

Refrigerated carriers report rising revenue, operating ratios show steady declines

By Gary Macklin

According to cotton farmers on the High Plains, the weather makes no judgments, raining or hailing with equal fury on the just and the unjust. Based on responses to requests for information for this Gross Revenue Report, the financial sun that appeared in 2003 and 2004 has continued to shine for many carriers, especially the large ones. However, a lack of response confirmed by personal contact seems to indicate that a number of carriers in the middle of the revenue range are still covered by clouds.

Rising fuel prices have continued to contribute to business failures and to encourage consolidation. This drop in motor carrier capacity has moved shippers to raise rates to protect access to adequate levels of service. Although tight motor carrier capacity indicates an uncertain business environment, the carriers that hold on should have reason to anticipate an even brighter future.

Gross revenue data for 2005 shows a notable increase for the 37 carriers responding to information requests from *Refrigerated Transporter*. Viewed as a group, these carriers reported much higher revenue than they reported for 2004. However, the growth rate of 14% is down slightly from annual growth of 19.3% published in the September 2005 Gross Revenue Report, but it is an increase from the 11% noted in the September 2004 Gross Revenue Report. The results this year and for the two previous year's report are a tremendous increase from the 2.4% average growth rate published in the 2003 report.

Wider profit margins

Profit margins for carriers responding to this survey continued to widen slightly in 2005 with the average operating ratio of these 37 carriers falling an entire point to 93.21 from 94.2. This is the second consecutive year that operating ratios have fallen by a point. Five of the six largest carriers responding to the survey all show an improvement in operating ratio.

A number of carriers have sought bankruptcy protection in the past three years, many simply ceasing operations.

Others have experienced marginal financial results and consequently have simply declined to release data. The Gross Revenue Report on 2005 data contains 37 carriers, four fewer than provided data for the September 2005 report on 2004 financial results. Although the business climate has improved from 2003 through 2005, many privately held carriers have remained more and more protective of their financial data.

Only two refrigerated carriers remain among the ranks of public stock companies—Frozen Food Express Industries and Marten Transport. Several large, publicly held dry van carriers operate refrigerated divisions, but these companies do not release data from their individual operating divisions. One public dry van carrier, Knight Transportation established a refrigerated operation in 2003, purchased a refrigerated truckload carrier in 2004, and now has more than a year of experience in the refrigerated market. For a profile of Knight Refrigerated, look at the cover article in the May 2006 issue of *Refrigerated Transporter*. In addition, a number of large carriers operate fleets dedicated to serving Wal-Mart grocery distribution centers; a second year entry to the Gross Revenue Report, Transport Industries, is one of these, and the parent company, Greatwide Logistics Services is the lead article in this. Greatwide has other dedicated fleet customers as well as Wal-Mart.

Dry fleet reefer operations

In a separate section of the Gross Revenue Report on 2005 financial data, *Refrigerated Transporter* lists those dry van carriers known to operate refrigerated service and provides revenue data for the entirety of those carriers. No attempt is made to determine what level of contribution refrigerated operations make to total truckload fleet revenue. At some carriers, such as Swift, the contribution is large, because the company has a large refrigerated subsidiary as well as numerous dedicated refrigerated fleets. At others, such as Werner, the refrigerated fleet is said to be relatively small.

In raw terms, the 37 carriers responding for this re-

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Rankings and Growth Rates	2005 Rank	2005 Revenue	2005 Ratio	2004 Revenue	2004 Ratio	2005 Growth
C R England Inc • Salt Lake City UT	1	543,872,601	92.59	517,844,066	93.45	5%
Frozen Food Express Industries • Dallas TX	2	524,127,000	94.3	474,430,000	96.4	10.4%
Prime Inc • Springfield MO	3	471,627,108	92	459,569,923	91	2.6%
Marten Transport Ltd • Mondovi WI	4	460,200,000	90.7	380,048,000	91.8	21%
Stevens Transport Inc • Dallas TX	5	439,000,000	84.7	367,810,000	85.4	19.3%
Transport Industries • Dallas TX	6	427,100,000	92	347,800,000	92.9	22.8%
Central Refrigerated Service Inc • West Valley City UT	7	262,230,412	NR	228,978,000	NR	14.5%
John Christner Trucking Inc • Sapulpa OK	8	150,493,410	95.8	127,403,336	92.3	18.1%
Willis Shaw Express Elm • Springs AR	9	115,424,000	NR	110,745,000	NR	4.2%
National Carriers Inc • Liberal KS	10	111,845,443	93.1	84,955,119	95.6	31.6%
Southern Refrigerated Transport Inc • Texarkana AR	11	94,851,000	87.2	73,199,000	90.3	29.5
J & R Schugel Trucking Inc • New Ulm MN	12	92,469,948	96.6	84,578,946	98.2	9.3%
Pride Transport Inc • Salt Lake City UT	13	70,000,000	NR	53,489,381	NR	30.8%
Gemini Traffic Sales • Edison NJ	14	69,491,435	95.2	54,832,081	93.2	25.1%
Earl Henderson Trucking Co • Salem IL	15	68,491,435	94.5	63,832,181	94	7.2%
WEL Companies Inc • De Pere WI	16	49,002,000	95	40,175,000	93	21.9%
Cargill Meat Logistics • Wichita KS	17	43,678,760	97.3	37,610,633	94.5	16.1%
Kennesaw Transportation Inc • White GA	18	42,075,279	94	37,593,900	90.5	11.9%
FST Logistics Inc • Columbus OH	19	38,300,000	94.6	37,100,000	95.8	3.2%
Howell's Motor Freight Inc • Cloverdale VA	20	32,500,000	NR	28,200,000	NR	15.2%
D & D Sexton Inc • Carthage MO	21	31,902,796	93.15	26,160,397	94.9	21.9%
Grand Island Express • Grand Island NE	22	31,600,000	93	25,700,000	95	22.9%
Refrigerated Food Express Inc • Avon MA	23	24,612,255	98.8	18,738,934	99	31.3%
Classic Carriers Inc • Versailles OH	24	22,800,000	NR	20,600,000	99	10.6%
Baldwin Distribution Services Ltd • Amarillo TX	25	22,124,733	86.2	17,851,231	93.7	23.9%
Sorenson Transport Co Inc • Chehalis WA	26	21,132,219	82.3	19,588,914	94.8	7.8%
3KB Transportation Inc • Altus OK	27	19,799,251	97	16,255,650	98	21.9%
Denny Transport Ltd • Commerce City CO	28	15,306,000	NR	10,775,000	NR	42%
Nagle Toledo Inc • Walbridge OH	29	14,835,100	NR	14,169,092	NR	4.7%
L W Miller Transportation Inc • Logan UT	30	14,770,000	NR	11,916,880	NR	23.9%
W N Morehouse Truck Line Inc • Omaha NE	31	14,351,847	99	12,032,070	100	19.2%
Diversified Transfer & Storage • Billings MT	32	12,680,500	98	10,903,640	98	16.2%
Escro Transport Ltd • Buffalo NY	33	8,800,000	97	8,500,000	94.2	3.5%
Kelle's Transport Service Inc • Salt Lake City UT	34	7,778,175	92.2	6,887,984	91	12.9%
Atlantic Coastal Trucking Inc • Carlstadt NJ	35	4,120,000	91	3,760,000	92	9.5%
Seagate Transportation Services • Perrysburg OH	36	2,977,887	98	2,868,099	96	3.8%
Rocky Top Trucking • Houston TX	37	1,042,532	88	1,020,775	89	21.3%
TOTALS		4,376,946,691	93.21	3,838,213,061	14%	

Compiled by *Refrigerated Transporter* magazine—September 2006

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port show slightly less revenue for 2005 than the 41 carriers listed in September 2005 showed for their 2004 revenue. Carriers responding to this current survey report gross revenue of \$4,376,946,691 for 2005. In the September 2005 report, 41 carriers reported gross revenue of \$4,747,249,674, up sharply from \$3,623,374,533 in the September 2004 report on 2003 revenue. Revenue from 2002 reported in September 2003 was essentially the same as the September 2004 level at \$3,598,394,013.

Carrier reports for the 2006 Gross Revenue report lends credence to the view that the truckload refrigerated market approaches \$5 billion, a defensible figure. Some analysts suggest that it is much higher—possibly as high as \$10 to \$12 billion. That estimate is based on the assumption that freight costs account for 3% of total fresh and frozen food sales. However, such an estimate may include some duplication such as counting the proceeds of third party logistics providers and the revenue of for-hire carriers without noting that for-hire carriers provide transportation services to logistics providers. In turn, some small fleets are leased to larger for-

hire carriers as independent contractors. Revenue for these fleets in a sense is a double count of revenue paid to larger carriers that use small fleets as owner-operators.

Dedicated fleets add to the confusion over revenue. Delivery costs from wholesale distribution centers to stores and foodservice outlets is accepted to be one percent of retail sales. Based on grocery industry figures, downstream distribution cost should be in the range of \$9 billion. However, that figure is an expense to a private fleet, but revenue to a dedicated fleet. Perhaps the whole industry needs a better definition of just what constitutes truckload carriage and what for-hire operations really do.

Stable revenue growth

All said, gross revenue has remained fairly stable in the past year; although, carriers report that freight demand is slightly lower and that revenue increases are the result of pricing based on tight market capacity. Allowing for variations in the number of carriers responding to our request for financial data, we still see an increase of almost \$2 billion in refrigerated carrier revenue since 1995. However, this growth, based on the volume of food shipments, is rising only at the rate of population growth.

The 2005 revenue shortfall reported by these 37 carriers amounts to more than \$538 million from the previous Gross Revenue Report, but still indicates a 14% increase from the revenue generated by these same carriers in 2004. This growth rate nearly matches that from the boom years of the late 1990s when the highest increase was 15.5% in the 1997 Gross Revenue Report. Throughout the 1990s, 7% to 8% was a fairly normal rate of increase. Three successive years with growth rates of 14%, 19%, and 11% could indicate that boom times are returning, but increasing fuel costs make such a prediction improbable.

Carriers are, however, seeing less resistance to rate increases as industry capacity contracts. Increased rates in

Dry Van Carriers with Refrigerated Operations	2005 Revenue	2004 Revenue	2005 Growth
Schneider National • Green Bay WI	3,852,000,000	3,200,000,000	20%
Swift Transportation Company • Phoenix AZ	3,197,000,000	2,826,201,000	13.1%
Werner Enterprises • Omaha NE	1,972,000,000	1,678,043,000	18%
Crete Carrier Corporation • Lincoln NE	926,000,000	820,636,000	12.8%
Covenant Transport • Chattanooga TN	643,100,000	603,622,000	6.5%
Knight Transportation • Phoenix AZ	566,813,000	442,288,000	28.1%
PAM Transportation Services • Tontitown AR	360,880,000	325,066,000	11%

Several large dry van truckload carriers have refrigerated operations. As public stock companies, these carriers do not normally report financial results for individual divisions. Some of these carriers, such as Swift and Covenant, have large refrigerated operations. Others such as Knight have younger, smaller refrigerated divisions.

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a tight financial market, carriers say, are the only way to ensure wider profit margins. For instance, the Frozen Food Express Industries quarterly reports routinely note that for the first time in years lost capacity is not being replaced rapidly by new carriers. Other carriers report that shippers are now willing to pay to reposition equipment so that it is more readily available for outbound loads.

In perhaps an indication of the sensitivity of reporting their financial results, every carrier that submitted data shows an increase in revenue from 2004 to 2005. In the September 2005 report, only 90% of respondents noted an increase. As recently as September 2003, only 65% of carriers providing data reported an increase. Obviously, now we are receiving reports only from carriers in relatively good financial condition who are willing to share data.

Some carriers report rapid rates of growth, especially among the small and middle-sized companies such as Denny Transport growing 42% after experiencing a growth rate of 45.6% in its previous year. Another small carrier, Refrigerated Food Express, posted a 31.3% rate of growth. Among the larger carriers, National Carriers grew 31.6%, followed by Southern Refrigerated Transport at 29.5%.

Operating ratios are available for 29 of these 37 carriers. The average operating ratio for carriers in this report is 93.2, an improvement of more than one percentage point from the 94.2 reported in September 2005 on revenue from 2004. Eighteen of these 37 carriers reported a better operating ratio on 2005 revenue than on revenue from 2004. Of those 18 carriers, five carriers report an operating ratio below 90, and 19 report an operating ratio of 95 or lower. No carrier reports an operating ratio above 99. Improving operating ratios should make the industry healthier and better able to withstand outside financial pressures, replace aging equipment, and pay debt service. However, profit margins are still narrow compared to the average operating ratio of 90.7 in 1995.

Divergent growth patterns

Ten of the largest carriers responding to this survey show a widely divergent growth pattern with two-thirds of them growing at double-digit rates ranging from 10.4% all the way up to 31.6%. Those growing at single-digit rates did so in the range from 2.6% to 5%. Two of the largest carriers are in the single-digit growth group, but their revenue accounts for more than \$1 billion.

This Gross Revenue Report looks especially top-heavy with the first two carriers on the list generating more than \$1 billion and the top four carriers within a few dollars of \$2 billion. Concentration at the top continues with seven carriers accounting for more than \$3 billion and the top 18 passing the \$4 billion mark. This concentration shows the rapid growth for refrigerated transportation as a whole. Individual carriers have grown explosively as well; for

Alphabetical Listing of Companies

Company	Rank
Atlantic Coastal Trucking Inc	35
Baldwin Distribution Services Ltd	25
C R England Inc	1
Cargill Meat Logistics	17
Central Refrigerated Service Inc	7
Classic Carriers Inc	24
D & D Sexton Inc	21
Denny Transport Ltd	28
Diversified Transfer & Storage	32
Earl Henderson Trucking Co	15
Escro Transport Ltd	33
FST Logistics Inc	19
Frozen Food Express Industries	2
Gemini Traffic Sales	14
Grand Island Express	22
Howell's Motor Freight Inc	20
J & R Schugel Trucking Inc	12
John Christner Trucking Inc	8
Kelle's Transport Service Inc	34
Kennesaw Transportation Inc	18
L W Miller Transportation Inc	30
Marten Transport Ltd	4
Nagle Toledo Inc	29
National Carriers Inc	10
Pride Transport Inc	13
Prime Inc	3
Refrigerated Food Express Inc	23
Rocky Top Trucking	37
Seagate Transportation Services	36
Sorenson Transport Co Inc	26
Southern Refrigerated Transport Inc	11
Stevens Transport Inc	5
3KB Transportation Inc	27
Transport Industries	6
W N Morehouse Truck Line Inc	31
WEL Companies Inc	16
Willis Shaw Express Elm	9

Gross Revenue...

instance, as recently as 1987, the largest carrier in the Gross Revenue Report showed sales on only \$83.2 million. Only 10 years ago, 1995, the largest carrier in the report at a revenue level of \$274 million was only half the size of the largest carrier listed in this report. The six largest carriers in this report all show revenue above \$400 million for 2005. In the larger world of truckload carriers, refrigerated carriers still lag their dry van counterparts in total revenue. It takes the total of the top 13 refrigerated carriers to equal the revenue of Schneider National, the largest dry van truckload carrier.

We have fleet data for all carriers in this report. These carriers operate a combined fleet of 24,106 tractors and 32,951 trailers. A small, unknown portion of the trailer fleet is dry vans, and a few of the power units are straight trucks. The trailer-to-tractor ratio is 1.36:1, slightly more trailers per tractor than has been the case in past years. In the report published in September 2005, the trailer-to-tractor ratio was 1.33:1. That ratio was 1.6:1 in September 2004 for revenue from 2003. For the previous eight years, the trailer to tractor ratio remained stable at 1.4:1.

The number of trailers compared to tractors edged up slightly throughout the 1990s, perhaps as larger carriers worked to institute more drop-and-hook operations in an effort to reduce waiting time for drivers. Recently, however, new technology has made higher tractor utilization possible without increasing the size of the trailer fleet. Most carriers have made a distinct effort to size their fleets precisely to the volume of business they expect and have not expanded appreciably in anticipation of increased traffic. Actual truckload trailer fleet size

ranges from 4,081 at C R England and its associated companies to five at Rocky Top Trucking. In the total truckload tractors category, C R England runs 2889 tractors to only five at Rocky Top.

Higher average revenue

This report shows an average annual revenue per trailer at \$146,900 in 2005, well up from \$130,959 in 2004, and, in fact, at least \$20,000 per trailer per year above every year since 2000. Two alternatives can explain the higher average annual trailer revenue—trailer fleets have been sized specifically to traffic available; or some reported carrier revenue includes brokerage and logistics revenue not actually attributable to the carrier's own trailer fleet. Average revenue per tractor at \$200,959 in 2005 is higher as well, rising more than \$15,000 per year from the \$185,122 per tractor per year reported in September 2005. This benchmark has been on an upward trend since 1999.

The top-heavy nature of this report shows when an average of all revenue is taken. A composite of the 37 carriers responding for this report would have an average 2005 revenue of \$118,295,856, significantly higher than the 2004 average of \$103,735,488 for the same carriers.

Curiously, the soft freight market in the years leading up to 2004 helps explain the rise of average annual revenue. Large carriers have the resources to weather tough times and seem relatively comfortable reporting financial data. This does not mean, however, that some big carriers haven't capsized recently. As the total number of carriers reporting data falls, the number of small carriers falls in relationship to the large carriers. This weights the average toward the top of the list.

Obviously, more refrigerated carriers are in business than those shown in this report. The big ones are easy to find and are usually fairly forthcoming with information. Our circulation list gives us a good tool with which we can locate smaller carriers. However, owners of small carriers are not as likely to provide financial data on their operations as their colleagues at larger companies. As the business climate becomes more competitive, nearly all carriers, with the exception of the publicly owned companies (now only two), become more protective of their revenue information. The information in this report has come directly from the carriers listed. ■

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