

Now is the time: What the Future of YRCW Means to Shippers

YRC Worldwide Inc's second quarter 2010 results showed significant improvement over last year's second quarter, but YRCW still recorded a \$9.5 million loss. In 2009, YRCW's second quarter loss was \$309 million. What does this mean going forward? Will YRCW survive these hard economic times and will their trucking divisions of YRC, Holland, Reddaway and New Penn still be operational in 2011?

A comparison of YRCW's key financial data to their primary industry competitors reveals an insight into the long term financial issues facing YRCW. The following chart reflects each carrier's key financial ratios, working capital and cash flow through the second quarter 2010.

YRCW's current ratio (current assets divided by current liabilities) and their debt ratio (total liabilities divided by total assets) are two very troubling indicators which reflect their current financial condition as their current liabilities exceed their current assets by \$291 million. While YRCW continues

to bleed red ink, their long-term financial viability is still very much clouded until the US economy improves significantly. If YRCW does not return to profitability and ends in bankruptcy liquidation, what does this mean to the shipping public? If YRCW closes its doors, a significant amount of freight, \$2.1 billion in the first 6 months of 2010, will need to find its way to other carriers.

YRC Worldwide Inc. is a mixture of National (YRC), Inter-regional (USF Holland) and Regional (New Penn, USF Reddaway) carriers, so we can expect that this freight would be distributed over a broad spectrum of the nation's existing carriers. What will be the operational and financial / pricing impact on the carriers that will be lining up to secure these additional shipments?

Operations

The first significant effect on the carriers taking on these new shipments will be a quick upsurge in their daily shipments throughout their service center network. While carriers have recently reported that they have realized an uptick in their daily shipment count since April, many carriers had previously taken significant workforce adjustments during the downturn in the economy. These manpower reductions as a result of over capacity throughout the carrier's terminal network caused head count adjustments in all phases of their operations including pickup and delivery, dock, and linehaul.

| | ABF Frt | Con-Way Frt | Old Dominion | YRCW |
|-------------------------|----------------|---------------|--------------|-----------------|
| Operating Income | \$(46,076,000) | \$49,832,000 | \$56,386,000 | \$(184,890,000) |
| Operating Ratio | 105.97 | 98.98 | 91.78 | 108.78 |
| Current Ratio | 1.61 | 1.63 | 1.15 | 0.75 |
| Debt Ratio | 0.44 | 0.72 | 0.48 | 1.03 |
| Working Capital | \$147,195,000 | \$446,585,000 | \$27,170,000 | \$(291,083,000) |
| Cash Flow | \$7,260,000 | \$110,361,000 | \$89,794,000 | \$(198,264,000) |

Some carriers have added manpower in recent months but still staffing levels are below where they were eighteen months ago before the economy turned south. If YRCW closes their doors overnight and the remaining carriers suddenly realize a next day surge in shipment count, a key question for shippers across the nation will be how quickly these carriers can adjust their manpower levels. In essence the operational effect on the remaining carriers could be similar to the Teamster strike, which crippled the LTL industry operationally in the early 1990s. During that strike the first areas to incur significant delays or backlogs were the carriers' breakbulk network and linehaul operations. Shippers can expect their on-time service performance to suffer immediately until proper staffing and equipment can be adjusted. In addition, carriers are going to ensure that they pick up their current long-term customers before taking on (potentially) marginal new business.

Financial & Pricing

During the months of the economic downturn and subsequent reduction in shipping, most LTL carriers have been actively pursuing additional revenue to cover their enormous fixed costs. While the majority of carriers have incrementally cut their variable cost and capacity by reducing labor, P&D trucks on the street

and linehaul dispatches to adjust to reduced shipping demand, they are still saddled with fixed cost (Terminal Overhead), which cannot be easily minimized or eliminated.

While most carriers utilize a breakbulk/hub and spoke terminal network, their terminal overhead is a constant drain on their finances and cash flow and, therefore, must be covered to remain solvent. Most of the carriers utilize industrial engineered shipment costing models to develop their customer pricing. Their fixed cost is a vital part of their costing model pricing equation.

Some of the more aggressive and forward thinking carriers have recently adjusted their previous pricing philosophy to a level which only incrementally covers the shipment's fixed cost, but still makes some contribution to fixed cost. If YRCW exits the market, we can expect this aggressive pricing environment to diminish as carriers would pick up more shipments to cover their fixed costs

ALLOCATED FIXED COST PRICING

| | 100% Fixed Cost | Fixed Cost Adjusted |
|----------------------------|-----------------|---------------------|
| Charges | \$187.56 | \$163.50 |
| Variable Cost | | |
| Origin P&D | \$30.50 | \$30.50 |
| Origin Dock | \$5.08 | \$5.08 |
| Linehaul | \$35.55 | \$35.55 |
| Breakbulk Dock | \$6.51 | \$6.51 |
| Destination Dock | \$4.71 | \$4.71 |
| Destination P&D | \$27.95 | \$27.95 |
| Total Variable Cost | \$110.30 | \$110.30 |
| Variable Operating Ratio | \$58.80 | \$67.46 |
| Fixed Cost | | |
| Terminal Overhead | \$44.04 | \$44.04 |
| Corporate Overhead | \$17.26 | \$9.16 |
| Total Fixed Cost Allocated | \$61.30 | \$53.20 |
| Total Cost | \$171.60 | \$171.60 |
| Operating Ratio | 91.49 | 104.95 |
| Profit Contribution | \$15.96 | -\$8.10 |
| Operating Ratio | 8.61 | -4.95 |
| Savings to Shipper | | \$24.06 |
| Percent Savings | | 12.82% |

The following shipment costing example details a 800-pound LTL shipment moving from Florence, SC to Dallas, TX. The first column reflects the carrier's pricing if it chooses to cover 100 percent of its fixed cost. While the adjusted pricing in the second column does not cover all the fixed cost, it does make a contribution to fixed cost. As a result of the carrier reducing its pricing and securing this additional shipment and revenue at \$163.50, it has not covered its total allocated fixed cost, but

the shipment has made a contribution to the carrier's fixed cost.

If a carrier secures enough additional shipments, then economies of scale will result, and the fixed cost per shipment for all shipments will be reduced, resulting in improved overall profitability. As these additional shipments are added to the carrier's network, the key to this aggressive pricing strategy is to control additional fixed costs by not requiring a larger facility or added supervision.

Conversely, in an improved economy as carriers reach maximum capacity, they will take the opposite approach and weed out or pursue improved pricing for those customers or shipments that do not totally cover fixed cost. If YRCW shuts down its operations, we expect the carriers to reverse their current aggressive pricing approach and begin to ask for pricing increases. In addition, recent publications have indicated that carriers expect an improved pricing environment as the economy (hopefully) begins to rebound.

Now is the time to take advantage of a critical, and potentially brief, period in the trucking industry to take your shipping business to the marketplace to secure improved pricing from carriers. The combination of YRCW's financial survival and expected increased tonnage levels throughout the industry in the future makes the current pricing environment a ripe time for achieving optimum pricing results from the carriers.

Third party consultants have proven to be very successful in dealing directly with carriers. enVista has a proven track record of securing fair and equitable pricing for its clients. Utilizing a costing model applied price margin strategy, enVista is able to negotiate and conduct a Request for Quotation process with the carriers from a firm knowledge base. enVista knows the carriers' costs and margins as well as the level of pricing which the carriers should offer to shippers.

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