

## M&amp;A Monitor

**Piper Jaffray M&A Monitor**

Analyzing M&amp;A Activity—April 25, 2007

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**Feature Article****A Look at The U.S. Trucking Industry**by Inge Grasdal, [inge.x.grasdal@pic.com](mailto:inge.x.grasdal@pic.com), 612 303-6123

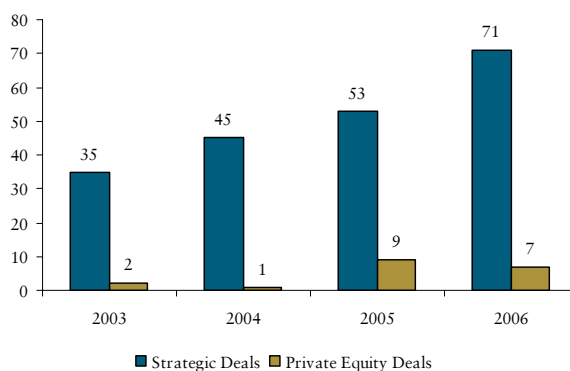
In the United States, businesses spend more than \$1,100 billion<sup>1</sup> annually on logistics, representing nearly 10% of U.S. GDP—trucking accounts for roughly half.

The trucking industry is split between private and for-hire carriers, with private carriers providing transportation services to satisfy their own needs and for-hire carriers available to serve the general public. Private carriers include firms such as Sysco Corp., Wal-Mart, USFoodservice, and Pepsi Bottling Group. The 100 largest private truck carriers operate 90,000 tractors, 219,000 trailers and 57,000 straight trucks<sup>2</sup>. For-hire truck carriers such as UPS, FedEx, YRC Worldwide, DHL and Ryder, represent the larger portion of the trucking market, with the top 100 firms operating 356,000 tractors, 730,000 trailers and 57,000 intermodal containers<sup>3</sup>.

Trucking is an increasingly challenging industry, where impacts from competition, government regulation, worker supply and macroeconomic forces are acting together in accelerating industry consolidation. Low entry costs along with a broad and price-sensitive customer base, have created a very fragmented and competitive industry. As an indicator of this, out of an estimated 780,000 long-haul heavy-duty truckers, 230,000 are independent owner-operators<sup>4</sup>.

In October of 2005, the U.S. Department of Transportation enacted a new law imposing stricter hours-of-service (HOS) regulations on commercial drivers. Schneider National, one of the largest U.S. for-hire carriers, estimates that the new HOS rules have resulted in a 15% driver-productivity loss, and consequently has driven demand for more drivers and larger fleets. The past year was indeed a record year for the sale of commercial heavy-duty vehicles; however, much of this demand was caused by a second government regulation put in place—the EPA's Heavy-Duty Highway Diesel Program. Starting in 2007, all new heavy-duty trucks and buses sold are required to include technologies to reduce diesel particulate matter, and 50% are required to meet additional Nitrogen Oxide emissions requirements. Furthermore, the new technologies require use of ultra-low sulfur diesel (ULSD) fuel, which costs more at the pump than conventional diesel. The elevated purchase and operating costs of the 2007 models are what motivated many carriers to replace or grow their fleets in 2006.

One of the most significant problems facing the trucking industry today—particularly long-haul trucking—is its ability to hire and retain drivers. Lifestyle issues and recent years' strengths in residential and commercial construction markets have pulled workers away from the driver pool, while population growth and globalization have increased the volume and travel distance of shipped goods. Along with negative productivity impacts of regulation and increased road congestion, this has created a shortage of drivers and left the industry struggling to find a solution. According to a study published by Global Insights<sup>4</sup>, the demand for long-haul truck drivers will grow by 2.2% annually through 2014, while driver supply will grow at only 1.6%, creating a shortage of more than 110,000 drivers over the next seven years. Current short-term strategies employed to deal with this include pay increases and the addition of other fringe benefits, which are eroding the margins already troubled by escalating fuel costs.

**U.S. Trucking Industry Transactions**

Source: Thomson Financial Securities Data Corporation

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Feature Article, Cont.

**A Look at The U.S. Trucking Industry**

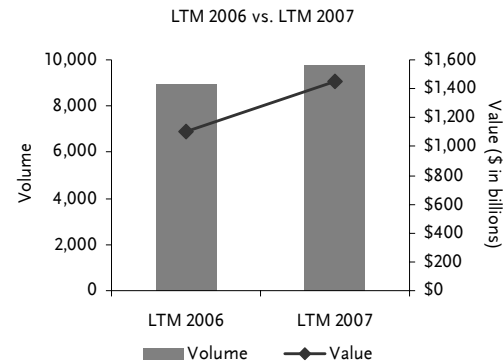
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With the increasing complexity of the U.S. trucking industry, sophistication, economies of scale, as well as customer- and end-market diversification are becoming critical. As a result, smaller, less efficient players are being consolidated by strategic acquirers at an accelerated pace, creating an active M&A environment. We expect this trend will continue in 2007 and beyond, pending significant near-term changes to long-haul road transportation demand. To discuss this topic or other transportation industry issues in further detail, please contact Michael Pohlen at 612 303-6718, [michael.e.pohlen@pic.com](mailto:michael.e.pohlen@pic.com), or Inge Grasdal at 612 303-6123, [inge.x.grasdal@pic.com](mailto:inge.x.grasdal@pic.com).

<sup>1</sup> Rosalyn Wilson, 17th Annual State of Logistics Report®, June 2006  
<sup>2</sup> Transport Topics, 2006 Top 100 Private Carriers  
<sup>3</sup> Transport Topics, 2006 Top 100 For-Hire Carriers  
<sup>4</sup> Global Insight, The U.S. Truck Driver Shortage: Analysis and Forecast, May 2005

**Domestic Transactions**

(\$ in billions)	Value*	Volume
LTM: 2006	\$1,103.0	8,966
LTM: 2007	\$1,446.7	9,727



\*Total value based on deals with reported values  
 Source: Thomson Financial Securities Data Corporation  
 LTM median deal value for 2007 is \$36.0 million compared to \$30.5 million for 2006.

### LTM Transaction Multiples

By Size (\$ in millions)	EBIT	EBITDA
Less than \$25	17.6x	8.5x
\$25 to \$100	12.0x	9.3x
\$100 to \$250	15.7x	11.0x
\$250 to \$1,000	17.4x	10.8x
Over \$1,000	15.0x	10.4x

Current data as of April 18, 2007

Source: Thomson Financial Securities Data Corporation

Based on multiples between 0x and 25x; excluding media and telecom.

### Public Company Premiums

1 week prior to announcement	23.6%
4 weeks prior to announcement	26.9%

Current data as of April 18, 2007

Source: Thomson Financial Securities Data Corporation

### Deal Financing

	Current	1 Year Ago
Leveraged Bank Loan	8.2%	7.7%
High Yield Bond Rate	7.5%	8.1%
Senior Debt/EBITDA*	4.6x	4.0x
Total Debt/EBITDA*	5.1x	4.5x

Current data as of April 18, 2007

Source: Portfolio Management Data, The Wall Street Journal and LCD Comps

\*Represents leverage statistics for middle market LBOs (less than \$50 million of EBITDA)

### Buyout Fund Market

(\$ in billions)	2006	2005
Funds Raised	\$197.6	\$183.8
Deals Completed	\$314.8	\$199.4

Data as of March 18, 2007

Source: Buyouts

**M&A Monitor Contacts**

(General and Deal Related Questions)

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