Beyond the Soft Patch:
A look at NA Commercial Vehicle Markets and the underlying demand drivers that promise to keep the market healthy for several years to come

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Thesis

• There is no substitute transportation mode for heavy trucks.
  – Heavy trucks provide flexibility and reliability at a good value that other modes cannot match.
  – Economic activity provides a proxy for the freight that trucks haul.
    • Economic momentum provides insights into near to medium-term freight volumes.
Who Hauls the Freight?

U.S. Freight Market: 2010
as a % of Revenues

Truckers are hauling 81% of all freight ($ basis):

- Tot. Truck: $563b
- Private: $268b (47.6%)
- TL: $255b (45.3%)
- LTL: $40b (7.1%)

American Truck Associations, ACT Research Co., LLC: Copyright 2012
# Marginal Demand Considerations: Evolution not Revolution

<table>
<thead>
<tr>
<th>Detracting from Demand</th>
<th>Accretive to Demand</th>
<th>Trend Period</th>
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<tbody>
<tr>
<td>Retail Consolidation</td>
<td>Population Growth</td>
<td>Long-term</td>
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<tr>
<td>Packaging evolution</td>
<td>Internet Shopping</td>
<td>Long, Medium-term</td>
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<tr>
<td>Electronics Miniaturization</td>
<td>Ubiquitousness of electronics</td>
<td>Long-term</td>
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<tr>
<td>Intermodal</td>
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<td>Long-term</td>
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<td>Rising Oil Prices</td>
<td>Cheap Natural Gas</td>
<td>Recent</td>
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<td></td>
<td>Mfg. On-shoring</td>
<td>Now/Coming</td>
</tr>
<tr>
<td>Rising Truck Prices</td>
<td>Regulatory Onslaught</td>
<td>Now</td>
</tr>
</tbody>
</table>
No Low Hanging Fruit

U.S. Logistics Spend
as a Percentage of GDP
1980 - 2010
Intermodal

• Significant RR infrastructure investments
  – Strong service levels and expanded service offerings
    • Shipper acceptance of IM as transport option
    • IM starting to compete in shorter-hauls (<1000mi)
    • Reduced cost per mile
      – Lower fuel bill/smaller carbon footprint
  – Density and distance are major limitations
    • 10 lanes account for 80% of IM loads
    • Exchange speed & flexibility for cost
Estimated Impact

Intermodal Loads by Type

1999 - 2011

Intermodal Loads (millions)

Every 1M domestic IM loads reduces need for Class 8 trucks by ~10k units

Source: IANA         ACT Research Co., LLC: Copyright 2012
The Happy Side of the Cycle

• Freight supply-demand equilibrium tilted in truckers’ favor
• Trucker profits have rebounded
• Used equipment valuations continue to rise
  – Credit availability/worthiness improving
• Also,
  • Significantly better fuel economy
  • A really old fleet from deferred capex
  • Regulatory impacts on productivity, liability & drivers
  • Positive influence of driver shortage on demand
The Coming Capacity Crunch

• The imbalance between trucks and freight will continue to widen
  • Below replacement sales
  • New trucks are crazy expensive
    – Credit constraints
  • Growing freight volumes
  • Productivity sapping regulations (CSA, HoS, EOBRs)
  • Slower speeds
  – Market conditions point to strong bargaining position for truckers on freight rates
    • Needed to offset rising costs
Capacity Crunch Accelerates in 2012

U.S. Class 8 Supply & Freight Demand
Overbuy:Underbuy

1997 - 2012

Capacity shortfall projected to peak in late 2013: 6% or 130k too few trucks in the U.S.
Implied Capacity Utilization

U.S. Class 8
Implied Fleet Utilization Rate
1997 - 2014

Capacity shortfall will be a contributing factor in rising freight rates

We expect for-hire freight rates to rise rapidly as shippers compete for a dwindling supply of equipment
Productivity Onslaught

- CSA (‘11):
  - Productivity, Liability, Drivers
  - FMSCA New Entrant Safety Standard

- EOBRs: On hold
  - Productivity, Drivers

- Hours of Service (‘12):
  - Could have been worse
    - Keep 11 and 14 hours (for now)
    - 34 hour reset must include 2 overnights

- CAFE Standards (‘14, ‘18)
Steady Freight Growth

ATA Monthly Truck Tonnage Index
January '03 - March '12 (2000=100)

Source, American Trucking Associations, ACT Research Co., LLC: Copyright 2012
Trucking Loadboards

Transcore Loadboard Data
January '03 - April '12 (2000=100)

Transcore “offers 68m freight loads per year”

Internet Truckstop Market Demand Indicator
January '03 - March '12 (2000=100)

Source: Transcore Commercial Technology Group, ACT Research Co., LLC: Copyright 2012

Source: Internet Truckstop, ACT Research Co., LLC: Copyright 2012
Positive Survey Response

ACT-Echo Truckload Index
Freight Volumes & Rates
June '09 - April '12

ACT-Echo Truckload Index
Fleet Capacity & Productivity
June '09 - April '12

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Rising Profitability

TL Carrier Database: Net Profit Margin

Q1'01 - Prelim. Q1'12 (Excludes SWFT)
Market Challenge

• Record fleet age = little equity in many fleets
• EPA mandates/rising commodity prices have significantly impacted new Class 8 prices
  • Many truckers need mortgage-sized loans to continue competing in the JIT economy
    – Situation will keep traditional Class 8 demand surge from forming

A growing capacity shortage into 2014 seems more likely than the arrival of traditional period of capacity surplus
April Rebound

Used Class 8: Average Retail Selling Price

January '03 - April '12

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Into the Preferred Quadrant

Last four quarters, “ability” plot has been stuck in neutral
What Happened to Orders?

• Perceived risks currently outweighing potential rewards
  – Economic uncertainty
  – Lumpy freight
  – Rising fuel costs in Q1
  – Large gap between new and used truck prices
  – Others
    • Waiting for a tax break,
    • Waiting for natural gas
    • Profitability has not yet shifted from good to great
Weak Orders Persist

TOTAL CLASS 8: N.A. NET ORDERS
January '04 - April '12 (Not SA)
Order Survey Rebound

ACT-Echo Truckload Index
% Respondents Buying Equipment in Next 3 Months

June '09 - April '12

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Backlogs Declining

TOTAL CLASS 8: N.A. BACKLOG & BL/BU RATIO
January '04 - April '12 (Not Seasonally Adjusted)

ACT Research Co., LLC: Copyright 2012
TOTAL CLASS 8 NA:
NET ORDERS (Trailing 12 Months) & BUILD
January '04 - April '12  (Not Seasonally Adjusted)
## OEM Build Plan

### Build Timing of Units in Backlog as of April 30, 2012

<table>
<thead>
<tr>
<th>CLASS 8</th>
<th>Actual BU</th>
<th>Bal.Q2’12</th>
<th>Q3’12</th>
<th>Q4’12</th>
<th>2013</th>
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<tbody>
<tr>
<td></td>
<td>2012</td>
<td>May-Jun</td>
<td>Jul-Sep</td>
<td>Oct-Dec</td>
<td>Beyond</td>
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<tr>
<td>BACKLOG DISTRIBUTION</td>
<td>39,285</td>
<td>38,616</td>
<td>22,161</td>
<td>6,345</td>
<td>106,407</td>
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<tr>
<td>. Mix by scheduled build date</td>
<td>36.9%</td>
<td>36.3%</td>
<td>20.8%</td>
<td>6.0%</td>
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<tr>
<td>Actual/OEM BUILD PLAN (Pp. 19)</td>
<td>102,305</td>
<td>54,500</td>
<td>79,400</td>
<td>79,000</td>
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<tr>
<td>. Open build slots</td>
<td>15,215</td>
<td>40,784</td>
<td>56,839</td>
<td>--</td>
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<tr>
<td>. % Open</td>
<td>27.9%</td>
<td>51.4%</td>
<td>71.9%</td>
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<tr>
<td>BUILD UPD (A/F)</td>
<td>1,248</td>
<td>1,309</td>
<td>1,413</td>
<td>1,350</td>
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# Back of the Envelope Analysis

<table>
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<tr>
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<th>BUILD</th>
<th>U/D</th>
<th>NET</th>
<th>BL End</th>
<th>BL/BU</th>
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<tbody>
<tr>
<td>Q1</td>
<td>77,700</td>
<td>1,254</td>
<td>67,600</td>
<td>114,400</td>
<td>95d/4.5m</td>
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<tr>
<td>Q2</td>
<td>75,600</td>
<td>1,200</td>
<td>60,000 (20k/m)</td>
<td>99,000</td>
<td>83d/3.9m</td>
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<tr>
<td>Q3</td>
<td>69,000</td>
<td>1,175</td>
<td>54,000 (18k/m)</td>
<td>84,000</td>
<td>72d/3.5m</td>
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<tr>
<td>Q4</td>
<td>71,000</td>
<td>1,200</td>
<td>81,000 (27k/m)</td>
<td>94,000</td>
<td>79d/3.8m</td>
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<tr>
<td>Total</td>
<td>294,000</td>
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</table>
TOTAL CLASS 8: N.A. INVENTORY/RETAIL SALES RATIO
January ‘04 - April ‘12 (Not Seasonally Adjusted)

TOTAL CLASS 8: U.S. INVENTORY/RETAIL SALES RATIO
January ‘04 - April ‘12 (Not Seasonally Adjusted)
A Good Sign

TOTAL CLASS 8: N.A. CANCELLATION RATE
Expressed as a percentage of Backlog
January '04 - April '12 (Not Seasonally Adjusted)
Class 8 Summary

• Everything but orders pointing in the right direction:
  – Freight data
  – Underlying demand
  – Trucker Profitability
  – Rising used equipment values

• Market indicators
  – Cancellations are low
  – Retail sales remain strong
    • U.S. IN/RS at not unreasonable 2.4 months/50 days
Steady As She Goes

N.A. Class 8 Production
1998-2013

Thousands

<table>
<thead>
<tr>
<th>Year</th>
<th>Total C8</th>
<th>Trucks/Rigids</th>
<th>Tractors/Artics</th>
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<tbody>
<tr>
<td>'98</td>
<td>267</td>
<td>63</td>
<td>204</td>
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<tr>
<td>'99</td>
<td>333</td>
<td>75</td>
<td>257</td>
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<tr>
<td>'00</td>
<td>252</td>
<td>80</td>
<td>172</td>
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<tr>
<td>'01</td>
<td>146</td>
<td>55</td>
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</tr>
<tr>
<td>'02</td>
<td>181</td>
<td>57</td>
<td>125</td>
</tr>
<tr>
<td>'03</td>
<td>182</td>
<td>52</td>
<td>130</td>
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<tr>
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<td>'10</td>
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<td>'13</td>
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<td>83</td>
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### N.A. Classes 5-7 Order Distribution
(Data through April 2011, annualized)

<table>
<thead>
<tr>
<th>Classes 5-7 Orders</th>
<th>Truck (000s)</th>
<th>Bus (000s)</th>
<th>RV (000s)</th>
<th>Total (000s)</th>
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<tr>
<td>Past 12 Mo.</td>
<td>124.5</td>
<td>31.6</td>
<td>10.4</td>
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<td>Past 6 (AR)</td>
<td>132.3</td>
<td>29.0</td>
<td>4.3</td>
<td>165.6</td>
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<tr>
<td>Past 3 (AR)</td>
<td>128.7</td>
<td>33.9</td>
<td>3.9</td>
<td>166.5</td>
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<tr>
<td>April</td>
<td>141.1</td>
<td>39.4</td>
<td>1.3</td>
<td>181.8</td>
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<tr>
<td>Apr. (SAAR)</td>
<td></td>
<td></td>
<td></td>
<td>193.6</td>
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</tbody>
</table>
TOTAL CL. 5-7: N.A. BACKLOG & BL/BU RATIO
January '04 - April '12 (Not Seasonally Adjusted)
Medium Duty Summary

• Forecast is below replacement into 2H’14
  • Classes 6-7 at ~150k/yr
  • Classes 4-5 at ~75k/yr

• Employment/debt/credit still weigh on MD vehicle buyers

• Housing losing its stranglehold on MD truck/RV demand

• Bus chassis market defying dampened state/school district budgets
N.A. Classes 5-7 Production
2002-2013

<table>
<thead>
<tr>
<th>Year</th>
<th>TOTAL 57</th>
<th>C57 RV</th>
<th>C57 Bus</th>
<th>C57 Truck</th>
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<tbody>
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<td>'02</td>
<td>202</td>
<td>40</td>
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<td>124</td>
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Units (Thousands)
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