THE 2014 TMW TRANSPORTATION and LOGISTICS STUDY SUMMARY

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TRUCKLOAD | DEDICATED | BROKERAGE

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"Our industry is indeed an economic bellwether, but it also demonstrates a remarkable ability to address the evolving needs and demands of customers while finding new ways to enhance operational and financial performance."

CONTENTS

SURVEY METHODOLOGY

The 2014 TMW Transportation & Logistics Study was developed from three benchmarking surveys that were conducted online from July 15 – August 25, 2014. The confidential information collected spanned 131 industry entities, and surveyed individuals represented the following industry verticals: Truckload Irregular, Truckload Dedicated and Brokerage/Non-Asset. Participants included 21 of Transport Topics "Top 100 Carriers" and 10 of the Inbound Logistics "Top 50 Third-Party Logistics Providers." Carriers who participated in the survey operate a combined total of more than 87,000 tractors and over 173,000 trailers. The combined revenue of all participating entities exceeded $24 billion over the preceding 12 months.

The combined surveys included more than 200 questions, including multiple choice, multiple answer, ranking, and open-ended response prompts. The majority of the questions were segmented based on financial, operational and maintenance roles, and respondents were not required to answer every question.

The following commonly accepted industry definitions were used in identifying business type:

Truckload Irregular	Carrier that transports cargo to any place at any time, without prescribed schedule and/or route.
Truckload Dedicated	Carrier that provides private fleet replacement or supplemental services, including the transportation of cargo via regular, prescribed routes.
Brokerage/Non-Asset	Third-party company or person who arranges and/or facilitates the transportation of a customer's cargo via the assets of another transportation provider.

David Wangler, President, TMW Systems

AN INDUSTRY ADAPTS

Resilience. Commitment. Convergence. Each could easily serve as the overarching theme of the 2014 TMW North America Transportation & Logistics Study. Our study captured detailed financial and operational metrics and strategic insights from representatives of 131 businesses across three industry verticals: Truckload Irregular, Truckload Dedicated, and Brokerage/Non-Asset.

While the transportation industry has historically been considered a harbinger of change – both positive and negative – within the North American economy, this view fails to recognize the industry's own financial and operational achievements. Yes, the economy is making steady progress, but the performance improvements recorded by study participants can also be traced to their own resilience, commitment to operational excellence, and the increasing convergence of carrier and intermediary roles and functions.

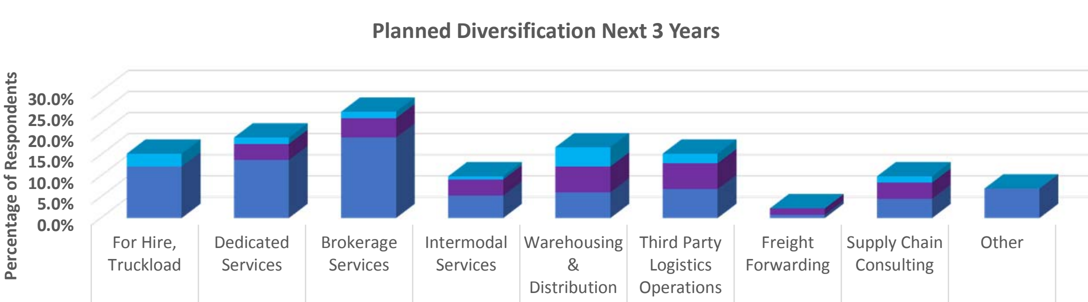
This year, more than 60% of respondents reported an OR of 96% or lower. In 2013, only 48% of fleets were able to achieve such performance. This same audience saw strong gains in utilization and net rate per mile. In the Dedicated Truckload sector, a clear pattern of utilization gains is emerging among carriers that have leveraged planning optimization technology.

> This year, more than 60% of respondents reported an OR of 96% or better

In the Brokerage/Non-Asset category, service providers are achieving stronger gross margins by relying more heavily on developed carrier networks. These and scores of other interesting insights are within this summary of our 2014 results. A vast majority of cases reflect performance improvements resulting from business owners/executives who have adapted their operating models to the changing realities of the North American transportation market. Our industry is indeed an economic bellwether, but it also demonstrates a remarkable ability to address the evolving needs and demands of customers while finding new ways to enhance operational and financial performance.

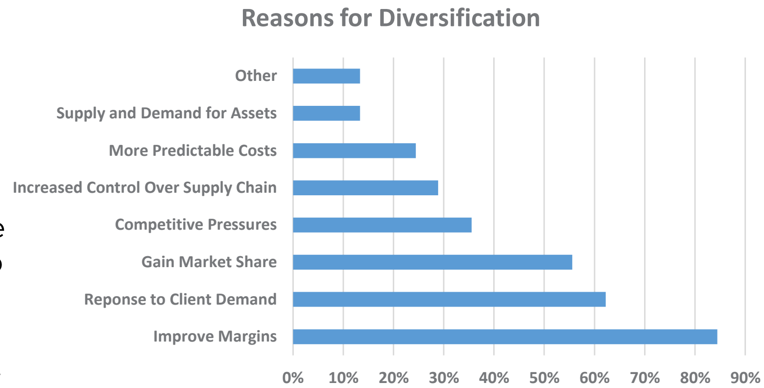
DIVERSIFICATION CONTINUES

The operational convergence of asset and non-asset businesses continued to accelerate in 2014. More than 37% of respondents already operate in multiple segments, and 34% are planning to expand into at least one additional service offering within the next three years. More than 80% cited improved margins as a priority for their diversification strategy, followed by response to client demand, increased market share, and handling competitive pressures. Two additional factors experienced notable gains this year: the ability to achieve a more predictable cost structure; and the desire for increased control over the supply chain.



	For Hire, Truckload	Dedicated Services	Brokerage Services	Intermodal Services	Warehousing & Distribution Services	Third Party Logistics Operations (3PL)	Freight Forwarding	Supply Chain Consulting	Other
3 Years	3.1%	1.5%	1.5%	0.8%	4.6%	2.3%	0.0%	1.5%	0.0%
2 Years	0.0%	3.8%	4.6%	3.8%	6.1%	6.1%	1.5%	3.8%	0.0%
1 Year	12.2%	13.7%	19.1%	5.3%	6.1%	6.9%	0.8%	4.6%	7.0%

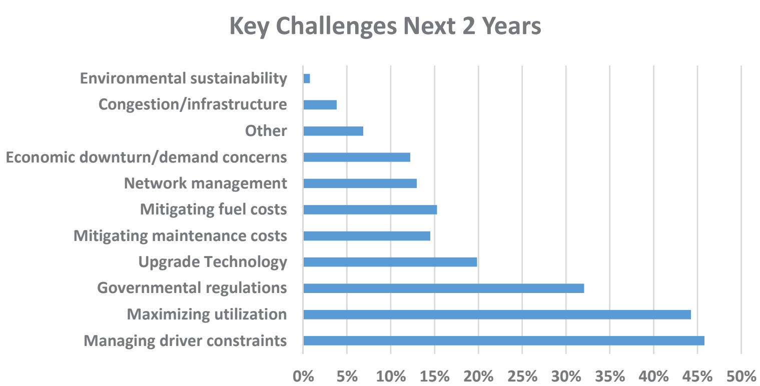
Respondents to our 2013 study, which covered only the for-hire truckload segment, reported that dedicated services (27%), brokerage (21%), warehousing and distribution (13%), and 3PL operations (13%) were the leading diversification targets. Given the broader reach of our 2014 study, it's not surprising to see a moderate shift in these results, with brokerage growing to 25% and dedicated services dropping to 21%, followed by warehouse and distribution, for-hire truckload and 3PL operations, respectively. Some might find the comparative strength of the for-hire truckload category unexpected, but this likely reflects the improved rates and margins of the past few years coupled with the growing demand for capacity.



Small to mid-sized carriers seeking to become comprehensive logistics service providers are perhaps the most active participants in the convergence phenomenon. Although capacity remains tight, this sector recognizes the need to address a broadening range of customer demands. It's no longer simply about operating trucks; it's about the ability to master the complete transportation lifecycle, from order to delivery. A key to success will likely be their willingness and ability to invest in next generation transportation management systems that would allow them to operate their increasingly diversified businesses in a holistic manner rather than as a collection of disparate operations.

CHALLENGES (AND CHANGES) AHEAD

It's difficult to accurately forecast business performance three months in advance, much less a full year. I can guarantee, however, that at least one thing will be true when we review the results of TMW's 2015 Transportation & Logistics Study: industry participants in every segment will have continued to adapt their operations to a variety of pressing challenges. In fact, when we asked 2014 survey participants to identify key challenges facing their businesses over the next two years, their responses were remarkably similar to those from last year's participants. Maximizing utilization remains a leading issue, but has been overtaken by managing driver constraints, a concern we all share. Fleet maintenance and fuel expenses also rank high, along with network management, government regulations and the need to upgrade technology. A number of these issues are covered in greater detail on the following pages.



I want to offer my personal thanks to each individual who helped make this important benchmarking study possible through their generous contributions of time and knowledge. This study more than doubled in size and participation in 2014, which demonstrates the bottom-line value of the project.

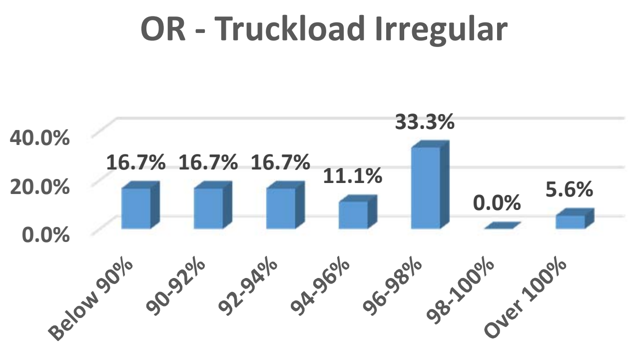
I'm certain you will find this summation enlightening. Please let us know your thoughts, and tell us what you'd like to see included in our 2015 study.

Sincerely,

David Wangler
President, TMW Systems

TRUCKLOAD IRREGULAR

MARGIN PERFORMANCE IMPROVES



Respondents to our 2013 survey had experienced severe margin pressure over the preceding year, with average operating ratio in the mid-90s and just one of the responding carriers reporting a sub-90% OR. Among the primary challenges were higher operating costs, including labor and equipment-related expenses. While these realities remain, it appears that truckload carriers in the irregular route sector successfully leveraged a variety of strategies, including diversification, to improve margin performance over the period covered by our 2014 study.

More than half of respondents to the 2014 survey had an OR of 94% or lower, and 16.7% reported sub-90% ratios, as compared to last year's 3.2%. A sizeable share (38.9%) of respondents continued to struggle with a 96% or higher OR, and 5.6% of respondents lost money.

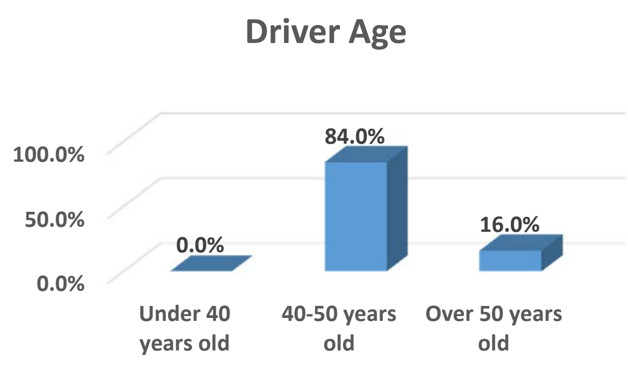
2014's figures for net rate per mile and utilization were both up. Net rate per mile improved by 7%, or $.10 per mile, and utilization was up by 2%, or 54 miles per seated truck, per week. We suspect that utilization gains could have been even more robust were it not for the reported impact of the 2013 HOS rule changes.

> Net rate per mile improved by 7%, or $.10 per mile

FINDING THE DRIVER RETENTION 'SWEET SPOT'

The driver shortage is and will likely remain the trucking industry's most vexing challenge. Although there are no silver bullets on the horizon, short of autonomous vehicles, a number of notable patterns have emerged among fleets reporting lower-than-average driver turnover.

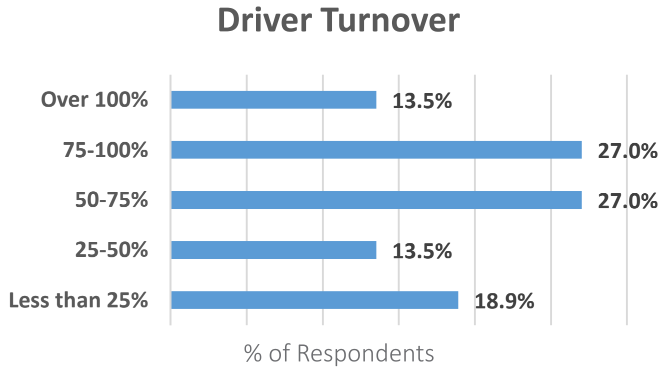
Predictably, there is a clear relationship between wages and turnover. No respondent in the Truckload Irregular sector with annual driver earnings below $50,000 reported turnover of less than 50%. (Note: average driver turnover in 2013 was 51%.) Only fleets reporting average driver pay above $55,000 were able to achieve turnover rates of 25% or less.



Another interesting correlation can be found in tractor to fleet manager ratio. 68% of fleets with less than 30 tractors (or drivers) per fleet manager reported less than 75% turnover. 83% of fleets with less than 21 tractors per fleet manager reported sub-75% turnover and many achieved 50% or lower. This pattern is significant in an industry where 41% of participants reported driver turnover of 75% or higher.

Is length-of-haul (LOH) a key factor in driver retention? Last year's results indicated that per-mile pay rates seemed to matter less than higher average driver miles. Our latest results show a similar number of short to medium-haul fleets and longer haul fleets reporting better than average turnover. It appears that while driver miles are a factor in higher retention, this gains more significance when paired with other variables. One of those additional variables appears to be fleet size, as just one fleet with more than 500 tractors reported driver turnover of less than 75%.

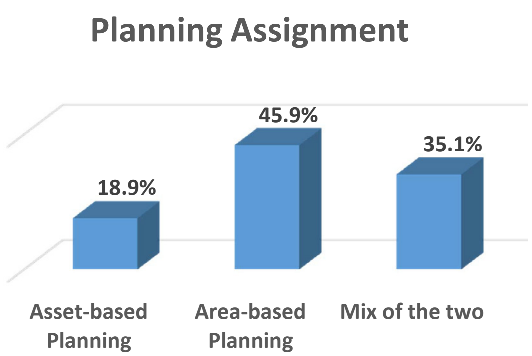
While there are several strong relational factors that appear to impact driver turnover, there are nearly as many exceptions. For example, many respondents with higher tractor to fleet manager ratios reported lower driver turnover but also coupled with either longer LOHs or top-end driver wages. Longer length-of-haul means fewer dispatches and stops to coordinate, which theoretically gives fleet managers more time to focus on driver needs. These drivers also have fewer docks to bump and perhaps reduced stress around finding a load or managing detailed pickup/delivery requirements. It's no surprise that higher pay seems to help offset many other job-related frustrations.



Perhaps the key takeaway from our 2014 results is that carriers with lower tractor to fleet manager ratios are more likely to achieve better than average driver retention. The life of a driver in an irregular route truckload environment is marked by long periods of isolation and more attentive fleet managers may offer valuable relief from that burden.

THE UTILIZATION EQUATION

Utilization remains a critical factor in fleet profitability. Among 2014 respondents, those reporting an OR of 96% or lower averaged 2,387 revenue miles per seated tractor per week. Fleets reporting ORs higher than 96% averaged just 1,864 miles



New to our survey this year was a question on planning styles. 46% of respondents indicated that they use area-based planning, while 35% leverage a mix of area and asset-based planning. However, a closer look shows that some mid to long-haul fleets that reported using asset-based planning are in fact using area-based planning. The discrepancy is in their particular operating models, through which personnel follow trucks to book subsequent loads in their next markets. In reality, this is a booking strategy. These fleets still typically use area-based planners to assign the loads, with those planners responsible for specific geographical areas.

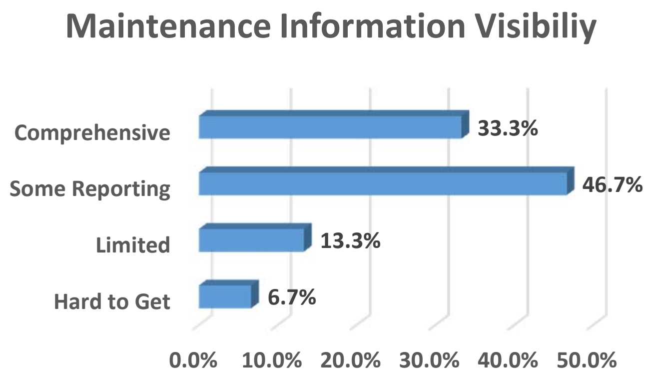
This year's survey results also reinforce the correlation between utilization and driver retention. In a measure of seated truck utilization, respondents with driver turnover below 75% also averaged 100 more revenue miles per tractor, per week than those with higher turnover. The connection is clear: if OTR drivers aren't getting enough miles, they'll seek work elsewhere. Until a fleet can raise the bar on utilization, it could risk a downward cycle of increased turnover, more unseated trucks, and lower revenues.

MAINTENANCE DATA VISIBILITY: A GLARING NEED

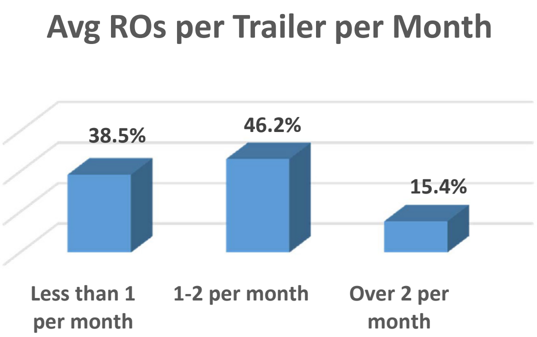
When it comes to capturing and analyzing equipment maintenance information, most fleets understand they can benefit from knowing much more. Participants cited greater difficulty gaining visibility into maintenance metrics than in any other functional area. Merely one-third of respondents reported having comprehensive maintenance visibility. Most surprising is that 65% of respondents reported they do not effectively track maintenance costs by equipment age group.

65% of respondents reported they do not sufficiently track maintenance costs by equipment age

The number of repair orders that are not associated with scheduled or preventive maintenance events continues to be a costly issue for respondents, as 77% of participating fleets wrote at least one such RO per tractor per month and 38.5% wrote more than two per month.



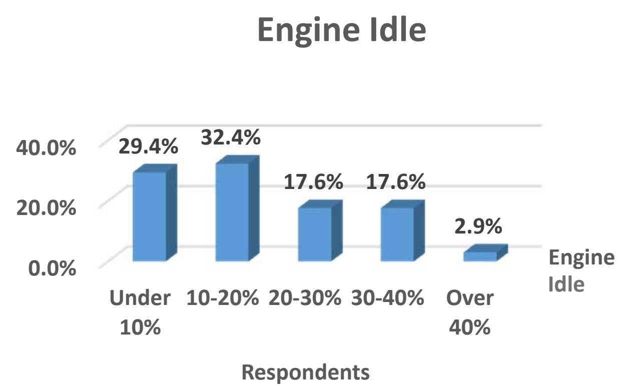
Half of our responding fleets followed maintenance intervals between 15,000 to 29,999 miles. 64.3% performed trailer PM on 90 to 180 day intervals. Truckload Irregular fleets made significant progress modernizing their equipment, with just 20% of respondents reporting average tractor age of more than 48 months—compared to 51% last year. Warranty recovery remains a largely untapped opportunity. Newer equipment combined with multiple monthly ROs would be expected to lead to increased warranty claims and cost recovery. Yet 50% of respondents recovered less than $.01 per tractor mile and nearly 40% were unable to provide any warranty recovery figure. Gaining visibility into key maintenance measures is a sure-fire way to improve margin performance.

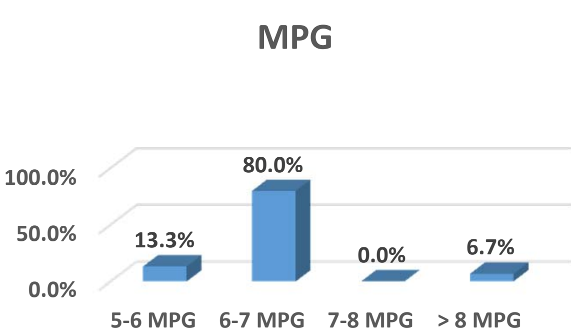


FUEL COSTS IN THE CROSSHAIRS

One area where most carriers have been forcefully proactive is in managing fuel costs. Nearly 90% of fleets now use some form of engine idle reduction technology. Of these respondents, 83% are averaging under 30% engine idle and six of 10 respondents are below 20%.

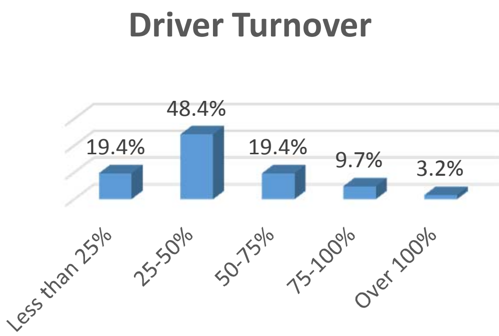
MPG performance is moving in the right direction. 80% of respondents achieved 6 to 7 miles per gallon over the preceding 12 months.





TRUCKLOAD DEDICATED

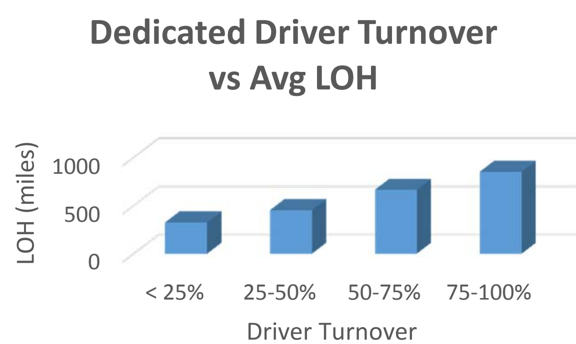
There is little argument that drivers in a Dedicated fleet environment face less work/life conflict and related stress than Truckload Irregular route drivers. This can generally be credited to more regular driving routes and hours and often more home time. Nevertheless, driver retention is still a pressing challenge for virtually any Dedicated fleet in our survey. This challenge can't be addressed simply through higher wages; it may require careful attention to multiple variables that impact the driver's work experience.



Wages are important. Only one responding Dedicated fleet with average driver wage below $50,000 reported less than 50% turnover. Yet we found no consistent relationship between wages and turnover in the Dedicated sector. In fact, some of the highest paying fleets experienced particularly severe retention challenges over the preceding year.

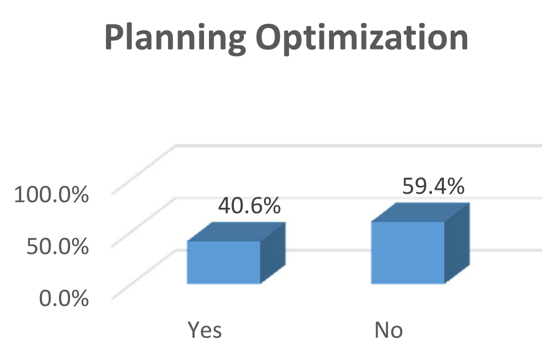
As in the Truckload Irregular sector, tractor-to-fleet-manager ratios and LOH can influence driver retention. Respondents in the range of 19 tractors per fleet manager averaged less than 50% turnover, while those who averaged 25 tractors or more per fleet manager reported turnover higher than 50%.

The length-of-haul connection in dedicated fleets was somewhat less clear-cut. A two-day LOH will typically put a driver at least four days out, whereas a shorter-haul Dedicated route often allows for increased home time per week. About eight out of 10 fleets that averaged less than 500-mile LOH reported lower than 50% driver turnover. As the reported LOH average rose to 663 miles, turnover spiked to as much as 75%. Higher LOH averages raised driver turnover rates to between 75% and 100%.



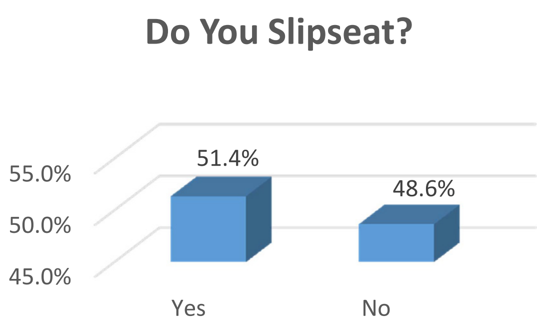
ROADMAP TO INCREASED UTILIZATION

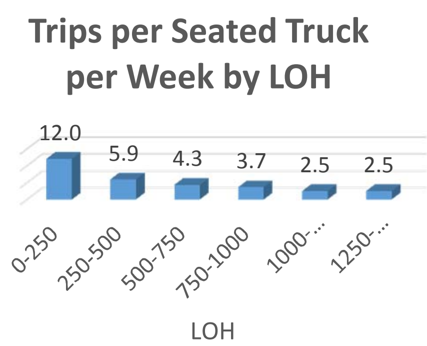
As in the Truckload Irregular sector, there is a strong correlation between utilization and operating ratios among Dedicated fleets. Increasing revenue miles per seated truck per week remains a key objective for all truckload carriers. The 2013 Hours of Service regulation changes made this a more daunting challenge for Dedicated fleets, with 65.6% of our respondents reporting a negative impact on utilization of as high as 10% from the new requirements.



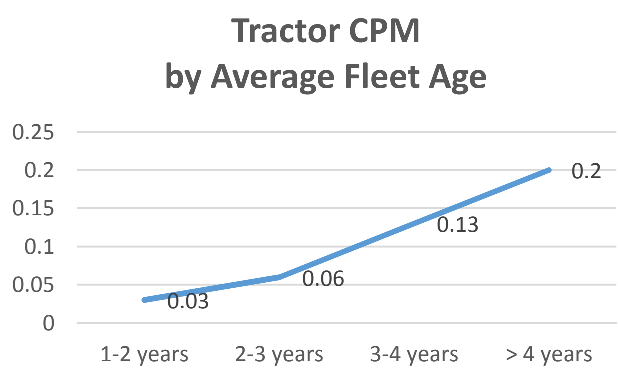
One statistic shows that Dedicated fleets are combatting this impact with the help of new technologies. Fleets that made use of planning optimization software averaged 142 more revenue miles per seated truck, per week over the preceding 12 months. That's a 6.3% upswing in utilization, which is significant in any operating scenario.

Another observation: Dedicated fleets with a higher percentage of business in shorter LOHs often achieved lower operating ratios than fleets which reported longer average routes.





THE MAINTENANCE ANALYTICS GAP

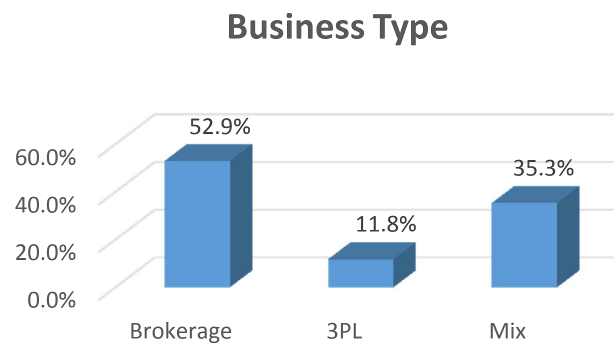


As with our Truckload Irregular participants, many Dedicated fleets demonstrated inadequate monitoring of maintenance costs by vehicle age group. A common theme in the Dedicated sector was the lack of useful fleet maintenance information, with only 26.7% of respondents indicating they have access to “comprehensive” data. Reducing fleet maintenance costs and increasing warranty recovery both appear to be strong improvement opportunities for a surprising number of fleets. The good news here is that technology solutions exist to dramatically increase visibility into this critical area of fleet management.

BROKERAGE/NON-ASSET

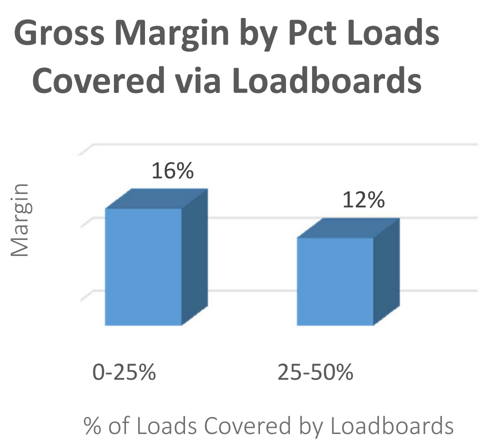
THE LOADBOARD FACTOR

Participants in the Non-Asset portion of our study predominantly identified themselves either as freight brokerages or as a blend of brokerage and third-party logistics services. Most respondents reported that at least 50% of their business was contract-based rather than pure spot. Some of that business was likely rollover or loadboard freight, which could be considered as spot-market due to its selective nature.

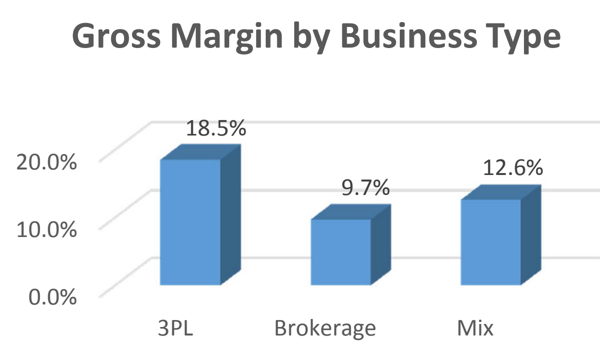


The use of internet loadboards is integral to daily operations for Brokerage/Non-Asset businesses. They report that freight orders come in directly from contract customers and also as overflow from customer-specific loadboards. Additional business is also sourced through third-party loadboards.

About 56% of respondents in this segment posted only one-quarter or less of their freight to loadboards, while 44% reported posting between 25% and 75% of their business to loadboards in an attempt to find carriers. Surprisingly, nearly seven in 10 respondents indicated that they serviced just 25% or less of posted freight via this medium. According to survey responses, Non-Asset service providers who made heavier use of loadboards generally realized lower gross margins than those that relied more on developed carrier networks to cover their business.



Based on our survey, brokers that were part of established carrier operations accepted considerably lower percentages of loads offered to them than did purely Non-Asset-based providers. These hybrid broker-carriers also earned lower gross margins overall—10% on average—compared to 16% margins for brokers who were true Non-Asset only organizations. It would appear that Non-Asset providers are leveraging a wider pool of freight opportunities to maximize yield in their business with fewer constraints. In comparison, the hybrid broker-carrier may focus on complementing and supporting its asset-based operations first, dealing with less-desirable overflow freight through conventional brokerage activity, which can dilute overall profitability.



Segmentation in the Brokerage/Non-Asset space was highlighted by their reported gross margins. Survey respondents who identified themselves as 3PLs averaged the highest margins at 18.5%. They significantly outperformed blended 3PL-Brokerage operations at 12.6% gross margins and Brokerage alone at 9.7%.

ABOUT TMW

Like the transportation industry that we serve, TMW Systems has diversified and grown significantly since our founding in 1983. Our solutions drive out inefficiencies and costs while expanding visibility to the business. They help make the most of available capacity, bringing workflow automation and powerful business intelligence to the complex world of logistics operations and fleet management. Our more than 2,000 customers include thriving small, medium and large companies offering transportation services and those operating as part of distinctive supply networks across North America and beyond.

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