

to 3,000 vehicles, and a network of some 200 freight centers. YRC Logistics will take control of 65 percent of the company now for about \$40 million and the rest in 2010 for an amount not to exceed \$32 million, depending on Jiayu's financial performance.

YRC has scaled back its China expansion, however, after initialing intending spend up to \$115 million on acquisitions in 2008.

YRC Logistics has developed a new technology called Roadview that bar code scans the shipment at the purchase order or stock keeping unit level and gives customers real-time tracking and tracing information throughout the supply chain, Zollars said. A large U.S. customer with about 300 production locations in Asia is pilot testing the system, which YRC plans to roll out on a broad scale by the end of the year, he added.

YRC's logistics arm is expanding in other parts of the world, including Latin America, Mexico, the United Kingdom and Holland. Zollars said the subsidiary, which currently handles more than \$1 billion in gross revenue, has gained a lot of business supporting the mining industry in South America.

Roadway and Yellow Transportation, in conjunction with YRC Logistics, this spring launched expedited ocean service for guaranteed, on-time delivery of less-than-containerload shipments moving from China to the United States. Con-way Freight began the trend toward guaranteed transpacific service in 2006 in partnership with APL Logistics, a subsidiary of Singapore-based vessel operator APL.

The YRC offerings are doing well and growing at double digits, albeit off of a small base, Zollars said.

In the fourth quarter of 2007, however, YRC Logistics' operating ratio deteriorated to 99.7 percent, revenue declined 0.1 percent versus some expectations of 10 percent growth and operating income fell 93.6 percent.

The trucking industry has tremendous capacity at the moment, but the recent cutbacks and business failures mean there won't be enough trucks or drivers to meet short-term demand when the economy bounces back, which will put upward pressure on pricing, Zollars said.

"The real difference this time is oil price. A lot of companies aren't going to make it through this. So there will be less fundamental capacity than probably resulted in the last downturn" seven years ago, he said. "The biggest driver of profitability will be the economy, but if you're not a global player in the long-term you're not going to be successful." ■

RoadLink snaps up drayage firms

Private equity backs North American intermodal expansion.

By ERIC KULISCH

Despite the downturn in the U.S. economy and freight traffic, RoadLink this summer continued its aggressive strategy to build a best-of-breed, North American container transfer company serving ports and railheads with two deals, including the proposed purchase of CP Ships Trucking Ltd. (C-Truck) from the Canadian division of liner carrier Hapag-Lloyd.

The C-Truck acquisition would extend Atlanta-based RoadLink's base into Canada where it plans to partner in short-haul, terminal-to-door shuttle work with motor carrier Fastfrate Inc., both of which are owned by private investment group Fenway Partners.

Terms of the deal, which is subject to approval by Canadian regulatory authorities who assess the impact of foreign investment in the country, were not disclosed. As a mid-size private equity group, Fenway tends to invest in companies valued at \$50 million to \$600 million.

C-Truck, based in Montreal, became part of Hapag-Lloyd through the German ocean carrier's acquisition of Anglo-Canadian line CP Ships in late 2005. Hapag-Lloyd decided to unload C-Truck to concentrate on its core ocean business, according to a statement from RoadLink. The world's fifth-largest container shipping company is in the midst of an even larger housecleaning as the board of parent company TUI AG yielded to shareholder pressure in March and agreed to separate the container-shipping unit from its tourism group, most likely through a sale.

C-Truck has six locations in Canada and the United States and operates about 240 trucks, most of which are subcontracted through independent drivers.

RoadLink is arguably the largest independent drayage trucking firm in the hugely fragmented continental market that until recently has defied consolidation or national scale, save for a small handful of trucking firms set up by ocean carriers and logistics providers to haul their cargo to port-area distribution centers and intermodal rail yards. The largest of these captive firms is Bridge Terminal Transport, an affiliate of Maersk Line. Bridge Transport, with a na-

tional network of 46 terminals throughout North America and 31 container yards, also serves other ocean container lines, cargo owners, brokers and forwarders.

The fiercely competitive drayage industry is characterized by drivers in business for themselves with a single truck or two who fight for loads by undercutting prices,



are unable to collect significant fuel surcharges and operate old second-hand equipment. In many

ports, shuttle drivers are legal or illegal immigrants. These independent drivers typically hire themselves out to non-asset-based trucking firms that act as their central management and dispatch.

RoadLink is a \$500 million platform company that has rapidly grown through a merger of seven private, regional drayage firms and a series of acquisitions during the past eight years, with ambitions to quickly grow revenue to \$1 billion and expand into Mexico. RoadLink itself was acquired by Fenway in September 2006, and has since tacked on eight trucking and warehouse support providers around the country. RoadLink's revenue at the time of Fenway's acquisition was about \$210 million. Soon operating out of 70 locations, its goal is to establish a national footprint so that shippers, ocean carriers, intermodal marketing companies and third-party logistics providers can arrange for pickup and delivery at all major container ports and rail intermodal yards through a single point of contact and expect standardized service rather than dealing with a multitude of local operators in each port district.

As ocean carriers have eliminated inland container service to cut costs and avoid rising intermodal rail rates, companies such as RoadLink are helping to fill the void by moving containers from terminals with service to areas within a 200-mile radius that do not have direct intermodal access. RoadLink, which operates about 3,000 trucks and handles 15,000 to 18,000 boxes per day, is a neutral transport provider. It can spread costs among many customers and maximize asset use and route efficiency compared to carriers operating their own inland networks.

Less than a week after acquiring C-Truck, RoadLink added American Freight Systems Inc. to expand its service coverage in the Pacific Northwest. American Freight Systems, based in Vancouver, Wash., has a fleet of 55 company-owned trucks and chassis, and 16 independent truckers operating from service centers near the ports of Tacoma, Seattle and Portland, Ore.

In February, RoadLink bought West Coast Trucking, a Seattle-based firm using a fleet of 70 owner-operator trucks. The majority of American Freight Systems' business is ocean import and export, while West Coast focuses on cross-border moves.

In a phone interview with *American Shipper*, RoadLink Chief Executive Officer Chris Munro suggested Hapag-Lloyd will outsource its inland distribution to RoadLink and that other carriers will follow suit.

"We're very confident that this will attract more people to this sort of streamlined service offer," he said. "We can help them in every port in North America and the majority of the major rail heads because we are proximate to those as well. So they can pull their volume through a much smaller group of suppliers.

"We're leveraging that scale for customers because their behavior is changing. They're moving away from undercapitalized, localized, low-tech mom-and-pops, who are struggling with service and who are financially constrained, to a long-term North American partner who has the balance sheet and technology," Munro said.

One of RoadLink's value propositions is that its TrueVision technology platform enables customers to track containers from ports to final destination in near real-time. Carriers see this as a benefit because they often lost contact with their containers for 30 days or more — the dreaded black hole — as they were handed off to intermediaries, customers and exporters for a return leg.

RoadLink also carries out transloading operations through its warehouse service arm, arranges return of empty containers and delivers loaded export containers to the railroads and ocean carriers. The company doesn't operate warehouses itself, but provides labor and management to handle freight for warehouses as needed. The warehouse work increases the chance that customers will turn to RoadLink to provide transport as well.

Fastfrate is a less-than-truckload carrier that also recently began offering port and railhead drayage, as well as transloading, warehousing and other logistics services. It has nearly 1,600 employees, \$225 million in revenue and annually moves about 2 billion tons of freight through its piece shipment network.



"We will continue to invest ahead of the curve — in people, processes, acquisitions and technology — so as you go into high growth mode you don't have to slow down to build the building blocks."

Chris Munro
chief executive officer,
RoadLink

The company is a major LTL user of railroads, with an exclusive relationship with Canadian Pacific Railway under which all of its 17 freight terminals are located adjacent to CP intermodal yards in Canada. In February, CP extended its contract with Fastfrate to consolidate import freight for another 10 years at an estimated worth of \$500 million.

A month earlier, the company opened a sales office in China that now handles 25,000 ocean containers per year from that origin. Fastfrate acquired Cambridge, Ontario-based Koch Transport International more than two years ago and offers cross-border truckload service throughout the United States.

RoadLink intends to leverage its relationship with sister firm Fastfrate to quickly expand its presence in Canada. The company plans to integrate drayage operations within 60 days of closing, with

a single technology overlay and immediate benefit in revenues, service and reduced transaction costs as the company takes advantage of its scale, Munro said.

RoadLink plans to be able to offer an integrated cross-border product in the coming months that will enable customers to arrange short-haul transport between U.S. and Canadian cities, as well as pickup and delivery from intermodal yards for cargo traversing to and from Canadian ports. The carrier, in effect, will feed the Canadian drayage operation and eventually the LTL business with U.S. traffic, while Fastfrate will feed RoadLink cross-border intermodal drayage business.

RoadLink's ability to improve profitability during an economic downturn that has caused imports to decline enabled the company to fund the C-Truck transaction with its own cash, and equity from Fenway, without needing to take on additional bank debt beyond existing lines of credit, Munro said. Officials declined to spell out exactly how funding was apportioned.

A key to keeping its financial house in order, Munro added, is RoadLink's willingness to take on the unpleasant task of contacting customers on a weekly basis to readjust upward fuel surcharges during the current period of oil and diesel fuel price volatility. The company has then passed on those recovered fuel costs to its owner-operators, he said.

In late June, oil traded above \$140 per barrel and diesel fuel was more than \$4.75 per gallon.

TrueVision serves as the backbone of the company by providing a common tracking system and enabling it to also track its equipment. Shipments are recorded in handheld wireless devices and the information is transmitted to a central database accessible to the customer via a Web-based interface. Event updates are provided through EDI messaging or through the Web.

RoadLink is placing great emphasis on technology as a way to modernize and differentiate itself in the short-haul container transfer business. Earlier this year it hired Roy Cashman from non-asset-based 3PL Transplace to be chief information officer. Cashman's job is "to turbocharge the existing technology team with an influx of new ideas" so that RoadLink's IT system is ready to take on more functions as the company branches out its service offerings, Munro said.

"I don't want to be playing catch up. We will continue to invest ahead of the curve — in people, processes, acquisitions and technology — so as you go into high-growth mode you don't have to slow down to build the building blocks," Munro said. Quick access to funding is one of the benefits of

being privately held by a well-capitalized investment group, he noted.

The intermodal service provider has placed great emphasis on quickly building a strong management team, including industry veterans with experience at Ryder System, G-Log, R.R. Donnelley, Hudd Distribution, Weber Distribution and Wal-Mart.

Munro said he hoped to announce a deal later this year to expand RoadLink's service into Mexico. The company previously was named RoadLink USA, but late last year dropped the USA suffix in a signal of its cross-border intentions.

RoadLink has received a lot of interest from customers seeking a single supplier in all geographic regions to handle their intermodal freight in Mexico, said John Anderson, chairman and CEO of BigWheel Partners Inc., Fenway's transportation and logistics affiliate.

The Fenway team is evaluating the best entry strategy. The most likely start-up scenario is for RoadLink to work with a Mexican partner, followed by an equity investment in the Mexican company and then buying out full control, Anderson said. But RoadLink could skip straight to an acquisition if it found the right opportunity, he added.

As in Canada, the service would involve intermodal and cross-border cartage in the United States and Mexico.

Fenway Focus. Fenway Partners took control of Fastfrate (75 percent share) last December, and of New Jersey-based East Coast Warehouse and Distribution Corp. in August.

Other Fenway logistics investments include expedited ground trucking company Panther Expedited Services, Gemini Traffic Sales Inc. and a minority share in Greatwide Logistics. Across all sectors, Fenway funds manage more than \$2 billion in capital.

The firm sold control of Greatwide, a primarily non-asset-based company providing dedicated contract carriage, truckload, distribution, and warehousing services, to private investors Investcorp and Hicks Holdings in late 2006 for about \$730 million after quadrupling its return on investment. Fenway retains a 6 percent stake in the company.

Earlier in June, Fenway announced it had acquired a majority interest in Preferred Freezer Services LLC in partnership with management, which retained a quarter stake in the firm. Gemini (bought in February 2007), East Coast and Preferred Freezer comprise Fenway's operating divisions in its temperature-controlled logistics portfolio, Refrigerated Holdings Inc.



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East Coast provides temperature controlled public warehousing and contract warehousing, transportation, co-packing, U.S. Customs and Border Protection examination services, container logistics, and temperature controlled national pool consolidation. Customers include confectionery, cheese, grocery, pharmaceutical, alcoholic and non-alcoholic beverage businesses.

Fenway's initial cold-chain strategy was to pair East Coast, a dominant refrigerated warehouse operator centered in the Port of Newark, with Gemini Traffic Sales, a refrigerated trucking company with nationwide coverage, to provide customers import, warehouse, transload and delivery services. At the time of acquisition, their combined revenue was \$129 million.

"The idea is that you can offer the customer a kind of through service for their refrigerated containerized freight," said Anderson, of BigWheel Partners.

Preferred Freezer is the fifth-largest public refrigerated warehousing company in the United States, operating through 23 facilities where it specializes in frozen seafood and is expanding into other categories. Preferred Freezer has 11 new facilities in development or on the drawing board. The Newark, N.J.-based company has also secured several strategic facilities near ports in China and Vietnam as the first phase of its international expansion strategy.

Speaking at last fall's Council of Supply Chain Management Professionals conference, Fenway Managing Director Marc Kramer said the fund targets solid operating companies that are underperforming their potential. Most of the logistics firms it has acquired were owned by families that underinvested in the business, giving Fen-

way the opportunity to bring in capital and expertise to rapidly accelerate growth.

"We are buyers, irrespective of the cycle," he said.

Fenway's investment strategy is based on finding well-run, rather than distressed companies, because it wants to use the operating cash flow to help generate more earnings to support more borrowing for further acquisitions, Anderson explained. Organic growth is an important part of the plan.

The higher the earnings, the more debt banks will allow a company to take on. Fenway typically uses a combination of money from its investment fund, co-investors, banks and contributions from management partners at the target company to complete a deal.

Fenway's approach is conservative by many private equity standards. It is careful not to exceed targeted debt-to-equity ratios and keeps the balance sheet manageable by refinancing debt as the operating company grows.

"Organic growth and acquisitions go hand-in-hand," Anderson said.

"The organic growth supports more capital being put into the company. With more capital in the company we are able to acquire. When we acquire we have a bigger base of earnings to organically grow, which can lead to more capital. It can be a virtuous cycle if the companies are well run."

Fenway avoids diversifying other companies, such as Panther Expedited, that have extremely strong organic growth. In such cases, it only considers small acquisitions that may bring in some added expertise, he added.

Altogether New York-based Fenway has completed 29 deals in the logistics sector worth about \$2.5 billion. ■