

Transport Topics **Online**

Updated:

YRC Posts \$255 Million 2Q Loss

By Rip Watson, Senior Reporter

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YRC Worldwide's \$255 million second-quarter loss reported July 30 capped a generally miserable round of earnings reports for publicly traded carriers pounded by falling rates and tonnage.

A Transport Topics review of earnings for 16 other fleets reporting results through July 29 found that total net income fell 54% to a total of \$137.3 million from \$298.3 million for those carriers. Every carrier's revenue fell, with YRC dropping the most, 45%, to \$1.33 billion.

YRC ranks No. 4 on the Transport Topics 100 list of the largest for-hire carriers in the United States and Canada.

Including one-time charges, YRC's loss was \$309 million, or \$5.20 a share. National less-than-truckload revenue fell 48% to \$873.7 million from \$1.69 billion.

American Trucking Associations said its tonnage index fell in June the farthest in more than 13 years and declined 12.6% from the second quarter of last year (see story, p. 1). To complicate matters, rates for truckload and less-than-truckload operators alike fell in response to weak demand.

Even more profitable carriers such as Old Dominion Freight Line and Knight Transportation saw key revenue benchmarks slip more than 10%, reflecting lower fuel surcharge collections.

"Second-quarter margins deteriorated compared to the prior year quarter, reflecting tonnage and yield declines," said Rick O'Dell, CEO of LTL operator Saia, whose 2008 quarterly profit of \$5.3 million was replaced by a \$1.7 million loss. "This is due to the weak shipping environment and lower yields impacted by increasingly competitive pricing pressure."

Truckload carriers shared that view.

"Our results for the quarter reflected continued weak freight demand, excess tractor and trailer capacity in the truckload industry and significant rate pressure from customers," said Covenant Transportation Group CEO David Parker.

Only Marten Transport and Heartland Express, two truckload carriers, escaped the downward earnings trend. Marten was able to boost profit 29%, while Heartland's earnings rose 2.2%. In both cases, cost controls were cited by company officials as a key reason for the year-to-year improvement, since revenue fell more than 20% for both fleets.

Other carriers also took cost-cutting steps, such as trimming driver pay and cutting nondriving jobs, according to their earnings reports.

Knight Transportation CEO Kevin Knight described a weak market and some even weaker competitors when the company announced earnings of \$12.6 million that nearly matched the 2008 quarter.

“We have not yet seen evidence that would suggest strong improvements in demand are on the horizon,” Knight said. “However, we have seen evidence that many truckload carriers are barely viable and are plagued with weak balance sheets, aging fleets and dramatically shrinking revenues.”

Looking at the broader truckload picture, Morgan Stanley analyst William Greene said that “several large carriers noted there are few signs of recovery and the freight environment could remain extremely difficult until year-end.”

Greene said in a July 27 report that truckload pricing is likely to bottom in the third quarter.

Despite lower earnings, freight volume and pricing, some companies beat Wall Street expectations.

Con-way Inc.’s net income fell more than one-third to \$31.5 million, but the earnings of 64 cents a share more than quadrupled the estimate of 14 cents in a Bloomberg News survey. Profits at Ryder System also exceeded Wall Street’s predictions.

“Con-way’s business model simply has more earnings power than we previously appreciated,” said a report by Credit Suisse analyst Chris Ceraso, who credited cost-saving steps as a key reason for the better-than-expected report.

“The consistent month-to-month sequential growth was an encouraging trend,” said Con-way CEO Doug Stotlar. “However, until the market’s excess capacity is resolved, we expect the pricing environment to remain competitive.”

Old Dominion and Con-way were the most profitable LTL businesses.

UPS Freight, the LTL unit of UPS Inc., managed to “break even” during the quarter, said corporate Chief Financial Officer Kurt Kuehn. The unit saw a 16.5% revenue decline and a 10% drop in revenue per hundred pounds of freight.

Among truckload operators, seven of the nine carriers re-viewed were profitable, with only Covenant and USA Truck reporting losses.

“Freight availability remains at historically low levels and pricing competition has been fierce as excess tractor capacity, buoyed by lenient lenders and lower fuel prices, continues,” said USA Truck CEO Cliff Beckham.

J.B. Hunt Transport’s overall earnings were \$24 million, but its truckload business lost money while the intermodal and contract carriage businesses were profitable.

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