

Consolidation in the LTL Industry

SMC³ Summer Meeting

June 17, 2004

Contents

- **Merger & Acquisition Overview**
- LTL Consolidation
- Carrier Impact
- Shipper Impact
- Critical Success Factors

Merger/acquisition announcements make big headlines

Recent M&A Bids

- Comcast's bid for Disney
- JP Morgan's bid for Bank One
- Cingular's bid for AT&T Wireless
- Oracle's bid for PeopleSoft

When successful, M&A transactions can bring considerable benefits



Revenue Benefits

- New markets
- New products
- Improved revenue mix

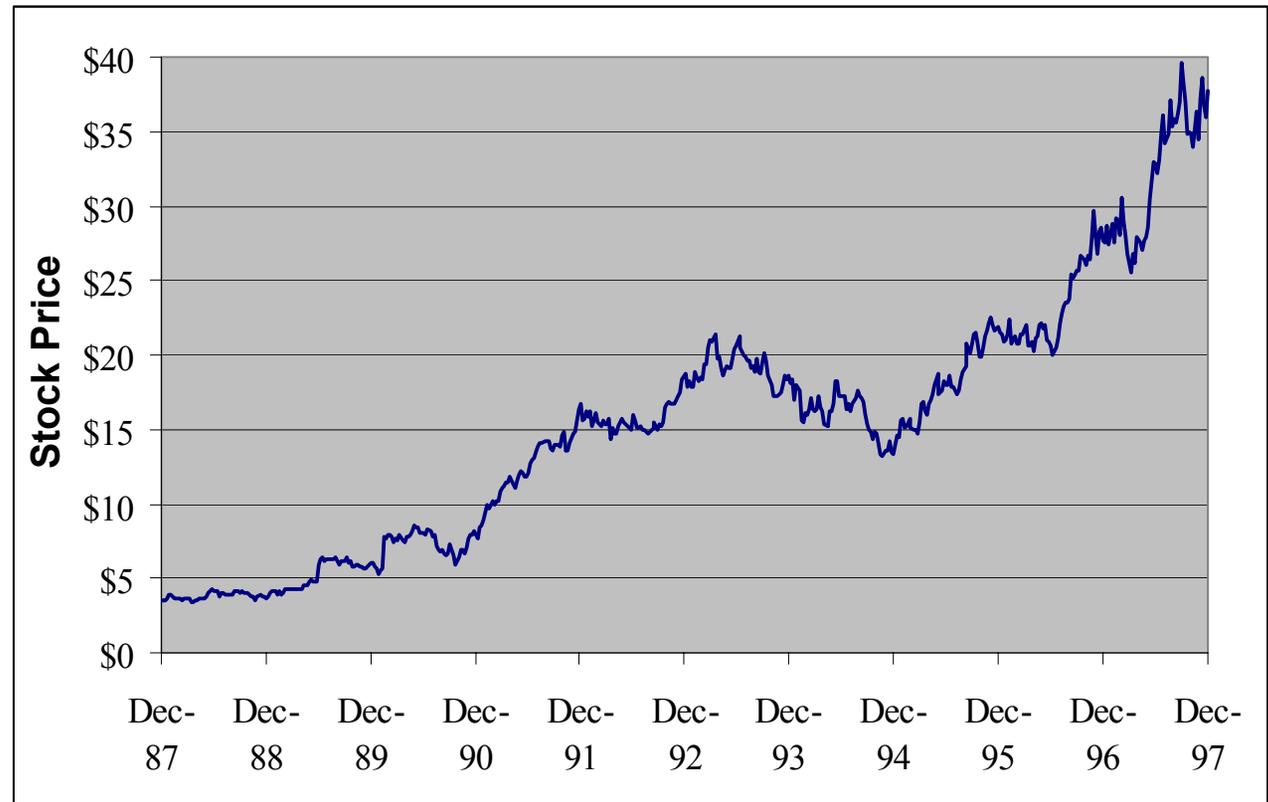
Costs Benefits

- Improved asset utilization
- Operating efficiencies
- Decreased back-office/
administrative costs
- Increased buying scale

Bank One grew from a community bank in Columbus, OH to a banking leader during the late 1980's and 1990's



- Geographic expansion through acquisitions
- Adding new services (e.g., credit cards)



Sources: Yahoo Finance, Hoovers

Tyco became a conglomerate with \$35 billion in annual revenue through “serial” acquisitions...

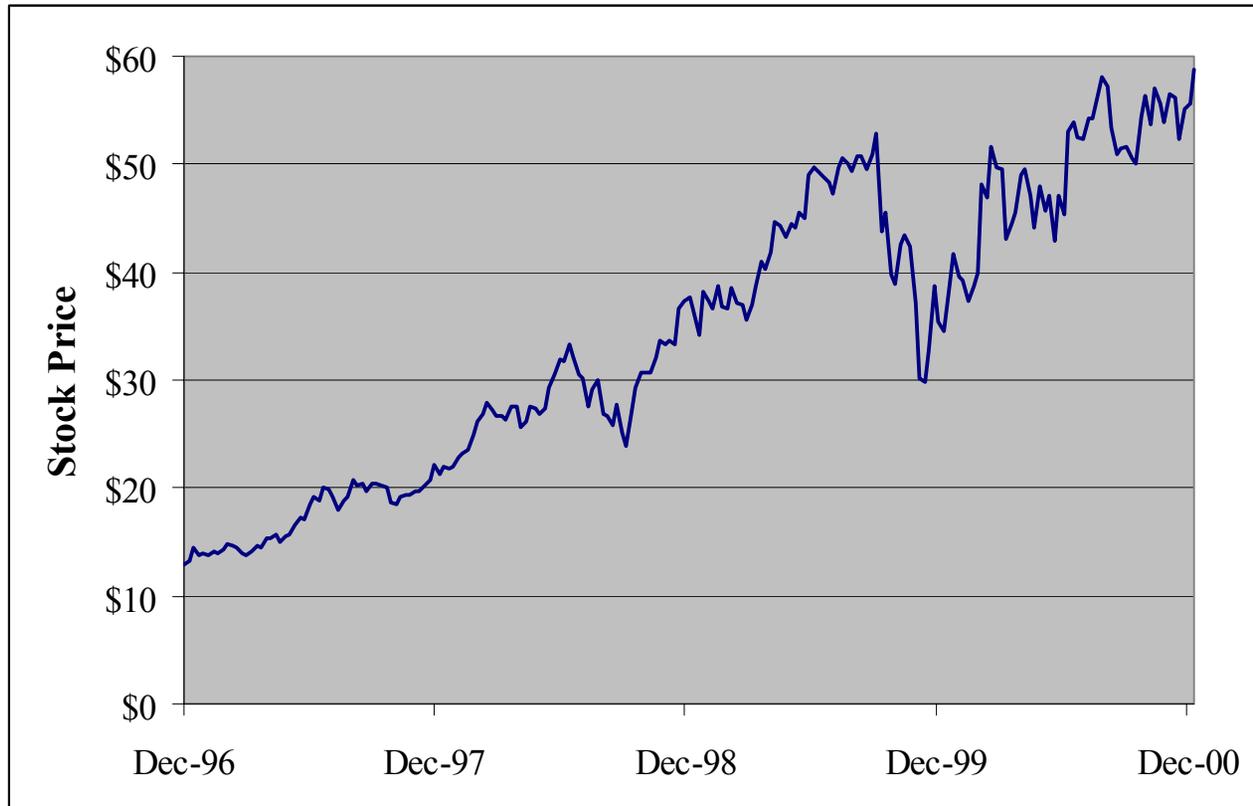


1997	1998	1999
<ul style="list-style-type: none"> ■ ADT (\$6.6 b) ■ AT&T's submarine cable unit ■ Keystone Intl. (industrial valves) 	<ul style="list-style-type: none"> ■ Wells Fargo's alarm business ■ United States Surgical (surgical products) 	<ul style="list-style-type: none"> ■ AMP (electrical and electronic connectors) ■ Raychem (electronic components)

Source: Hoovers

...And achieved strong stock price growth during the period

tyco



Source: Yahoo Finance

However, expected benefits are not always achieved



Flawed Synergy Assumptions

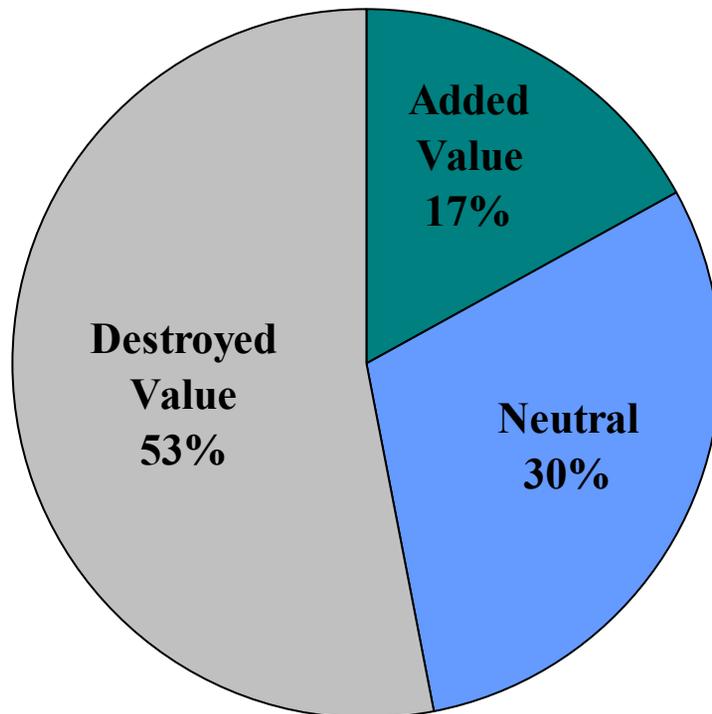
- Market opportunities
- Cost savings

Integration Complexity

- Sales & Marketing
- Operations
- People/culture

It is estimated that more than half of business combinations fail to produce value

Value from Mergers



- M&A failure rate of 60% to 70% (Chairman, Bain & Co.)
- M&A failure rate of 60% to 80% (CEO A.T. Kearney)

Source: KPMG, 1999

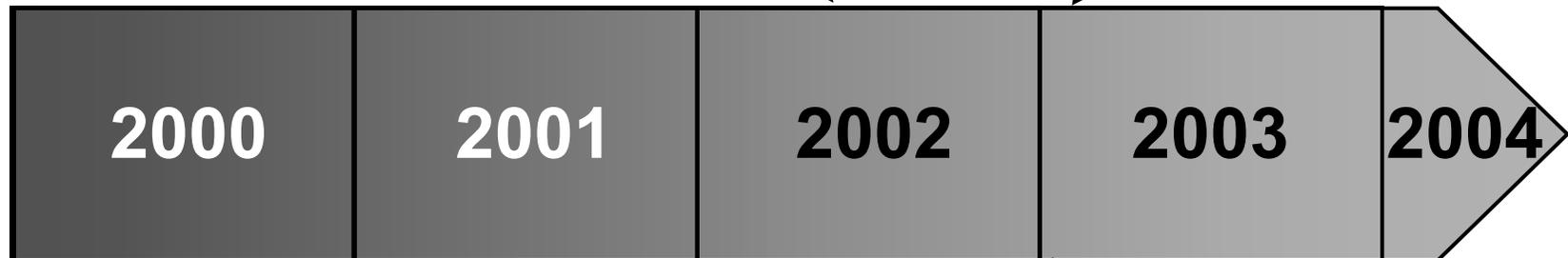
AOL/Time Warner has suffered through considerable turmoil since their merger



\$166 Billion Merger
Announced

CEO Gerald
Levin Retires

Company
Reports \$45b
Quarterly Loss



AOL/TW Merger
Approved

COO Bob
Pittman
Resigns

Chairman
Steve Case
Steps Down

AOL dropped
from name

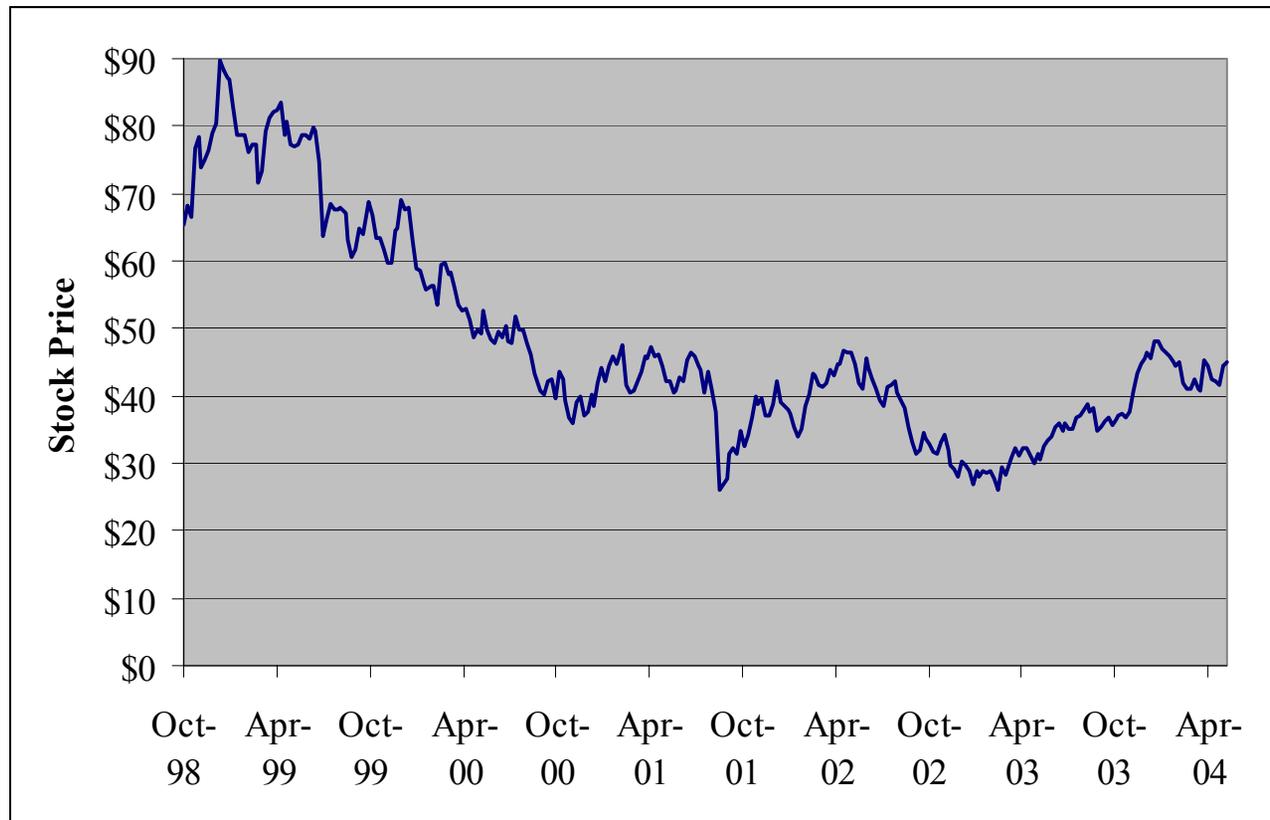
AOL/Time Warner's stock price has suffered as well



Source: Yahoo Finance

The Daimler Benz - Chrysler merger has also not achieved the benefits expected from the global marriage of auto makers

DAIMLERCHRYSLER

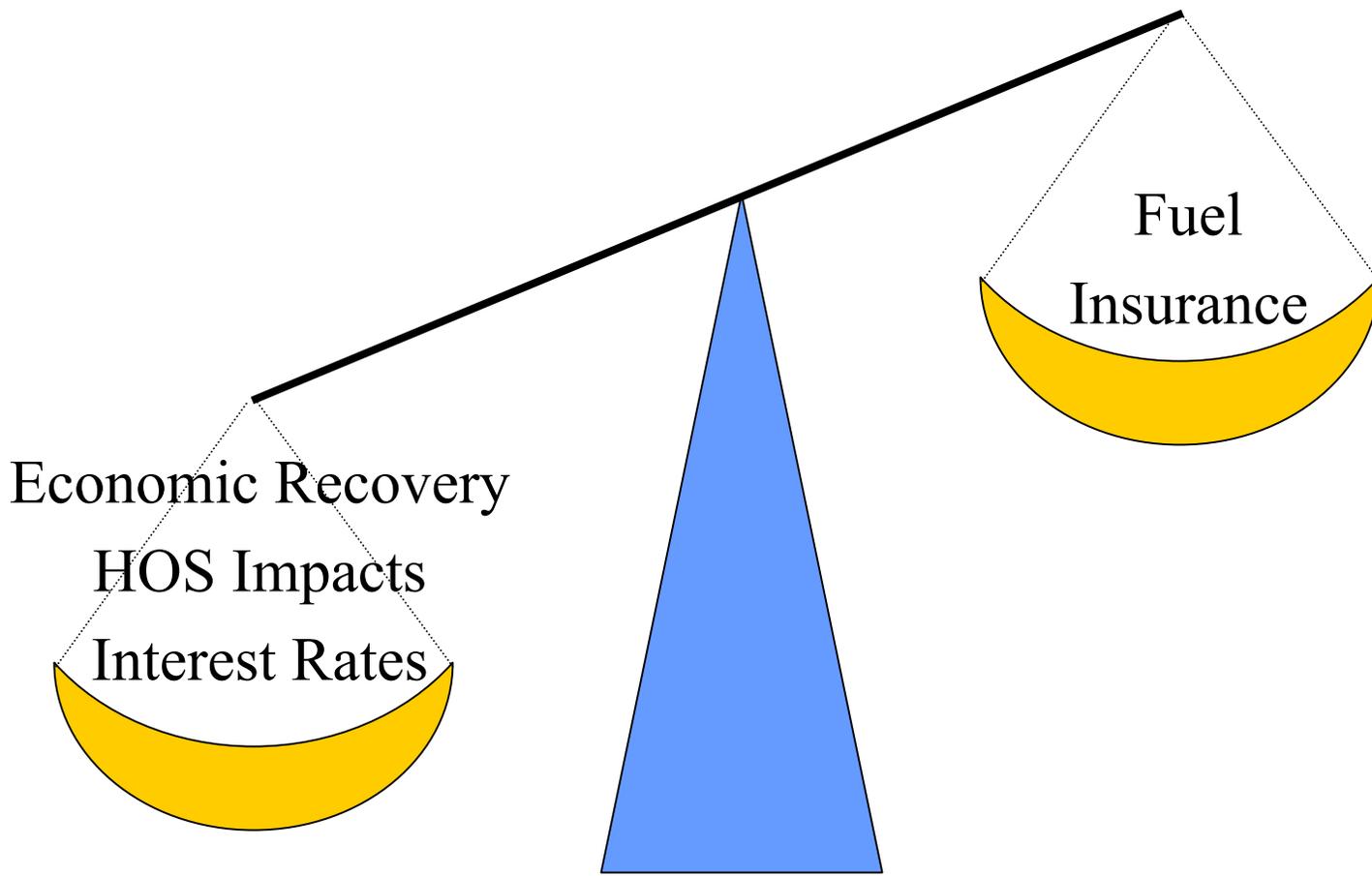


Source: Yahoo Finance

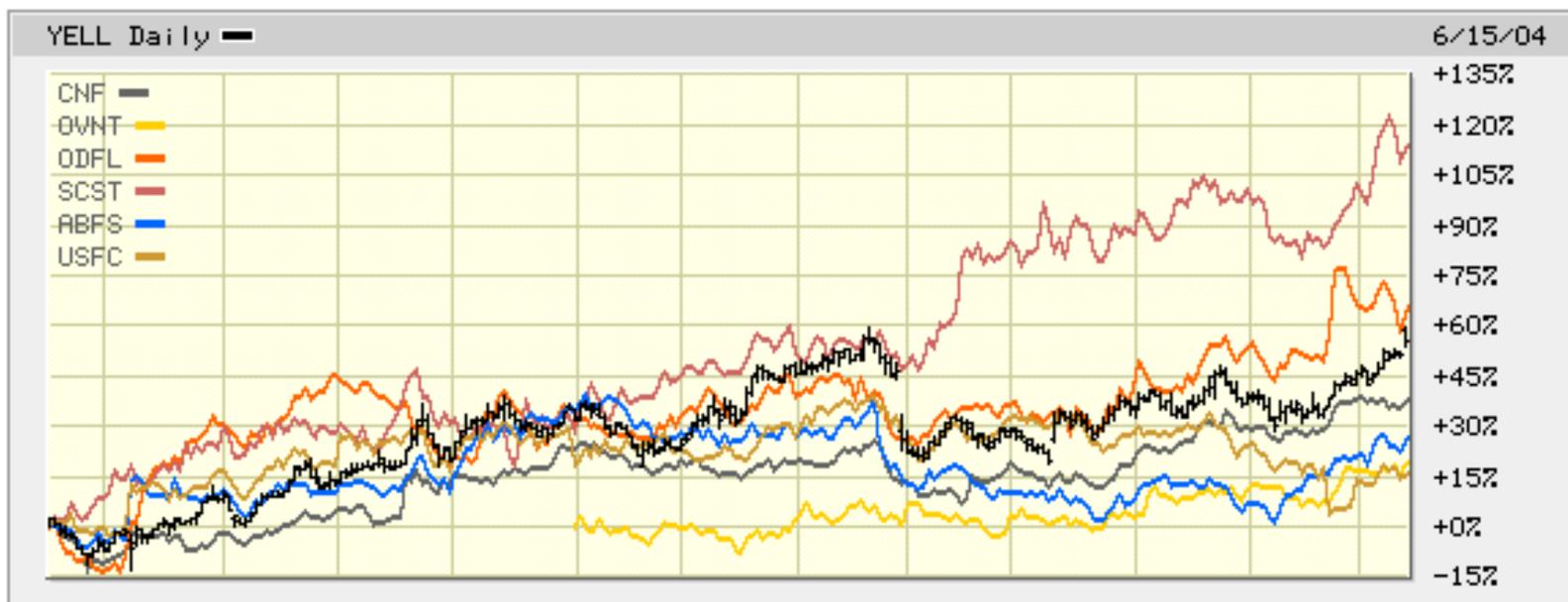
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As the U.S. economy recovers, strong freight volume is benefiting LTL carriers...



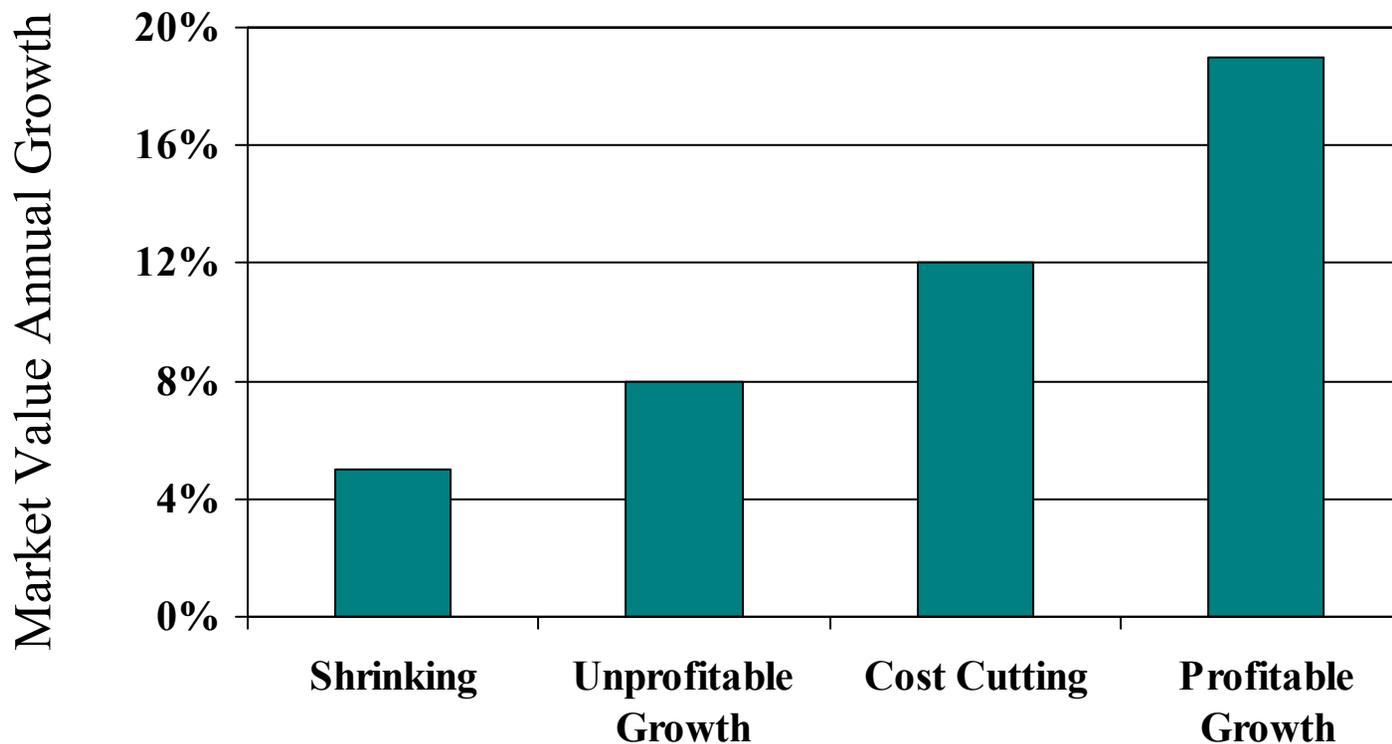
...And is driving improved carrier stock performance this year



Source: BigCharts.com

Continued growth is important for above-average stock appreciation

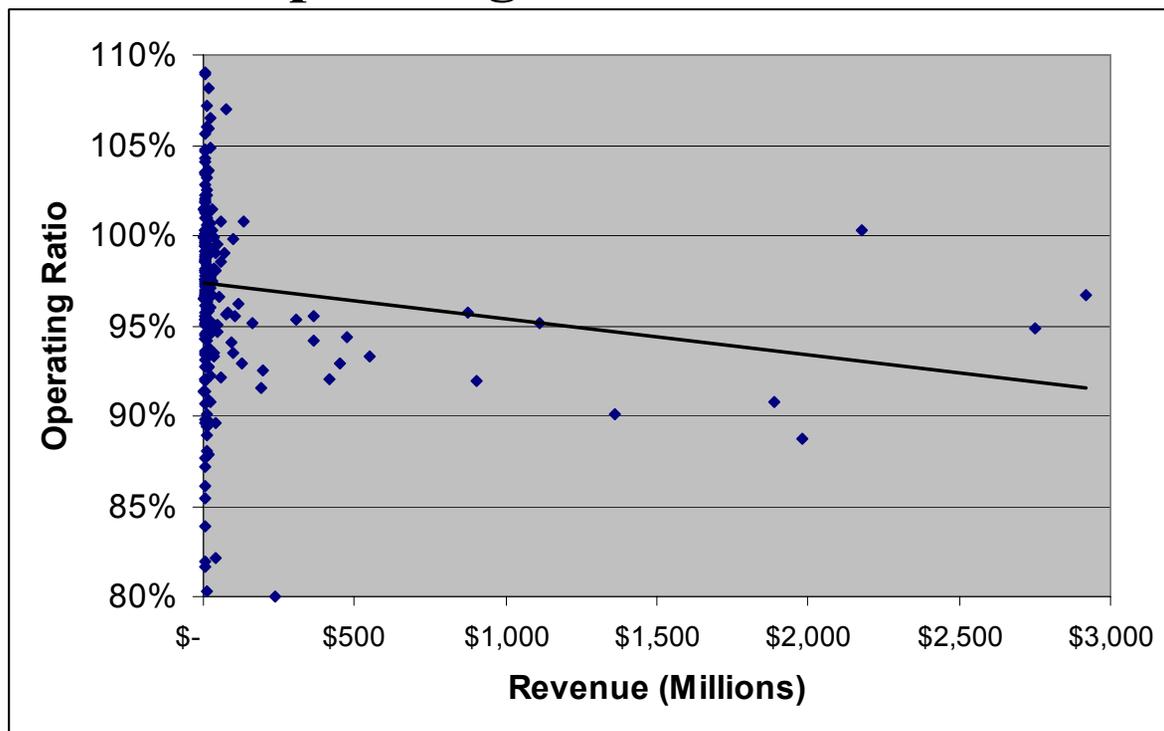
Impact of Growth on Shareholder Value



Source: Grow to be Great 1995

Bigger may mean better...

Operating Ratio to Size*

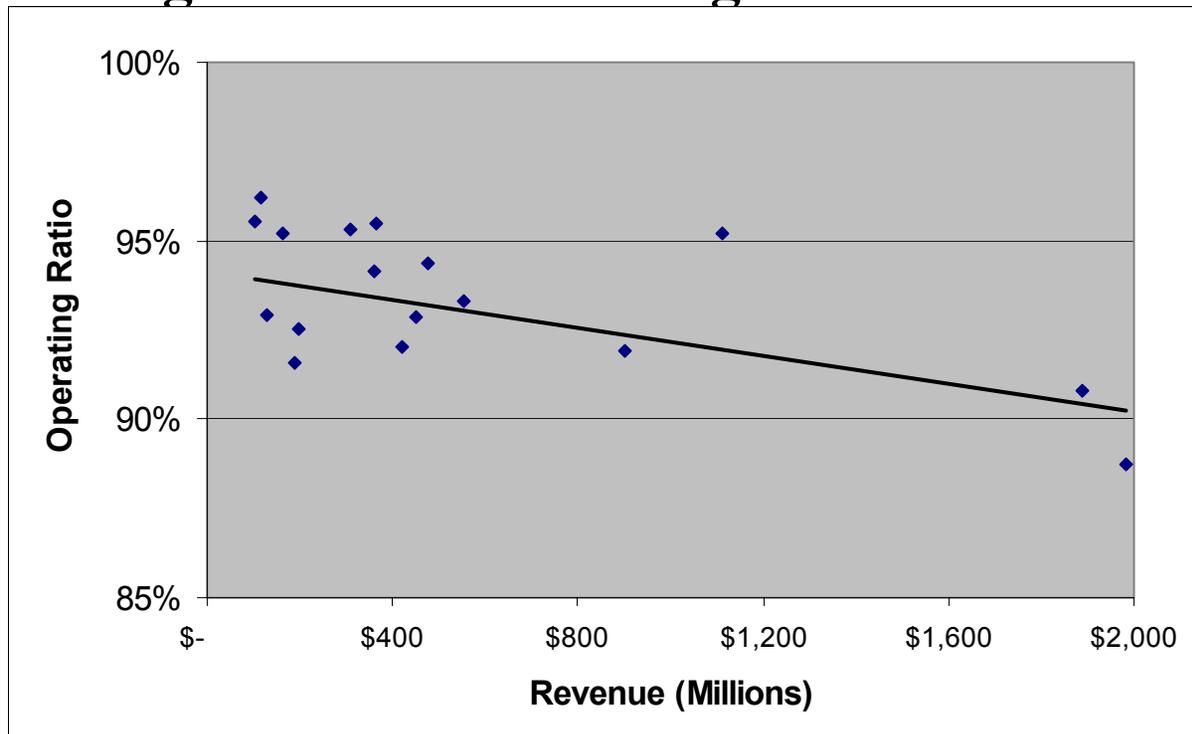


But is this really true or just a function of the smallest carriers?

*All LTL carriers reporting with the DOT in 2000
Source: ATA Motor Carrier Annual Report, 2000 data

The benefits may still hold when carriers under \$100M are removed from the analysis

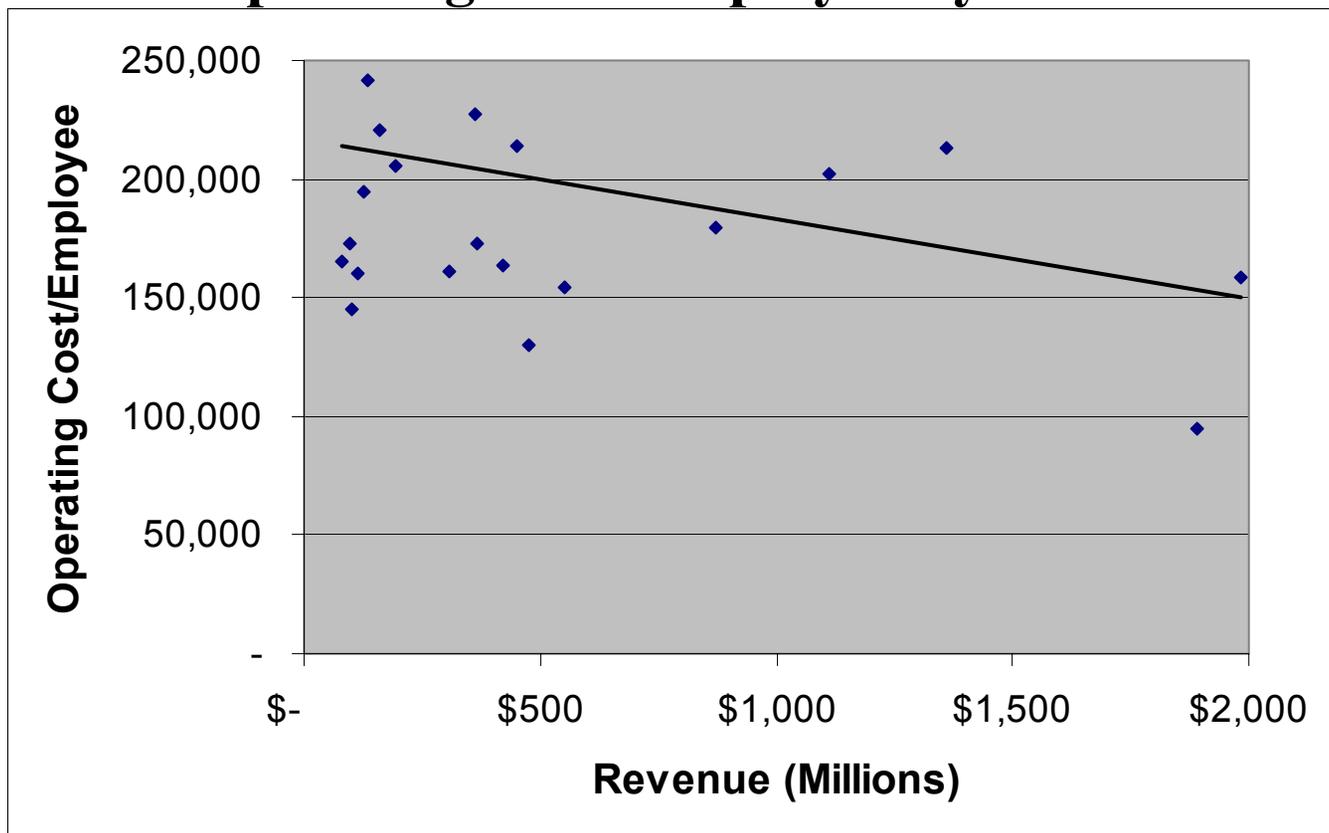
Operating Ratio to Size* Regional and Multi-Regional Carriers



*Regional/multi-regional carriers with \$100 million or greater in revenue reporting with the DOT in 2000
 Source: ATA Motor Carrier Annual Report, 2000 data

This may be due to a cost advantage for larger LTL carriers

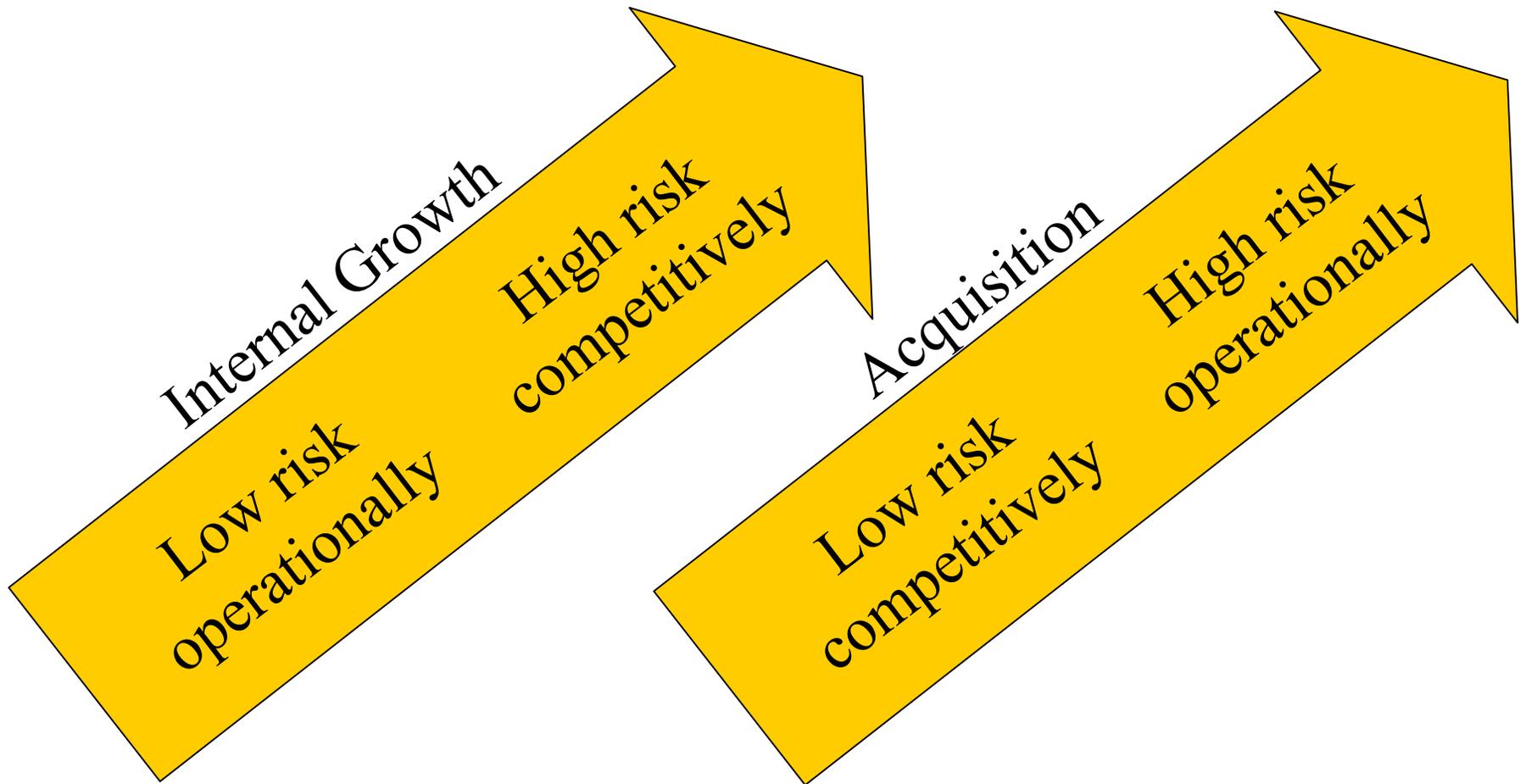
Operating Cost/Employee by Size*



*Regional/multi-regional carriers with \$75 million or greater in revenue reporting with the DOT in 2000

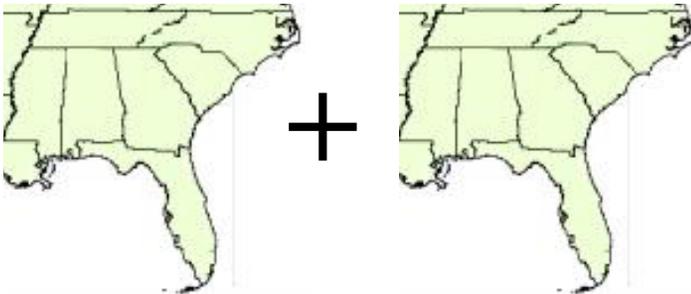
Source: ATA Motor Carrier Annual Report, 2000 data

Carriers can grow either “organically” through internal growth or through acquisitions



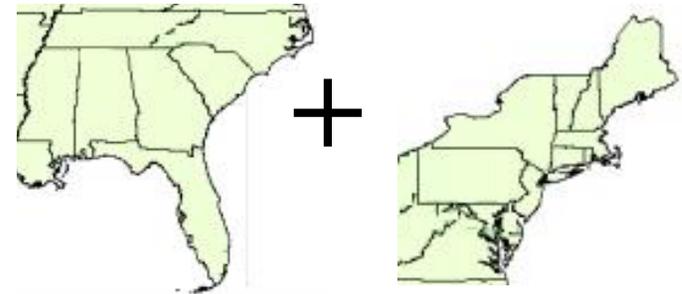
Within the LTL industry, there are 2 general types of consolidation opportunities

“Side-By-Side”



- Gain operating efficiency
- Generally cost-driven

“End-To-End”



- Open new markets
- Generally service-driven

Mergers that are successfully executed will challenge competing carriers

Characteristic	Merged Carrier	Competing Carriers
Service Offering	Improved	No change
Cost Structure	Lower cost	No change
Profit Impact	Improved or gain share	No change or decreased
Competitive Position	Improved vs. regional competitors New entrant in cross-region market	Regionals: Worse vs. merged carrier Cross-region: Worse due to new entrant

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“Side-by-side” combinations can provide significant cost reduction benefits

Potential Cost Benefits

Increased Density Benefits

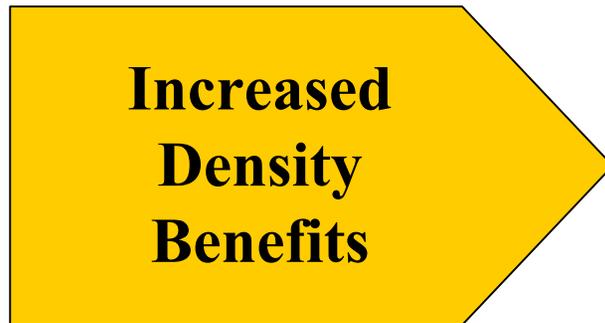
- Improved terminal efficiency
- Improved equipment utilization
- Improved line haul efficiency
- Increased capacity

Back-Office Benefits

- Decreased administrative cost
- Improved purchasing power

Service benefits from a side-by-side combination are driven by increased density

Potential Service Benefits



- Greater geographic area for 1-day or 2-day service
- Improved service to mid-sized or small cities where density is gained

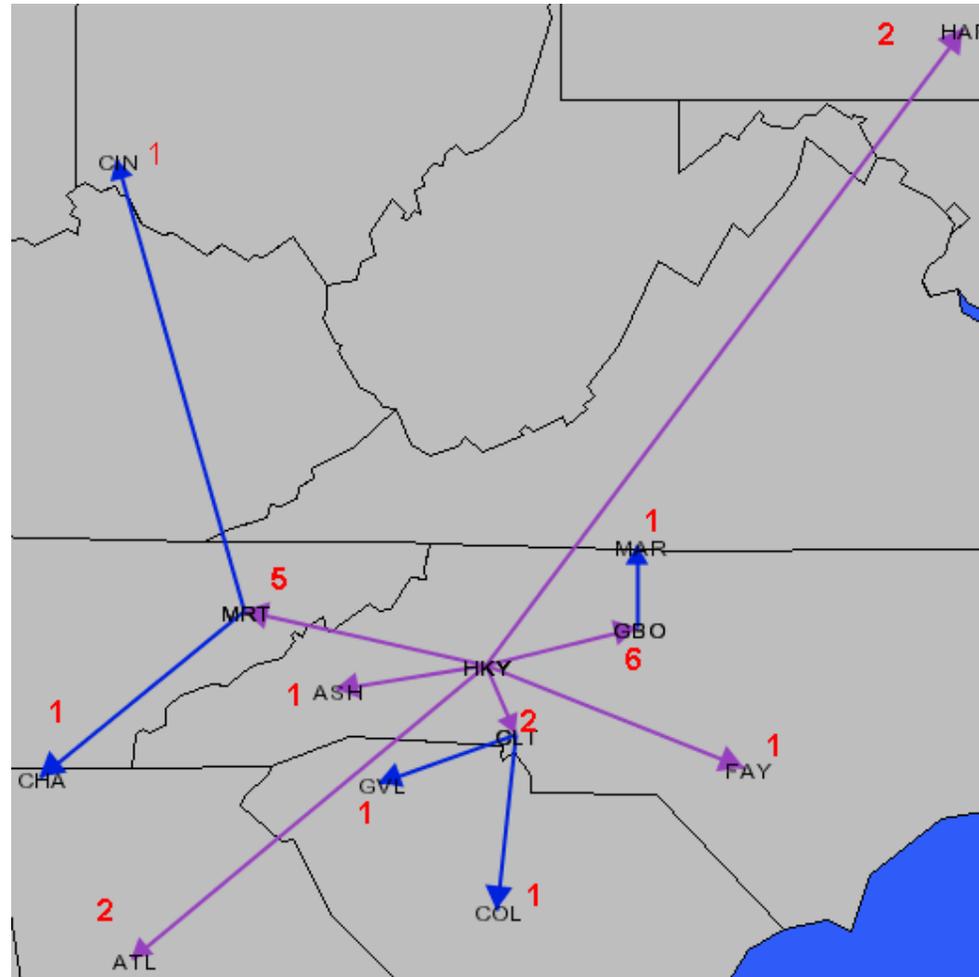
Princeton Optimization ran an LTL Side-by-Side merger scenario

Example Terminal Operating Savings (per Day)

	Acquiring Carrier	Acquired Carrier
Bill Count	250	125
Total Loads	19	9
Primary	16	8
Direct	3	1
Head Loads	5	2

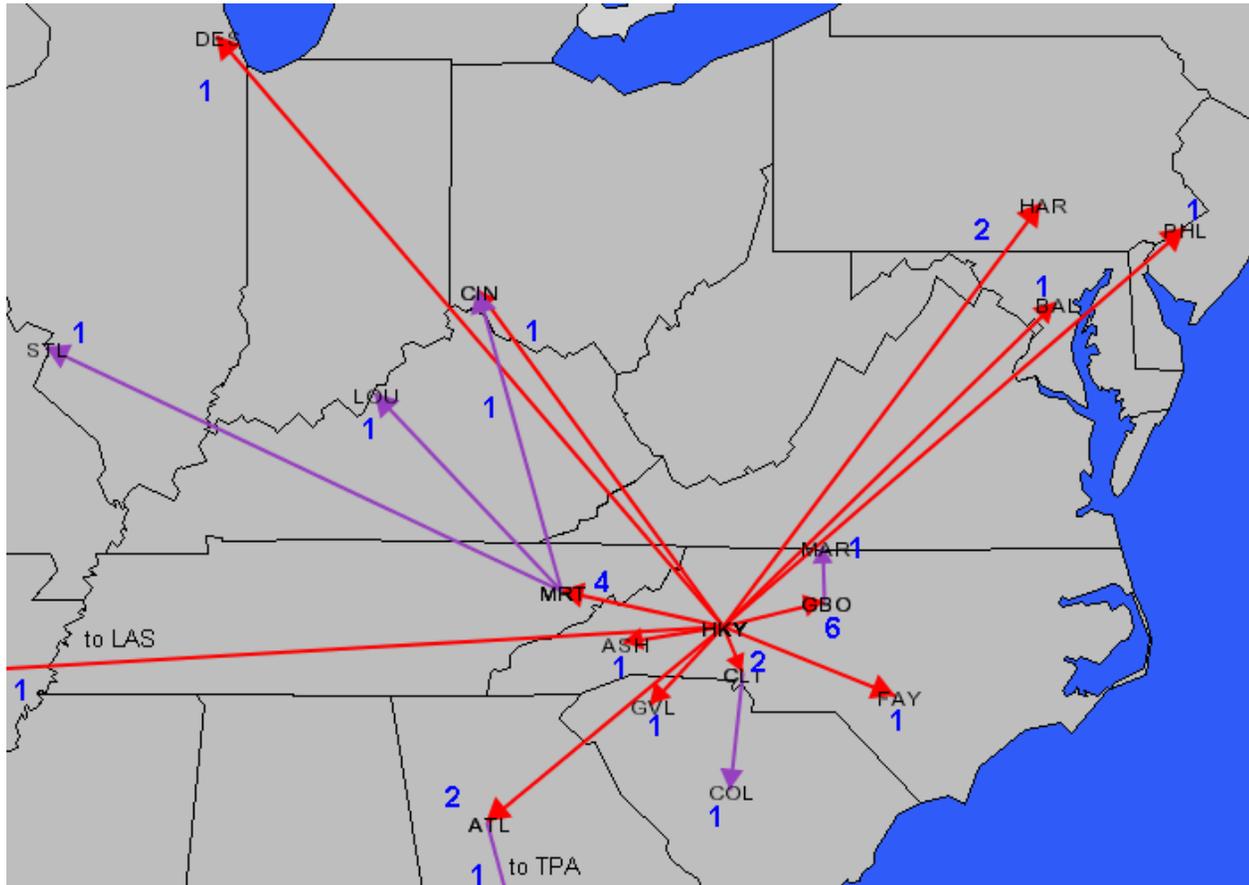
Source: Princeton Optimization Inc.

Acquiring Carrier: North Carolina Terminal



Source: Princeton Optimization Inc.

Merged Carrier: North Carolina Terminal



Source: Princeton Optimization Inc.

The networks are similar because we went from 19 daily loads...

Planned Load Table													
File Options													
Title: Criteria3													
Trailer ID	Origin	Dest	Weight	Open Time	Close Time	Latest Departure	Headload	Tailload	Manifests	Status	Schedule	Leg	Load
PR991660	HKY	FAY	37,910	06/14/04 14:15	06/14/04 15:15	06/15/04 05:22		FAY	1		HKY S001A1	1	991660
PR993674	HKY	MRT	9,944	06/14/04 18:00	06/14/04 18:15	06/14/04 19:12	CHA	MRT	2				993674
PR993487	HKY	GB0	16,596	06/14/04 16:00	06/14/04 18:15	06/14/04 19:03		GB0	1				993487
PR992797	HKY	ATL	11,351	06/14/04 16:00	06/14/04 19:49	06/15/04 04:22		ATL	1		HKY S002A1	1	992797
PR993490	HKY	GB0	17,974	06/14/04 17:00	06/14/04 20:00	06/15/04 06:08		GB0	1		HKY S004A1	1	993490
PR993679	HKY	MRT	17,843	06/14/04 18:00	06/14/04 20:15	06/15/04 20:22		MRT	1		HKY S006A1	1	993679
PR993488	HKY	GB0	17,929	06/14/04 17:00	06/14/04 20:15	06/15/04 03:06	MAR	GB0	2		HKY S001A1	1	993488
PR992796	HKY	ATL	19,097	06/14/04 17:00	06/14/04 20:15	06/15/04 01:53		ATL	1		HKY S002A1	1	992796
PR992378	HKY	HAR	13,293	06/14/04 16:00	06/14/04 20:15	06/15/04 19:55		HAR	1		HKY S005A1	1	992378
PR992365	HKY	CLT	17,503	06/14/04 16:00	06/14/04 20:15	06/15/04 03:51	COL	CLT	2		HKY S003A1	1	992365
PR993491	HKY	GB0	17,877	06/14/04 17:00	06/14/04 20:30	06/15/04 08:25		GB0	1		HKY S004A1	1	993491
PR993676	HKY	MRT	17,848	06/14/04 18:00	06/14/04 20:30	06/15/04 00:43	CIN	MRT	2		HKY S005A1	1	993676
PR992367	HKY	CLT	11,562	06/14/04 20:00	06/14/04 21:44	06/15/04 06:05	GVL	CLT	2		HKY S003A1	1	992367
PR993678	HKY	MRT	17,847	06/14/04 18:00	06/14/04 22:00	06/15/04 01:22		MRT	1		HKY S006A1	1	993678
PR993493	HKY	GB0	17,769	06/14/04 17:00	06/14/04 22:57	06/15/04 23:21		GB0	1		HKY S001A1	3	993493
PR992379	HKY	HAR	4,064	06/14/04 21:00	06/14/04 23:00	06/15/04 20:53		HAR	1		HKY S007A1	1	992379
PR992375	HKY	ASH	8,252	06/14/04 22:00	06/14/04 23:53	06/15/04 07:31		ASH	1		--- S002A1	1	992375
PR993680	HKY	MRT	16,708	06/14/04 18:00	06/14/04 23:59	06/15/04 01:17		MRT	1				993680
PR993492	HKY	GB0	16,799	06/14/04 17:00	06/15/04 01:00	06/15/04 02:01		GB0	1				993492

Total Loads = 19

Source: Princeton Optimization Inc.

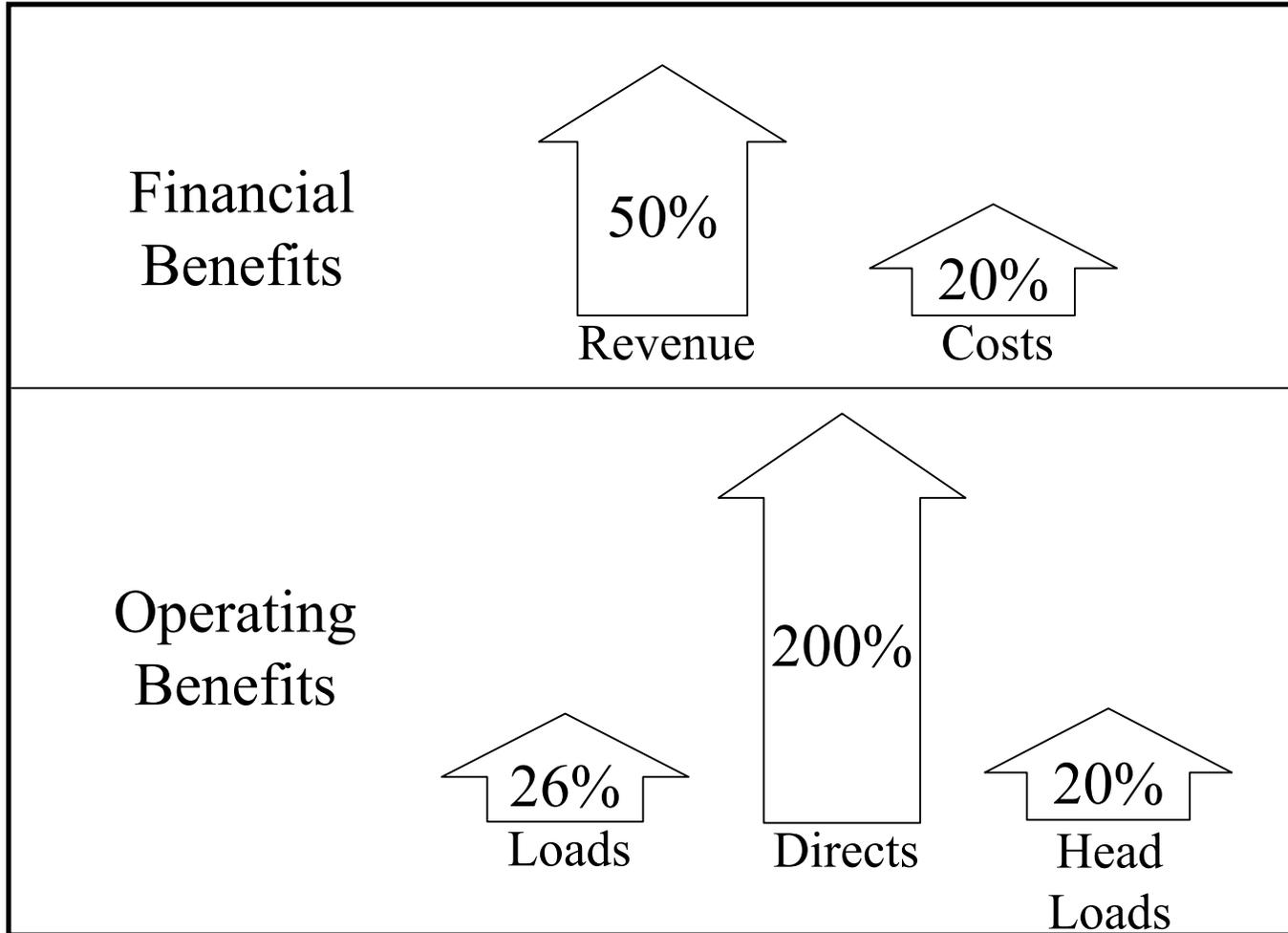
...To only 24 loads, with more direct and head loads

Planned Load Table													
File Options													
Title: Criteria4													
Trailer ID	Origin	Dest	Weight	Open Time	Close Time	Latest Departure	Headload	Tailload	Manifests	Status	Schedule	Leg	Load
PR993182	HKY	ASH	9,640	06/14/04 21:00	06/14/04 23:53	06/15/04 07:31		ASH	1		--- S002A1	1	993182
PR993781	HKY	ATL	19,036	06/14/04 16:00	06/14/04 21:00	06/15/04 01:53		ATL	1		HKY S002A1	1	993781
PR993782	HKY	ATL	17,406	06/14/04 17:00	06/14/04 19:49	06/15/04 04:22	TPA	ATL	2		HKY S002A1	1	993782
PR991846	HKY	BAL	16,175	06/14/04 17:00	06/14/04 18:41	06/16/04 00:54		BAL	1		HKY S001A1	1	991846
PR991842	HKY	CIN	17,580	06/14/04 18:00	06/14/04 19:18	06/15/04 01:43		CIN	1		HKY S005A1	1	991842
PR993173	HKY	CLT	18,405	06/14/04 16:00	06/14/04 20:00	06/15/04 03:51	COL	CLT	2		HKY S003A1	1	993173
PR993175	HKY	CLT	10,426	06/14/04 18:00	06/14/04 21:44	06/15/04 08:58		CLT	1		HKY S003A1	1	993175
PR991838	HKY	DES	15,035	06/14/04 16:00	06/14/04 20:00	06/15/04 20:07		DES	1		HKY S005A1	1	991838
PR992188	HKY	FAY	37,910	06/14/04 14:15	06/14/04 15:15	06/15/04 05:22		FAY	1		HKY S004A1	1	992188
PR994744	HKY	GBO	16,810	06/14/04 18:00	06/14/04 23:53	06/15/04 08:25		GBO	1				994744
PR994743	HKY	GBO	16,760	06/14/04 18:00	06/14/04 19:00	06/15/04 08:25		GBO	1				994743
PR994742	HKY	GBO	17,929	06/14/04 18:00	06/14/04 19:37	06/15/04 08:25		GBO	1		HKY S001A1	3	994742
PR994740	HKY	GBO	17,964	06/14/04 18:00	06/14/04 23:34	06/15/04 04:28	MAR	GBO	2		HKY S001A1	3	994740
PR994738	HKY	GBO	5,134	06/14/04 17:00	06/14/04 18:15	06/14/04 19:03		GBO	1				994738
PR994739	HKY	GBO	16,815	06/14/04 18:00	06/14/04 23:58	06/15/04 02:01		GBO	1				994739
PR991837	HKY	GVL	15,739	06/14/04 21:00	06/14/04 23:34	06/15/04 07:05		GVL	1				991837
PR993186	HKY	HAR	9,447	06/14/04 20:00	06/14/04 22:00	06/16/04 00:00		HAR	1		HKY S006A1	1	993186
PR993185	HKY	HAR	13,298	06/14/04 16:00	06/14/04 20:15	06/15/04 19:55		HAR	1		HKY S004A1	1	993185
PR992138	HKY	LAS	15,115	06/14/04 19:44	06/14/04 19:59	06/16/04 18:31		LAS	1		HKY S003A2	1	992138
PR995000	HKY	MRT	16,693	06/14/04 18:00	06/14/04 23:59	06/15/04 01:26		MRT	1				995000
PR995001	HKY	MRT	16,669	06/14/04 18:00	06/14/04 20:00	06/15/04 20:22	STL	MRT	2				995001
PR994998	HKY	MRT	16,706	06/14/04 22:00	06/14/04 22:57	06/15/04 00:43	CIN	MRT	2				994998
PR994996	HKY	MRT	17,600	06/14/04 18:00	06/14/04 22:00	06/15/04 01:00	LOU	MRT	2		HKY S006A1	1	994996
PR991828	HKY	PHL	17,834	06/14/04 17:00	06/14/04 19:24	06/15/04 22:38		PHL	1		HKY S001A1	1	991828

Total Loads = 24

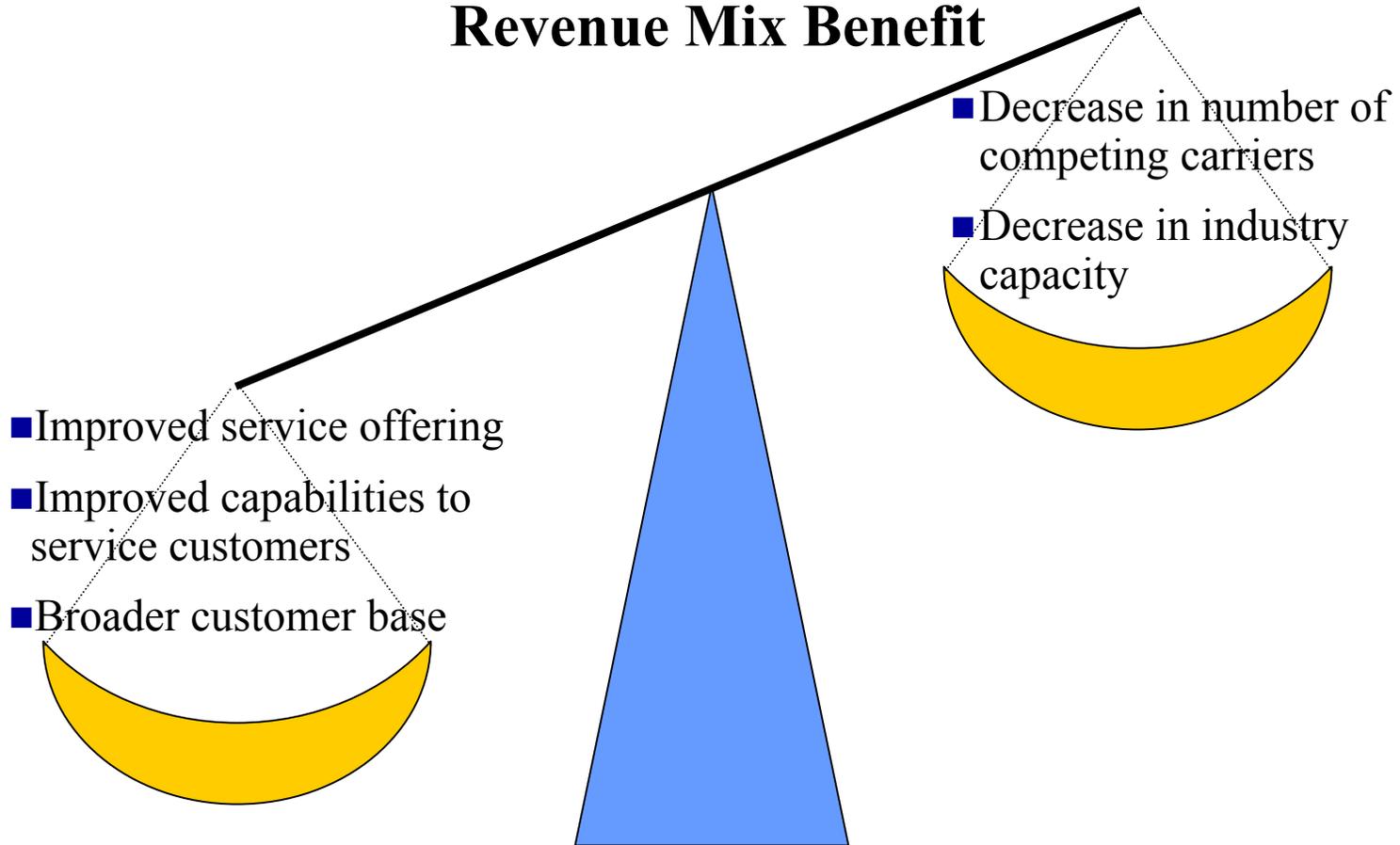
Source: Princeton Optimization Inc.

Merger Benefits to Acquiring Carrier



Improved revenue mix comes from improved service offerings, not a decrease in the number of carriers

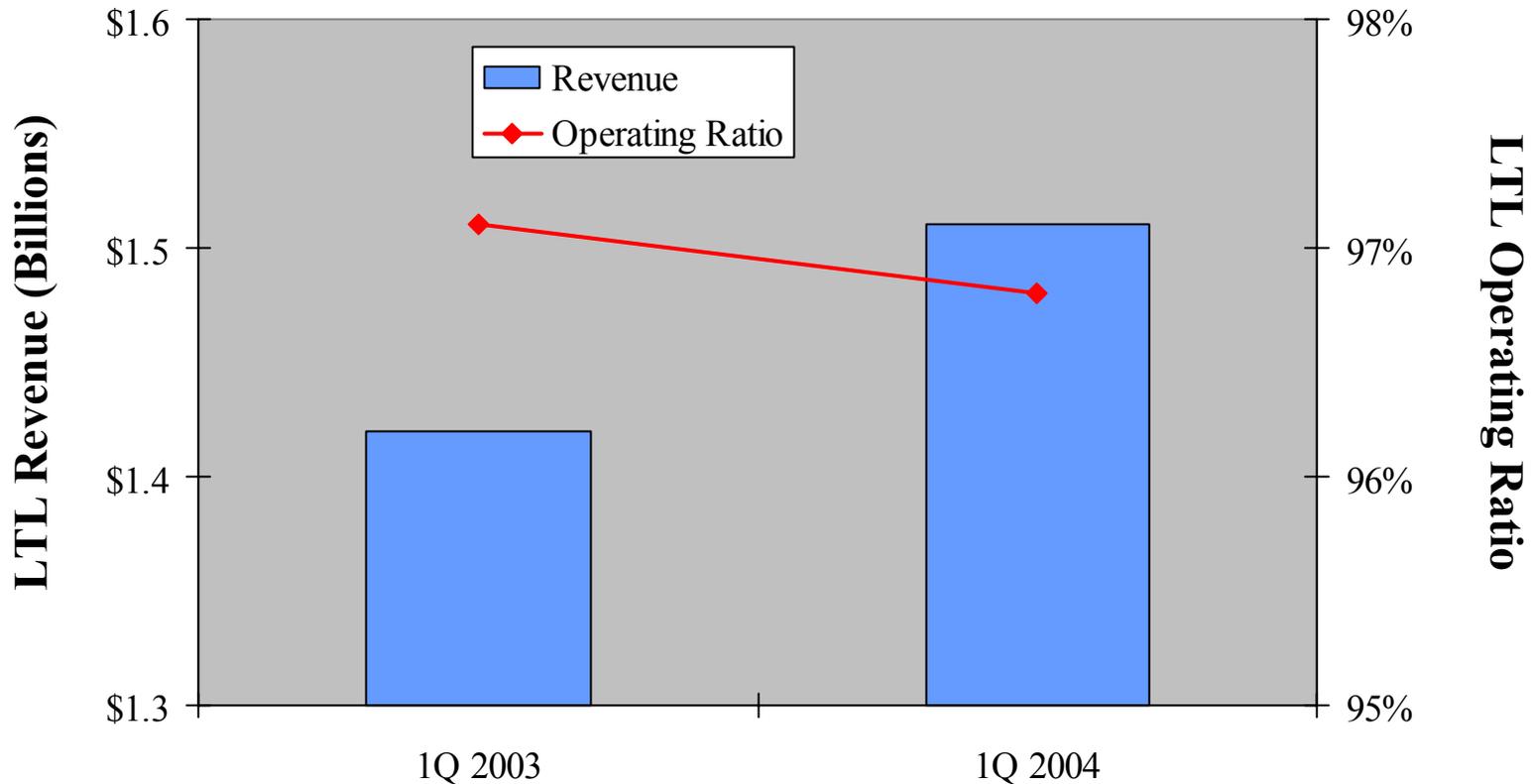
Revenue Mix Benefit



Yellow Roadway achieved improved financial performance in its first quarter as a merged company



1Q 2004 Performance



*LTL business only

Source: Yellow Roadway First Quarter, 2004 Press Release

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“End-to-end” combinations can improve a company’s service offerings

Potential Service Benefits

New Service

- Larger service territory
- Increased number of lanes
- Greater geographic area for 1-day or 2-day service

Increased Density Benefits

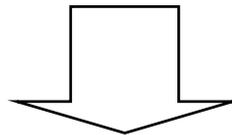
- Improved service to mid-sized or small cities where density is gained

A secondary benefit of an “end-to-end” combination can be decreased costs

Potential Cost Benefits

**Increased
Density
Benefits**

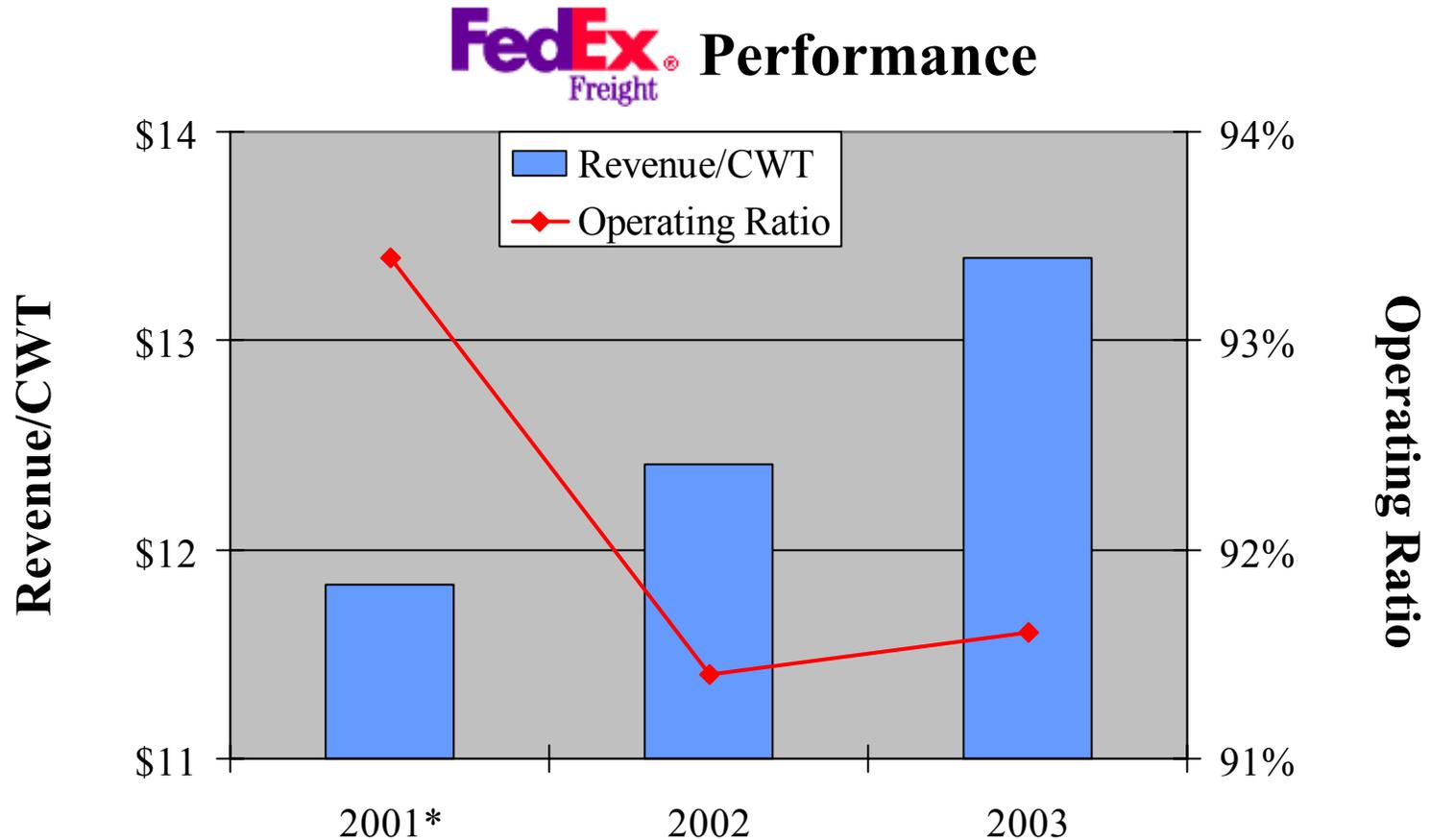
- Improved flowing of traffic over the existing regional networks
- Fewer intermediate handlings



**Back-
Office
Benefits**

- Decreased administrative cost
- Improved purchasing power

FedEx Freight has successfully grown following the AF acquisition, even during the slow economy



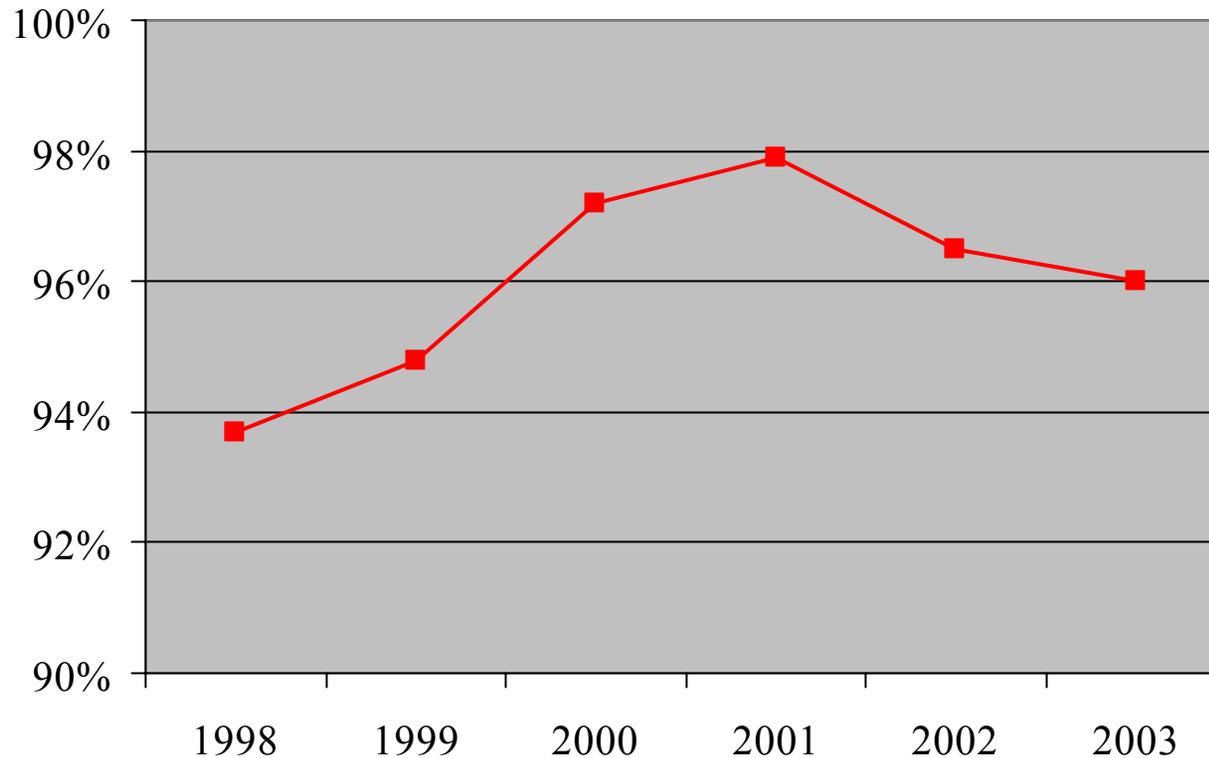
*Fiscal Year 2001 did not include a full year of FedEx Freight East performance

Source: FedEx SEC Filings and Annual Report

SCS is lowering its operating ratio while integrating several carriers acquired during the 1999 – 2001 period



Operating Ratio*



*Annual O.R.s include performance of separate carriers prior to being acquired

Sources: SCS financial filings; ATA Motor Carrier Annual Report, 1998 - 2000 data

Other LTL industry deals did not result in the intended benefits

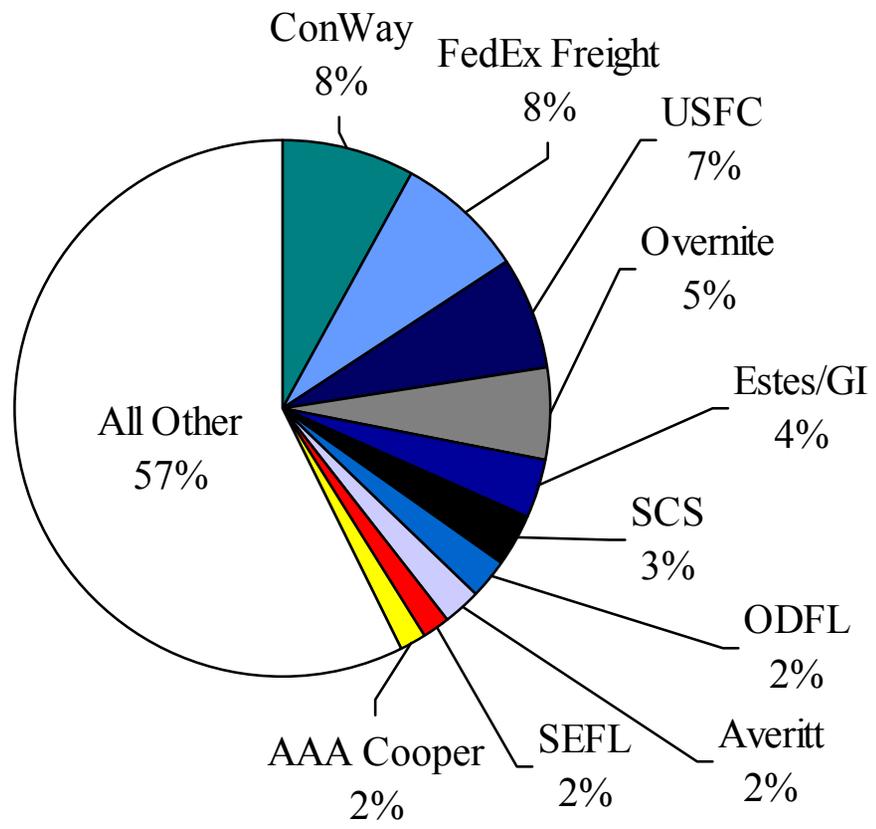
Ryder – PIE	<ul style="list-style-type: none">■ End-to-end■ Great strategic fit■ Operational combination failed
Helms – Burns	<ul style="list-style-type: none">■ “Side-by-side” deal■ No longer in business
ANR	<ul style="list-style-type: none">■ 3-way end-to-end deal■ Company went bankrupt
Con-Way – Penn Yan	<ul style="list-style-type: none">■ End-to-end deal■ Penn Yan was liquidated

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There is plenty of opportunity for consolidation in the regional and multi-regional marketplace

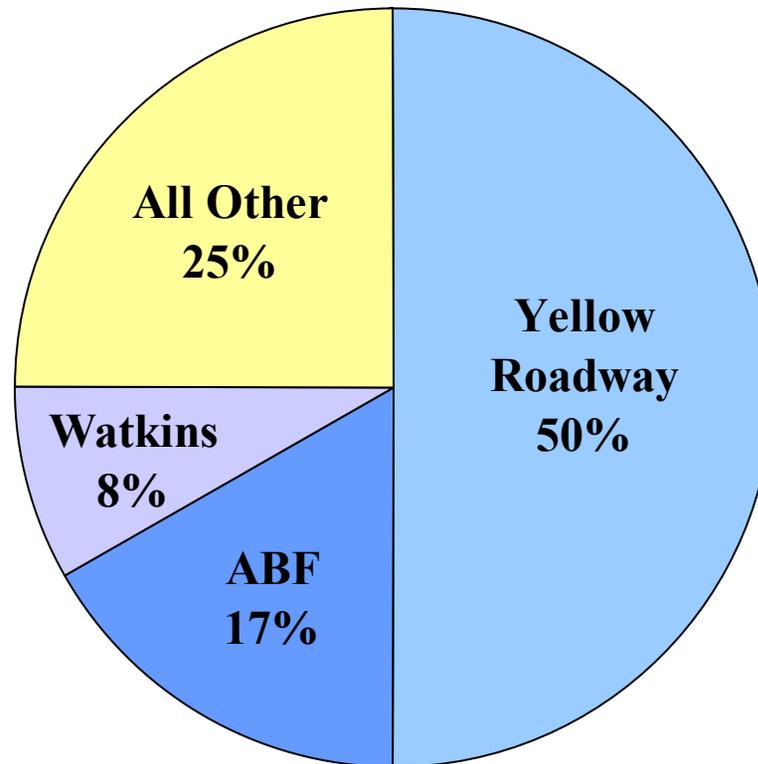
Estimated Regional/Multi-Regional LTL Market Share*



*Based on Stephens Inc. estimate of \$27 billion in regional LTL revenue

Going forward, there may be more limited consolidation within the long-haul LTL segment

Estimated Long-Haul LTL Market Share*



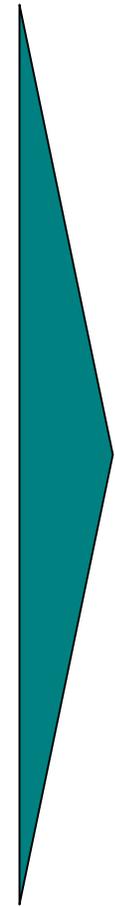
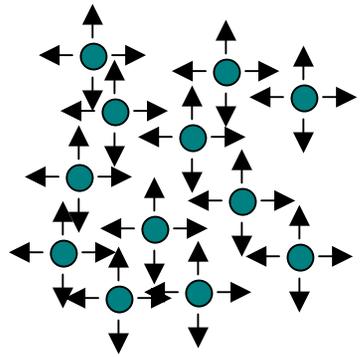
*Based on Stephens Inc. estimate of \$12 billion in long-haul revenue

Shippers should benefit from service improvements following consolidation

TODAY

Many carriers with:

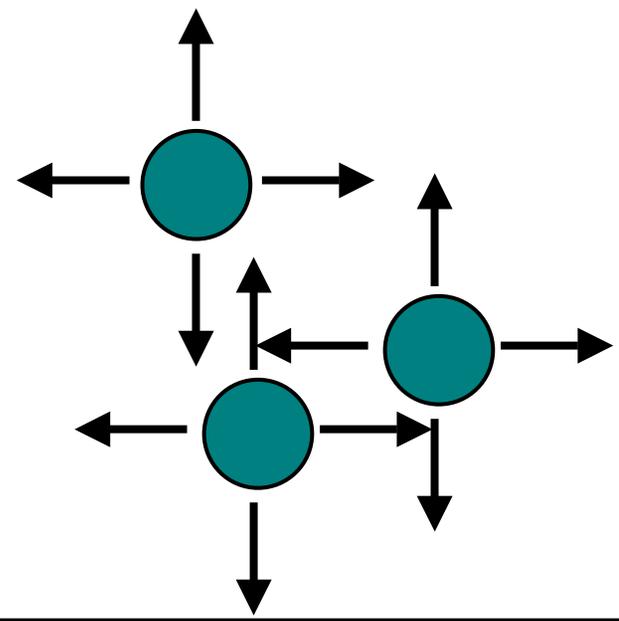
- Limited service
- Limited capabilities



PREFERRED

Fewer carriers with:

- Broad service offerings
- Strong capabilities



Consolidation among regional/multi-regionals won't eliminate competition, and could actually lower shipper rates

SE Region Carriers

- AAA Cooper
- Averitt
- CWS
- SCS - SAIA
- Estes
- FedEx Freight East
- ODFL
- Overnite
- R&L
- SEMF
- USF Dugan

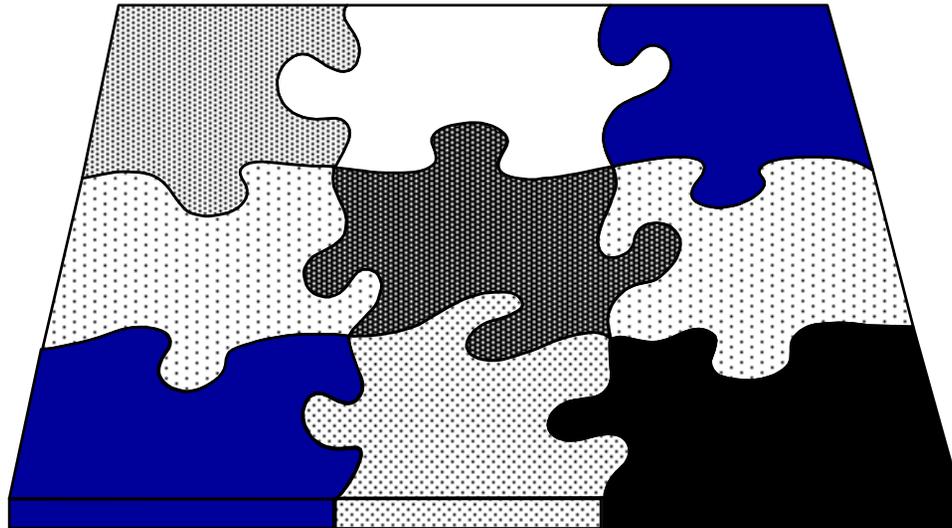
Consolidation Impact on Shipper Rates

- Competitive rates with 1/2 as many carriers
- Carriers with lower costs
- Fewer expensive 1-off shipments

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- **Critical Success Factors**

How does a merged company ensure that the pieces of the puzzle fit together properly?



Successful mergers are well conceived,...

- Assess merger fit with company strategy
- Compare merger to other options
- Understand the potential synergies
 - Revenue enhancement
 - Cost take-out

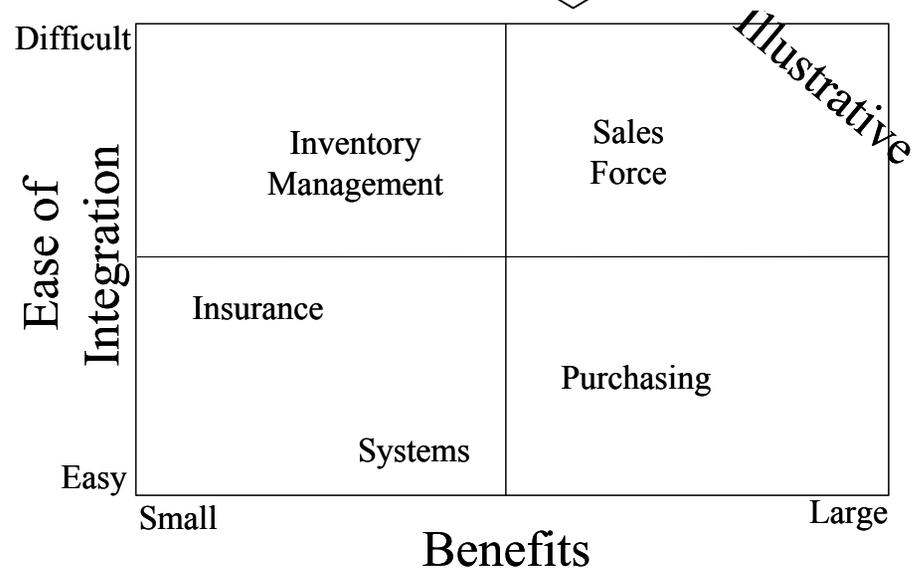
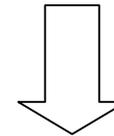


...well planned,...

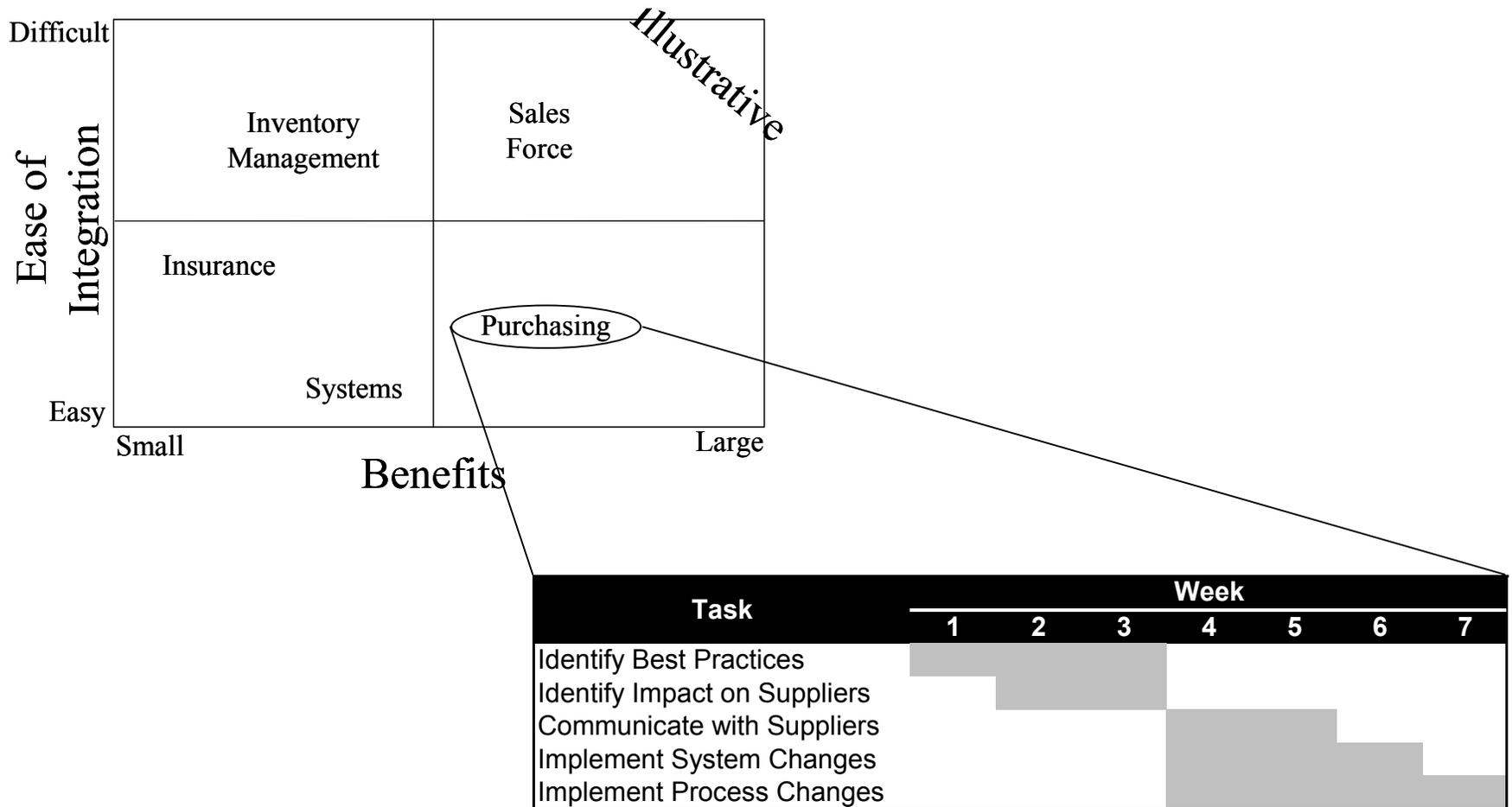
- Assess potential merger partners
 - Network
 - Synergies
 - Culture

- Analyze potential competitor responses

- Plan the post-merger integration



...and executed according to the plan





Norbridge