Transport Capital Partners, LLC

Business Expectations Survey

First Quarter 2012

Transport Capital
Partners

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Business Expectations Survey Results
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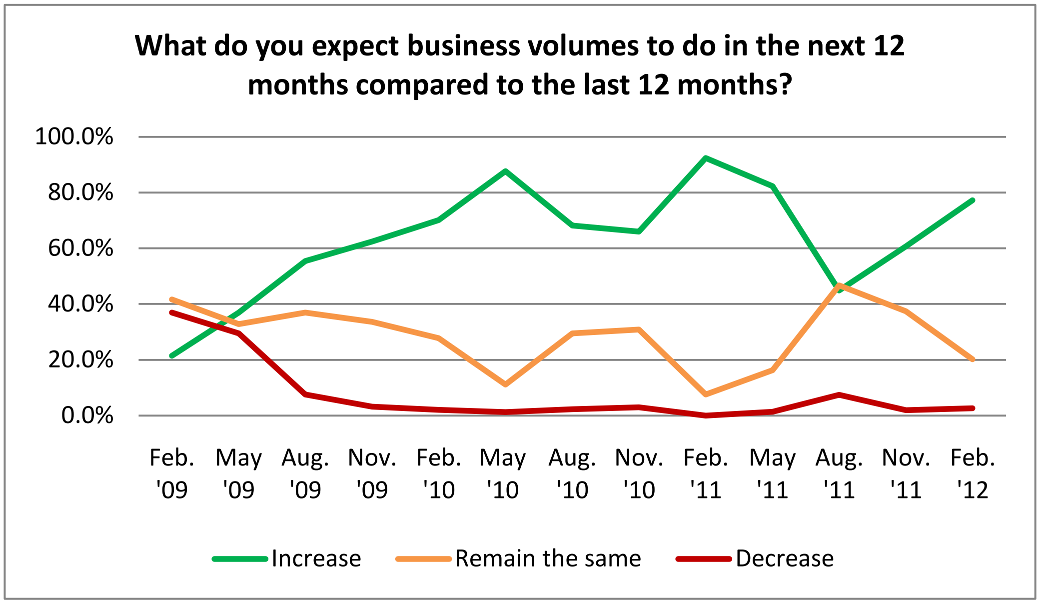
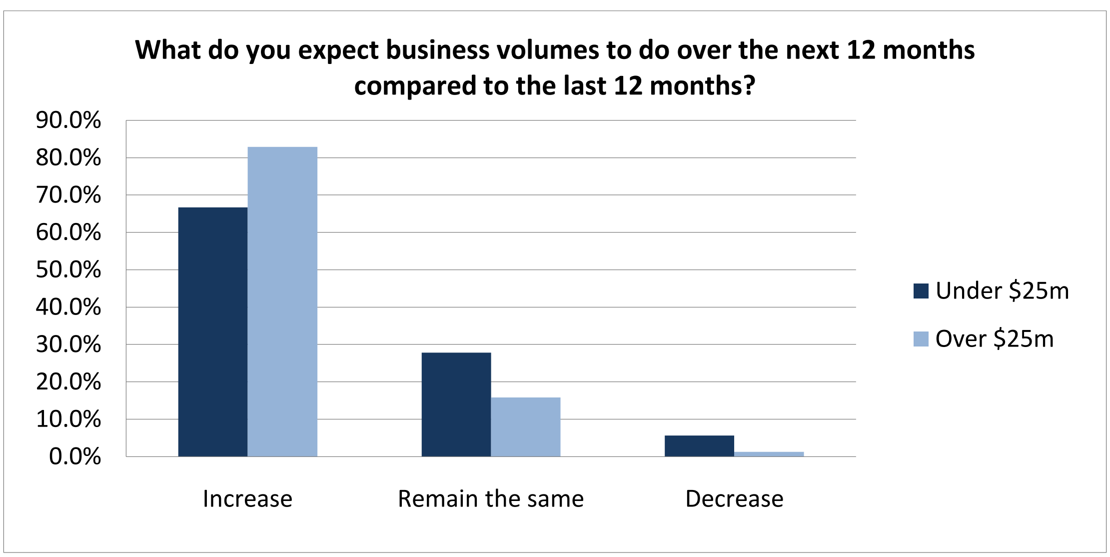
Started in the 2nd Quarter of 2008, Transport Capital Partners' (TCP) quarterly Business Expectation Survey (BES) has become a frequently quoted bellwether indicator of the American trucking industry by taking the pulse of its executives across the country. The survey asks trucking company executives 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 on other fleet sentiment opportunities and concerns. This is coupled with observations of TCP's partners and associates engaged in advisory activities within the industry.

Graph 1A



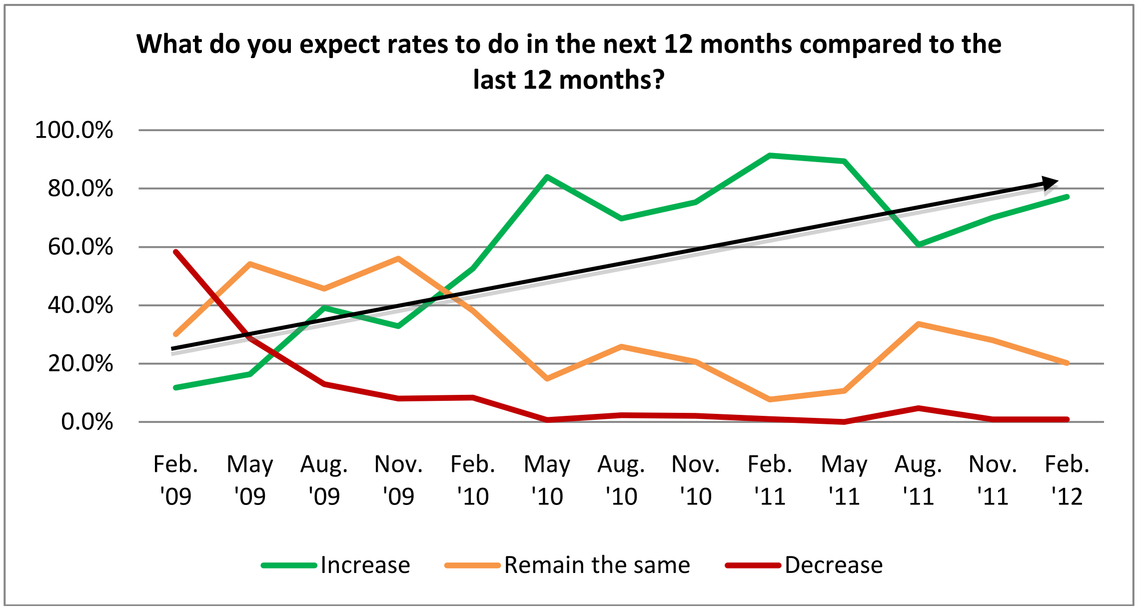
The last three quarters have seen carrier optimism about future business volumes increase from 45% in August '11 to 77% in February of '12, but still down from the all time high of 92% in February '11. This optimism is likely a reflection of improving economic statistics and forecasts by economists that are generally trending higher. Additionally, expectations may be trending higher due to the talk of an earlier freight peak in late spring and early summer, similar to the last two years as consumer spending drives retail sales.

Graph 1B



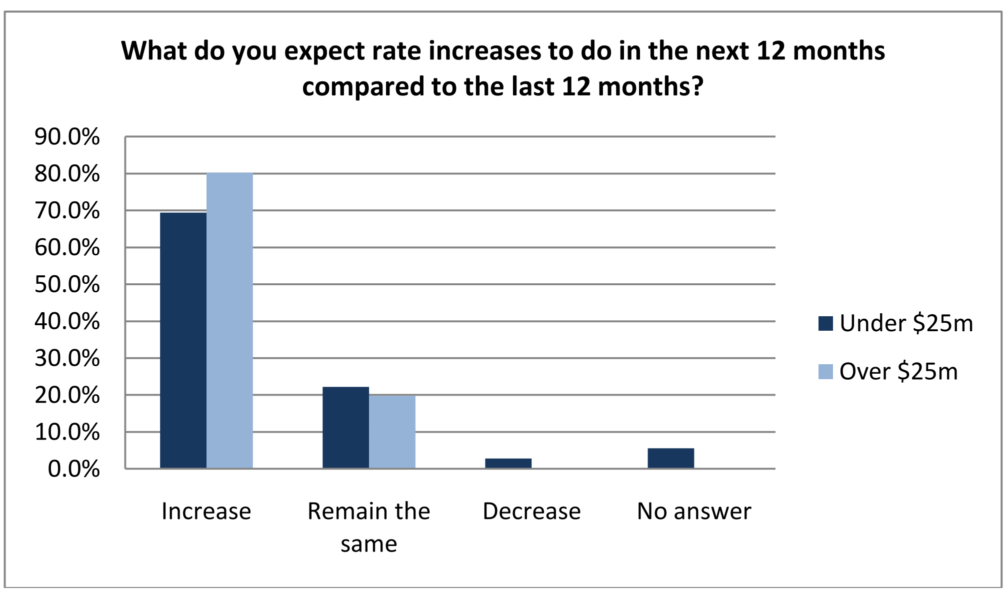
Larger carriers are more optimistic about future volumes than smaller carriers, by a factor of almost 25% (83% vs. 67%). Carriers with fewer customers and regional locations may still see some slowness in recovery contrasted to larger and generally national carriers.

Graph 2A



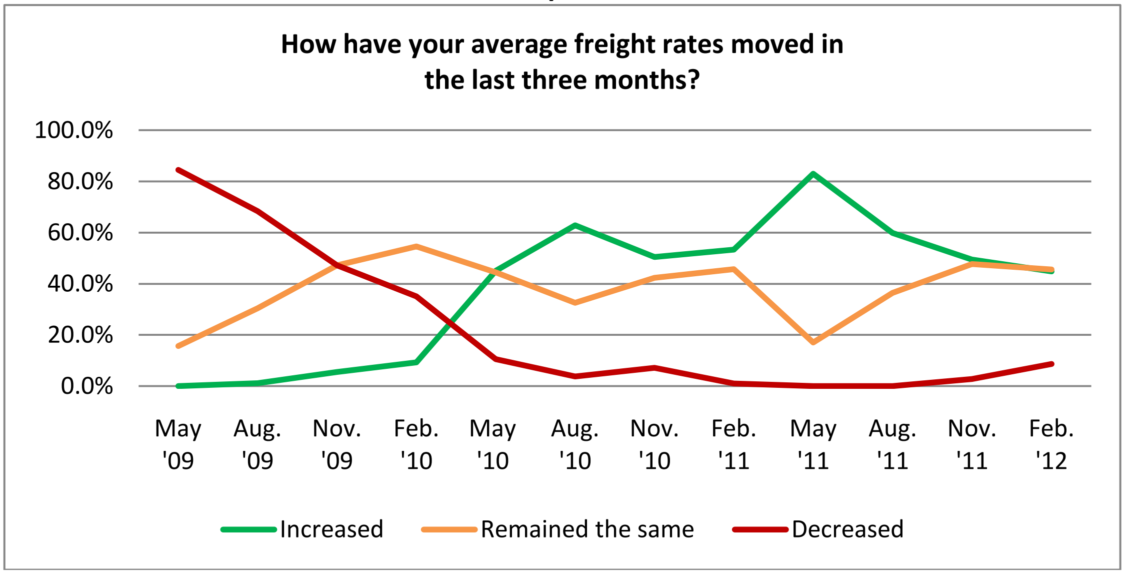
In light of higher expectations for volume, carriers are also expecting rates to increase. Not surprising, the two charts of expected volumes and expected rates track very closely. Seventy-seven percent of the carriers see rates increasing as opposed to 20% who see them remaining the same. This reflects underlying cost pressures (equipment, drivers, maintenance and fuel) and increasing demand pressures all at the same time when fleets not expanding capacity and experiencing driver supply limitations. Under such circumstance, carriers can only see rates increasing.

Graph 2B



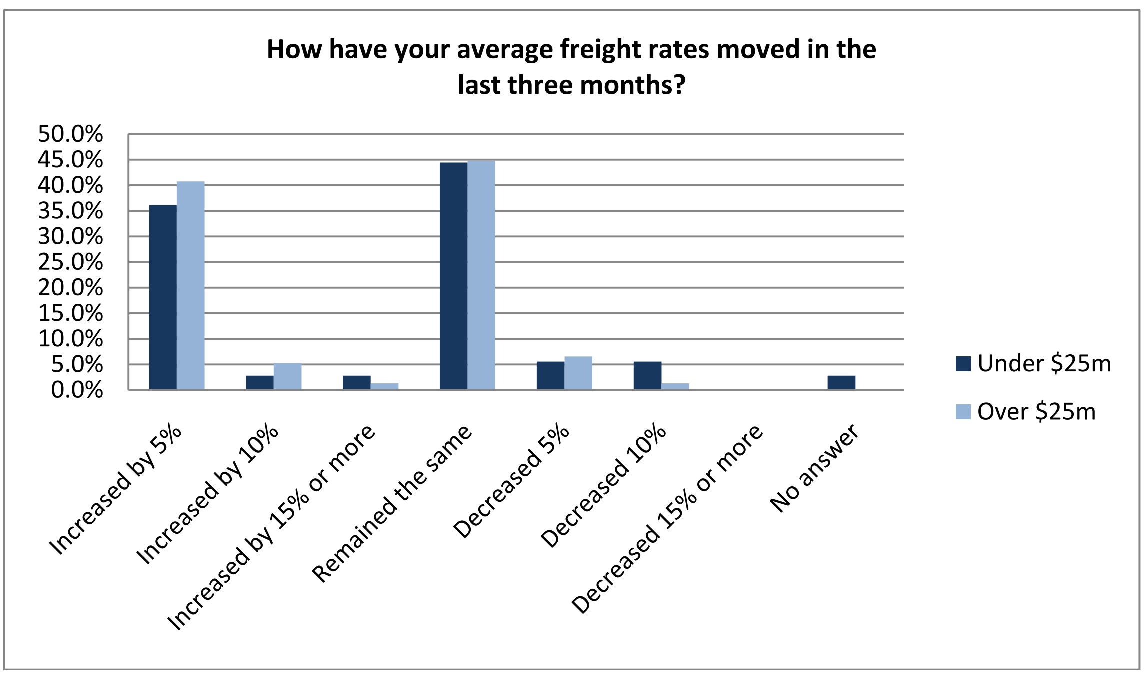
As with volumes, larger carriers are more optimistic about future rate increases than are smaller carriers.

Graph 3A



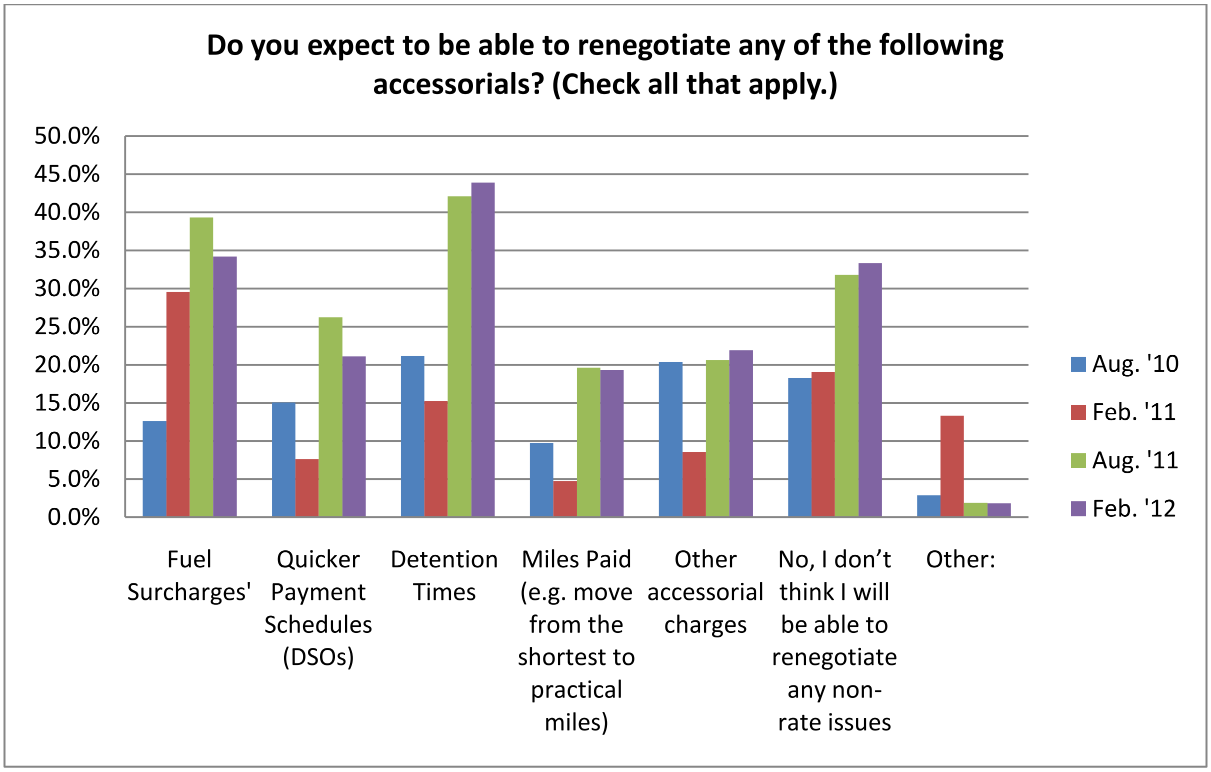
Unfortunately for the carriers, the **expectations of rate increase** have not fully made their way into **actual rate increases.** In fact, only 45% of the carriers have seen rates increases in last three months, continuing a three quarter trend. This also may reflect a peak in rates playing out in annual rate setting contracts from the first and second quarters of 2011. An equal percentage of carriers report rates remaining the same.

Graph 3B



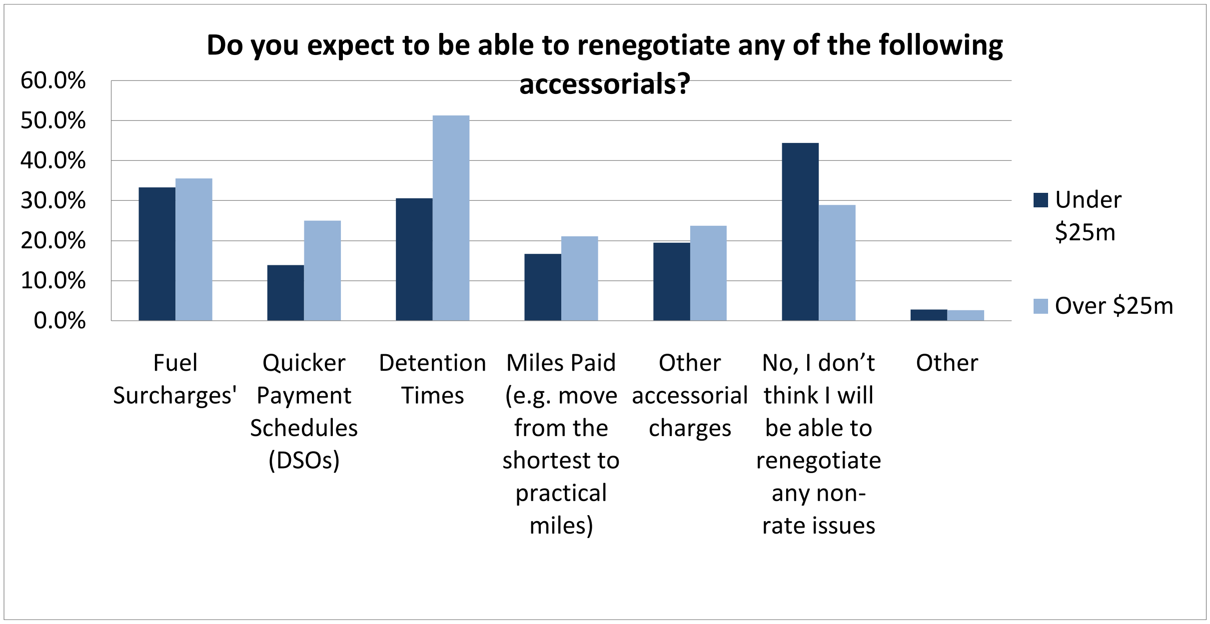
About 45% of both size groups see their rates remaining the same. Where there have been rate increases, the increases have been in the 5% range for both large and small carriers.

Graph 4A



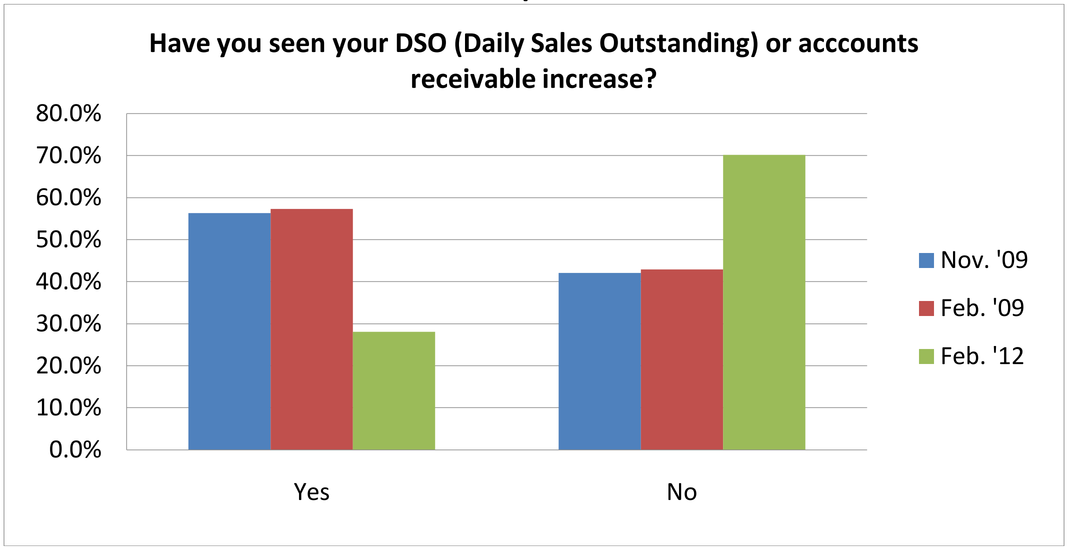
Compared to a year ago, carriers are more confident that they can renegotiate accessorials. But 33% of the carriers still don't think they will be able to renegotiate them. However, at least 44% of the carriers are trying to do something about detention times. This probably has more to do with the increased probability of revised hours of service regulations than a desire to improve the bottom line. Also, shippers will probably be more receptive to working with a carrier to assure a carrier's compliance with hours of service and to fully utilize the scarce driver hours to keep equipment moving.

Graph 4B



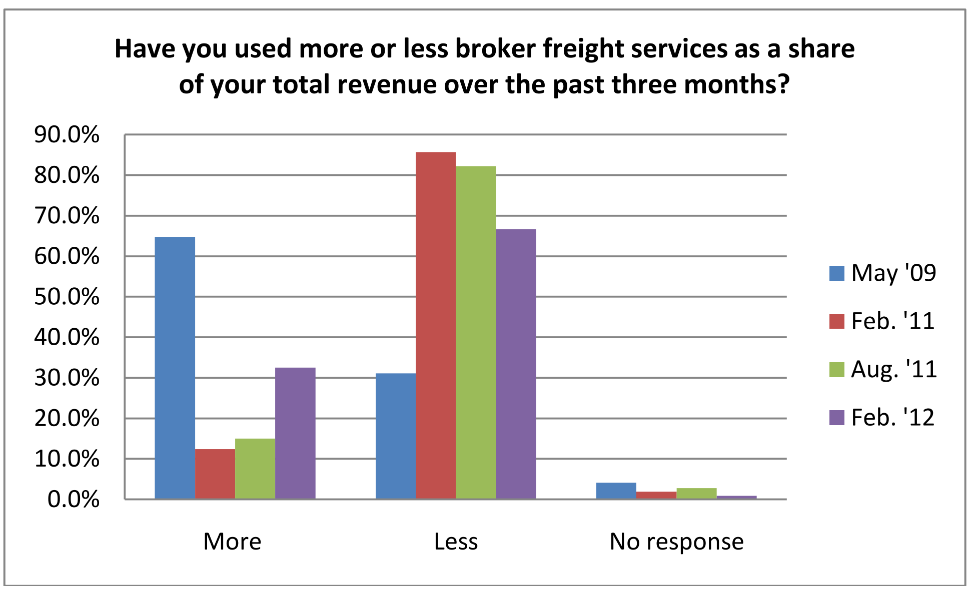
Smaller carriers are less aggressive than larger carriers in renegotiating accessorials. In fact, 44% of the smaller carriers report not expecting to renegotiate. Larger carriers expect to be more aggressive than smaller carriers in dealing with detention times (51% vs. 30%). Larger carriers have also been more aggressive in getting paid quicker (25% vs.14%). The differences in expectations between large and small carriers allow shippers to "shop" for carriers, making it harder to renegotiate accessorials.

Graph 5



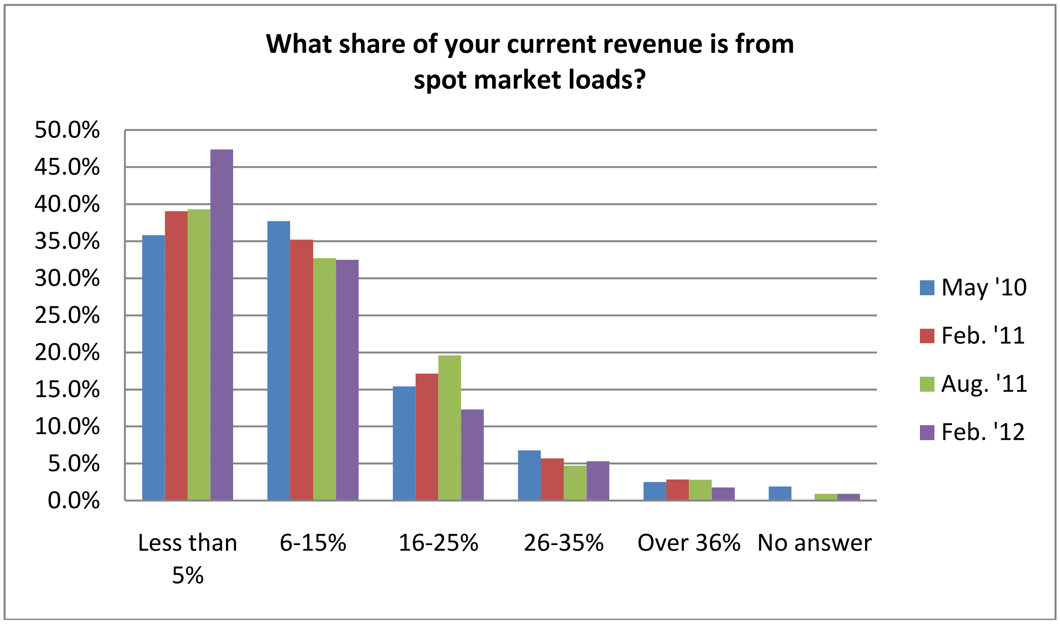
Over the last three years, carriers have managed to see a dramatic change in the amount of time it takes to get paid. In February of '09, 57% of the carriers reported seeing their DSOs increase compared with only 28% in February '12. There isn't much difference between carrier size and average DSO time. This is probably due to the across-the-board pay policies of shippers.

Graph 6



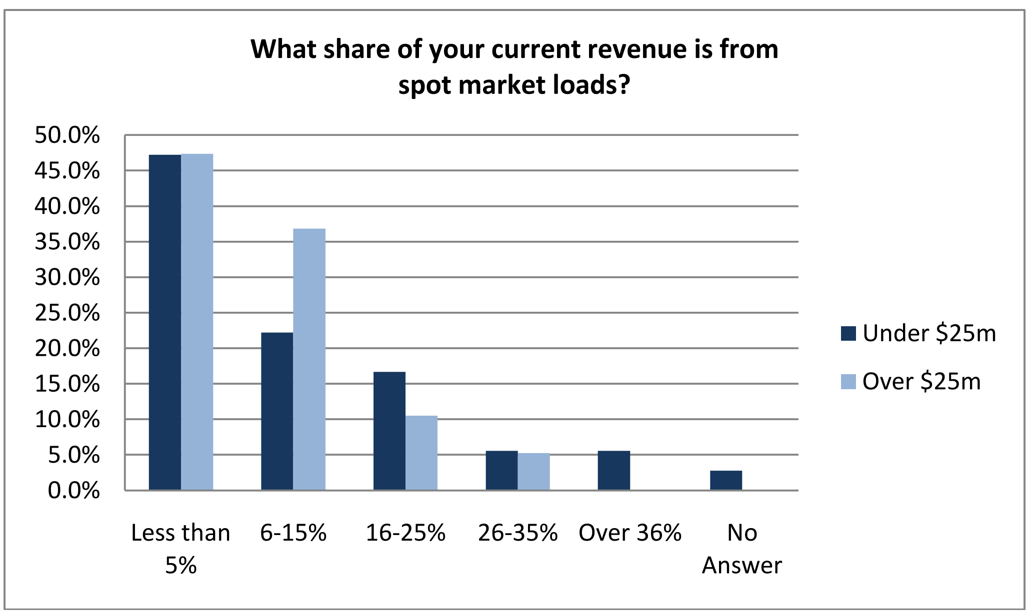
In light of small rate increases and the challenge of renegotiating accessorials, more carriers are moving to brokers to find higher rates on the spot market. In fact, 33% of the carriers indicated that they were using more, reflecting a trend over the last three quarters. We believe the use of more brokers is not because carriers are looking for freight, but because the spot market is paying more for transportation services than are contract rates. There isn't much difference between larger and smaller carriers in their increased use of brokers (34% vs. 28%).

Graph 7A



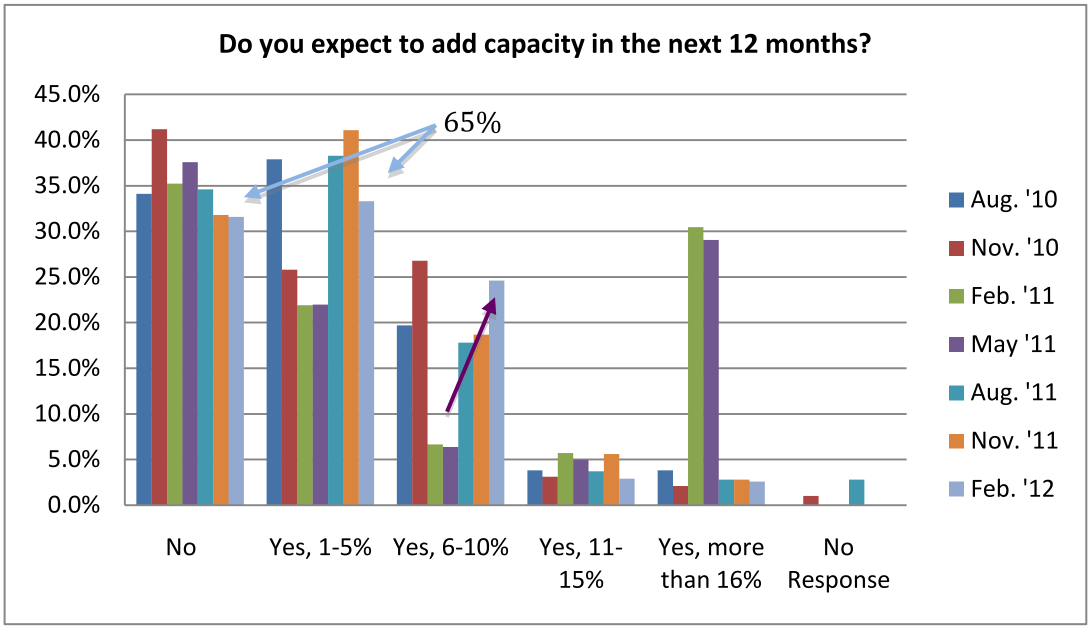
Even though carriers have used more brokers over the last three quarters, the amount of freight they secure in the spot market is still relatively small, with 47% indicating it is less than 5%. However, in a period of tightening capacity, even a small shift in the spot market can adversely affect a shippers' ability to attract capacity. Historically, contract rates have been significantly lower than the spot market in times of tightening capacity.

Graph 7B



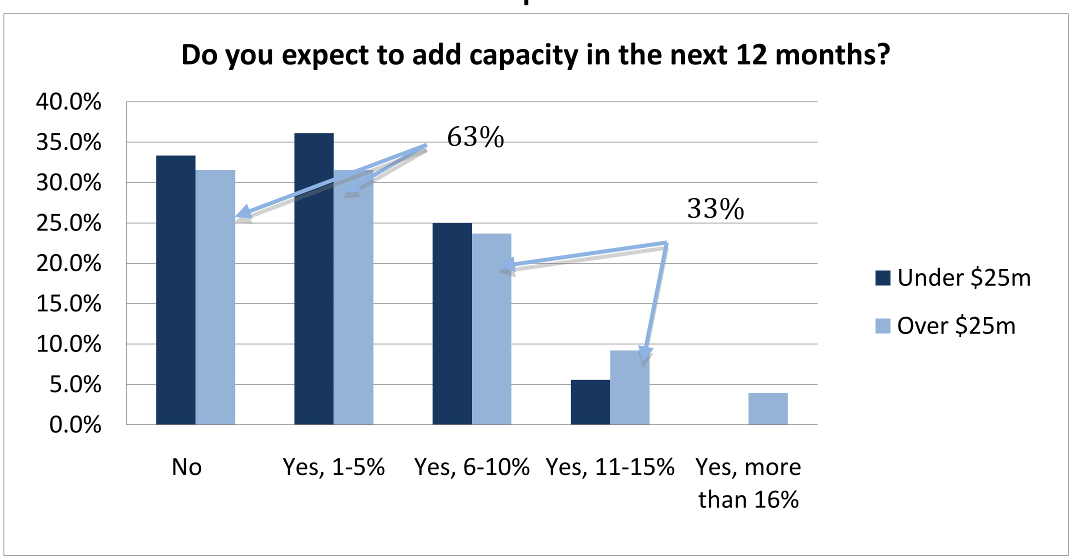
As noted earlier, it appears that larger carriers are taking more advantage of spot market rates than are smaller carriers.

Graph 8A



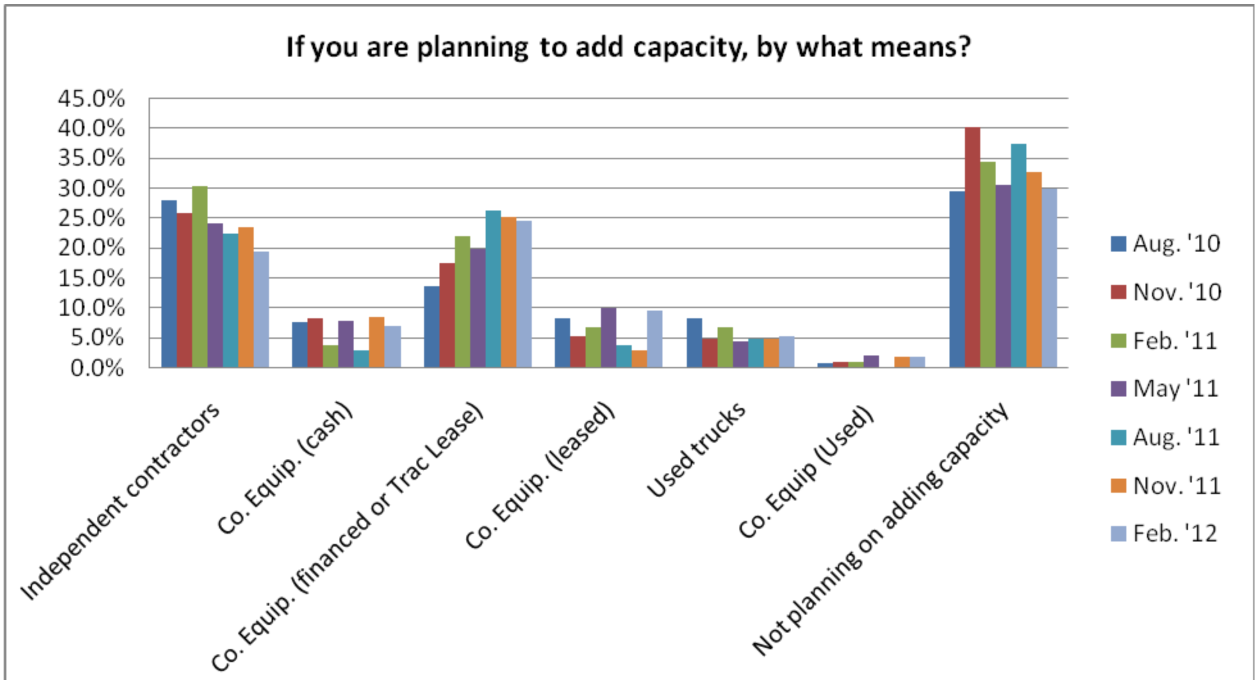
In light of the inability to raise rates and accessorials, carriers remain hesitant to add capacity. In fact, 65% of the carriers expect to add little or no capacity. However, 25% of the carriers plan on adding 6-10% more capacity over the next 12 months compared with only 7% a year ago – good news for the manufacturers of truck equipment. But this increase is still not enough to trounce the coming capacity crunch predicted by the many knowledgeable observers of the trucking industry. In spite of over 152,000 new class 8 trucks being registered in 2011, the national class 8 fleet registration at year-end dropped 2% from 2010, verifying what carriers have been saying about not adding to their fleets.

Graph 8B



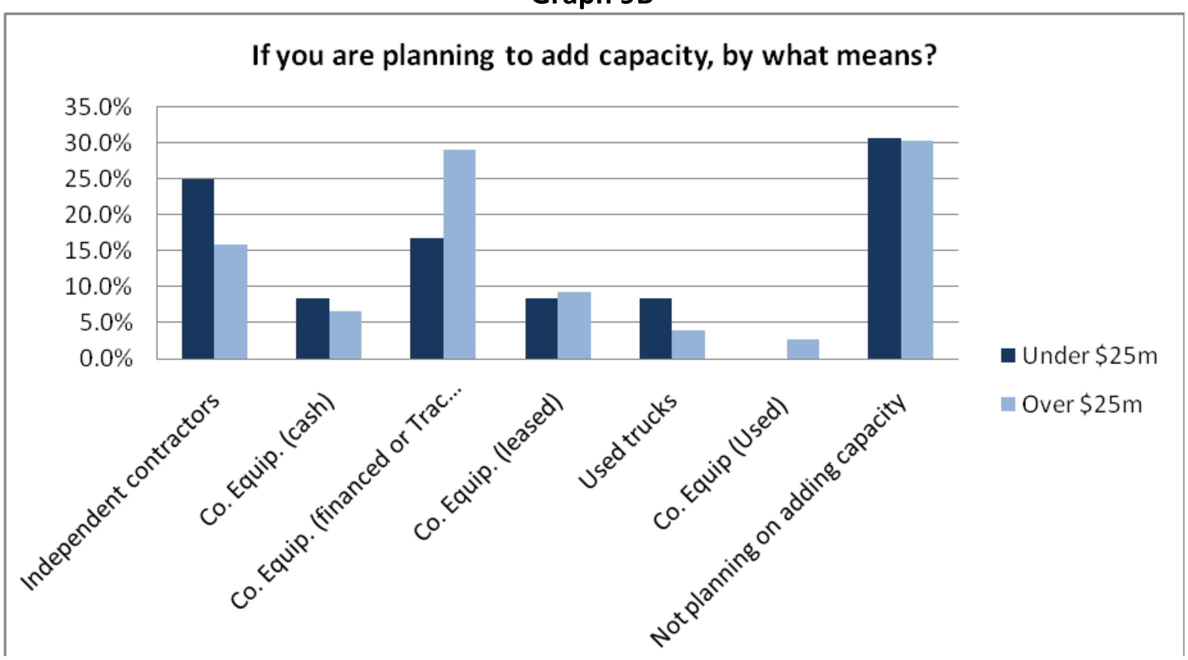
While 33% of the larger carriers plan on adding 6-15% capacity, twice as many expect to add little or no capacity.

Graph 9A



The desire to use independent contractors to add capacity has been on a downward trend since August 2010. Company equipment has generally been the obvious offset. Carriers who are not planning on adding capacity has dropped over the last three quarters to 30%. Buying used trucks has been favored only by 5%.

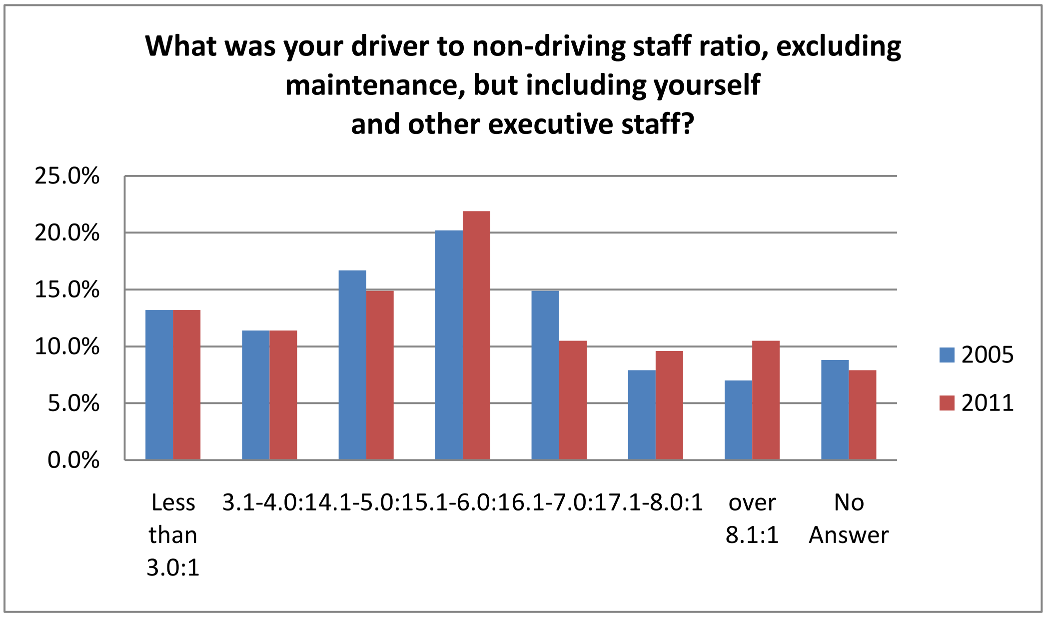
Graph 9B



Independent Contractors are favored by smaller carriers (25%) while larger carriers are not as interested (15%). For those carriers not planning on adding equipment, there is not much difference between the two carrier size groups; both are near 30%.

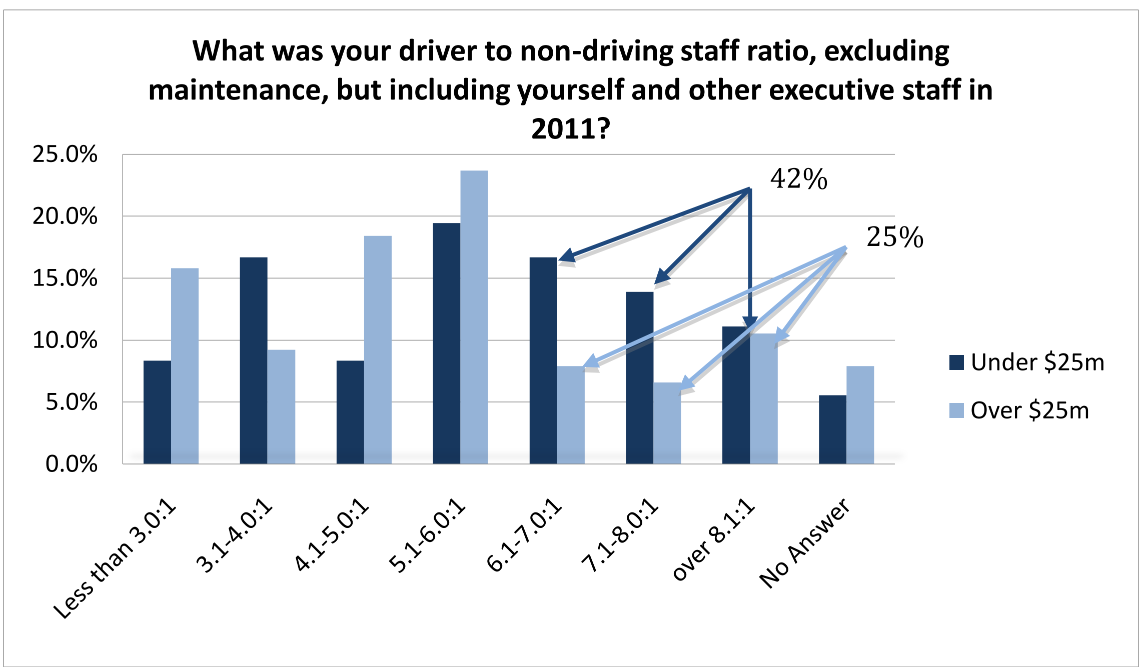
The two following graphs are a combination of questions asked about the estimated staff ratios in 2005 and 2011. Both represent the answers from executives from this quarter.

Graph 10A



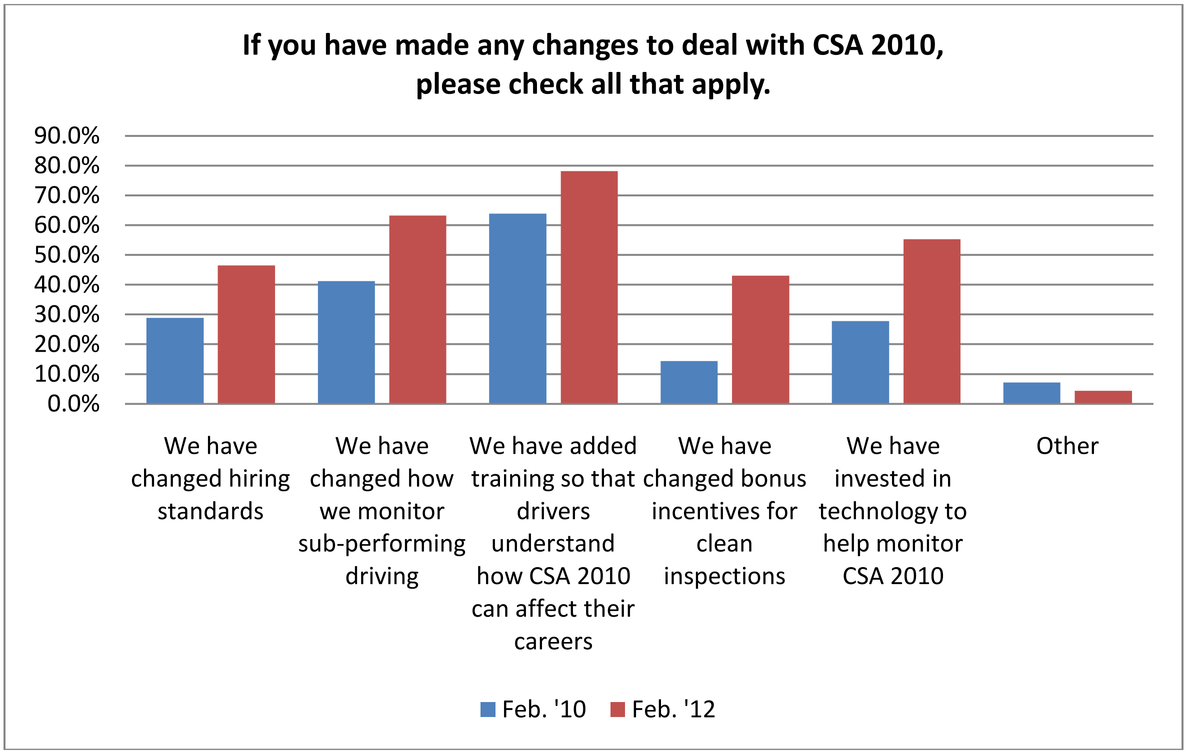
While carriers have become leaner since the Great Recession, the shifts have not been significant.

Graph 10B



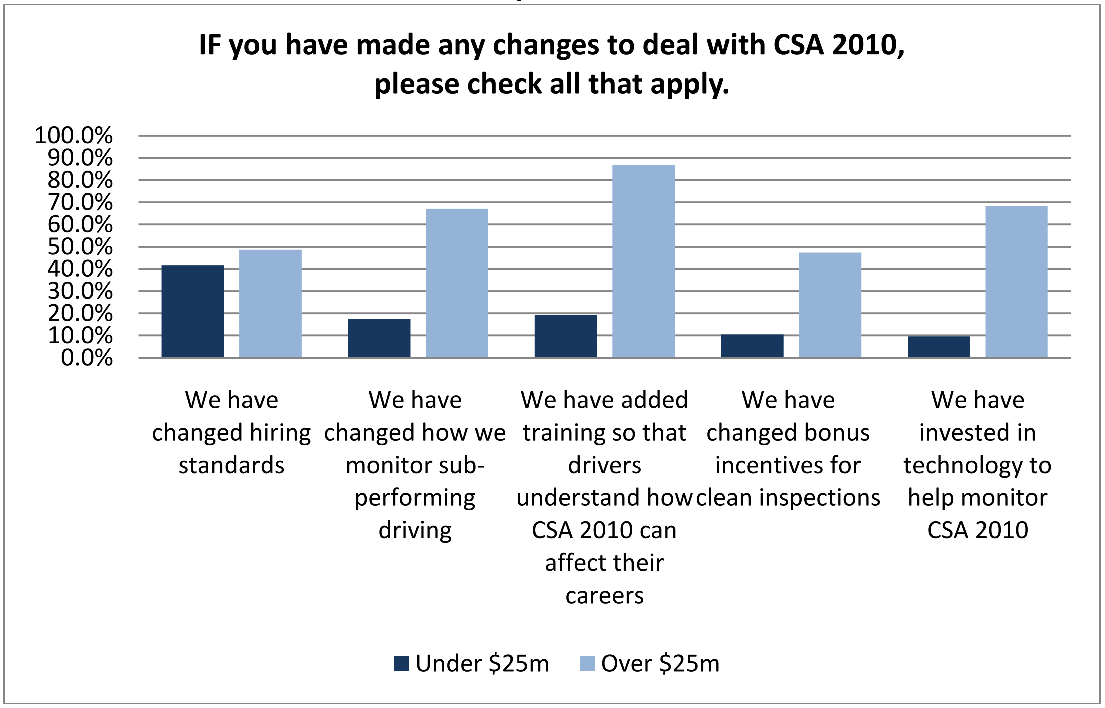
However, 42% of the smaller carriers had driver to non-driver ratio of 6 or better, compared to only 25% of the large carriers. Smaller carriers often have leaner organization structures and more multi-tasking employees.

Graph 11A



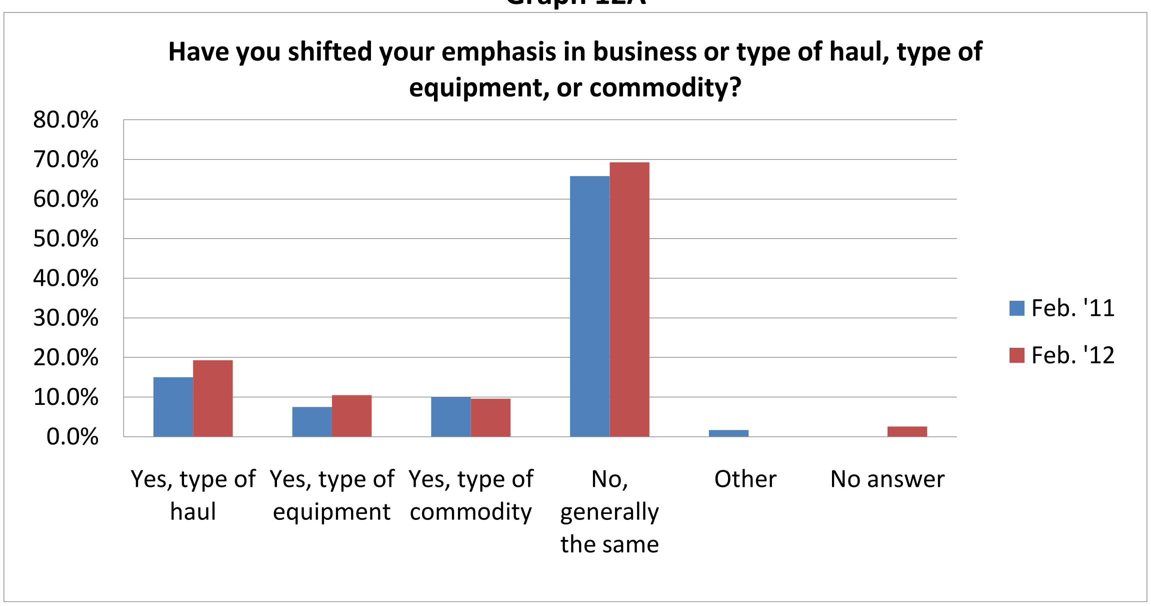
One area where carriers have not been able to drop staff has been in the area of compliance with CSA 2010. Carriers have taken multiple steps to comply – all of which require more staffing and/or money. They are making this investment not only to comply with Federal regulations, but also because many shippers and brokers are actively monitoring CSA scores and selecting carriers accordingly.

Graph 11B



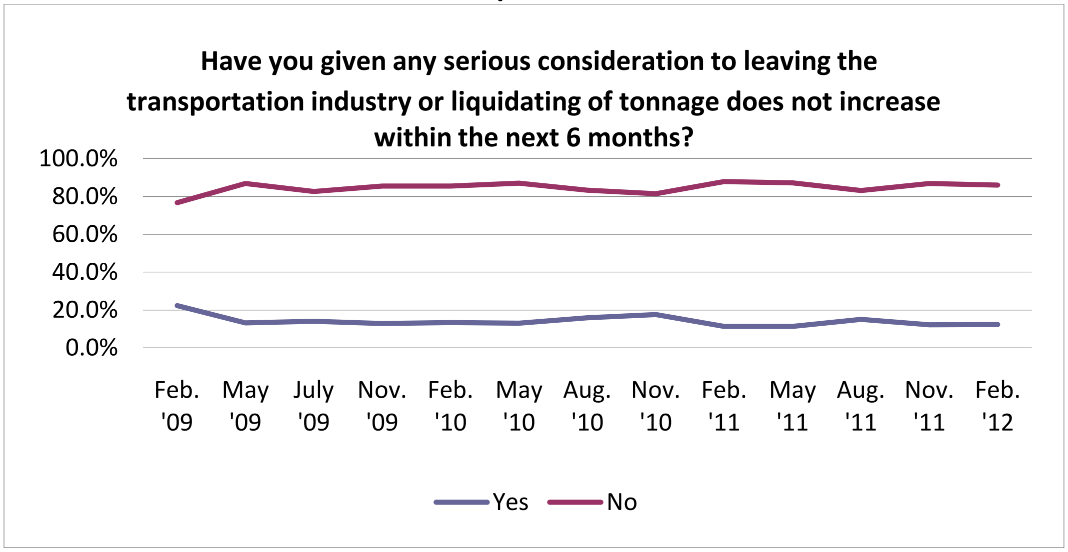
Larger carriers are taking more taken more steps to deal with the changes than smaller carriers. Again, this is probably the result of smaller carriers not having the capital to invest in new processes and technology. Time will tell if the investment by either group actually improves safety.

Graph 12A



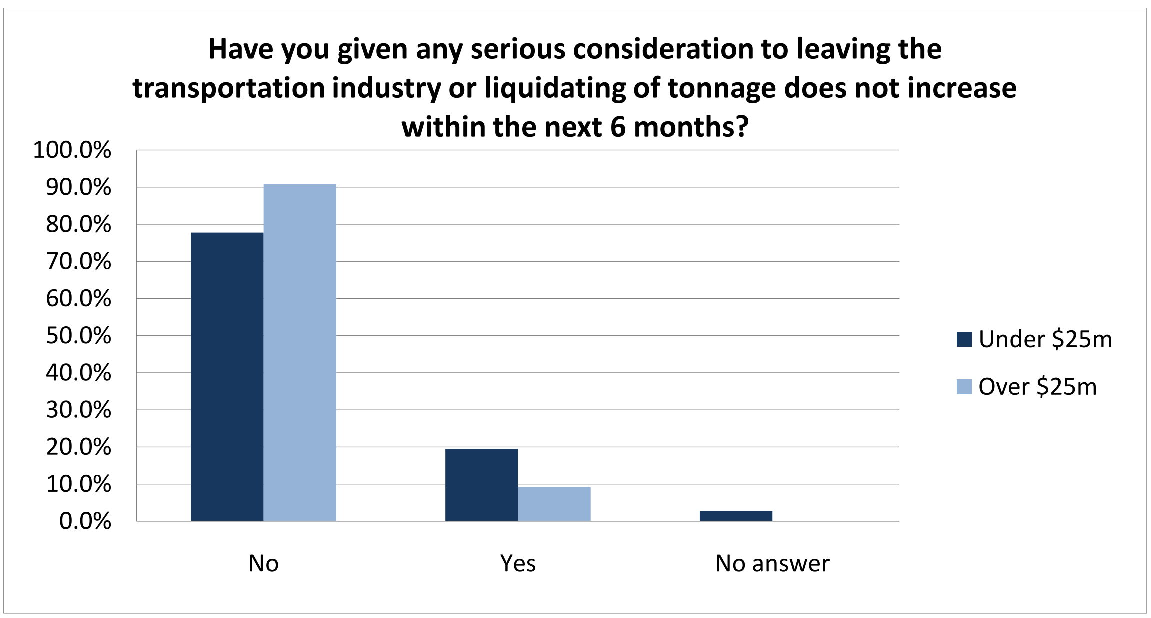
Some carriers are making changes to their operations in response to the effects of the Great Recession. There has been a 25% increase the numbers who have changed their type of haul (15% to 19%) over the last year. There has been a 38% increase in the number of carriers who have changed their type of equipment. But the vast majority (68%) has not made any basic shifts in their operations over the last two years. There was no significant size difference in how the industry shifted its type.

Graph 13A



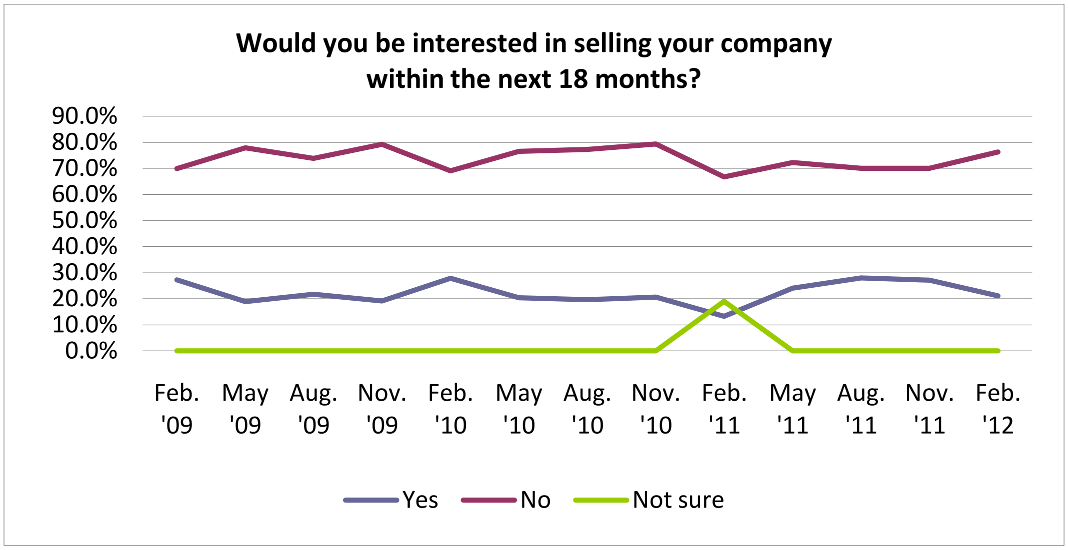
There is no significant change in the number of carriers seeking to liquidate; only 12% of carriers would consider leaving the transportation industry if tonnage does not increase in the next 6 months.

Graph 13B



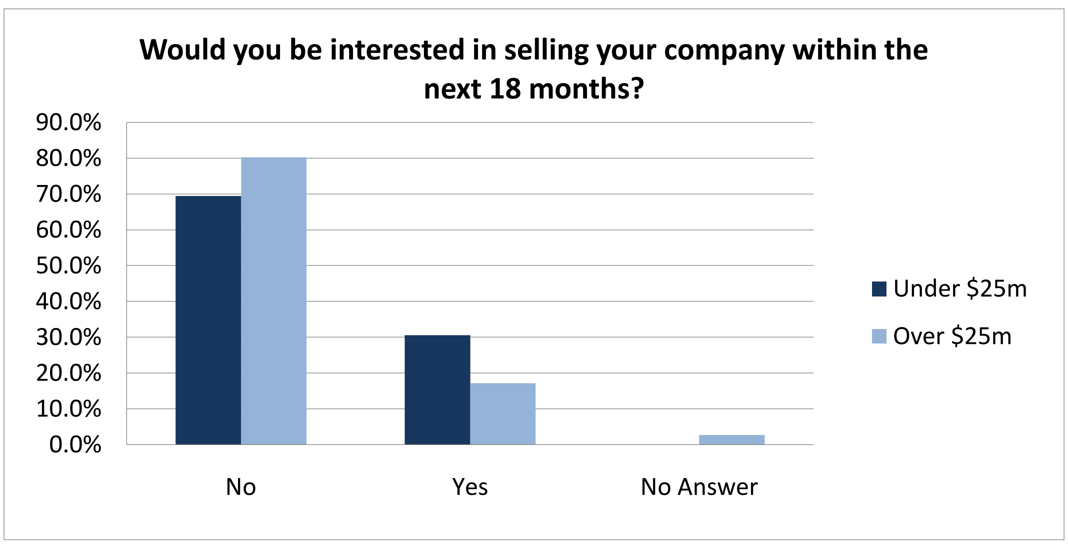
However, 20% of smaller carriers are interested in liquidating compared with only 9% of the larger carriers. This is a significant number for an industry which is made up primarily of smaller carriers.

Graph 14A



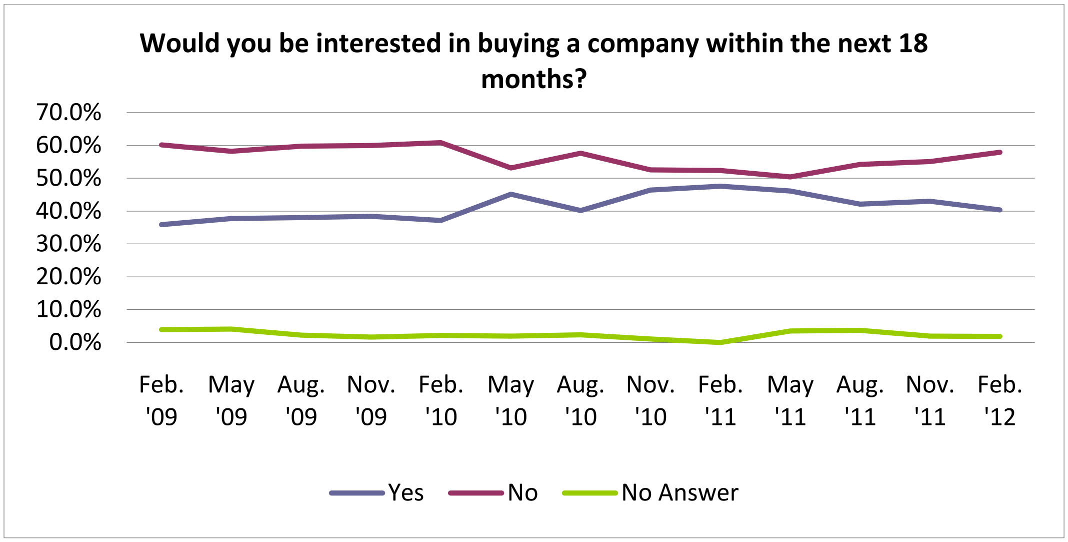
The number of carries interested in selling their companies within the next 18 months dropped from 27% last quarter to only 21% in February '12. This is most likely reflecting a better year in 2011 and improved outlook for both volume and rates in this quarter.

Graph 14B



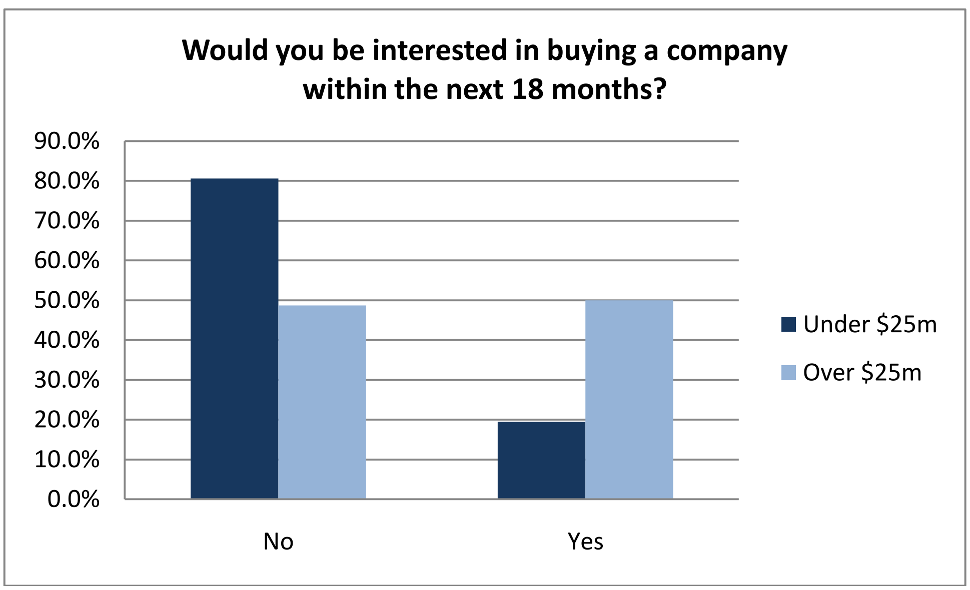
As in prior quarters, the number of smaller carriers interested in selling in the next 18 months is 30%, compared to only 17% for the larger carriers.

Graph 15A



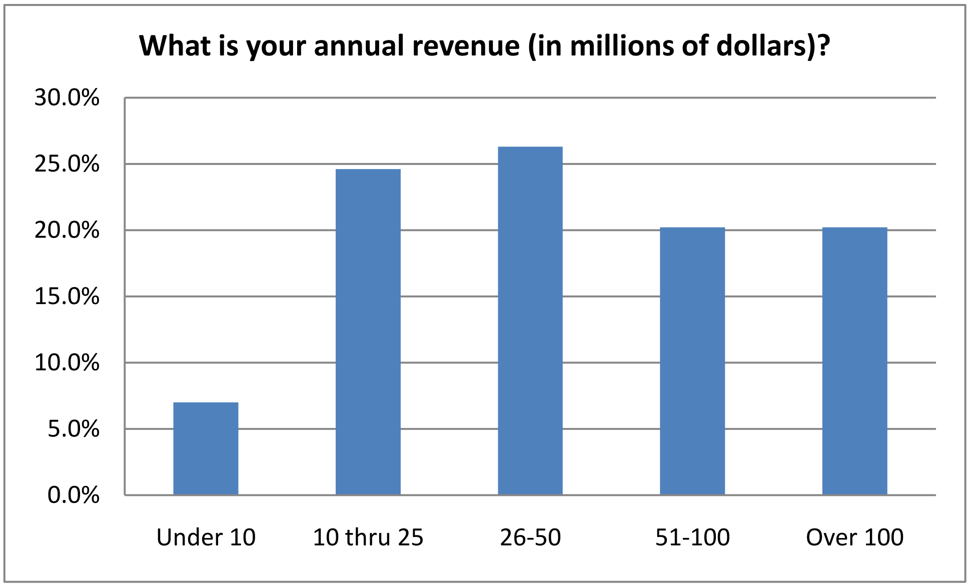
While the survey indicated the number of carriers interested in buying remains essentially the same, TCP sees increasing buy-side interest. The buyers have very specific requests and are not just interested in buying to increase size. Rather, they are looking for specific niches, geographic lanes, or commodities. Non-Asset based remains more desirable to many buyers than asset based. If the company is asset-based, the buyer wants a fleet with younger equipment.

Graph 15B



Larger carriers are evenly split on whether they are interested in buying or selling. But larger carriers are more interested in buying than smaller carriers (50% vs. 20%).

Graph 16



Graph 17