BB&T Transportation Conference

BB&T is among the nation's top financial holding companies, with over $150 billion in assets. Their two-day conference included presentations by top executives from leading transportation companies representing truckload, less-than-truckload, railroad, air freight and logistics sectors. In addition, there were several panels focusing on key trends impacting the transportation industry, namely pricing, capacity, international trade and the state of the U.S. economy in the global economy. The insights and experiences of the publicly-held carriers and others in attendance clearly reflect a resilient industry adjusting for the current environment and preparing for the future.

The Economy:

- While the depth and duration of the current recession was compared generally to those of the mid-1970s and early 1980s, few were willing to forecast when the bottom will be reached.
- According to FTR Associates, which focuses on forecasting commercial truck and trailer output, freight volumes that have been raising a couple percent annually dropped 2.6% last year and are now projected to drop 4.8% if the recession ends in the 2nd quarter. However, if the recession goes on in the 3rd quarter, their worst scenario is a 7.1% drop this year.
- Given this uncertainty, most public companies are not willing to provide estimated ranges for future annual earnings per share.

The Capacity Adjustment:

- Unlike prior downturns, the public carriers have been reducing tractor and trailer counts the last several quarters, with one carrier reporting a 55% cut in its tractor van fleet in 23 months.
- According to one report, the bankruptcies of over 3,000 fleets with 137,000 tractors in 2008 reduced the tractor fleet 7%.
- FTR estimated up to 300,000 tractors or about 10% of the active fleet exited for varied reasons. The company also forecasted that the number of bankruptcies is likely to be higher in 2009 and 2010.
- The recent 20-30% drop in used values may slow fleet reductions with the prospect of cash losses versus loan payoffs mounting.
- FTR projected the number of new tractors sold will be 135,000 in 2009 and 162,000 in 2010. This is substantially below 200,000 purchased in 2007 and 2008 and way below the pre-buy level of 372,000 in 2006. It will be 2011 before 250,000 new tractors will likely be purchased. This level is below normal replacement as carriers retain longer or sell used units to reduce fixed expenses.

Freight Volumes:

- Dry van traffic continued to fall through February at a faster rate than flat bed or refrigerated traffic. Estimates varied from a 10% to 20% year-over-year for the last two or three months, depending on the metrics reported.
- No carriers reported noticeable differences in geographic volumes but cited automotive and retail as the major weak sectors. Food and lower-priced retail were more stable.
- Intermodal volumes, both internationally and domestically, are dropping reflecting the forces of currency valuations and fuel prices falling respectively.

Shifting Business Emphasis:

- Long haul freight continues to be undesirable (except expedited premium freight) with spot rates dropping further, coupled with poor utilization metrics on trucks.
- Regional and dedicated continue to be desired markets by most carriers.
- Diversification of sectors with shifts away from auto, retail and construction was reported for the last year and will be continued in 2009.
- Continuing trend toward asset light brokerage and 3PL activities was reported for 2008 and will continue in 2009.
- With bid requests from shippers at very high levels, there appears to be a variety of responses from dropping marginal loads/shippers to one stating "aggressive pricing" to retain current contracts.

Operational & Other Improvements:

- Universally, carriers are reviewing and improving both administrative and operational systems. Other employee-to-driver ratios are dropping as belts are tightened.
- Renewed purchasing scrutiny, in everything from office supplies to fuel, is being practiced.
- Yield management appears to have intensified

Drivers and Pay:

- Carriers are seeing twice as many applicants compared to only 3-6 months ago, when the hiring rate was 1-2% as a result of tighter standards being applied to improve safety and service.
- Some carriers are reducing speeds from the mid- to lower 60s in order to save fuel.
- One carrier reported lowering beginning driver mileage pay one cent per mile three times.

Mergers and Acquisitions:

- Carriers with strong balance sheets and cash are seeking opportunities specific to their strategic plans.
- There is an expectation that sellers will be more plentiful over the next couple of years as cash and credit continue to tighten for many carriers, with pricing reflective of hard assets values predominately.
- Asset light continues to be in demand with valuation multiples somewhat level to the past.
- Profitable carriers with desired attributes will continue to bring higher valuations than distressed or losing situations.

This period of intensified economic pressures will continue to present opportunities for carriers to become stronger as the resiliency of our industry continues to be tested. If there were a "trucker's confidence index," we would be reporting a slight up-tick from the conference's participants. In general, they were not full of doom and gloom; instead, they were trying to position their companies to take advantage of the inevitable changes the recession will bring.