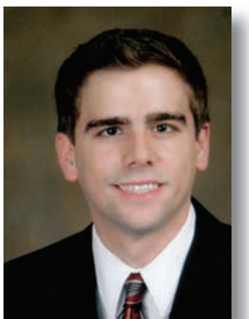
TRUCKLOAD TURNS TO PROFIT



BY MICHAEL D. SCHEID

The 50 largest truckload carriers expanded their combined revenue by 13 percent in 2011 as higher fuel surcharges and rising yields led to top-line growth for most carriers.

The increase in fuel surcharges contributed about 60 percent of that revenue growth, while a 6.2 percent rise in average revenue per loaded mile led to an increase in base revenue, despite minimal growth in freight volume. Acquisitions also increased in 2011, and major additions by three companies — CRST, Transport America and Gordon Trucking — also contributed to the double-digit revenue growth of the largest carriers.

Pricing improved through the first half of 2012, even as volumes remained flat. Diesel price increases slowed, limiting fuel surcharge revenue growth and, as a result, revenue increases decelerated compared to 2011. In addition, truckload carriers have cited cost pressures such as driver recruiting and retention difficulties and higher equipment prices. Although demand is flat and operating expenses are rising, however, it should not be overlooked that in 2011 and through the first six months of 2012 these negative factors did not do much to impact truckload carriers' bottom lines.

In fact, many truckload carrier profits are healthier than at any time since the recession, despite rising operating costs and an uncertain economic outlook.

The average operating margin of publicly owned truckload carriers improved from 6.6 percent in 2010 to 7.2 percent in 2011. In the first half of 2012, carrier margins grew again, to 9 percent in the second quarter from 8 percent a year earlier. Further pricing improvements contributed to the margin expansion, and although the rate of yield growth has slowed, rising only 3.3 percent year-over-year in the second quarter compared with 5.1 percent in the first quarter, that rate was still large enough to increase profits.

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Carriers that expanded their fleets have seen margins improve, as well as those that have kept tractor counts in check. Celadon Group's five acquisitions since the second half of 2011 resulted in a 7.2 percent increase in average seated trucks and helped the company hit a double-digit operating margin for the first time since before 2000.

J.B. Hunt Transport Service's dedicated division added equipment and increased its truck count to more than 5,000 for the first time since 2007, while increasing its operating margin to its best quarterly mark since the third quarter of 2006. Likewise, Knight Transportation has expanded its fleet by 150 trucks since the start of 2012, adding company equipment and owner-operators, while improving its operating margin 1.7 percent from the prior year.

Carriers that reduced or kept their fleet sizes steady also expanded margins in the quarter. Swift Transportation's total tractor count was down 6 percent year-over-year at the end of the second quarter, but the company's margin increased 1.4 percent from the prior year. Similarly for Covenant Transportation, margins grew 2.3 percent in the second quarter as the carrier cut its tractor count by 181 units. Temperature-controlled carriers Marten Transport and FFE Transportation also increased profits as they reduced their fleets. FFE sold its low-margin dry van fleet to Celadon in late 2011 and reported its first quarterly profit in three years in the second quarter.

Margins also are expanding for light-asset companies. In the second quarter, Landstar increased its owner-operator truck count by nearly 250 units from the prior year and saw its operating income as a percentage of gross revenue grow from 7.1 to 7.9 percent. Universal Truckload Service's owner-operator fleet declined 2.4 percent, while margins expanded 0.7 percent, helped by a 4.4 percent increase in revenue per load.

Of the three main truckload service offerings: dry van, temperature-controlled and flatbed, flatbed carriers in the top 50 list showed the largest increase in revenues. Volumes in the segment were up in 2011 and revenues increased substantially for most carriers hauling flatbed freight, including Mercer and Acme, which had the largest organic revenue growth in the top 50. The strong revenue increases also have continued into 2012. Landstar reported flatbed revenue was up 18 percent in the second quarter because of an 11 percent increase in volume and 7 percent growth in revenue per load in contrast to the company's 4 percent growth in dry van demand.

Profit margins are growing at the right time as many carriers have reinvested in their fleets to take advantage of the benefits that come with newer, younger tractors.

Carriers with an average fleet age around three years in the second quarter of 2011 now are operating fleets that average closer to two years in age. The lower maintenance expenses and increased fuel economy of new tractors could help to offset rising costs such as driver wages and tire prices. With capacity in the industry still tight and pricing rising, truckload carriers still could see further margin expansion even without an upturn in freight or major uptick in the overall U.S. economy. **JOC**

Michael D. Scheid is an analyst at SJ Consulting Group, a transportation and logistics research and consulting firm with offices in Pittsburgh and India.