
YRC Dodges Another Bullet

The nation's largest LTL carrier, YRC Worldwide (YRC), has once again dodged another financial bullet. YRC says it has finalized amendments of its credit facilities, with certain terms extended to October 30. This is the 12th time YRC has updated its credit amendment. The amendment extended the expiration of the company's revolver reserve amount; suspend its minimum liquidity covenant, and the due date for the asset-backed securitization commitment fee of \$10 million. Bill Zollars, Chairman, YRC president and CEO, in a statement, "By extending the revolver reserve, we retain the flexibility needed to reach an agreement with the lenders that will fully support our comprehensive plan." Zollars indicated, "We believe we will have a long-term solution with our lenders in the very near term."

Over the course of this year, YRC saw first and second quarter losses of \$309 million, and \$257.4 million, respectively, coupled with significant tonnage declines at its YRC National Transportation and YRC Regional units. YRC is facing other challenges. In a research note, analyst Thomas R. Wadewitz of JPMorgan Chase said, "FedEx Freight seems to have made a push to gain market share" against YRC and other carriers over the past month. "The effort to attract tonnage through price cuts appears to be relatively broad and aggressive."

We have also seen a fair amount of predatory pricing taking place in the marketplace. Data2Logistics' clients have told us that YRC's competitors are calling on them offering to match YRC rates regardless of their level.

We do not believe predatory pricing is good for the LTL market or the transportation industry in general. YRC handles approximately 18-20% of the LTL volume today. Even in the slow economic conditions that exist today, where will the capacity come from to fill this void should YRC fail? Shippers may be initially overjoyed by the by the heightened level of price competition in the marketplace today. However, it does not bode well for the long term. The failure of YRC or other transportation providers will ultimately result in a change in the balance of supply and demand. With the high barriers to entry into the LTL business, carrier failures will swing the pendulum to a seller's marketplace quickly. When the economy rebounds, shippers will feel the pain.

As we have recommended in the past shippers need a plan. If carriers really want your business today will they want it if carrier capacity should suddenly diminish? If you are a YRC customer today and are looking for some downside protection should they fail, you should be looking for long term partners: those who truly want you business, who will commit in writing to long term price agreements with agreed to service levels, and those who are not just trying to put one of their competitors out of business.