navigating credit risk in trucking

opportunities and challenges in a high-gear industry

elliott davis

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today's speakers

Host

Lauren Nilan, CPA

Principal
Financial Services Group
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Lauren has nearly fifteen years of experience serving financial institution customers. She has provided assurance and advisory services to institutions which range from midsized community banks to multi-billion-dollar regional entities, as well as international financial services companies.

Lauren has experience with PCAOB and AICPA financial statement audits, integrated internal control audits (SOX and FDICIA), HUD audits, outsourced SOX/FDICIA testing, internal audits, and compliance audits. Additionally, she has experience with initial public company registrations, internal control identification/implementation, financial reporting assistance, loan file reviews, interest rate risk/liquidity management reviews, and other agreed upon procedures engagements with financial services companies. In addition to traditional public accounting experience, Lauren served as the Risk Officer for an SEC registrant community bank.

Presenters

Jason L. Price, CPA, CRC

Managing Director
Financial Services Group
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Jason Price is a leader in the Financial Services Group at Elliott Davis. With over 25 years of comprehensive experience in the financial services industry, Jason has a proven track record of excellence in both financial services operations and public accounting. Having spent 10 years working in a community bank, Jason developed deep expertise in loan and deposit operations, credit administration, loan review, and regulatory compliance.

In addition, Jason has 15 years of experience in public accounting, providing specialized services to financial institutions ranging from start-up De novo banks to large financial institutions with up to $160 billion in assets.

His unique combination of banking and accounting experience makes Jason a highly versatile professional, capable of offering critical insights on various areas within financial institutions.

Robby Phillips

Vice President and Partner
TNTX
TAG Truck Enterprises

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Robby Phillips has trucking in his blood, having grown up in the industry. After a brief stint in banking, he returned to his roots with a six-year tenure at Daimler Truck North America. For over 16 years, Robby has been a key player at TAG, where he is Vice President and Partner of TNTX, managing 24 dealerships across eight states, including TAG Truck Center and Lonestar Truck Groups. He oversees sales and operations for six dealerships, contributing to the company's $1.3 billion revenue in 2024.

Robby serves on the Advisory Board for the Bank of Missouri, the Board of Directors for Prodigy Leadership Academy, and holds an executive seat on the Daimler Dealer Advisory Group. He also chairs a committee for the Missouri Forest Products Association. Passionate about business development, Robby dedicates his time to mentoring entrepreneurs and fostering leadership. Outside of work, he enjoys exploring the world of wine, particularly during his visits to Napa Valley.

agenda:

1 industry highlights

2 risks, issues, and concerns

3 mitigation strategies

4 tariffs & trade risks

industry highlights

industry highlights

- Industry Segments:
  - Long-haul/for-hire
  - Private fleet
  - Flat bed
  - Refrigerated
  - Specialized haul
  - Vocational (infrastructure/construction)
  - Less than Truckload (LTL)
  - Local delivery

$987B

Gross Freight Revenue for 2023

11.2B

Tons of Freight

To put this into perspective, if packed into standard 53' semi-trailers, it would circle the Earth over 25 times if lined up end to end.

95.5%

Carriers Operate 10 or Fewer Trucks

99.6% operating less than 100 power units.

industry highlights

Long-distance freight trucking

- Companies in the industry handle various commodities, which are often palletized and transported in containers or van trailers. Businesses typically provide trucking between metropolitan areas and regions that may cross North American country borders. The industry includes companies operating as a truckload and less-than-truckload carriers.

At a Glance:

$296.2B	1M	682K	$13B	4.4%	$75.6B
in Revenue	Employees	Businesses	Profits	Profit Margin	in Wages

Major Players:

- Hunt J B Transport Services Inc. – 5.2%
- Xpo Logistics, Inc. – 2.8%
- Knight-Swift Transportation Holdings Inc. – 2.6%
- Werner Enterprises, Inc. – 1.2%
- Other companies – 88.2%

industry highlights

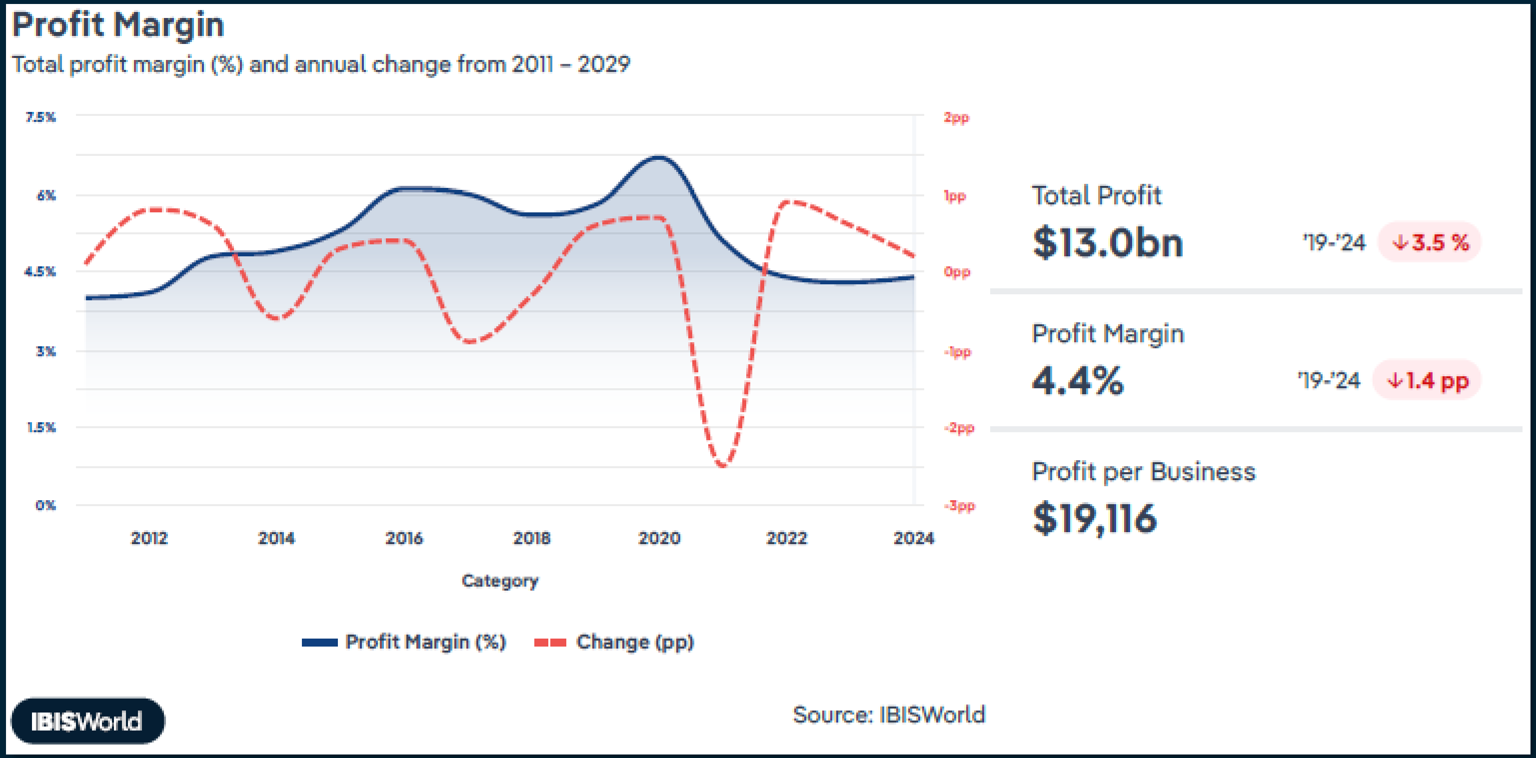
Long-distance freight trucking, continued

Revenue and Growth – expected to grow at a compound annual growth rate (CAGR) of 3.2% to $347 billion by 2029.

industry highlights

Long-distance freight trucking, continued

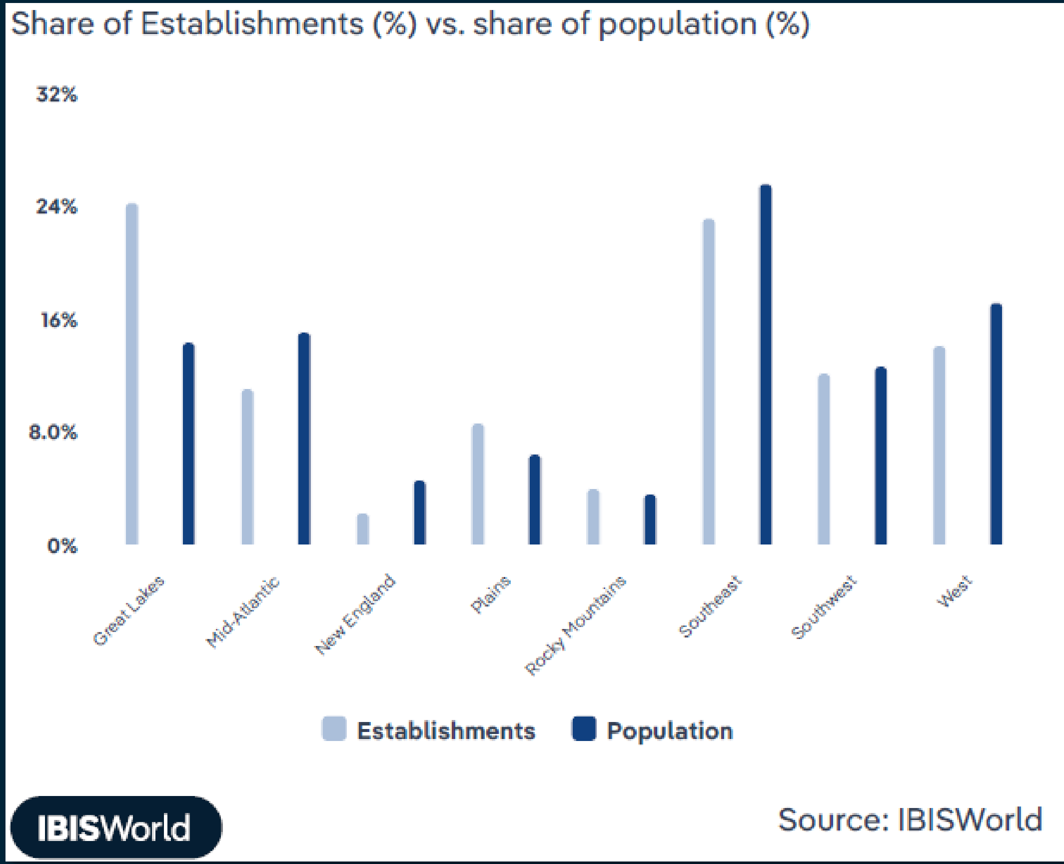
Profit and Profit Margin – Estimated profit of $13 billion in 2024 with a 4.4% margin.



industry highlights

Long-distance freight trucking, continued

Geographic Distribution – Key regions include the Great Lakes, California, and the Southeast



industry highlights

Local freight trucking

- Operators in this industry provide general freight trucking services over short distances. General freight companies handle a variety of commodities, which are usually palletized and transported in a container or van trailer. Local general freight trucking companies commonly provide trucking within a metropolitan area that may cross state lines, and the trips are typically same-day return

At a Glance:

$99.4B in Revenue	638K Employees	360K Businesses	$6.2B Profits	6.2% Profit Margin	$27.2B in Wages

Major Players:

- There are no major players

industry highlights

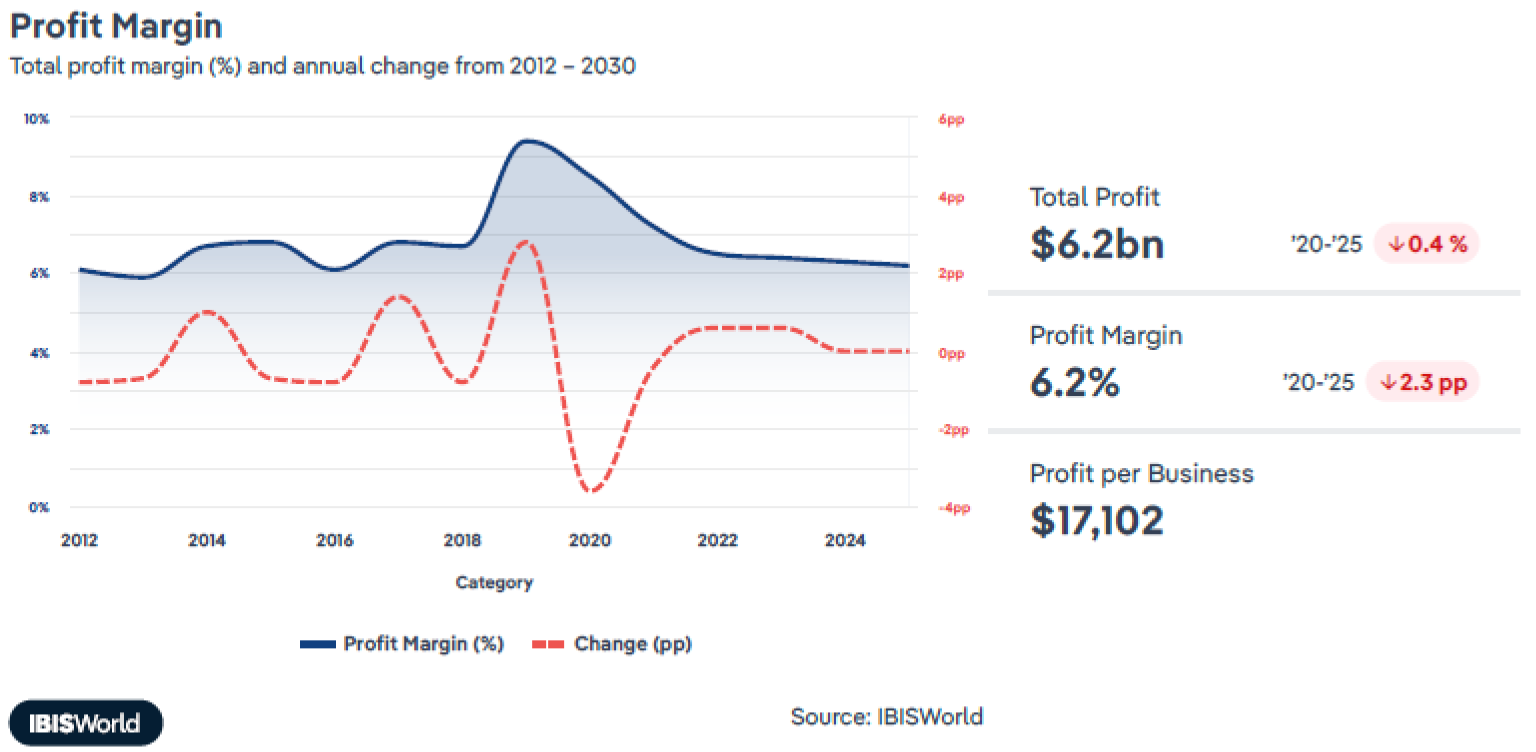
Local freight trucking, continued

Revenue and Growth – projected to reach $99.4 billion by 2025, with a CAGR of 6.1%.

industry highlights

Local freight trucking, continued

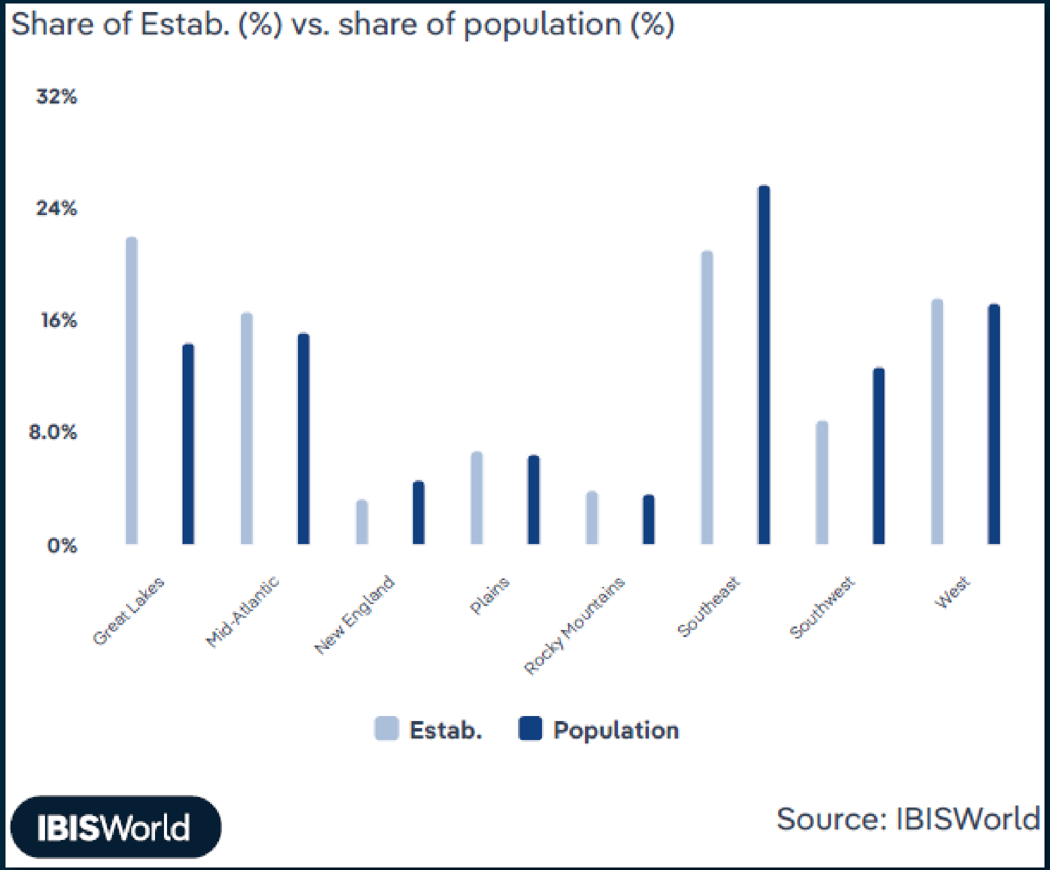
Profit and Profit Margin – Total profit estimated at $6.2 billion with a 6.2% margin.



industry highlights

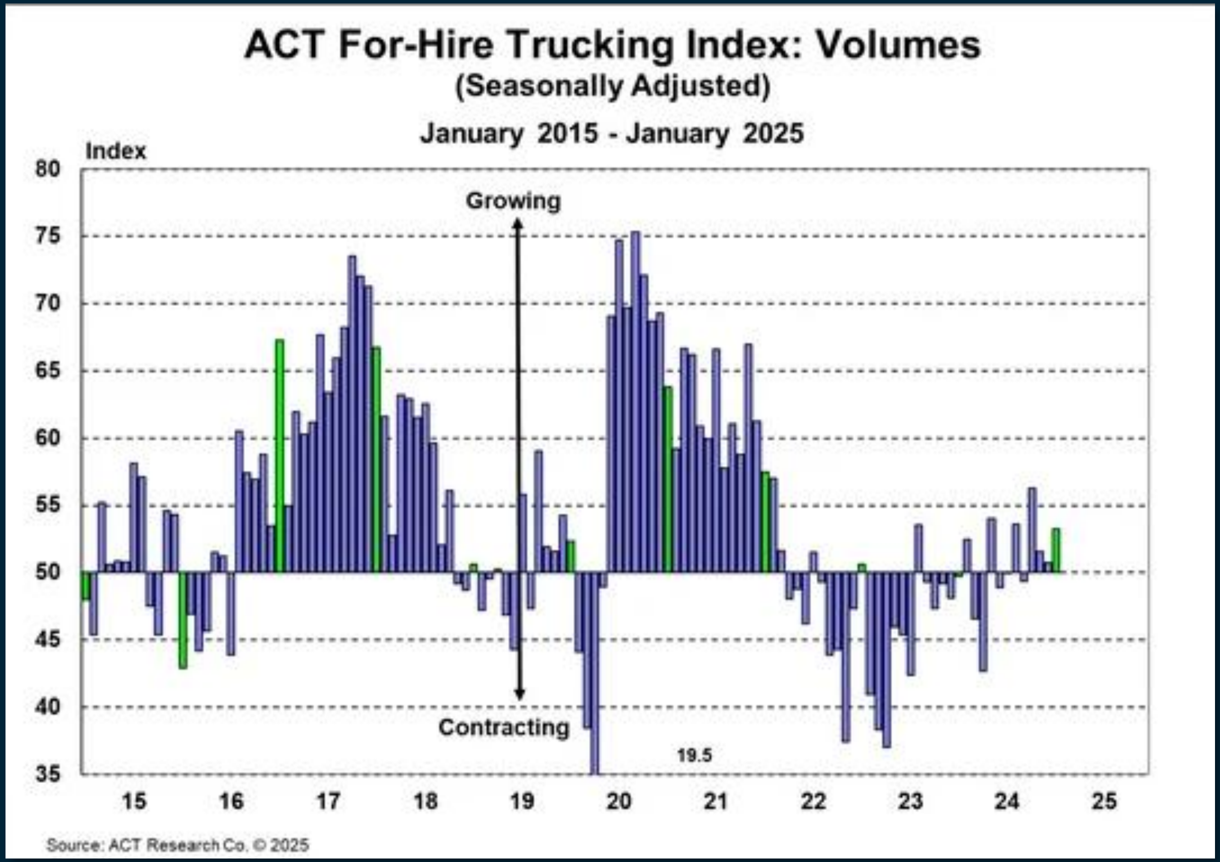
Local freight trucking, continued

Geographic Distribution – Key regions include the Great Lakes, California, and the Southeast



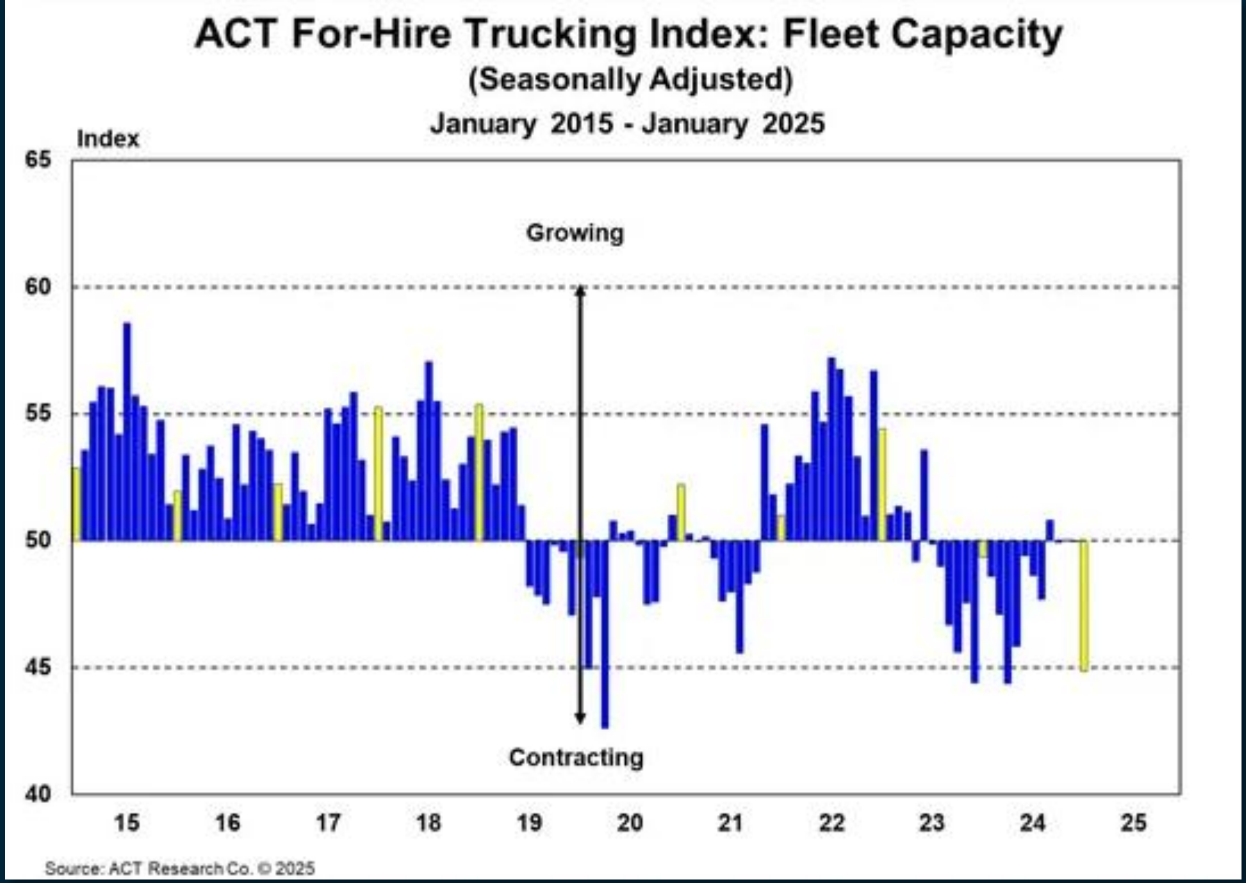
industry highlights

For Hire Freight Volume – They are always cyclical but currently out-of-bounds.



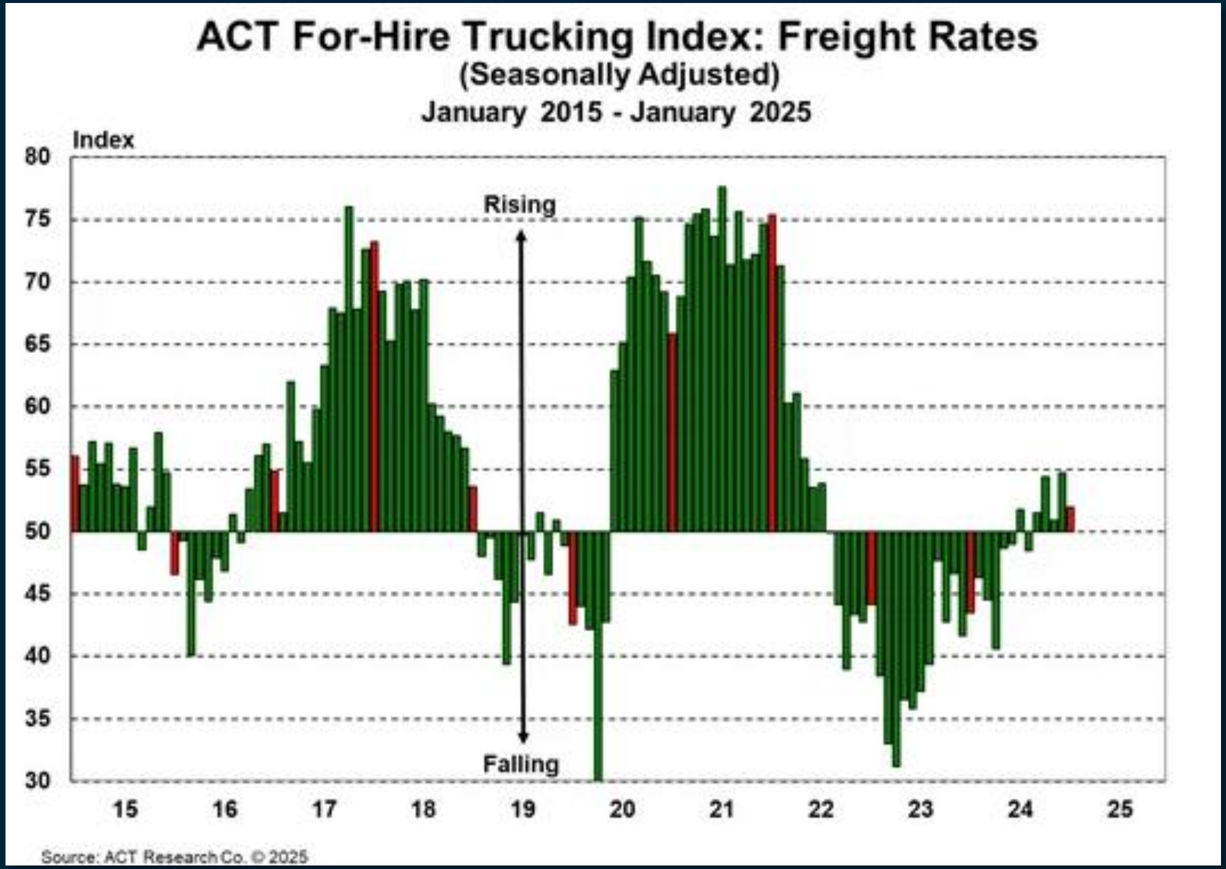
industry highlights

Fleet Capacity – For hire carriers continue to shrink.



industry highlights

For Hire Freight Rates – Product of supply and demand.



polling question #1

risks, issues, and concerns

risks, issues, and concerns

Long-Distance Freight Trucking

Regulatory Challenges

- The Environmental Protection Agency (EPA) has established regulations to significantly reduce diesel fuel pollution, requiring trucking companies to upgrade their fleets with more efficient engines or diesel-fuel alternatives.

- The Federal Motor Carrier Safety Administration (FMCSA) enforces the Hours of Service (HOS) rule, which regulates truck drivers' driving hours and rest periods to ensure road safety by preventing driver fatigue.

Infrastructure and Supply Chain Challenges

- The state of infrastructure, such as roads and bridges, affects the efficiency of long-distance trucking. Poor infrastructure can lead to delays, increased maintenance costs, and reduced operational efficiency.

- The integration of supply chains and the rise of intermodal solutions are changing the landscape, with rail transport becoming a significant competitor for long-distance routes. This shift requires trucking companies to adapt to new logistics models and collaborate with other modes of transport.

risks, issues, and concerns

Long-Distance Freight Trucking, continued

Driver Shortage and Turnover

- The American Trucking Association reported a shortage of 80,000 drivers in 2022, highlighting the severity of the issue. The high turnover rate among new drivers exacerbates the shortage, as many leave the industry shortly after joining due to the challenging work-life balance.

- Efforts to address the shortage include improved benefits and salary packages to attract and retain drivers. However, the nature of long-distance trucking, which requires meeting tight deadlines and involves long hours on the road, makes it particularly vulnerable to these challenges.

Fuel Price Volatility

- Rising fuel costs disproportionately affect smaller trucking carriers, as they lack the bulk purchasing power and volume discounts that larger fleets enjoy. This results in higher operational expenses during periods of fuel price spikes.

- The industry often manages fuel price fluctuations by using surcharge programs that adjust shipping rates based on fuel price changes. These surcharges allow carriers to pass increased fuel costs downstream to shippers, which can help boost revenue during periods of high fuel prices.

risks, issues, and concerns

Local Freight Trucking

Regulatory Challenges

- The EPA has finalized a rule to limit greenhouse gas emissions from heavy-duty vocational vehicles, affecting truck models from 2027 to 2032. This regulation will require significant investment in new technologies to meet emission standards.
- The FMCSA is proposing a speed limiter mandate for truckers, with a limit expected between 65 to 70 mph. Major trucking associations argue that this will increase crash likelihood due to speed differentials with passenger vehicles.

Economic and Market Pressures

- The intense competition in the local freight trucking industry pushes down freight hauling prices and restricts profit margins. Fuel costs remain a significant expense, and while fuel surcharges can mitigate some of the impact, the competitive landscape limits the ability to fully pass these costs onto customers.
- The local freight trucking market is fairly saturated, with a high number of new entrants leading to oversaturation. This has resulted in increased competition and pressure on pricing.

risks, issues, and concerns

Local Freight Trucking, continued

Economic Volatility

- The industry is subject to economic fluctuations, which can impact demand for freight services. High interest rates and economic downturns can lead to reduced freight volumes, affecting revenue growth.
- Economic volatility can also affect the availability of credit and financing for small trucking companies, making it challenging to invest in new technologies and expand operations.

Driver Shortages and Retention

- The American Trucking Association has highlighted the need for the industry to hire approximately 110,000 truckers annually to meet the rising demand for parcel volumes and distribution needs.
- Despite the aging driver population, the trucking sector's main issue is not lack of interest in the industry but rather poor retention rates. Local services fare better than long-distance counterparts due to more flexible schedules and shorter time away from home.

polling question #2

mitigation strategies

mitigation strategies

Diversified revenue streams and higher efficiency makes businesses more attractive to lenders and investors.

Long-Distance Freight Trucking

Driver Training and Safety

- Regular training sessions focused on defensive driving techniques, proper vehicle maintenance, and adherence to traffic laws can significantly reduce accidents. Educating drivers on the importance of rest and the dangers of driver fatigue is also essential.

- Safety risks in trucking encompass everything from road accidents to driver health issues, which can lead to substantial liability concerns. Regular training for drivers can greatly reduce safety risks.

Advanced Vehicle Maintenance

- Regular and advanced maintenance programs for trucks can prevent breakdowns and accidents. Utilizing telematics and predictive maintenance tools helps identify potential issues before they result in vehicle failure, thereby reducing downtime and repair costs.

- Routine checks and servicing of critical components such as brakes, tires, and engines are essential to ensure the smooth operation of long-distance freight trucking.

mitigation strategies

Long-Distance Freight Trucking, continued

Technology Adoption

- The industry is seeing advancements in autonomous and electric trucks, which are expected to revolutionize freight transport by reducing labor costs and improving logistical efficiency.

- Advanced telematics, including real-time tracking, is enhancing operational efficiency by optimizing routes and schedules. Predictive maintenance systems are also being used to reduce downtime and repair costs.

Health and Wellness Culture

- Fostering a culture that prioritizes the health and wellness of drivers is important. Encouraging regular physical activity, providing access to healthy food options, and offering support for mental health issues can improve driver well-being and performance, reducing the risk of accidents.

- Implementing wellness programs that focus on stress management and healthy lifestyle choices can lead to improved job satisfaction and retention rates among drivers, contributing to a more stable workforce.

mitigation strategies

Local Freight Trucking

Operational Efficiency

- The digitalization of the trucking industry, including the use of sensors and data analysis, optimizes delivery routes and improves efficiency. These technologies help local freight truckers manage intermodal transport and adapt to market shifts.
- The adoption of cloud computing and improved analysis spurs the availability of freight brokerages and other services that assist local truckers in finding contracts.

Financial Management

- Robust financial practices are crucial for maintaining fiscal health. This includes managing expenses and optimizing debt, which provides resilience against economic downturns and positions businesses to capitalize on growth opportunities.
- Larger trucking companies often enjoy better profit margins due to economies of scale, superior purchasing power, and the ability to invest in technologies that improve operating efficiency and reduce costs.

mitigation strategies

Local Freight Trucking, continued

Compliance and Safety

- Local freight trucking is subject to various regulations, including those enforced by the FMCSA. These regulations cover aspects such as hours of service (HOS), which dictate the maximum driving hours and required rest periods for truck drivers.
- Safety in local freight trucking involves ensuring that vehicles are well-maintained and that drivers are trained in defensive driving techniques. Regular vehicle maintenance and the use of advanced technologies such as GPS tracking and telematics can help monitor vehicle health and driver behavior, reducing the risk of accidents.

Develop an Extensive Distribution Network

- Local freight truckers must be able to deliver freight to a wide range of destinations within a specific range to adequately cater to customers. Offering efficient and far-reaching options is crucial to securing clients.
- Operating in a location that is close to key markets allows local freight trucking companies to deliver goods quickly and efficiently, reducing transportation costs and improving customer satisfaction by meeting tight delivery schedules.

mitigation strategies

Lender-Specific Strategies

Credit Underwriting Improvements

- Underwriting should differentiate between long-distance freight and local freight trucking, as they have different cost structures and risk profiles.
- Use real-time freight index data (e.g., Cass Freight Index, DAT Freight & Analytics, ACT Research) to assess the health of the trucking sector when underwriting new loans. Understand cyclical nature of industry.
- Implement stress testing models to analyze how economic downturns (e.g., rising diesel prices, rising interest rates, economic recessions) would impact a borrower's ability to repay loans.
- Request trucking firms to provide contractual agreements with shippers/brokers as part of the loan approval process to help verify stable revenue streams. Be aware of revenue concentrations.
- Leverage telematics data, when available, to analyze fleet efficiency and maintenance practices. A well-maintained fleet is less likely to lead to unexpected downtime and revenue loss.
- Evaluate driver turnover rates – high turnover may indicate operation instability.

mitigation strategies

Lender-Specific Strategies, continued

Credit Underwriting Improvements, continued

   - Cash Flow Analysis - Traditional underwriting relies on past financials (e.g., tax returns, profit/loss statements), which may not fully capture the real-time financial health of a trucking company. Since trucking cash flows fluctuate due to freight rates, fuel costs, and seasonal demand, a more dynamic approach is needed.
   - Personal guarantees from company owners.

- Collateral Considerations – trucking companies often use their fleet as collateral, but depreciation and market fluctuations impact valuation. Lenders can mitigate collateral risk by:
   - Valuation adjustments for asset depreciation (12% Federal Excise Tax).
   - Consider additional security for older trucks with high mileage or special in lending to businesses with late model fleets.
   - Diversified collateral structures (e.g., accounts receivables, contracts, warehouse assets, equipment).

polling question #3

tariffs and trade risks

tariffs and trade risks

Risks & Concerns Related to Tariffs

Increased Costs for Trucking Operations

- Tariffs on truck parts, tires, and maintenance supplies (especially from China, Canada, and Mexico) raise operational costs.
- Higher equipment costs make fleet expansion and replacement more expensive, potentially leading to more leveraged financing and increased credit risk.

Reduced Freight Volumes Due to Trade Restrictions

- Retaliatory tariffs from other countries can reduce U.S. exports, decreasing outbound freight volume for long-haul carriers.
- Import-dependent industries (e.g., retail, automotive, construction) may cut shipments, affecting local freight trucking.

tariffs and trade risks

Risks & Concerns Related to Tariffs, continued

Shifting Trade Routes and Border Delays

- Tariffs can shift freight lanes – for example, if tariffs make Chinese imports more expensive, U.S. companies may source goods from Vietnam, affecting which ports and transportation hubs are most active.
- Customs processing at major borders (e.g., U.S. – Mexico and U.S. – Canada) can cause delays due to increased documentation requirements and inspections.
- NAFTA – free trade routes across Canada and Mexico for decades now possibly being interrupted or in question

Freight Rate Volatility

- Carriers relying on import-heavy lanes (e.g., West Coast ports) face demand fluctuations when tariffs disrupt global trade.
- Sudden policy changes (e.g., lifting or imposing tariffs) create market unpredictability, making it harder for carriers to plan and finance operations.

tariffs and trade risks

Mitigating Strategies for Trucking Companies and Lenders

For Trucking Companies

- Diversify Freight Types and Customers
    - Reduce reliance on tariff-sensitive freight (e.g., automotive parts, electronics) by expanding into domestic-focused industries (e.g., agriculture, consumer goods, e-commerce).
    - Secure long-term contracts with shippers that have stable, tariff-resistant supply chains.
- Optimize Routes to Avoid Costly Tariff Impacts
    - If tariffs affect certain port, companies can shift freight through alternative entry points (e.g., using Gulf Coast ports instead of West Coast ones).
    - Work with freight forwarders and customs brokers to streamline cross-border compliance and reduce delays

tariffs and trade risks

Mitigating Strategies for Lenders and Trucking Companies, continued

For Trucking Companies, continued

- Optimize Operating Costs
  - Keep all equipment current and under warranty to minimize cost-per-mile to operate
  - Since tariffs increase truck and trailer prices, consider alternative means of financing, including leasing, balloons, etc.
- Invest in Warehouse and Domestic Distribution Expansion
  - With potential reshoring of manufacturing due to tariffs, trucking companies can position themselves as regional distribution partners.
  - Local trucking firms should align with companies shifting away from import-heavy supply chains to U.S. based production.

tariffs and trade risks

Mitigating Strategies for Lenders and Trucking Companies, continued

Zoom out – think long term. Don't make long term lending decisions on short-term data.

For Lenders

- Adjust Underwriting Criteria for Tariff-Sensitive Industries
  - Lenders should assess a borrower's exposure to tariff-dependent freight lanes and industry segments (e.g., automotive, consumer electronics).
  - Use alternative credit evaluation models, incorporating freight market data and trade policies into risk assessments.
- Structure Loans with Flexible Terms
  - Offer working capital credit lines to trucking firms impacted by trade slowdowns, allowing them to adapt to demand fluctuations.
  - Consider seasonal repayment schedules, where carriers pay lower amounts during slow trade periods.

tariffs and trade risks

Mitigating Strategies for Lenders and Trucking Companies, continued

For Lenders, continued

- Consider Non-Traditional Collateral
  - Instead of solely relying on trucks as collateral (which may depreciate faster due to tariffs), accept accounts receivable, contracts, or warehouse assets.
  - Support trucking firms with trade finance solutions, such as supply chain financing or invoice factoring.
- Strengthen Portfolio Diversification in the Trucking Sector
  - Spread lending exposure across multiple trucking segments to reduce risk concentration (e.g., diversify between long-distance, local freight trucking, vocational, etc.).
  - Balance portfolios by lending to asset-based carriers (own fleets), non-asset-based carriers (broker-heavy operations), and private fleets (companies that own their own distribution).

polling question #4

conclusion

The trucking industry presents significant growth opportunities, driven by technological advancements and the potential for consolidation.

Lenders also benefit from improved credit underwriting and flexible financing options, making the industry an attractive investment landscape.

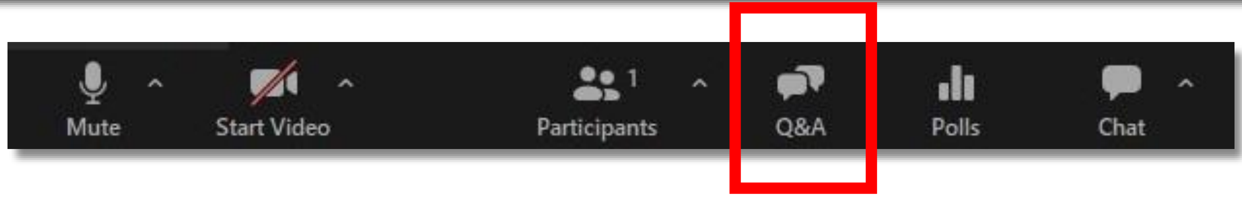
As the industry is expected to grow to $1.5 trillion by 2034 and potentially doubling between 2023 and 2050, companies can leverage economies of scale and enhanced buying power through strategic acquisitions.

This consolidation allows larger firms to reduce costs, improve operational efficiency, and expand market share.

Additionally, the adoption of unforeseen technologies, along with robust financial management, positions trucking companies for resilience and profitability.

q&a

Submit questions via the Q&A box



replay link:

A replay link will be emailed to you in the coming weeks.
A copy of the slides presented today will also be made available at that time.

feedback welcomed:

We welcome and appreciate your feedback with the goal of always getting better.

upcoming events & insights:

Please visit elliottdavis.com/insights to view upcoming webinars, events, and additional insights.

upcoming events

Financial Services Group Quarterly Accounting and Financial Reporting Update

Thursday | April 3, 2025 | 2:00pm EST

In this quarterly webinar, our Financial Services team will review the latest updates affecting the financial services industry, including those affecting business combinations, capital raising, and accounting for sales of mortgage service rights.

Host: Rob Stevens, Shareholder and Industry Leader, Financial Services
Presenters:

- Blake Patterson, Senior Manager, Financial Services
- Marquet Hansen, Senior Manager, Financial Services
- Luke Newquist, Senior Manager, Forensic Valuation and Litigation Services
- Clay Harris, Manager, Financial Services

Register at: https://www.elliottdavis.com/events thank you