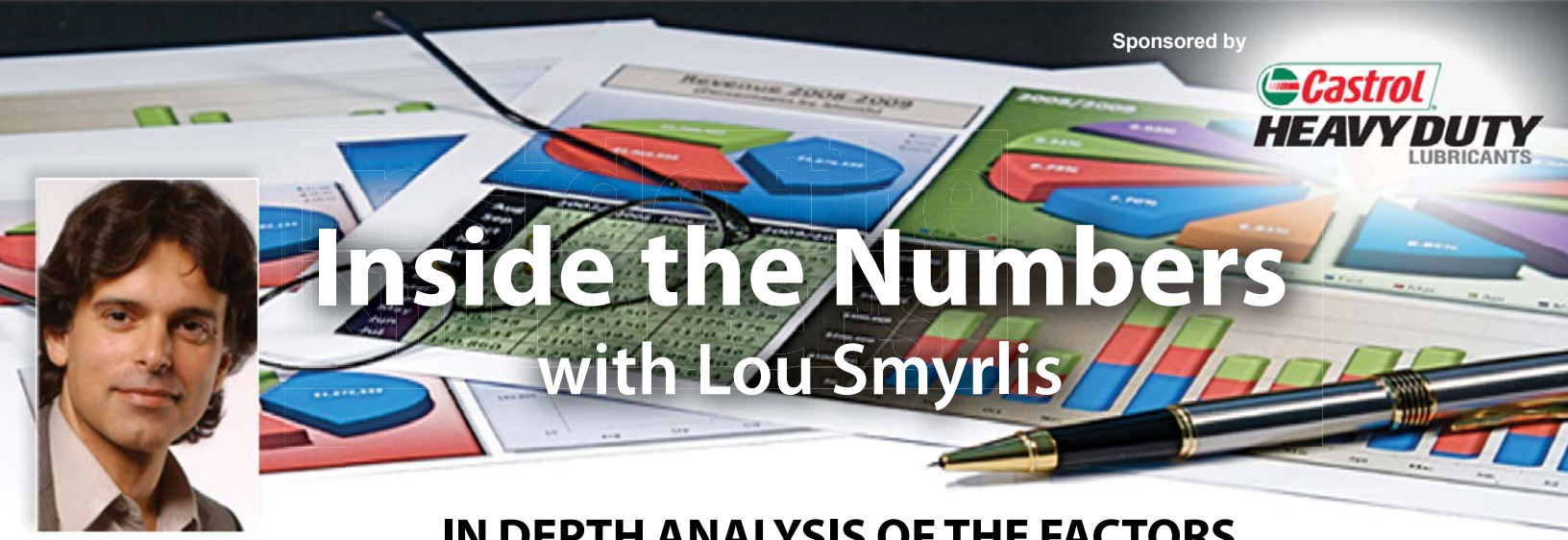

Inside the Numbers
with Lou Smyrlis

Editorial Director,
Transportation Media

IN DEPTH ANALYSIS OF THE FACTORS AFFECTING YOUR PROFITABILITY

VOLUME 3, ISSUE 2

the hard truth about Canadian e-commerce

Are transportation costs creating a no-win scenario for our smaller e-tailers?

E-commerce has emerged from its "more hype than substance" beginnings in the 90s to grow into a critical segment of the Canadian economy. Our digital economy accounts for more than $50 billion or about 3.0% of the Canadian economy and an international study, conducted for Google by Boston Consulting Group, forecast the digital economy would account for 3.6% of GDP by 2016.

Logistics is a key enabler for many e-commerce businesses and can be used as a competitive weapon. The appearance of free delivery and free returns or expedited delivery are examples of recent trends that can capture new customers. But they can also place considerable pressure on profit margins and growth potential if logistics costs prove too high.

As impressive as Canada's e-commerce growth may sound, a new study commissioned by Industry Canada shows evidence we are actually falling behind other G20 nations in our e-commerce efforts and considers whether logistics services are a main contributor to Canada's e-commerce gap.

The study, entitled The Impact of Logistics Services on E-Commerce in Canada, is authored by Dr. Alan Saipe of Supply Chain Surveys Inc. (You will remember Dr. Saipe from his work on the CITA Shipper Pulse Survey and the Nulogx General Freight Index and his many years with the KPMG and BearingPoint supply chain practices.)

The study presents some sobering comparisons:

- Our digital economy's 3.0% share of Canadian GDP is lower than the G20 average of about 4.1% and ranks Canada an unexciting 9th among the G20 pack.
- The growth forecast to 3.6% of GDP by 2016 for Canadian e-commerce pales in comparison to the 5.4% of US GDP and the 12.4% of UK GDP.
- Another study by Google found that in 2010, e-commerce retail sales in Canada were 1% of total retail sales. In the US, e-commerce sales were 8.6% of total retail sales.
- A 2011 survey of 2,000 Canadian SMEs found that only 18% of small businesses and 30% of medium-sized businesses reported having online sales. That is of particular significance considering SMEs account for more than 60% of private sector employees, more than 50% of private sector GDP and more than 95% of exports in Canada.

The study reveals transportation costs are placing Canadian e-commerce at a disadvantage. The study compared the cost of shipping a 6 lb, medium-sized box from Toronto to Vancouver, a distance of 4,370 km, using Canada Post's Expresspost service with the cost of shipping the same parcel from New York to Los Angeles , a distance of 4,443 km, using the United States Postal Service's (USPS) priority mail service. Both provide delivery on the 2nd business day after the shipment. The Canada Post deliv-

ery is guaranteed, the USPS is not. The US shipment costs $11.30; the Canadian shipment $40.63, which is 3.6x more. "Ignoring the currency exchange, for the same money one can ship 36 boxes from New York to Los Angeles and only 10 boxes from Toronto to Vancouver, " Dr. Saipe comments. Canada Post's regular service for the same package takes 7 business days to make the trip at a cost of $18.50, a considerable savings over the Expresspost rate. But that's still 60% higher than the faster USPS rate.

market, which means that "lower operating costs translate into lower market prices."

And, to be fair, Canadian logistics service providers are trying to target their e-commerce customers with specialized services.

Still, the numbers are the numbers.

Consider the plight of a Canadian e-tailer trying to make a $50 or $75 sale to a price-sensitive customer. As Dr. Saipe points out, if they try to pass the full delivery cost on to

From	To	km	Canada Post Cost	USPS Cost	km	From	To
Toronto	Vancouver	4370	$40.63	$11.30	4443	New York	Los Angeles
Toronto	Thunder Bay	1392	$32.80	$11.30	1491	New York	Jacksonville, Fla
Toronto	Prince Rupert	1497	$21.76	$11.30	1427	Los Angeles	Boisa, Ida

The study also considered shorter route comparisons out of Toronto and Vancouver with shorter shipments out of New York and Los Angeles; again there was a clear difference in costs in favor of the US. It looked at UPS and FedEx rates on both sides of the border; they were 35-38% lower in the US. It considered best rates either side of the border; the best US rates were 16% lower.

The economies of scale provided by a country that is about the same size as ours geographically but enjoys a population 9x ours and an economy 11x ours do have a large impact on price as does the higher intensity of business competitiveness. The US population's spread over more of a rectangular area with shorter areas between concentrations of urban centres makes transportation more efficient than is the case in Canada with our much smaller population spread over a long narrow ribbon with longer distances between urban centres.

"As a result, the US has more shipments, shorter distances to travel and higher delivery densities than in Canada, all of which result in lower transportation costs," Dr. Saipe points out.

Just as important, Dr. Saipe adds that the "clear opinion" of logistics industry people is that the US is a more intensely competitive logistics market than the Canadian

their customers, it's unlikely they would make the sale. If they don't charge for delivery, their profit margin would suffer significantly. The study found the pricing of delivery services is an issue particularly for smaller e-tailers.

The situation is further exacerbated by the reality that offers of free delivery and free returns, already well developed in the US, are gaining momentum in the Canadian market and changing customer expectations.

Is there a viable way for transportation to encourage e-commerce among smaller shippers? The industry has already started moving in this direction. For example, Canada Post offers savings of up to 8% on parcel rates and 5% on packaging suppliers to small businesses; FedEx offers saving of 30% for the first two months, and then from 5% to 15% off parcel rates to small business based on average monthly spend; Purolator offers savings of from 3% to 30% off parcel rates to small business based on average monthly spend; UPS offers savings of 20% off parcel rates.

Dr. Saipe does offer one further solution: leveraging the strength of numbers. Some industry groups in Canada have successfully used group buying of transportation services. It may be worthwhile to investigate this possibility for e-commerce business.

Transformation in Trucking

Why major truckload carriers are shifting their focus to dedicated and intermodal

Dan Goodwill, president of Dan Goodwill and Associates
has more than 20 years of experience in the logistics and transportation industries in both Canada and the US. He has held executive level positions in the industry, including president of Yellow Transportation's Canada division, president of Clarke Logistics, general manager of the Railfast division of TNT, and vice-president of sales and marketing at TNT Overland Express. Goodwill is currently a consultant to manufacturers and distributors, helping them improve their transportation processes and save millions of dollars in freight spend. He can be reached at dan@dantranscon.com.

The fourth quarter 2012 financial results for America's leading truckload carriers tell a story of an industry going through transformation and change. The most dramatic poster boy of this change can be seen at the largest carrier in the group, J.B. Hunt. Basic point-to-point truckload carriage has fallen so far that it is almost irrelevant in its overall business results.

In Q4, Hunt generated about $1.33 billion in revenue (including fuel surcharges), but only about $112 million of that came from regular truckload carriage (not including fuel surcharge). That's just about 9% of revenue, down from 12% the previous year. Basic truckload's percentage of total profit at Hunt is even smaller, at just 4%.

But Hunt's strategy of focusing on intermodal and dedicated transportation seems to be working. Its intermodal business, which now accounts for 73% of total profits, saw revenue grow another 12.7% in Q4 and over 14% for the year.

Other carriers in the sector have taken notice. Werner's trucking revenue declined 0.1% for the full year while its Value Added Services business, which includes dedicated and intermodal, rose 10%, as it has followed in the footsteps of J.B. Hunt. Werner's Specialized Services unit, primarily dedicated, ended the quarter with 3,295 trucks – equal to 46% of its total fleet.

While the major truckload carriers reported growth in these two business sectors, growth in their core business was restrained by several key factors. Werner reported that, "There are several truckload capacity constraints including an older industry truck fleet, the higher cost of new trucks and trailers, significant safety regulatory changes and a challenging driver market."

In fourth quarter 2012, Werner averaged 7,156 trucks in service and ended the quarter with 7,150 trucks. In a statement, Werner commented that "from 2007 to 2010, the number of new class 8 trucks built was well below historical replacement levels for our industry. This led to the oldest average industry truck age in 40 years. Carriers were compelled to begin upgrading their aging truck fleets, which led to increased replacement purchases of new and later-model used trucks during 2011. Orders for new class 8 trucks slowed during 2012. We believe these orders slowed as current freight rate relief is not keeping pace with the increased costs and capital requirements for new and much more expensive EPA-compliant trucks."

Swift, another large US truckload carrier, reduced its total tractor capacity by 4.2% year-over-year in the fourth quarter. It increased its capacity in its dedicated and intermodal divisions by adding 2,500 intermodal containers to its fleet last year. Swift saw dedicated and intermodal revenues jump 14.9% and 40.2%, respectively.

Are these trends likely to continue for the rest of the year? The major railroads are counting on it. The recent FMCSA ruling will result in the new Hours-of-Service (HOS) regulations moving forward without the three-month delay requested by the American Trucking Associations. This will likely cost the motor carrier industry 3-5% in productivity. Truckload capacity is not increasing, as evidenced by the fact that only two of seven truckload carriers tracked increased their fleets during the prior quarter. Truck drivers are not becoming more plentiful. If the construction industry continues to gain momentum, this may place more demand on the trucking industry to find trucks and drivers.

Higher operating costs are encouraging trucking companies to focus on shorter lengths of haul, less than 700 miles versus lanes that are over 1,000 miles. Truckers are shifting to intermodal service on the longer lanes. Another factor that is supporting growth in intermodal volumes is transloading. This process involves the transfer of the contents of 20- and 40-foot containers at ports into 53-foot intermodal containers.

Dedicated transportation is also attractive since it allows carriers to secure consistent, contractual revenue streams. Truckers can invest in new equipment knowing they have a secure revenue flow to pay for their equipment. If the economy continues its slow pace of growth, look for large and mid-size truckers to focus on these faster growth sectors.

Rebounding stocks drive acquisitions in transport and logistics: PWC

Buoyant stock markets are still providing additional currency to transportation companies looking to grow in and consolidate their markets despite the subpar economic recovery, according to Price Waterhouse Coopers US.

In the first three months of 2013 there were 35 transportation and logistics transactions worth $50 million or more, totaling $15 billion, a decrease compared to 38 transactions representing $24.7 billion in the first quarter of 2012. There were several acquisitions in the Canadian market as well.

While the majority of transactions with values more than $50 million fall into the middle market category (transactions worth $50 million to $250 million), representing 60% in the first quarter of 2013, several large shipping and infrastructure deals provided strength at the top of the market, said PwC.

"Continued global economic uncertainty contributed to the decline in first quarter M&A volume and value, especially in the US and Eurozone, but we're still seeing a number of positive catalysts that will likely support M&A activity as the year progresses," said Jonathan Kletzel, US Transportation and Logistics Leader for PwC.

Strategic investors represented 77% of transportation and logistics transactions in the first quarter of 2013, as a wide range of companies continue to explore M&A as part of their growth strategies.

"The general rise in stock markets is also giving a relative advantage to strategic acquirers, as these companies are increasingly using stock in order to meet richer seller valuations," added Kletzel. "This also means that strategic investors are relying less on their ample cash holdings, which should provide additional dry powder for future M&A." During the first quarter, close to 9% of transactions involved stock swaps, almost doubling from four and a half percent for all of 2012.

During the first quarter in Canada, the following companies were active in M &A:

• **Bison Transport** acquired **Searcy Trucking** and its distribution division, Universal Reload.

Searcy Trucking of Winnipeg was founded in 1969 and is a family-owned carrier specializing in flatdeck transportation services. Its subsidiary Universal Reload offers 12 acres of outdoor storage and 24,000 sq.-ft of indoor space, specializing in open deck freight handling logistics.

Together, they operate 72 trucks, 90 trailers and employ about 100 people. The acquisitions will continue to operate as a standalone company. Norm Blagden, director of business development for Bison Transport, has been named vice-president of Searcy Trucking, while Gerry Searcy will stay on as president and CEO.

• **Manitoulin Transport** acquired **Matco Transportation Systems** of Edmonton. Established in 1966, Matco provides domestic and international freight, household goods relocation services and warehousing. Its geographic focus is Edmonton and Calgary in Alberta, the Northwest Territories and Yukon. It has seven terminal locations in Edmonton, Calgary, Inuvik, Norman Wells, Yellowknife, Hay River and Whitehorse. Matco will be led by Wayne Wishloff, vice-president and general manager. Founding partners Lloyd and Ray Anderson will stay on in a consulting capacity.

Matco is the Manitoulin's fifth acquisition since last May.

• Four weeks prior to the Matco acquisition, **Manitoulin** acquired **Cratex Industries**, an Edmonton-based crating, packaging and export services company. Headquartered in Edmonton, with a facility in Calgary, Cratex has been providing packaging for the shipment of manufactured goods since 1989. A supplier to Alberta's oil and gas technology services sector, the company's offerings include: crating, skidding, poly wrap, container loading and unloading, mobile site teams and project packaging.

• **TransForce** purchased Stafford, Texas-based **Velocity Express** and its subsidiaries, which include 80 locations across the US and Western Canada, employing about 2,600 staff and independent contractors.

Velocity provides same-day regional delivery services. The acquisition is expected to add $160 million in revenue for TransForce.

LEADERS:

Wes Armour of Armour Transportation and Rob Penner of Bison Transport speak candidly about their company plans to grow into new markets.

Q: *With the recession a few years behind us, a slow but hopefully durable recovery is placing the emphasis once again on growth. What are the most important steps Armour Transportation Systems has undertaken the last couple of years to enhance its services and network?*

Armour: Over the past couple of years our focus has been on three key areas: cost reduction, developing a more effective rate structure and strategic acquisitions. On our freight rate structure, we adjusted our rates to ensure we are getting paid for what we do. The rates became depressed during the recession and we had to work hard to get them back in line with today's economy. In the area of cost reduction, we reviewed all of the departments within our company and made significant changes so we could become more efficient. We were able to move people to different departments within our company that better suited their skill set, resulting in a more productive and enthusiastic employee. Getting the right people in the right jobs was a key focus for 2012. Our on-time delivery improved and we reduced line haul costs by using short-sea shipping, intermodal and LCVs. We continued to upgrade our fleet with more new fuel efficient and reliable trucks. During the recession we continued to grow through strategic acquisitions and purchased O'Meara's Transport in PEI and Hillman's Transfer of Sydney, NS and Way's Transport Limited of Corner Brook, Newfoundland. We also continued to heavily invest in technology to better improve in our ability to mine data out of our current system. This new technology allows us to dig deep and know our exact costs in all areas of our operation, which has allowed us to make better decisions by knowing where our costs really are.

Q: *Any near-future plans for further service and/or network enhancements you can share?*

Armour: As previously mentioned, we will continue to grow through strategic acquisitions. Most recently, our company acquired Way's Transport Ltd., which was founded in 1976 by Clyde Way. Way's will continue to operate under the Way's Transport Ltd. name as a division of Armour Transportation Systems. The Way's fleet is comprised of over 150 pieces of equipment, specializing in general freight services including dry van, flatbed, refrigerated and container moves, with freight facilities located in Corner Brook and St. Anthony, NL. We welcome this highly respected family business to our group of companies. In 2013, we will be expanding our logistics warehousing facility in Dartmouth, NS to include an additional 100,000 square feet of cross-dock and storage space. This expansion will allow us to service both domestic and Halifax port customers as well as meet the logistics demands of the mining industry in Newfoundland and Labrador.

Q: *Do you see Armour Transportation continuing to grow organically or will mergers and acquisitions become an increasingly important part of your strategy?*

Armour: I see our company growing through a combination of both. We will continue to grow through strategic acquisitions that fit our company. However, we will not make an acquisition just for the sake of making one – "if the shoe doesn't fit, we're not buying the shoes." We will also continue to grow organically by attracting new business.

Q: *Bison recently purchased Searcy Trucking of Winnipeg, a family-owned carrier specializing in flatdeck services, and its distribution division, Universal Reload, which offers 12 acres of outdoor storage and 24,000 sq.-ft of indoor space, specializing in open deck freight handling logistics. Why was this the right move for Bison?*

Penner: Customers routinely asked us if we had flatbed service and our logistics team has helped some of our key clients move flatdeck freight for years so it is not completely foreign to us. As we look to acquire companies, our strategy is to find a strong business with a solid platform that we can leverage. We will look at how we can better manage their cost base, add value or inject horsepower in terms of money, strategy and of course people to help grow what is already a successful business. Searcy is a well run company that did well through the recession, did what needed to be done to protect their business and has looked after their customers and employees.

Q: *What is the strategic thinking behind this move to expand your service offerings?*

Penner: Although we are certainly not a trucking giant in terms of the scope of North America, in Canada we run a very large van fleet and we are very conscious of what our overall growth capabilities and limitations might be. We don't want to be too heavily concentrated on a particular set of customers. We certainly don't expect we could have 2,500 tractors doing exactly what we do now in Canada. But we do understand there are many industry segments we are not a part of and so we can leverage our strengths – strategy, purchasing, safety, training, people development – in different segments of the market place. And we feel we can do that without being distracted. We have good people in our organization who can do bigger and better and more things. Trucking is about people. If you have good people and you can leverage good people you can grow your business.

Q: *Flatdeck was hit hard during the recession. Are there companies that would be available for sale if you wanted to expand your reach in that sphere?*

Penner: Yes, we have looked at several that are available.

Q: *How do you see Bison evolving over the next 5 years in response to market trends and demands?*

Penner: We will have maintained our culture of doing the right thing for our customers, our employees, our business and those we share the roads with. We will continue to build on our successes and expand our reach into market segments that require a higher level of expertise, complexity or risk management. We are an organization built to provide full service transportation solutions. Truckload van, heated, refrigerated and flatbed, expedited, hazmat and LTL services, LCV and Asset Based Logistics, intermodal, trailer on flatcar, boxcar, warehousing and distribution. What have I missed? Stay tuned!

Mergers and Acquisitions in transportation: Are you ready to seize the opportunities?

Mergers and Acquisitions activity is expected to intensify in the transportation sector over the next several years.

Aging Baby Boomers are seeking opportunities to capitalize on their years of hard work. The Great Recession "took the fun out of the business" for many entrepreneurs. Leading economists are predicting an extended period of slow growth. A return to the "golden age" of trucking does not appear to be on the horizon. This may produce a group of interested sellers.

Investors see the prospect of improving their profitability by adding new revenue streams and new customers while rationalizing overheads. Whether it's adding a "tuck in" investment to fill a service void or part of a "grand plan" to become one of the top players in an industry, the time is ripe for change.

But we have heard this story before. Will 2014 really be different from other years?

Find out at our next Surface Transportation Summit which will include a panel discussion with M&A expert, Douglas Nix and "Baby Boomer" entrepreneur Mike McCarron, who recently sold his trucking business. The Summit is scheduled for October 16 at the Mississauga Convention Centre in Mississauga, Ont.

Douglas Nix is Vice Chairman of Corporate Finance Associates (CFA) and Chairman of CFA's Transportation and Logistics Industry Practice Group. He is one of Canada's leading mid-market M&A advisors in the transportation and logistics industry and has been involved in over 60 M&A transactions in the past 15 years.

Mike McCarron was one of the founding partners of MSM Transportation in 1989. For the next 22 years he helped grow MSM into one of the most recognizable brands in the Transportation Industry before selling to the Wheels Group last fall. Currently he is working in Wheels M and A department where he is focusing on the consolidation of the third party space. Mike sits on the Board of the CTA and the Executive Board of the OTA where he has been Chairman of their annual convention for the past decade. He also writes a regular column for Fleet Executive and Fleet Owner magazines.

The panel will discuss the key issues in buying and selling a trucking business and will share their insights on how to maximize the odds of making a successful purchase or sale.

The M&A panel is one of many sessions planned for the all-day Surface Transportation Summit.

To register for the Summit, go to:
www.surfacetransportationsummit.com

SURFACE TRANSPORTATION 2013 Summit

THE FIRST TEN THINGS YOU MUST DO AFTER YOU SELL YOUR BUSINESS

By Mark Borkowski

I recently spoke with Peter Churchill-Smith, managing director of Newport Private Wealth, one of Canada's largest independent wealth managers. He has worked with entrepreneurs for the better part of his 30-year career as a wealth management professional and, along with his partners, decided to conduct a survey of entrepreneurs who had sold a business.

The research objective was to better understand the challenges and needs of entrepreneurs through the entire sales cycle – pre-sale planning, closing the sale, the transition period, and the development of a new long-term plan for themselves and their investments.

The survey, conducted for Newport Private Wealth by Capital C Communications, determined that for the majority of business owners, the sale of the business was an exhausting, all-consuming ordeal that left them with little time to think about their personal needs and new circumstances. Then there is the aftermath. If one is still running the business, one's personal affairs often take a backseat to priorities such as staff and customer issues that have been deferred.

To help, 10 practical suggestions were developed. They come from two credible sources: entrepreneurs that have already experienced a "sale," and the research findings.

The Ten Suggestions

1. TAKE A BREATH...A VERY LONG BREATH – *The sale of a business often creates a "void" that will take time to replace. This transition period can take a year or more before you declare yourself "ready" for the next challenge. The management of your funds needs to reflect this new plan.*

2. RECOGNIZE YOUR NEW REALITY – *You are not any wealthier than you were prior to the sale. However, your balance sheet has changed dramatically. If you are working for the new owner, your wealth is no longer lodged at your place of work. It is at the bank! And it is not getting the same 24/7 attention that it received before the sale.*

3. USE PROFESSIONAL CASH MANAGEMENT – *The survey confirmed that a large proportion of business sellers park their funds in cash for three months to a year. For a large amount of money, you should have access to wholesale rates. Be like the majority of our surveyed sellers: deal with someone with direct access to the money market who can ensure you are receiving the rates you deserve.*

4. DRAW UP A NEW BALANCE SHEET – *There's no better time than now for you to take stock. Your affairs are probably more complex than you would like. You need funds to live and you need to understand which funds are best accessed from a tax perspective.*

5. GET ORGANIZED – *Your money may be in several places such as a family trust, a holding company and several family accounts. Many business sellers tell us that they are overwhelmed with the paperwork and it is very difficult to "keep score." You might want to consider hiring a part-time bookkeeper.*

6. COMMUNICATE WITH KEY FAMILY MEMBERS – *Many business sellers have emphasized the importance of communicating their new reality with key family members. So much has changed and misunderstandings can easily arise.*

7. GET AN ESTIMATE OF THE TAXES OWING – *You need to obtain an estimate of your tax liability. It may be due over several years and some may be deferred indefinitely. There are many strategies available, including insurance and philanthropy. Focusing on these issues may be the best way to increase your net worth in the short term.*

8. DO AN AUDIT OF YOUR CURRENT ESTATE PLAN – *It is very likely that your estate plan – including your will and insurance – do not match your new circumstances. Does your will include provisions dealing with shares of a private company now sold? Are your current executors capable of handling the complexity of your new affairs? In our view, these are "immediate concerns."*

9. APPOINT A CHARITY 'GATEKEEPER' – *Yes, charities know you've sold and they will now be soliciting you for a large commitment. Many entrepreneurs find it helpful to have a gatekeeper who will handle these requests.*

10. DEVELOP AN APPROACH FOR LOANS TO FAMILY – *Sooner than you think, you may be asked for a loan by a family member or friend. They may think that the loan is trivial to you. Sadly, they may feel the same way about repayment. A simple solution? Buy yourself time by telling them that your money is tied up with your advisors.*

Mark Borkowski, is president of Mercantile Mergers & Acquisitions. Mercantile specialize in the sale of privately owned Canadian companies. He can be contacted at mark@mercantilema.com or www.mercantilemergersacquisitions.com

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We have created an agenda that truly addresses the many challenges facing both Shipper and Carrier executives.

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FREIGHT BIDS: Is there a better way for carriers and shippers to work together?

CARRIER PERFORMANCE MANAGEMENT: Metrics that deliver results

INTERMODAL TRANSPORTATION: Expanding beyond its niche

THE VIEW FROM THE TOP: The CEO's perspective on major transportation trends

DEDICATED TRANSPORTATION: Outsourcing fleet management to a third party

CROSS-BORDER FREIGHT TRANSPORTATION: Best practices

TRANSPORTATION SALES: Can you adapt to the new normal?

MERGERS & ACQUISITIONS IN TRANSPORTATION: How big are the opportunities?

LOOKING AHEAD: Economic forecasts for 2014

Registration: 7:30 am
Presentations: 8:30 am sharp

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V. P. Physical Logistics,
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Carlos M. Gomes
Senior Economist,
Scotiabank

Neil McKenna
V. P. Transportation,
Canadian Tire Corporation

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CN Rail

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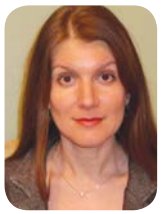

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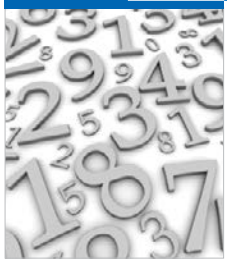


TransCore's Canadian Freight Index surges in March

TransCore's Link Logistics Canadian Freight Index for the spot market rebounded from low levels in February with a 24% increase in month-over-month volume. Year-over-year volume remained behind March 2012 levels by 11%.

First quarter of 2013 volume surpassed the previous quarter by 10%, and was well above the recessionary levels seen for the first quarter of 2009 by 73%. Volume was 6% lower, however, compared to the first quarter of 2012.

Overall load volumes for cross-border postings and intra-Canada postings averaged at 69% and 27%, respectively, of the data submitted by Loadlink's Canadian-based customers. Cross-border loads destined for provinces within Canada were down 20% year-over-year compared to March 2012. However, cross-border loads from Canada to the US revealed a 7% increase year-over-year.

The month-over-month and year-over-year equipment postings equally displayed a 2% increase for the month of March. Although load volumes showed double-digit quarter-over-quarter improvement, equipment postings dropped by 4% compared to the previous quarter. The equipment-to-load ratio for March improved substantially to 2.08 from 2.52 of the previous month.

TransCore's Loadlink freight matching database constitutes the largest Canadian network of carriers, owner/operators, freight brokers and intermediaries. More than 13 million full loads, LTL shipments and trucks are posted to the Loadlink network annually. As a result of this high volume,TransCore believes the Index is representative of the ups and downs in spot market freight movement.

The first six columns include monthly index values for years 2008 through 2013. The seventh column indicates the percentage change from 2012 to 2013. The last column indicates the percentage change from the previous month to the current month. For the purpose of establishing a baseline for the index, January 2002 (index value of 100) has been used.

Cross-border truckload freight costs drive increase

Total cost of ground transportation for Canadian shippers increased by 2.4% in February when compared with January results, results published by the Canadian General Freight Index (CGFI) indicate. The Base Rate Index, which excludes the impact of accessorial charges assessed by carriers, increased by 1.9% when compared to January. Average fuel surcharges assessed by carriers have seen an increase from 20.36% of base rates in January to 21.53% in February.

"Cross-border truckload continued to drive the increase combined with fuel being at the highest level since May 2012," said Doug Payne, president and COO of Nulogx.

The CGFI is sponsored by Nulogx, a transportation management solutions provider, and is used by shippers and carriers to benchmark performance, develop business plans, and secure competitive agreements. It was developed with the assistance of Dr. Alan Saipe. The most recent results are available at the CGFI Web site: www.cgfi.ca.

TransCore Canadian Spot Market Freight Index 2008-2013

	2008	2009	2010	2011	2012	2013	% Change Y-O-Y	% Change M-O-M
Jan	214	140	171	222	220	228	**4%**	**25%**
Feb	217	117	182	248	222	198	**-11%**	**-13%**
Mar	264	131	249	337	276	245	**-11%**	**24%**
Apr	296	142	261	300	266			
May	316	164	283	307	301			
Jun	307	185	294	315	295			
Jul	264	156	238	245	233			
Aug	219	160	240	270	235			
Sep	203	180	234	263	200			
Oct	186	168	211	251	215			
Nov	143	157	215	252	215			
Dec	139	168	225	217	182			

TransCore Canadian Spot Market Freight Index 2008-2013

Domestic business drives railway freight increase as US freight drops

Freight carried by Canadian railways reached 25.7 million tonnes in February, a 1.0% rise over the same month last year. The gain was entirely due to increased rail traffic within Canada as shipments from the US fell during the month. Within Canada, combined loadings of non-intermodal freight (i.e., cargo moved via box cars or loaded in bulk) and intermodal freight (i.e., cargo moved via containers and trailers on flat cars) rose 1.5% to 22.7 million tonnes.

Non-intermodal loadings rose 1.3% to 20.4 million tonnes in February. Strong freight volumes related to potash; fuel oils and crude petroleum; and fresh, chilled or dried vegetables were key factors behind this growth as less than half of the 64 commodity classifications loaded by the railways rose during the month.

The increase in fuel oils and crude petroleum loadings represents both the highest volume of shipments and the rate of growth the commodity has seen for the month of February since 1999.

On the other side of the spectrum, the largest declines in loadings were observed for shipments of wheat, colza seeds (canola) and iron ores and concentrates. The decline in these commodities alone was greater than the drop in tonnage from the remaining commodities that fell during the month. Intermodal loadings advanced 3.1% to 2.3 million tonnes in February. The gain reflected increased loadings of both containerized cargo shipments and trailers loaded on flat cars.

The Western Division accounted for 60.6% of the domestic freight loadings, up 1.3% from the same month in 2012 to 13.7 million tonnes. The remainder was loaded in the Eastern Division, which saw a slightly stronger rate of growth than its counterpart, increasing 1.8% to 8.9 million tonnes.

Rail shipments from the US fell during the month of February, declining 2.9% to 3.0 million tonnes. The drop was solely attributable to non-intermodal loadings, which decreased 4.0% to 2.8 million tonnes.

INSIDE THE NUMBERS

Getting old fast

A sobering new look at the truck driver demand gap

The age of the average Canadian truck driver is increasing more rapidly than the age of the average worker due to fewer young workers choosing driving as a profession, according to new research from the Conference Board of Canada. Meanwhile, the demand for truck drivers will increase as industries that rely on trucking continue to grow. By 2020, the gap between the supply and demand of drivers is expected to be 25,000 and could reach as high as 33,000. This raises concerns not only for motor carriers who will have to forego their company growth plans, but also for many Canadian industries whose growth is reliant on efficient truck transportation. Slower delivery times due to insufficient trucking capacity result in higher in-transit inventory costs and less reliable service destroys JIT shipping strategies and results in higher standing inventory costs.

Aging of truck drivers and other professions (average age in years)

	1996	2006	Increase
Truck drivers	40.5	44.2	**3.7**
Delivery drivers	36.1	40.9	**4.8**
Materials handlers	34.7	36.9	**2.2**
Railway and motor transport labourers	35.6	33.7	**-1.9**
Dispatchers and radio operators	38.4	40.3	**1.9**
Transportation route and crew schedulers	40.3	40.7	**0.4**
Heavy-duty equipment mechanics	39.9	41.8	**1.7**
Motor vehicle mechanics, technicians and mechanical repairers	37.1	39.7	**2.5**

Estimate of driver demand – for-hire trucking 2013 to 2020 (000s)

	2013	2015	2020
Atlantic	9.8	10.1	10.6
Quebec	39.0	40.2	42.4
Ontario	65.9	69.8	77.3
Manitoba	6.7	7.1	7.6
Saskatchewan	6.5	6.8	7.7
Alberta	24.6	26.0	29.4
British Columbia	24.4	26.2	27.7
TOTAL	**176.9**	**186.1**	**202.7**

For-hire trucking industry supply and demand gap 2020 (000s)

	Supply	Demand	Gap
Atlantic	8.5	10.6	2.0
Quebec	37.2	42.4	5.2
Ontario	71.4	77.3	5.9
Manitoba	7.0	7.6	0.6
Saskatchewan	6.1	7.7	1.6
Alberta	23.3	29.4	6.2
British Columbia	24.3	27.7	3.4
TOTAL	**178.0**	**202.7**	**24.7**

Impact of service levels on shippers' logistics costs ($)

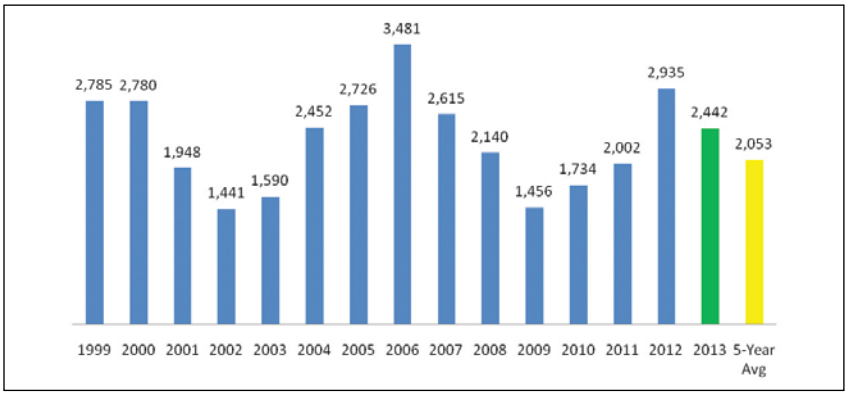
	High	Medium	Low
Direct transportation cost	18,000	18,000	18,000
Inventory carrying cost	18,000	18,000	18,000
Order processing cost	1,200	1,200	1,200
In-transit carrying cost	3,945	5,260	5,260
Standing inventory cost	1,237	2,473	4,947
Total logistics cost	**42,382**	**44,934**	**47,047**

CLASS 8
Truck Sales Trends

Monthly Class 8 Sales – Mar 13

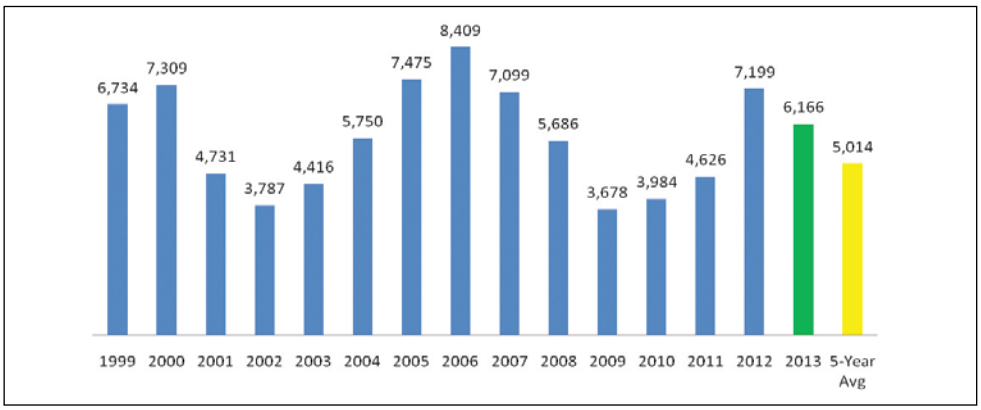
OEM	This Month	Last Year
Freightliner	630	779
International	344	462
Kenworth	553	581
Mack	183	171
Peterbilt	308	330
Volvo	239	429
Western Star	185	183
TOTALS	2442	2935

Historical Comparison – Mar 13 Sales



The first quarter has been a disappointing one for Class 8 truck sales in Canada. Although Class 8 sales for the month returned to a level above 2,000 and were about 400 units above the 5-year average, they were considerably behind the monthly total from 2012. The drop reflects a six-month slide below last year's totals. All truck makers, with the exception of Mack and Western Star which made minimal gains, have suffered setbacks in sales totals compared to the previous year.

Historical Comparison – YTD Mar 13



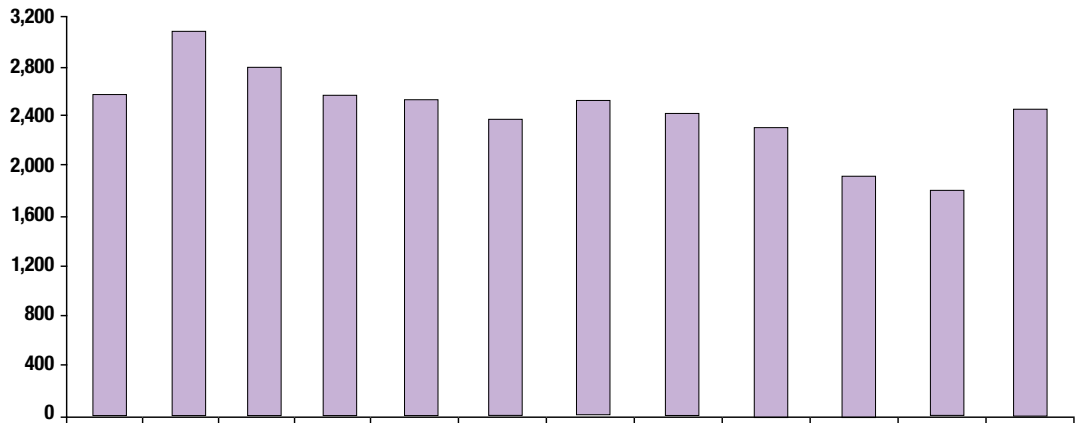
Class 8 Sales (YTD Mar 13) by Province and OEM

OEM	BC	ALTA	SASK	MAN	ONT	QUE	NB	NS	PEI	NF	CDA
Freightliner	165	190	38	101	703	288	60	35	1	10	1,591
Kenworth	290	468	103	27	169	195	31	0	0	0	1,283
Mack	39	95	36	26	132	73	18	4	0	1	424
International	34	179	9	27	415	216	32	8	3	9	932
Peterbilt	109	286	62	58	113	179	30	15	0	0	852
Volvo	60	36	21	35	235	147	29	15	0	1	579
Western Star	97	192	17	9	83	70	10	23	0	4	505
TOTALS	794	1,446	286	283	1,850	1,168	210	100	4	25	6,166

With sales of 6,166 Class 8 trucks to close out the first quarter, 2013 is more than 1,000 units behind last year's pace but also about 1,000 units above the five-year average. Assuming an 8-year life cycle for Class 8 trucks (a truck could go through several owners during this period), there are more than 35,000 trucks due for renewal in 2013. If in fact all those trucks are renewed that would put 2013 on pace with the sales totals posted in 2005, the second best Class 8 sales year in Canadian history. But after three months of disappointing results it is very unlikely this will happen in 2013.

CLASS 8
Truck Sales Trends

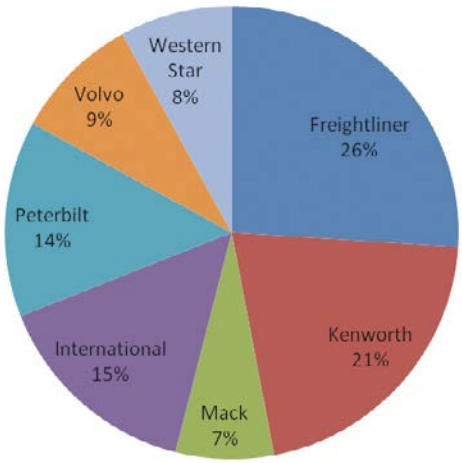
12-Month Sales Trends



	April	May	June	July	August	September	October	November	December	January	February	March
SALES	2,597	3,166	2,861	2,542	2,517	2,392	2,575	2,411	2,326	1,916	1,808	2,442

After 15 straight months of sales coming in above the 2,000 mark, reminiscent of the industry's capacity boom years of 2005 to 2007, they dropped slightly below 2,000 in January and yet again in February. Over the past quarter, we have been pointing to the worrisome trend of sales declining each month since October. In fact, sales have been in general decline since the year's high mark of 3,166 back in May. Early forecasts call for a slow first quarter and a pick-up in activity by the second half of 2013.

Market Share Class 8 – Mar 13 YTD



Freightliner, last year's Canadian market leader, has started off strong again, despite a drop in sales totals compared to the previous year. Kenworth finished 2012 in the number two spot for market share, its strong wide western network tapping into the stronger western economy. The company sits at 21% market share. Troubled Navistar International finished the year with 15% market share but has shown improvement in the first three months.

Source: Canadian Motor Vehicle Manufacturers Association