

# Roadrunner Transportation Systems, Inc. (RRTS)

## Baird Facts



Please refer to Appendix - Important Disclosures and Analyst Certification.

<b>Price (\$)</b> (5/2/12):	<b>17.42</b>	<b>Rating:</b>	<b>Outperform</b>	<b>FY Dec</b>	<b>2011A</b>	<b>2012E</b>	<b>2013E</b>
<b>52WK H-L (\$)</b> :	<b>19 - 12</b>	<b>Suitability:</b>	<b>Higher Risk</b>	Q1	0.14A	0.25A	
<b>Market Cap (mil):</b>	<b>559</b>	<b>Price Target (\$)</b> :	<b>23</b>	Q2	0.24A	0.32E	
Shares Out (mil):	32.1	L-Term Rev. Gr Rate Est:	12%	Q3	0.24A	0.33E	
Float (mil):	15.9	L-Term EPS Gr Rate Est:	15%	Q4	0.23A	0.31E	
Avg. Daily Vol (mil):	0.12	Debt/Cap:	31.9%	<b>Total</b>	<b>0.84A</b>	<b>1.22E</b>	<b>1.40E</b>
Dividend (\$):	0.00	ROE:	9.2%	FY P/E	20.7x	14.3x	12.4x
Yield (%):	0.0	Insider Holdings:	48% (58% PE)				

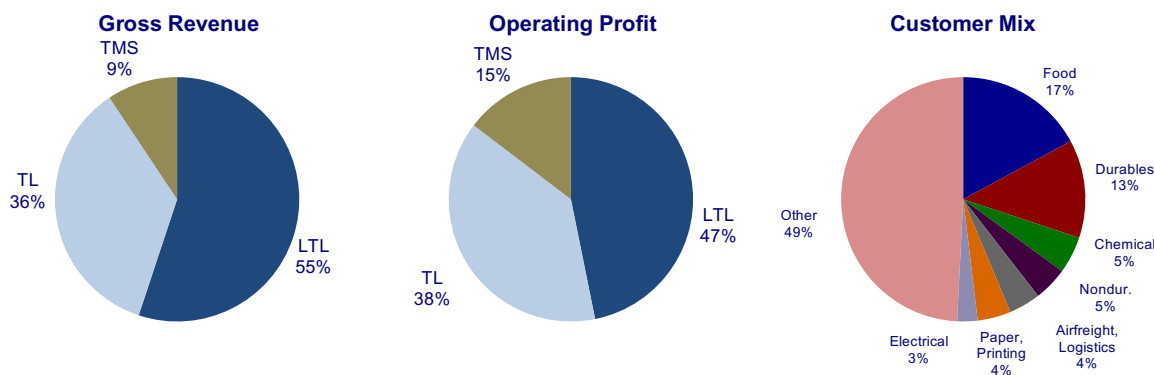
<b>Headquartered</b>	<b>IPO/Founded</b>	<b>Dec</b>	<b>2011A</b>	<b>2012E</b>	<b>2013E</b>
Cudahy, WI	2010/1981 (Dawes) or 2005	Revenue (Mil)	843.6	1,022.3	1,116.0
	<b>Management</b>	% Growth	33.5%	21.2%	9.2%
President & CEO:	Mark DiBlasi	Operating Margin	5.6%	6.9%	7.3%
CFO, Secretary, & Treasurer:	Peter Armbruster				
President, LTL:	Scott Dobak				
Chairman, Board of Directors:	Scott Rued				

### Company Description

Roadrunner Transportation (RRTS) is a leading \$844 million non-asset-based transportation company. RRTS is a diversified transportation services company focused on the under-served small and middle market shipper. Formed by the combination of four platforms, RRTS specializes in asset-light less-than-truckload (LTL) services, truckload (TL) brokerage, and transportation management solutions (TMS).

- **Asset-light LTL Carrier:** Formed through the integration of legacy company Roadrunner (formed 1984) and Dawes (1981), Roadrunner provides customized LTL solutions through its asset-light model comprised of a network of 20 service centers, over 200 outside delivery agents, and third-party linehaul capacity.
- **TL Brokerage:** RRTS is a top-15 truckload broker in North America, with 11 dispatch offices and 76 independent brokerage agents, primarily located throughout the Eastern US and Canada. The division specialized in the transportation of refrigerated goods; also offers dry van and flatbed services. Acquisition of Morgan Southern diversifies RRTS into asset-light intermodal truck transportation (drayage). Acquisition of Prime Logistics Corporation diversifies RRTS into asset-light warehouse and distribution management.
- **TMS:** Managed transportation solutions ranging from transactional to comprehensive outsourcing solutions; over 11,000 clients and strong retention rates (90+%).

### Revenue Profile



Sources: Company data, Baird estimates

## Competition

- Transportation: \$850+ billion domestic freight market; \$150 billion addressable for-hire long-haul truckload market.
- LTL Market: \$34 billion, generally viewed as two sub-market consisting of Regional LTLs, which are majority of market, (FedEx Freight, Con-way, UPS Freight) and National LTLs (YRC, Arkansas Best, FedEx), although these distinctions continue to blur; RRTS LTL brokerage is primarily focused in the national market, where it maintains less than 4% share.
- Truckload Market: Highly fragmented, with top ten providers accounting for roughly 10% of the market. Truck brokerage market consists of traditional non-asset-based 3PLs (CH Robinson, Landstar, HUBG, Pacer) and a growing presence with traditional asset-based carriers (Schneider, J.B. Hunt, Knight, Werner).
- 3PL Industry: \$140 billion domestic US market, 9% CAGR since 2000.

## Investment Thesis

**Current thoughts.** 1Q EPS and 2Q outlook were both modestly ahead of expectations as RRTS continues to execute well in its core businesses, and remains a top small-cap idea. Overall organic revenue growth was a solid +15% yoy as RRTS continued share gains in LTL (+11% yoy 1Q12 volume growth, leading LTL peer group) and maintained strong growth traction in TMS. Looking ahead, recent acquisitions continue to layer in accretively as expected, and its pipeline remains healthy, supplementing top-line growth. As such, into sustained double-digit organic growth potential and a healthy free cash flow yield (6.5% 2012 estimated FCF), current valuation (13.9x our NTM EPS) appears compelling and remain Outperform-rated and buyers at current levels.

**Flexible non-asset-based, third-party logistics model.** RRTS is a diversified provider of asset-light, third-party logistics (3PL) service offerings. With the growing complexity of the supply chain, shippers continue to expand their reliance on outsourced logistics partners. As a result, we expect double-digit long-term growth among leading 3PLs (10% 10-year industry CAGR). RRTS is well positioned given its emerging and diversified platform of services.

**Multimodal 3PL solutions targeting under-served, smaller shippers.** RRTS offers transportation solutions ranging from spot market transactional services to comprehensive outsourcing solutions in areas of asset-light LTL service, TL brokerage, and Transportation Management Solutions (TMS). RRTS provides services through 9,000 third-party capacity providers, allowing RRTS to maintain a variable cost base. RRTS serves a diversified shipper base of over 35,000 customers, primarily focusing on small- and medium-sized shippers.

**Scalable model supporting margin expansion.** Significant margin expansion potential remains for RRTS through adding scale and density to its model, cross-selling opportunities, and more effective use of purchase transportation. Improved pricing and yield opportunities with an economic recovery would further enhance margin levels. Management's medium-term EBIT margin target is 7.5%, consistent with leading 3PLs and compares to 5.0% EBIT margins in 2010.

**Expect strategic acquisitions to build scale.** In 2011, RRTS deployed roughly \$136 million in capital, meaningfully expanding its revenue base and diversifying its product portfolio. RRTS is capable of folding in small acquisitions that can improve scale, geographic reach, and service capabilities. In addition to double-digit organic growth, we look for RRTS to potentially acquire one to three targets annually that could each add \$30-50 million in revenue and \$0.03-.05/sh to earnings while expanding density, most likely within its TL Brokerage and TMS segments. In 2011 alone, we estimate RRTS' four announced acquisitions will contribute roughly \$0.25-0.30/sh EPS, with \$0.15/sh in incremental EPS growth in 2012E.

**Valuation.** Our \$23 price target which reflects 16x forward estimates, one year out, a multiple above its roughly 15x average since RRTS' 2010 IPO and reflecting solid execution and growth visibility; compares to the 18-25x historical 3PL range and current 18.8x 3PL median. We believe the combination of growth visibility and execution should support multiple revaluation in upcoming quarters, though expect full revaluation remains unlikely until the model demonstrates execution throughout a full cycle.

## Risks & Caveats

**Economic sensitivity of freight demand.** As a transportation and logistics model, RRTS' performance is sensitive to the broader economic environment. Periods of poor economic growth will negatively impact earnings.

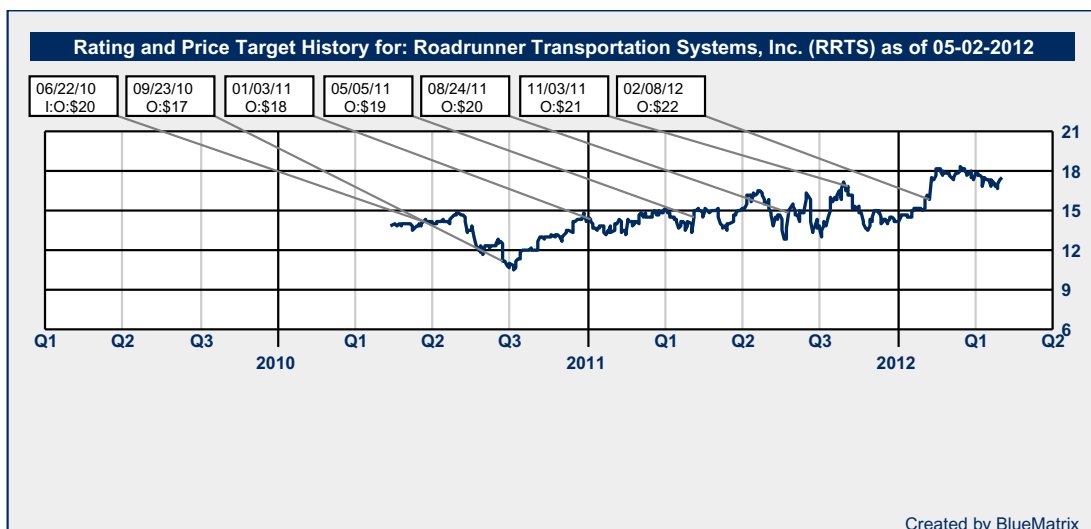
**Reliance on third-party capacity.** RRTS depends on third-party capacity providers to provide transportation services, thus making it susceptible to the quality and availability of independent owner-operators and third-party truckload company capacity. Further, rising purchased transportation rates could outpace the ability of RRTS to pass along these rates to customers.

**Acquisition risk.** RRTS' long-term growth strategy is dependent upon identifying and integrating small tuck-in acquisitions to its existing platforms.

**Highly competitive markets.** The transportation industry is highly fragmented and competitive. Inability to remain a differentiated, value-added service provider could negatively impact RRTS' competitive position

**Limited operational track record.** RRTS was formed through a combination of Roadrunner & Dawes in 2005; and RRTS became a publicly traded company in 2010. Given the limited history as an operating company, investors have limited understanding of RRTS' characteristics through the course of a full cycle, which can limit RRTS' potential for multiple revaluation in the short term.

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