Trucking's Newest Baby

BY JOHN D. SCHULZ

SCS Transportation 'ready to go' Oct. 1 in Yellow Corp. spin-off of Jevic, Saia

Returns are anemic. Bankruptcies are rampant. Freight demand is sluggish. Rates are so-so. Customers feel service is generic and go mainly on price.

This is the environment that SCS Transportation — the combination of Saia Motor Freight Lines and Jevic Transportation — enters as it is spun off from parent Yellow Corp. at the end of next month.

Which suits Bert Trucksess just fine. The nation's newest trucking chairman and CEO feels this is a terrific time to head up the nation's newest publicly traded trucking company.

It figures. After all, Trucksess has trucking in his blood — and his name. "You know in high school," Trucksess said the other day from his Kansas City, Mo., headquarters, "I was voted most likely to have a career in trucking."

Trucksess has another luxury. He's not building a company from square one. At current volume levels, SCS will be approximately a $760 million company — ranking as the 26th-largest trucking company in the country and 11th-largest in the LTL niche — with a collective operating ratio of 96.9 in the first half of this year.

An 18-year industry veteran, H.A. "Bert" Trucksess has been in the industry since Sun Oil, which he joined in the early 1970s, assembled Sun Carriers and tabbed him as chief financial officer. After Sun was sold to private parties (mainly St. Johnsbury), Trucksess stayed until 1991. Then he moved to Preston Corp. in 1992 and negotiated the sale that led to Yellow acquiring Preston Corp., which included the Saia acquisition. In 1994, Trucksess returned to Kansas as CFO of Yellow Corp. until 2000 when he took over as head of Yellow's fledgling regional carrier group that includes Jevic and Saia.

Yellow bought Jevic for about $164.5 million in 1999. It bought Saia (and now-defunct Preston) for about $72 million in 1992. In a few weeks, it will be out of the nonunion regional trucking business with long-haul, unionized Yellow Transportation its primary trucking brand.

After a career taking his cues from others, Trucksess now gets to run his own show. And the normally low-key finance guy is pumped about it.

"This is something I enthusiastically look forward to," he said. "We're ready to go. I'm personally enthusiastic and excited about the opportunity."

Even though SCS is a new name in trucking, Saia and Jevic are not. With good recognition in the marketplace, Saia and Jevic officials now are on the war path to make sure SCS (named for "Supply Chain Solutions") is just as widely known.


TRUCKSESS

"Sometimes when you have transactions of this nature, there are changes at subsidiary levels," Trucksess said. "For our employees and customers, it's a continuation of prior programs in place."

The spin-off makes sense from several perspectives. First, Saia and Jevic never were fully integrated into Yellow. In fact, they operated quite independently of the larger Yellow Transportation. They will continue to be led by two well-respected truckers, Saia's Richard O'Dell and Jevic's Paul Karvois.

Second, Saia and Jevic serve vastly different markets. That will continue under SCS, which will operate primarily in the regional overnight and second-day LTL and "selected" truckload transportation services markets.

Finally, it makes labor sense. Yellow Transportation employs about 19,000 or so Teamsters. Saia and Jevic are nonunion. With Yellow heading into contract talks later this year with the Teamsters union on a new National Master Freight Agreement, the spin-off makes its labor relations that much simpler. Yellow now is a union carrier — no double-breasting. That eliminates one bone of contention immediately from the union's agenda.

As SCS says in a recent filing with the Securities and Exchange Commission: "Separation of the union and nonunion businesses is expected to permit each to pursue independent labor strategies without concern for how the actions of the other could affect its own labor relations."

SCS Transportation is looking to be spun off on Sept. 30. Its first day of trading will be Oct. 1 under the symbol "SCST" on the Nasdaq exchange. Form-10 was filed with the SEC on July 19. All current Yellow Corp. shareholders will be issued one share of SCS stock for every two shares of Yellow stock they own. That would mean an initial offering of about 14.5 million shares for SCS. Yellow Corp. will not own any shares of SCS, Trucksess said. Initially, SCS will have total indebtedness of $130 million, a debt-to-capital ratio of 46.7 with financing credit of about $150 million, according to the SEC filing.

"The spin-off process is clearly on track," Trucksess said. "We are in negotiations with financing that is well advanced. We are pleased with those terms. Our corporate infrastructure is in place. We are fully staffed."

SCS has a front office of a few dozen workers in Kansas City to run a business with 7,400 employees.

"We are fairly lean," Trucksess said.

"We think that's a smart way to run the business."

All Yellow and SCS shareholders will be the same but each shareholder will be free to buy or sell after the spin-off. "Over time there will be some evolution of shareholder base," Trucksess said. "That is one of the benefits of spin-off. Investment characteristics are not always the same. It provides better benefits for shareholders."

As for entering the market at this time, Trucksess says the time is ripe. There's been consolidation in the marketplace with as much as $3 billion in LTL companies either going out of business, or sold and operating under new ownership in the past year.

"It's a space that has lost some public companies," Trucksess said. "We've seen some consolidation. Motor Cargo (bought by Overnite Transportation Co. last year), American Freightways (bought by FedEx Corp. three years ago and rebranded FedEx Freight East) and Arnold Industries (New Penn parent bought by Roadway Corp. last year). We feel good about that. When you look at the investment community, we become a choice in a space that has gotten thinned out. When you look at the rationale for spin-off, at the end of the day there's a variety of factors, but it means we can grow and improve profitability of the business. That's good for investors, customers and employees."

Despite common ownership, Saia and Jevic will continue to operate separately. Despite some geographic overlap, they both serve different market segments. Both companies "have attractive growth opportunities going forward," Trucksess said.

Saia is a traditional regional network LTL company that Trucksess first became familiar with in 1992 before it was acquired by Yellow. It then operated in seven states with $115 million in revenue. It now operates in 21 states with $500 million revenue. Its business is primarily next- and second-day LTL even though it has expanded the geography. A typical shipment weighs 1,000 pounds.

Jevic is an LTL-TL hybrid. While Saia uses 110 facilities, Jevic has just 10. Jevic does about $300 million in revenue. Using a unique "breakbulk-free" operating model, Jevic has a much higher typical shipment weight of about 5,000 pounds, with a heavy concentration in the chemicals industry. It's a heavier segment. Jevic has terminals in Atlanta, Houston, Charlotte and Los Angeles that directly overlap with Saia but because of differences in freight mix, it's not a major concern.

"We just run these businesses as separate businesses," he said. "If there is an opportunity to share best practices, we do that."

Trucksess said his first priority is to work with existing geography and increase market share in that geography and demonstrate improved performance. That could open doors to expand geographically and bring in new services, Trucksess said. Already, Jevic opened up a Los Angeles operation this spring.

Consolidated operating revenue for the companies that will form SCS Transportation was $196 million for the second quarter of 2002, unchanged from a year ago. Operating income, before unusual items, was $6.8 million, up from $6.2 million last year. The second quarter of 2001 included expense of $800,000 related to the amortization of goodwill.

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> SCS TRANSPORTATION'S TRUCKSESS

"Our customers continue to value our consistently high quality of service," said Trucksess, "and we are carefully managing costs. The result is improved profitability for SCS Transportation. We are well positioned to begin operating as an independent entity following the spin-off."

Consolidated operating revenue for the first six months this year was $380 million compared with $392 million in the first half of 2001. Operating income for the first six months was $11.9 million, excluding unusual items, compared with $11.3 million in 2001. The first six months of 2001 included expense of $1.5 million for the amortization of goodwill.

At Saia, second-quarter revenue was $124 million, up slightly from $123 million in the second quarter of last year. Operating income, excluding unusual items, was $6.0 million, up 19 percent from $5.1 million in the second quarter of 2001. The first-quarter operating ratio, excluding unusual items, was 95.1 compared with 95.9 the prior year.

For the six months, Saia revenue was $239 million compared with $242 million in 2001. Operating income, excluding unusual items, was $9.9 million compared with $8.1 million in the first six months of 2001. The operating ratio, excluding unusual items, was 95.9 compared with 96.7 a year ago.

Jevic reported second-quarter revenue of $72 million, unchanged from the second quarter of 2001. Operating income, before unusual items, was $800,000 in the second quarter compared with $1.4 million in the same period last year. The second quarter of 2002 included a $1.5 million charge due to an unfavorable development in workers' compensation claims. Excluding this item, operating results relating directly to the second quarter improved significantly from the prior year. The operating ratio, before unusual items, was 98.9 in the 2002 first quarter and 98.0 last year.

For the first six months, Jevic revenue was $141 million compared with $150 million in 2001. Operating income, excluding unusual items, was $1.8 million compared with $3.7 million in the first six months of 2001. The operating ratio, excluding unusual items, was 98.7 compared with 97.5 a year ago.

"Overall the pricing environment at Jevic has stabilized although it remains weak," Trucksess said. "The laws of supply and demand work very well. What we've seen in the last couple years has been a period of economic weakness. Supply-demand balance has shifted. When that happens, competition is keen and we've seen that in pricing. In segments tied to industrial production, some segments are down more than retail. At Jevic, that business is tied more to industrial, particularly chemical, and we're seeing the situation stabilize."

Shippers and industry officials say right now pricing in the regional business is tougher than it is in the national lanes. That is affecting profitability at Saia and Jevic, Trucksess said.

Then, speaking as a guy who has seen scores of price wars in trucking, Trucksess said: "Pricing is always going to be competitive." ●