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Updated:

Fourth-Quarter LTL Results Improve as Pricing, Truck Tonnage Gain

By Rip Watson, Senior Reporter

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Seven of the eight publicly traded less-than-truckload carriers reported improved financial performance in the fourth quarter, as pricing and tonnage gained across the industry, giving hope for better 2011 results.

Old Dominion Freight Line posted the best results, more than doubling its quarterly net income to \$22.1 million from \$9.7 million as tonnage jumped 20%.

Three carriers reversed year-earlier losses. Roadrunner Transportation Systems earned \$3.9 million after a \$1.3 million loss, and Saia earned \$705,000 following a \$3.1 million loss. Though specifics weren't disclosed, UPS Freight posted a fourth-quarter profit after a year-earlier loss.

Elsewhere, YRC Worldwide said its operating loss narrowed to \$26.8 million, from \$90.8 million, and Vitran's operating loss dropped to \$1.7 million from \$2.6 million while Arkansas Best Corp.'s LTL unit reduced its loss to \$7.4 million from \$100.8 million.

Only Con-way Inc.'s freight unit slipped, as LTL operating profit fell to \$1.8 million from \$2.8 million, and the unit moved about 1% less freight during the October-to-December period.

Each of the carriers raised prices, measured in revenue per 100 pounds of freight, with Roadrunner's 12% leading the way and YRC's regional unit posting the slowest growth at 1.6%. Tonnage rose for every business except Con-way Freight and YRC's national outfit.

"The positive change is that overall most of the carriers are finding some pricing discipline," consultant Satish Jindel of SJ Consulting told Transport Topics on Feb. 8.

At the same time, he identified another side of recent LTL trends.

"The negative is that in spite of such a trend, most of them cannot get their operating ratios to a level that their cousins in the truckload and package industries are achieving," he said.

Jindel noted the average operating ratio of publicly traded LTL carriers topped 99, worse than 97.9 in the third quarter but an improvement from 103.1 in the final quarter of 2009.

On an individual basis, all carriers except Con-way improved their ratios, with Old Dominion posting the best at 90.5, and YRC's national unit trailing at 103.4.

By comparison, truckload operating ratios for the fourth quarter averaged 92.6, two percentage points better on a year-to-year basis, Jindel said. Package carrier operating ratios hover around 90.

Jindel also noted that the average operating ratio for 17 other large LTL carriers that aren't publicly traded is about 95.

While operating ratios could be improved, fleet executives hailed the pricing progress.

"There's a lot of movement out there upward in prices because of the capacity that is just not there," Old Dominion CEO David Congdon said on Feb. 2, noting that revenue per 100 pounds of freight rose 9.2% year-over-year in January.

Arkansas Best CEO Judy McReynolds said that the company's ABF Freight unit expects to maintain volume and pricing gains.

"We would expect pricing to improve all the time," YRC Worldwide CEO William Zollars observed.

At Saia, CEO Richard O'Dell said "we basically got an increase on essentially every customer contract at renewal. If we are not going to be compensated properly, we are willing to put the business at risk."

Some analysts highlighted other factors to boost LTL performance.

"Industrial production is accelerating," said Chris Ceraso, a Credit Suisse analyst in a Feb. 9 report. "LTL carriers tend to be more biased towards industrial end-markets relative to truckload carriers."

U.S. industrial production rose in 10 of 12 months during 2010 and was unchanged in another, the Commerce Department said.

An acceleration in second-quarter tonnage also should help LTL carriers, Ceraso added.

While those factors may help, other analysts identified potential trouble spots for LTLs.

"Numerous headwinds (rising fuel, weather, hiring expenses, seasonally weak demand) are likely to pressure first-quarter reported results," Robert W. Baird analyst Jon Langenfeld said on Feb. 8.

Jindel offered several recommendations to aid LTL pricing.

He said prices are often times at least 5% lower than they could be because firms use "freight-all-kinds" rates instead of using the proper price based on freight characteristics. He praised Old Dominion for having more success in pricing shipments than other fleets and shunning unprofitable business.

Other carriers hesitate to dump poorly priced freight, he said.

"They have a fear that they won't be able to replace an unprofitable shipment with a profitable one," Jindel said. "They have contracts in place with 30-day cancellation provisions, but they are reluctant to do that even though shippers did it to them."