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INVESTOR'S BLOODBATH IN TRUCKING-
THE DETERIORATED VALUATION OF TRUCKING COMPANY EQUITY SECURITIES

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The trucking business has been one of the nation's growth industries since World War II. At the end of the War the rails dominated freight transport but trucking was gaining market share. Trucking's share growth really took off after the construction of the Interstate Highway System began to take effect in the 60's. By 1970 trucking had grown to the point of representing 74.6% of all freight transportation expenditures; the rails were down to 14.2%. The industry took a further jump following trucking Deregulation in 1980 and still another when bigger trailers and "double bottoms" were permitted nationwide in 1984. By 1988 trucking represented 77.6% of freight transport expenditures; the remaining market share divided between railroads (down to only 9.6%), air freight (3.2%), pipelines (2.5%), and all forms of water carriers (6.2%).

Conventional thinking would lead one to the conclusion that such a market share triumph would lead to investor success, but the results are just the opposite.

In 1970 there were forty-eight publicly owned trucking companies. In 1971 & 1972 an additional thirteen carriers went public and one other trucking company went public in 1976, a total of sixty-two before the 1980 Deregulation. The following table analyses the success or failure of those companies in the intervening years.

CURRENT STATUS OF TRUCKING COMPANIES PUBLICLY OWNED BEFORE DEREGULATION			
	Ownership	Status	
Current Financial Status	Stayed Independent	Later Acquired	Total
Healthy Survivor	5	3	8
Survives-Experiencing Losses	5	7	12
Out of Business	24	18	42
Total	34	28	62

When I say "gone out of business" that is what I mean. I don't mean they merged with another company and still survive in a new form. There were some mergers within the group but I have counted them as survivors if the merged entity still operates. The out-of-business category includes two companies that survived as reorganized entities following a bankruptcy that virtually destroyed pre-bankruptcy shareholder values.

Is there any other industry in which only 13% of the large industry members of the 70's have survived into the 90's as healthy competitors? And this in an industry that has grown at a high rate and gained business from competing modes of transportation.

What would an investor have realized in this business? Please refer to page 2 of Exhibit V. Assume an investment of $1000 was made in each of the 34 companies that remained independent at the average of its high and low market price in 1970 or the later public offering price. The 28 acquired companies were in reality only the substitution of one investor for another; I'll discuss them later.

The $34,000 investment would, on average, be outstanding for 19.6 years and be worth $60,753 based on the closing stock market prices of the survivors on December 31, 1990. This gain represents a compounded return of only 3% per annum over the 19.6 years of the investment. There would have been some dividends too, but not very much, as most of the companies did not pay dividends. At December 31, 1990 the dividend yield on the survivors was 2.8%.

Assume a choice between this trucking investment and bonds yielding, say, 10%; very safe securities with that yield were available in 1970. The bond investment would have grown from $34,000 to $220,417. By contrast, the stock investment together with accumulated dividends at 2.8% would total $102,698; only 46.6% of the bond alternative. The investor lost 53.4% in comparison.

Of the thirty-four companies that stayed public, only ten are still in business. Of companies the in which investor values survive, six are operating profitably at present. Even if you had been lucky enough to pick only the ten ultimate survivors for investment, the compounded rate of return would be only 9.4% per annum, again plus the dividends. In fact the vast majority of the value is in five companies: Arnold Industries (31%), Roadway Services (20%), Yellow Freight (14%), Kenan Transport (13%), and Carolina Freight (8%). The CEO of one of these companies has told me, he feels like "the winner of a Russian beauty contest."

The details of this information are presented in Exhibit I.

Returns could have been better if the investment had been sold upon the acquisition each of the twenty-eight companies that were acquired by other companies. But, as I said, this really was only the substitution of one investor for another. Of those twenty-eight acquired carriers eleven are still in business but only four are operating profitably. The percentage survival rate is not significantly different from that of the companies that stayed independent. Information on their financial performance after their acquisition is unavailable or incomplete so it is impossible to determine whether the investors in the acquired companies did any better than those in the ones that stayed independent. Exhibit II lists these companies and their current financial status.

Conventional thinking says that this industry trauma is the result of the inability of the pre-deregulation truckers to adapt to the new open competition. I don't think the facts support this thesis very well. Rather, the removal of the protection from competition that the regulatory entry barrier provided changed the industry by making it materially less attractive. This is supported by a review of the results of the trucking companies that went public after Deregulation as set forth below and in more detail in Exhibit III.

CURRENT STATUS OF TRUCKING COMPANIES PUBLICLY OFFERED AFTER DEREGULATION				
Current Financial Status	# Co	Value of Offering	Value 12/31/90	Gain (Loss)
Selling Above Offering	5	120,267,500	215,228,750	94,961,250
Selling Below Offering	7	248,354,920	140,241,808	(108,113,113)
Bankrupt or Distressed	7	146,963,528	2,153,906	(144,809,621)
Total	19	515,585,948	357,624,464	(157,961,484)

Between 1981 and 1990 twenty-three of these companies have gone public. Of these, two subsequently went private (Burnham Service and PST Vans) and two were acquired by other trucking companies, (Viking and Roadrunner). Both of the companies that went back to private ownership are now losing money. Of the two acquired companies, one of the acquirers (Circle Express) later went bankrupt. The other acquired company was lucky enough to be bought by Roadway, one of the successful survivors of the seventies. Thus, publicly issued financial information is available on the nineteen companies that went and stayed public.

As is shown in the table above, the nineteen companies raised $515.6 million in new equity capital. On the average these companies have been public for 52 months. On December 31, 1990 the shares sold publicly had an aggregate market value of $357.6 million; 30.6% <u>below</u> their offering prices. The investors have lost about $158 million in the total of the nineteen companies.

Again assume an alternative investment in bonds, this time at 8.5% reflecting the lower yields of the 80's. The stocks offered after deregulation were yielding dividends at only a 0.5% rate at 12/31/90. The bond investment would have grown to $744.2 million; the stock investment, with a 0.5% dividend, fallen to $365.5 million or 49.1% of the bond. Given time this investment will be as bad as the pre-deregulation investment in trucking.

The trucking business' high attrition rate has not exempted these well financed new entrants. Of the nineteen companies seven have already gone bankrupt or been liquidated, losing virtually all of their investors' money. Of the remaining twelve companies only five were selling above their offering prices on 12/31/90. Like the pre-deregulation carriers, four companies seem to be emerging as clear winners; Arkansas Freightways, Heartland Express, J. B. Hunt Transport, and MS Carriers. Another company, Werner Enterprises is an operational winner but still selling below its offering price.

The best sustained Bull Market in this century and tremendous growth of the Trucking Industry have not been able to make truck stocks good investments. Why? I think there are three reasons.

1. Trucking integrations or consolidations have not been successful. Therefore trucking companies will not acquire a failing company to "buy market share." Instead the declining company must slide all the way to bankruptcy.

2. The industry is unusually competitive because of: a.) low economic entry barriers, b.) customers that are usually much bigger and more powerful than the carriers, c.) inability to "differentiate" the service and get paid a premium price, and d.) the industry's management intensive character and scarcity of good management.

3. The financial strength that can come from going public and raising capital is more than offset by the task of managing and operating in a public ownership environment.

I would like now to explore the reasons for the poor performance a little more thoroughly. Michael E. Porter, in his book Competitive Strategy (New York: Free Press, 1980), presents a methodology for assessing competition within industries. He identifies five competitive forces that drive industry structure and thereby the long-run rates of return that firms in the industry can expect to earn. The five competitive forces are: 1. threat of new entrants, 2. threat of substitute products, 3. bargaining power of buyers, 4. bargaining power of suppliers, and, 5. rivalry among current competitors.

These forces influence prices charged, costs, levels of business, investment, and the riskiness of firms in the industry thereby setting the levels of shareholder returns. The trucking business gets a relatively poor score on all measures except "threat of substitute products" where it gets an average score.

Threat of new entrants: When Deregulation removed the "regulatory entry barrier" it made the trucking business much less attractive. One can enter most segments of the business with as little as one truck, and finance most of that investment. The network less-than-truckload industry segment is an exception however, has formidable economic entry barriers. Nonetheless even the network LTL segment has thousands of competitors already in the business most of which will fall victim to consolidation.

Threat of substitute products: At least trucking doesn't have to worry about Japanese competition. I have surveyed the Japanese trucking business and ran a truckline in Europe and believe me, we have nothing to fear from their competition. European truckload rates are two to three times the comparable freight rate in the U. S. Amazingly, our freight rates are lower than those of Mexico, Malaysia, or Thailand. This despite those countries' insignificant labor costs, no insurance costs, and fuel no more costly than here. Our road system (and the great way to pay for it), big trucks, and developed freight management expertise has allowed us to more than offset the lower unit costs of even the least developed countries.

One could argue that railroad piggyback is a threatening competitive product. However, the percent of the total freight market in which it is competitive is small. Fortunately for the truckers, railroads are operated by stodgy, lawyer dominated, railroad management and are subject to labor laws that promote inefficiency.

Bargaining power of buyers: This is a big problem. The buyers are almost always much larger than the trucker. They are expert at playing off one truckline against another to get low prices. The result has been very low freight rates and low industry profitability at grossly inadequate levels. The trucker's pricing problem can easily be visualized by remembering that every trucker's headhaul is another trucker's backhaul. For good business reasons there is always a carrier willing to cut rates on a movement to fill empty miles or improve utilization. The shippers are experts at using this as a lever to keep rates low.

Bargaining power of suppliers: Again the suppliers are much larger than the truckers. However, there is excess capacity in the truck building business that has reduced their profits. The problem here is more the cyclical nature of freight movement demand. We all need more trucks at the same time, which drives up equipment prices out of proportion to that which a longer term appraisal of the market supply-demand situation would seem dictate.

Rivalry among current competitors: It is the management-intensive nature of the business that makes the problem here. Trucking demands the management of labor and other costs that are geographically remote from the manager in a "real time" environment. The costs are not just ones of labor efficiency. We have to worry about accident costs because, the way the system works, we ultimately pay for all our losses, insured or not. The problems of controlling our prices, negotiated by many sales people on many different combinations of commodity, shipment size, distance, and origin-destination pair are daunting. We lose money on much of our freight and could be in much better shape if we could limit money-losing shipments.

The above discussion is a long way of saying: "trucking is a tough industry in which to make money." But the freight is going to move in trucks. The demand for the service will be there and, in the long run, one would think there has to be enough profit to renew assets. So what should an investor do? Here is my answer.

1. Recognize the management-intensive and cyclical character of the business. It will continue to be an "up and down" industry in which companies will slip because of leadership problems. You dare not put your money in a truck stock and "forget about it" as one might in, say, a pharmaceutical stock.

2. The "economic entry barriers" to any given carrier's market niche is very important. There are hundreds of market niches but some of the largest ones, the longhaul dry-van truckload business for example, have very low economic entry barriers and are therefore unattractive. On the other hand, the less-than-truckload, small shipment business has fairly formidable entry barriers and therefore can be attractive.

3. If the niche looks attractive, make sure the carrier has the market power to defend its position in it. Heaven forbid one should get in the same niche with United Parcel Service or one of the other strong industry giants. Remember when you "go to bed with a gorilla you do what the gorilla wants to do."

4. Market-to-"tangible"-book stock price relationships are more important than in most industries. The trucks wear out from hauling freight and thereby producing revenue, so the reinvestment requirements of the business are high. You can't move freight with blue sky. Unfortunately, the market-to-book measure on an individual truck stock can be misleading. In the current market many of the companies with low market-to-book relationships are carriers on a long death march. Favorable market-to-book is a factor to be considered along with management and defensible niche.

The author has been investing in truck stocks for 25 years and even with that experience has more "shorts" than "longs" and no true long term holdings. Because trucking is such an "up and down" business and a small part of the total market, investors do not seem able to accurately apply otherwise valid measures of investment value to it.

Trucking is an industry that is just not well suited to public ownership. The largest trucker, and arguably best transportation company in the World, United Parcel Service, is owned by its managers. That is probably the right formula for all of trucking. Public market investors are well advised to steer clear of the Trucking Industry.

An updating note: This paper was written in January 1991. After the bombing began in the Iraq War the world stock markets rallied strongly. Trucking stocks were among the large gaining sectors. This brought truck stock prices to levels that are not sustainable without a very large increase in earnings. Yet earnings seem to be declining from 1990 levels. The $34,000 investment in the pre-deregulation truckers would be worth $82,926 based on the closing stock market prices of the survivors on June 30, 1991. This gain represents a compounded return of only 4.5% per annum over the 20.1 years of the investment.

On the same date the nineteen companies that went public after deregulation and raised $515.6 million in new equity capital had an aggregate market value of $458.8 million; 11.0% below their offering prices. On the average these companies have been public for 58 months. The investors have lost about $56.7 million in the total of the nineteen companies, only six of which were selling above their offering prices.

INVESTORS' BLOODBATH IN TRUCKING EXHIBIT I

THE DETERIORATED VALUATION OF TRUCKING COMPANY EQUITY SECURITIES

Companies Public Before Deregulation

Name of Trucking Company	Average Cost Per Share	Shares Purchase	Split Effects	Shares Owned Now	Price 12/31/90	Updated Current Total Market Value	Operational Status
Adley Corp.	4.25	235.3	1.0	235.3	$0.00	0.00	No Longer In Operation
Associated Transport	8.88	112.7	1.0	112.7	$0.00	0.00	No Longer In Operation
Branch Industries	7.88	127.0	1.0	127.0	$0.00	0.00	No Longer In Operation
Briggs Transportation-1972	8.50	117.6	1.0	117.6	$0.00	0.00	No Longer In Operation
Carolina Freight Carriers	10.50	95.2	4.0	381.0	$13.00	4,952.38	Still In Operation
Chemical Leaman Tank Lines	9.88	101.3	1.0	101.3	$12.00	1,215.19	Still In Operation
Coastal Industries-1971	13.00	76.9	1.0	76.9	$0.00	0.00	No Longer In Operation
Consolidated Freightways	24.88	40.2	6.0	241.2	$11.75	2,834.17	Still In Operation
Cooper Jarrett, Inc.	8.75	114.3	1.0	114.3	$0.00	0.00	No Longer In Operation
Eastern Freightways, Inc.	5.19	192.8	1.0	192.8	$0.00	0.00	No Longer In Operation
Eazor Express, Inc.	5.00	200.0	1.0	200.0	$0.00	0.00	No Longer In Operation
Expediter Systems, Inc.	5.75	173.9	1.0	173.9	$0.00	0.00	No Longer In Operation
Fisher & Brother-1971	5.00	200.0	1.0	200.0	$0.00	0.00	No Longer In Operation
Frozen Food Express-1971	15.00	66.7	4.0	266.7	$6.25	1,666.67	Still In Operation
Kenan Transport-1971	10.00	100.0	8.4	840.0	$9.75	8,190.00	Still In Operation
Mid-American Lines, Inc.	9.25	108.1	1.0	108.1	$0.00	0.00	No Longer In Operation
Murphy Motor Freight-1972	13.25	75.5	1.0	75.5	$0.00	0.00	No Longer In Operation
New Penn Motor Express-1972	14.00	71.4	7.5	535.7	$35.50	19,017.86	Still In Operation
Preston Trucking Co. Inc.	22.88	43.7	2.8	123.0	$8.50	1,045.08	Still In Operation
R T Systems, Inc.	9.63	103.9	1.0	103.9	$0.00	0.00	No Longer In Operation
Refrigerated Transport-1972	13.50	74.1	1.0	74.1	$0.00	0.00	Reorganized/Still In Operat
Republic Van Lines, Inc.	4.38	228.6	1.0	228.6	$0.00	0.00	No Longer In Operation
Roadway Express	26.25	38.1	8.3	317.0	$38.50	12,202.67	Still In Operation
Rocor International-1972	12.00	83.3	1.0	83.3	$0.00	0.00	Still In Operation
Schwerman Trucking-1966	5.63	177.8	1.0	177.8	$0.00	0.00	Reorganized/Still In Operat
Shippers Dispatch, Inc.	9.75	102.6	1.0	103.1	$8.50	876.15	Merged w/Preston
Specialized Services, Inc.	6.63	150.9	1.0	150.9	$0.00	0.00	No Longer In Operation
Telecom Corp.	6.13	163.3	1.0	163.3	$0.00	0.00	Truck Sub Bankrupt
Transcon Lines	11.50	87.0	1.0	87.0	$0.13	10.87	No Longer In Operation
United Buckingham Freight, Inc	6.13	163.3	1.0	163.3	$0.00	0.00	No Longer In Operation
Werner Continental, Inc.	6.63	150.9	1.0	150.9	$0.00	0.00	No Longer In Operation
Wilson Freight Co.	7.63	131.1	1.0	131.1	$0.00	0.00	No Longer In Operation
Yale Express System, Inc.	1.44	695.7	1.0	695.7	$0.00	0.00	No Longer In Operation
Yellow Freight System	24.25	41.2	8.0	329.9	$26.50	8,742.27	Still In Operation
Total-Investment and Current Value		$34,000				60,753.31	

INVESTORS' BLOODBATH IN TRUCKING — EXHIBIT II

THE DETERIORATED VALUATION OF TRUCKING COMPANY EQUITY SECURITIES

Companies Public Before Deregulation-Later Acquired-Updated

Name of Trucking Company	Financial Status
Arkansas Best Corp	Acquired/Still in Operation
Associated Truck Lines	Acquired/Still in Operation
Bekins Co	Acquired/Still in Operation
Be-Mac Transport	Acquired/Parent Liquidated
C W Transport, Inc.	Acquired/Liquidated
Containerfreight Corp.	Acquired/Vanished
Delta California Industries	Acquired/Liquidated
Garrett Freightlines, Inc.	Acquired/Still in Operation
Gateway Transportation	Acquired/Liquidated
Halls Motor Transit Co.	Acquired/Liquidated
Lee Way Motor Freight, Inc.	Acquired/Liquidated
Liquid Transporters	Acquired/Still in Operation
Lynden Transport, Inc.-1972	Acquired/Still in Operation
Mayflower Corp.-1976	Acquired/Still in Operation
McLean Trucking Co.	Acquired/Liquidated
Merchants, Inc.	Acquired/Still in Operation
Midwestern Distribution-1971	Acquired/Liquidated
National City Lines	Acquired/Liquidated
Navajo Freight Lines, Inc.	Acquired/Still in Operation
Overnite Transportation Co.	Acquired/Still in Operation
Pacific Intermountain Express	Acquired/Liquidated
Penn Yan Express-1972	Acquired/Liquidated
Smith's Transfer Corp.	Acquired/Liquidated
Spector Industries	Acquired/Liquidated
St. Johnsbury Trucking Co.	Acquired/Liquidated
Tri-State Motor Transit Co.	Acquired/Still in Operation
T.I.M.E.-DC, Inc.	Acquired/Liquidated
U. S. Truck Lines Inc.	Acquired/Liquidated

INVESTORS' BLOODBATH IN TRUCKING

THE DETERIORATED VALUATION OF TRUCKING COMPANY EQUITY SECURITIES

EXHIBIT III

TRUCKING COMPANY PUBLIC OFFERINGS AFTER DEREGULATION THAT REMAINED INDEPENDENT

Company	Date of Offering	Offering Price	Shares Sold	Total Amount	Broker Commission	12/31/90 Stk Price	Current Value	Profit or (Loss)	Percent Gain(Los
Arkansas Freightways	4-6-89	$12.00	1,320,000	$15,840,000	$1,577,400	$20.88	$27,555,000	$11,715,000	74.0%
American Carriers	5-22-86	$14.00	1,667,500	$23,345,000	$1,342,338	$0.00	$0	($23,345,000)	-100.0%
Brown Transport	12-12-86	$15.50	1,585,000	$24,567,500	$1,727,650	$0.00	$0	($24,567,500)	-100.0%
Builders Transport	10/83 & 2/	$14.11	4,200,000	$59,254,613	$3,438,719	$4.13	$17,325,000	($41,929,613)	-70.8%
Cannon Express	2-26-87	$5.00	690,000	$3,450,000	$345,000	$6.38	$4,398,750	$948,750	27.5%
Circle Express	11/85 & 6/	$8.31	3,018,000	$25,084,778	$1,689,382	$0.00	$0	($25,084,778)	-100.0%
Country Wide Transport	3-27-87	$15.00	2,200,000	$33,000,000	$2,310,000	$0.25	$550,000	($32,450,000)	-98.3%
Fisher Transportation	4-15-87	$6.00	1,100,000	$6,600,000	$550,000	$0.63	$687,500	($5,912,500)	-89.6%
Freymiller Trucking	4-15-87	$13.00	1,150,000	$14,950,000	$1,046,500	$5.25	$6,037,500	($8,912,500)	-59.6%
Heartland Express	11-5-86	$10.00	1,550,000	$15,500,000	$1,061,750	$20.50	$31,775,000	$16,275,000	105.0%
J B Hunt Transport	11/83 & 2/	$9.34	5,160,000	$48,190,000	$3,017,200	$17.50	$90,300,000	$42,110,000	87.4%
KLLM Transport	7-2-86	$15.75	1,380,000	$21,735,000	$1,531,800	$9.00	$12,420,000	($9,315,000)	-42.9%
MNX Inc.	7/86 & 3/8	$13.33	2,788,750	$37,187,378	$2,329,210	$3.75	$10,457,813	($26,729,565)	-71.9%
MS Carriers	4/86 & 3/8	$10.97	3,400,000	$37,287,500	$2,386,000	$18.00	$61,200,000	$23,912,500	64.1%
Marten Transport	9-25-86	$13.00	1,115,610	$14,502,930	$1,015,205	$4.50	$5,020,245	($9,482,685)	-65.4%
Overland Express	5-5-83	$17.00	880,000	$14,960,000	$1,082,400	$0.00	$0	($14,960,000)	-100.0%
P.A.M. Transport	9-10-86	$11.25	1,725,000	$19,406,250	$1,362,750	$0.53	$916,406	($18,489,844)	-95.3%
Swift Transportation	5/90	$12.50	1,650,000	$20,625,000		$9.63	$15,881,250	($4,743,750)	-23.0%
Werner Enterprises	6/86 & 4/8	$18.63	4,300,000	$80,100,000	$4,777,000	$17.00	$73,100,000	($7,000,000)	-8.7%
		$12.61	40,879,860	515,585,948	32,590,303	$7.26	357,624,464	(157,961,484)	-30.6%