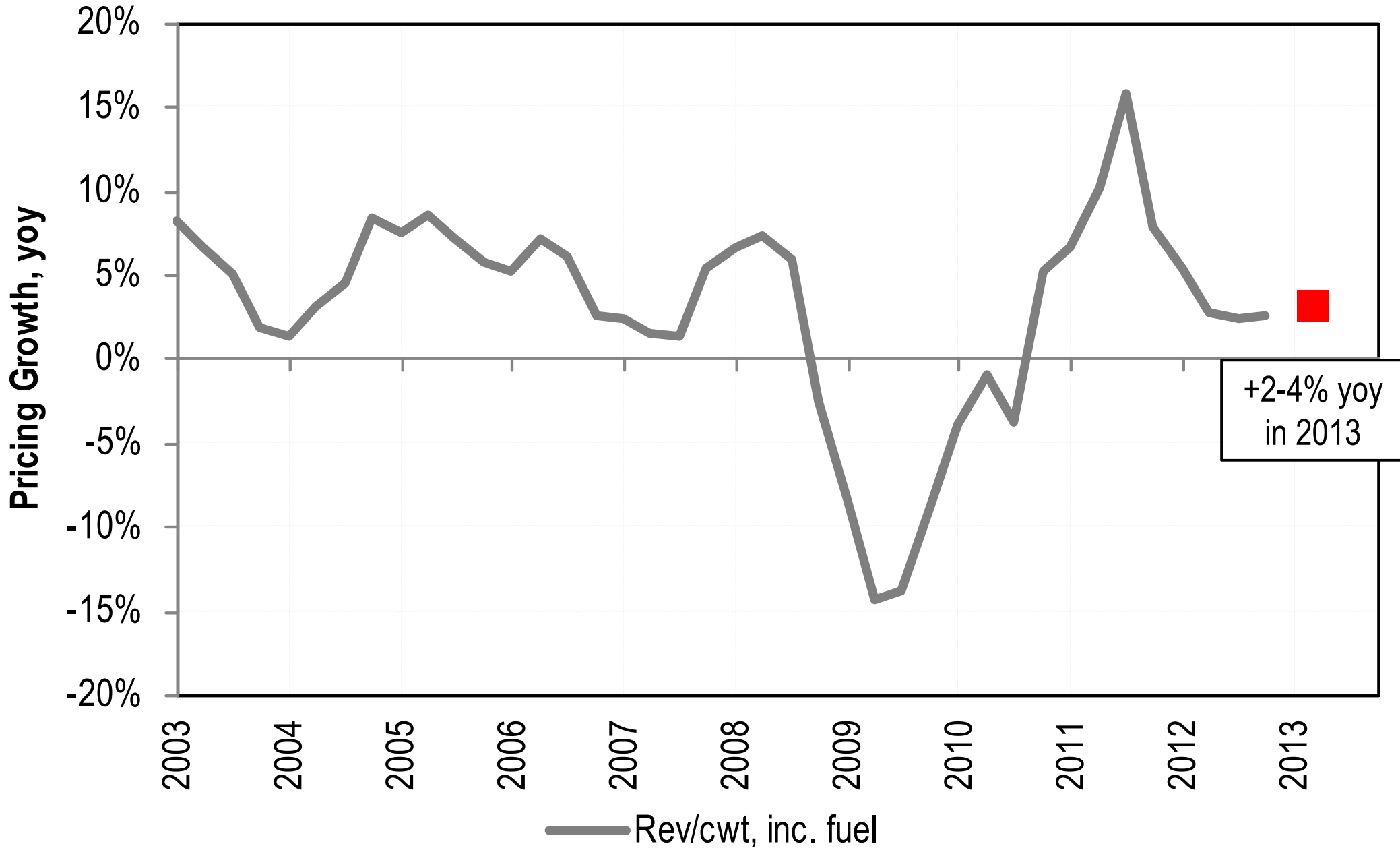
2013 Truckload/Intermodal Pricing Outlook



+1-3% yoy
in 2013

— IM Pricing — TL Pricing

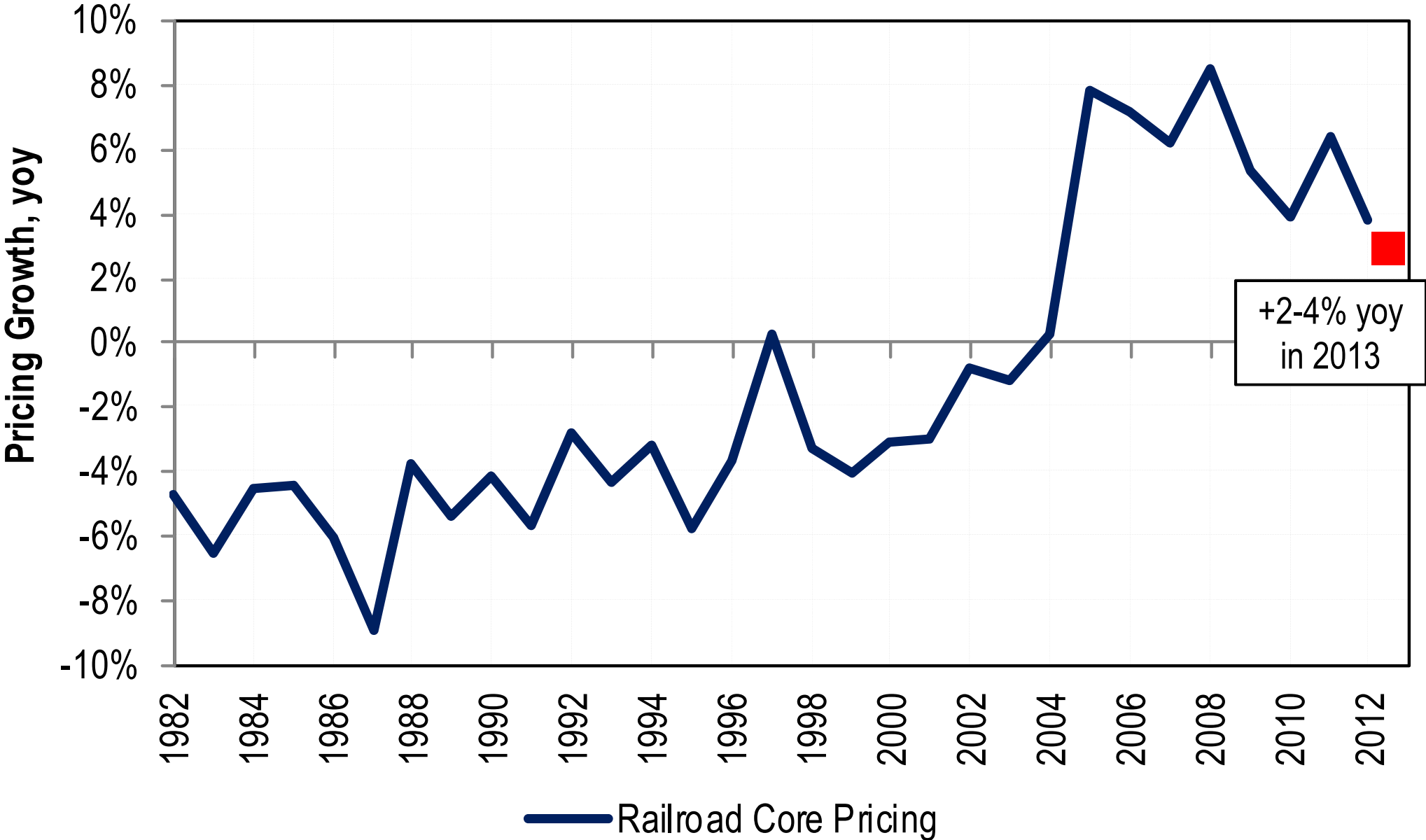
2013 LTL Pricing Outlook



+2-4% yoy
in 2013

— Rev/cwt, inc. fuel

2013 Rail Pricing Outlook



+2-4% yoy
in 2013

Source: Rates reflect a composite of leading public carriers and Baird estimates

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Shakeout: LTL Bankruptcies and Shutdowns

1980-1985

- 1980** Admiral-Merchants Motor Freight Inc.; St. Paul, MN
Chippewa Motor Freight Inc.; Eau Claire, WI
Intercity Transportation; Easton, MA
Johnson Motor Lines; Charlotte, NC
Rimes Trucking Co.; Chardon, OH
Transport Motor Express Inc.; Ft. Wayne, IN
Wilson Freight Co.; Cincinnati, OH
- 1981** Cooper-Jarrett Motor Freight Lines Inc.; Orange, NJ
Jones Motor Co Inc.; Spring City, PA
- 1982** Boss-Linco Lines Inc.; Buffalo, NY
Hemingway Transportation; New Bedford, MA
Motor Freight Express System; York, PA
Spector-Red Ball; Dallas, TX
- 1983** Central Transport; Sterling Heights, MI
Commercial Motor Freight Inc. of IN; Indianapolis, IN
Davidson Transfer & Storage Co.; Baltimore, MD
Eazor Express; Pittsburgh, PA
Gateway Transportation; La Crosse
Glendenning Motorways Inc.; St. Paul, MN
Gordon's Transports Inc.; Memphis, TN
Hannibal-Quincy Truck Lines Inc.; Quincy, IL
Maislin Brothers Transport Ltd.; La Salle, Quebec, CAN
Richmond Cartage Inc.
Tucker Freight Lines; South Bend, IN
- 1984** Branch Motor Express; New York, NY
Brigg's Transportation; St. Paul, MN
Illinois-California Express; Denver, CO
IML Freight Inc.; Salt Lake City, UT
Interstate Motor Freight System; Grand Rapids, MI
Mason & Dixon Lines Inc.; Kingsport, TN
Ringsby Truck Lines Inc.; Denver, CO

1985-1990

- 1985** Clairmont Transfer Co.; Escanaba, MI
Commercial-Lovelace Motor Freight; Columbus, OH
Lee Way Motor Freight Inc.; Oklahoma City, OK
Oneida Motor Freight Inc.; Carlstadt, NJ
Taynton's Freight System Inc.; Wellsboro, PA
- 1986** Campbell's 66 Express Inc.; Springfield, MO
Hall's Motor Transit Co.; Harrisburg, PA
McLean Trucking Co.; Winston-Salem, NC
Mushroom Transportation; Philadelphia, PA
- 1987** Milne Truck Lines Inc.; Salt Lake City, UT
Murphy Motor Freight Lines Inc.; St. Paul, MN
Suburban Motor Freight Inc.; Columbus, OH
System 99; Oakland, CA
- 1988** American Freight System; Overland Park, KS
Brown Express Inc.; San Antonio, TX
C.W. Transport Inc.; Wisconsin Rapids, WI
Cleveland, Columbus, & Cincinnati Highway Inc.; Cleveland, OH
Smith's Transfer Corp.; Staunton, VA
T.I.M.E.-D.C. Inc.; Lubbock, TX
- 1989** Bender & Loudon Motor Freight; Akron, OH
Blue Line Express; Nashua, NH
Central Truck Lines Inc.; Tampa, FL
Gross Common Carriers
Holmes Route USA; Framingham, MA
Horn's Motor Express Inc.; Chambersburg, PA
Pilot Freight Carriers Inc.; Winston-Salem, NC
Quinn Freight Lines; Brocton, MA
Sterling Transit Company Inc.; Montebello, CA
Tose-Fowler Inc.; Bridgeport, PA

1990-2000

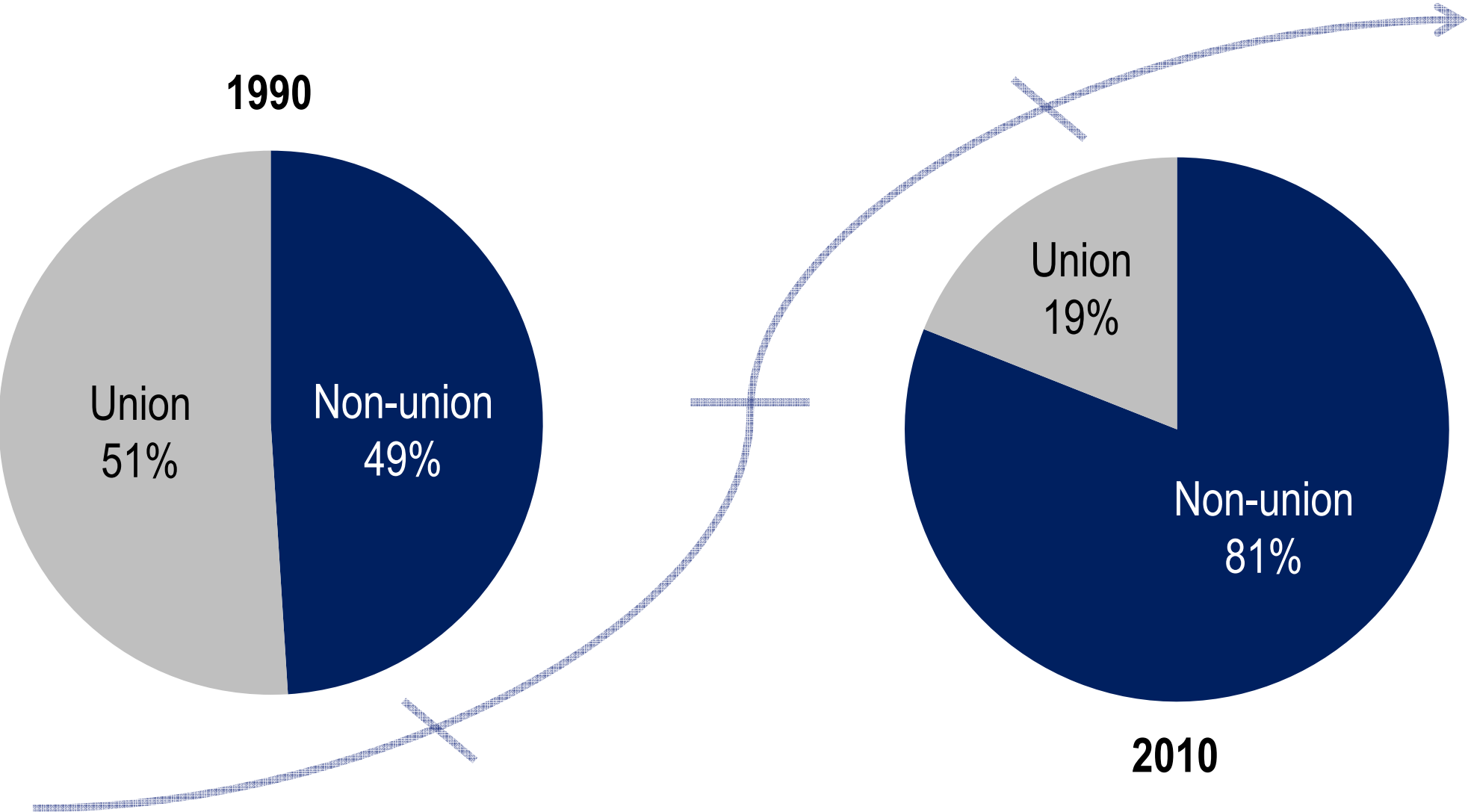
- 1990** AAA; Trenton, NJ
Allegheny Freight Lines; Winchester, VA
Arrow Carrier Corp.; North Bergen, NJ
Bowman Transportation; Atlanta, GA
Brown Transport Corp.; Atlanta, GA
P.I.E. Nationwide Inc.; Jacksonville, FL
Penn Yan Express; Penn Yan, NY
Riss & Co. Inc.; Kansas City, MO
Transcon Lines; Los Angeles, CA
- 1991** Central Storage & Transfer Co.; Harrisburg, PA
Edson Express; Denver, CO
Jones Truck Lines Inc.; Springdale, AR
- 1992** Be-Mac Transport Co.; St. Louis, MO
Middlewest Freightways Inc.; St. Louis, MO
North Penn Transfer; Lansdale, PA
- 1993** Friedman's Express; Wilkes-Barre, PA
Inter-City Truck Lines; Mississauga, Ontario, CAN
Motorways Ltd.; Toronto, Ontario, CAN
St. Johnsbury Trucking Co Inc.; St. Johnsbury, VT
Standard Trucking Co.; Charlotte, NC
- 1994** Churchill Truck Lines Inc.; Chillicothe, MO
- 1995** Willig Freight Lines; San Francisco, CA
- 1996** Bee Line Motor Freight Co.; Omaha, NE
Birmingham Nashville Express
Charlton Brothers; Hagerstown, MD
Fore-Way Express Inc.; Wausau, WI
Hover Trucking Co.; South Bend, IN
Ideal Truck Lines; Norton, KS
- 1997** Atlanta Motor Lines; Conley, GA
Coles Express Inc.; Bangor, ME
Commercial Motor Freight Inc. of IN; Indianapolis, IN
Hyman Freightways Inc.; St. Paul, MN
Interlink Freight Systems; Toronto, Ontario, CAN
Merchants Fast Motor Lines Inc.; Abilene, TX
Spartan Express Inc.; Greer, SC
- 1998** ANR Advance Transportation Co.; Milwaukee, WI
Holmes Freight Lines; Omaha, NE
- 1999** Nationsway Transport Services; Commerce City, CO
Preston Trucking Inc.; Preston, MD

2000-present

- 2000** Crouse Cartage Co.; Carroll, IA
- 2002** A-P-A Transport Corp.; North Bergen, NJ
Consolidated Freightways Corp.; Vancouver, WA
H&W Motor Express; Dubuque, IA
Nussbaum Trucking; Normal, IL
Rudolf Express; Bourbonnais, IL
- 2003** Alterman Transport Lines; Opa Locka, FL
Crescent Truck Lines; Haywood, CA
- 2004** Guaranteed Overnight Delivery
K&R Express Systems; Blue Ridge, IL
Parker Motor Freight; Grand Rapids, MI
USF Red Star; Newark, NJ



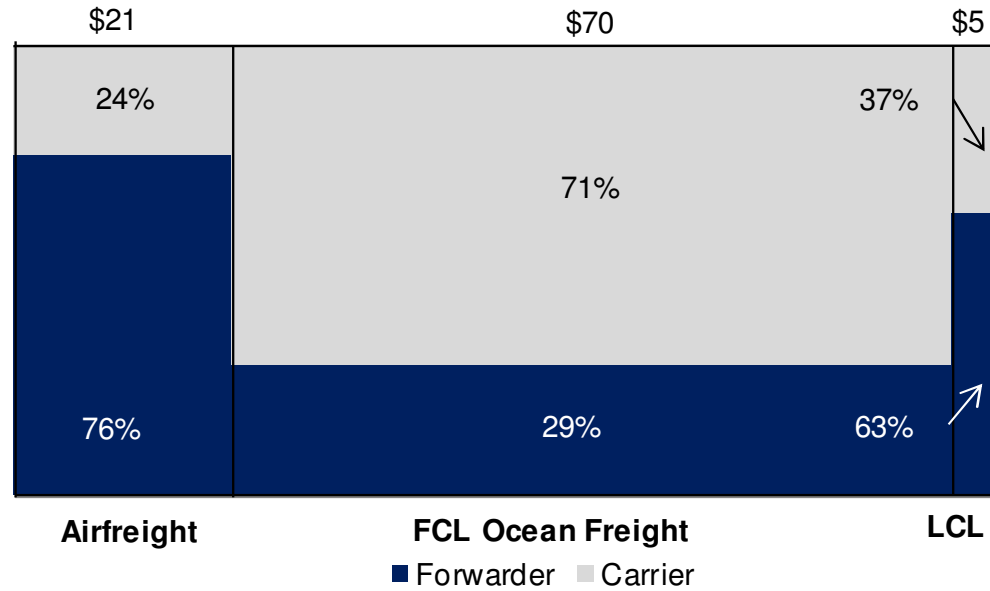
Regional, Non-union Carrier the Dominant Design



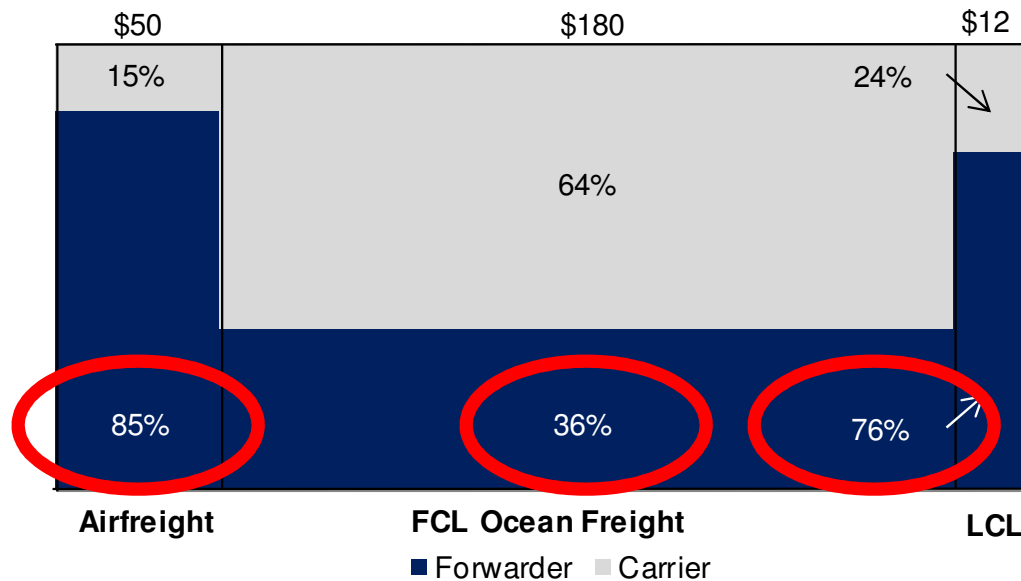
Source: Industry sources, Baird estimates

Also Applicable to Int'l Freight Forwarding

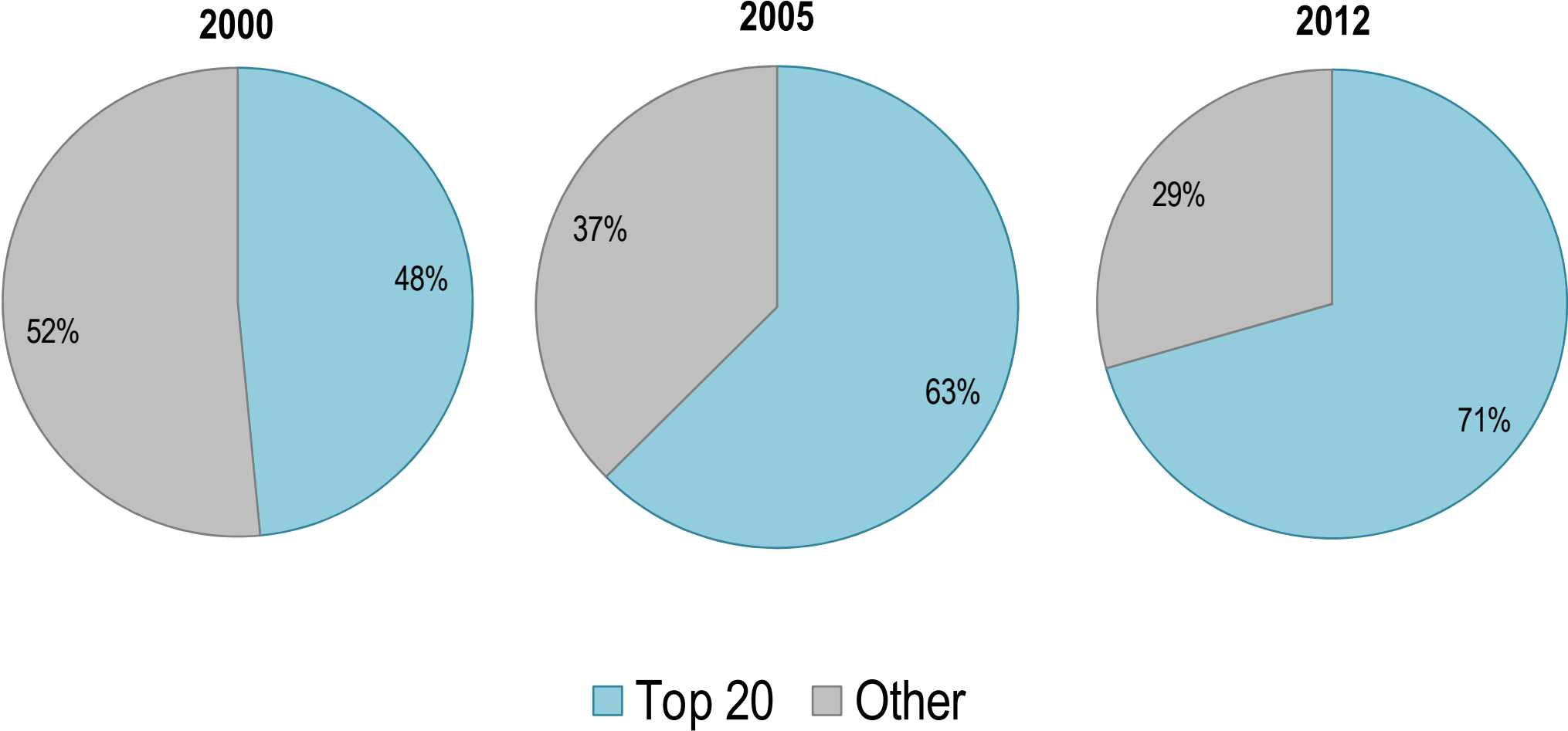
2000



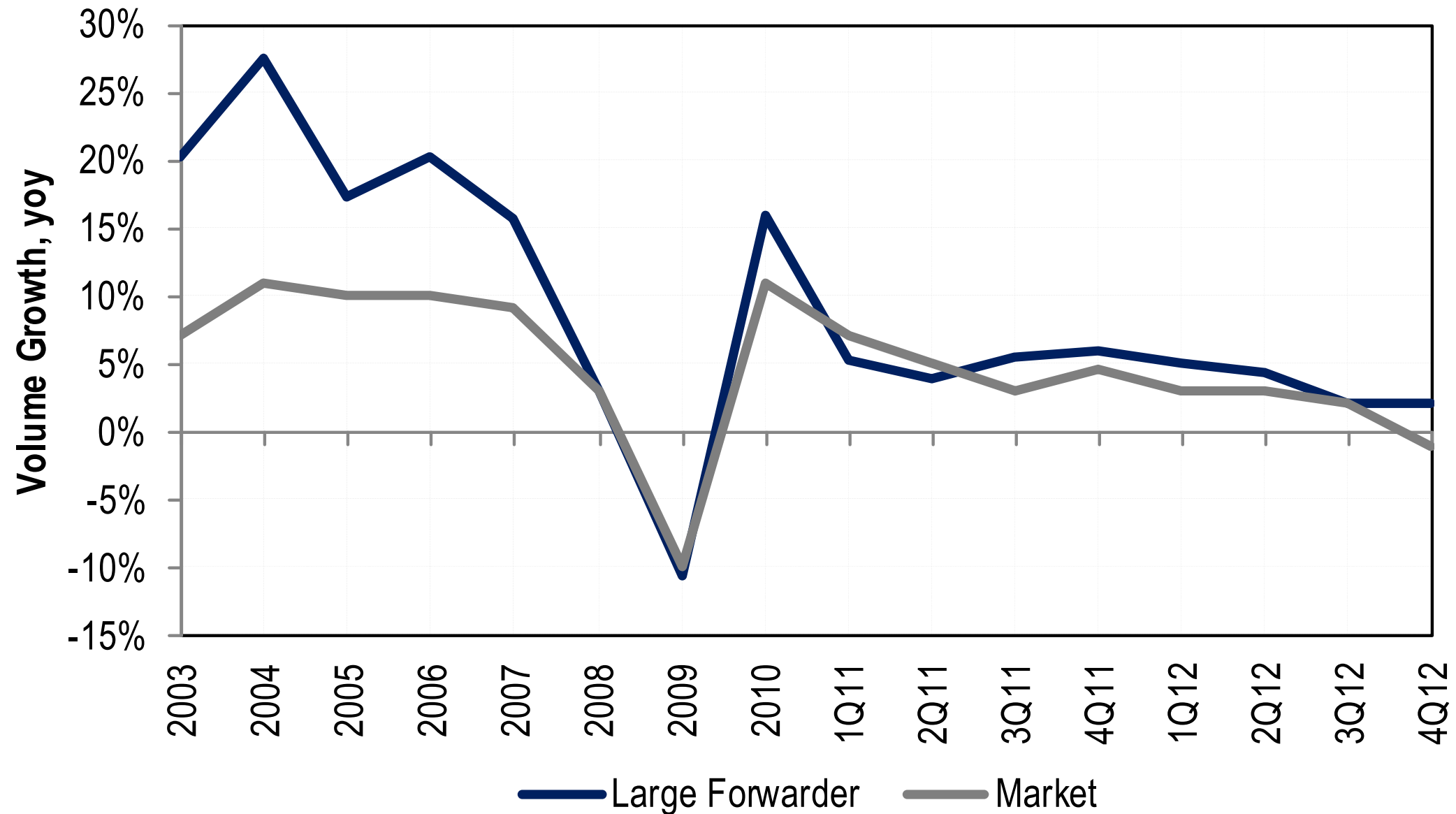
2010



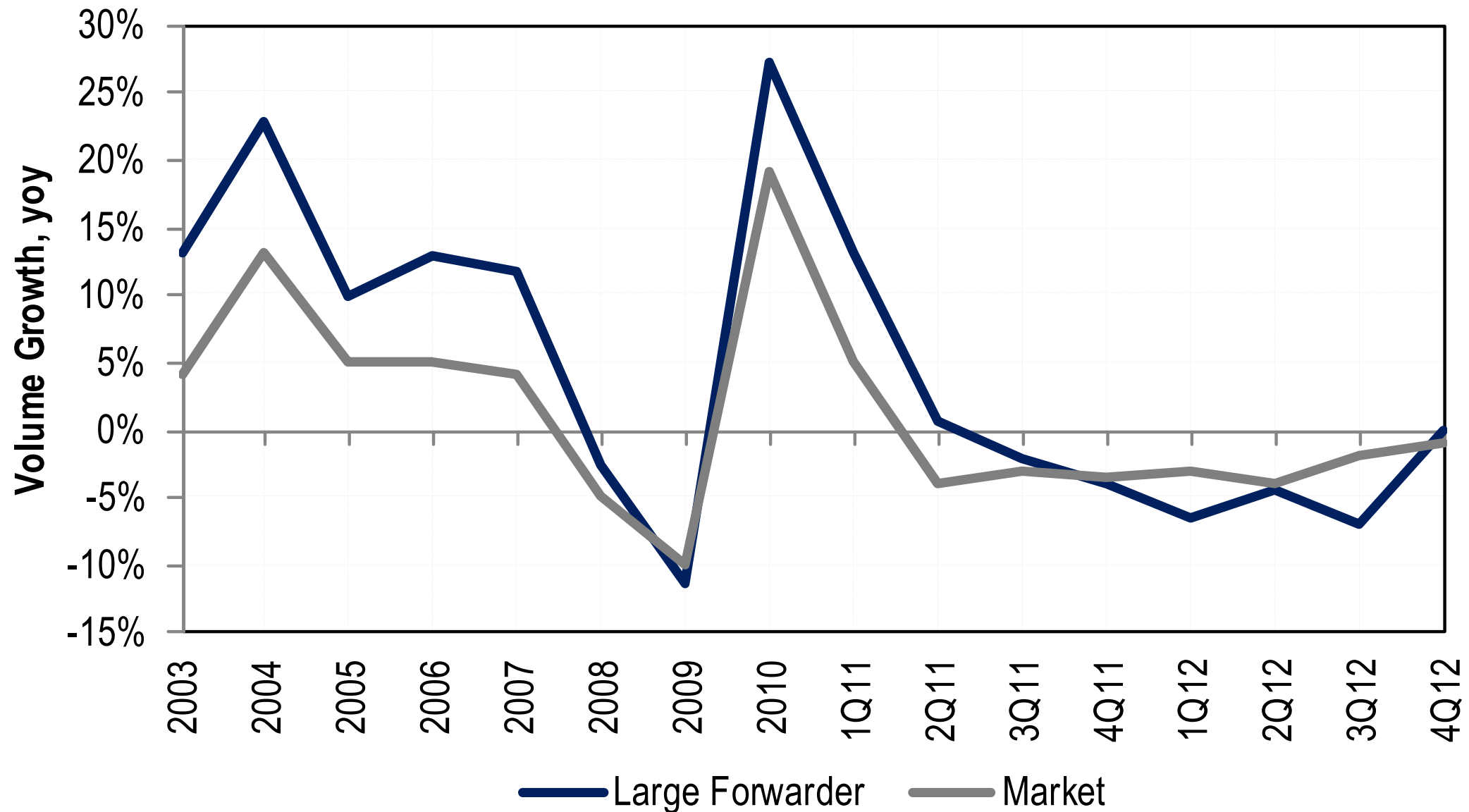
Consolidation Among Forwarders' Suppliers: Ocean Carriers



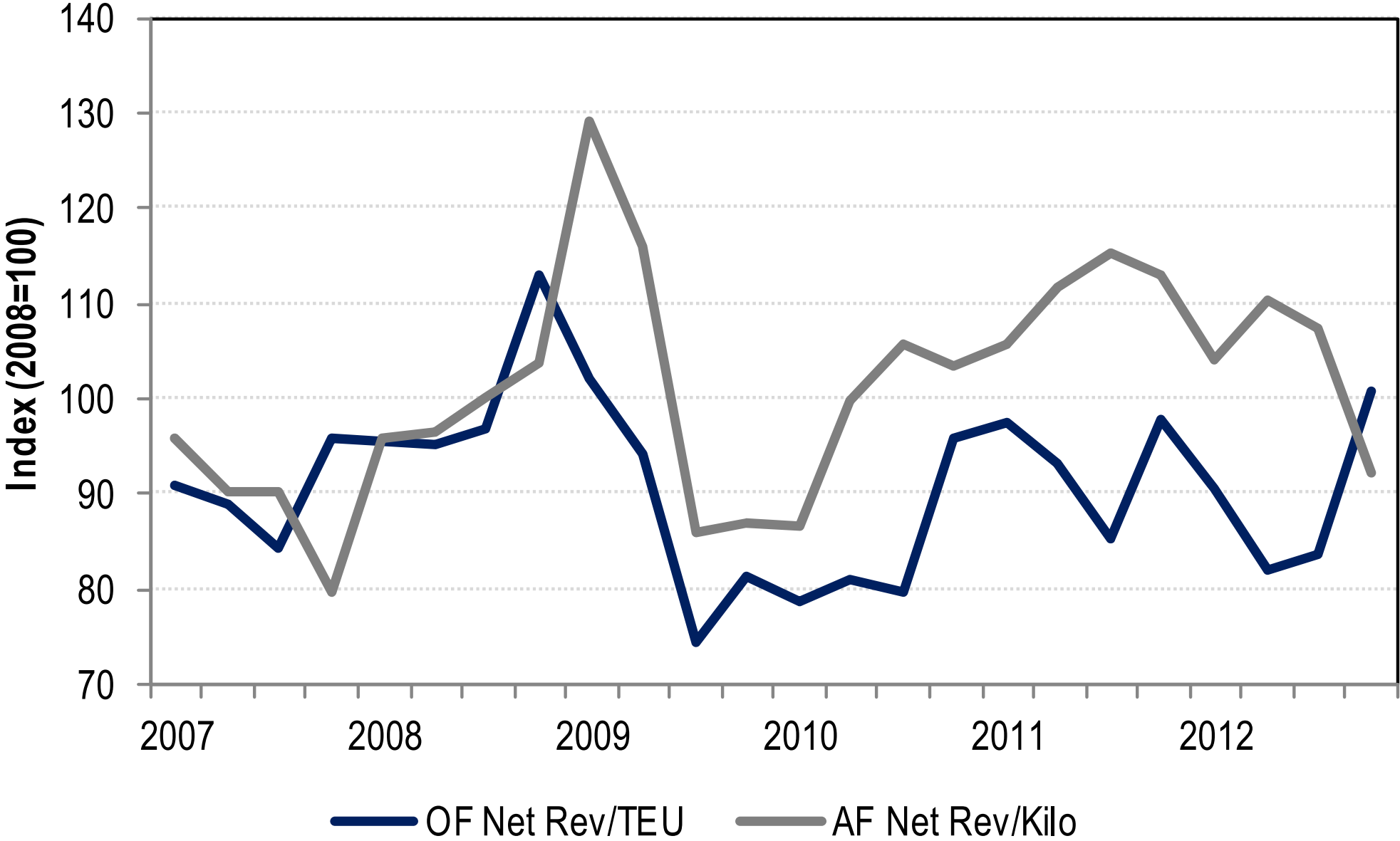
Forwarding Share Gains Have Slowed in OF...



...and AF Given Competition, Commoditization

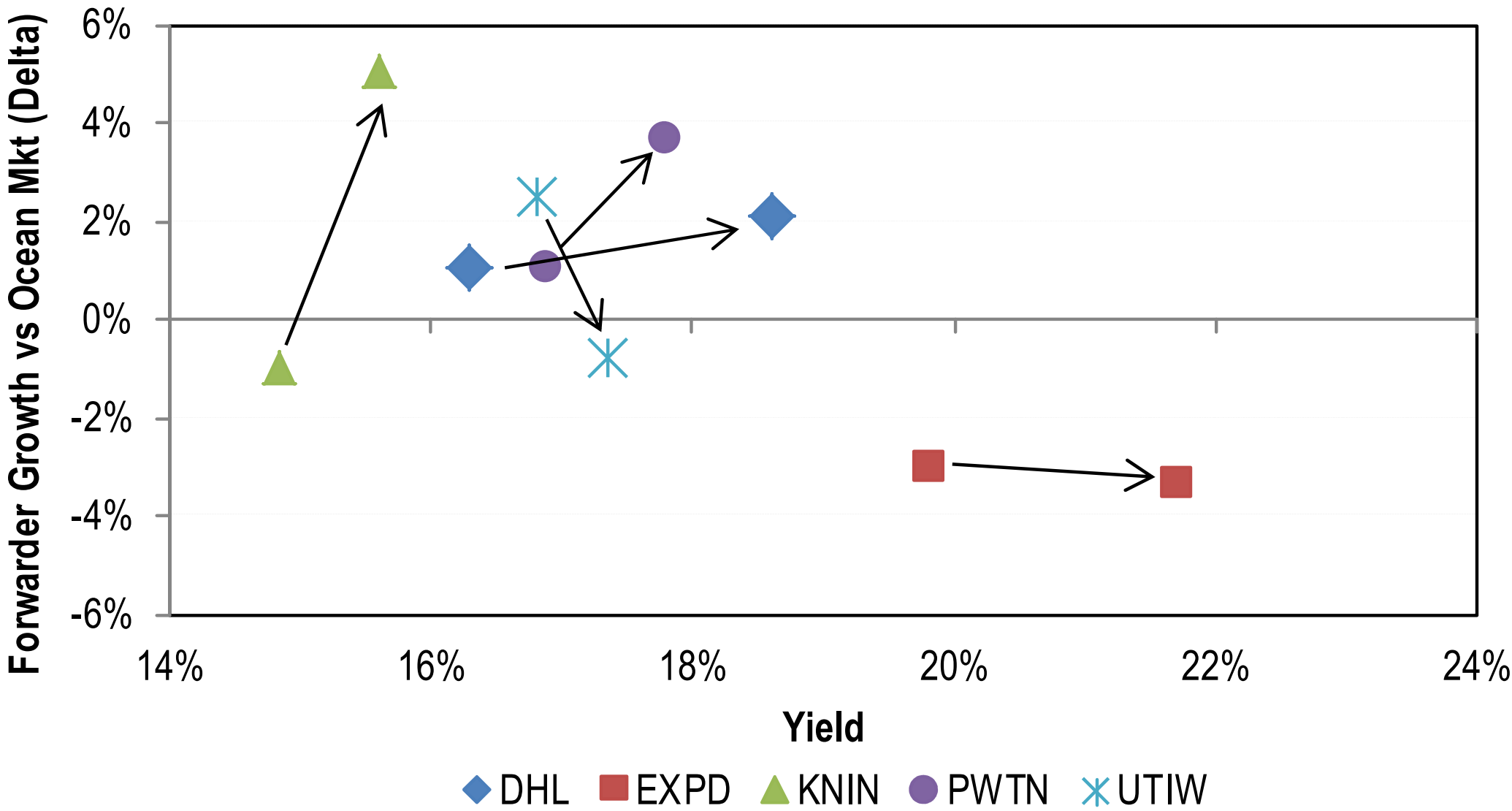


Increased Forwarding Competition Pressuring Yields



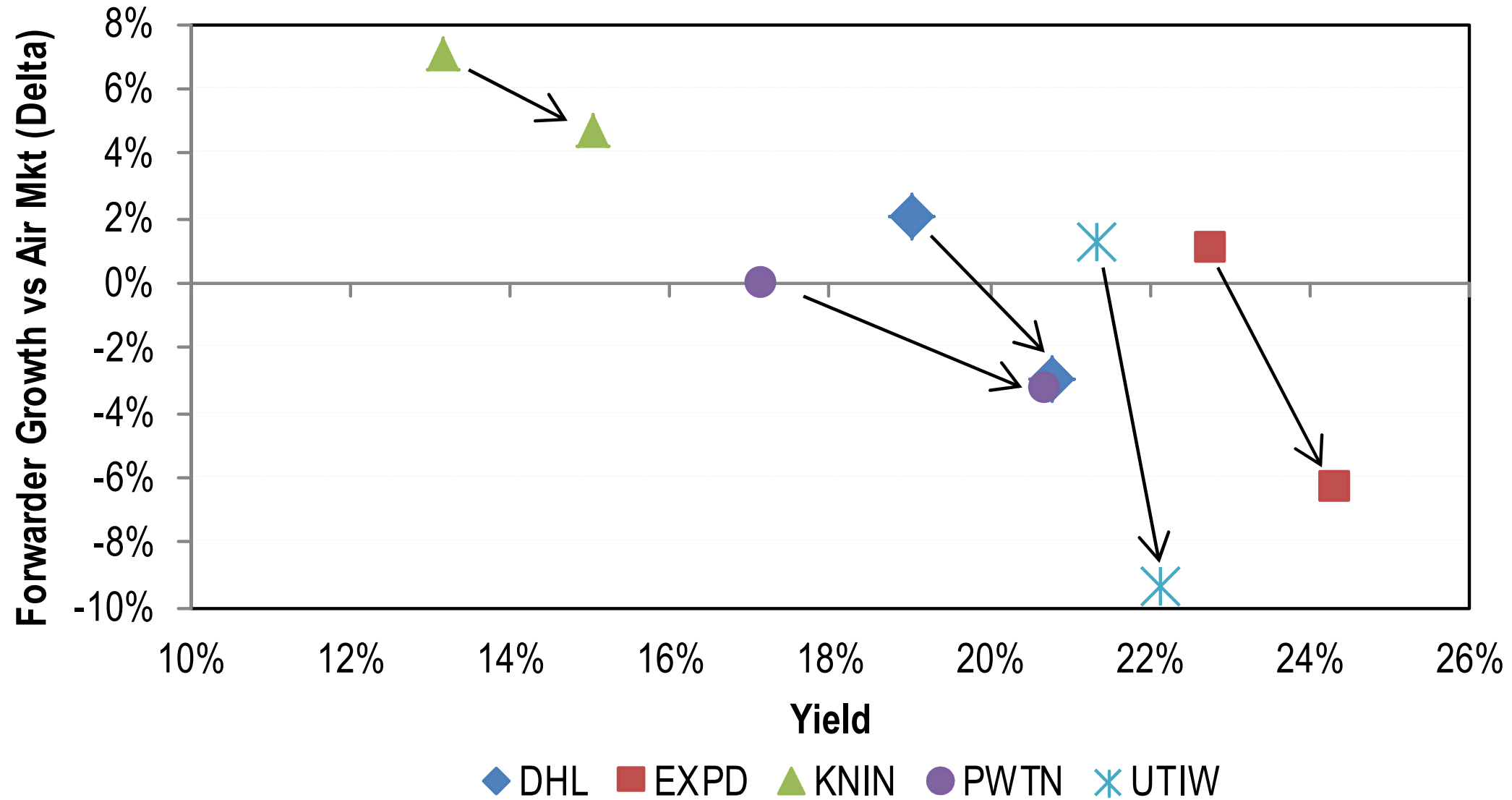
Source: Company data, Baird estimates

OF Share Dynamics Differ By Forwarder; But Weaker OF Volumes Have Aided Reported Yields



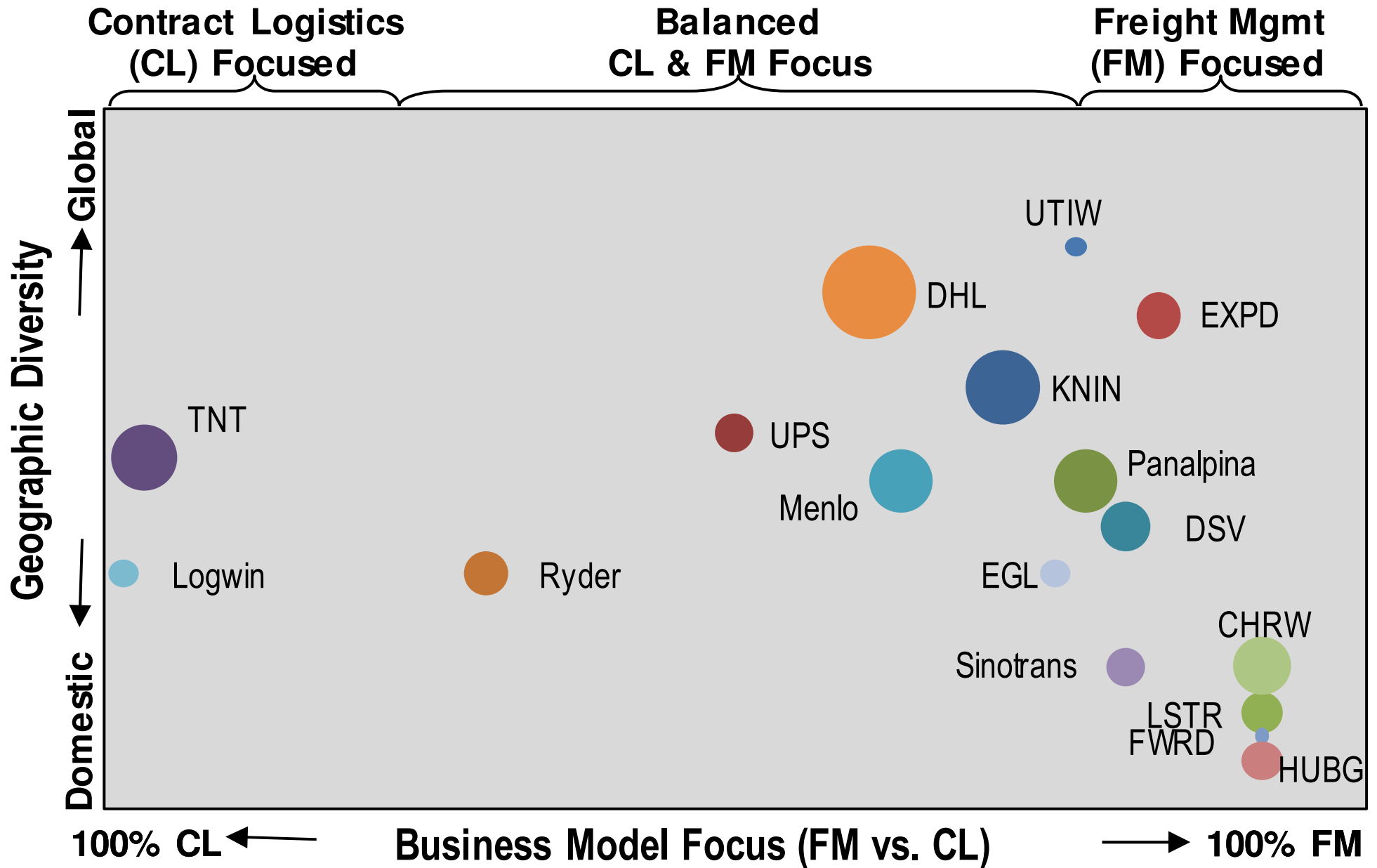
Market Growth: 2008 +3% yoy vs. 2012E +3% yoy

AF Share Gains Have Slowed; And Yields Have Improved. How?

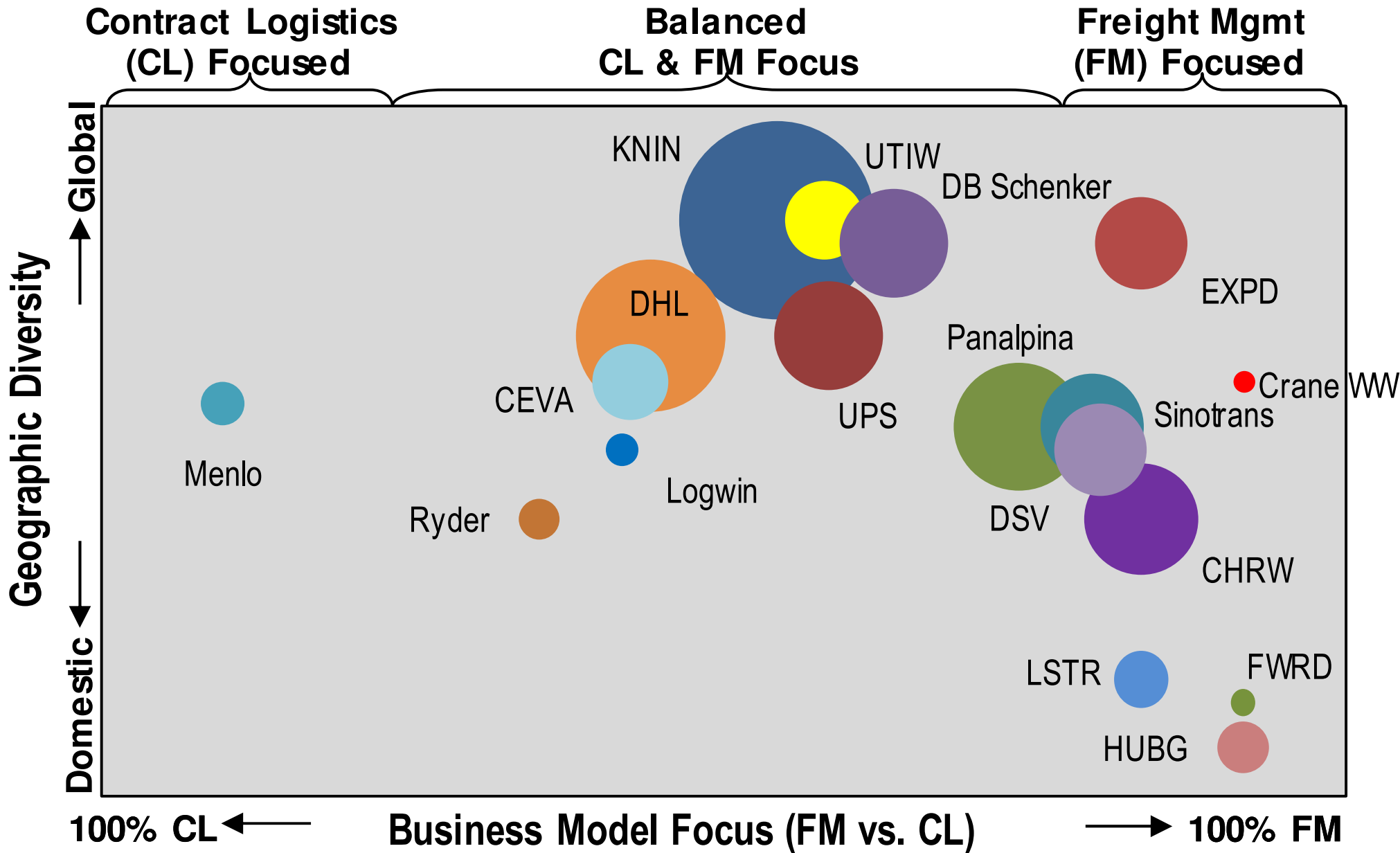


Market Growth: 2008 -5% yoy vs. 2012E -3% yoy

Competitive Landscape, 2000



Competitive Landscape, 2010



An Economy at an Inflection Point

- What does the economy look like? Growth is slowing, but trajectory remains positive
- What is the stock market telling us? Recent outperformance by early-cycle stocks reflect investor optimism in a potential reacceleration in economic growth
- Cycles historically last six years: How does the current differ from the last?
 - Consumer confidence, US unemployment, fiscal/macro uncertainty remain overhangs, but...
 - Retail inventories are 7% below 2006 levels
 - US housing starts remain 50% below average levels during 1990s
 - Changing total landed cost dynamics (labor, energy costs) support increased North American-based manufacturing activity

This Cycle's Themes, and What They Mean

- **Maturing growth:** across modes in recent years, and likely will continue
 - **“Productivity” headwinds:** cost/unit has been rising since early 2000s
 - **Continued consolidation:** both among carriers and service providers
 - What does that mean for shippers? What does that mean for carriers?
-
- The post-deregulation era of falling transportation rates is ending
 - But savings can be achieved through:
 - Collaboration between shippers and carriers
 - Adoption of new technologies
 - Transaction and process automation

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