

Fast Approaching ELD Mandate Survey Results - Conference Call Transcript

Summary

We had the pleasure of hosting Kevin Hill (from [CarrierLists](#)) and Andrew Lockwood (from [Kenco](#)) to share the results of their extensive front-line survey of thousands of trucking fleets in advance of the fast-approaching December 18th deadline that will eliminate paper driver logs, leading to increased compliance with hours-of-service regulations and require more trucks and more drivers to move the same amount of freight that moved around when drivers were (easily) able to falsify their driver log books. How much more capacity will be needed is unclear, but the ELD mandate certainly isn't adding any supply to the trucking market. And when we're talking trucking, we're really talking truckload. Below are other key takeaways and an edited transcription from the call. Stifel has no opinion on, and is not responsible for, the views expressed in this transcript by participants who are not employees of Stifel.

Key Points

- **Survey says as of early December, ~75% of fleets claim to be ELD ready.** This is up significantly from response rates <50% as late as October. Still unsure how close we'll get to 100% by next Monday, but everyone's certain it won't be 100%. Other surveys that sample a wide population (Transplace, Fleet Owner, and C.J. Driscoll & Associates) all reported that only 30%-40% of fleets were ELD compliant, as we moved into the back half of 2017.
- **Mr. Hill and Mr. Lockwood found in their research that fleets with <60 trucks were significantly more deficient with ELD compliance.** Interestingly, based on ATA data, 97% of fleets have <20 power units. The large public carriers we follow have had compliance plans for years and were compliant well in advance of the deadline. In fact, Werner Enterprises has been operating with paperless logs for nearly 15 years.
- **Tank and bulk carriers least compliant among the various trucking sectors.** Reefer carriers were most compliant at ~90% in the most recent survey, and dry van carriers were second with ~75% compliance.
- **ELDs are coming.** It appears that any last-minute attempts (e.g., "ELD or me" rallies) fell short, and drivers are accepting the new reality. Many shippers, though, remain unaware, as small fleets have not been bringing it to their attention. Larger shippers have been much more in the loop on the pending regulation. Any significant supply/demand tightening should catch most shippers off-guard.
- **Enforcement still the biggest unknown.** It's one thing to not be in compliance, and it's another to still be operating out of compliance. The number of trucks running down the road every day, technically compliant or not, dictates the industry supply side of the supply/demand equation that determines rates. What was made clear on the call is that there remains a lack of clarity as to what enforcement will look like in the coming months.
- **More color and issues on the gray area of ELD enforcement.** a) Enforcement will be up to either state police or highway patrol, being determined on a state-by-state basis, b) Well over 40 ELD devices have been self-certified, but we have heard that as many as 1/3 of those don't technically meet the FMCSA ELD specs, and it is unclear what happens to fleets who bought a "certified" ELD that is actually non-compliant, c) If carriers start to speed up to run the same number of miles in less time, we are unsure how law enforcement may use or be able to use ELDs to cite drivers for speeding tickets, d) How many carriers will claim some exemption from the ELD rule (like for local carriers who operate within 100/150 air mile radius), and how easy will that be to fudge?
- **Will ELDs lead to the "mother of all capacity shortages"?** Our view has been "no, not ELDs alone" although we do expect capacity to tighten and believe trucking rates will continue to march higher. ELDs are just one factor among many limiting industry supply in recent years. Drivers are the capacity constraint in the trucking industry, even more so than tractors, as we have spoken with several fleets that have a significant number of trucks parked, because they can't seat them with qualified drivers. In fact, trucking rates have spiked over the past two months due to supply disruptions and increased demand caused by Hurricanes Harvey and Irma. Driver wage pressure has also been on the rise all year, and we are seeing it hit for the first time in the LTL sector. So, whether ELDs remove a significant amount of capacity or just a little bit, we believe trucking rates are headed higher. One thesis has been that all these small non-compliant carriers running illegally will just fold, but "quit rate" was very low in the survey. We believe the carriers are likely to raise prices before they just turn in the keys and park their trucks for good. But fleet failures or rising rates lead to higher transportation costs. Shippers should be on notice.

Call replay available until December 21, 2017 - dial-in # (800) 332-6854. Passcode: 209814

David G. Ross, CFA | (786) 257-2413 | dross@stifel.com

J. Bruce Chan | (786) 257-2411 | chanb@stifel.com

Austin Remey | (786) 257-2409 | remeya@stifel.com

Stifel Equity Trading Desk | (800) 424-8870

Stifel does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

All relevant disclosures and certifications appear on pages 23 - 24 of this report.

Dave Ross:

Welcome, everybody, to a very topical conversation featuring Kevin Hill and Andrew Lockwood on the subject of ELDs—otherwise known as electronic logging devices, and formerly known as EOBRs. Many people think this issue will be a significant game changer in the industry and potentially lead to a capacity crunch in the trucking sector. And nobody that we have come across has done more in-depth work and ground-level surveying of the carriers on the issue of ELD compliance than Kevin and Andrew. We are very happy they could join us for this discussion.

Both Kevin and Andrew have backgrounds in transportation. Kevin created CarrierLists after working as a freight broker for mid-sized 3PLs for a while. And Andrew has been with Kenco in various roles surrounding transportation solution design. He's done modeling and pricing, and so their combination of industry knowledge plus data analytics is really where we come to here with CarrierLists. They will give you a bit more background on the project, give their remarks, and then we'll come back for Q&A.

Kevin Hill:

Thanks David, and thanks to Stifel for having us on. Both Andrew and I appreciate it and we'll delve right into the ELD mandate and the storyline. The backstory is that electronic logging devices (ELDs) have been discussed for years. Nothing ever really came of it until December of 2015, when the FMCSA published rules for enforcement for implementation within the next couple years, which is now looming on December 18, 2017. We are now within two weeks of that date.

We'll discuss what happens after that deadline, as it's still somewhat up in the air. And the uncertainty has caused some degree of fear and resentment from independent truckers and smaller fleets about implementing ELDs and about the electronic recording that goes along with it. Paper logs are—let's say—more flexible for recording hours of service. So there's been quite a bit of resistance to rolling out ELDs. The latest in the saga is HR 3282, which was introduced by Representative Brian Babin of Texas to delay ELD implementation for another two years until December of 2019. So, the ELD story is a long one that's finally coming to a head as the deadline approaches. Starting back in September, we began surveying carriers and noting everything that they were calling-out on a daily basis in order to get a true sense of what the numbers were. That process led us to where we are today with this survey.

Andrew Lockwood:

Kevin, you make some good points. We both recognize that, for pretty much all of our audience today, this has been a story out there for two years in the news. If you're like me, you've probably been brow-beaten with ELD news and everything that Amazon is doing. So, this is just one of those storylines that's been in the news so much that people have just stopped paying attention to it. Neither Kevin nor I really set out with intention of doing a survey—we never got together and said, "Let's really dig into this process and see what we find". I think it really happened very organically as we interacted from our different backgrounds and roles. But we think there's a very compelling storyline here and we want those in the industry—and even outside the industry—to understand the implications of what we're seeing.

December 14, 2017

Exhibit 1 is the first email I ever received from Kevin. Kenco had subscribed to some of the Carrier Lists' services and this was one of the mass emails that went out. I'm a very analytical person, so as I read the percentages (highlighted part), I'm thinking to myself, something isn't right here, something's missing or something is awry with his sampling or polling methods. I mean we've all known about this for so long, how could everyone be this far behind the curve?

Exhibit 1: First Point of Contact



Over the past few weeks we've been asking carriers on our call lists about ELDs.

We're a bit shocked at how few carriers have started the process. **Of the 633 carriers we've asked, only 23% have or are in the process of installing ELDs.**

Admittedly our sampling isn't scientific, but it does include carriers from a wide swath of the country with fleets from 5 to 100 trucks. You can download a spreadsheet of our results by [clicking here](#).

Please let us know what you've been hearing and seeing. We're not sure if our 23% is an outlier, or if it's in line with the real numbers.

In any case, we'll continue publishing updates every couple of weeks to see if there's any change in our results.

Best,
Kevin

P.S. - Email us to find out about the special promo we're running until Oct 13th for upgrades from your current version up to our latest CarrierLists of 10,000 specialized carriers in North America.

Kevin Hill
President & Founder
CarrierLists

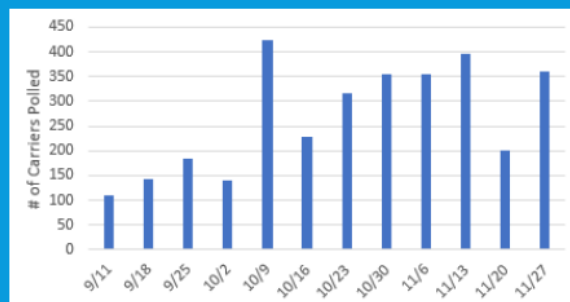
Source: CarrierLists

That's when I engaged Kevin and we started emailing back and forth, which led to more in-depth phone conversations. Just to put everyone at ease, I've tried to poke as many holes in these results as possible because I was curious about the implications that these results could have on the transportation industry.

Exhibit 2 will put some of this into perspective. The ATA says there are a total of 586,000 registered carriers.

Exhibit 2: Doubting the Results

- After several weeks of data, sample size statistically acceptable at $\pm 4\%$ margin of error in comparison to greater population of 586,000²
- What if carriers were lying?
 - We would expect to see “false positives” – saying that they were implemented when in fact they were not
- Kevin’s team kept calling people and asking – data was consistent
 - Over 3,200 carriers in 12 week period



² Based on American Trucking Association's (ATA) statistic

Source: CarrierLists

Now, again, we have a difference between carriers and drivers. The mega-fleet carriers, which have a very large number of power-units, only make up about 3% of the pie. The other 97% of the ATA carrier statistics are carriers with power units of 20 or less. So with the survey results in, I started to dig into the question of, “What if carriers are lying?” Well, we should see a false positive because it's in the carrier's best interest to say they're ready for the ELD mandate, even if they weren't. If that were true, then we would see a percentage much higher, not lower.

As the weeks went on, I started to get more involved with the data. Kevin and his team would poll the carriers, he would send me the data and we would talk about it on a weekly basis. Over the last 12 weeks, his team has engaged 3,200 carriers. Let me point out that timing is everything when conducting a survey like this because things change quickly as a deadline approaches. For example, carriers that didn't have ELDs implemented in early September may be compliant in late November. We would expect that more carriers will become compliant as we approach the deadline. The big question is whether it will be 100%. If not, what percent will be compliant?

We wanted to fact check our data to make sure we're not out in left field here. The old analogy goes, I have one guy on each of my shoulders, one saying this doesn't match up with some of the industry news and then I have a guy on my right shoulder, the data guy, telling me to look at the data. There have been other, larger surveys, but they have looked at bigger fleets, which typically have a higher percentage of ELD compliance. That makes sense; carriers with more resources will be more likely to be prepared for the upcoming mandate.

Kevin Hill:

There was an Overdrive article released a couple days ago that talked about an online survey, conducted in mid-November, which showed an adoption rate of 30%. That is right in line with our results. And I can confirm these results as I've been on the phone calling carriers myself. At first, I also doubted the 20% to 40% adoption rates coming in with 6 weeks to go until the deadline. I thought there was no way this could be right. But we've now polled 3,000 carriers and the story has remained consistent. Everyone is in process, everyone had been waiting for a delay, but now everyone is scrambling and some people may have to park their trucks, so we'll see how that plays out.

Andrew Lockwood:

And right now, as we get closer to the deadline, we are somewhere in the mid-70 percent range in terms of compliant fleets. Again, that number is rising as we get closer to the enforcement date. The takeaway here is that we're not crying wolf, we're just saying the data is very interesting and we'll talk about those specific areas of interest are. From my perspective, as I deal with shippers, carriers, and the enforcement side, there are so many different implications and perspectives worth considering.


Exhibit 3 displays a news publication that Kevin began to distribute on a weekly basis. At its core, this is your classic supply and demand imbalance. The topic of driver shortages has been so saturated in the news, it's tough to distinguish the implications, but I can tell you what we know based on the data sources that I have access to. One of our most trustworthy sources is the DAT and they're showing that dry-van spot rates, across the nation, have increased by 22% year over year. The question is, "If we remove additional drivers, what impact does that have to the supply equation?"

Exhibit 3: This is Newsworthy

- Classic supply / demand imbalance
 - Fewer drivers, more demand



- Spot rates have increased 22% in one year according to DAT, so what impact would removing supply (drivers) have to equation?

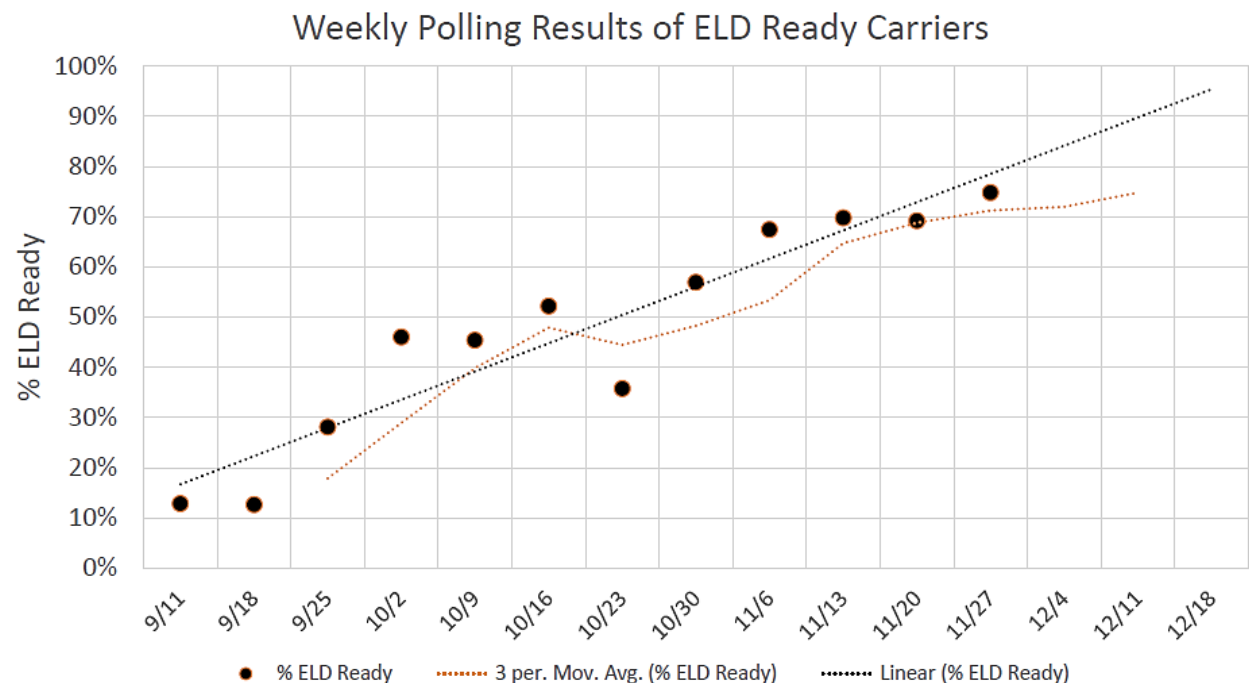
DAT Average Freight Rates Remain High			
Industry Trends			
	WEEK Oct 22 - 28 vs. Oct 15 - 21	MONTH Sep 2017 vs. Aug 2017	YEAR Sep 2017 vs. Sep 2016
 Van Load-To-Truck	+4.3%	+28%	+120%
Van Rates (Spot)	-0.5%	+11%	+22%

Source: CarrierLists, DAT

There are some people that think this won't have a huge effect on the industry and there are others that think it will significantly affect the trucking industry. I'm not necessarily saying that Kevin and I are on either side. We're simply saying it's worth considering the data and implications it may have on your business. With the ELD mandate, drivers and carriers have a couple of choices to make. They can either adopt the technology and move forward or they can resist and move out of the industry into some of the other growing sectors. There are a lot of unknowns there, especially with the smaller carriers.

With that said, **Exhibit 4** displays our most recent weekly data. As you can see, the percent of ELD ready carriers has risen pretty sharply over the last 12 weeks. What I've done is plotted a line to show the trajectory and you can see it ends on 12/18. Neither Kevin nor I are in the business of predicting where results will end, but you can draw your own conclusions based on the weekly results. You can also see the three-week moving average, which has plateaued as of late due to the holidays.

Exhibit 4: How Many Carriers are ELD Ready?



Source: CarrierLists

We've broken this data down further in **Exhibit 5**. The survey data backs up the reasoning that smaller carriers are slower to become compliant. We have the data broken out by fleet size on the top portion of **Exhibit 5**, and then toward the bottom, we started to look at the difference between regional, super-regional and nationwide fleets.

Exhibit 5: Small Fleets are Less Compliant

Fleet Size			ELD Compliant?			
Total	959	686	273	72%	28%	
Min	Max	Fleets	Y	N	Y	N
0	5	19	15	4	79%	21%
6	10	97	68	29	70%	30%
11	15	173	109	64	63%	37%
16	20	146	110	36	75%	25%
21	25	127	93	34	73%	27%
26	30	95	71	24	75%	25%
31	35	68	44	24	65%	35%
36	40	61	44	17	72%	28%
41	45	39	26	13	67%	33%
46	50	34	27	7	79%	21%
51	55	15	10	5	67%	33%
56	60	21	17	4	81%	19%
61	65	11	9	2	82%	18%
66	70	8	6	2	75%	25%
71	75	11	9	2	82%	18%
76	80	7	4	3	57%	43%
81	85	3	2	1	67%	33%
86	90	5	4	1	80%	20%
91	95	6	6	0	100%	0%
96	100	7	6	1	86%	14%
101	+	6	6	0	100%	0%

Carrier Range	Fleets	Y	N	Y	N
REGIONAL	542	347	195	64%	36%
SUPER REGIONAL	208	171	37	82%	18%
NATIONWIDE	209	168	41	80%	20%

* Regional = 150-1000 mile radius
 Super Regional = +1000 miles, but not nationwide
 Nationwide = coast to coast, all lower 48

Source: CarrierLists, data as of 11/13/17 – 11/27/17

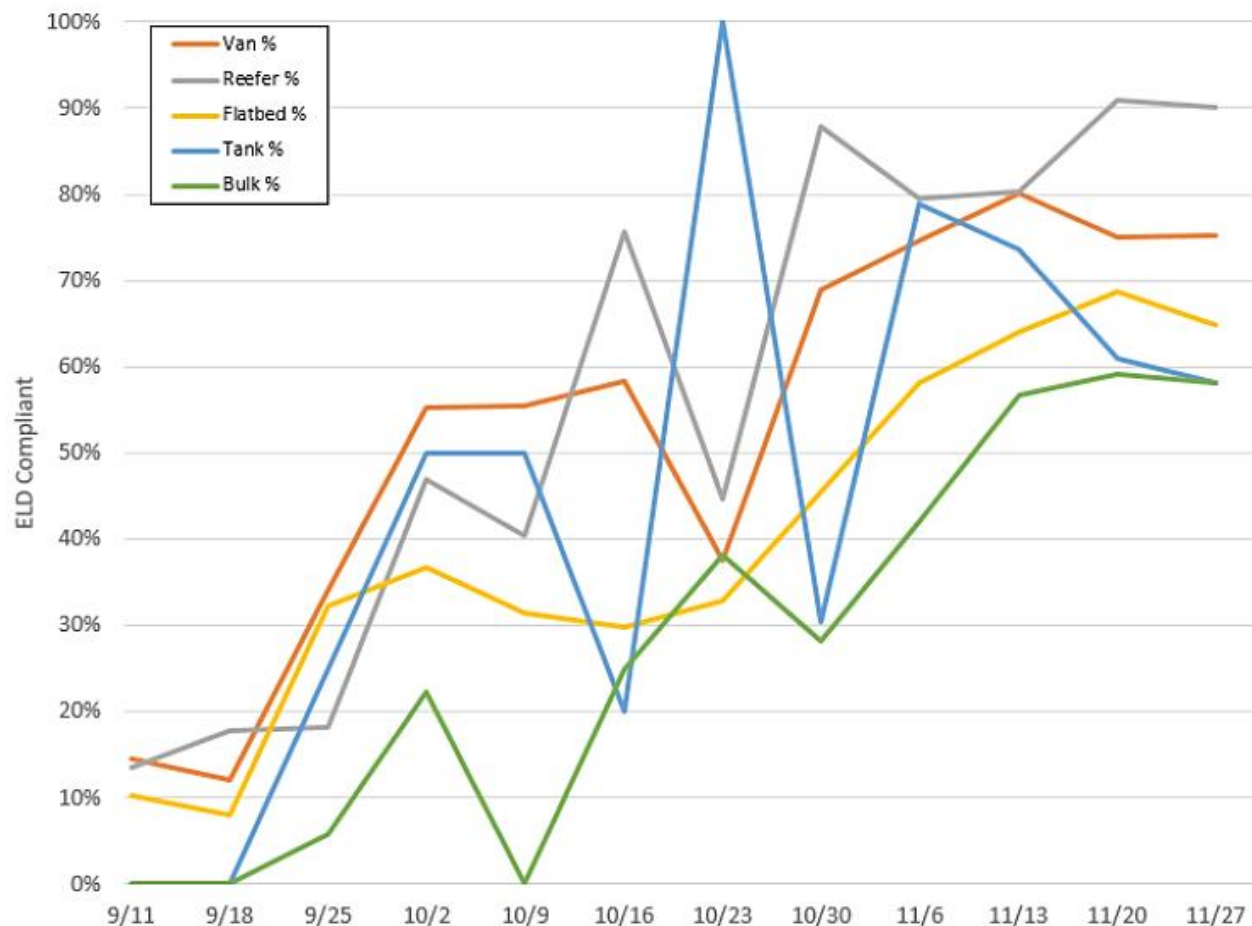
Kevin Hill:

Nationwide carriers cover 48 states and don't really have any main lanes. They're basically chasing freight. The super-regionals are carriers that cover a large regional area, like east of the Mississippi or the Western 11. We had super-regionals at anything over a 1,000-mile radius. Then you have the regional guys, who stay within a 500-700-mile radius.

Andrew Lockwood:

I think it's also worth noting that the table in **Exhibit 5** just shows the polling results from the last three weeks. As you can see, the smaller fleets are lagging behind the larger fleets.

Exhibit 6 breaks the data out into the individual trailer style. We've seen Dry Van lead the pack, Reefer is right up there, Flatbed is kind of in the middle, and then you have Tank and Bulk trailing behind.

Exhibit 6: Tank and Bulk Trail Reefer and Van

Source: CarrierLists

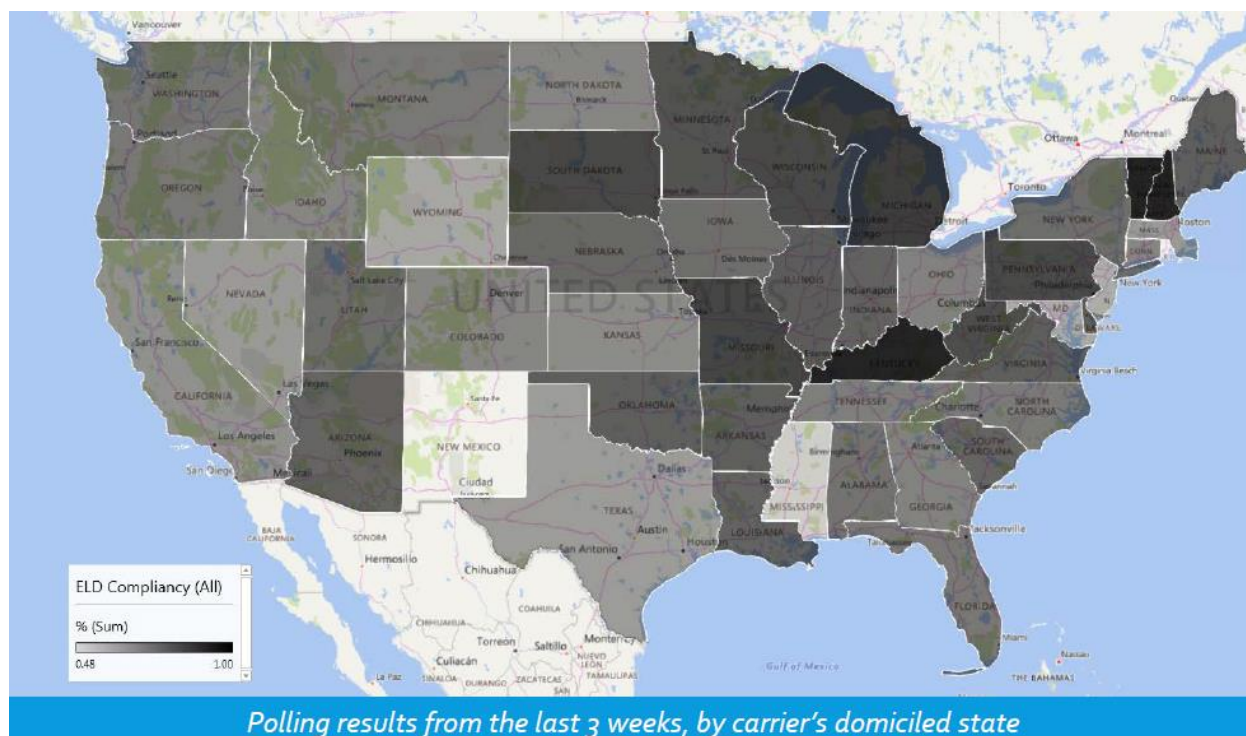
Kevin Hill:

It's worth noting that Dry Bulk is primarily regional, which feeds into their lower adoption rates.

Andrew Lockwood:

Exhibit 7 has the last piece of our latest data puzzle, which is displayed on a U.S. map. The shading is based on the carrier's domicile; therefore, the darker the state is, the more compliant they are. The white shading starts at 48% and we took out Rhode Island and Alaska because there wasn't enough meaningful data from these areas. With that, let's transition to implications. Kevin, what do you see from a dry van carrier's perspective?

Exhibit 7: State-by-State Adoption



Source: CarrierLists, data as of 11/13/17 – 11/27/17

Kevin Hill:

Over the last few months, I think the actual driver resistance has died down quite a bit. Even the ELD-related protests are not heavily attended. The “big rally” that happened in Newtown, Kansas ended up being so small that residents didn't even know it was going on. I don't see a lot of resistance. Therefore, I don't think we will see a ton of people leaving the industry, especially if rates come up. As Andrew was saying, it's all about supply and demand.

Andrew Lockwood:

I've laid out some of the implications in **Exhibit 8**. If carriers are ELD ready and running a good operation, the next 5 years could really be the golden age of trucking. Carriers are either preparing to take advantage of rising rates, or they're preparing to exit the industry, or they'll start facing the repercussions starting December 18th. We'll talk about those repercussions here in a second.

Exhibit 8: Golden Age of Trucking**• Drivers & Carriers**

- If ELD-ready, then next 5 years will be a "Golden Age of Trucking" prior to autonomous technology adoption & rollout
- Some % will choose not to adopt, will leave industry
 - Protests this week across the nation
 - Newsworthy only for lack of size

• Estimates

- Most sources agree that we're 50k+ drivers short already
- If 1% of carriers exit industry, ~ 5,860 fewer fleets (not to mention drivers)



Drivers at a recent protest in Washington D.C. in early October
Photo courtesy of Overdriveonline.com

Source: CarrierLists

Kevin Hill:

Yes, and the driver shortage projections have remained between 50,000-60,000 drivers. If 1% of the carriers exit the industry, you're looking at roughly 5,800.

Andrew Lockwood:

Correct. And there's no static data point for the average number of drivers per fleet. But let's just assume 20 power units per carrier. So, 6,000 carriers times 20 power units per carrier for 1% of the industry exiting comes out to roughly 120,000 power units per 1% move. That's a large amount of drivers and capacity that could potentially exit the market. Now, no one can predict when or if this happens, this is simply a hypothetical to show the effect of 1% of the carriers exiting the market.

Kevin Hill:

Exhibit 9 dives into the implications for the smaller fleets—specifically those who are late adopters. Many of these carriers have a lot to do in a short amount of time. They're trying to get everything installed and programmed, trying to train their drivers, dispatchers, operation teams, and safety department. Most of these smaller fleets are still on paper logs and they plan on making the switch on December 18th. These carriers are failing to realize that there's a learning curve for planning and structuring your workflow with ELDs. This learning curve could end up affecting performance and putting short term strain on capacity.

Exhibit 9: Late Adopter Implications

- **Carriers**
 - Steeper than expected ELD learning curve than most carriers expect
 - Most fleets under 50 don't have the infrastructure to properly train and manage this process smoothly
 - The majority of these late adopters have ELDs installed now, but are still using paper logs until the last possible moment
 - Even if compliance is near 100% on Dec. 18th, the productivity affects of smaller fleets going "live" all at once will create a deeper capacity crunch
 - Carriers who were early adopters and are at the top of the learning curve will be able to take full advantage of this market

Source: CarrierLists

Andrew Lockwood:

Kevin, you make a good point. I mean anyone right now can go down to the local truck stop and purchase an ELD-ready device off the shelf. Here at Kenco, we have a pretty large fleet of dedicated assets, and so this is really one of those subjects where you can make it as complicated or as simple as your operation dictates. We'll talk about the enforcement piece, which is crucial, in a little bit.

Kevin Hill:

And the proactive smaller carriers, who have been running ELDs for months should be able to take advantage of the next 3-6 months. They're going to be better positioned to actually participate in rate increases due to their reliability and streamlined operations.

Andrew Lockwood:

Let's transition to the shippers' perspective in **Exhibit 10**. From my vantage point, I think this is a blind spot for certain types of shippers. Other surveys support this hypothesis by referencing the fact that shippers are less aware of this potential tightness in the market. The smaller carriers are not being represented in the big shippers' meetings and board rooms, while the more compliant, bigger carriers are. I believe it's important to note that shippers seem to be more removed from the implications this could have on the transportation environment.

Exhibit 10: Shipper's Perspective

- Shippers
 - Less aware of the potential "tightness" of the market
 - Expect compliance by Carriers (or brokers), but many not planning to audit
 - Large increases starting to become the norm
 - "10% increase or more" – *J.B. Hunt in letter to customers*
 - "Respect Thy Truck driver"
 - Those who respect drivers' time most likely to be least affected
 - Time loading and unloading will become just as competitive as rates

Source: *CarrierLists*

There are a few important pieces to take into consideration. Whose responsibility does compliance become? If you're a carrier that uses a broker or a transportation management group to do the auditing, what exactly is required? That's the tough part, because the worst-case scenario is that on December 18, you have a load going from California to New York and all of a sudden, your freight is held up at 5 state borders because the carrier your load was tendered to isn't ELD ready. There are results that I think will help bring some of this to the surface but that question of who does the auditing is an important one.

Kevin Hill:

And also, how do you audit? Do you take someone's word for it? There's no official ELD compliance registration for carriers. Everyone is taking each other's word. And unless you actually look in the truck and physically test it out, there's no way to know for sure.

Andrew Lockwood:

We believe one of the indicators will be the carrier's safety score that most brokers and transportation management authorities are going to use to vet their carriers. But there's no direct link there. As Kevin pointed out, large rate increases are starting to become the norm. We have an example where a really large carrier went to their customers with a 10% increase. I'm seeing that become more common in the marketplace. Shippers should be budgeting for these increases in 2018 because the price of transportation is going up.

I love that the ELDs are going to force the industry to respect the truck driver and the carrier's time. I'm a big proponent of showing respect for the individual's time. For years, warehouses have not been efficient with a driver's time. Too often, we see truckers tied up for 4 hours at the dock waiting to get loaded or unloaded because of inefficiencies that haven't been taken care of. I think that point is largely missed by the carriers and there's so much resistance because they see this technology as a burden. In reality, this technology provides a ton of opportunity, and potentially saves the drivers and carriers a lot of time.

The ELD mandate will provide a level of transparency that will start to create more efficient operations. If I'm a carrier and I have a choice between taking a load to somebody's dock where I know I'm going to get tied up for 3-4 hours because they're not very efficient, or I can do a drop and hook, I'm going to take the faster option every time. That's a very positive implication of what we're going to see from this mandate.

Kevin Hill:

Absolutely. And you're going to see a premium for time. Time is money in this industry, and it is getting more expensive every year. The inefficient shippers will become more efficient or lose business to their competition. I believe we will see a lot of shippers investing in new technologies and procedures that will help them become more effective.

Andrew Lockwood:

We've covered carriers and we've covered shippers. Kevin, you used to be in the brokerage seat day in and day out. From your perspective, what are some of the implications for the broker?

Kevin Hill:

Let's take a look at **Exhibit 11**. As a broker, you're caught in the middle of the shipper and the carrier. The hardest part of the job is keeping both parties happy. Now that everything is going electronic, it's harder to give slower customers the leeway that they used to be able to receive. If you're wasting two hours of a trucker's time, then they're going to expect payment. And if the shipper's not paying, word gets around pretty quickly and all of a sudden, that's reflected in the shippers' rates. As a broker, you're caught in the middle of that negotiation, so you want to keep a good relationship with the carrier and of course with the shipper as well.

Exhibit 11: Broker's Perspective

- Brokers / 3PLs
 - Formally collected knowledge of ELD-ready or not?
 - How to verify any information without a formal registration?
 - Indirect expense to tendering to non-compliant carriers
 - Likely to be stopped for several hours at each state line after 12/18 deadline
 - Formal "Out of Service" and safety violations starting April 1st 2018
 - Caught in the middle – minimizing costs while selecting from fewer carriers
 - Managing shipper expectations for changes in timely pickup and deliveries
 - Communicating to shipper expectations without coercing drivers to break HOS
 - Negotiating stricter detention terms for both shippers and carriers

Source: *CarrierLists*

Andrew Lockwood:

I think it really comes down to knowing your industry and managing your interactions with the warehouse or the drop points. From the 3PL perspective, it's tough because there's a lot of relationship management that goes into keeping your carrier happy while trying to serve your customer at the same time. Again, I go back to the point that there is an indirect expense in tendering to non-compliant carriers. The worst case scenario is that your freight gets held up for 2-3 days when there's no lead time. As we make our way into a new year with new changes, we may see some situations where people get burned and relationships fall apart.

Kevin Hill:

That's a good segue into discussing the new coercion rules that were released last year. It's illegal for a broker, shipper, or dispatcher to coerce drivers into breaking hours of service, which is not much easier to monitor. At the beginning of this new mandate, there's going to be a lot of pressure from shippers and brokers to meet time deadlines. How do you not coerce drivers? There is very little leeway with the new tracking devices. So, a driver that's running 4 hours behind will be hard pressed to make that gap up. A lot of people are going to be crossing the line of coercion, so we might see a pickup in those fines as well.

Andrew Lockwood:

Let's switch to the last implication here, which is ELD mandate enforcement. Kevin, I know you had many more conversations on this piece than I've had. What have you heard from having your ear to the ground?

Exhibit 12: Enforcement

- Enforcement
 - Will likely vary state-by-state⁶
 - General 'lack-of-readiness' for enforcement
 - Kevin spoke recently with the Oklahoma Highway Patrol:
 - Official 8-hour training sessions begin the second week of December
 - The plan now is 10-hour out of service penalties instead of monetary fines (this could change after training and guidance classes)
 -
 - The recent 90-day agricultural extension covers trucks only when transporting approved items. ELDs will be required to be in use with any backhauls of commodities not covered in the exemption

Source: *CarrierLists*

Kevin Hill:

The basic point is that there is no clear plan for enforcement. It doesn't seem like a lot of thought has gone into enforcement yet. It's handled on a state-by-state basis. The actual training from the FMCSA is starting here soon, which will require anyone who does the inspections to go through an 8-hour training course. The head of client inspections for Oklahoma Highway Patrol told me that the training could radically change, which is why I say this is still up in the air. One enforcement-related item that I am sure of is that no one is going to be completely put out of service until April 1st, 2018. Now, that doesn't mean drivers are immune from receiving fines. It's still unclear as to whether highway patrol units will be writing monetary fines before April. However, it is important to note that the average cost per infraction can be as high as \$8,000 to \$10,000. Based on my conversations with highway patrol, it is clear that they will be putting drivers that are in violation out of service for 10 hours. So, a truck that's hauling produce from California to New York could potentially be put out of service for 10 hours in every single state it crosses, if it doesn't have an ELD installed and working. To make matters more complicated, the load would be considered agricultural, which is subject to an exemption grace period.

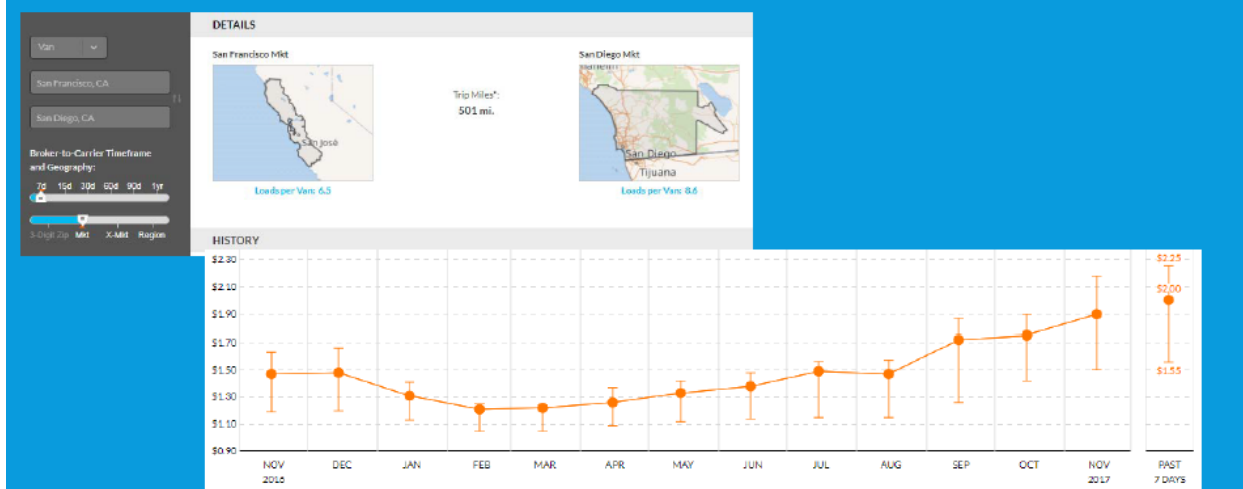
The general theme is that there is no real clarity when it comes to the enforcement of this new mandate. We will pay close attention in the months following enforcement, because rates should significantly fluctuate depending on how strict enforcement is.

Andrew Lockwood:

Enforcement is definitely a big gray area that we've seen. I do want to make time for questions, so we'll zoom through these last few exhibits. One thing that will be interesting are lanes that are right there on the cusp of 1-2-day transits between 500 and 600 miles that may become two-day transit lanes. Therefore, certain lanes may see more of an increase. In **Exhibit 13**, I show the San Francisco to San Diego lane, which is right at 500 miles. But if you catch traffic, suddenly that's a two-day transit difference. In the past, if you were a carrier running paper logs, you just get your other paper log in the cab and you just keep on trucking. On December 18, 2017, that will be considered illegal and fully documented. So, this is a very good change for our industry, but it will change pricing on certain routes.

Exhibit 13: Price Increases

- Price Increases in certain lanes
 - Lanes 500-600 miles in distance may become 2 day transit lanes as driver only has 11 available driver hours each day



Source: CarrierLists, DAT, San Francisco to San Diego lane results, 12/4/17

Exhibit 14 has the key questions and takeaways as far as what we've been coaching our shippers and clients on—how you protect yourself from having your freight caught in transit by a non-compliant carrier? I bring about the example of Walmart's "on-time, in-full" because there's just no wiggle room—you pay the penalty if it's not on time and in full. Our industry was built on relationships, and those relationships will be more important than ever as we move into this new era.

Exhibit 14: Key Questions

- Shippers / Brokers / 3PLs
 - How do you protect your freight from getting caught “in-transit” by a non-compliant carrier?
 - Supply chain and inventory impacts to your supply chain
 - Ex. Wal-Mart’s OTIF
 - Do you have partnerships with your carriers?
 - If so, ask if they’re ready and where they are with the implementation process

Source: *CarrierLists*

I’ll finish us up here with our key takeaways in **Exhibit 15**. First, consider your 2018 budget and the impact that it could see. Again, no one’s crying wolf, but I think it’s something to consider based on the data we’ve seen. It may be a little late to approach the table with contingency plans, but I like spreading the eggs in multiple baskets. Just have that open conversation with your carrier, because from a carrier perspective, those that are ready are in a prime position to benefit. It’s still too early to make accurate predictions on who exits the market and how quickly they do, but we do expect regional carriers to lag behind the national and super-regional carriers in terms of adoption. Those are some of the key takeaways that we’ve been communicating to our clients.

Exhibit 15: Takeaways

- Shippers / Brokers / 3PLs
 - Potentially large impact to your transportation 2018 budget
 - Time to build last minute contingency plans if not already done so
 - Don’t assume, ask your carriers
- Carriers
 - ELD-ready carriers are in prime position to benefit
 - Estimates vary on how many carriers/drivers will exit the market
 - Expect regional carriers to lag national and super-regional carriers in adoption
 - Expect bulk and flatbed carriers to lag dry van, reefer in adoption

Source: *CarrierLists*

Question & Answer

Dave Ross: So just to kick us off, when you talk about ELD enforcement, where does speed come into play? And by that, I mean do you think fleets would be able to speed up from 60 miles an hour to 75 miles an hour to fit the same run in the new window? If so, does the ELD device allow law enforcement call-back provision where they say, “listen you ran 500 miles in 5 hours, that’s a speeding ticket”? Where do you see the ELDs fitting in on the speed compliance?

Kevin Hill: That’s a great question. I’m not completely sure, but what’s likely is that the powers that be don’t either. I think a lot of officers have yet to be trained on how to download the information to a readable format. I’m not sure if law enforcement has even started to consider those implications.

Andrew Lockwood: That’s a tough one because now you have the ability to look at the driver’s historical performance and that seems like an invasion of privacy. That’s like our personal car data getting downloaded to the highway patrol and then 8 hours later they stop you for speeding on I-4. That’s actually a question I haven’t heard yet, but I think it’s a great question. I don’t know the answer but I think it’s a gray area right now with enforcement.

Dave Ross: And another thing that’s popped up in conversations with folks in the industry is, on the FMCSA website, there are over 40 certified ELD devices. But apparently those are self-certified devices and maybe a third of them aren’t actually compliant with the ELD mandate. Let’s say I’m a carrier who went onto the FMCSA website, said that ELD number 123 looks good. I buy it, I put it in, and then I get pulled over and it’s actually not compliant. Have you heard any talk about that and how they’re looking to whittle-down the FMCSA approved list? Or is there a plan to deal with people that have ELDs that were sold as compliant ELDs but are in fact non-compliant?

Andrew Lockwood: I haven’t heard any chatter to that end. Obviously, no one wants to get sold a bag of goods and then find out that they’re non-compliant. Kevin, any insight from your end?

Kevin Hill: Yes, I think that list is actually over 100 now and it is all self-certified like you said. At some point, there are plans to go in and actually do legitimate certifications. A lot of the late adopters—the people who are rushing in right now—are going to Loves and buying what can be best described as a “burner” ELD device. Those are probably going to be the ones that are going to be the first on the list to get chopped off. I mean, at some point, that’s going to shake out and that’s another question not many people have looked into.

Speaker 1: I'm looking at the brokers—and I believe the phrase Andrew used was relationship management—can you talk a little bit more about how you would advise brokers to set up realistic expectations with shippers? As you pointed out, it's logistically impossible to go further than surveying your carriers, because you can't go to 10,000 different trucks and make sure that they actually have installed these ELDs. How do you set expectations with the shippers and at the same time try and minimize these cases where people get burned?

Andrew Lockwood: Yes, that's a great question because we see it every day. It's such a tough position because no one wants to go to your customer and say, "Oh, by the way, expect a 10% increase on some of these shipments". I go back to one of our philosophies, which is to put our eggs in a lot of different baskets. Carrier-wise, I recommend you have a first, second, and third option—options that you have an active relationship with. From a carrier management perspective, we have quarterly meetings with our top carriers; we talk about the good, the bad, and the room for improvement. Just sit down with your carriers and figure out where your business is going and have those discussions. On the shipper side, I think it's important to set realistic expectations. Everyone is always looking for a better deal. Sometimes, what happens in our industry is that somebody will sell a shipper a bag of goods and then right when the contract is signed, the price goes up 10%. So, many shippers have been burned by that. I think it's important to understand that the industry is changing. The 22% increase in spot rates in the last year has been a big story, in and of itself, and now we're talking about removing additional capacity. That's tough. But at the end of the day, it's about quality, it's about helping serve the needs of your customer, and it's about just being honest and transparent.

Speaker 1: Also, you referenced the Walmart "on-time, in-full". I know Kroger has recently introduced similar fines. It seems like the brokers I speak to have said that shippers are becoming less and less understanding of delays. So, back to your answer, how do you set those realistic expectations knowing that this Walmart model is an example of shippers that are becoming less accepting of late deliveries, which could happen if someone is taken out of service on April 2nd?

Andrew Lockwood: That's a good question too, because we all live in the Amazon age, right? We all have Prime two-day shipping and we just expect things to show up magically. We don't care what happens in the process and that is exactly what you've described from a shippers' perspective. They don't understand why the carrier or the broker can't get their freight from New York to California the next day. It's a matter of educating your customers, from a process standpoint. One of the things I really like about Kenco is that we look at the umbrella of services. So, this is not just a transportation problem, this is probably a supply chain issue.

We need to talk about adequate lead times and how we can help you plan your supply chain so you're shipping the right things at the right time from your dock when you need it. There are some hard conversations to be had with your shipper, especially when you run into this. Much of it has to do with lead times and putting the right planning system and business rules in place so that you make sure that you don't get burned by delivering that Wal-mart load a day late. Does that help a little bit?

Speaker 1: It does, thanks. And Kevin, have you heard of any discussion among law enforcement regarding the app-based devices that fall into the ELD category, having some jailbreaking features? I'm sure you've heard of the jailbreaking features that essentially negate the ELD effect. You jailbreak it so you can still manipulate the logs, has anyone brought that up yet?

Kevin Hill: No, it's something that's been absent from our conversations with carriers. There isn't a jailbreaking app yet, but I'm sure someone's working on it because you can probably make a lot of money with it. But that's something that's been absent. I did expect to hear it more because there has been demand. There are a lot of people that would buy a jailbreaking app once it hits the market. We'll see how that cat and mouse game goes for law enforcement and drivers.

Speaker 2: Thanks so much for doing this call. We talked about 3% of the carriers being large and 97% being small. But the 3% that are large—what percent of capacity do they have? Does anybody have a number on that?

Andrew Lockwood: The large fleets account for approximately 20% to 25% of total capacity.

Speaker 2: Okay, got it. Then, just in the various surveying that you guys have done, did you ask any of the non-compliant folks whether they intend to comply or plan on quitting? I'm just curious if you heard anything about a quit rate. Then, secondarily, do you have any idea how many of those that haven't converted yet are running legal hours versus how many are running way over?

Kevin Hill: So the quit rates are probably pretty low. I think most of the delay has been on anticipation of getting that eleventh-hour stay from the Trump administration or someone in D.C. coming in and delaying it for two years, which would mean there's no reason to rush out and buy equipment. I think that's it. There have been a lot of threats of people exiting the business, but the rates are going to go up to compensate for less driving in the long term.

I would say probably 10% are pretty big offenders on that. Andrew is that within your thinking?

Andrew Lockwood: I would agree. Why would you want to quit when you're about to get into the golden age of trucking? You're a driver with an asset, just buy the cheap technology. Everyone stands to gain from it because we know prices are going up. That may be blunt, but there is no need to move out of the industry just to make a point. We do expect to see a "black list" of carriers that will be negatively impacted by enforcement, but I don't think anyone has a great prediction of how many "black list" carriers there will be.

Kevin Hill: There are a number of small fleets that are running very thin margins. The only way these fleets can actually turn a profit is through fudging the books and breaking the hours of service. We'll see if they actually switch over if rates come up. I think the question of whether they will be able to legally turn a profit remains to be answered.

Dave Ross: I have one more question for you guys too. When we're talking about the percentage of carriers that are ELD compliant, moving up from 20% to 40% to 60% to 70%, how close to 100% can it get? When you survey these carriers, do you ask them if they're exempt from ELDs? Are your survey results a percentage of carriers who need an ELD? Or does this somehow include some local guys who may say they're not getting an ELD, but they don't actually need one?

Andrew Lockwood: It is screened out. If the carrier is exempt, we make sure to note that and not include it in our survey results.

Dave Ross: And do you have an estimate of how many carriers you've talked to or what the percentage of total carriers you've surveyed would be that is claiming some kind of exemption status?

Kevin Hill: It's pretty low. It's less than 10%. I'd say it's somewhere between 5% and 10%.

Speaker 3: Given the large number of small fleets that are excluded by their reporting on a 12-hour and 100-mile radius limit basis, is 10% reasonable? It seems like a very small percentage—too small for the number that actually will find exemption by way of 100-mile radius rule and/or with operating trucks pre-2000 model year engines and makes. Please elaborate.

Kevin Hill: Sure, The survey isn't a complete scientific random sampling of the entire industry. We're only surveying the carriers. We screened out the data in our call lists to concentrate on over-the-road (OTR) trucking companies instead of the local guys.

Andrew Lockwood: Now, you bring about a really good point though. If you're a regional trucking carrier and you see this looming mandate, you have two options. You can either implement the technology or change so you don't have to go outside that 100-mile radius. We don't have the data needed to provide accurate insight into this issue, but it will be interesting to see if some regional players become local players because of that.

Speaker 3: And indeed the likes of Amazon are enticing them to make that move into local delivery activities rather than semi-regional anyway.

Kevin Hill: Exactly. You've seen it in the news with XPO and with Amazon. These big players want to be in every metropolitan place in the US and suddenly OTR becomes less of a percentage of the entire industry and now we're dealing more with local fleets. I see that industry dynamic changing as Amazon and some of the other companies play out a final-mile strategy.

Dave Ross: And just to wrap it up, because this is such an important topic on the regulatory side, were there any other regulations that drivers are worried about? As you get into talking to drivers and carriers about ELDs did any of the other regulations that are coming down the pike come up more than others?

Kevin Hill: Yes. I'd say a difference or a change in Hours of Service. I think everyone is going to be pushing for that next. ELDs take away the flexibility of when you can take breaks, which should bring up a lot of new discussion. They will most likely tweak the Hours of Service to give more flexibility to the driving schedule. They may not extend the hours of service, but they may become more lenient on break time. The only other thing is the Food Safety Modernization Act, which is not quite as monumental as the ELD.

Andrew Lockwood: I would also mention the CSA scores. A lot of carriers are worried about how the ELD mandate will affect their safety scores. For example, that's one of the key components here at Kenco that we check of our carriers. There are 9 or 10 different items we check each day with our carriers, and if you're not ELD-compliant it affects those scores. We've heard law enforcement say that's not going to impact anything until April and so there will be fines but no points. That's a big topic that a lot of folks are asking about as well.

Dave Ross: Excellent, well thank you both joining us today. And thanks to the audience for joining us to cover so much good material and what is a very important topic.

Important Disclosures and Certifications

I, David G. Ross, certify that the views expressed in this research report accurately reflect my personal views about the subject securities or issuers; and I, David G. Ross, certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report. Our European Policy for Managing Research Conflicts of Interest is available at www.stifel.com/institutional/ImportantDisclosures.

The equity research analyst(s) responsible for the preparation of this report receive(s) compensation based on various factors, including Stifel's overall revenue, which includes investment banking revenue.

Our investment rating system is three tiered, defined as follows:

BUY -We expect a total return of greater than 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

HOLD -We expect a total return between -5% and 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

SELL -We expect a total return below -5% over the next 12 months with total return equal to the percentage price change plus dividend yield.

Occasionally, we use the ancillary rating of **SUSPENDED** (SU) to indicate a long-term suspension in rating and/or target price, and/or coverage due to applicable regulations or Stifel policies. **SUSPENDED** indicates the analyst is unable to determine a "reasonable basis" for rating/target price or estimates due to lack of publicly available information or the inability to quantify the publicly available information provided by the company and it is unknown when the outlook will be clarified. **SUSPENDED** may also be used when an analyst has left the firm.

Of the securities we rate, 49% are rated Buy, 38% are rated Hold, 2% are rated Sell and 11% are rated Suspended.

Within the last 12 months, Stifel or an affiliate has provided investment banking services for 20%, 8%, 0% and 10% of the companies whose shares are rated Buy, Hold, Sell and Suspended, respectively.

Additional Disclosures

Please visit the Research Page at www.stifel.com for the current research disclosures and respective target price methodology applicable to the companies mentioned in this publication that are within Stifel's coverage universe. For a discussion of risks to target price please see our stand-alone company reports and notes for all stocks.

The information contained herein has been prepared from sources believed to be reliable but is not guaranteed by us and is not a complete summary or statement of all available data, nor is it considered an offer to buy or sell any securities referred to herein. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of Stifel, or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed within. Past performance should not and cannot be viewed as an indicator of future performance.

As a multi-disciplined financial services firm, Stifel regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as a placement agent in private transactions.

Affiliate Disclosures

"Stifel", includes Stifel Nicolaus & Company ("SNC"), a US broker-dealer registered with the United States Securities and Exchange Commission and the Financial Industry National Regulatory Authority and Stifel Nicolaus Europe Limited ("SNEL"), which is authorized and regulated by the Financial Conduct Authority ("FCA"), (FRN 190412) and is a member of the London Stock Exchange.

Registration of non-US Analysts: Any non-US research analyst employed by SNEL contributing to this report is not registered/qualified as a research analyst with FINRA and is not an associated person of the US broker-dealer and therefore may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

Country Specific and Jurisdictional Disclosures

United States: Research produced and distributed by SNEL is distributed by SNEL to "Major US Institutional Investors" as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended. SNC may also distribute research prepared by SNEL directly to US clients, including US clients that are not Major US Institutional Investors. In these instances, SNC accepts responsibility for the content. SNEL is a non-US broker-dealer and accordingly, any transaction by a US client in the securities discussed in the document must be effected by SNC. US clients wishing to place an order should contact their SNC representative.

Canadian Distribution: Research produced by SNEL is distributed in Canada by SNC in reliance on the international dealer exemption. This material is intended for use only by professional or institutional investors. None of the investments or investment services mentioned or

December 14, 2017

described herein is available to other persons or to anyone in Canada who is not a "permitted client" as defined under applicable Canadian securities law.

UK and European Economic Area (EEA): This report is distributed in the EEA by SNEL, which is authorized and regulated in the United Kingdom by the FCA. In these instances, SNEL accepts responsibility for the content. Research produced by SNEL is not intended for use by and should not be made available to non-professional clients.

The complete preceding 12-month recommendations history related to recommendation(s) in this research report is available at <https://stifel2.bluematrix.com/sellside/MAR.action>

Brunei: This document has not been delivered to, registered with or approved by the Brunei Darussalam Registrar of Companies, Registrar of International Business Companies, the Brunei Darussalam Ministry of Finance or the Autoriti Monetari Brunei Darussalam. This document and the information contained within will not be registered with any relevant Brunei Authorities under the relevant securities laws of Brunei Darussalam. The interests in the document have not been and will not be offered, transferred, delivered or sold in or from any part of Brunei Darussalam. This document and the information contained within is strictly private and confidential and is being distributed to a limited number of accredited investors, expert investors and institutional investors under the Securities Markets Order, 2013 ("Relevant Persons") upon their request and confirmation that they fully understand that neither the document nor the information contained within have been approved or licensed by or registered with the Brunei Darussalam Registrar of Companies, Registrar of International Business Companies, the Brunei Darussalam Ministry of Finance, the Autoriti Monetari Brunei Darussalam or any other relevant governmental agencies within Brunei Darussalam. This document and the information contained within must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which the document or information contained within is only available to, and will be engaged in only with Relevant Persons.

In jurisdictions where Stifel is not already licensed or registered to trade securities, transactions will only be affected in accordance with local securities legislation which will vary from jurisdiction to jurisdiction and may require that a transaction is carried out in accordance with applicable exemptions from registration and licensing requirements. Non-US customers wishing to effect transactions should contact a representative of the Stifel entity in their regional jurisdiction except where governing law permits otherwise. US customers wishing to effect transactions should contact their US salesperson.

The recommendation contained in this report was produced at 14 December 2017 15:27EST and disseminated at 14 December 2017 15:27EST.

Additional Information Is Available Upon Request

© 2017 Stifel. This report is produced for the use of Stifel customers and may not be reproduced, re-distributed or passed to any other person or published in whole or in part for any purpose without the prior consent of Stifel. Stifel, Nicolaus & Company, Incorporated, One South Street, Baltimore, MD 21202.