

## Industrial Research

November 19, 2015

# Transportation & Logistics

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Please refer to Appendix – Important Disclosures and Analyst Certification



# A Trusted Equity Capital Markets Partner

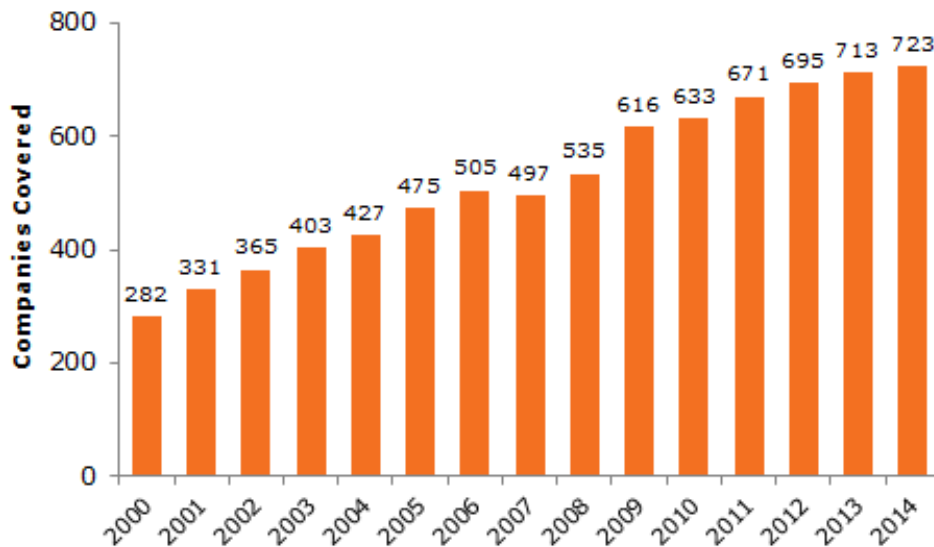
BAIRD

## Quality

- No. 1 "Overall Sales Quality"<sup>1</sup>
- Fortune's "100 Best Companies to Work For" 12 years in a row

## Commitment

- Coverage has grown 35%, with the addition of nearly 200 new companies, since the beginning of 2009
- Baird expanded coverage by more than 250% since 2000



## Premiere Corporate Access

- More than 500 non-deal roadshows hosted in 2014
- More than 9,700 one-on-one meetings arranged with companies and institutional clients
- Highly ranked annual conferences<sup>1</sup>

<sup>1</sup>Greenwich Associates U.S. Equity Investors – Small/Mid-Cap Funds, May 2014. Survey conducted with 98 U.S. small- and mid-cap managers. Rankings for qualitative metrics are based on leading research firms in survey.

# Current Thoughts

## As of November 19



**4QTD performance.** The Dow Jones Transportation Average (DJT) has modestly underperformed the S&P 500 4QTD (-3% relative) after underperforming by 9% during the first nine months of 2015. All told, we still see few reasons to become more aggressive with the group.

### Two key takeaways from our recent Industrial Conference:

- **Pricing growth decelerating in 2016 – but the degree to which remains unknown.** Consensus truckload carriers' core contractual pricing growth outlooks at the conference seem to be settling at +2-4% (+1-5% yoy from HTLD; +2-4% yoy from **JBHT**, **KNX**, and **WERN**; +3% yoy from **SWFT**). Core pricing growth will undoubtedly decelerate in 2016 from 2015's +4-5% yoy range, though the magnitude of the deceleration depends on the strength of 4Q15's peak season and the passage of an ELD mandate. As it stands, we see 2016's pricing growth outlook as overly optimistic and believe +2% yoy core pricing growth is a reasonable 2016 target -- even assuming the ELD mandate is passed during 4Q15. However, without an ELD mandate, or if demand is weaker than expected (more on that below), we see risk of flat/down core pricing growth during 2016.
- **2015's "peak" is slow to build, but carriers remain hopeful.** Demand has improved sequentially in 4Q through the first week of November for conference attendees (with **WERN** noting a shift from being under booked three weeks ago to over booked now and **HTLD** expecting "good" freight volumes for the rest of 2015), though September and October were slightly below expectations. Carriers continue to expect a compressed (mid-November to December 20) peak in 2015, but 2015's peak to date has been weak given tepid retail demand in 2H15, high inventory-to-sales levels, and the continued development of the B2C channel.

### Group positioning into year-end:

1. We view **FWRD** (O, \$55 PT) to be attractive in 2016 and are buyers at current levels. In the face of weaker-than-expected freight demand during 2015 and decelerating industry pricing growth, we see FWRD's company-specific catalyst (early 2015 acquisition of Towne) as providing the basis of accelerating EPS growth in 2016.
2. We like Truckload during 4Q15 (continue to prefer **SWFT**) given potential catalysts (seasonal demand improvement beginning mid-November, potential ELD mandate during the quarter) and against low investor sentiment.
3. Trim **HUBG** (O, \$42 PT) after YTD outperformance (+3% vs. Russell 2000) and into potential domestic intermodal headwinds in 2016.
4. We still see few near-term catalysts for the rails despite the group's pullback both 4QTD and YTD, given continued weakness in volume growth in early 4Q15, the previously discussed risk to continued USD strength, and our expectation for decelerating core pricing growth in 2016. We do continue to prefer Eastern US rails (specifically **CSX**) over **UNP**.

**Remain patient with the group into mid-2016** given decelerating pricing growth and weak end-market demand, but look for structural opportunities with certain names: Neutral-rated **KNX** (near \$25), **JBHT** (low \$70s), **EXPD** (near \$47), and **ODFL** (near \$60).

# Sector-Specific Themes

## Leasing & Fleet Outsourcing:

- Continue to like **R** structurally. Concerns about Ryder's cyclical sensitivity (introduced in 3Q15's miss) likely remain a near-term overhang, and 2016 EPS estimates are too high. However, we believe Ryder's emerging transportation outsourcing opportunity can support 10-15% annual EPS growth, improved FCF/ROC characteristics, and a higher valuation multiple relative to previous cycles.

## Truckload/Domestic Intermodal:

- Core pricing growth has remained solid (+3.5% yoy), however, pricing is meeting -- not exceeding -- expectations and is beginning to decelerate. Demand weakness and decelerating core contractual truckload pricing growth into 2016 remain risks to the group, we expect truckload stocks broadly to bounce in 4Q15 given: 1) very low investor sentiment, 2) expected seasonal improvement in demand during 4Q15, and 3) a possible ELD mandate at October-end, which provide near-term catalysts to truckload carriers during 4Q15.
- Continue to favor Outperform-rated **SWFT** as the most attractive risk/reward in the truckload space, but look to trim into strength near our \$20 price target.
- Interested in Neutral-rated **KNX** near \$25 as a high-quality and structural consolidator in the space.
- More disciplined buyers of **HUBG** as it nears our \$42 price target; we look for pullbacks to become structural buyers of high-quality, Neutral-rated **JBHT** in the low \$70s.

## Integrators:

- We continue to favor **FDX** over **UPS**, given the expected continued improvement of FDX's Express EBIT margins and the resulting improvement in its ROC/FCF profile this cycle. That said, we've become more patient buyers of FDX into risk of US industrial activity and global trade volumes weakening further; and we believe UPS' 2H15 trading opportunity has been realized.

## Rails:

- Volume declines to begin 4Q15 continue to worsen from 3Q15 (overall rail volumes -4.8% yoy 4QTD through Week 45), and strengthening in the USD since mid-October (see [August Freight Flows](#) for a detailed discussion of risk presented by USD strength) provides incremental risk to industrial end-market volumes (which have been below seasonal to begin 4Q15). We continue to prefer **CSX** to **NSC** given more attractive valuation, and we see both the Eastern US rails as relatively better positioned into 2016 than **UNP**.
- 2016 appears to present continued challenges (soft US industrial production, potential for decelerating core pricing growth, and slower-than-expected service improvements), and we remain focused on evidence of the next period of ROA/EBIT margin improvement before becoming more constructive on the group.

# Sector-Specific Themes

## International freight forwarders:

- Forwarding yield improvement has been healthy during 2015, given a 1Q15 yield tailwind from the US West Coast port disruptions and softer-than-expected industry demand and underlying buy rates during 2Q15 and 3Q15. However, we see continued underlying freight softness and lower buy rates (particularly within the ocean freight market) as creating the basis for a competitive bid environment in 2016 -- one in which industry yields are down on a year-over-year basis. Additionally, our structural positioning is unchanged on these names and pure non-asset-based models in general, as we continue to see structural yield (gross profit per unit) compression risk given: 1) increased supply chain visibility, 2) new technology enabling greater transaction automation, and 3) increased competition this cycle among brokers/forwarders with scale.
- We believe Neutral-rated **EXPD**'s operating model remains best in class, and the company is taking share in the current environment; however, lingering concerns about muted underlying demand trends, structural forwarding industry yield pressure, and tough comparisons during 4Q15 leave us Neutral-rated. Trim positions near our \$52 price target, but interested as a contrarian idea near \$47.

## Domestic brokers:

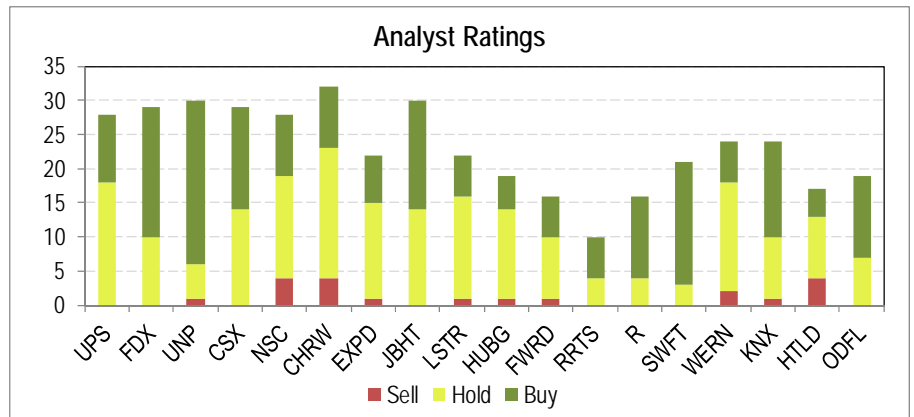
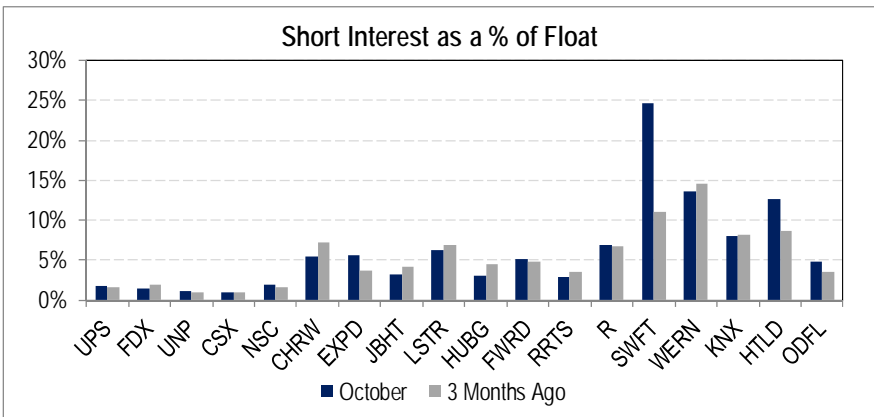
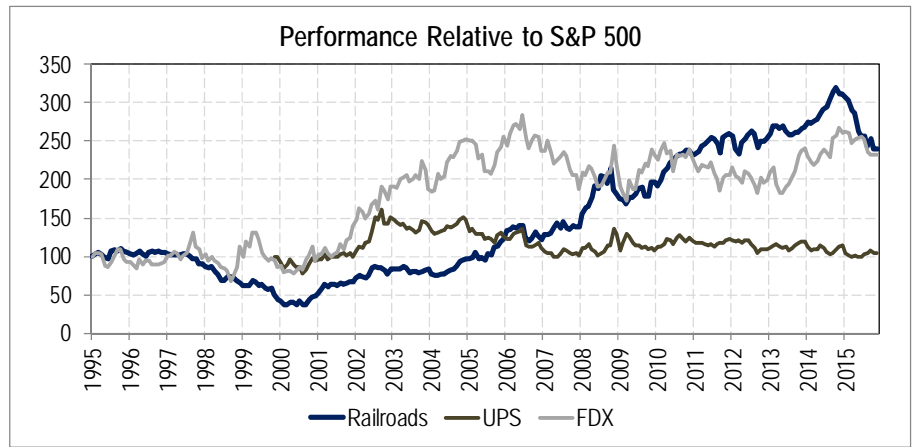
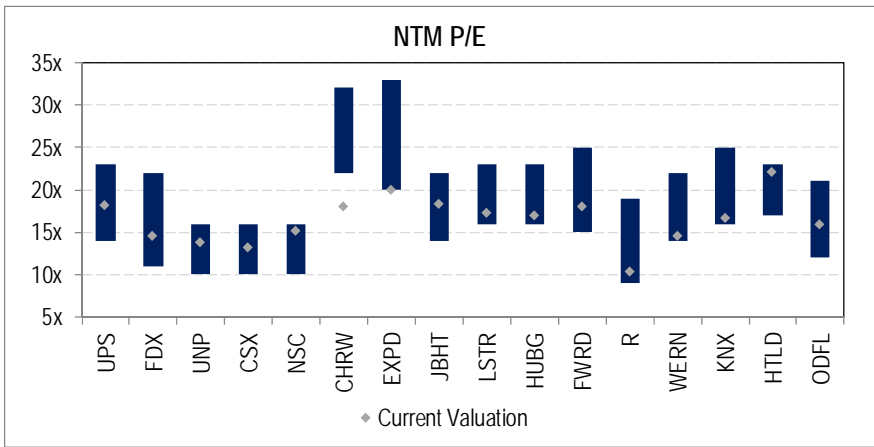
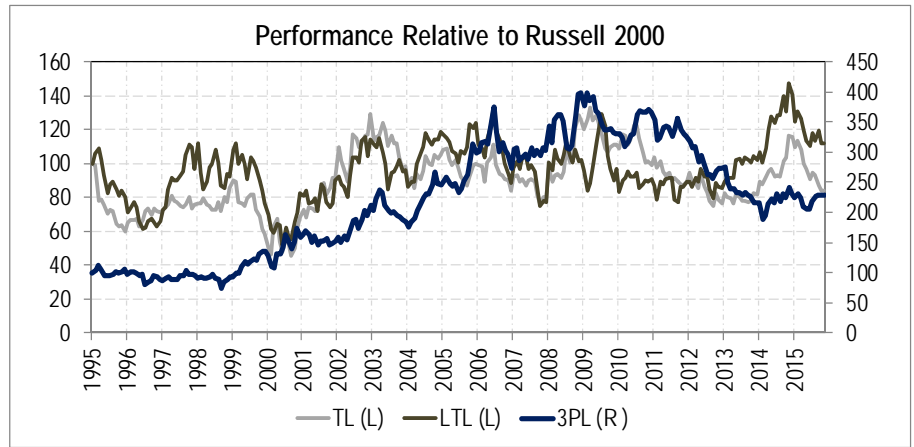
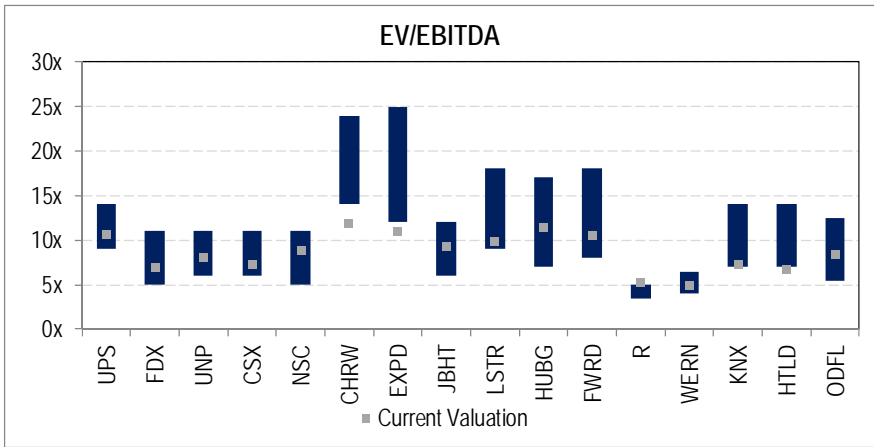
- Given our view that 2015's gross margin tailwinds will subside in 2016, we see 3PLs broadly set to underperform asset-based transports through the balance of 4Q15. That being said, we believe accelerating EPS growth in 2016 for Outperform-rated **FWRD** in the face of broader macroeconomic challenges and decelerating industry pricing growth presents the primary catalyst to FWRD during 2016; and the potential for a \$3.00+ EPS run-rate (which would reflect \$0.40+ in Towne accretion and a ~16% Forward Air Core EBIT margin) to be discounted during 2016 could support a stock near \$60 over the next 12 months.

## LTLs:

- **ODFL** faces few near-term catalysts as we expect core LTL pricing growth to decelerate toward +2% yoy in 2016 given recent underlying LTL demand softness, and risk to our estimates exists if US industrial end markets deteriorate further. **CNW** recently agreed to be acquired by XPO Logistics for \$47.60/share, representing ~5.8x EV/trailing EBITDA – a multiple below ~6.5-7x paid for other LTL carriers of scale in recent years.

## Mergers & Acquisitions

- Potential acquisition targets: HUBG, NSC
- Acquirers: international logistics, ocean liners, private equity, CHRW, FDX, FWRD, HUBG, KNX, R, RRTS, UPS



**Transportation and Logistics**

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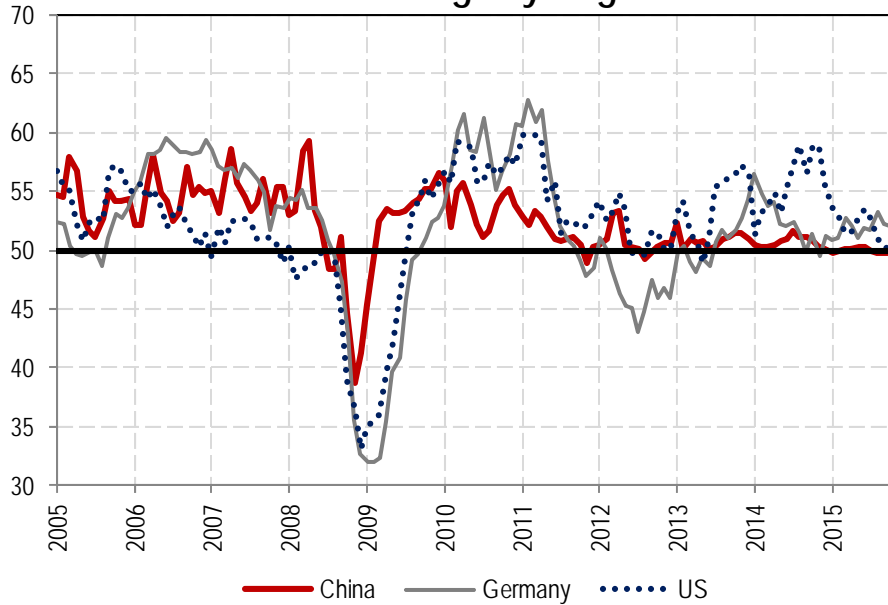
Zax Rosenberg, CFA (312.609.5436) zrosenberg@rwbaird.com

	Domestic Freight Trends										International Freight Trends									
	Overall Freight		Truck Freight			Railroad Freight					Ocean (Inbound)		Ocean (Total Loaded)		International Airfreight					
	Baird Freight Index	Baird F-W ISM	Cass Freight Index	ATA	Carloads	Intermodal				U.S. Inbound (Baird)	LA/Long Beach	LA/Long Beach	Baird Asia Index	Regions						
						Total	Dom	IMC	Dom					Int'l	Total	North America	Asia	Europe	HK Exports	
J-12	3.2%	52.2	1.8%	3.6%	7.3%	9.4%	14.6%	12.4%	3.6%	3.8%	0.8%	0.4%	1.2%	-8.1%	-6.8%	-13.7%	-9.1%	-19.7%		
F-12	3.6%	52.2	5.1%	3.5%	0.1%	1.7%	19.0%	15.2%	2.2%	-5.0%	-12.5%	-6.6%	15.8%	5.1%	-2.4%	7.8%	-1.8%	-8.7%		
M-12	2.2%	53.0	3.8%	-1.3%	-1.9%	2.4%	10.7%	7.4%	4.6%	10.3%	12.8%	8.7%	8.4%	0.1%	-2.8%	-4.5%	-2.7%	56.0%		
A-12	2.7%	53.8	3.3%	0.2%	-5.8%	3.5%	9.3%	5.7%	3.4%	4.5%	2.6%	1.3%	4.9%	-4.5%	-6.1%	-7.6%	-6.0%	-11.7%		
M-12	2.4%	50.1	5.2%	2.2%	-5.5%	3.6%	15.8%	12.5%	5.9%	4.3%	-2.4%	-1.6%	7.1%	-2.2%	-1.9%	-5.3%	-6.4%	-2.3%		
J-12	2.3%	48.2	2.9%	-1.3%	-2.8%	3.5%	11.7%	8.6%	4.4%	7.3%	4.9%	5.3%	6.3%	1.1%	1.3%	-0.8%	-1.4%	-4.9%		
J-12	1.4%	51.2	4.5%	1.8%	-1.3%	5.2%	12.8%	9.1%	6.4%	4.5%	-2.3%	-1.8%	2.7%	-3.3%	-2.2%	-5.1%	-3.7%	-0.1%		
A-12	1.6%	51.0	4.1%	-1.1%	-0.7%	5.6%	14.8%	11.6%	2.6%	3.8%	-1.2%	-2.1%	2.2%	-1.3%	1.1%	-4.4%	-1.4%	0.7%		
S-12	1.6%	51.0	1.8%	-3.8%	-1.4%	4.3%	7.0%	4.2%	-4.1%	2.1%	2.3%	0.7%	8.3%	0.5%	-1.2%	-0.6%	-1.6%	6.9%		
O-12	1.1%	51.7	-2.1%	5.4%	-3.7%	2.5%	14.2%	11.2%	7.7%	2.7%	5.3%	3.7%	4.4%	-3.8%	-6.4%	-5.8%	-4.4%	2.6%		
N-12	2.2%	49.1	1.5%	3.5%	-6.1%	1.5%	11.5%	8.8%	-1.1%	-0.7%	-3.3%	-4.8%	5.6%	1.4%	-1.5%	0.9%	-0.7%	22.8%		
D-12	2.8%	47.8	-2.1%	1.4%	-4.0%	1.2%	5.2%	2.2%	-7.0%	6.1%	4.5%	0.3%	1.2%	-0.3%	-4.1%	-2.0%	-1.6%	-14.7%		
J-13	1.8%	52.3	3.6%	-2.5%	-4.2%	1.7%	19.9%	14.3%	8.8%	1.4%	4.4%	3.0%	9.9%	5.0%	-1.0%	4.3%	0.8%	-16.4%		
F-13	2.0%	54.6	2.5%	0.5%	-6.3%	5.3%	7.0%	3.1%	6.7%	18.3%	34.1%	22.5%	-0.6%	-6.2%	-4.3%	-13.2%	-5.1%	-30.6%		
M-13	1.9%	50.9	2.9%	4.2%	-1.1%	10.5%	5.5%	2.4%	-6.5%	-10.3%	-17.2%	-13.2%	4.7%	-2.1%	-1.6%	-3.1%	-3.0%	57.6%		
A-13	2.0%	50.0	3.8%	-1.3%	-0.5%	0.5%	11.5%	8.3%	1.0%	-0.7%	-1.1%	-1.7%	5.1%	1.2%	-5.3%	-0.8%	1.7%	6.1%		
M-13	2.1%	48.8	6.5%	-0.3%	-0.4%	1.6%	11.7%	8.5%	1.2%	1.5%	1.8%	-0.1%	3.2%	0.8%	-4.1%	0.5%	1.5%	-4.4%		
J-13	2.3%	52.0	5.9%	-1.5%	0.7%	3.0%	5.4%	2.7%	-6.0%	-1.7%	-2.5%	-4.4%	4.7%	1.2%	-3.6%	-2.2%	3.2%	-0.3%		
J-13	2.1%	56.0	4.5%	-3.1%	-0.3%	1.3%	12.5%	10.0%	0.7%	0.9%	5.1%	3.5%	6.4%	0.7%	-6.8%	-2.6%	2.9%	4.4%		
A-13	2.7%	55.0	6.9%	-0.4%	-0.5%	2.5%	8.9%	6.5%	0.6%	5.3%	7.5%	7.2%	7.1%	3.7%	-4.9%	0.3%	4.0%	-3.4%		
S-13	2.4%	56.3	8.6%	0.1%	0.4%	4.4%	8.9%	6.6%	6.1%	3.1%	4.4%	2.8%	2.7%	0.5%	-4.2%	-2.1%	2.5%	0.4%		
O-13	2.7%	56.7	11.1%	-2.0%	0.6%	4.3%	11.3%	9.3%	2.6%	6.8%	0.4%	0.1%	5.5%	3.9%	5.2%	2.1%	5.4%	-3.8%		
N-13	2.1%	56.7	10.7%	1.1%	1.5%	6.8%	8.0%	5.9%	6.0%	5.5%	12.7%	14.1%	7.0%	6.7%	7.5%	5.4%	9.1%	15.1%		
D-13	0.8%	54.6	6.8%	-3.2%	1.3%	7.8%	10.7%	9.2%	9.6%	1.8%	3.6%	6.7%	5.9%	1.6%	2.4%	0.7%	2.4%	-15.5%		
J-14	0.2%	49.4	0.9%	-2.0%	-0.9%	8.0%	2.7%	3.1%	-2.2%	4.1%	4.6%	3.0%	4.9%	5.2%	4.8%	3.9%	6.8%	-3.6%		
F-14	0.3%	50.4	3.4%	-0.4%	0.4%	1.3%	4.5%	5.2%	-1.3%	-3.4%	-6.9%	-5.0%	5.6%	2.8%	2.6%	-0.3%	6.2%	-46.9%		
M-14	1.6%	54.2	3.0%	0.4%	-1.1%	1.1%	5.4%	6.2%	8.8%	16.5%	20.7%	16.4%	6.2%	6.7%	5.1%	6.7%	6.7%	103.2%		
A-14	1.9%	54.4	4.1%	5.5%	3.5%	9.9%	9.4%	9.4%	11.7%	8.7%	11.6%	10.1%	7.3%	3.1%	10.0%	4.7%	1.0%	-5.0%		
M-14	2.1%	54.1	3.0%	3.6%	6.4%	9.0%	6.0%	5.8%	3.9%	6.4%	5.1%	3.8%	4.7%	5.1%	10.6%	4.7%	5.2%	-1.4%		
J-14	2.4%	56.5	2.1%	6.0%	6.1%	8.0%	7.4%	6.7%	9.3%	10.1%	12.9%	11.0%	6.8%	2.3%	10.7%	4.7%	-1.2%	-2.9%		
J-14	3.1%	54.9	4.2%	4.2%	3.6%	6.7%	8.8%	8.1%	7.5%	5.5%	-0.7%	-0.7%	3.3%	5.8%	21.1%	6.4%	1.0%	2.8%		
A-14	2.9%	58.3	4.5%	4.9%	6.3%	5.5%	2.2%	1.6%	0.9%	1.7%	0.1%	-1.7%	5.8%	5.1%	16.8%	6.2%	1.3%	-3.1%		
S-14	2.9%	58.1	2.9%	0.7%	2.9%	4.3%	8.7%	7.9%	6.0%	10.2%	10.6%	5.8%	4.8%	5.2%	15.8%	5.3%	-3.3%	0.8%		
O-14	2.6%	58.7	4.5%	3.3%	2.7%	4.5%	4.0%	3.5%	3.5%	8.6%	5.7%	0.5%	7.8%	5.4%	12.8%	6.4%	1.5%	12.0%		
N-14	3.2%	58.0	4.5%	4.2%	4.4%	4.9%	0.1%	-0.3%	-3.7%	2.2%	-1.8%	-6.4%	5.8%	4.2%	7.4%	5.6%	0.3%	19.2%		
D-14	4.0%	51.7	5.2%	4.0%	1.4%	2.7%	10.7%	9.3%	6.3%	10.1%	-0.1%	-4.0%	7.0%	4.9%	10.0%	6.5%	1.5%	-20.6%		
J-15	4.0%	53.8	9.4%	2.7%	8.9%	3.7%	6.4%	5.0%	-1.5%	-8.9%	-26.1%	-24.7%	5.2%	3.2%	4.2%	7.0%	-1.3%	-20.4%		
F-15	2.9%	53.1	4.3%	0.9%	5.6%	0.9%	3.0%	1.8%	-11.3%	-2.4%	-17.6%	-17.5%	10.1%	11.7%	11.2%	20.5%	1.1%	-12.3%		
M-15	2.7%	52.7	4.2%	-5.1%	-1.1%	-6.5%	6.1%	4.4%	9.5%	33.2%	35.8%	14.4%	0.5%	1.6%	1.2%	1.7%	-3.1%	9.7%		
A-15	2.7%	52.8	0.2%	-2.5%	-3.4%	5.7%	2.4%	1.4%	3.9%	6.3%	-2.2%	-5.2%	2.0%	3.3%	1.7%	3.7%	0.7%	5.9%		
M-15	2.5%	53.0	1.5%	-1.3%	-5.3%	5.1%	-0.7%	-1.6%	-1.6%	8.4%	1.8%	-0.5%	2.5%	2.1%	-2.8%	2.9%	-2.1%	4.3%		
J-15	1.5%	53.5	1.8%	-3.4%	-9.4%	3.8%	4.7%	3.8%	8.9%	5.4%	-4.7%	-6.2%	1.5%	1.2%	-0.7%	-0.5%	2.1%	-8.4%		
J-15	2.1%	52.8	3.7%	-1.1%	-7.7%	3.7%	3.0%	2.1%	4.0%	6.7%	5.4%	3.0%	1.1%	-0.6%	-5.2%	-0.6%	-0.6%	7.3%		
A-15	2.1%	51.1	1.1%	-4.6%	-6.5%	3.5%	2.7%	1.5%	6.0%	10.0%	11.9%	7.1%	-1.5%	0.2%	-2.6%	0.7%	1.6%	0.3%		
S-15	1.4%	50.2	2.6%	-1.5%	-4.6%	3.6%	5.1%	4.0%	1.5%	2.2%	-6.0%	-6.3%		1.0%	-2.8%	0.9%	5.6%	0.4%		
O-15		49.7		-5.3%							-2.2%	-3.1%			-3.4%			11.3%		

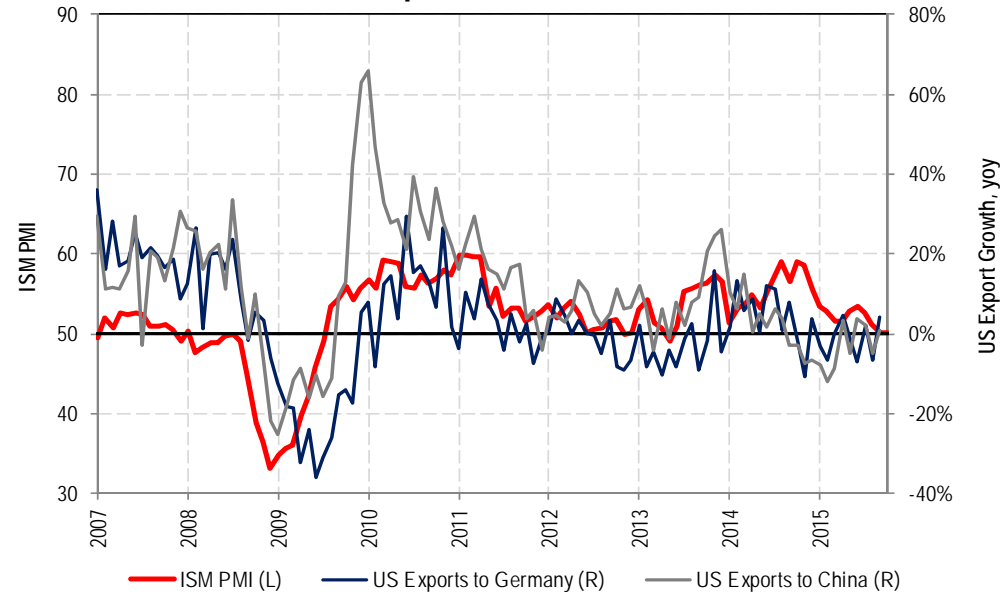
Sources: Robert W. Baird & Co estimates, ocean ports, airports, carriers, trade organizations

# Broader Economic Indicators Reflect Stabilization

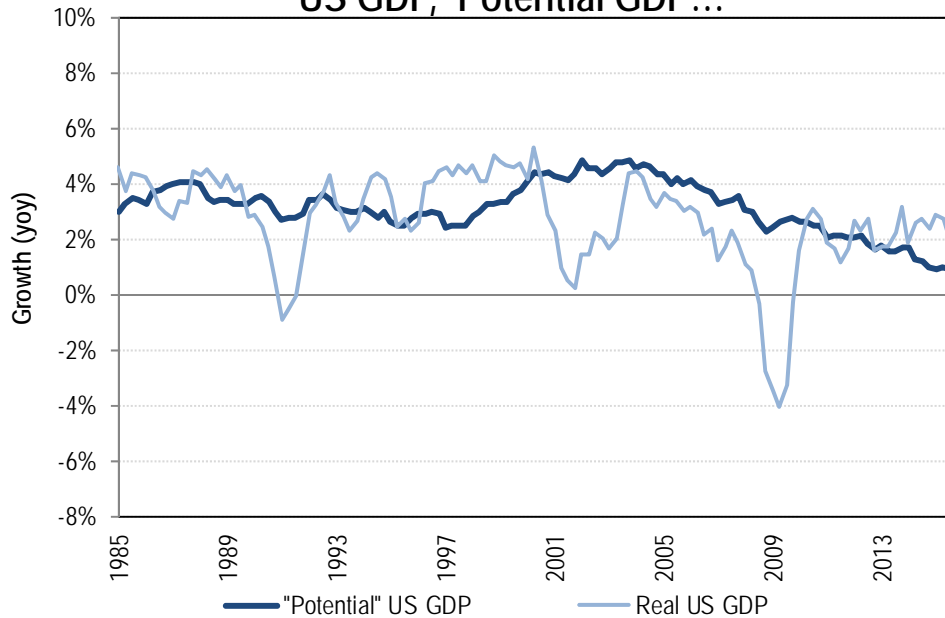
### ISM PMI Readings by Region



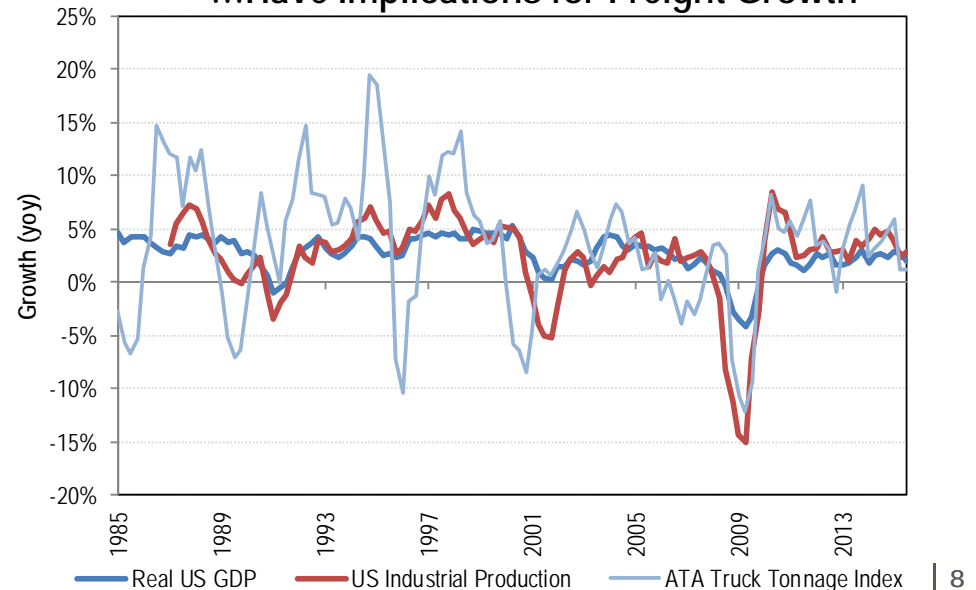
### US Exports vs. ISM PMI



### US GDP, Potential GDP...



### ...Have Implications for Freight Growth

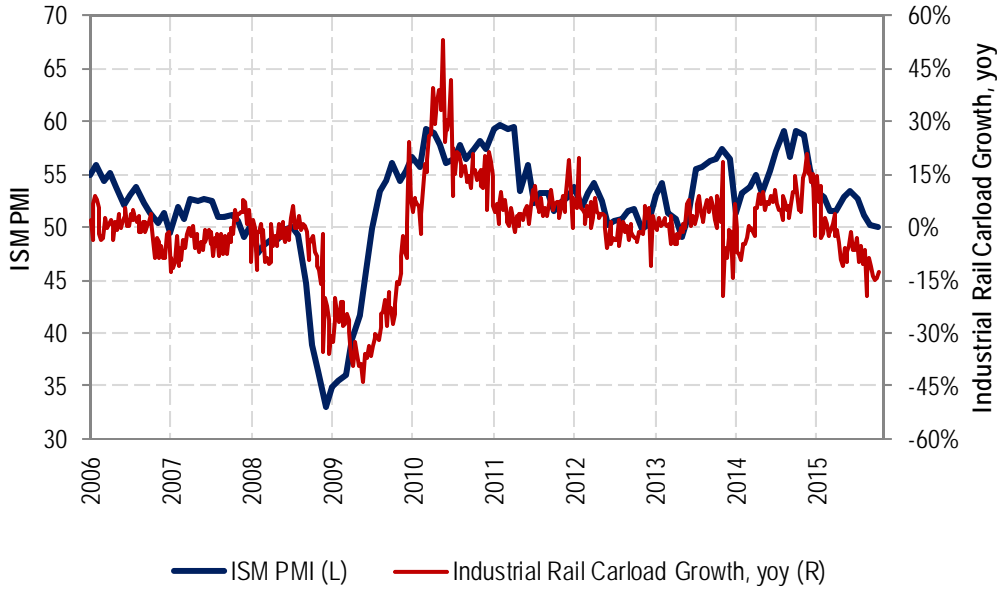




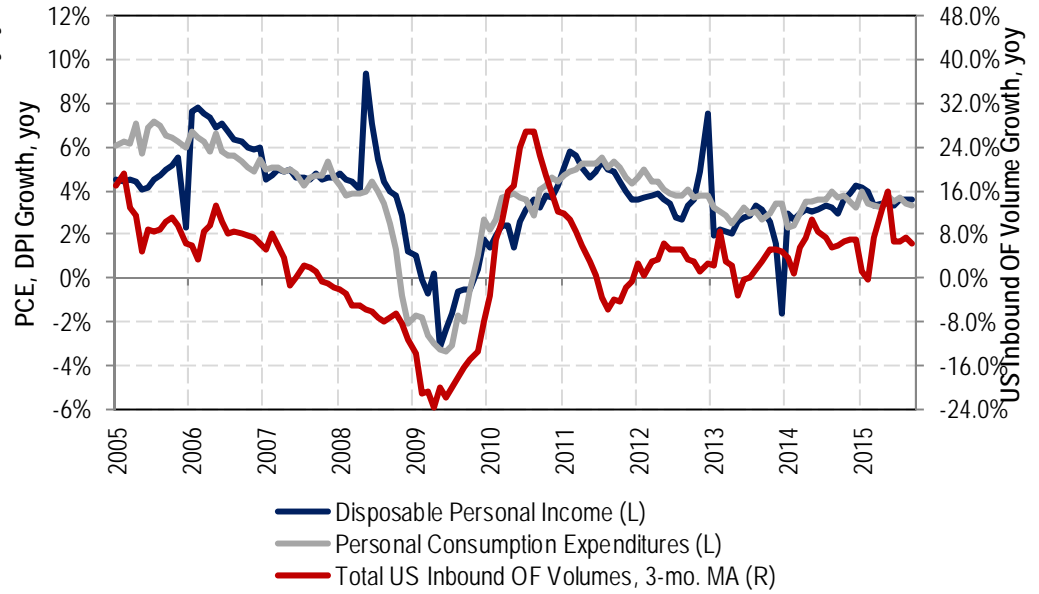
# Normalizing Trends into 2015



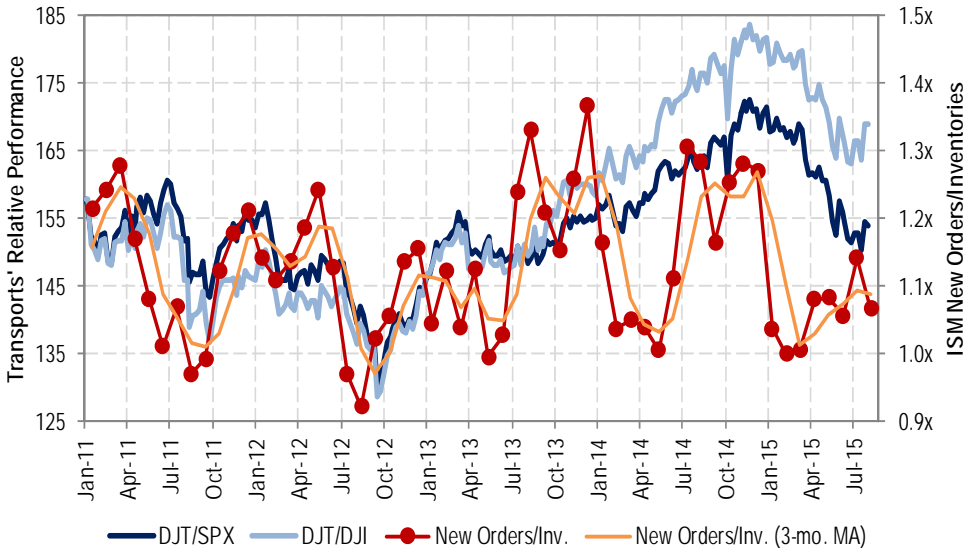
### US Industrial trends and underlying freight volumes



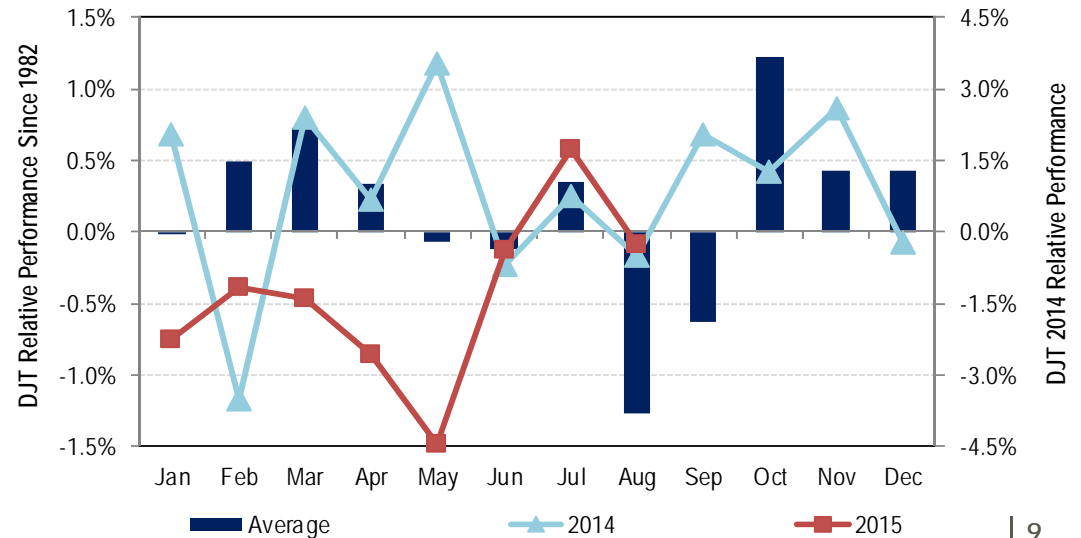
### US Retail trends and underlying freight volumes



### ISM New Orders/Inventories

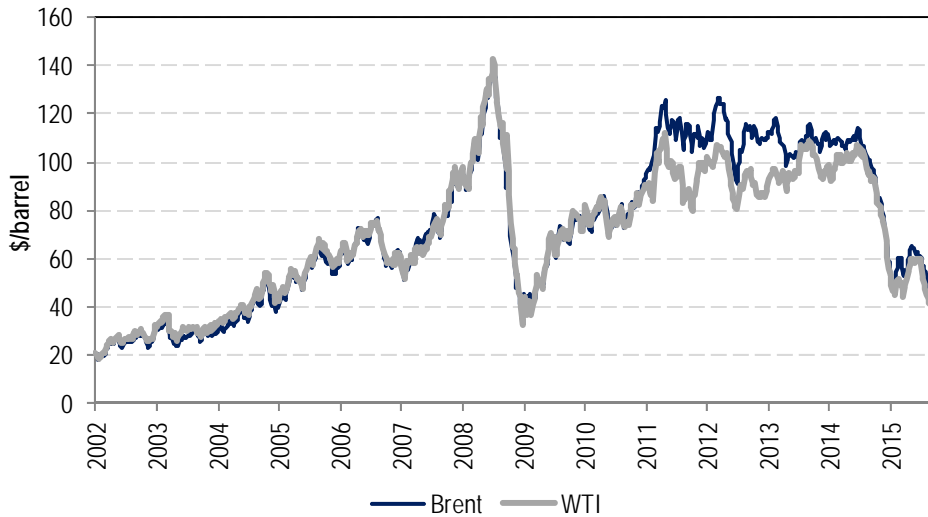


### Transports' Relative Stock Performance

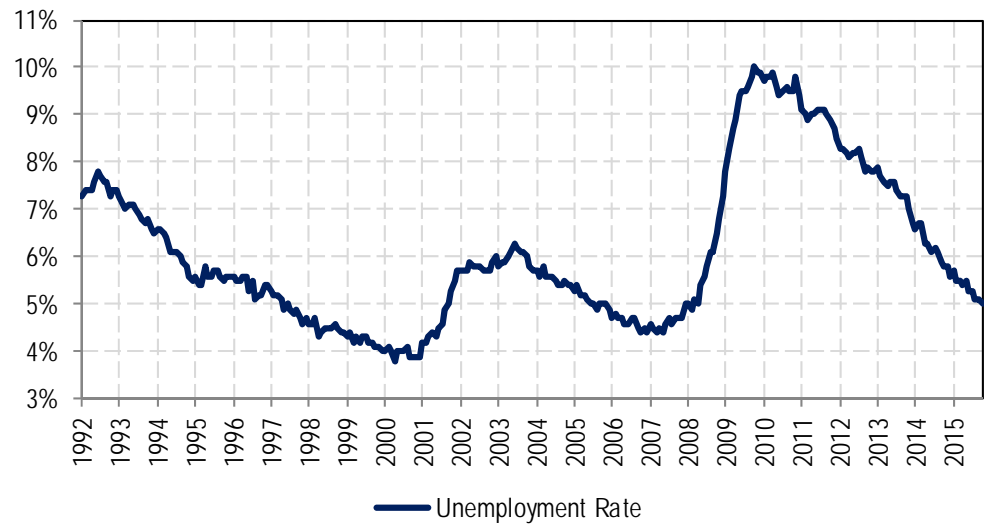


# Key Macroeconomic Indicators

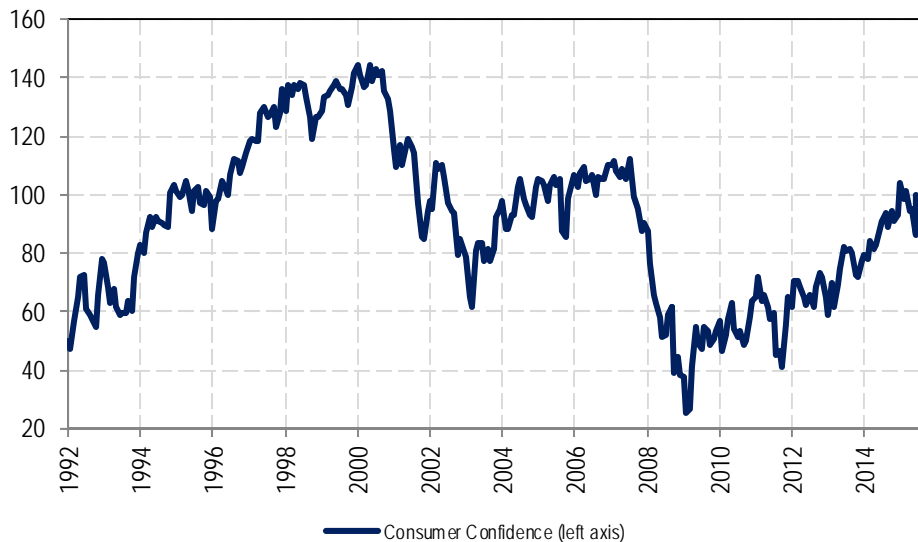
### Crude Oil Prices



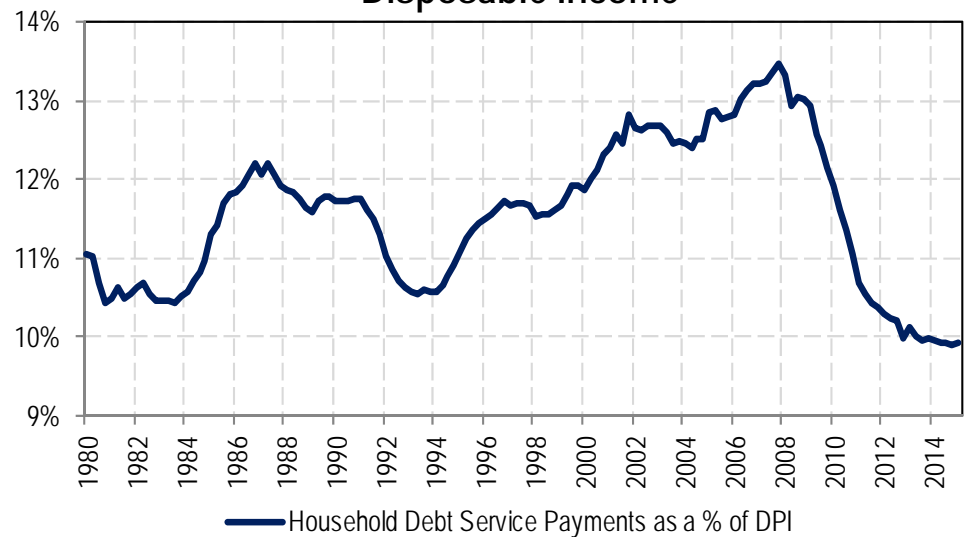
### Unemployment Rate



### Consumer Confidence

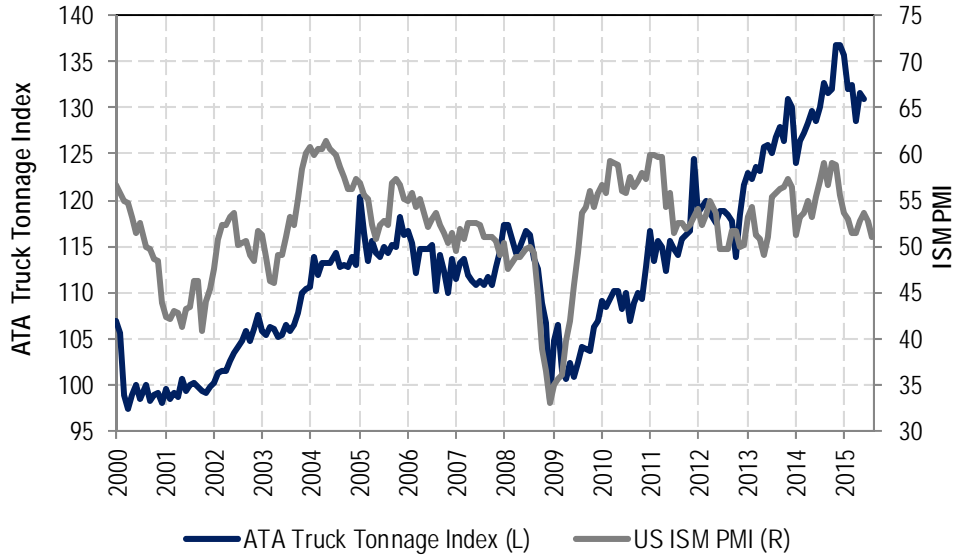


### Household Debt Service Payments as a % of Disposable Income

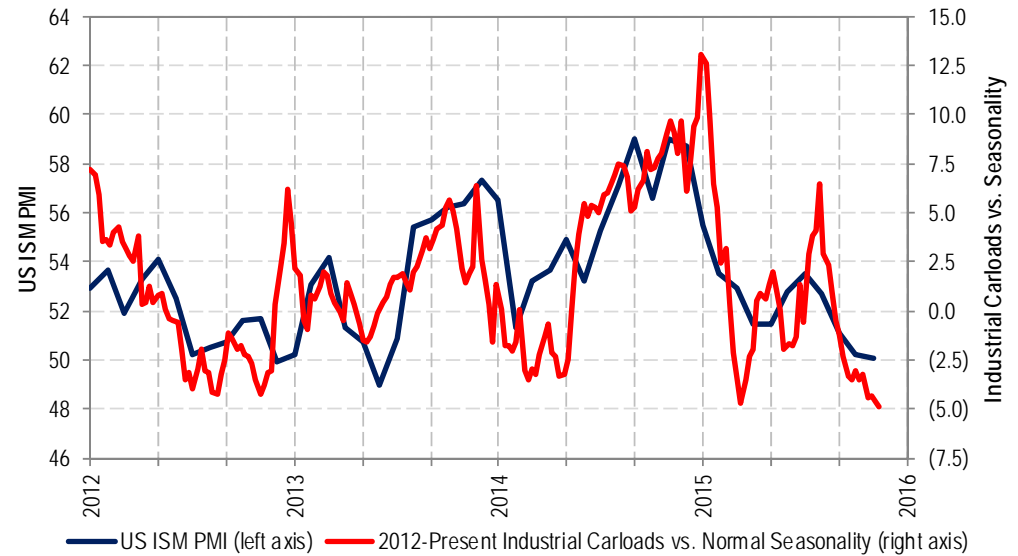


# Freight-Related Demand Indicators

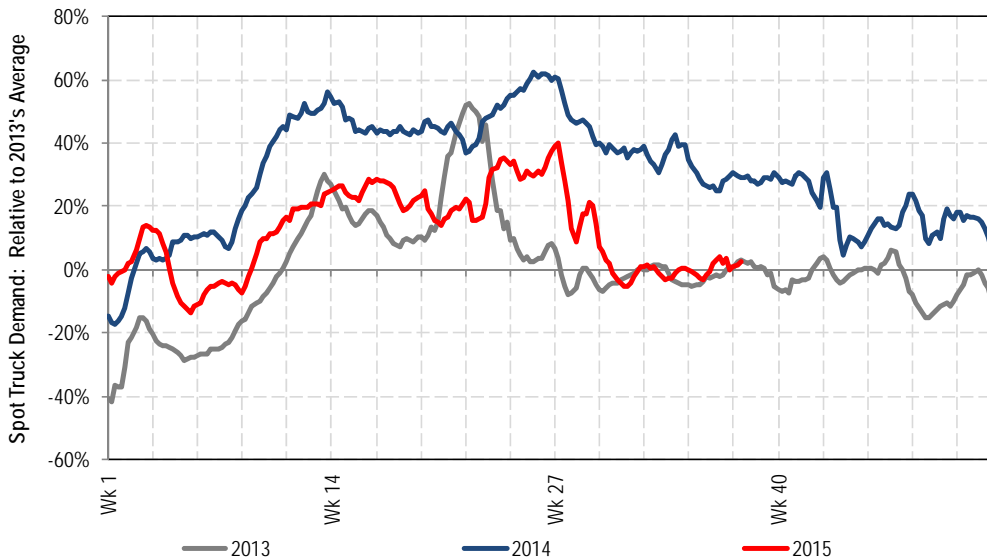
### ATA Truck Index vs. US ISM PMI



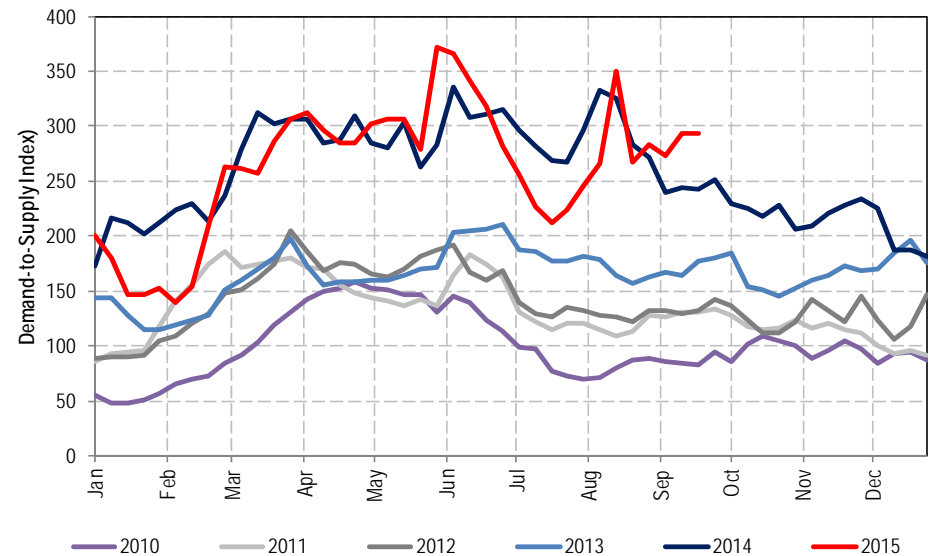
### US ISM PMI vs. Seasonally Adjusted Industrial Carloads



### Spot Truck Demand Indicator



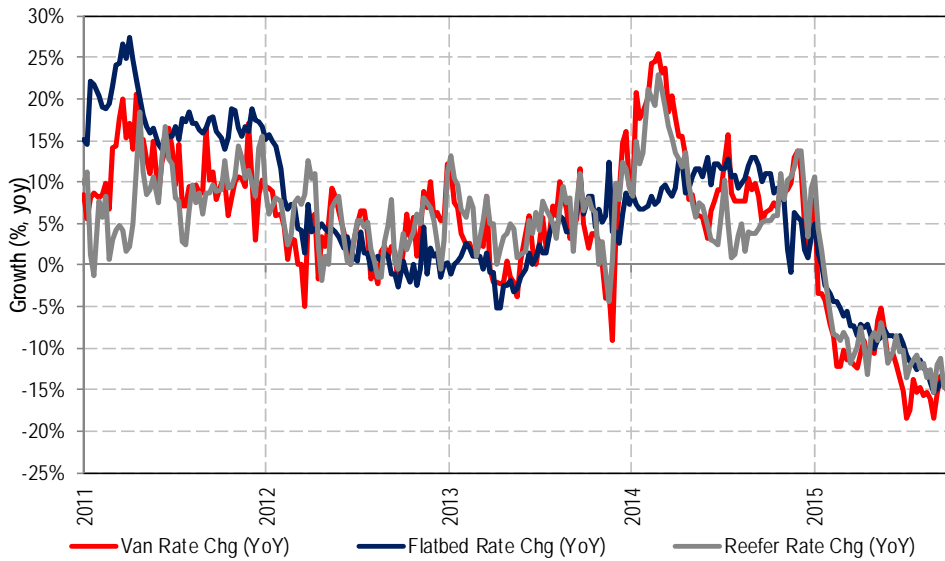
### Spot Demand-to-Supply Index



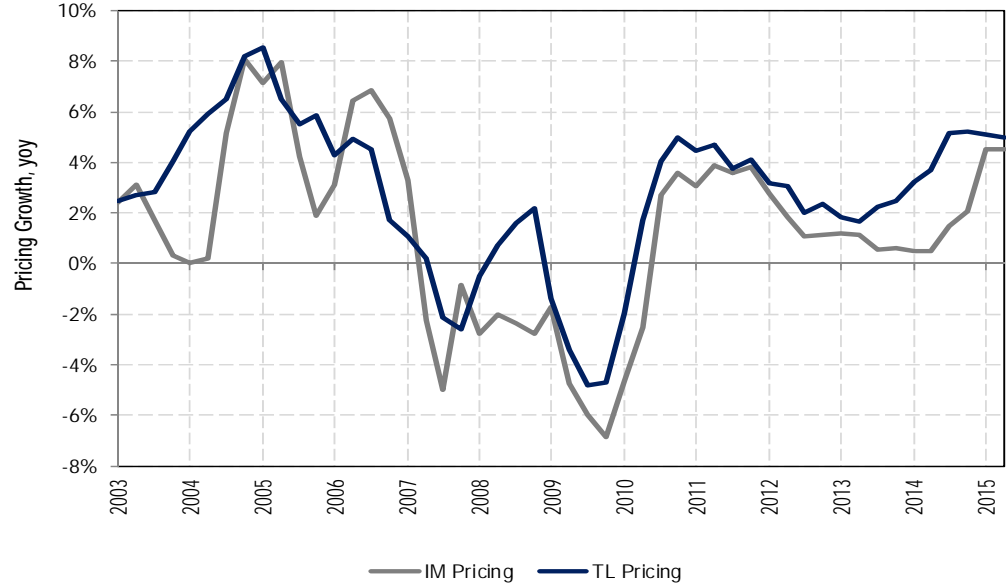
# Real Pricing Growth into 2015, Led by Truckload



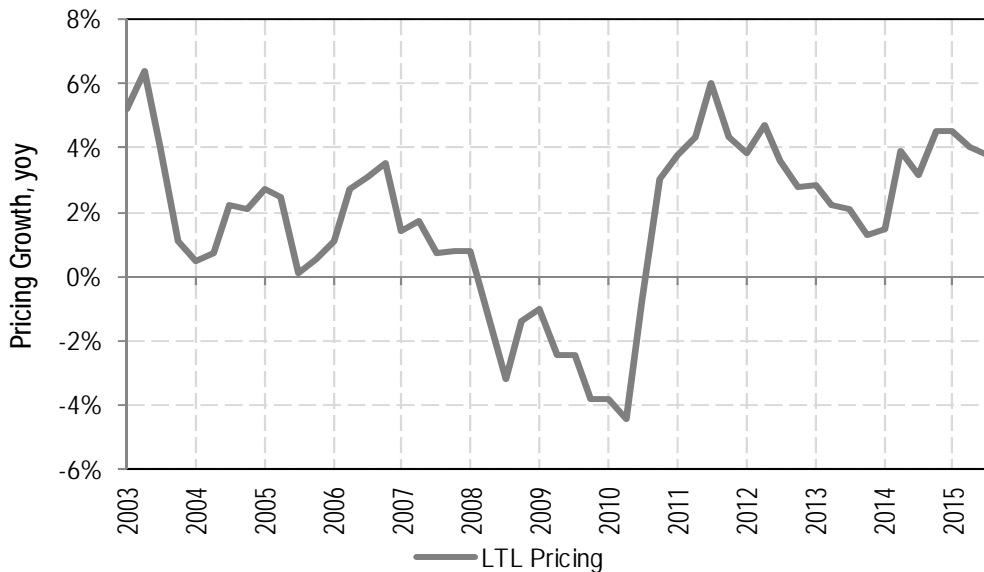
### TL Pricing Trends by Mode



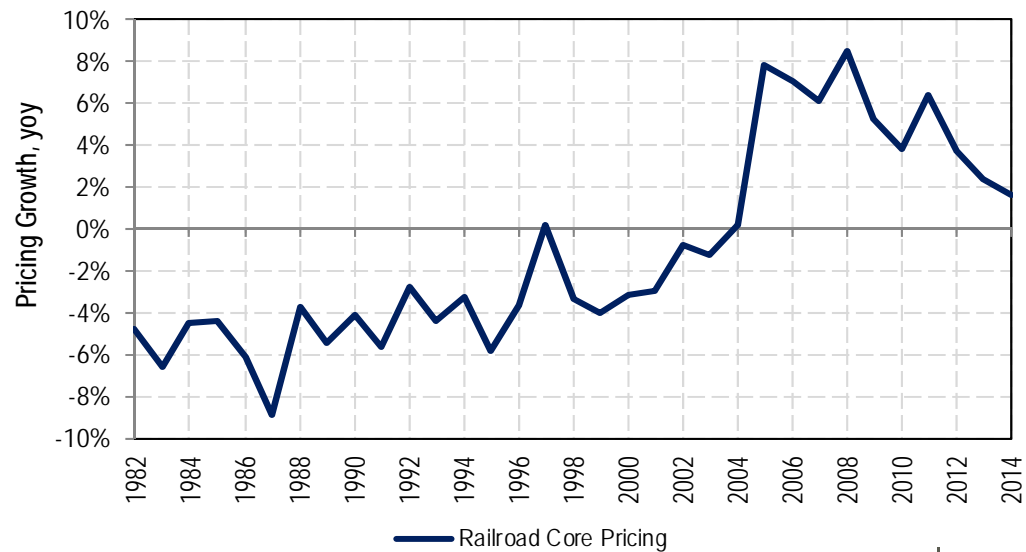
### Truckload, Intermodal Pricing Trends



### Less-than-Truckload Pricing Trends



### Railroad Pricing Trends



# Truckload Carriers and Lessors

## Valuation Metrics

Ticker	Company	Rating	Stock Metrics				Price Performance				P/E			EV/EBITDA			5-Year Avg		Yields	
			Price 11/19/15	Price Target	52-wk H-L	Mkt. Cap (000)	1M	3M	YTD	2014	2015E	2016E	Avg	2015E	2016E	Avg	ROE	ROIC	Div	FCF
HTLD	Hearland Express	N	19.37	\$21	28-18	1,695	(9%)	(9%)	(28%)	38%	21.7	22.1	20	6.9	7.1	7.9	20%	19%	0.4%	3.4%
KNX	Knight Transportation	N	26.26	\$30	35-24	2,153	4%	(6%)	(22%)	84%	17.7	16.8	20	7.4	6.9	8.1	14%	12%	0.9%	2.5%
R	Ryder	O	67.61	\$84	101-65	3,606	(6%)	(24%)	(27%)	26%	10.9	10.2	14	5.0	4.6	4.5	14%	6%	2.4%	(9.1%)
SWFT	Swift Transportation	O	16.20	\$20	29-14	2,334	6%	(30%)	(43%)	29%	11.0	9.9	13	5.5	5.1	7.6	NM	11%	NM	9.6%
WERN	Werner Enterprises	N	27.19	\$29	33-25	1,970	3%	(6%)	(13%)	26%	16.3	14.9	17	5.0	4.7	5.2	13%	12%	0.7%	1.5%
MRTN	Marten Transport		17.59		25-15	595	2%	(8%)	(19%)	8%	17.2	15.2	17	4.5	4.1	5.0				
CGI	Celadon Group		13.68		29-13	383	(13%)	(33%)	(40%)	16%	8.5	7.5	15	5.7	5.2	6.3				
USAK	USA Truck		19.50		32-16	204	(2%)	(3%)	(31%)	112%	20.2	20.5	22	4.6	4.8	5.7				
CVTI	Covenant Transportation		21.01		37-17	385	(7%)	(17%)	(23%)	230%	11.0	9.9	NM	4.8	4.5	5.4				
TL/Lessor Median Values							(2%)	(9%)	(27%)	29%	16.3	14.9	17	5.0	4.8	5.7				

## Rate Growth (revenue per loaded mile, yoy)

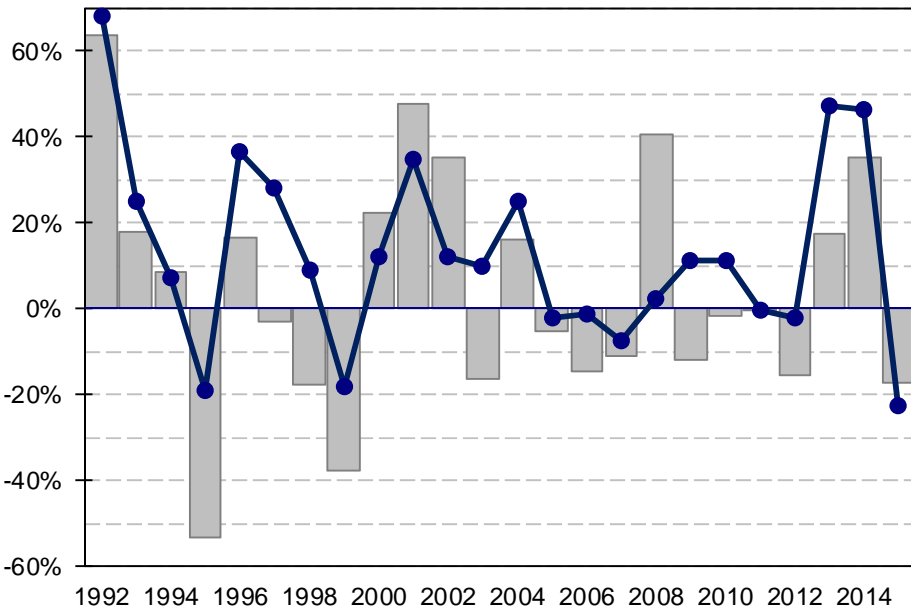
Company	2011				2012				2013				2014				2015		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Swift (SWFT)	3.0%	3.5%	3.1%	3.8%	3.9%	2.9%	1.9%	3.3%	1.9%	1.6%	2.4%	2.6%	3.0%	3.7%	5.1%	6.4%	4.8%	4.9%	3.5%
Knight (KNX)	2.9%	3.6%	1.9%	2.6%	3.2%	1.6%	0.9%	0.8%	0.7%	0.8%	1.4%	2.5%	4.9%	5.6%	6.5%	12.2%	5.5%	6.7%	4.6%
J.B. Hunt (JBHT)	9.0%	6.7%	2.4%	4.1%	2.1%	3.2%	5.9%	8.9%	3.8%	2.1%	-0.4%	-2.7%	9.0%	10.0%	10.0%	10.8%	1.6%	-2.2%	0.2%
Werner (WERN)	3.9%	3.6%	3.7%	5.4%	3.2%	3.1%	2.6%	1.8%	2.7%	2.4%	2.2%	2.3%	1.9%	1.2%	1.7%	4.6%	3.7%	3.6%	3.4%
Celadon (CGI)	6.5%	4.0%	3.7%	3.5%	2.7%	4.1%	2.0%	2.4%	1.0%	2.2%	2.2%	3.9%	2.5%	2.0%	2.3%	5.2%	5.4%	5.1%	4.2%
Covenant (CVTI)	4.9%	5.4%	6.0%	6.7%	6.3%	6.3%	6.4%	7.7%	3.1%	1.8%	1.3%	2.6%	3.3%	3.7%	5.5%	11.6%	5.9%	5.0%	3.3%
USA Truck (USAK)	7.4%	8.5%	4.8%	0.4%	2.8%	-1.8%	-2.4%	2.2%	1.7%	0.1%	2.9%	0.0%	3.2%	7.1%	9.4%	13.5%	8.1%	7.9%	4.6%
Marten (MRTN)	7.8%	12.6%	10.3%	8.2%	6.2%	-0.1%	-0.3%	-0.3%	-0.1%	-1.1%	0.4%	1.3%	0.5%	2.6%	0.0%	-1.2%	-4.5%	3.6%	3.3%
Baird Truckload Index	4.5%	4.7%	3.7%	4.1%	3.2%	3.1%	2.0%	2.4%	1.9%	1.8%	2.2%	2.5%	3.2%	3.7%	5.3%	5.2%	5.2%	4.3%	3.4%

## Volume Growth (loaded miles, yoy)

Company	2011				2012				2013				2014				2015		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Swift (SWFT)	5.9%	4.3%	2.9%	-4.4%	-4.4%	-7.9%	-3.0%	-0.6%	-0.3%	2.2%	0.5%	-1.8%	-2.8%	-5.5%	-5.0%	-0.3%	0.2%	0.8%	2.8%
Knight (KNX)	1.0%	3.7%	4.5%	5.7%	9.6%	2.5%	2.5%	3.7%	0.5%	-3.2%	-4.0%	-3.1%	-2.0%	0.8%	1.5%	14.0%	15.3%	4.8%	16.3%
J.B. Hunt (JBHT)	-6.9%	-8.4%	-6.6%	-1.3%	2.4%	-5.5%	-11.6%	-17.7%	-24.2%	-21.3%	-17.5%	-17.3%	-15.2%	-8.2%	-8.4%	-0.8%	4.4%	4.2%	9.8%
Werner (WERN)	0.3%	-1.3%	-2.9%	-4.7%	-1.7%	-3.5%	-4.0%	-1.5%	-5.0%	-5.9%	-3.5%	-1.5%	-2.4%	2.5%	2.3%	2.0%	1.9%	2.7%	4.1%
Celadon (CGI)	-6.9%	-4.9%	-9.1%	-4.0%	4.6%	1.7%	4.3%	-0.8%	-2.9%	3.5%	13.7%	24.7%	21.2%	15.5%	7.6%	5.2%	6.5%	16.4%	16.3%
Covenant (CVTI)	-8.3%	-10.3%	-14.1%	-17.1%	-11.4%	-5.5%	-1.2%	1.4%	0.0%	-0.5%	0.4%	-4.8%	-7.9%	-5.8%	0.2%	5.3%	5.9%	6.9%	4.8%
Landstar (LSTR) *	-5.6%	-5.2%	0.7%	13.7%	9.0%	8.1%	6.7%	-4.6%	-1.5%	-4.9%	-4.1%	2.4%	3.6%	8.6%	10.8%	10.9%	6.3%	9.3%	8.3%
USA Truck (USAK)	-4.4%	-6.0%	-15.3%	-18.4%	-10.9%	-14.3%	-5.3%	1.2%	3.3%	13.2%	10.5%	6.9%	-2.6%	-4.7%	-3.8%	-1.6%	-6.0%	-10.5%	-17.4%
Marten (MRTN)	-6.0%	-1.2%	2.5%	4.9%	2.5%	5.1%	5.7%	4.5%	6.6%	7.4%	5.9%	2.9%	1.7%	-0.4%	0.7%	-1.7%	-3.9%	-5.0%	-6.3%
Median Volume Growth	-5.0%	-3.1%	-0.7%	-2.8%	2.0%	-2.9%	-1.2%	-0.7%	-0.3%	-0.8%	0.4%	-0.2%	-1.2%	0.2%	1.1%	0.9%	3.2%	3.4%	4.8%

# Truckload

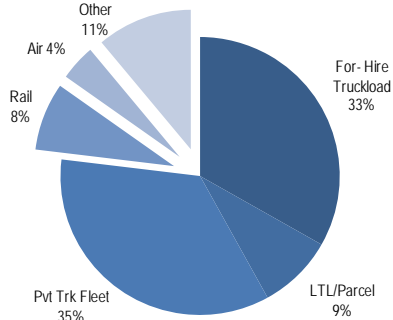
## Truckload Index Performance



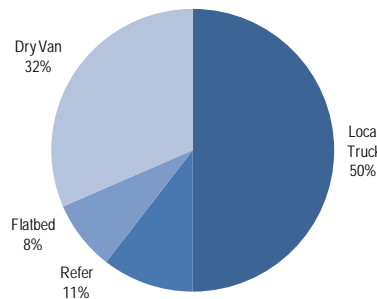
Relative

Absolute

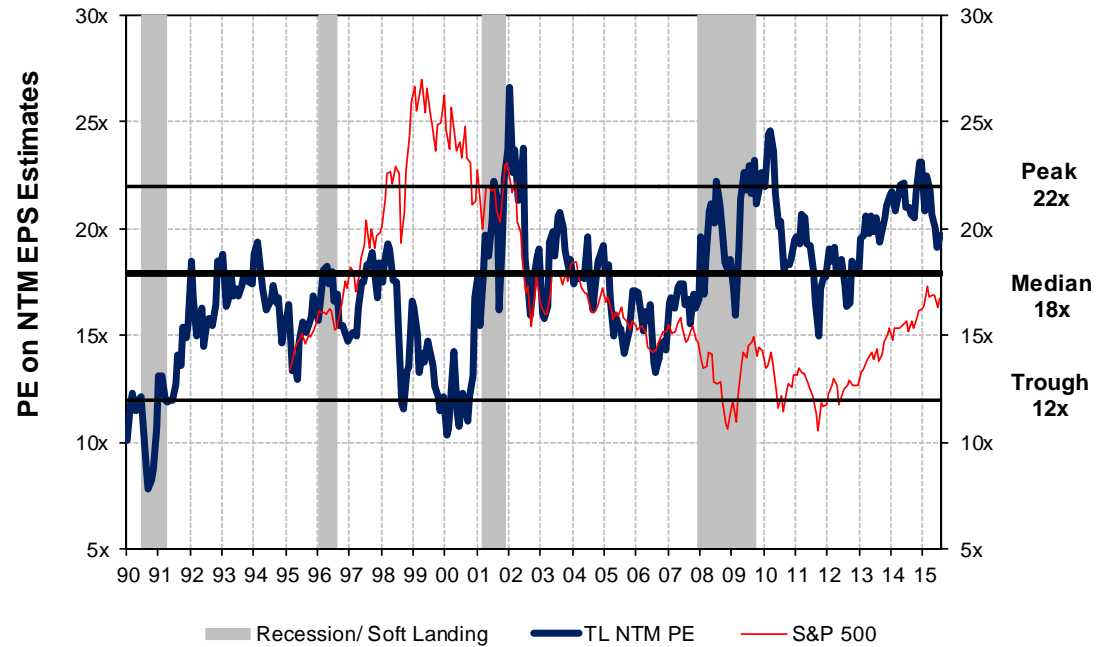
### \$775 Billion Domestic Freight Market



### \$260 Billion For-Hire Truckload Market



## Truckload Index: NTM P/E



Recession/ Soft Landing

TL NTM PE

S&P 500

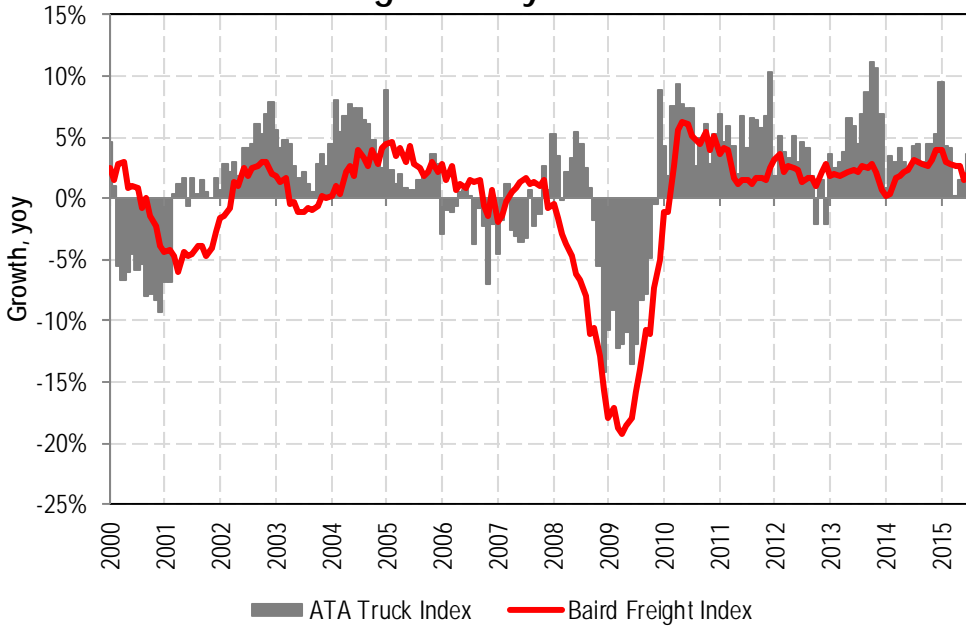
Company	Ticker	Revenue (\$mln)	TL Revenue (\$mln)	% of Market	Fleet Size
CH Robinson	CHRW	12,750	11,100	7.4%	N/A
Swift	SWFT	4,100	3,500	2.3%	18,000
Schneider	Private	3,600	2,300	1.5%	13,300
Werner	WERN	2,000	1,650	1.1%	7,200
JB Hunt	JBHT	5,600	1,600	1.1%	12,350
US Xpress	Private	1,600	1,500	1.0%	7,400
Landstar	LSTR	2,700	1,350	0.9%	12,912
CR England	Private	1,450	1,200	0.8%	4,450
Prime Inc.	Private	1,300	1,100	0.7%	5,300
CRST International	Private	1,250	1,100	0.7%	4,450
Crete Carrier Grp	Private	1,000	1,000	0.7%	5,300
Cardinal (Greatwide)	Private	1,000	800	0.5%	3,600
Knight	KNX	950	800	0.5%	4,000
Ruan	Private	800	700	0.5%	3,300
Covenant	CVTI	700	650	0.4%	2,700
Conway Truckload	CNW	5,450	640	0.4%	2,850
Celadon	CGI	700	600	0.4%	3,350
Heartland	HTLD	600	600	0.4%	5,100
NFI Industries	Private	1,050	500	0.3%	2,200

Top 10 (ex-brokers)	15,750	10.5%
For-Hire Truckload Market (estimate)	150,000	100.0%

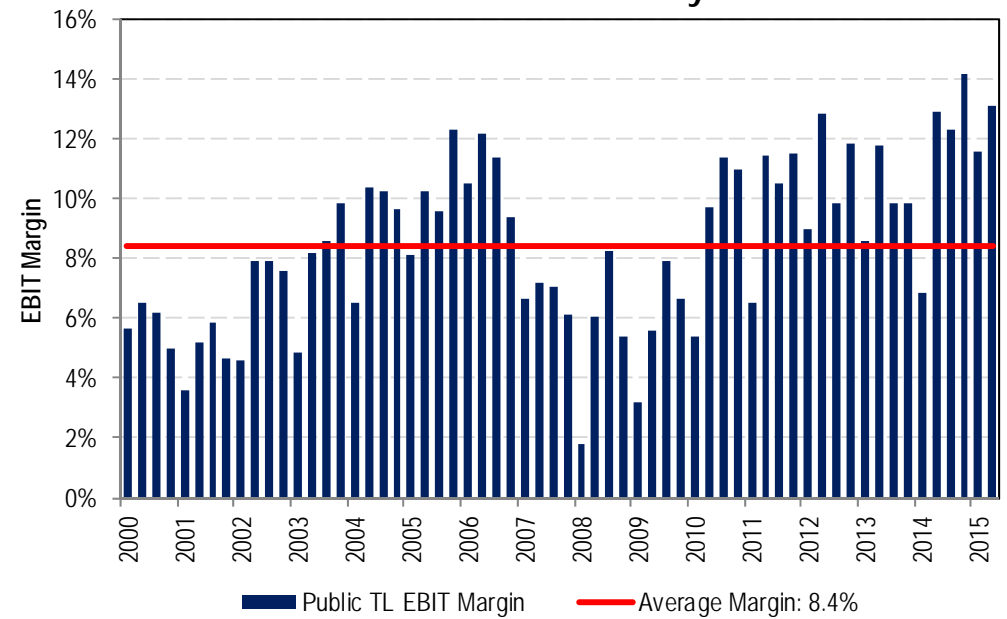
# Truckload Operating Metrics



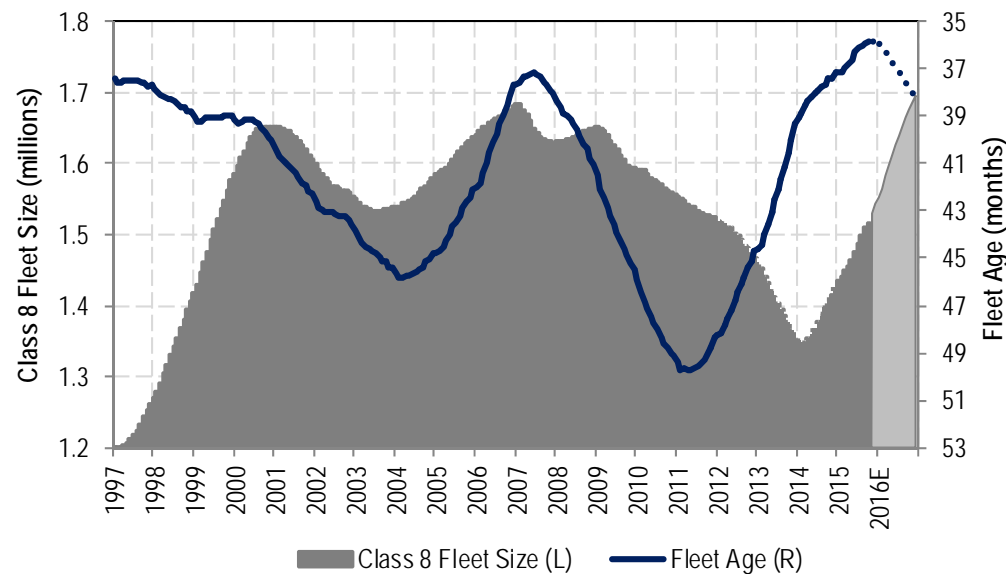
### Trucking Industry Volume Growth



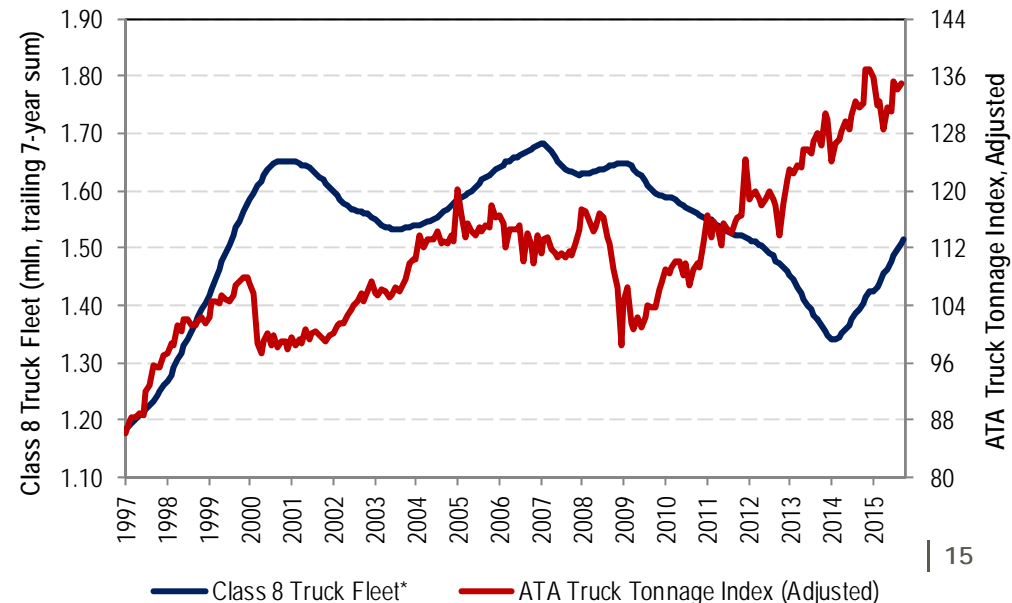
### Truckload Profitability



### Industry Fleet Undergoing Refresh



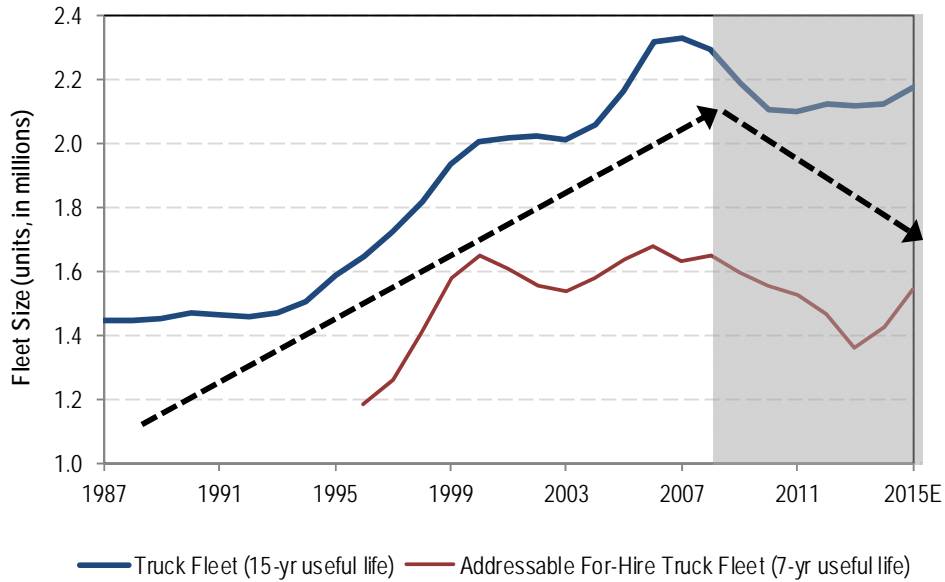
### Truckload Carriers Managing Capacity for Trough



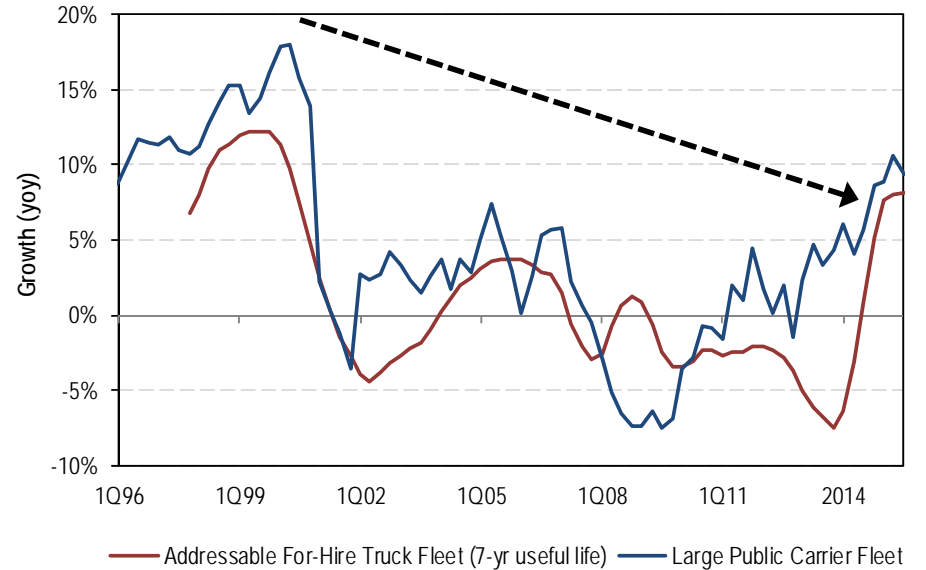
Source: ATA, Act Research, Company data, Baird estimates

# Truckload Capacity Constrained

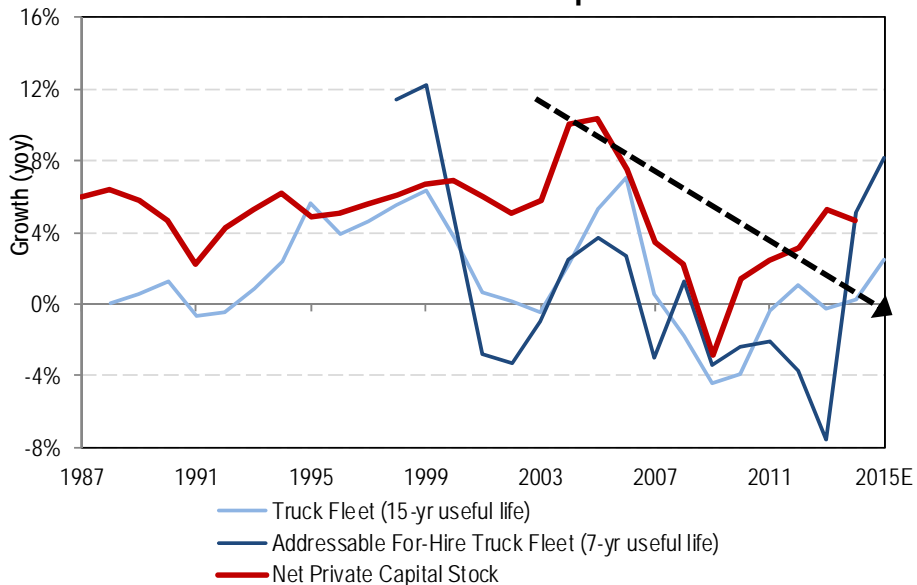
Trucking Capacity Trends Have Inflected...



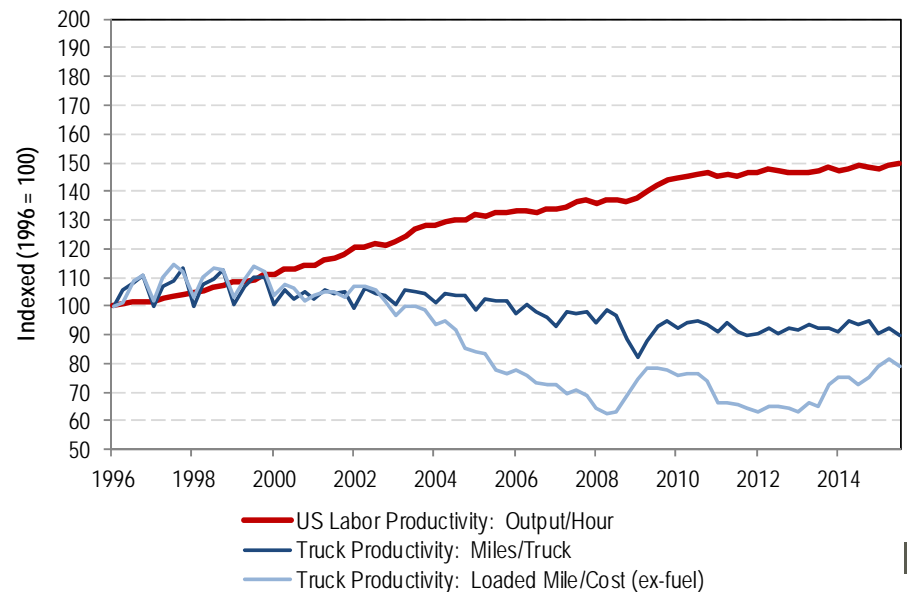
...And Capacity Base Has Shrunk Since 2006



Consistent with Broader Capital Stock Trends

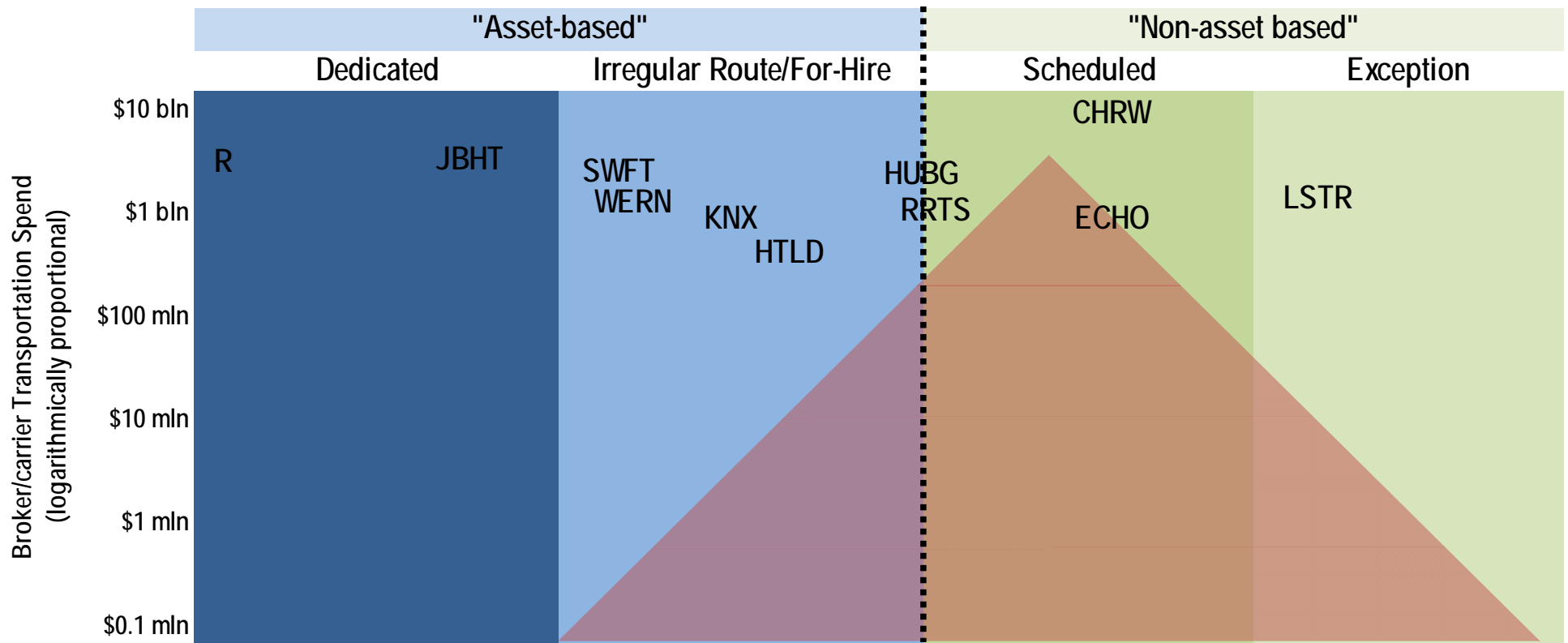


Productivity Trends Have Diverged





# "Pyramid of Pressure"



	Dedicated	Irregular Route/For-Hire	Scheduled	Exception
<b>Description</b>	Private fleet outsource arrangement contracted to a for-hire carrier by one particular shipper	Licensed carrier available for public hire, typically without prescribed schedules or routes	Contracted pre-determined customer rate arrangement for anticipated volume/destinations	Transaction or "spot"-based customer arrangement, usually arising from unplanned demand
<b>Dynamics this cycle</b>	*Pressures to shippers operating private fleets (rising equipment costs, capital scarcity, driver regulations) leading to elevated inquiries about outsourcing management to dedicated fleet operators	*Core carrier concept among shippers highlights credible concerns about access to reliable capacity *Carriers with scale strategically positioned to protect margins and expand service offering *Small carriers/individual owner-operators facing numerous headwinds, limiting capacity adds	*Pressures to small carriers/owner-operators (~80% of TL market) limit available capacity base *Coupled with slower end-market growth and increasing competition, expect gross margin pressure for brokers lacking scale	*Constraints to capacity base similarly pressures gross margins *But, brokers filling need (exception/emergency freight) or niche (specialized equipment) in position to deliver value, particularly among small/medium-sized shippers

# Domestic Third-Party Logistics

## Valuation Metrics

Ticker	Company	Rating	Stock Metrics				Price Performance				P/E			EV/EBITDA			5-Year Avg		Yields	
			Price 11/19/15	Price Target	52-wk H-L	Mkt. Cap (000)	1M	3M	YTD	2014	2015E	2016E	Avg	2015E	2016E	Avg	ROE	ROIC	Div	FCF
CHRW	C.H. Robinson	N	68.32	\$74	77-61	9,891	(5%)	(2%)	(9%)	28%	19.5	18.0	22	11.7	11.0	13.3	35%	30%	2.2%	4.8%
FWRD	Forward Air Corp.	O	47.79	\$55	58-41	1,481	12%	(3%)	(5%)	15%	22.4	18.0	20	10.4	8.7	10.8	15%	14%	1.0%	3.9%
HUBG	Hub Group, Inc.	O	38.88	\$42	44-33	1,396	(1%)	(6%)	2%	(5%)	19.9	17.5	19	10.7	9.4	11.0	13%	14%	0.0%	0.0
JBHT	J.B. Hunt Transport	N	77.60	\$82	94-71	9,023	3%	(3%)	(8%)	9%	21.2	18.6	21	9.5	8.6	10.2	39%	21%	1.1%	(0.1%)
LSTR	Landstar	N	62.59	\$68	82-61	2,729	(2%)	(10%)	(14%)	26%	18.6	17.3	20	10.0	9.6	11.7	34%	32%	0.5%	3.5%
RRTS	Roadrunner Trans	O	10.72	\$14	29-9	423	(41%)	(55%)	(54%)	(13%)	8.3	7.9	15	6.5	6.2	13.3	10%	30%	0.0%	0.6%
XPO	XPO Logistics		31.54		51-21	3,110	9%	(23%)	(23%)	55%	NM	30.4	NM	12.0	4.8	11.0	(3%)	(1%)	0.0%	(2.5%)
ECHO	Echo Global Logistics		23.40		34-17	676	6%	(9%)	(20%)	36%	21.5	17.3	24	13.1	9.4	14.7	10%	10%	0.0%	4.0%
UACL	Universal Truckload		15.58		29-15	446	(3%)	(24%)	(45%)	(7%)	11.5	10.5	15	6.3	6.1	7.5	32%	15%	1.4%	5.7%
<b>Domestic 3PL Median Values</b>							(1%)	(9%)	(14%)	15%	19.7	17.5	20	10.4	8.7	11.0				

## Intermodal Volume Growth (loads, yoy)

Company	2011				2012				2013				2014				2015		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
J.B. Hunt	14.9%	18.2%	14.7%	16.6%	16.0%	12.6%	14.9%	10.5%	13.5%	12.3%	11.6%	12.9%	5.0%	7.7%	8.2%	5.8%	6.3%	1.6%	3.0%
Hub Group	13.0%	12.0%	10.0%	16.0%	15.0%	9.0%	9.0%	7.0%	2.0%	2.0%	5.0%	4.0%	2.0%	0.0%	-4.0%	-4.0%	1.0%	6.0%	3.5%

## Domestic Brokerage Volume Growth (loads, yoy)

Company	2011				2012				2013				2014				2015		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
C.H. Robinson	7.5%	3.5%	4.0%	7.0%	8.0%	10.0%	8.0%	12.0%	9.0%	9.0%	13.0%	7.0%	4.0%	4.0%	1.0%	3.0%	6.0%	7.0%	7.0%
Landstar System*	-5.6%	-5.2%	0.7%	13.7%	9.0%	8.1%	6.7%	-4.6%	-1.5%	-4.9%	-4.1%	2.4%	3.6%	8.6%	10.8%	10.9%	6.3%	9.3%	8.3%
J.B. Hunt**	10.0%	10.5%	14.5%	4.0%	13.9%	16.0%	37.9%	47.4%	46.6%	29.2%	4.3%	5.4%	3.2%	14.7%	24.0%	24.8%	17.3%	12.1%	9.1%

## Domestic Brokerage Gross Margin Trends

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015E	2016E
<b>Domestic Brokers</b>												
C.H. Robinson	CHRW	17.8%	18.4%	17.0%	20.2%	16.8%	16.5%	15.8%	15.3%	15.8%	17.6%	17.2%
Landstar System*	LSTR	13.4%	15.9%	15.4%	17.2%	16.4%	16.3%	16.0%	15.6%	14.8%	15.1%	15.1%
J.B. Hunt**	JBHT				17.9%	14.2%	13.6%	13.0%	11.8%	13.0%	15.1%	15.0%

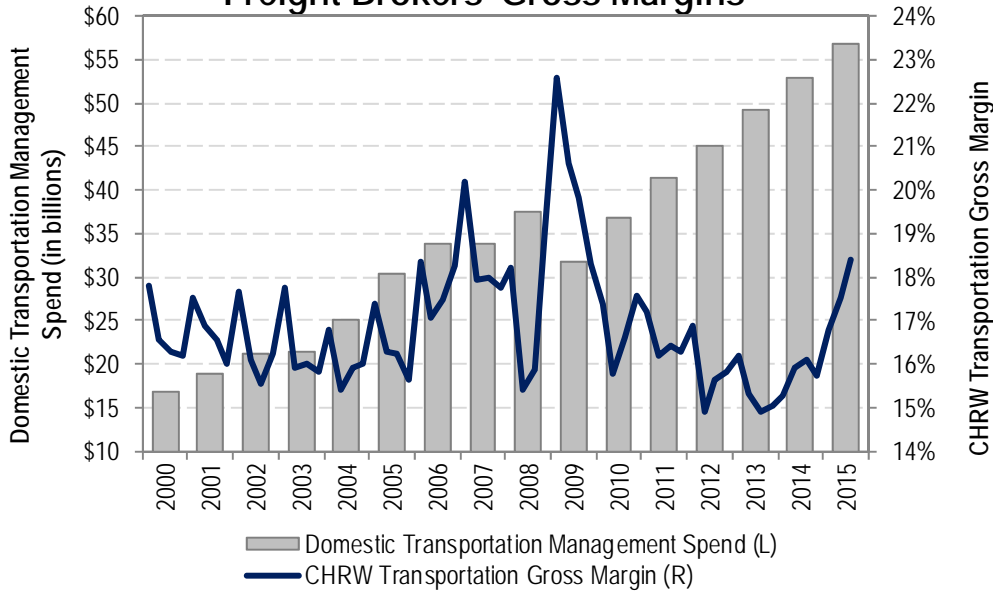
\*Total business; ~93% is TL brokerage

\*\*ICS segment

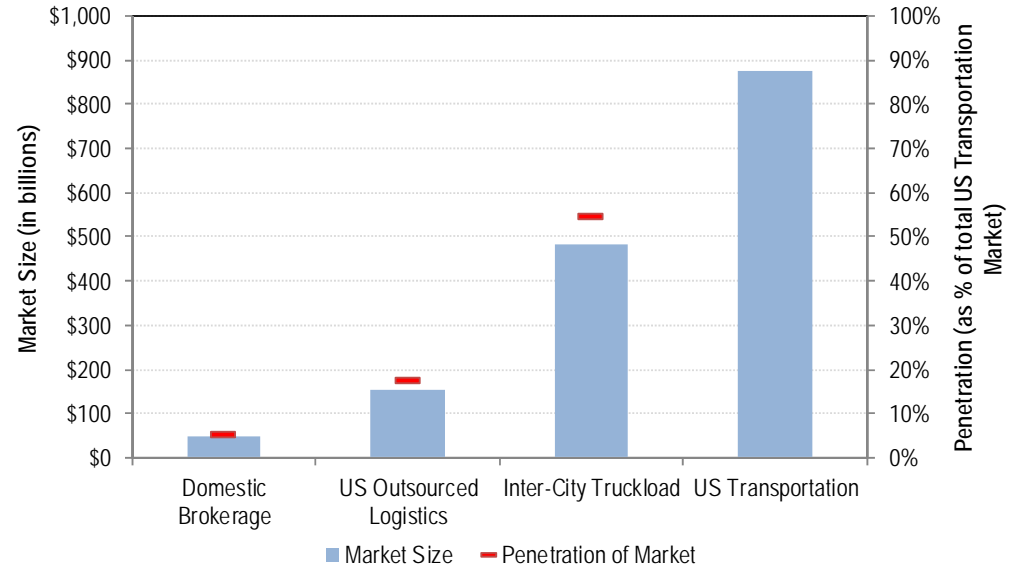
# Pure, Non-Asset Based Brokers the Product of A Bygone Era?



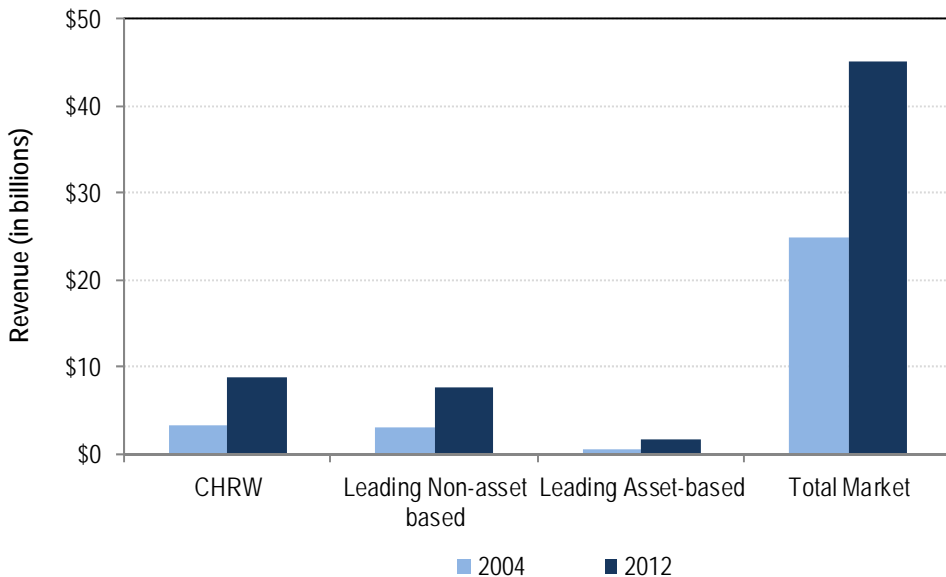
### Changing Dynamics Pressuring Freight Brokers' Gross Margins



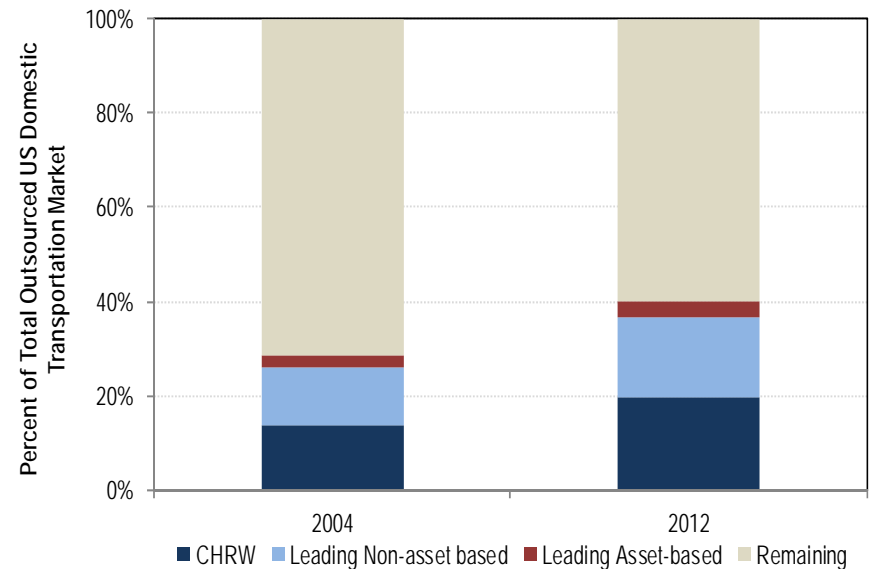
### Domestic Brokerage Market Share Remains Small, With Share to Be Had



### Though Other Models Are Building Scale...



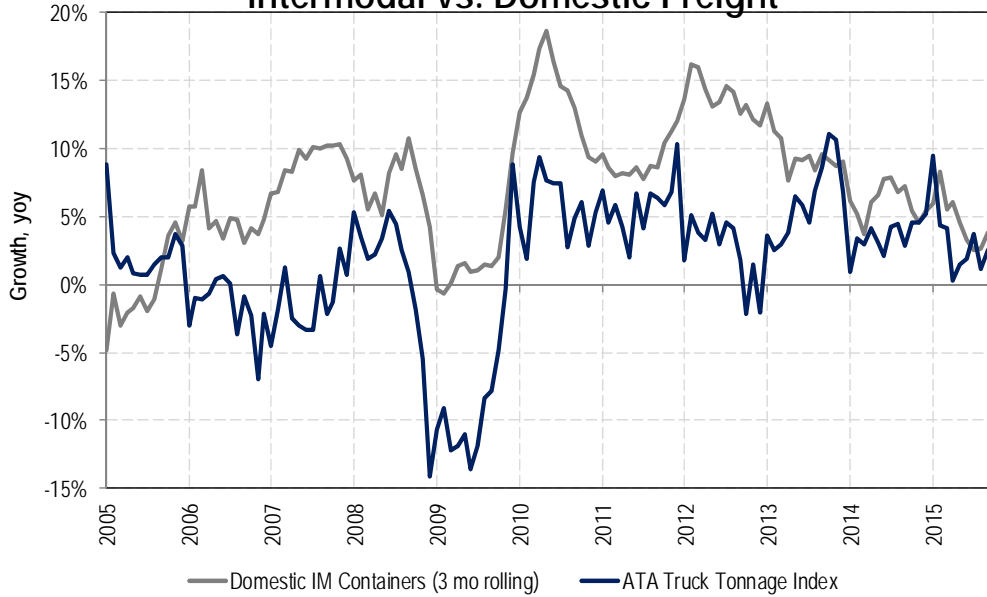
### ...CHRW Remains the Market Leader



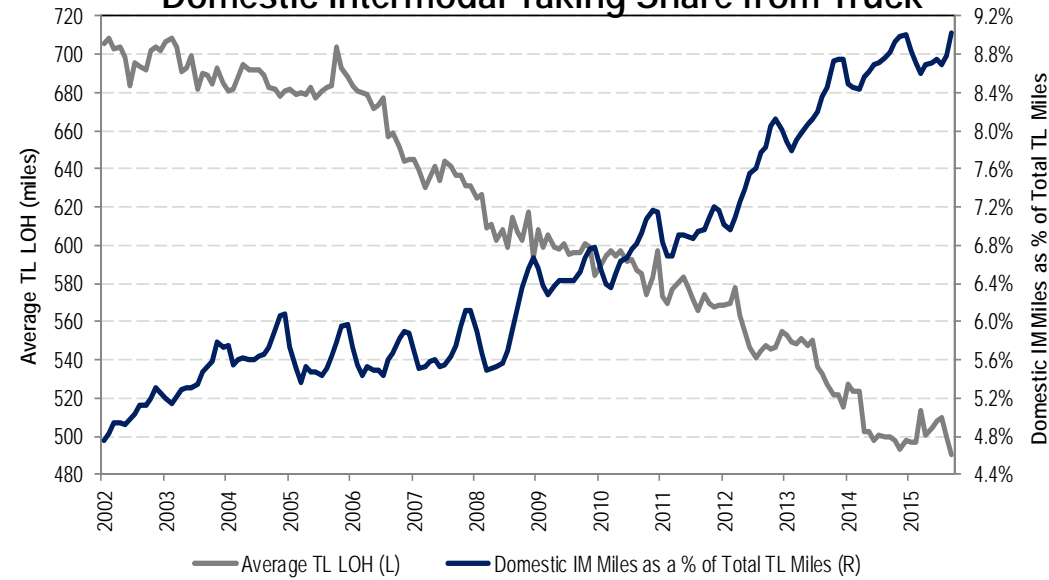
# Domestic Intermodal & Truckload's Response



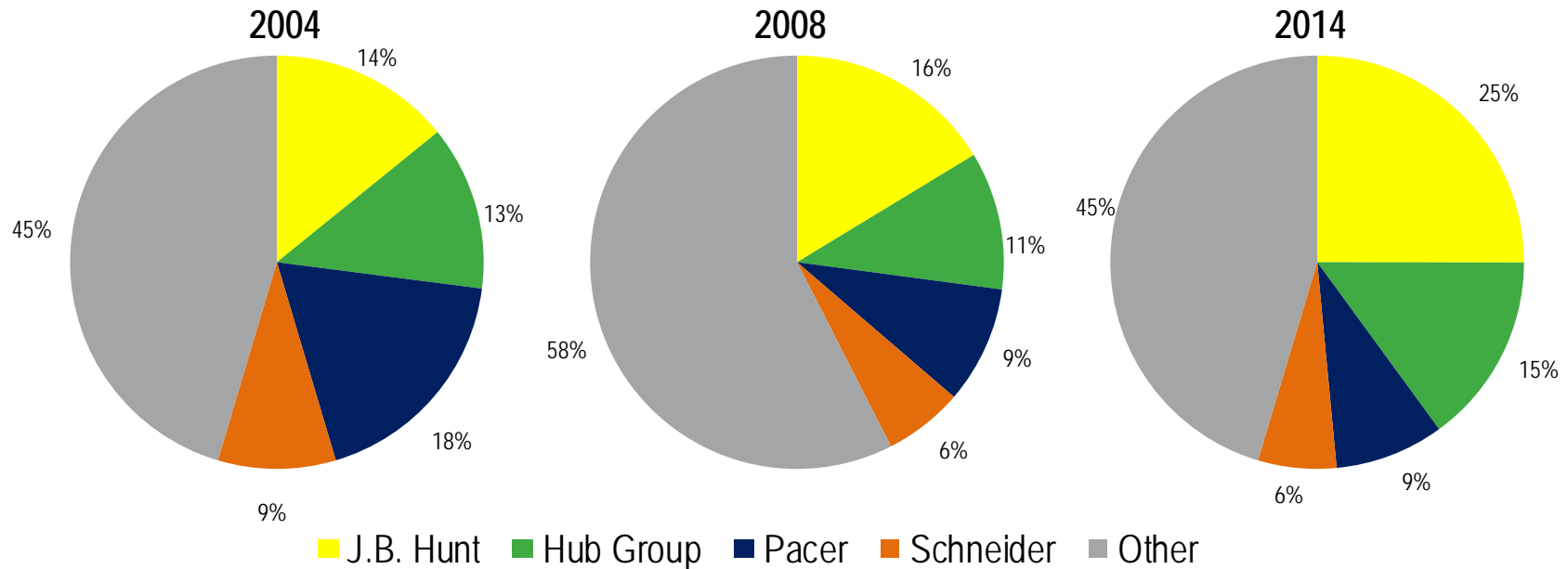
### Intermodal vs. Domestic Freight



### Domestic Intermodal Taking Share from Truck



### Intermodal Market Share Shift



# Less-Than-Truckload

## Valuation Metrics

Ticker	Company	Rating	Stock Metrics				Price Performance				P/E			EV/EBITDA			5-Year Avg		Yields	
			Price 11/19/15	Price Target	52-wk H-L	Mkt Cap (000)	1M	3M	YTD	2014	2015E	2016E	Avg	2015E	2016E	Avg	ROE	ROIC	Div	FCF
ODFL	Old Dominion	N	64.50	\$68	81-59	5,498	4%	(12%)	(17%)	46%	18.0	15.8	18	8.3	7.4	8.9	15%	12%	0.0%	0.8%
ARCB	ArcBest Corporation		25.40		48-24	673	(8%)	(21%)	(45%)	38%	12.8	10.5	23	3.4	3.0	4.9				
YRCW	YRC Worldwide		16.83		25-12	549	4%	(14%)	(25%)	29%	NM	NM	9	4.1	3.8	5.7				
SAIA	Saia, Inc.		23.60		58-23	603	(28%)	(43%)	(57%)	73%	11.7	11.6	12	4.5	4.4	7.0				
<b>LTL Median Values</b>							(2%)	(18%)	(35%)	42%	12.8	11.6	15	4.3	4.1	6.3				

## Rate Growth (revenue per hundredweight, yoy)

Company	2011				2012				2013				2014				2015		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
ABF Freight (ABFS)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.0%	3.1%	3.7%	0.4%	0.5%
Con-way (CNW)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%	4.7%	5.3%	6.1%	3.6%	0.4%	
FedEx Freight (FDX)	10.9%	12.9%	11.4%	8.3%	5.6%	3.6%	2.2%	2.5%	2.0%	0.9%	1.4%	-1.5%	-2.1%	-0.1%	1.0%	2.0%	2.5%	1.2%	
Old Dominion (ODFL)	11.1%	14.2%	13.7%	10.7%	5.5%	3.4%	4.2%	4.5%	3.0%	2.4%	3.3%	-0.3%	1.6%	3.7%	1.6%	1.5%	0.4%	-0.8%	-1.6%
Saia (SAIA)	8.2%	9.6%	11.6%	11.0%	7.9%	7.1%	6.5%	6.0%	5.4%	3.3%	3.9%	2.3%	2.3%	4.9%	4.3%	6.0%	4.6%	3.9%	2.2%
UPS Freight (UPS)	8.4%	11.2%	13.4%	8.9%	4.5%	2.8%	1.5%	1.5%	1.7%	0.5%	2.2%	1.6%	3.1%	4.1%	1.1%	2.4%	1.1%	1.4%	0.8%
YRC National (YRCW)	1.8%	6.0%	7.4%	4.8%	3.3%	3.0%	3.4%	3.2%	3.4%	0.3%	-2.1%	3.3%	-2.6%	0.2%	3.3%	5.7%	3.8%	0.6%	-0.4%
YRC Regional (YRCW)	1.7%	6.5%	8.2%	5.6%	4.5%	2.4%	2.9%	3.5%	2.0%	1.6%	1.0%	-0.4%	1.0%	2.5%	2.1%	4.8%	0.8%	0.2%	-1.5%
Median Yield Growth	5.0%	8.1%	9.8%	7.0%	4.5%	2.9%	2.6%	2.8%	2.0%	0.7%	1.2%	0.0%	1.0%	3.1%	2.6%	4.0%	3.0%	0.5%	0.1%

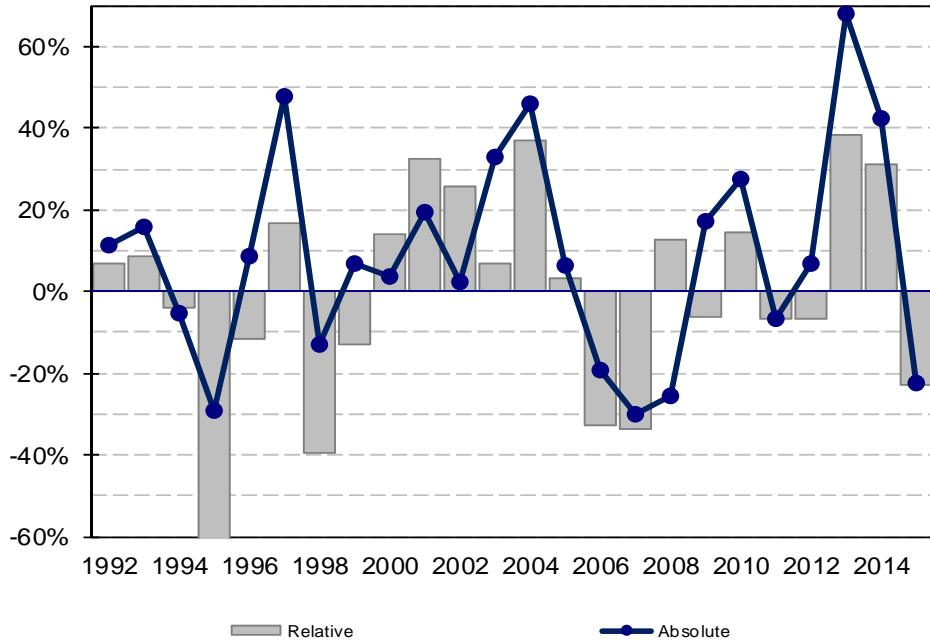
## Volume Growth (tonnage, yoy)

Company	2011				2012				2013				2014				2015		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
ABF Freight (ABFS)	21.0%	9.6%	-2.9%	-8.3%	-9.9%	-6.3%	-2.9%	1.2%	4.2%	2.4%	4.3%	2.7%	5.4%	6.0%	6.4%	8.5%	-1.3%	1.9%	-2.5%
Con-way (CNW)	-3.2%	-8.3%	-5.5%	0.0%	1.5%	0.9%	-0.2%	-3.5%	-1.3%	-1.4%	1.0%	1.0%	1.1%	1.3%	0.2%	0.6%	-2.2%	-3.0%	
FedEx Freight (FDX)	-4.7%	-6.5%	-5.6%	-0.1%	2.4%	3.0%	2.9%	1.7%	1.8%	-1.0%	2.2%	5.7%	9.1%	13.6%	12.4%	9.2%	4.2%	0.2%	
Old Dominion (ODFL)	20.3%	14.0%	9.6%	9.7%	10.7%	9.0%	5.3%	5.3%	3.5%	5.6%	9.6%	10.9%	13.9%	14.9%	18.7%	19.8%	11.4%	9.1%	6.6%
Roadrunner (RRTS)	1.5%	2.7%	6.0%	6.8%	11.0%	3.2%	6.6%	15.5%	17.1%	19.5%	13.0%	5.3%	2.8%	0.4%	1.0%	-0.3%	-8.0%	-11.4%	-18.1%
Saia (SAIA)	5.6%	4.5%	2.6%	1.5%	-1.9%	1.1%	-3.1%	-1.6%	-3.6%	-1.5%	1.5%	2.9%	5.7%	6.9%	8.2%	4.3%	-6.6%	-6.0%	-6.7%
UPS Freight (UPS)	12.4%	6.2%	-0.3%	-1.3%	-7.1%	-1.9%	2.5%	4.9%	5.1%	5.8%	3.2%	0.9%	-1.9%	1.6%	5.4%	4.8%	-0.1%	-5.0%	-10.2%
YRC National (YRCW)	8.7%	6.2%	4.2%	6.8%	3.5%	-3.3%	-4.6%	-5.5%	-5.4%	-3.6%	-0.4%	3.2%	1.7%	5.9%	1.2%	-2.7%	-4.9%	-6.2%	-6.2%
YRC Regional (YRCW)	16.2%	7.2%	5.6%	4.7%	6.0%	4.4%	0.3%	-1.5%	1.9%	1.2%	6.0%	8.9%	2.6%	6.7%	3.5%	1.0%	-1.9%	-2.7%	-3.5%
Median Tonnage Growth	7.6%	6.2%	3.4%	3.1%	3.0%	1.3%	0.0%	-0.1%	1.9%	0.1%	3.2%	3.2%	2.8%	6.0%	5.4%	4.3%	-1.9%	-3.0%	-6.2%

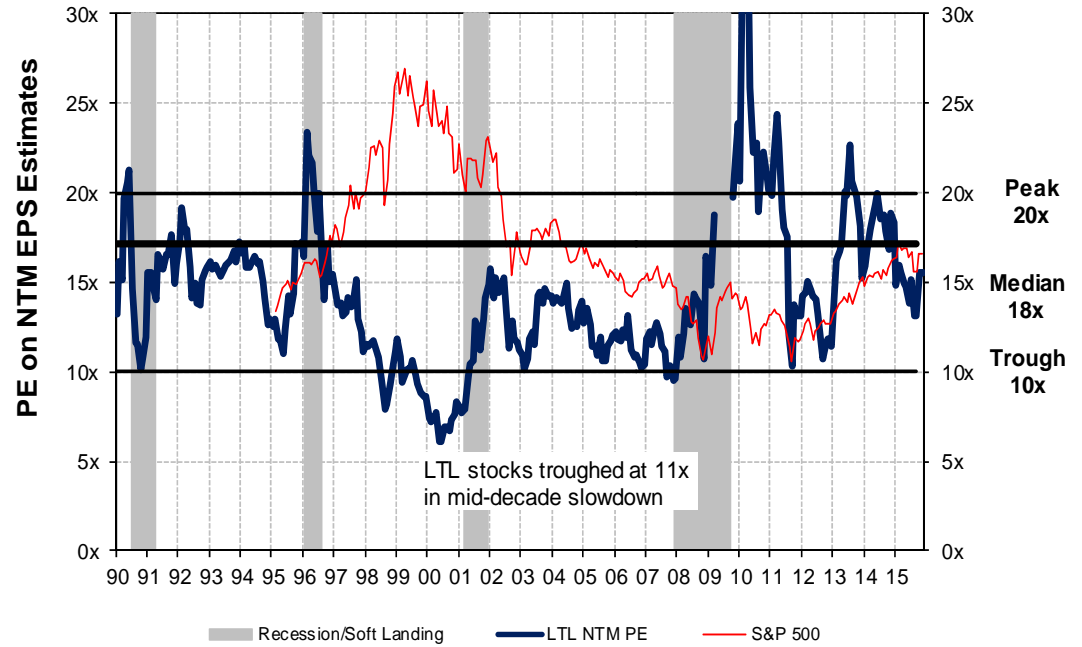
# Less-Than-Truckload



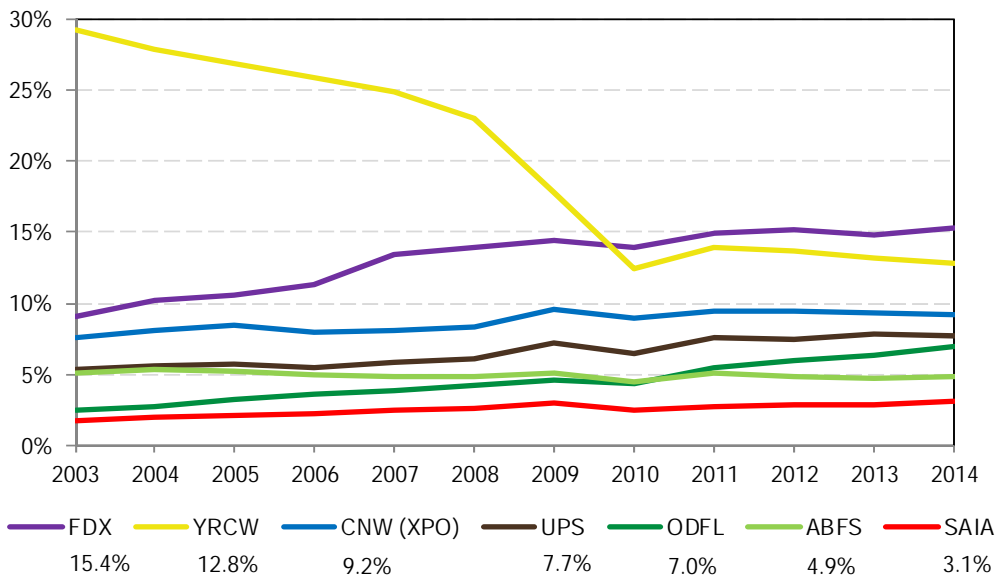
## Less-Than-Truckload Index Performance



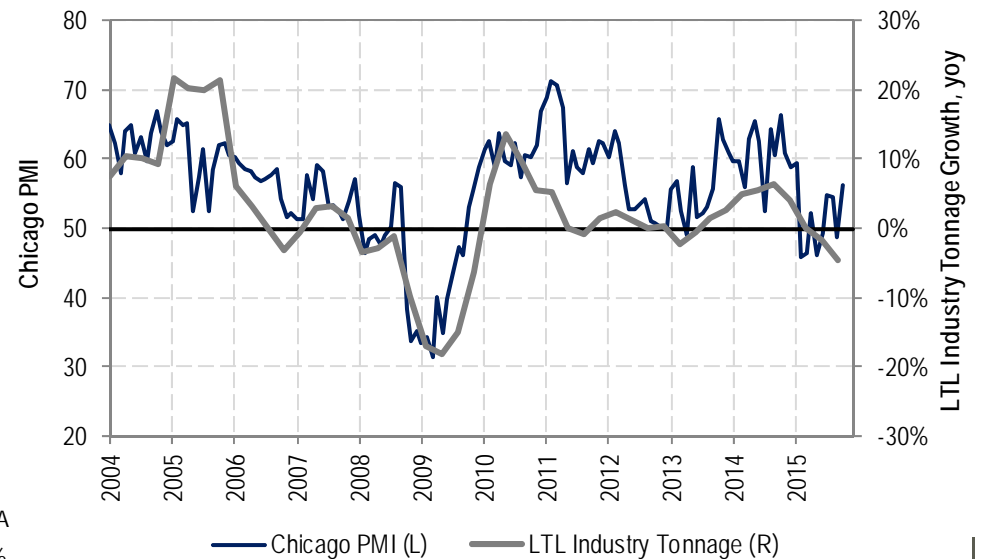
## Less-Than-Truckload Index: NTM P/E



## Less-Than-Truckload Market Share



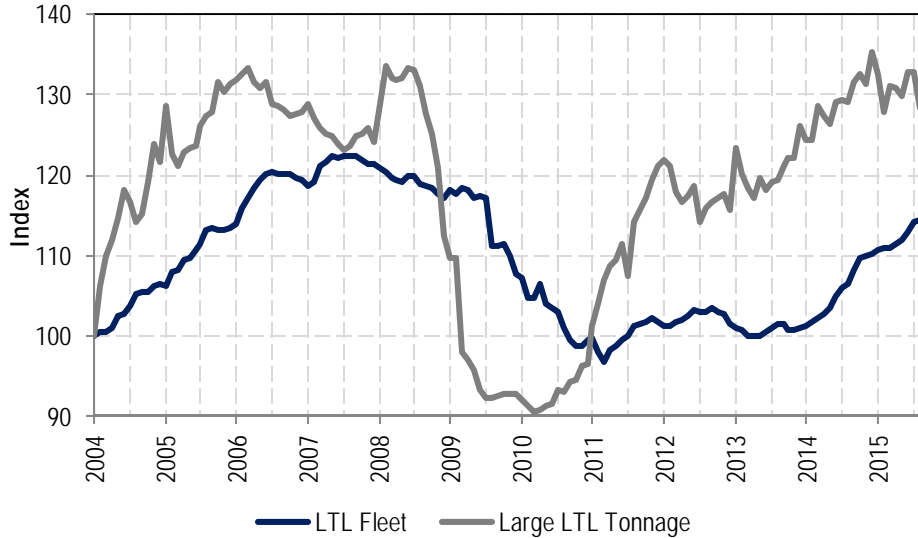
## LTL Industry Tonnage Growth vs. Chicago ISM



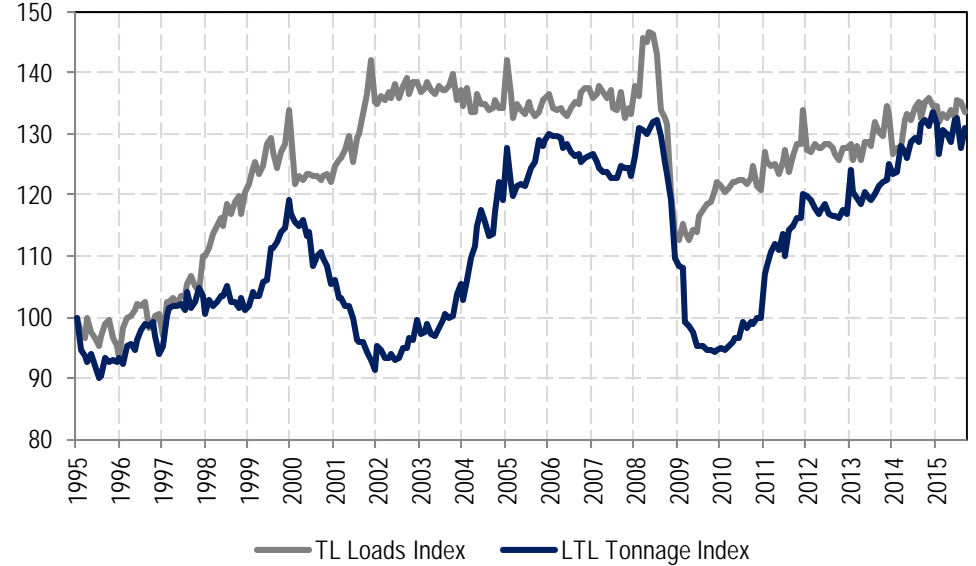
# LTL Operating Metrics



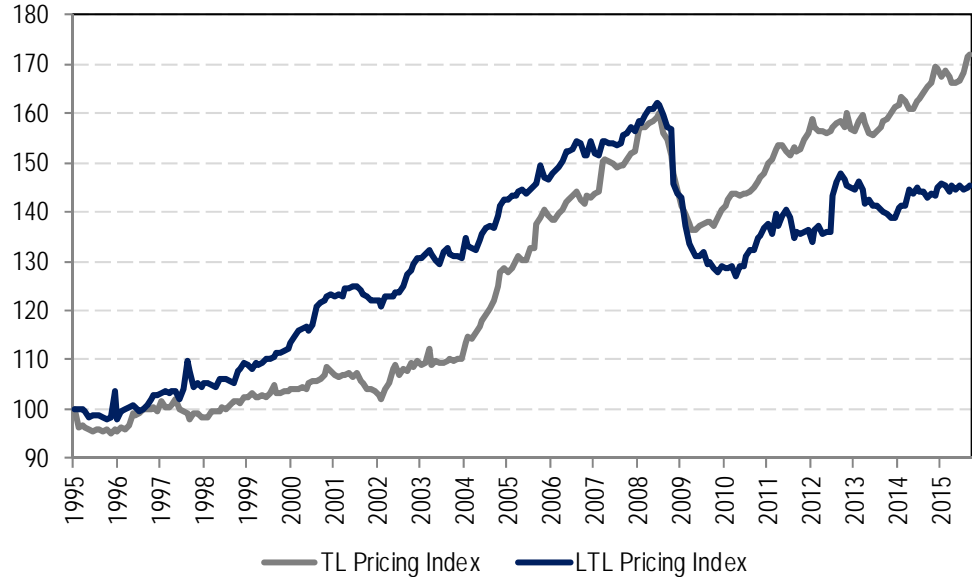
### Capacity Discipline in LTL



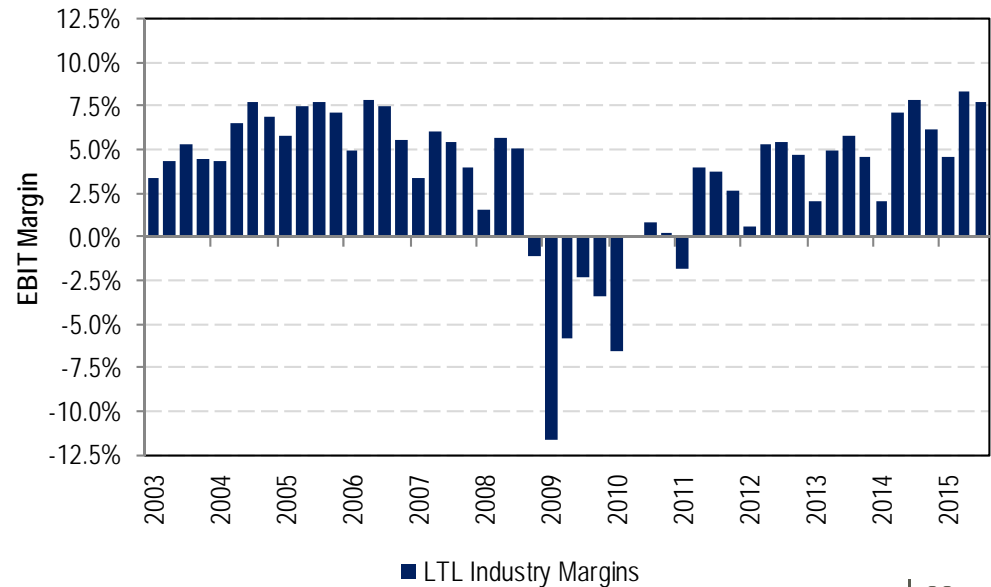
### LTL Tonnage Recovering



### LTL Pricing Has Softened Recently Despite Discipline



### And Margins Recovering from Recessionary Lows



# Railroads

## Valuation Metrics

Ticker	Company	Rating	Stock Metrics				Price Performance				P/E			EV/EBITDA			5-Year Avg		Yields	
			Price	Price	52-wk	Mkt. Cap	1M	3M	YTD	2014	2015E	2016E	Avg	2015E	2016E	Avg	ROE	ROIC	Div	FCF
CSX	CSX	O	29.31	\$31	38-24	28,782	7%	(1%)	(19%)	26%	14.7	14.0	14	7.6	7.5	7.4	19%	12%	2.5%	3.0%
NSC	Norfolk Southern	N	97.35	\$89	118-72	29,448	24%	18%	(11%)	18%	17.9	16.2	14	9.1	8.7	7.4	16%	11%	2.4%	2.8%
UNP	Union Pacific	N	86.87	\$103	125-79	75,212	(7%)	(6%)	(27%)	42%	15.1	13.8	15	8.4	7.9	8.3	20%	14%	2.5%	4.1%
CNI	Canadian National		# Calc		75-53	64,008	4%	0%	(0%)	32%	18.1	16.9	16	11.3	10.7	9.9				
CP	Canadian Pacific		# Calc		210-130	31,427	3%	(2%)	(11%)	39%	19.3	16.8	20	11.9	11.0	11.2				
KSU	Kansas City Southern		93.75		126-82	10,303	7%	(6%)	(23%)	(1%)	21.1	19.1	21	11.7	10.8	11.8				
GWR	Genesee & Wyoming		72.61		105-57	4,200	13%	(4%)	(19%)	(6%)	19.2	16.9	19	10.8	9.8	12.7				
<b>Rail Median Values</b>							7%	(2%)	(19%)	26%	18.1	16.8	16	10.8	9.8	9.9				

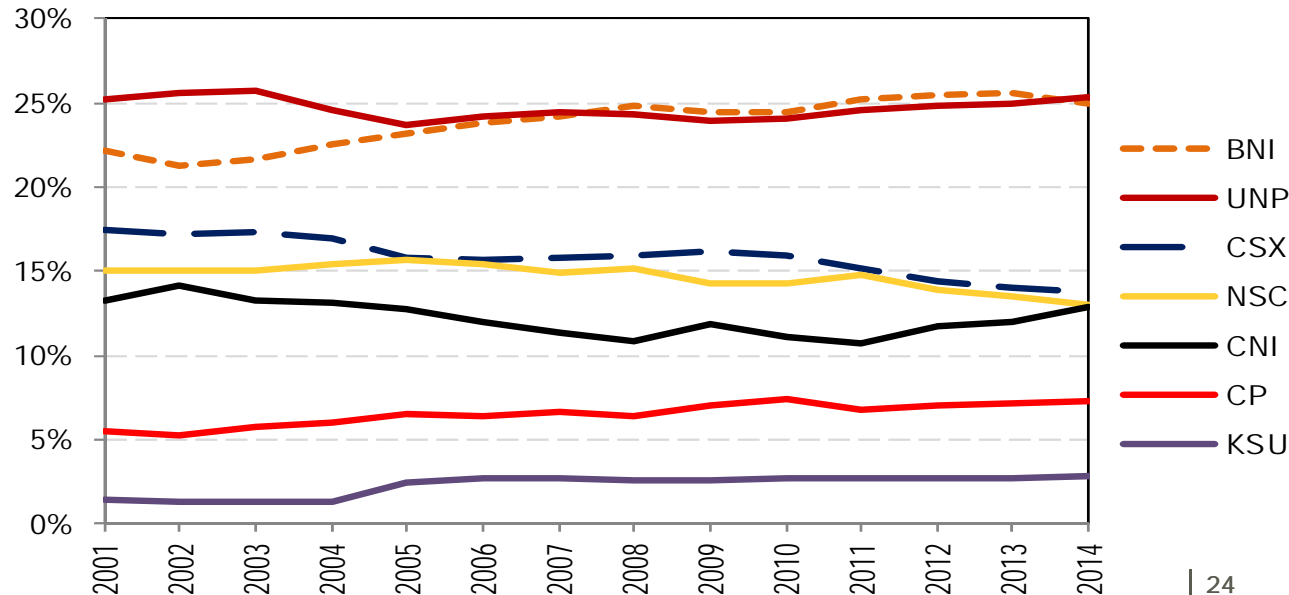
## Operating Ratio

Year	BNSF	CNI	CP	CSX	NSC	UNP
1994	83.3%	89.4%	83.8%	79.9%	73.4%	77.9%
1995	69.2%	88.9%	87.6%	77.9%	73.6%	82.1%
1996	78.4%	84.7%	83.4%	77.0%	71.7%	82.6%
1997	78.9%	75.3%	81.4%	75.4%	71.5%	88.7%
1998	75.9%	75.1%	79.2%	79.8%	75.3%	96.4%
1999	76.0%	72.0%	78.2%	76.6%	85.4%	84.0%
2000	77.1%	69.6%	76.9%	79.3%	87.1%	83.0%
2001	80.4%	68.6%	77.0%	89.5%	83.7%	81.4%
2002	81.6%	75.5%	80.1%	91.5%	81.5%	79.8%
2003	82.3%	76.8%	79.8%	87.9%	81.9%	81.5%
2004	80.3%	65.9%	77.2%	86.8%	76.7%	87.9%
2005	77.0%	64.8%	77.2%	82.0%	75.4%	86.8%
2006	76.7%	61.8%	75.4%	79.5%	72.8%	81.5%
2007	77.4%	63.6%	75.3%	77.7%	72.6%	79.3%
2008	77.2%	65.9%	78.9%	75.4%	71.0%	77.3%
2009	76.4%	67.3%	81.7%	74.9%	75.4%	76.1%
2010	73.3%	63.6%	77.6%	71.1%	71.9%	70.6%
2011	72.8%	63.5%	81.3%	70.9%	70.7%	70.7%
2012	71.1%	62.9%	77.0%	70.6%	71.7%	67.8%
2013	69.7%	63.4%	69.9%	71.1%	71.0%	66.1%
2014		61.9%	64.7%	71.5%	69.2%	63.5%

## Yield Growth (revenue per carload, yoy)

Company	2011				2012				2013				2014				2015		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
CSX (CSX)	5.3%	10.1%	10.4%	9.5%	4.9%	-0.7%	-1.1%	1.3%	1.4%	1.0%	0.9%	-1.2%	-1.0%	-1.0%	0.4%	-0.7%	-0.4%	-4.4%	-6.3%
Norfolk Southern (NSC)	8.3%	13.5%	13.9%	10.6%	5.2%	-0.4%	-5.5%	-3.3%	-4.7%	-4.6%	0.8%	3.3%	-0.6%	0.6%	-0.7%	-3.8%	-6.6%	-8.7%	-7.2%
Union Pacific (UNP)	7.6%	12.7%	14.3%	12.8%	12.1%	6.4%	4.2%	4.6%	5.7%	5.4%	4.7%	5.6%	1.1%	1.5%	3.4%	2.9%	1.3%	-4.9%	-4.4%

## Market Share by Revenue



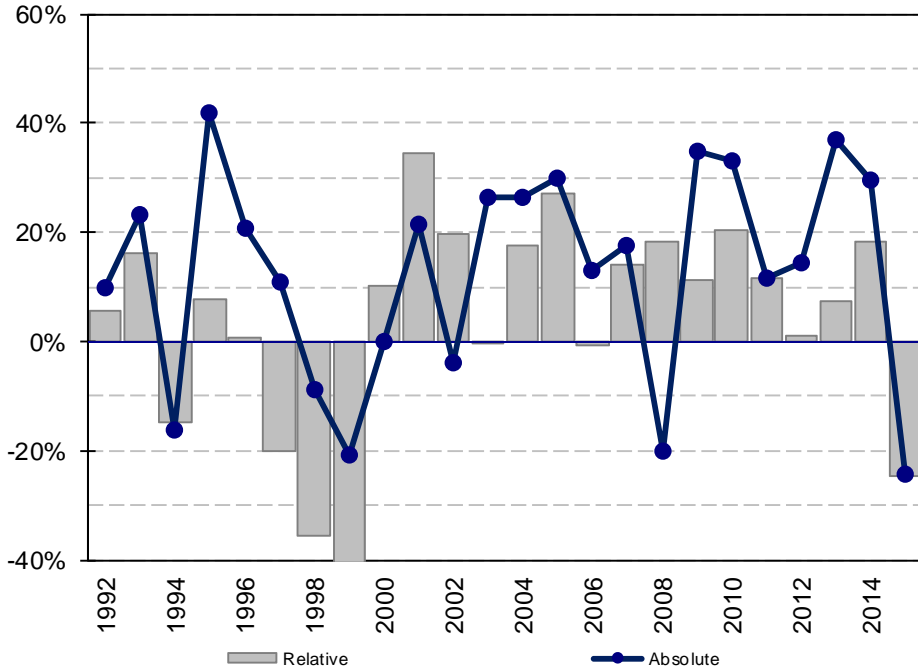
Note: All ORs ex special charges and in USD

Source: Baird estimates, Bloomberg, Company data, FactSet

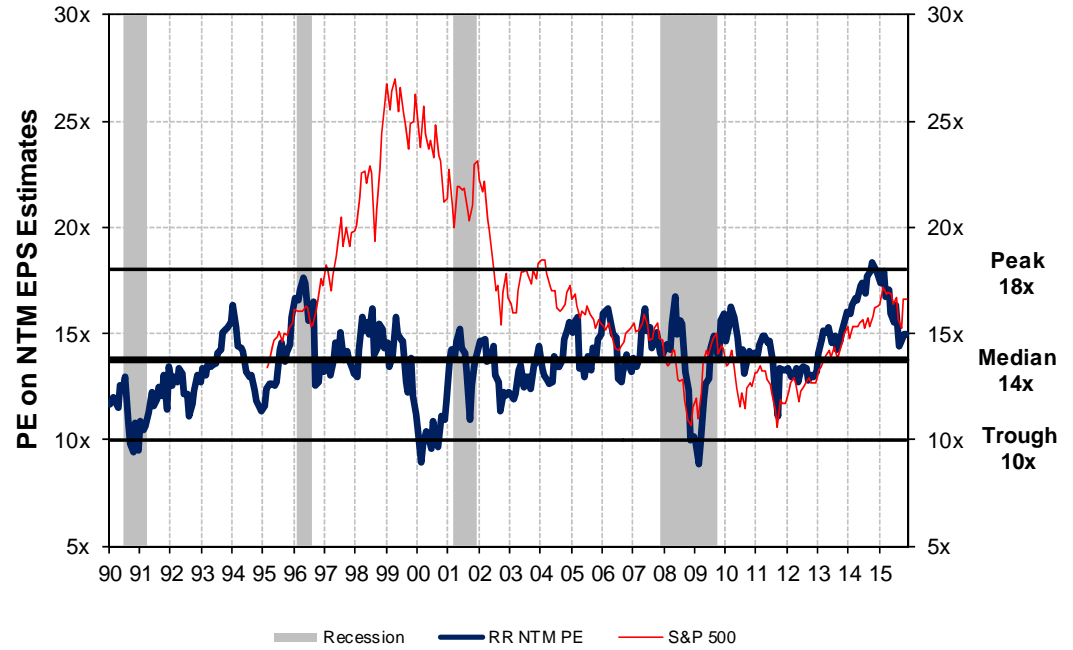


# Railroads

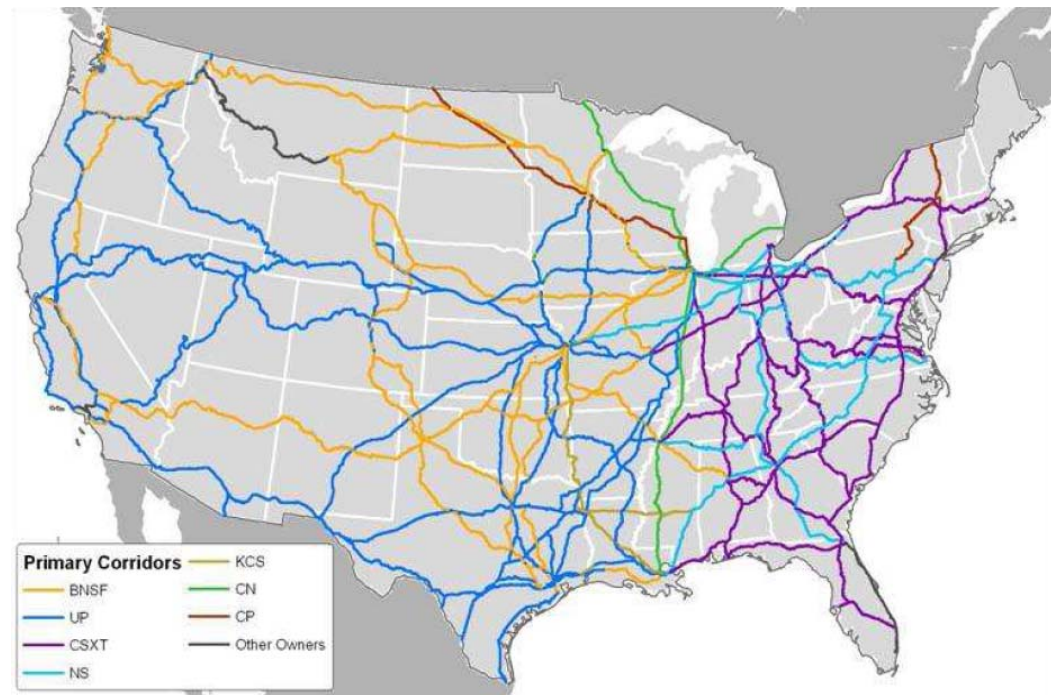
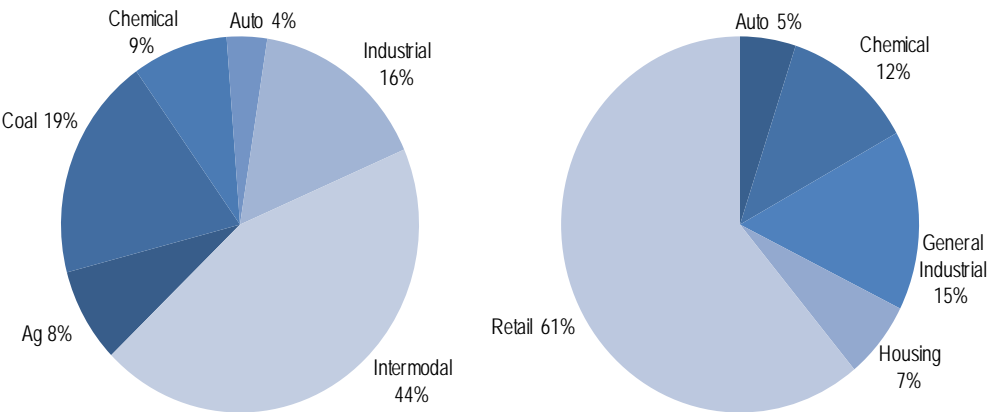
### Railroad Index Performance



### Railroad Index: NTM P/E

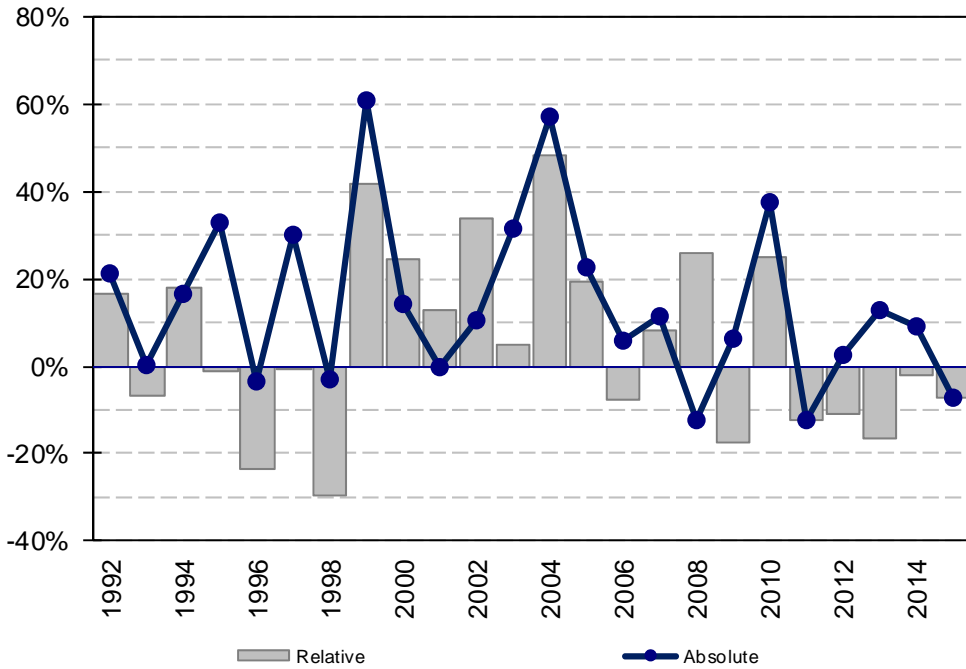


### Downside Protection for a Majority of Freight

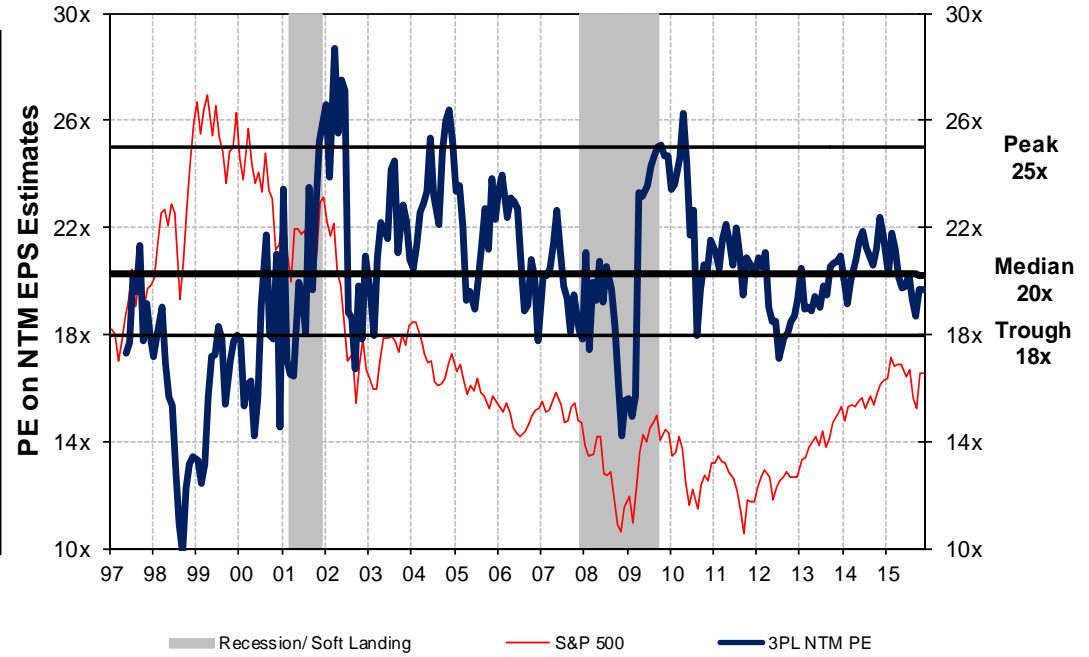


# International Freight Forwarders/Domestic 3PLs

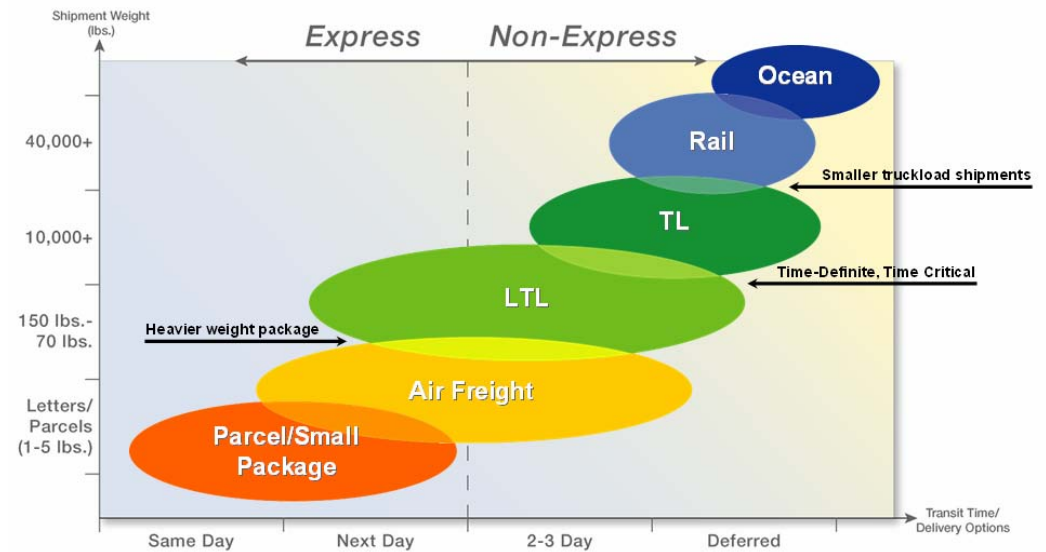
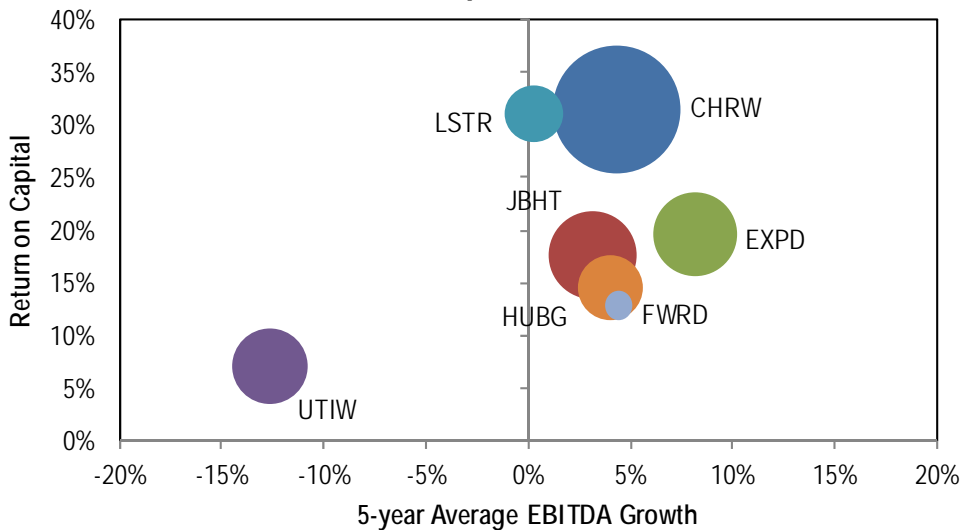
### 3PL Index Performance



### 3PL Index: NTM P/E



### 3PL Return on Capital vs. EBITDA Growth



\*Bubble size represents 2012 revenue

# International Freight Forwarders

## Valuation Metrics

Ticker	Company	Rating	Stock Metrics				Price Performance				P/E			EV/EBITDA			5-Year Avg		Yields	
			Price	Price	52-wk	Mkt Cap	1M	3M	YTD	2014	2015E	2016E	Avg	2015E	2016E	Avg	ROE	ROIC	Div	FCF
			11/19/15	Target	H-L	(000)														
EXPD	Expeditors Intl	N	49.25	\$52	52-42	9,340	(1%)	(1%)	10%	1%	20.5	20.2	23	10.9	10.9	12.2	19%	18%	1.5%	3.8%
KNIN-SWX	Kuehne & Nagel		135.90		154-125	16,326	3%	1%	0%	16%	23.9	22.4	23	15.6	14.9	12.5	24%	24%	5.2%	4.9%
PWTN-SWX	Panalpina		110.90		153-107	3,338	-4%	-9%	(17%)	(11%)	27.8	20.6	36	13.0	10.5	12.4	3%	3%	2.3%	5.6%
<b>International 3PL Median Values</b>							(1%)	(1%)	0%	1%	23.9	20.6	23	13.0	10.9	12.4				

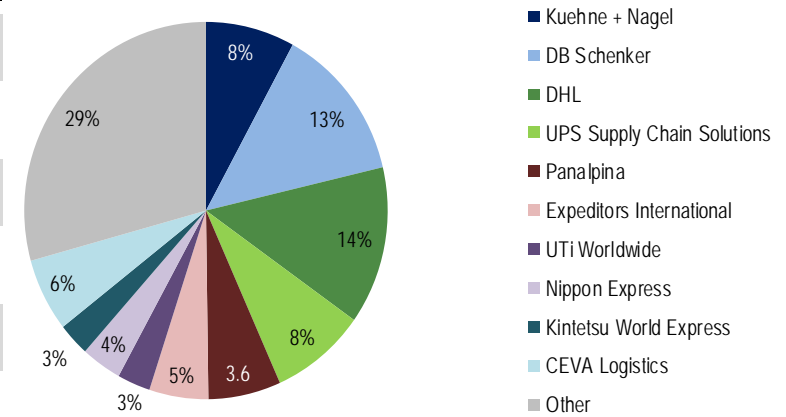
## Forwarding Volume Growth

		C2009	C2010	C2011	C2012	C2013	1Q14	2Q14	3Q14	4Q14	C2014	1Q15	2Q15	3Q15
DHL	Air	-13%	19%	-1%	-5%	-5%	0%	2%	5%	3%	2%	0%	-7%	-13%
	Ocean	-9%	5%	-1%	4%	0%	5%	6%	5%	3%	5%	2%	0%	-1%
DSV	Air	-11%	29%	5%	-1%	0%	12%	11%	14%	8%	11%	8%	10%	10%
	Ocean	-17%	19%	3%	0%	6%	10%	9%	8%	7%	8%	4%	2%	2%
EXPD	Air	-13%	35%	0%	-6%	3%	6%	6%	12%	11%	10%	13%	9%	3%
	Ocean	-17%	20%	2%	-2%	6%	12%	12%	11%	9%	11%	12%	5%	0%
Kuehne + Nagel	Air	-9%	25%	13%	2%	4%	1%	6%	6%	7%	5%	7%	4%	5%
	Ocean	-5%	16%	11%	6%	3%	7%	9%	7%	3%	7%	-1%	-3%	0%
Panalpina	Air	-19%	22%	-5%	-6%	3%	6%	2%	4%	4%	4%	1%	-5%	-3%
	Ocean	-14%	13%	6%	6%	8%	6%	9%	9%	6%	7%	5%	1%	-3%
UTIW	Air	-5%	27%	-2%	-10%	2%	2%	-9%	-6%	-7%	-5%	-4%	-7%	
	Ocean	-7%	15%	2%	2%	11%	1%	-3%	5%	-5%	0%	-6%	-10%	

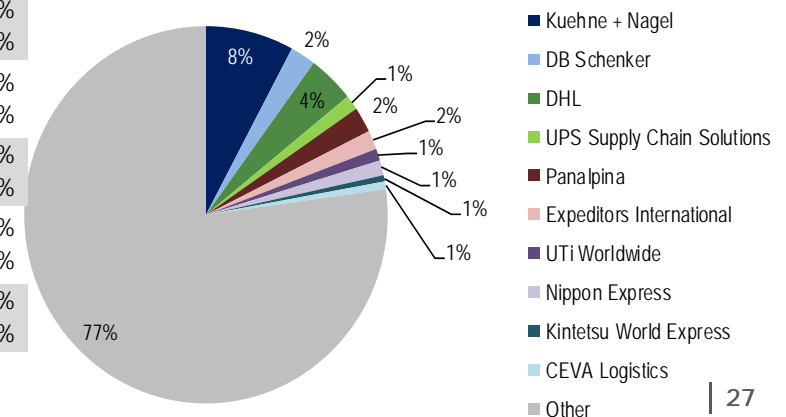
## Forwarding Yield Trends

		C2009	C2010	C2011	C2012	C2013	1Q14	2Q14	3Q14	4Q14	C2014	1Q15	2Q15	3Q15
DHL	Air	21.5%	19.2%	19.9%	20.7%	20.2%	19.1%	19.5%	17.3%	16.4%	18.0%	17.1%	19.3%	19.7%
	Ocean	21.0%	16.7%	18.8%	18.9%	19.3%	18.5%	19.1%	17.7%	18.0%	18.3%	14.6%	16.5%	18.3%
DSV	Air	24.9%	21.0%	21.6%	22.6%	21.9%	21.8%	21.2%	22.0%	20.8%	21.4%	23.9%	23.8%	25.0%
	Ocean	24.1%	18.5%	21.6%	20.7%	20.8%	20.4%	20.8%	20.2%	20.1%	20.4%	21.8%	23.6%	25.7%
EXPD	Air	26.7%	22.7%	24.2%	23.7%	24.3%	25.4%	24.6%	24.7%	23.0%	24.3%	27.5%	26.9%	29.6%
	Ocean	25.0%	19.7%	23.2%	21.9%	22.3%	21.7%	21.0%	20.8%	21.5%	21.2%	21.3%	24.9%	25.7%
Kuehne + Nagel	Air	16.6%	13.3%	13.9%	14.8%	15.2%	15.7%	15.3%	15.2%	13.8%	15.0%	15.9%	16.5%	16.6%
	Ocean	17.7%	14.4%	16.3%	15.3%	15.7%	16.3%	15.6%	15.5%	15.0%	15.6%	15.8%	16.4%	17.0%
Panalpina	Air	20.7%	19.0%	21.0%	20.2%	20.7%	20.6%	20.6%	19.9%	19.9%	20.3%	22.4%	22.9%	22.4%
	Ocean	19.4%	16.3%	19.0%	17.6%	17.7%	18.4%	17.7%	16.7%	16.7%	17.3%	17.4%	18.3%	18.9%
UTIW*	Air	23.9%	20.8%	21.6%	21.9%	22.1%	23.9%	23.1%	21.3%	18.1%	21.7%	21.6%	23.3%	
	Ocean	19.5%	16.2%	17.1%	17.0%	16.5%	17.4%	16.8%	18.1%	8.7%	15.4%	11.9%	16.2%	

## Airfreight

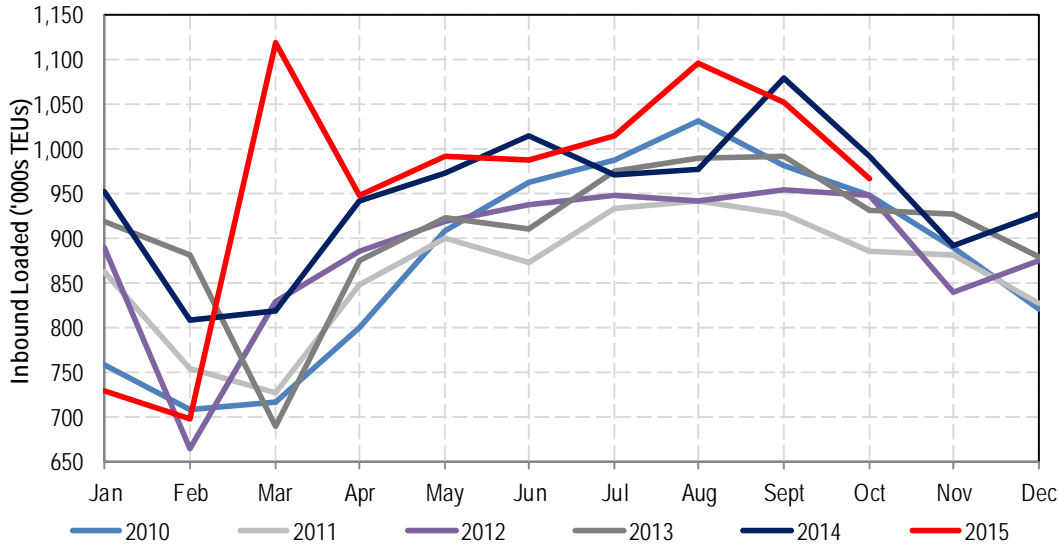


## Ocean Freight

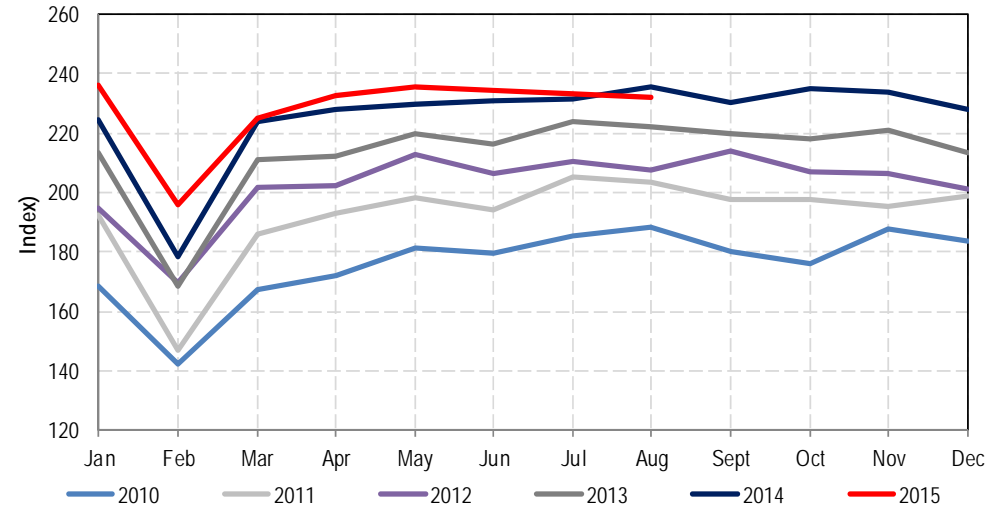


# International Ocean Freight Metrics

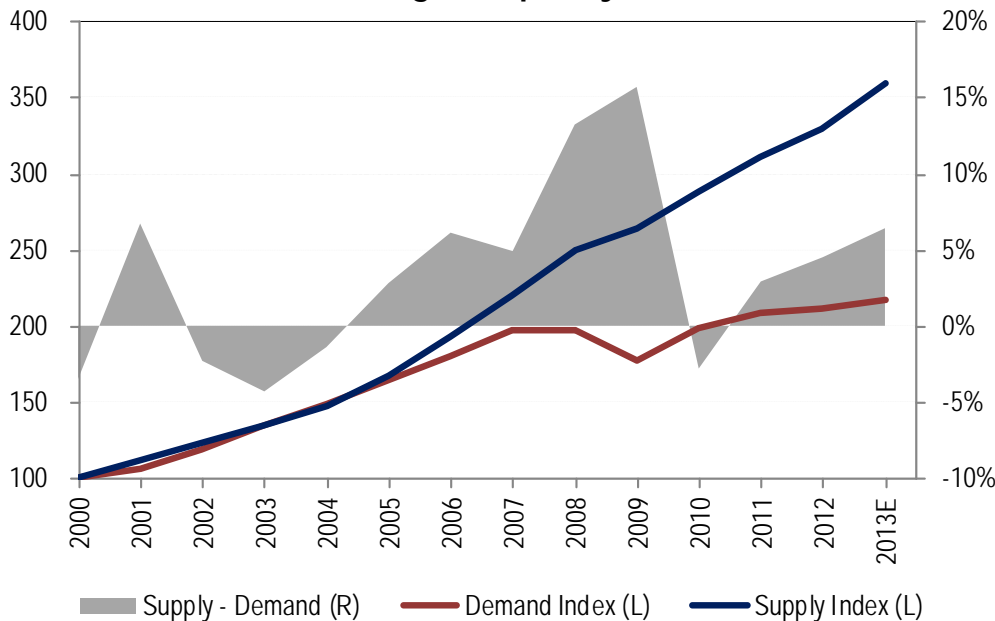
### West Coast Ports' Import Volume



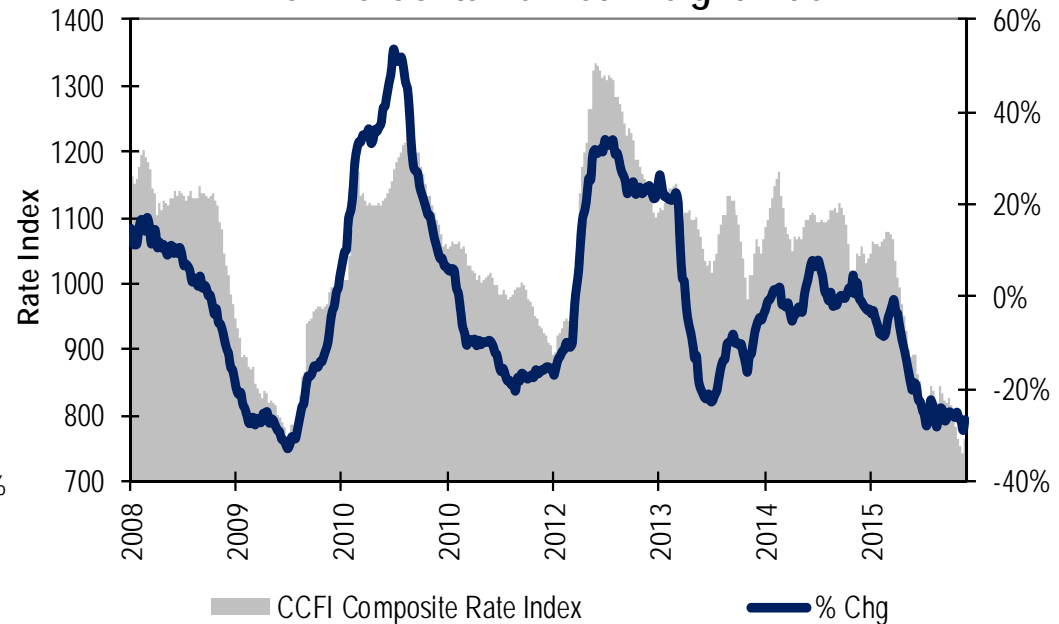
### Baird Asia Port Index



### Ocean Freight Capacity Outlook



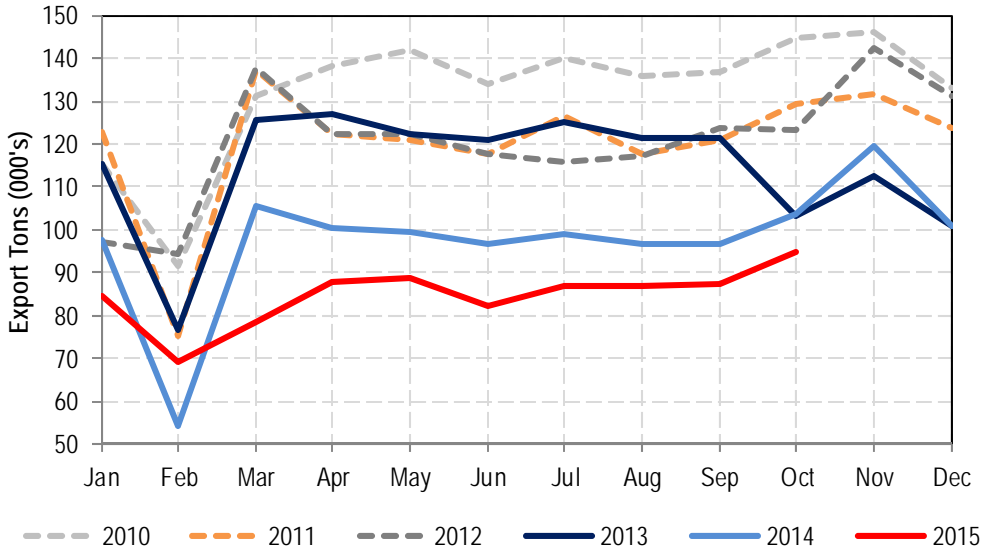
### China Containerized Freight Index



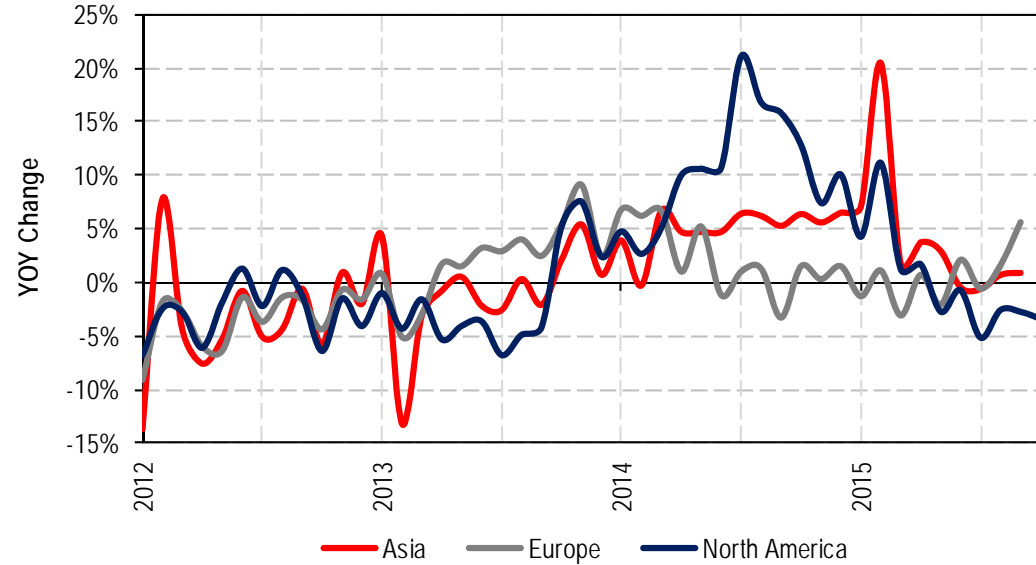
# International Airfreight Metrics



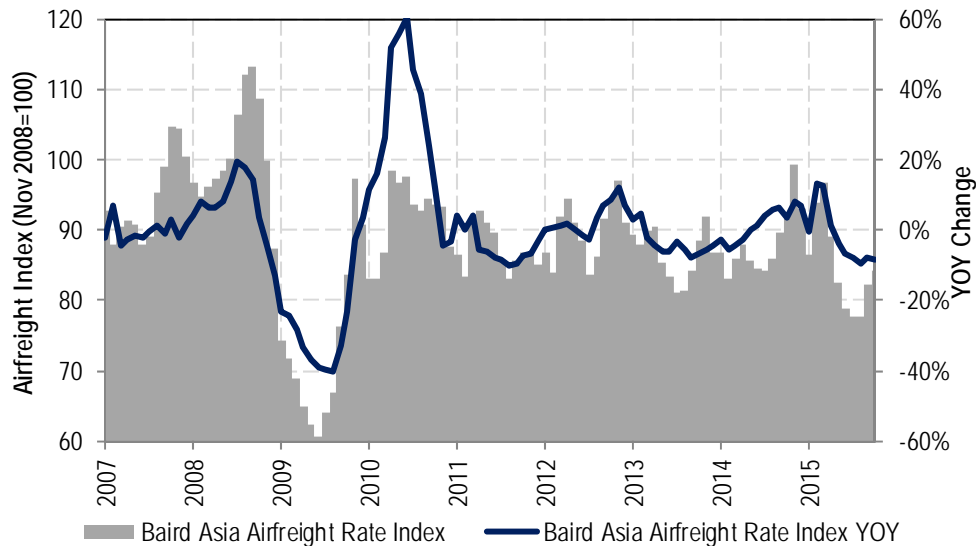
### HACTL Total Export Tonnage



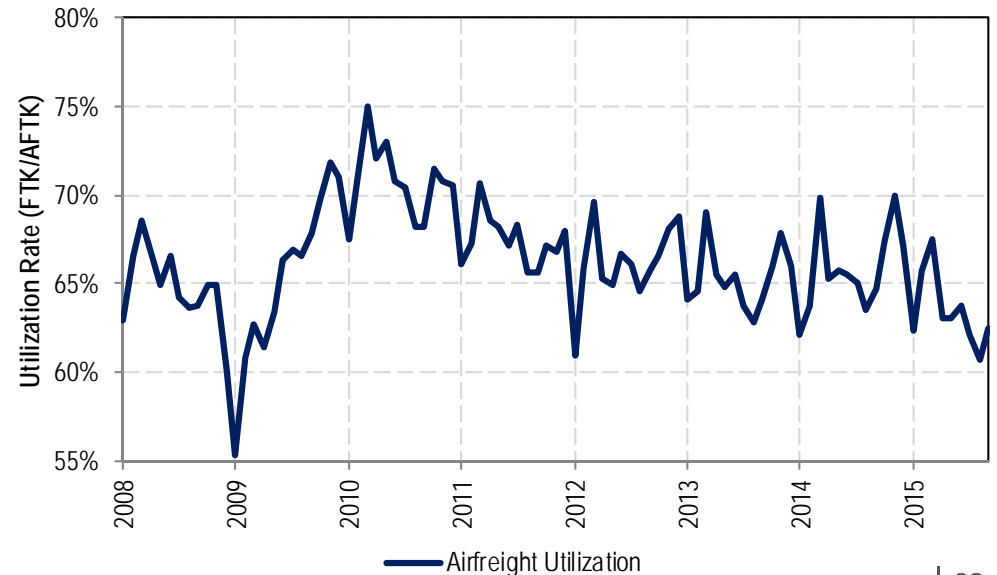
### Baird Airfreight Regional Demand Indices



### Airfreight Rate Index



### Asian and European Airfreight Capacity Utilization



## Valuation Metrics

Ticker	Company	Rating	Stock Metrics				Price Performance				P/E			EV/EBITDA			5-Year Avg		Yields	
			Price	Price	52-wk	Mkt. Cap	1M	3M	YTD	2014	2015E	2016E	Avg	2015E	2016E	Avg	ROE	ROIC	Div	FCF
FDX	FedEx Corp	O	163.31	\$182	185-130	46,707	7%	(1%)	(6%)	21%	15.3	15.3	15	6.6	5.9	6.9	13%	11%	0.6%	2.2%
UPS	United Parcel Service	N	104.05	\$111	114-94	93,957	0%	1%	(6%)	6%	19.7	18.0	17	10.5	9.9	12.0	71%	27%	2.8%	3.6%
DPW-DE	Deutsche Post		26.84		34-26	33,653	4%	3%	(1%)	2%	21.2	14.1	10	8.4	7.4	6.4	19%	13%	3.2%	2.3%
TNTE-NL	TNT Express NV		7.68		9-6	4,217	13%	1%	39%	(18%)	62.5	30.9	20	13.0	9.9	7.2	(4%)	(4%)	1%	(3%)
<b>Parcel Median Values</b>							6%	1%	(3%)	4%	20.4	16.7	16	9.5	8.6	7.1				

## International Express Growth

## Domestic Ground Growth

	2007-2013							2014				2015			Domestic Yield Growth	2007-2013							2014				2015					
	2007	2008	2009	2010	2011	2012	2013	1Q14	2Q14	3Q14	4Q14	2014	1Q15	2Q15		3Q15	2007	2008	2009	2010	2011	2012	2013	1Q14	2Q14	3Q14	4Q14	2014	1Q15	2Q15	3Q15***	
Int'l Yield Growth	FDX	4.4%	9.4%	-14.3%	3.9%	10.4%	3.0%	-1.4%	1.0%	1.9%	3.0%	-0.1%	1.0%	-3.9%	-8.3%	-6.6%	FDX	0.0%	0.0%	-1.4%	4.5%	7.8%	7.7%	1.7%	1.3%	2.4%	3.1%	3.1%	2.6%	3.1%	2.3%	4.0%
	UPS	3.9%	3.7%	-12.0%	3.2%	2.9%	-2.6%	-4.6%	-2.3%	-2.5%	-3.4%	-5.1%	-3.4%	-10.3%	-10.1%	-7.9%	UPS	2.9%	3.9%	-3.0%	3.2%	4.7%	1.5%	0.9%	-1.7%	-1.9%	-1.4%	-0.7%	-1.4%	3.2%	1.2%	0.6%
Int'l Volume Growth	FDX	5%	-2%	-4%	16%	0%	1%	1%	-1%	2%	1%	2%	1%	1%	-1%	-8%	Domestic Volume Growth															
	UPS	10%	7%	-2%	11%	6%	3%	6%	7.7%	9.1%	9.4%	5.2%	7.8%	6.7%	5.5%	1%	**FDX	4.8%	11.3%	9.8%	9.0%	9.2%	12.3%	5.7%	3.1%	0.8%	1.8%	2.5%	2.0%	3.5%	4.1%	
Int'l Revenue Growth	FDX	10%	-11%	-17%	21%	11%	0%	-1%	1%	2%	4%	2%	2%	-3%	-9%	1%	UPS	0.6%	-1.4%	-4.8%	2.2%	0.8%	3.2%	4.1%	4.4%	8.1%	7.7%	7.1%	6.9%	2.0%	0.9%	-1%
	UPS	14%	11%	-13%	15%	10%	0%	1%	5.2%	6.4%	5.6%	1.5%	4.6%	-4.3%	-5.2%	-5%	Total Dom Revenue Growth															
																	FDX	12.4%	8.0%	1.3%	12.6%	14.5%	10.2%	10.9%	10.3%	8.3%	8.4%	7.5%	8.8%	11.9%	18.7%	29.4%
																	UPS	3.1%	2.4%	-7.2%	5.5%	6.0%	3.9%	5.0%	2.5%	6.1%	6.1%	8.2%	5.8%	5.3%	2.1%	1%

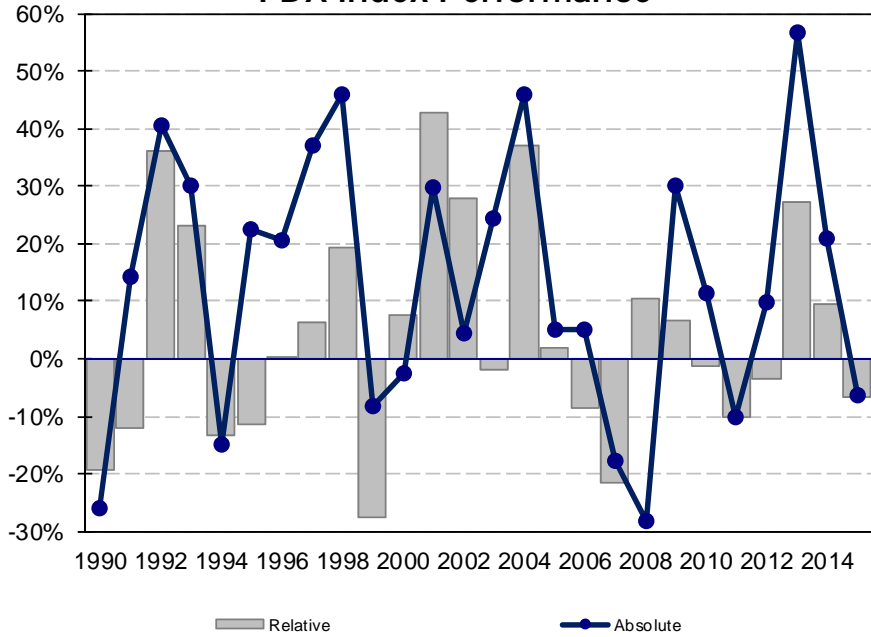
## Domestic Express Growth

	2007	2008	2009	2010	2011	2012	2013	1Q14	2Q14	3Q14	4Q14	2014	1Q15	2Q15	3Q15	
Domestic Yield Growth	FDX	0.6%	7.9%	-17.6%	5.3%	10.1%	8.1%	0.8%	0.4%	-0.2%	1.0%	-1.6%	-0.3%	-2.3%	-3.8%	-2.6%
	UPS	-0.2%	3.3%	-17.1%	6.4%	6.0%	-2.0%	-0.8%	-0.8%	-0.4%	0.1%	0.4%	-0.2%	-4.1%	-6.1%	-5.9%
Domestic Volume Growth	FDX	-1%	-5%	0%	2%	-2%	-4%	1%	0%	3%	5%	7%	4%	4%	2%	1%
	UPS	0%	-5%	1%	0%	2%	6%	2%	4%	3%	3%	4%	4%	5%	7%	8%
Total Dom Revenue Growth	FDX	0%	-1%	-17%	7%	8%	0%	1%	3%	1%	6%	5%	3%	1%	-1%	0%
	UPS	-1%	-2%	-16%	6%	8%	3%	1%	3%	3%	3%	6%	4%	0%	0%	3%

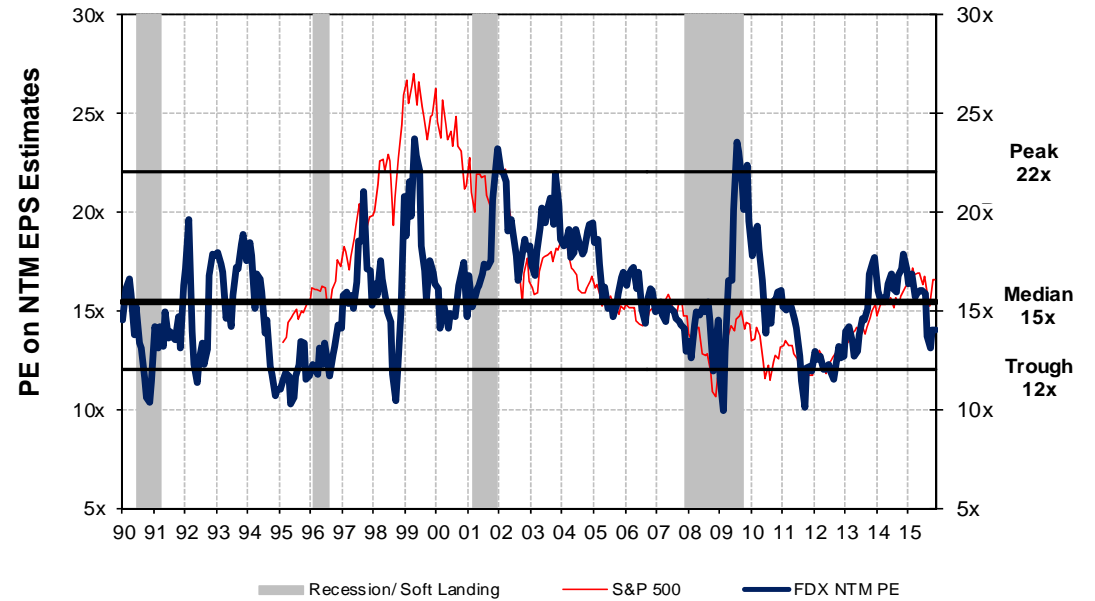
# Integrators



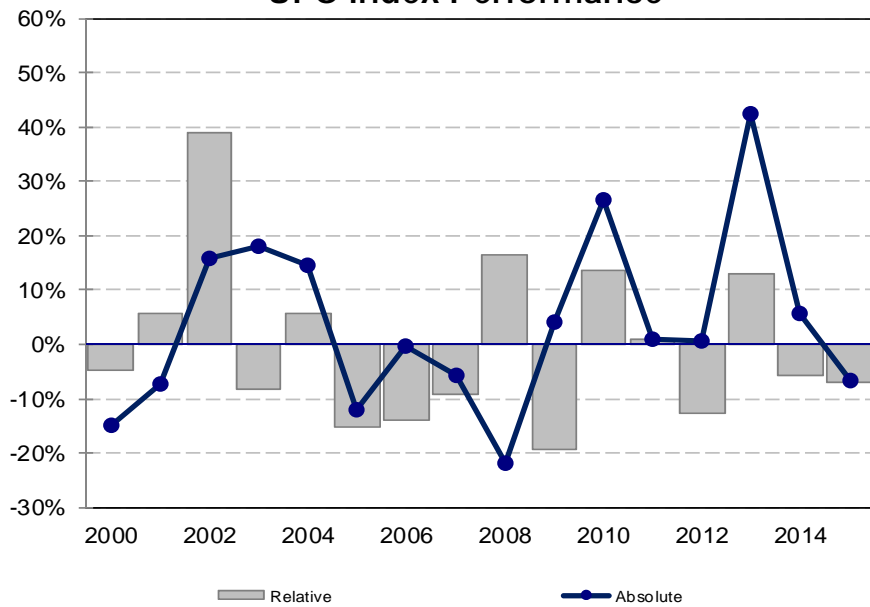
### FDX Index Performance



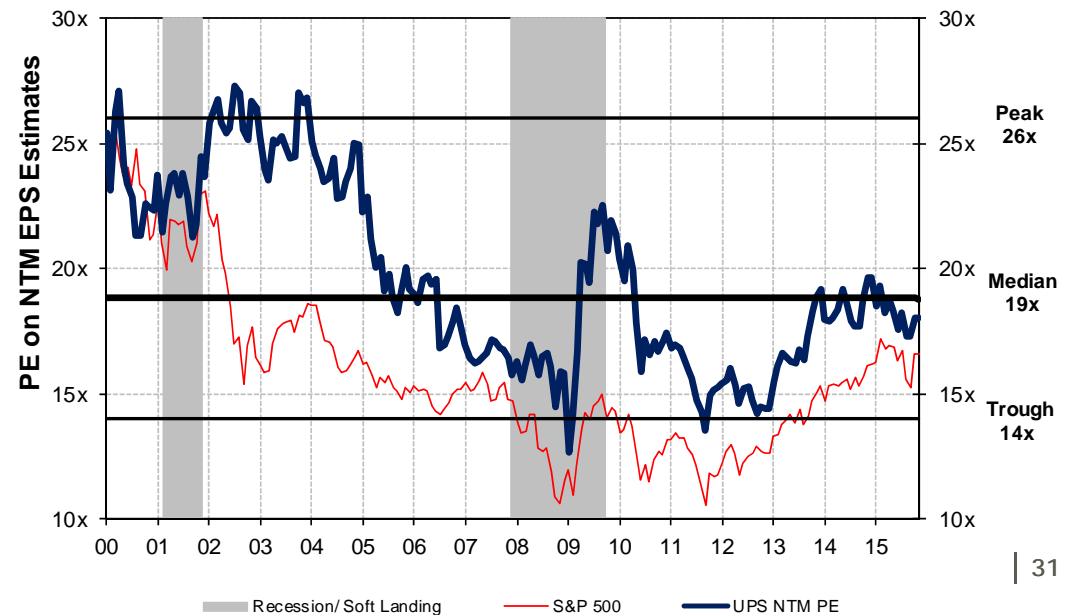
### FDX Index: NTM P/E



### UPS Index Performance

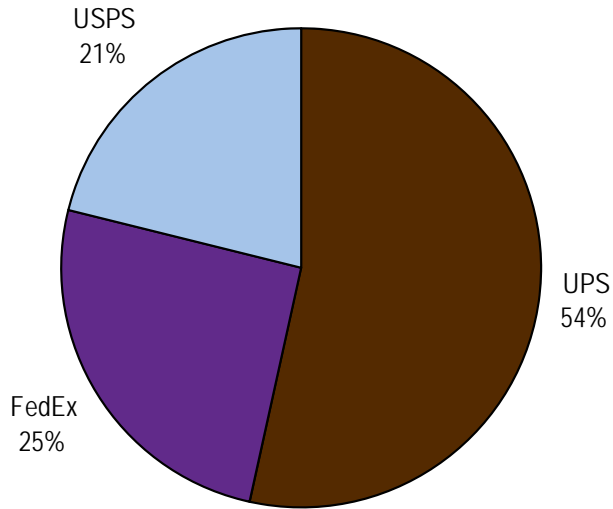


### UPS Index: NTM P/E

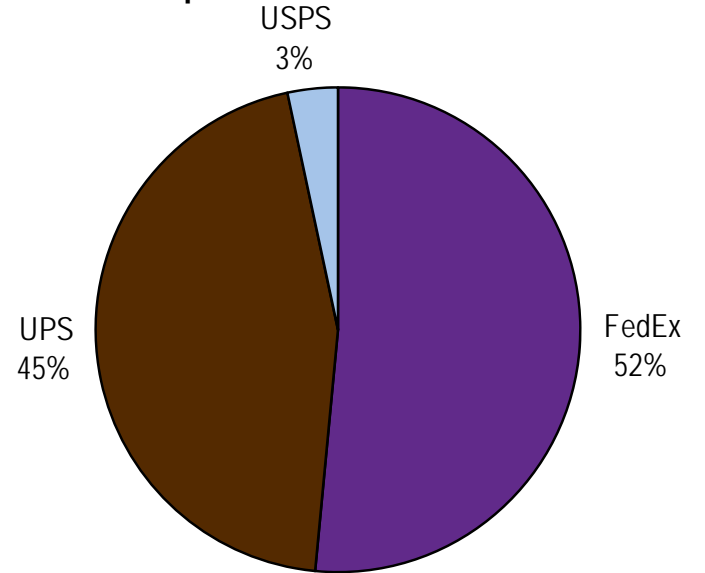


# Parcel Market Share

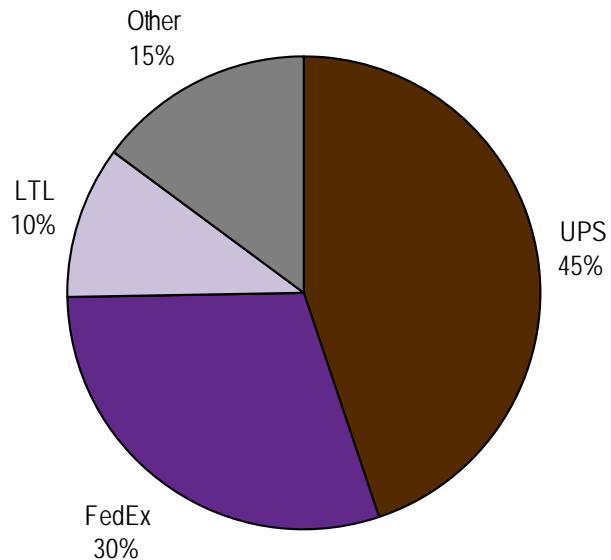
Domestic Ground Market: \$55-60 bln



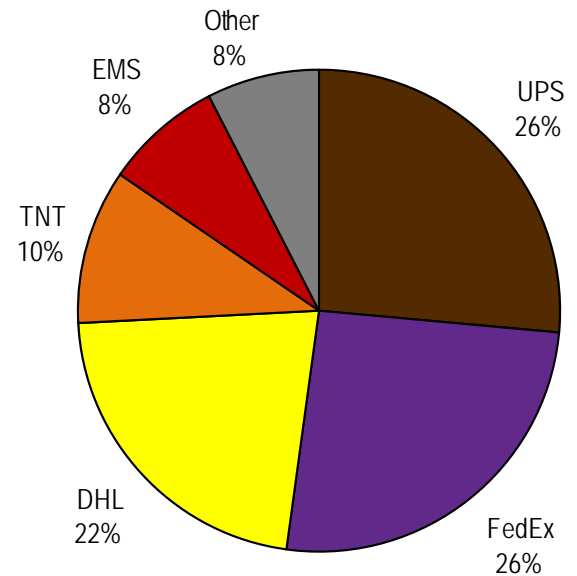
Domestic Express Market: \$20-25 bln



Total Domestic Market: \$75-80 bln



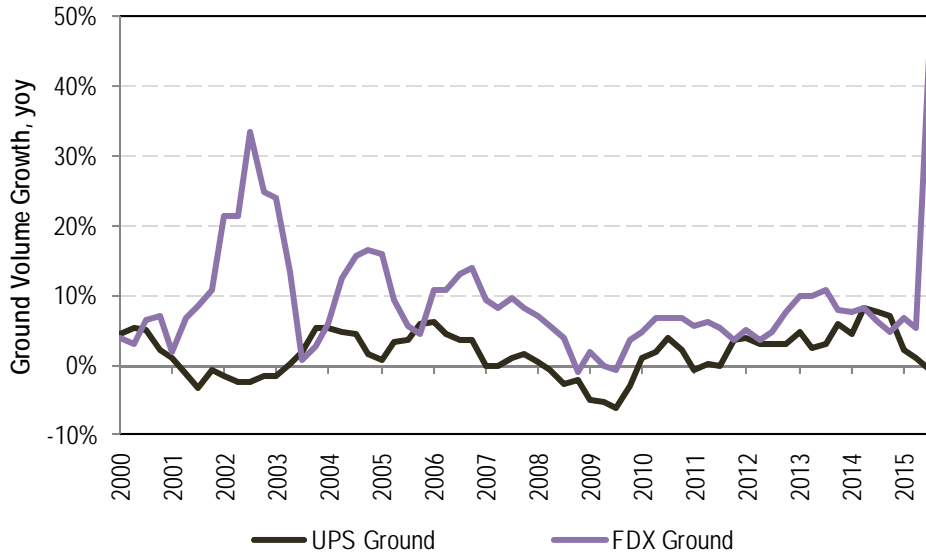
Global Express Market: \$85-90 bln



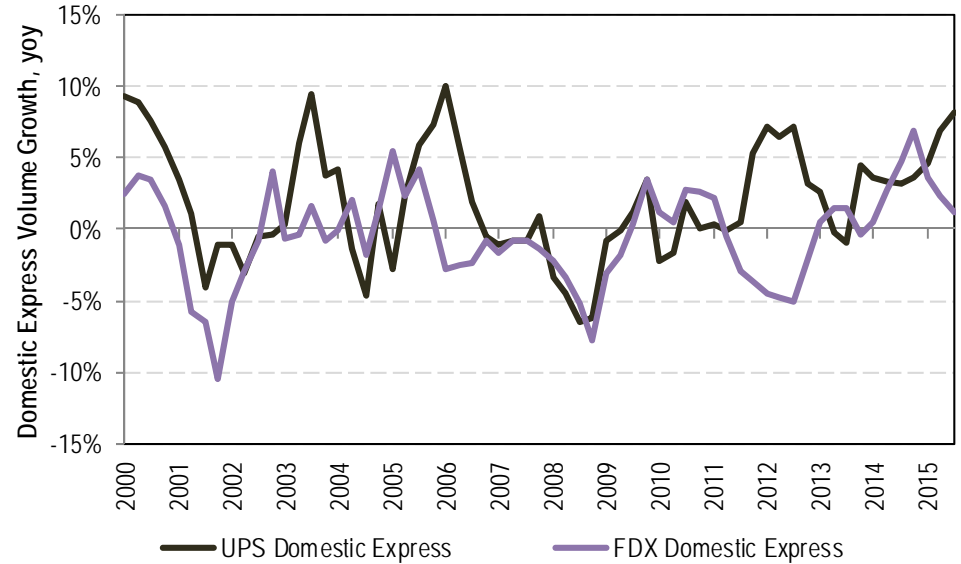


# FDX vs. UPS Volume Growth Comparison

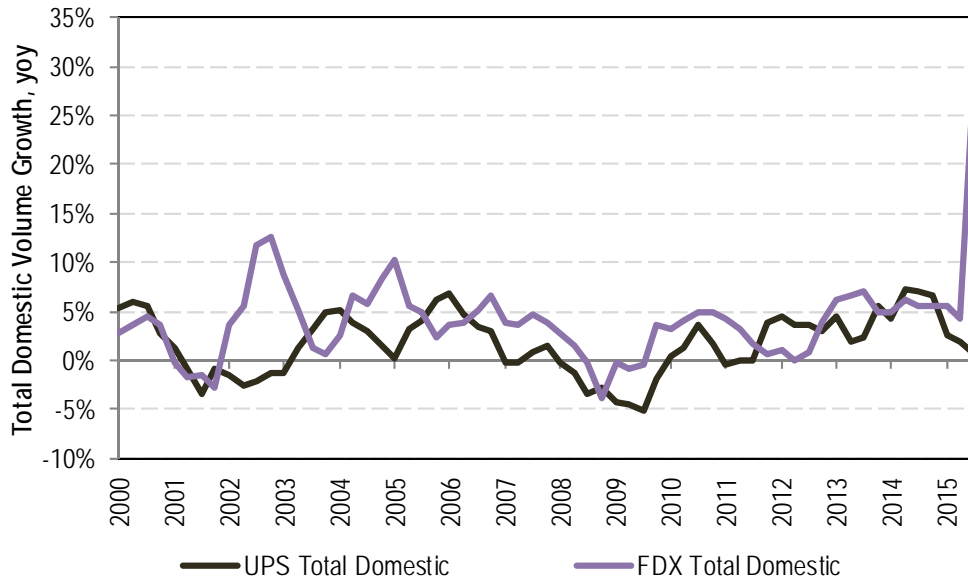
### Domestic Ground Market : \$45-50 bln



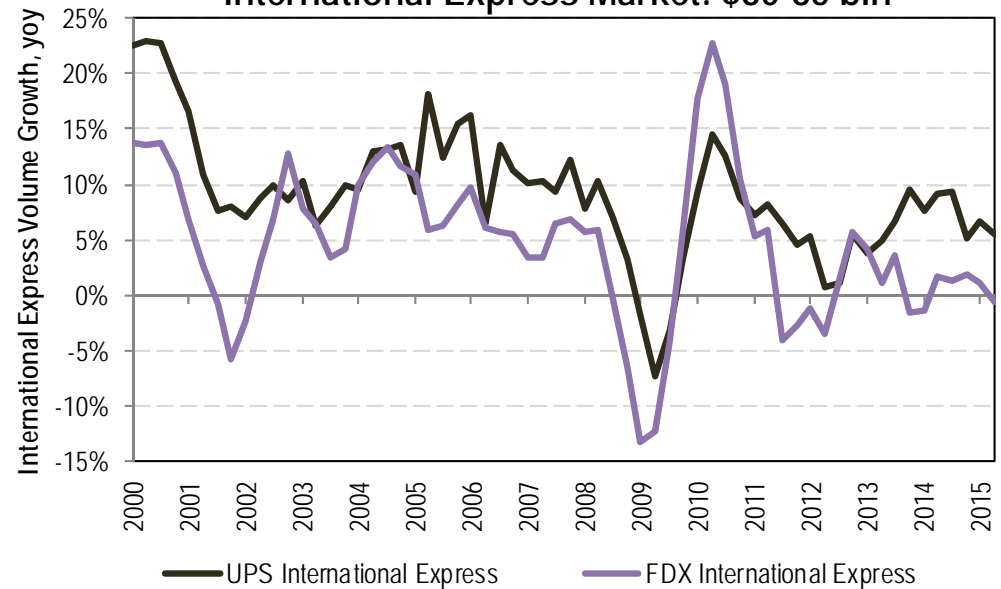
### Domestic Express Market: \$20-25 bln



### Total Domestic Market: \$65-70 bln

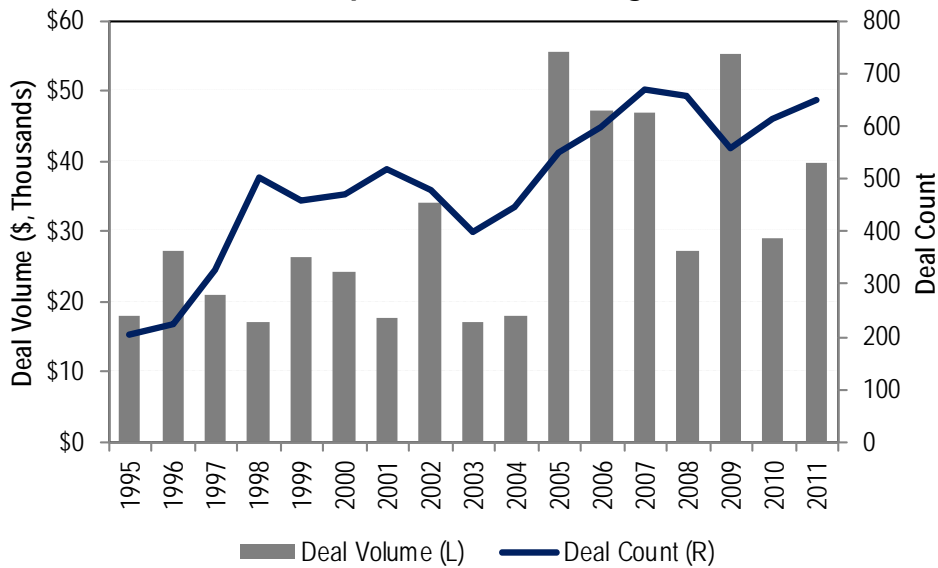


### International Express Market: \$80-85 bln

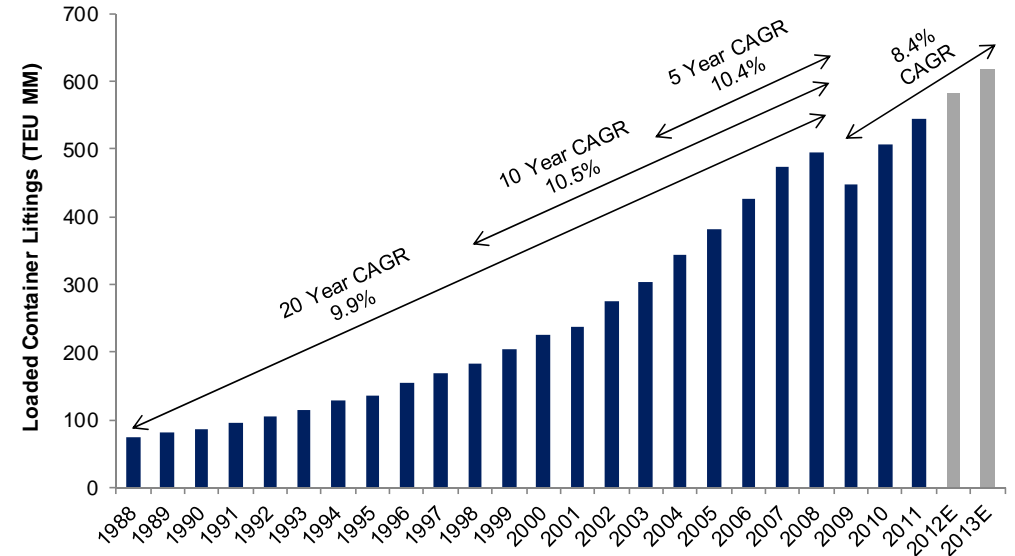


# Transportation & Logistics Industry Themes

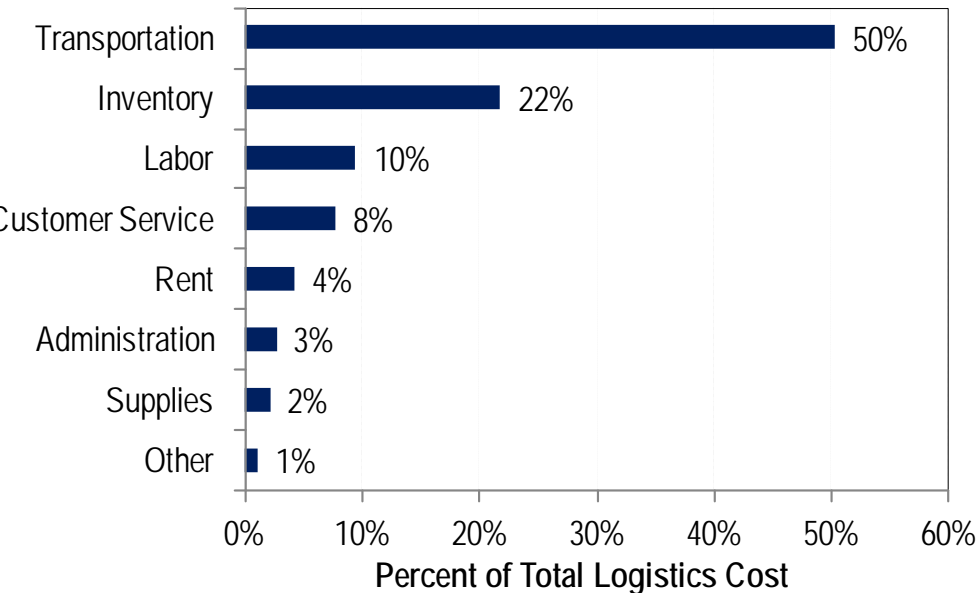
### Global Transportation and Logistics M&A



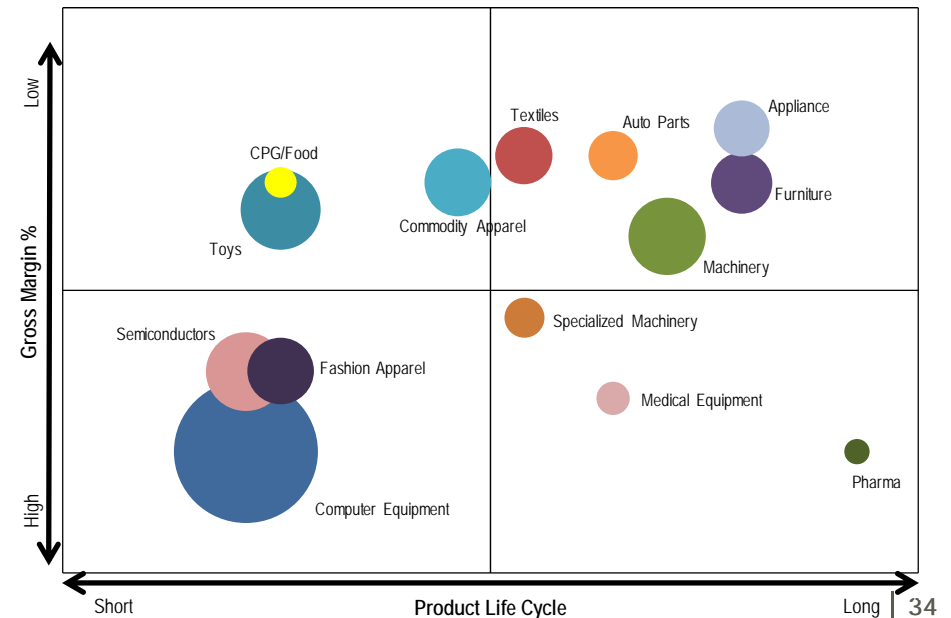
### The Growth of Logistics



### Transportation Overwhelming Driver of Logistics Costs

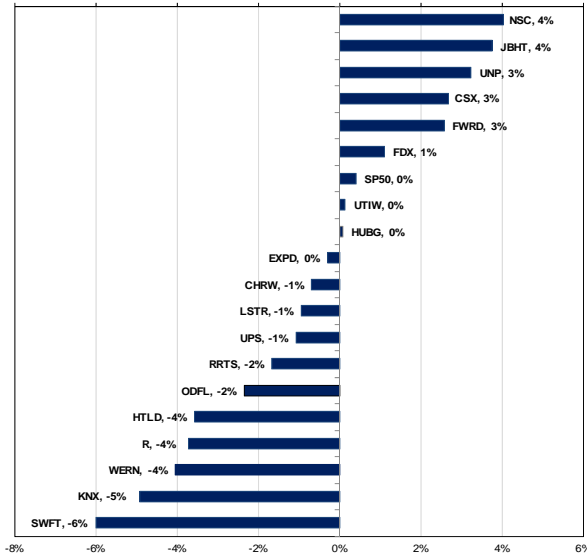


### Commodities Most Susceptible to Near-sourcing

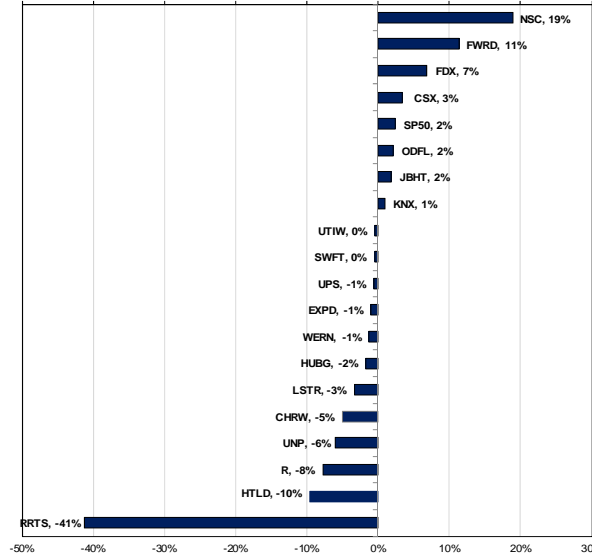


# Transportation and Logistics Stock Performance

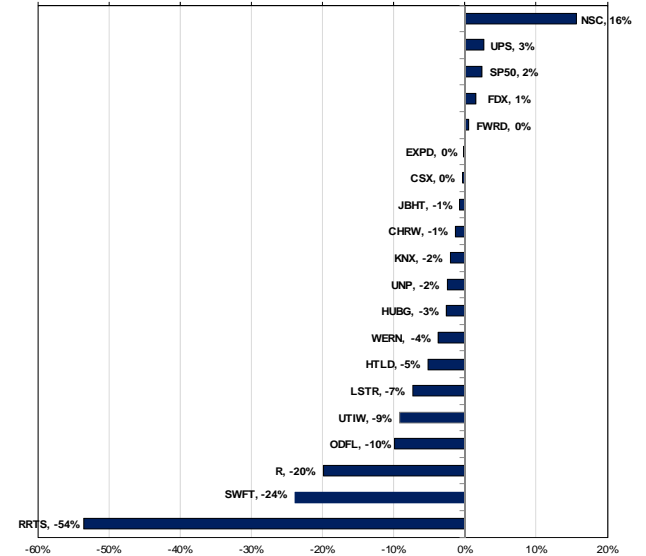
7-Day Stock Price Performance



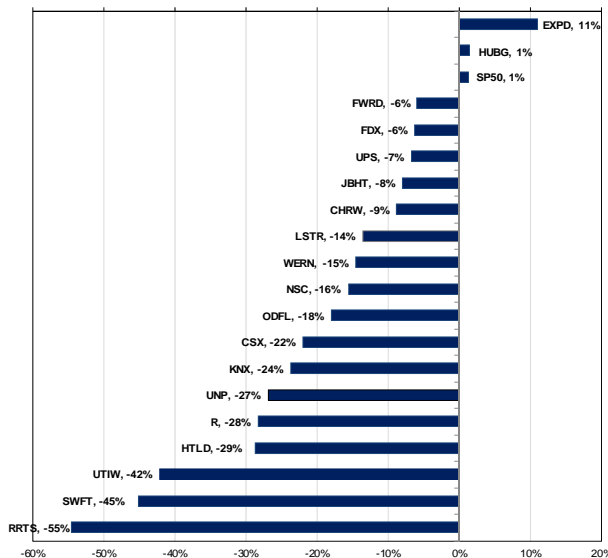
30-Day Stock Price Performance



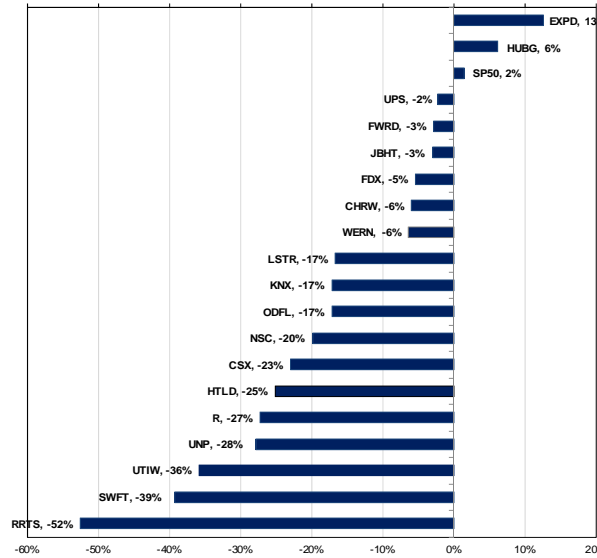
90-Day Stock Price Performance



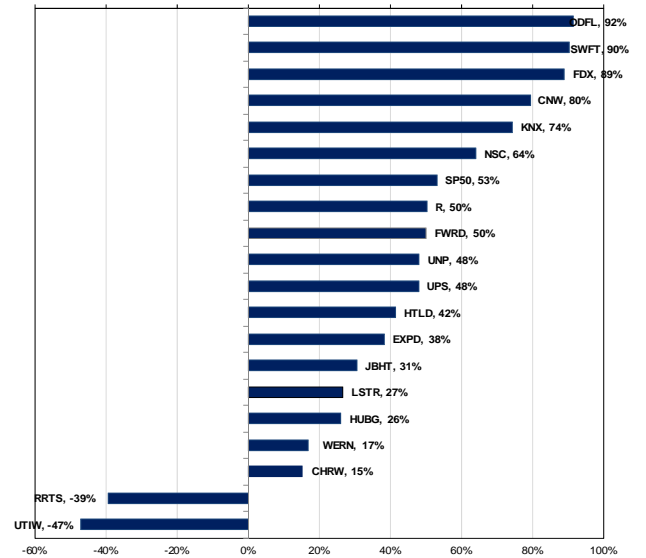
Year-To-Date Stock Price Performance



1-Year Stock Price Performance



3-Year Stock Price Performance



# Market Size Estimates and Coverage List

Market (2014 Est.)	(\$ billions)	Sources
<b>Domestic Logistics</b>	<b>\$1,440</b>	Baird
<b>Domestic Transportation Market</b>	<b>\$877</b>	CSCMP, Baird
<b>Rail</b>	<b>\$89</b>	Baird
Intermodal (N. America)	\$26	Baird
<b>Airfreight</b>	<b>\$33</b>	CSCMP
Express Package	\$29	Air Cargo Mgmt Group (ACMG)
Heavyweight Freight Forwarding	\$4	Air Cargo Mgmt Group (ACMG)
<b>Truck</b>	<b>\$705</b>	ATA, Company data, Baird, BTS
For-Hire Truckload (Total)	\$320	ATA, Company data, Baird, BTS
<i>For-Hire (Long-Haul, Dry Van)</i>	<i>\$107</i>	<i>ATA, TT, Baird</i>
<i>For-Hire (Long-Haul Specialty)</i>	<i>\$69</i>	<i>ATA, TT, Baird</i>
<i>For-Hire (Intra-City)</i>	<i>\$144</i>	<i>ATA, TT, Baird</i>
Private Truckload (Total)	\$305	ATA, TT, Baird
LTL/Parcel/Courier	\$80	Cass, ATA, Company data, Baird
<i>For-Hire LTL</i>	<i>\$40</i>	Company data, Baird
<i>Parcel</i>	<i>\$41</i>	Company data, Baird
Other	\$50	CSCMP
<b>Domestic Third-Party Logistics</b>	<b>\$154</b>	<b>Armstrong &amp; Armstrong, Baird</b>
Transportation Management	\$49	Armstrong & Armstrong, ARCB, Baird
Domestic-Based Intl Ops	\$49	
Warehouse/Distribution	\$36	Armstrong & Armstrong, ARCB, Baird
Dedicated Contract Cartage	\$12	
<b>Global Logistics Market</b>	<b>\$8,580</b>	<b>Armstrong &amp; Associates</b>
<b>International Airfreight</b>	<b>\$100</b>	Air Cargo Mgmt Group (ACMG)
Package	\$33	Air Cargo Mgmt Group (ACMG)
Heavyweight	\$62	IATA
Ocean	\$230	Drewry Shipping Consultants
Outsourced Logistics	\$704	Armstrong & Associates

Ticker	Name	Rating	11/20/15 Price	Price Target
<b>Integrators</b>				
UPS	United Parcel Service	N	104.10	\$111
FDX	FedEx Corp	O	163.35	\$182
<b>Railroads</b>				
CSX	CSX Corp	O	29.21	\$31
NSC	Norfolk Southern Corp	N	96.85	\$89
UNP	Union Pacific Corp	N	87.04	\$103
<b>Third-Party Logistics</b>				
EXPD	Expeditors Intl	N	49.25	\$52
CHRW	C.H. Robinson	N	68.31	\$74
JBHT	J.B. Hunt Transportation	N	77.60	\$82
LSTR	Landstar	N	62.55	\$68
UTIW	UTi Worldwide	N	6.95	\$7
HUBG	Hub Group	O	38.81	\$42
FWRD	Forward Air Corp	O	47.77	\$55
RRTS	Roadrunner Transport	O	10.68	\$14
<b>Leasing</b>				
R	Ryder	O	67.62	\$84
<b>Truckload</b>				
SWFT	Swift Transportation	O	16.20	\$20
WERN	Werner Enterprises	N	27.16	\$29
HTLD	Heartland Express	N	19.36	\$21
KNX	Knight Transportation	N	26.23	\$30
<b>Less-Than-Truckload</b>				
ODFL	Old Dominion	N	64.50	\$68

Source: FactSet, Robert W. Baird & Co. estimates

- O: Outperform
- N: Neutral
- U: Underperform
- R: Restricted

# Valuation and Risks

## C.H. Robinson Worldwide, Inc. (CHRW)

- **Price target:** Our \$74 price target reflects 18x our forward estimates, one year out, a multiple below its 21.1x five-year average but an -8% premium to the S&P 500 NTM P/E, to reflect slower EPS growth expectations this cycle (~10% long-term EPS growth). Alternatively, our price target reflects a 1.8x PEG versus an estimated 10% long-term EPS growth.
- **Risks:** Industry consolidation, disintermediation, economic sensitivity, highly competitive industry, acquisition risk, and rising freight rates from third-party capacity providers.

## CSX Corporation (CSX)

- **Price target:** Our \$31 price target reflects 14.0x our forward estimates, one year out, and ~3x our accelerating 2016E EPS growth assumption (+5%). Our target represents a premium to CSX's 10-year average of 13.2x, supported by expectations for accelerating EPS growth and improved capital returns.
- **Risks:** Competes in mature, cyclical industry, improving ROC key to thesis, potential liability exposure for hazardous materials, truckload competition in Intermodal, significant coal exposure, highly regulated industry potentially subject to further regulation, unionized workforce cost inflation/service disruptions.

## Expeditors International (EXPD)

- **Price target:** Our \$52 price target reflects ~11.1x EV/forward EBITDA, a discount to EXPD's 12.4x five-year average, and a ~6% unlevered FCF yield using our 2015 estimate. Alternatively, our price target reflects ~20x (~18x ex-cash) forward estimates, one year out, a discount to EXPD's 21.5x five-year average.
- **Risks:** Active in highly competitive market with large capable competitors, subject to economic sensitivity, exposed to foreign markets and regulation, dependent upon third-party capacity with potential for purchase transportation pressure.

## FedEx Corporation (FDX)

- **Price target:** Our \$182 price target reflects ~15x our F2017 EPS estimate, slightly above FDX's average multiple of 14.7x over the past 10 years. Our target multiple assumes a ~7% discount relative to the S&P 500, below FDX's average 10-year premium of ~8% and its relative multiple during C2006. Our multiple balances a challenging macroeconomic environment what we believe to be a US economic recovery in its latter stages and ongoing Express EBIT improvements, with
- **Risks:** FDX risks include economic sensitivity, competes in highly competitive markets, secular decline in domestic express market, potential return on capital volatility, acquisition integration risk, and potential driver lawsuits against its ground independent contractor model.

# Valuation and Risks

## Forward Air (FWRD)

- **Price target:** Our \$55 price target reflects 19.0x our forward EPS estimate, one year out, a discount to its 19.5x 10-year average given broader industry headwinds (namely soft underlying freight demand and decelerating core pricing growth), but we believe FWRD's accelerating EPS growth in 2016 given benefits from its 2015 purchase of Towne presents the primary catalysts to FWRD during 2016. The potential for a \$3.00+ EPS run-rate (which would reflect \$0.40+ in Towne accretion and a ~16% Forward Air Core EBIT margin) to be discounted during 2016 could support a stock near \$60 over the next 12 months.
- **Risks:** Economic sensitivity, increased competition, third-party capacity dependency, uncertain long-term core airport-to-airport growth prospects, acquisition integration risk, and ability to develop Solutions.

## Heartland Express, Inc. (HTLD)

- **Price target:** Our \$21 price target reflects 7.3x EV/forward EBITDA estimate, below HTLD's 7.9x 10-year average given decelerating industry fundamentals. Downside should be protected by an ~8.75% 2016 FCF yield.
- **Risks:** HTLD risks include exposure to a highly fragmented industry with cyclical exposure, slower growth given its selective growth strategy focused on premium freight, potential margin pressures from driver availability, self-insurance liability, and other rising costs.

## Hub Group, Inc. (HUBG)

- **Price target:** Our \$42 price target reflects 17.5x our forward EPS estimate, one year out, a valuation multiple below its 18.9x 10-year average, as improving execution throughout 2015 given incremental rail service improvement, improving network balance and asset utilization, and implementation of internal programs (pricing optimization tool, sales program, and drayage model) should give way to sequential improvement in overall HUBG gross margins throughout 2015, a critical catalyst to the stock. Longer term, we believe HUBG can sustain upper-single-digit revenue growth and 10%+ EPS growth.
- **Risks:** Economic sensitivity of freight creates cyclical exposure. Hub is reliant on credible service by its underlying railroad partners. Inability to pass through rising freight rates would cause margin pressure.

## J.B. Hunt Transport Services, Inc. (JBHT)

- **Price target:** Our \$82 price target reflects 9.0x EV/forward EBITDA, below JBHT's five-year median multiple of 11.0x. With a falling multiple and prospects of industry consolidation, which we believe JBHT to be well-positioned for, we look to be more constructive buyers of JBHT into evidence of 1) macroeconomic strengthening, or 2) accelerating share gains.
- **Risks:** JBHT risks include economic sensitivity of freight demand, self-insurance liability, and reliance on credible service by its underlying railroad partners.

# Valuation and Risks

## Knight Transportation, Inc. (KNX)

- **Price target:** Our \$30 price target reflects 17.5x our forward EPS estimate, one year out, a multiple below KNX's 10-year average 19.8x NTM P/E, given our expectation for decelerating truckload real pricing growth this cycle and increased cyclical valuation multiple compression risk.
- **Risks:** Competes in a highly fragmented industry subject to cyclical exposure; driver availability, self-insured liability expenses, and rising costs are potential risks to margins; sustained growth depends on qualified personnel able to replicate KNX's model.

## Landstar System Inc. (LSTR)

- **Price target:** Our \$68 price target reflects 17.5x our forward EPS estimate, one year out, below LSTR's 18.6x average five-year NTM P/E multiple to reflect our expectations for decelerating EPS growth in upcoming quarters, but mid-teen EPS growth this cycle.
- **Risks:** LSTR risks include dependency on freight trends which are sensitive to supply and demand balance in the industry--a function of economic activity and industry fleet growth. Other risks include division integration, insurance liability, industry consolidation, and acquisition risk.

## Norfolk Southern Corporation (NSC)

- **Price target:** Our \$89 price target reflects 14.0x our forward EPS estimate, one year out, near the middle of its 10-16x NTM P/E range over the past decade and reflecting a ~1.4x PEG relative to our long-term EPS growth expectations of +10%.
- **Risks:** Competes in a mature, cyclical industry, improving ROC key to thesis, potential liability exposure for hazardous materials movement, truckload competition in Intermodal, highly regulated industry potentially subject to further regulation, unionized workforce cost inflation/service disruptions, significant coal exposure.

## Old Dominion Freight Line (ODFL)

- **Price target:** Our \$68 price target reflects ~8.0x EV/forward EBITDA, or a ~1.3% unlevered 2016E FCF yield that reflects a more normalized maintenance capex run-rate. We recommend investors increasingly use ODFL's FCF yield as a valuation basis given its emerging FCF profile. Alternatively, our \$68 price target reflects ~15x our forward EPS estimate, one year out, roughly in line with its five-year average 16.7x NTM P/E, reflecting best-in-class operating margins and long-term growth potential, but also tempered near-term growth expectations and incremental industrial end-market risk.
- **Risks:** Competes in highly cyclical business, with potential for price competition in a highly competitive LTL market. Growth focus has resulted in inconsistent FCF generation.

# Valuation and Risks

## Ryder System, Inc. (R)

- **Price target:** Our new \$84 price target reflects 12x our forward EPS estimate, one year out, below Ryder's adjusted average NTM P/E of 12.3x during the last cycle, owing to near-term cyclical headwinds. We continue to believe Ryder's multi-year fleet outsourcing story remains intact, which has the potential to support sustained mid-to-upper-single digit EPS growth this cycle and improved ROC/FCF characteristics. However, we expect Ryder's valuation multiple to remain below average levels given the evidence of cyclical in its model stemming from the 3Q15 preannouncement, until it can prove that the secular growth opportunities can more than offset the near-term cyclical headwinds.
- **Risks:** Ryder's business is dependent on freight volumes, which depends on domestic economic growth. Leasing organizations such as Ryder depend on access to capital to secure equipment. Rising interest rates negatively impact operating costs.

## Roadrunner Transportation Systems, Inc. (RRTS)

- **Price target:** Our \$14 price target reflects ~7x EV/forward EBITDA -- a multiple below the bottom end of its representative range since RRTS' 2010 IPO and appropriate, in our view, the consistency to execution in recent years as well as the elevated balance sheet leverage.
- **Risks:** Acquisition risk, reliance on third-party capacity, inconsistency to execution, balance sheet leverage, economic sensitivity, highly competitive market, and limited public company experience.

## Swift Transportation Co. Inc. (SWFT)

- **Price target:** Our \$20 price target reflects 11.5x our forward estimate, one year out. This multiple is a ~30% discount to our assumed multiple for SWFT's high-quality Truckload peers on one year's time. This multiple is below its ~12x NTM average since its IPO but above its 9x trough (2011-2012) given progress in improving its balance sheet (2.2x debt/EBITDA at 3Q15-end, from 3.2x in 2011). Our \$20 price target is 5.8x EV/forward EBITDA, in line with SWFT's 5.8x EV/EBITDA from 2003-2007 prior to its May 2007 LBO. We believe our target multiples are appropriate given SWFT's demonstrated operational improvement and ongoing deleveraging, with further upside potential given continued execution of its strategy and/or a strengthening macroeconomic environment.
- **Risks:** SWFT operates in a highly fragmented, cyclically sensitive and capital-intensive business. SWFT's elevated debt structure exposes risk to equity holders if broader economic trends deteriorate and/or margin improvement slows. Acquisition risk; customer concentration risk

## Union Pacific (UNP)

- **Price target:** Our \$103 price target reflects 15x our forward EPS estimate, one year out, above UNP's ~14.4x 10-year average but well below the top of its 10-year representative range (10-18x), supported by real pricing growth, share repurchases, and efficiency initiatives. Consistent mid-teen EPS growth with an improving ROC/FCF profile deserves a valuation multiple premium to its historical average.
- **Risks:** Competes in mature, cyclical industry, improving ROC key to thesis, potential liability exposure for hazardous materials movement, truckload competition in Intermodal, highly regulated industry potentially subject to further regulation, unionized workforce cost inflation/service disruptions.



# Valuation and Risks

## UPS (UPS)

- **Price target:** Our \$111 price target reflects ~18x our forward estimate, one year out, above its 17x 10-year average NTM P/E, supported by expectations of improved peak season execution during 2015 and accelerating EPS growth into 2016 (within its annual +9-13% long-term EPS growth target).
- **Risks:** UPS is dependent upon economic growth and global trade, as such is sensitive to economic conditions. Further, UPS operates in highly competitive, global markets and is dependent on rational pricing among competitors. Faces government regulation from multiple government jurisdictions. Potential of work stoppages from a workforce that is over 60% unionized.

## UTi Worldwide (UTIW)

- **Price target:** Our \$7 price target is consistent with DSV's \$7.10/share offer price and reflects an 8.4x EV/EBITDA multiple against the bottom end of management's NTM EBITDA target.
- **Risks:** Fixed cost exposure, turnaround execution risk, competitive economically sensitive market, reliance on asset-providing carriers.

## Werner Enterprises, Inc. (WERN)

- **Price target:** Our \$29 price target reflects ~15x our forward EPS estimate, one year out, a multiple below its average 17.4x average NTM P/E during the previous cycle, which we believe appropriately reflects our expectation for decelerating truckload real pricing growth this cycle and increased cyclical valuation multiple compression risk.
- **Risks:** WERN operates in a highly fragmented, cyclically sensitive and capital-intensive business. The truckload market has historically earned limited real pricing growth, and WERN is subject to numerous cost pressures and self-insurance liabilities.

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