



Mulch and Soil Council Annual Meeting – San Antonio, TX

Transportation Outlook

Another “Perfect Storm”?

Presented By Jeff Paulsen

EVP – Sales

R+L Global Logistics

October 15, 2014



R+L Global Logistics and its affiliates are in the business of providing, among other things, its customers with transportation, management, and consulting services. All information provided herein is based upon public information shared in publicly disclosed documents and has been compiled from many industry sources and experts. Credit has been attributed where applicable. The information should not be construed in any way, shape, or form to be the stated policy or stance of R+L Global Logistics or any of its affiliated companies.



Transportation Industry Facts



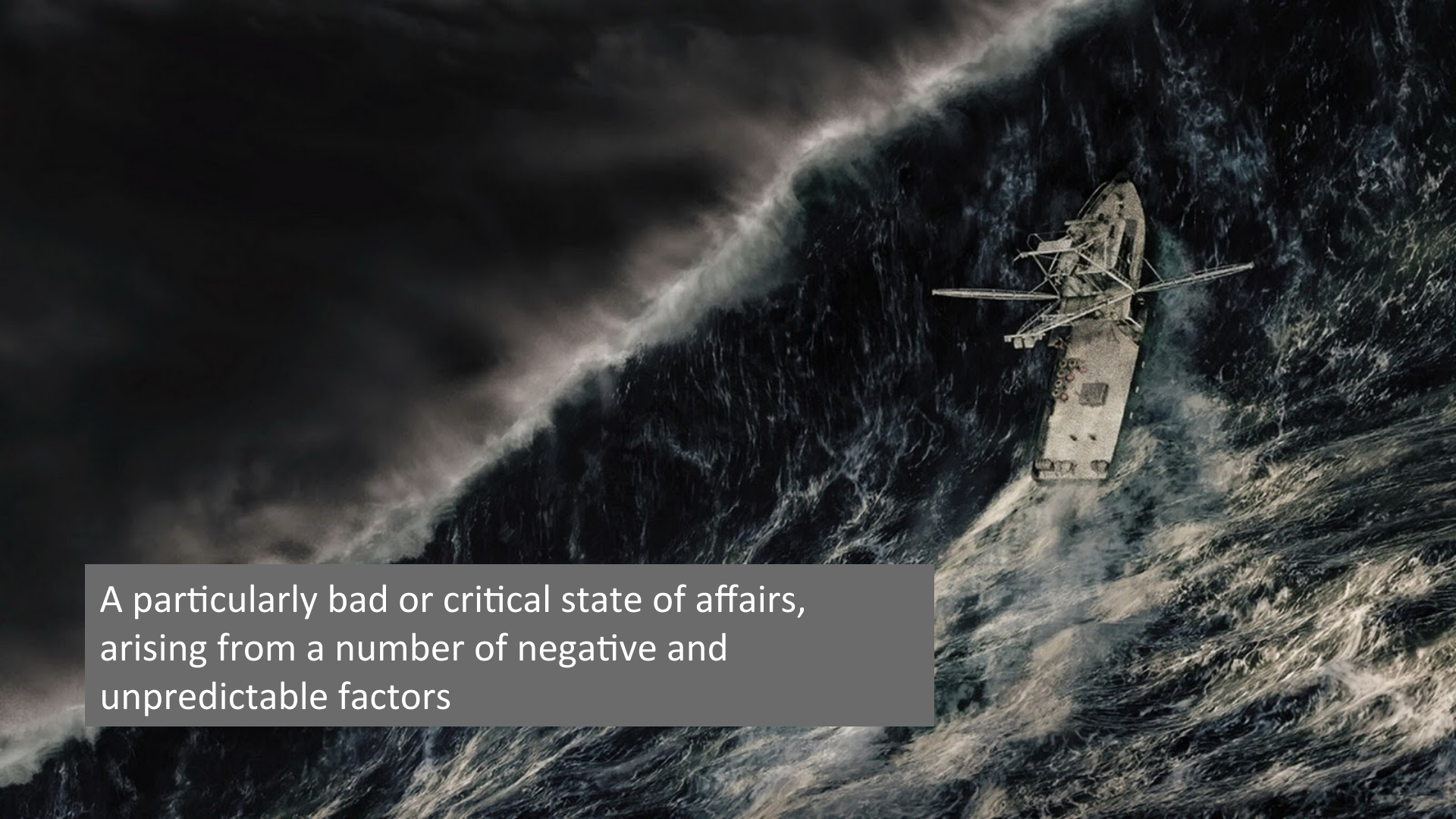
- Transportation Industry Employs Over 9.6M People
- Trucking Industry Generates Over \$372B in Revenue
 - Would Rank In Top 30 World Economies
 - Represents 81% of U.S. Freight Bill (Rail, Ocean and Air Make Up Remainder)
- Trucking Industry Handles Over 6.7B Tons of Freight
- There are More Than 450,000 U.S. Trucking Companies
 - Over 70% Have 6 Or Fewer Trucks
 - Very Fragmented



Another “Perfect Storm”?



A particularly bad or critical state of affairs, arising from a number of negative and unpredictable factors





How Did We Get Here?



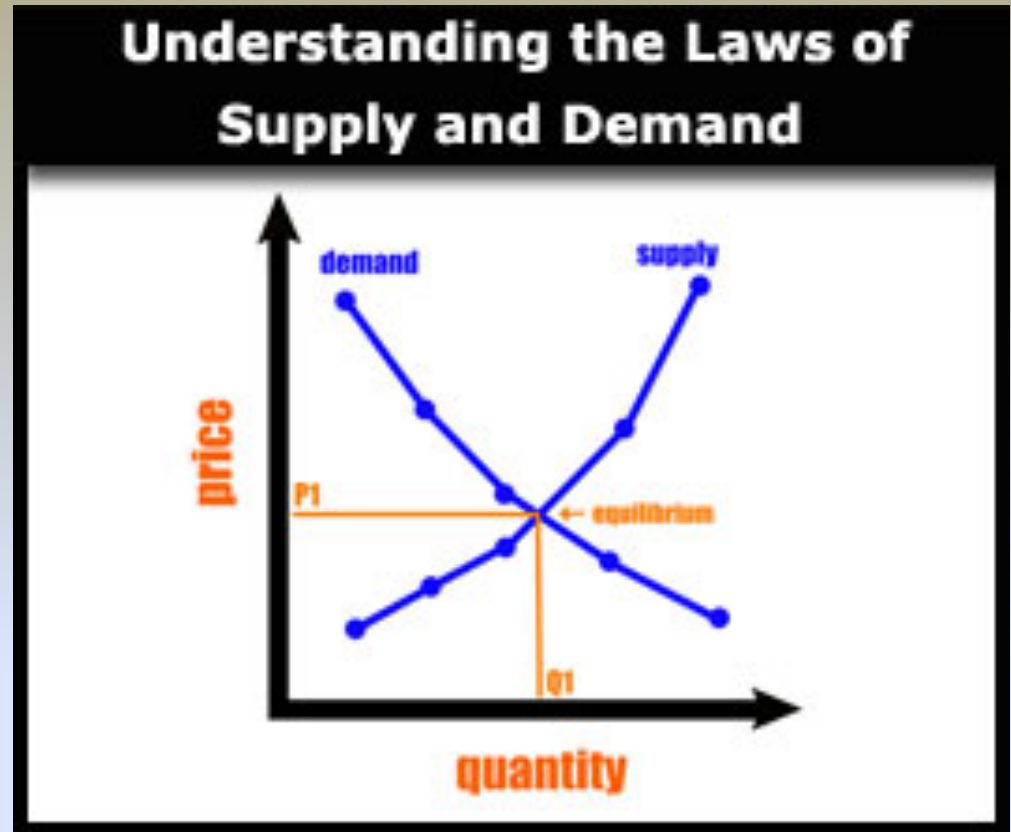
- 1999 – 2000 – Y2K Fears/Used Truck Prices Plummet
- 2003 – Fuel Prices Break \$1.50/Gallon
 - Estimated 5,000 Carriers Leave the Industry
- 2004 – New Hours Of Service Rules Introduced
 - Fuel \$1.81/Gallon
- 2005 – New HazMat Regulations and Requirements
 - Fuel \$2.40/Gallon
- **2006 – Housing Crisis and Economic Recession**
 - Fuel \$2.75/Gallon
- 2007 – Round 2 of New Emissions Standards
 - Fuel \$3.07/Gallon
- 2010 – CSA New Driver and Company Safety Compliance
 - Fuel \$3.45/Gallon

Economics 101

- ✓ Available Drivers Declining
 - Demographics
 - Regulations

- ✓ Fleet Sizes Shrinking
 - Pay
 - Quality of Life

- ✓ Economy is “Recovering”
 - New Home Construction
 - Options for Drivers





What Is “Driving” Supply?



- Since 2007 - 4 Top 10 Carriers Have Significantly Reduced Their Fleet Sizes
 - JB Hunt – Down 3,000 Trucks – Moved To “Asset Light” Model in 2004-2005
 - Werner Enterprises – Down 1,500 Trucks – Focus on Dedicated/Regional Fleets v. Over The Road
 - Swift Transportation – Down 1,500 Trucks – Focus on Intermodal Growth
 - Covenant Transportation – Down 1,000 Trucks – Focus On Team/Expedited
 - Total of 7,000 Trucks Less Than 2007
- Equal To The Size of a \$1B Trucking Company Exiting the Industry
- Flatbed Carriers Hit Hard With Recession
 - No Flatbed-predominant Carriers in Top 30 U.S. Trucking Companies
 - 2011 – Bankruptcy of Arrow Trucking ~ 750 – 900 Flatbeds Gone
- Last 18 Months – Top 30 Carriers Have Had “0” or Negative Growth
 - Availability of Qualified Drivers



Supply Side

They Said It...



“I’ve been in the business 34 years, and I’ve never seen the driver situation like it is today...Typically, if we have freight, we can expand. We can’t grow now because of drivers. For the second year in a row, we are projecting zero growth.”

-Dave Rusch, CEO of CRST International in Cedar Rapids, IA

“We have had plans to grow our fleet for the last two years, however we have not been able to do so...Customer demand is strong, and we could increase our fleet size another 300 to 400 tractors if we could find the drivers.”

-Steve Williams, CEO of Maverick USA in Little Rock, AR

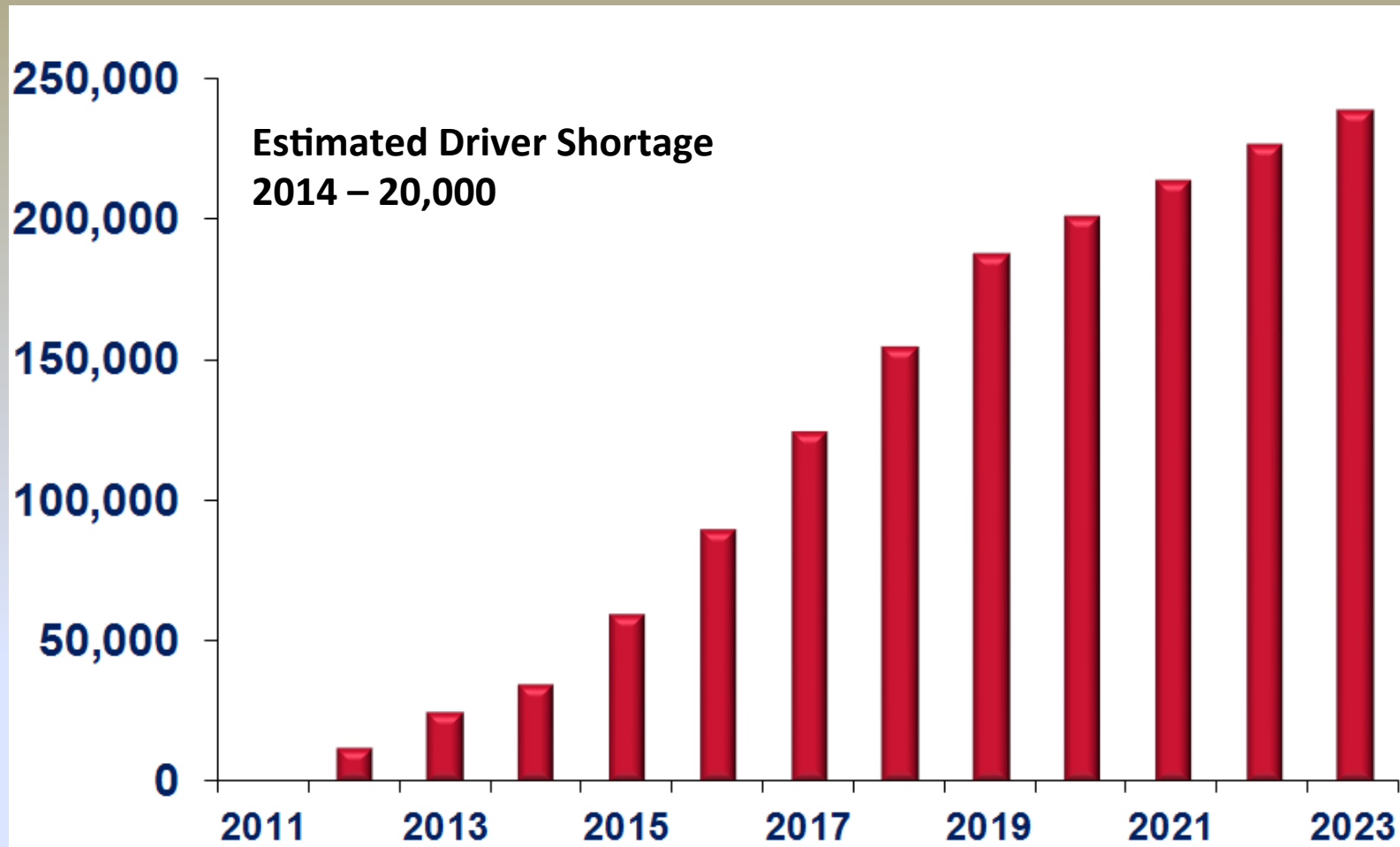
“A significant amount of freight is being turned down...We’ve looked at acquisitions because we can’t grow organically.”

-Robert Ragan, chief financial officers. Melton Truck Lines in Tulsa, OK

Source: Transport Topics, July 14, 2014



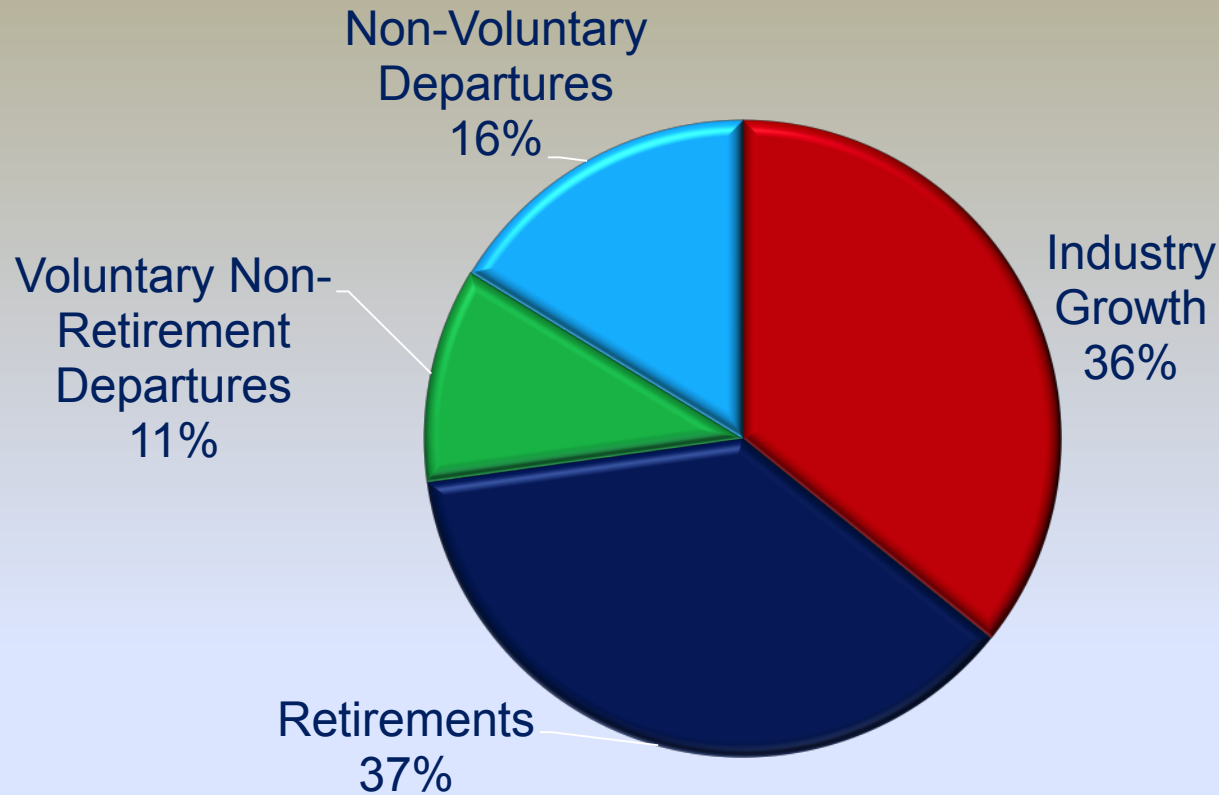
Who Is “Driving” Supply? No One...



Source: ATA

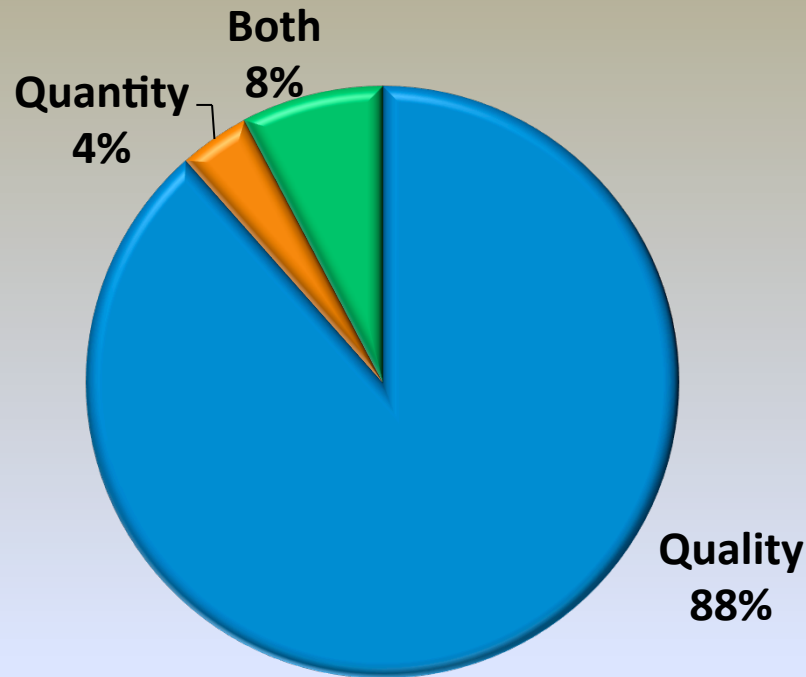


Average Number of New Drivers Needed Per Year Over the Next 10 Years: 96,178





Driver Hiring: *Is it that you can't find enough drivers OR is it that you are not finding the quality of drivers you would like to hire?*



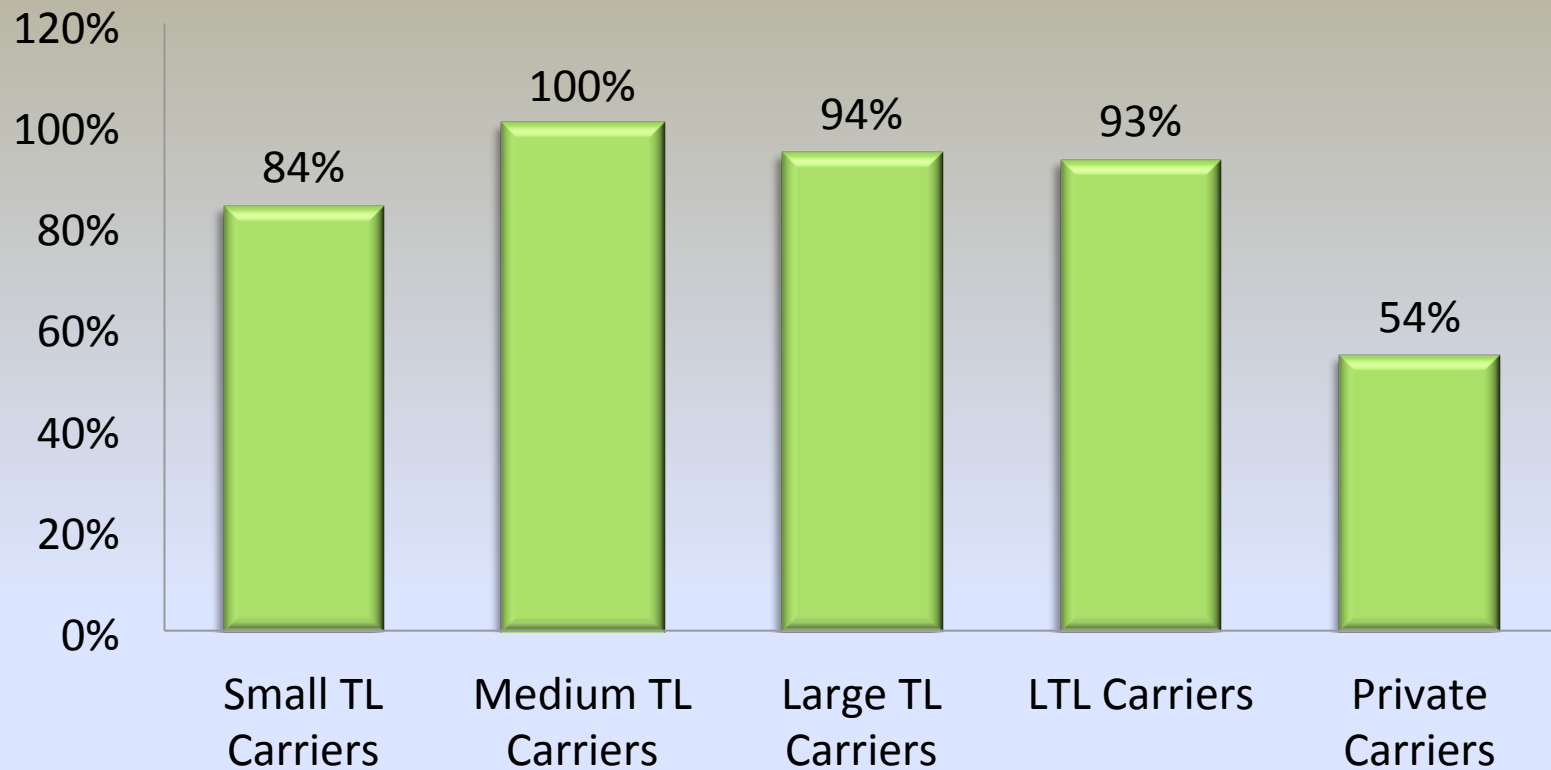
Conclusion: 88% of fleets say they are getting enough applicants, but that they can't hire the vast majority of those applicants. It was common to hear fleets say that they hire less than 10% of applicants.

Source: *ATA Benchmarking Guide for Driver Recruitment & Retention*



Is Your Company Currently Having Difficulty Finding Qualified Drivers?

Percent Answering Yes





Driver Shortage

WHERE DID EVERYBODY GO?





Driver Shortage

WHERE DID EVERYBODY GO?



- **Changing Demographics**
 - Aging Workforce
 - Predominantly Male
 - Higher Education Levels
- **Increased Regulations**
 - HOS Rules (34-hour Re-start, Mandatory Breaks, No More Split Breaks)
 - CSA Implementation Eliminating Available Drivers
 - Age Restrictions Impact Potential Drivers
- **More or Better Options**
 - Quality of Life – More Home Time for Less Pay
 - Local, Regional, Dedicated Routes
 - Non-Driving Jobs With Comparable Pay (Construction)

Who Wants To Be A Millionaire? Then Don't Be A Truck Driver...



Driving for hours in a cramped cab, many get a dog for companionship



Sleeping in their cab at night, often having to go for days without showering



Truck stops are a source for fuel, showering and relaxing after long hauls

And a spot to meet with other people who live on the road (where they talk about which Brokers or Shippers they like or hate to work with)



State Of the Driver: By The Numbers

- Number of Drivers* +1.7M
- Drivers That Are Male 94.6%
- Average Pay (Dry Van) \$48K
- Over The Age of 45 56%
- Suffers From Pre-Hyper Tension or Hypertension 87%
- Obese / Morbidly Obese 75%
- Driver Life Expectancy Early 60's
- Drivers Needed Over Next 10 Years 96,178

*Note: For Heavy and Tractor-Trailer Drivers in the US

Source: Bureau of Labor Statistics, YRCW, The National Transportation Institute, Transport Topics, HealthSignals



Demand



Truck Tonnage and Increased Regulations

Truck Tonnage at Pre-Recession Levels

2009 “Bottomed Out”

Q1 2014 Worst Winter In Years

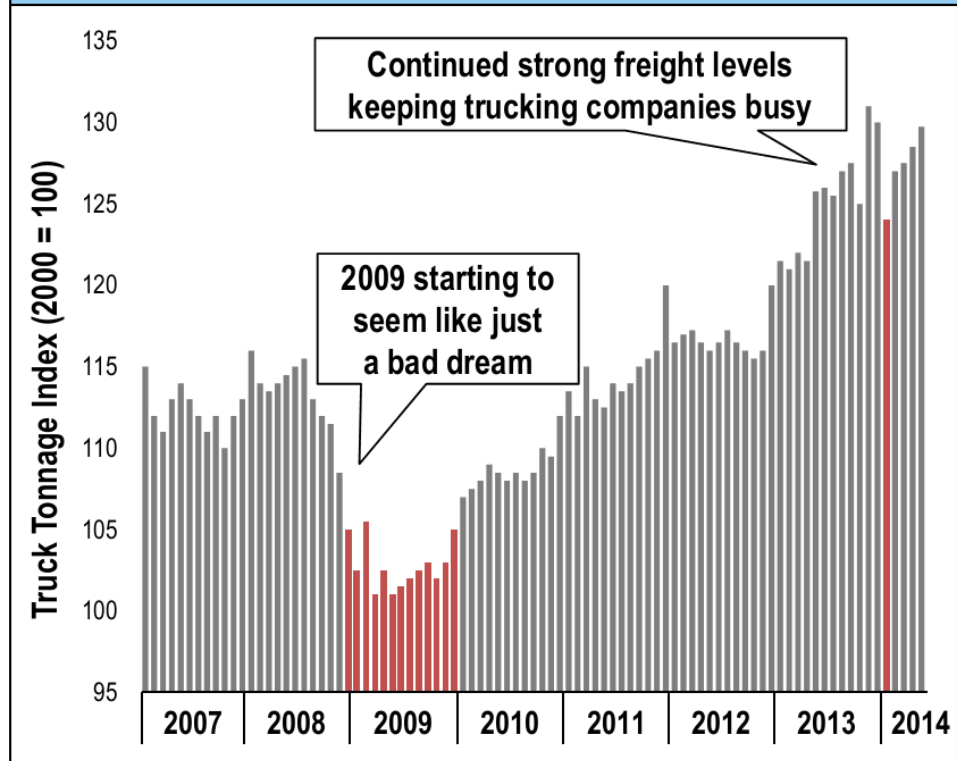
Economy in “Slow” Recovery

Regulations Impact On Demand

Mandatory Break Between 1-5 am

CSA – Scores Affects Drivers and
Companies They Work For

ATA Monthly Truck Tonnage Index (2007 – Present)



Source: American Trucking Associations, Transport Topics



Summarizing Supply Constraints



1

Driver recruitment and retention is still the biggest issue, as thousands of seats go unfilled due to prospective drivers being kept out of the industry by new government regulation, increased company scrutiny and the allure of comparable “blue collar” jobs with better lifestyles

2

High levels of uncertainty around how FMCSA changes will affect the “day-to-day” of trucking operations, leaving many small trucking companies worried if they’ll still be able to compete as more regulation rolls out

3

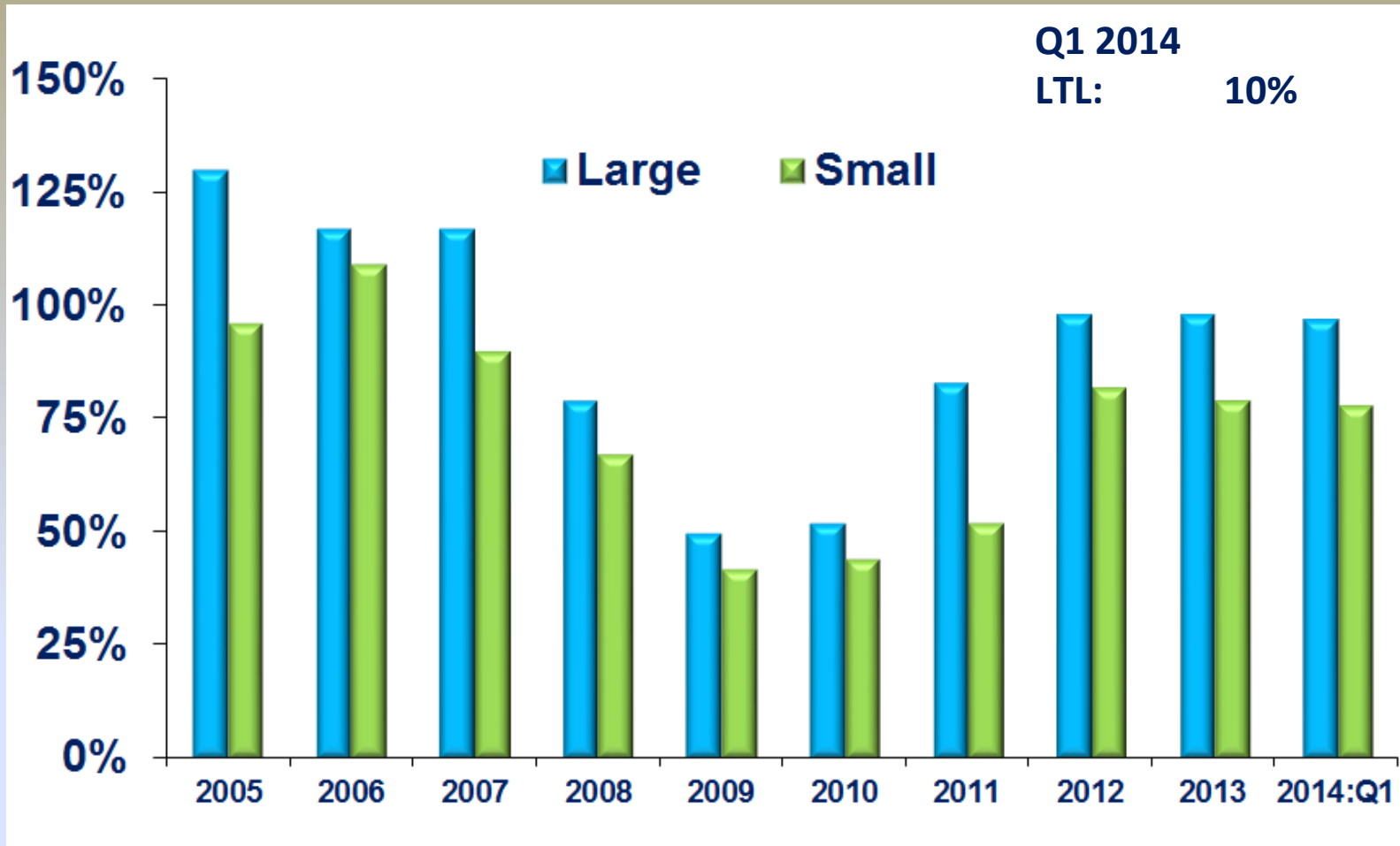
Trucking companies (and LTL guys, too) making decision to allocate assets to dedicated lanes as they’re able to grab more revenue per mile from long-term commitments with customers

4

A lot of opportunity to convert loads to intermodal, but not able to do as much as there should be due to rail line congestion, not having enough equipment and allocating assets towards bulk markets



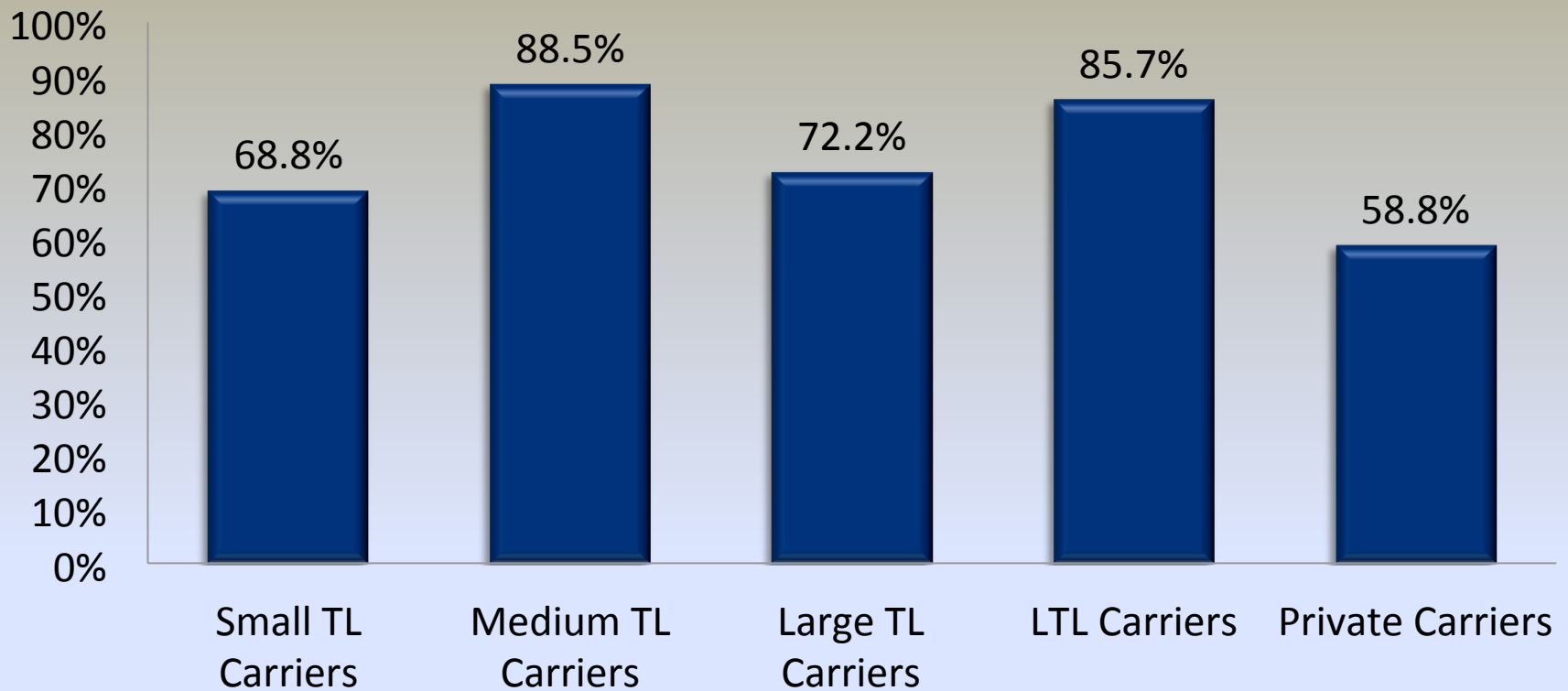
TL Truck Driver Turnover Rates





Have You or Will You Increase Pay for Your Various Driver Groups in 2014?

Percent Answering Yes

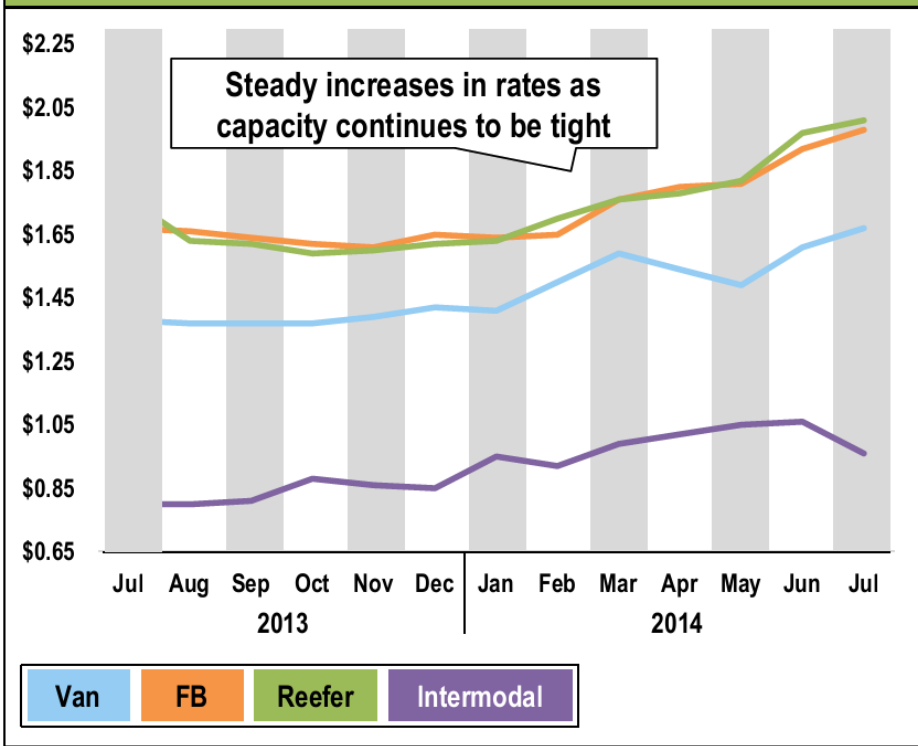




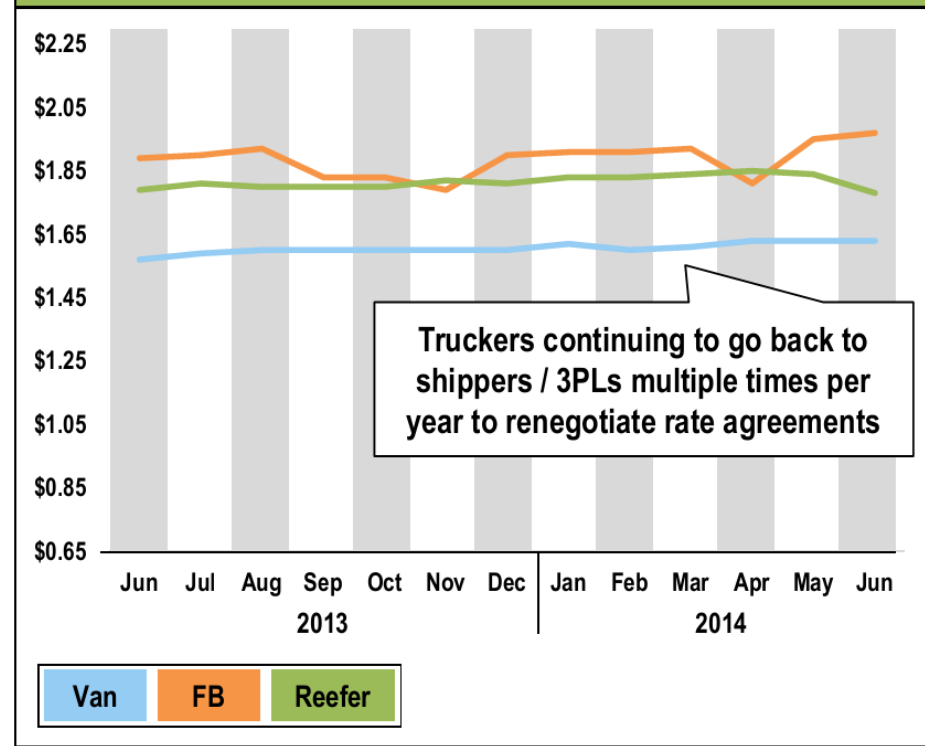
Broker and Contract Rates



Nationwide Broker Spot Linehaul TL Rates (July 2013 – July 2014)



Nationwide Shipper Contract Linehaul TL Rates (June 2013 – June 2014)



Source: DAT, DW

Source: DAT, DW



The Forecast...Mostly Cloudy

No Picnic Anytime Soon





The Forecast...Mostly Cloudy

No Picnic Anytime Soon



- Expect Capacity To Remain Tight Through 2014, 2015 and Beyond
 - Demographics Are not Changing
 - Possible Relief With Increase of Foreign-born Drivers, Women, Minorities
- Expect Rates To Increase
 - Wages Have To Compete With Non-Trucking Jobs
 - Recruiting Costs Will Continue To Rise
- Expect Increase In Dedicated Fleets and Regional Operations
 - Capturing Consistent, Year-round, Regional Capacity
- Expect Increase In Use of Third Party Logistics Providers (3PLs)
 - True Logistics Partners Bringing Solutions and Capacity
- Expect Increase In Use of Intermodal
 - Where Applicable – However Constraints Already Exist



Is There A Silver Lining Behind All The Clouds?



Certain Geographic Areas Have More Drivers Available

- ✓ Florida, TX, CA, GA, Carolinas – Largest Driver Domicile States in U.S.

Carriers are Focusing on Dedicated and Regional Fleets

- ✓ Consistent Pay – Scheduled Runs and Consistent Miles
- ✓ Supplements or Replaces Private Fleets

Intermodal Is Becoming More Viable In More Markets

- ✓ Can Move Long-Haul Capacity/Drivers to Dedicated and Regional Fleets
- ✓ Must Have Good Forecasting Tools

3PLs Have Developed Broader and Stronger Relationships

- ✓ Can Reach More Carriers Than A Single Shipping Department



Weathering The Storm

Safety Tip – S.O.I.L.



Support Your Transportation Providers

Assist with Detention, Driver Delays – Have Crews Ready To Load/Unload
Communicate Sales Forecasts and Growth Markets to Assist In Planning

Overcome Capacity Obstacles

Set Up Dedicated “Pop-Up” Fleets and Regional Fleets
Be Prepared To See Higher Rates – Set Expectations With Your Customers

Innovate

Are There “Old” Ways Of Thinking That Can Be Changed
Collaborate With Transportation Providers - Forecasting v. Reacting

Look For Alternatives

Utilize Full-Service 3PLs - Intermodal, Broader Carrier Base, Warehousing



QUESTIONS?



Mulch and Soil Council Annual Meeting – San Antonio, TX

Transportation Outlook

Presented By Jeff Paulsen
EVP – Sales
R+L Global Logistics

October 15, 2014