Waiting for Trucking Markets to Turn

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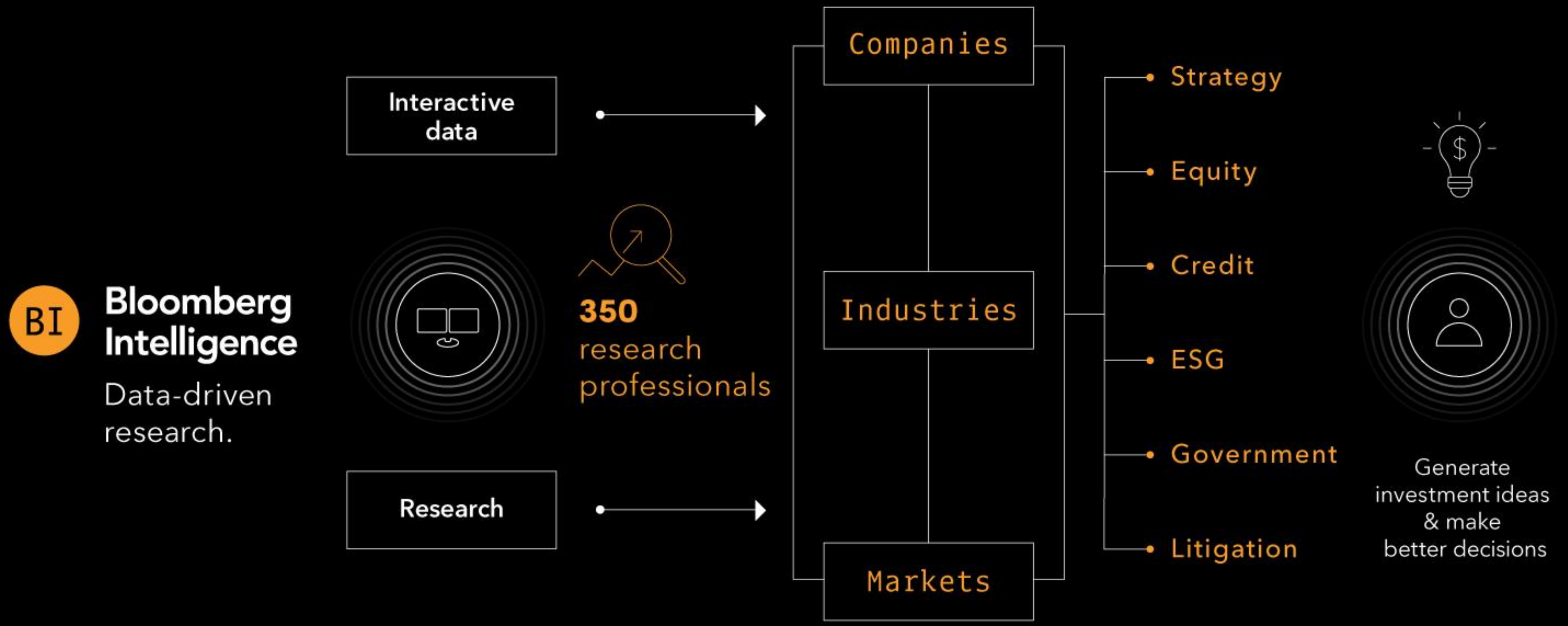

Freight Markets and Economic Outlook

JOC Inland Distribution Conference 2024

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Today's Speaker

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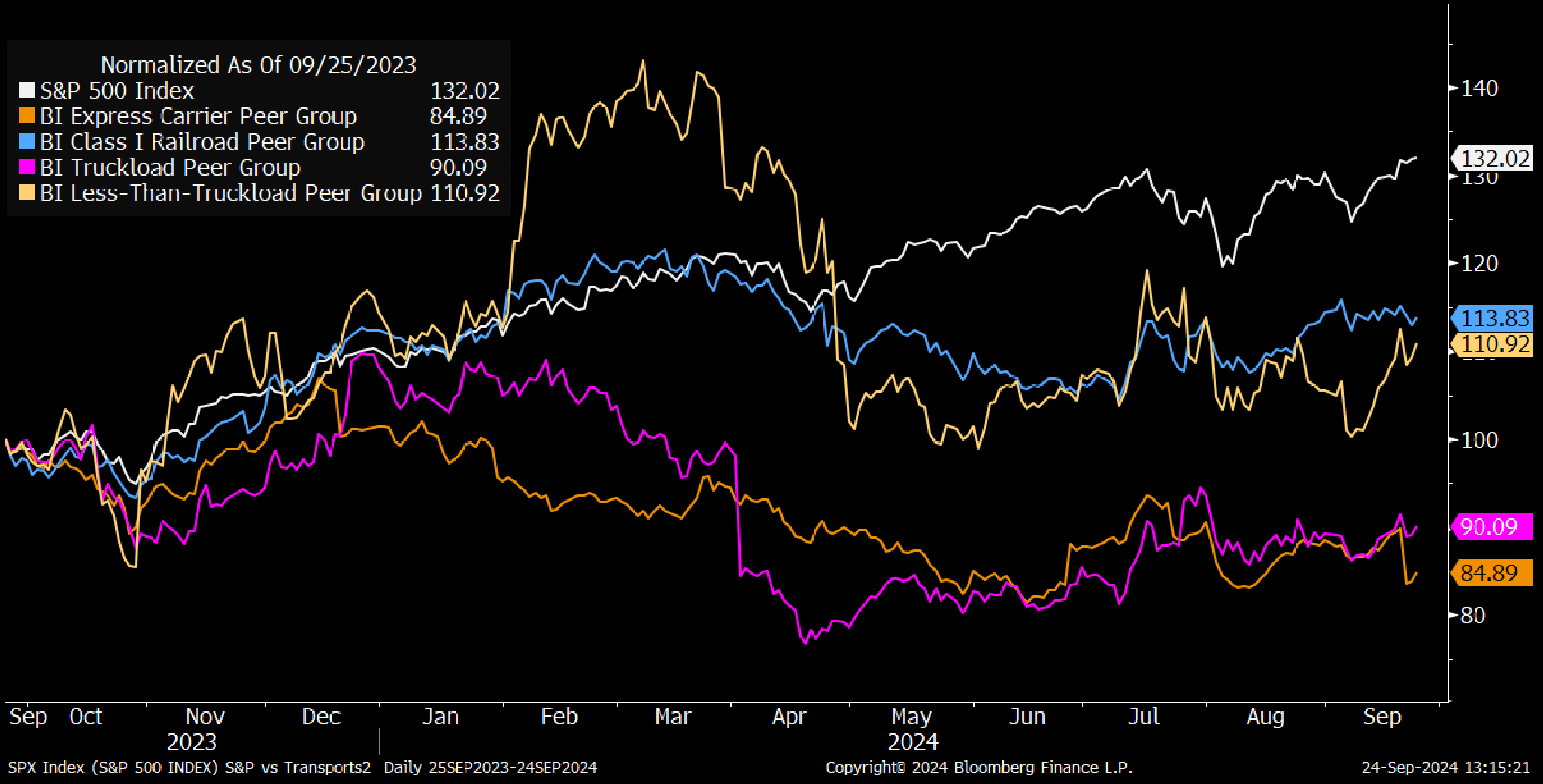
Freight Transportation Peer Groups Are Underperforming the Broader Market Over the Last 12 Months

- Freight transportation and logistics shares face headwinds from moderating economic demand and normalizing rates.
- U.S. railroads leading the Class I higher on self help initiatives at Norfolk Southern and Union Pacific.
- The boost less-than-truckload carriers received from Yellow ceasing operations is getting overshadowed by a weaker demand backdrop.
- The group has underperformed the broader market (+20.1%) year-to-date
    - BI Railroads (+1.4%)
    - BI LTL (-3.0%)
    - BI Express Carriers (-16.3%)
    - BI Truckload (-16.7%)



Source: Bloomberg L.P.

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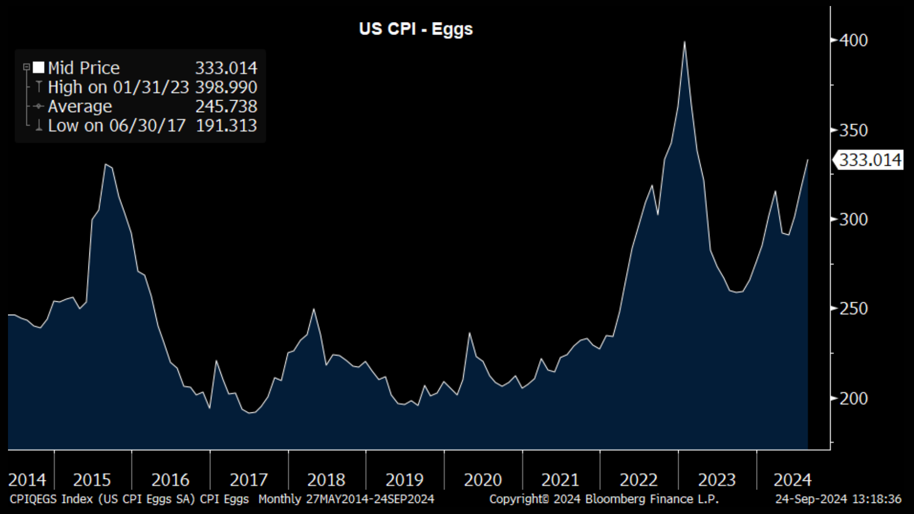
Challenges Abound



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Source: Bureau of Labor Statistics, AAA, Bankrate.com, bloomberg.com, Bloomberg L.P.

Number of Factors Weighing on Economic Growth, Freight Demand

Indicator	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Economic Activity										
Real GDP (YoY%)	2.5	3.0	2.5	-2.2	5.8	1.9	2.5	2.5	1.7	2.0
Consumer Spending …	2.6	2.7	2.0	-2.5	8.4	2.5	2.2	2.2	1.8	2.0
Government Spendin…	0.6	2.0	3.9	3.2	-0.3	-0.9	4.1	3.0	1.3	1.2
Private Investment …	4.4	5.8	3.1	-4.7	8.7	4.8	-1.2	4.0	2.8	3.3
Exports (YoY%)	4.1	2.9	0.5	-13.1	6.3	7.0	2.6	2.2	2.6	3.1
Imports (YoY%)	4.7	4.0	1.2	-9.0	14.5	8.6	-1.7	3.7	2.6	2.8
Industrial Production (Yo…	1.3	3.2	-0.7	-7.1	4.7	3.5	0.2	0.3	1.5	1.7
Price Indices										
CPI (YoY%)	2.1	2.5	1.8	1.2	4.7	8.0	4.1	2.9	2.3	2.3
PCE Price Index (YoY%)	1.8	2.1	1.4	1.1	4.2	6.5	3.8	2.5	2.1	2.1
Core PCE (yoy%)	1.6	1.9	1.7	1.3	3.6	5.2	4.1	2.7	2.2	2.1
Housing Market										
Housing Starts (000s SAA…			1292	1394	1605	1552	1421	1360	1430	1476
New Home Sales (000s S…			685	831	770	637	666	657	714	736
Existing Home Sales (Mln…			5.0	6.0	6.0	5.0	4.0	4.1	4.4	4.8
Building Permits (000s S…			1387	1478	1738	1682	1518	1468	1500	1568

Economic growth, higher fuel costs, tight labor markets and supply chain constraints has created inflationary pressures not seen since the 1980s.

Headline CPI rose 2.5% in August, moderating from 9.1% in June 2022.

The ISM Manufacturing Index has been in contracting territory in 21 of the last 22 months.

The Fed cut rates by 50 bps which could provide upside to GDP if the labor market hold up.

Geopolitical and black swan events are the biggest risks to economic recovery.

Global trade faces challenges from China's sputtering economy.

The inventory destocking cycle appears near the end in the US. `

A return to seasonality a welcome sign as demand patterns normalize.

Source: Consensus Estimates, Bloomberg L.P.

Earnings Growth May Not Be Broad Based Until 2025 For Freight Carriers

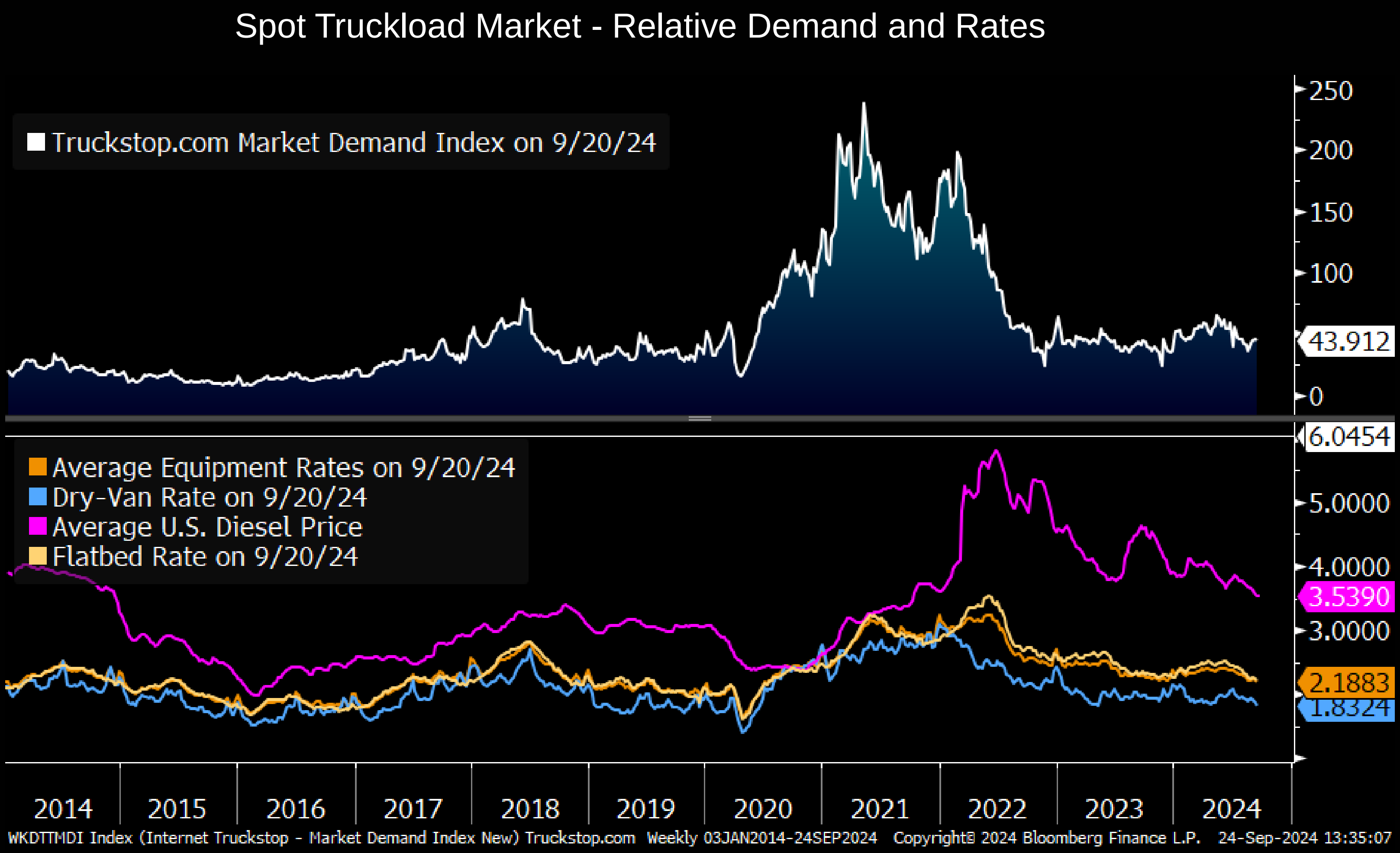
	2023 Revenue Growth	2023 EPS Growth	2024 Revenue Growth	2024 EPS Growth	2025E Revenue Growth	2025E EPS Growth
North American Class I Railroads	-3.0%	-5.1%	1.4%	4.2%	5.1%	13.2%
North American Truckload Carriers	-9.9%	-48.0%	-5.6%	-37.0%	7.2%	73.0%
North American Less-Than-Truckload Carriers	-6.3%	-17.3%	4.9%	4.9%	7.6%	25.8%
Global Integrated Logistics Providers	-7.9%	-18.2%	0.5%	-9.6%	3.9%	25.4%

Key drivers for revenue and earnings growth in 2024:

- Rails – Intermodal could lead volumes higher as the industry makes more progress related to reliability and service. Rate increases offset inflationary pressures coupled with improved fluidity
- Truckload – Slack capacity limits meaningful rate increases until late 2024 when the demand picture could improve. Earnings growth may return in 2025.
- Less-Than-Truckload – Pricing remains strong, tonnage growth comparisons become more challenging following July's anniversary of Yellow bankruptcy.
- Parcel Carriers – Aligning resources, rate-driven margin gains, technology-fueled productivity gains, B2B recovery

Source: Consensus Estimates, Bloomberg L.P.

Spot Rates Bouncing Along the Bottom



Source: Truckstop, Bloomberg Intelligence

The North America spot trucking market has had slack capacity since the extremely tight conditions in 2021.

Truckstop's Market Demand Index (MDI), posted its first year-over-year gain quarter-to-date in 1Q after seven quarters of declines.

Capacity has been slow to leave the market and has delayed any significant increase spot rates.

We expect spot rates could slowly improve into the end of the year, which could set up a more constructive contract rates in 2025.

Spot truckload rates excluding fuel surcharges are down 1.7% on average in 2024 after falling 17% and 12% in 2023 and 2022, respectively. They are currently 5.5% higher compared to last year.

Average 2024 spot rates by equipment type:
Reefer (+1.5%)
Dry-van (+0.7%)
Flatbed (-2.9%)
Specialized (-4.0%)

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Contract Truckload Market In Better Shape Than Spot

The weaker spot market has put pressure on contractual rates.

Truckload contractual rates decreased 7.6% on average in 2024 based on DAT data. Dry-van (-8.9%) are down the most, followed by flatbed (-7.6%) and reefer (-6.5%).

Higher contract-rates may have to wait until next year as spot capacity slowly exits the market.

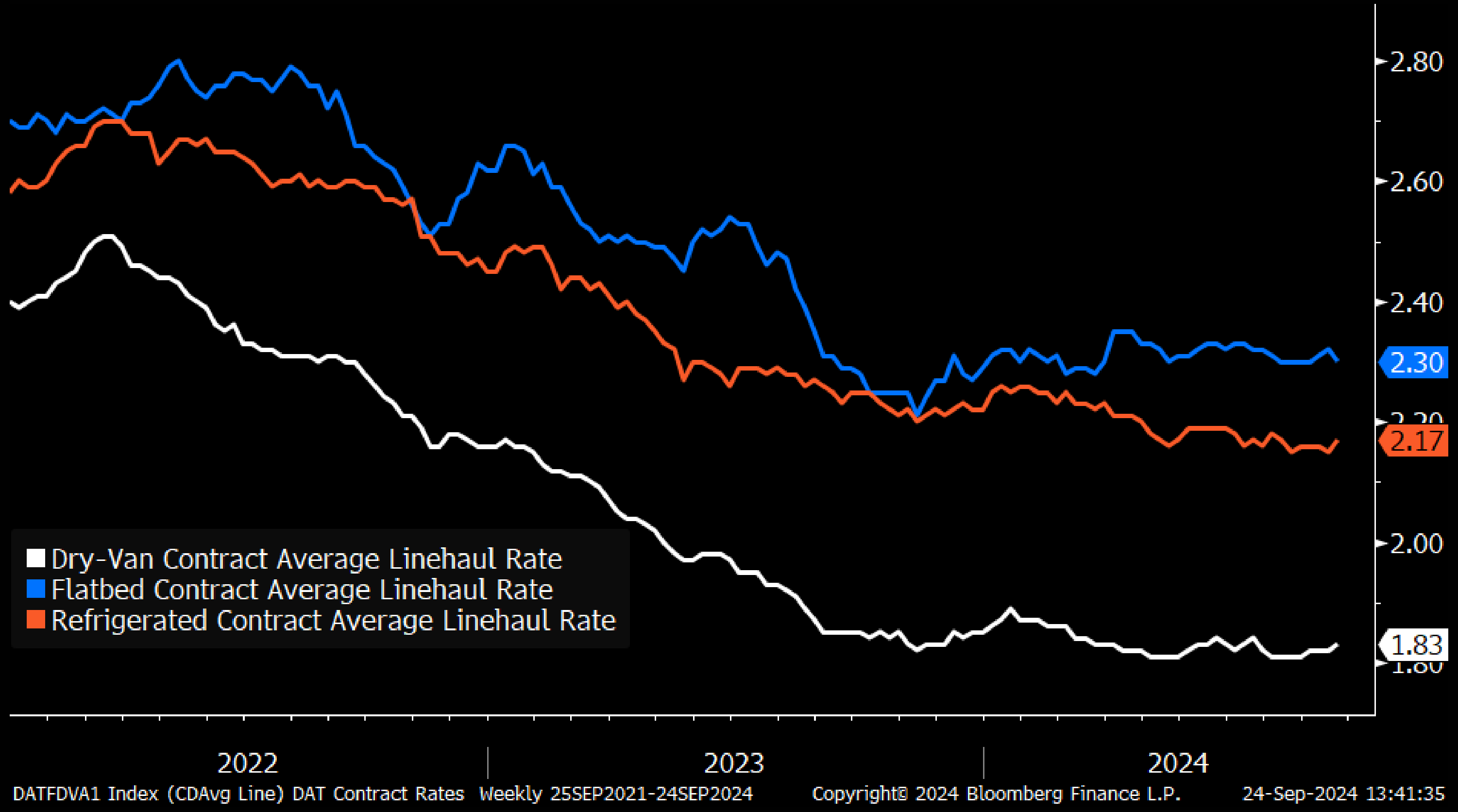
Tighter spot conditions, an end to destocking and a return to normalized demand patterns will be key for contract rate strength.

Contract rates will not be as volatile as the spot market, which is in the process of rebalancing.

Average spot-contract spreads narrowed a steep 21% since last year as of September 22 based on DAT data.

Contractual rates tend to lag behind the spot market by 6-9 months.

Revenue per Mile Excluding Fuel Surcharge ($)



Source: DAT, TruckloadRate.com, Bloomberg Intelligence

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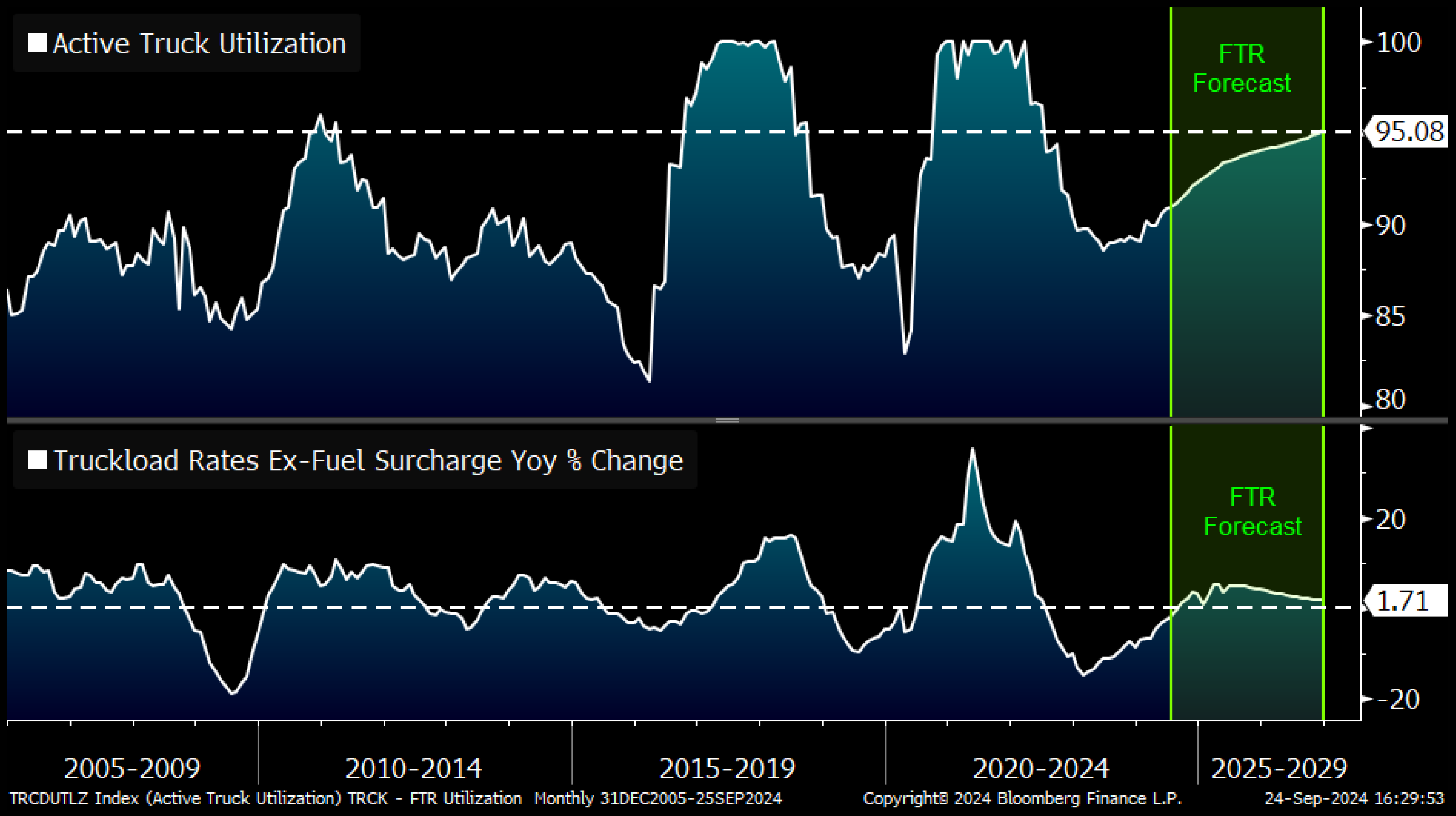
Utilization Rates Moving in the Right Direction

Truck Utilization Rates and Truckload Rates



Active Truck utilization rates were 90.9% in July, according to FTR data, having edged higher since bottoming at 88.6% in June 2023.

Any meaningful improvement may come from the supply side, given demand is likely to grow only by low-single digits.

FTR forecasts average utilization rates of 92.3% by December and 94% by the end of 2025 -- above the 20-year average of 91.1%.

This could bode well for spot and contractual rates next year.

Contract rates excluding fuel surcharges may inflect positive in 2025 by mid single digits next year.

Source: FTR, Bloomberg Intelligence

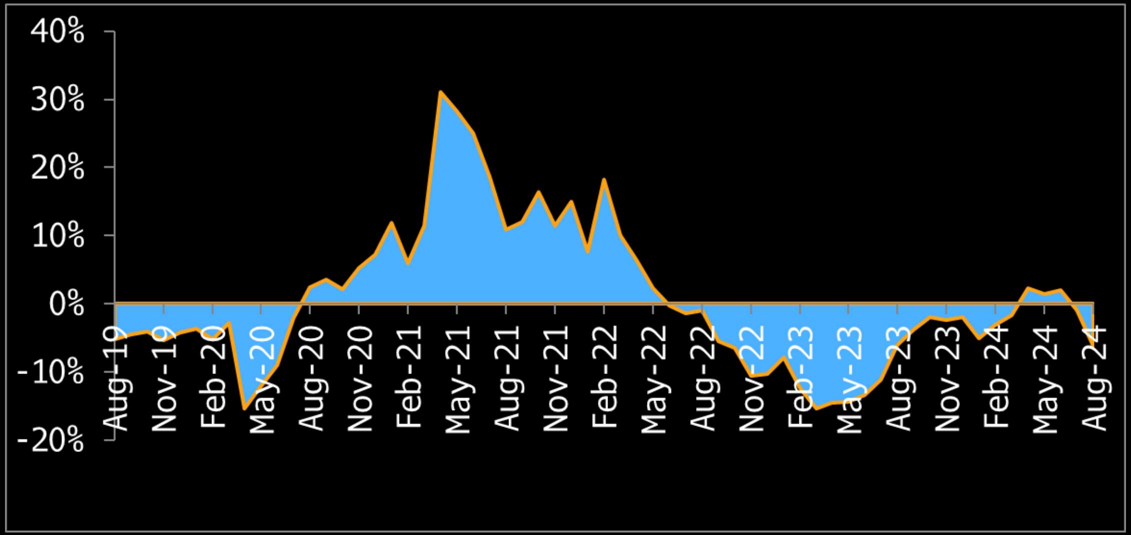
LTL Disciplined Through the Cycle

Less-than-truckload (LTL) carriers surpassed earnings expectations in 2Q, with median EPS for the BI North America LTL peer group 1.8% above consensus.

Looking ahead, the industry now faces challenging volume comparisons from the anniversary of Yellow's bankruptcy. Continued disciplined pricing and efficiency gains could help support LTL carriers' earnings amid challenging environment.

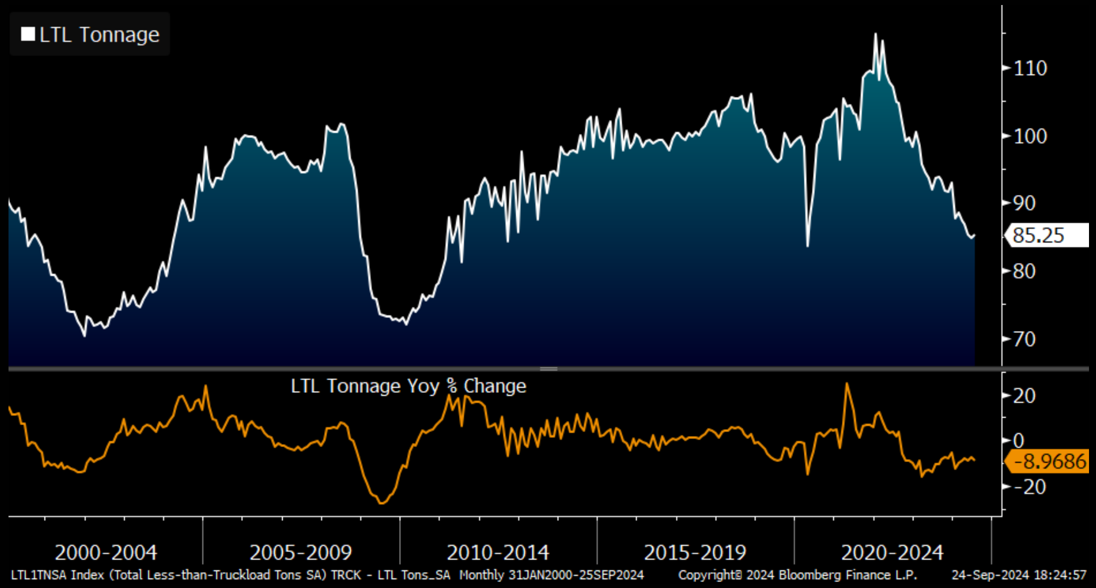
Consensus expects adjusted 3Q EPS to increase year-over-year for only two of the five carriers in the peer group.

Old Dominion’s Monthly Tonnage Growth (%)



Source: American Trucking Associations, Bloomberg Intelligence

ATA Seasonally Adjusted Tonnage



Old Dominion’s August Statistics:

- Shipments -5.0%
- Tonnage -6.1%
- Revenue per Hundredweight Ex-FSC +3.8%

XPO’s August Statistics:

- Shipments -4.5%
- Tonnage -4.6%

Saia’s August Statistics:

- Shipments +7.0%
- Tonnage +8.2%

ArcBest’s August Statistics:

- Shipments -7.0%
- Revenue per Day -10%

Apple

Spotify

Thank you

Contact the Bloomberg Intelligence Analyst

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Let's connect!!

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