

*Analysis of Sales/Earnings*

**4Q13 EPS Disappoints; Estimates Lowered, But Long-Term Growth Still the Focus**

Roadrunner reported 4Q13 EPS of \$0.29, below the Street consensus estimate of \$0.32 and our estimate of \$0.33. In the release, management highlighted several items that either helped (\$0.08 of EPS positives) or hurt (\$0.12 in EPS negatives) the company's quarter that were unusual, non-recurring, or just a new speed bump. Our view is that while these explanations were helpful, some of the headwinds were not one-time and will not disappear in 2014. We expect growth to continue through acquisitions as well from existing businesses, but we do not model in acquisitions and therefore apply a higher P/E multiple to account for the likelihood of accretive deals. On a likely sell-off on the poor earnings report, we are buyers of RRTS, believing Street estimates should reset to more reasonable levels that could potentially be exceeded by Roadrunner later this year.

- LTL tonnage growth was decent in 4Q13, but yields disappointed, as price increases fell from the 3%-4% range in 1H13 to 2%-3% in 2H13. Fortunately, the company believes pricing has improved in January.
- Higher insurance and claims expense due to higher premiums and an increased average claim settlement has led the company to improve its safety/risk management program, and Roadrunner should be making several hires in that area near-term.
- With a lack of accretive acquisitions the last couple of quarters and poor earnings performance, we believe sentiment on RRTS should hit a low-point fairly soon and then improve throughout the year absent further cost surprises and/or poorly executed deals.
- We are reducing our EPS estimates from \$1.57 and \$1.76 to \$1.40 and \$1.60, respectively, as a result of lower margin assumptions at all three segments due to higher insurance and personnel costs in LTL and TL and a change in the business mix at TMS. Again, we assume no acquisitions in our EPS estimates, although the company has said its deal pipeline is full and multiple deals are likely in 2014.
- We view Roadrunner as now having a higher cost structure near-term but with growth, the company should be able to improve margins the next couple of years.
- In our opinion, Roadrunner is a 10%+ organic EPS grower and likely a 20% EPS grower, including acquisitions, even though growth has been even greater than that the past few years. We were pleased to hear that management walked away from a few deals in 2H13, as those decisions indicated discipline around the process and showed the company does not plan to acquire anyone at any price just to grow.

Changes	Previous	Current
Rating	—	Buy
Target Price	\$31.00	\$29.00
FY13A EPS (Net)	1.34	1.29
FY14E EPS (Net)	1.57	1.40
FY13A Rev (Net)	\$418.1	\$417.1
FY14E Rev (Net)	\$472.3	\$473.8

Price (02/05/14):	\$25.70
52-Week Range:	\$31 – \$19
Market Cap.(mm):	963.8
Shr.O/S-Diluted (mm):	37.5
Enterprise Val. (mm):	\$1,176.7
Avg Daily Vol (3 Mo):	321,127
LT Debt/Total Cap.:	27.8%
Net Cash/Share:	\$0.00
Book Value/Share:	\$12.78
Dividend(\$ / %)	\$0.00 / 0.0%
S&P Index	1,751.64

EPS (Net)	2012A	2013A	2014E
Q1	0.25	0.29	0.29
Q2	0.32	0.37	0.41
Q3	0.31	0.35	0.37
Q4	0.29	0.29	0.34
FY Dec	1.16A	1.29A	1.40
P/E	22.2x	19.9x	18.4x

Rev (Net)	2012A	2013A	2014E
FY Dec	\$319.9A	\$417.1A	\$473.8
EV/Revenue	3.7x	2.8x	2.5x

David G. Ross, CFA  
 J. Bruce Chan  
 Stifel Equity Trading Desk

dross@stifel.com  
 chanb@stifel.com

(443) 224-1316  
 (443) 224-1386  
 (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 7 - 8 of this report.

**Target Price Methodology/Risks**

Our 12-month target price is \$29 (or 18x our 2015 EPS estimate of \$1.60).

Target price risks include economic/freight recession, poorly advised/executed acquisitions, lack of truck capacity, higher TL purchased transportation costs, rising interest rates, increased financial leverage, and spike in insurance claims.

**Company Description**

Roadrunner Transportation Systems is a non-asset-based transportation capacity provider with an asset-light long haul less-than-truckload (LTL) carrier, a truck brokerage operation and a third-party logistics/transportation management business. Its core LTL business (a top-20 carrier) is the only asset-light LTL model of scale in the U.S., and its brokerage operation utilizes both agents and company offices, independent third-party capacity providers, and dedicated capacity.

Company name (Ticker)		Rating	Closing Price 2/5/2014	Diluted S/O	Market cap.	Total Debt	Cash & equiv.	TEV <sup>(a)</sup>	Equity value as a multiple of			Enterprise value as a multiple of				TTM ROA	TTM ROE	TTM ROIC	PEG ratio <sup>(d)</sup>	Div. Yield	2014E FCF Yld		
									2012A <sup>(b)</sup>	2013E <sup>(b)</sup>	2014E <sup>(b)</sup>	Book value	TTM Revenue	2014E EBITDA	TTM EBITDA							TTM EBITDAR <sup>(c)</sup>	TTM EBIT
<b>Less-Than-Truckload</b>																							
Arkansas Best Corp. (ABFS)		Hold	30.97	25.8	797.7	112.8	105.4	805.2	NM	NM	13.8x	1.5x	0.4x	4.4x	7.4x	7.2x	NM	1.5%	3.1%	2.8%	1.5	0.4%	5.4%
Con-way (CNW)		Hold	37.00	57.0	2,108.5	735.8	478.1	2,366.3	20.4x	22.4x	15.1x	2.2x	0.4x	4.7x	5.4x	5.0x	11.2x	3.0%	10.8%	8.0%	1.3	1.1%	5.4%
Forward Air Corp. (FWRD)		Hold	42.39	31.7	1,344.9	0.1	98.6	1,246.4	23.8x	23.3x	19.3x	3.2x	2.0x	8.9x	11.6x	9.8x	14.6x	12.5%	14.5%	14.6%	1.8	0.9%	4.6%
Old Dominion Freight Line (ODFL)		Hold	52.66	86.2	4,537.4	206.1	12.1	4,731.5	27.1x	21.9x	19.5x	3.8x	2.1x	9.0x	10.5x	10.2x	14.4x	11.0%	18.3%	15.4%	1.1	0.0%	4.1%
<b>Roadrunner Transportation Svcs. (RRTS)</b>		<b>Buy</b>	<b>25.70</b>	<b>38.5</b>	<b>989.5</b>	<b>192.6</b>	<b>5.4</b>	<b>1,176.7</b>	<b>22.2x</b>	<b>19.9x</b>	<b>18.4x</b>	<b>2.0x</b>	<b>0.9x</b>	<b>10.4x</b>	<b>11.6x</b>	<b>10.7x</b>	<b>13.8x</b>	<b>6.3%</b>	<b>11.0%</b>	<b>8.7%</b>	<b>1.2</b>	<b>0.0%</b>	<b>4.6%</b>
Saia, Inc. (SALA)		Hold	30.66	24.7	756.3	76.9	0.2	833.0	23.8x	18.1x	15.3x	2.5x	0.7x	5.7x	6.8x	6.7x	11.2x	7.5%	15.2%	13.4%	1.0	0.0%	0.0%
Vitran Corp. (VTNC)		Hold	6.47	16.4	106.3	83.0	41.2	148.1	NM	NM	NM	1.1x	0.2x	NM	NM	-20.6x	NM	-18.7%	NM	NM	NM	0.0%	0.0%
YRC Worldwide (YRCW)		Hold	21.99	11.4	250.7	1,361.0	170.5	1,441.2	NM	NM	NE	1.1x	0.3x	NM	5.8x	5.3x	19.4x	-2.3%	NM	NM	NM	0.0%	NM
<b>Min</b>					106.3	0.1	0.2	148.1	20.4x	18.1x	13.8x	1.1x	0.2x	4.4x	5.4x	-20.6x	11.2x	-18.7%	3.1%	2.8%	1.0	0.0%	0.0%
<b>Mean</b>					1,361.4	346.0	113.9	1,593.5	23.5x	21.1x	16.9x	2.3x	0.9x	7.2x	8.4x	4.3x	14.1x	2.6%	12.1%	10.5%	1.3	0.3%	3.4%
<b>Mean (Asset-based LTL only)</b>					1,426.2	429.3	134.6	1,720.9	23.8x	20.8x	15.9x	2.2x	0.7x	6.0x	7.2x	2.3x	14.0x	0.3%	11.8%	9.9%	1.2	0.2%	3.0%
<b>Median</b>					893.6	152.7	69.9	1,211.6	23.8x	21.9x	16.8x	2.2x	0.6x	7.3x	7.4x	6.9x	14.1x	4.6%	12.8%	11.0%	1.2	0.0%	4.6%
<b>Max</b>					4,537.4	1,361.0	478.1	4,731.5	27.1x	23.3x	19.5x	3.8x	2.1x	10.4x	11.6x	10.7x	19.4x	12.5%	18.3%	15.4%	1.8	1.1%	5.4%
<b>Non-Asset-Based Forwarding / Logistics</b>																							
C.H. Robinson Worldwide (CHRW)		Sell	53.16	151.6	8,060.9	875.0	162.0	8,773.9	19.3x	19.9x	19.0x	8.6x	4.8x	11.6x	11.8x	11.4x	12.8x	14.9%	34.3%	23.5%	1.6	2.6%	1.9%
DSV A/S (DSV-DK)		NC	DKK 175.70	176.0	5,599.1	1,237.5	112.2	6,724.4	NE	NE	NE	5.3x	3.5x	NE	NM	NM	14.7x	7.1%	29.4%	14.8%	NM	0.6%	NM
Echo Global Logistics (ECHO)		Hold	18.60	24.1	448.4	0.0	53.3	395.1	30.0x	27.0x	21.9x	2.9x	2.5x	8.9x	11.0x	10.4x	15.7x	6.6%	10.6%	10.6%	0.8	0.0%	2.8%
Expeditors International (EXPD)		Hold	40.40	205.6	8,305.4	0.0	1,310.3	7,020.1	25.7x	23.5x	21.6x	3.8x	3.8x	10.5x	11.8x	11.2x	12.8x	11.4%	16.4%	16.0%	2.2	1.5%	4.1%
Forward Air Corp. (FWRD)		Hold	42.39	31.7	1,344.9	0.1	98.6	1,246.4	23.8x	23.3x	19.3x	3.2x	2.0x	8.9x	11.6x	9.8x	14.6x	12.5%	14.5%	14.6%	1.8	0.9%	4.6%
Hub Group (HUBG)		Hold	39.04	37.7	1,470.2	8.2	69.0	1,409.4	21.3x	20.3x	18.6x	2.6x	3.8x	10.6x	11.4x	10.0x	12.1x	7.2%	13.3%	NM	1.4	0.0%	-1.7%
Kuehne + Nagel International AG (KNIN-CH)		Hold	CHF 117.90	120.1	15,658.4	52.9	1,109.7	14,847.9	25.6x	24.1x	21.3x	5.8x	2.1x	14.1x	16.7x	11.0x	17.5x	9.4%	25.0%	NM	1.4	3.0%	5.0%
Landstar System (LSTR)		Hold	56.07	46.0	2,580.2	129.3	180.3	2,529.2	20.2x	23.8x	20.5x	5.7x	0.9x	11.1x	12.4x	12.3x	14.3x	11.8%	26.1%	20.0%	1.4	0.0%	3.7%
Pacer International (PACR)		Hold	8.88	36.1	320.3	0.0	39.7	280.6	NM	30.6x	22.2x	2.5x	1.2x	8.9x	11.5x	4.9x	17.4x	3.9%	7.5%	8.1%	1.5	0.0%	3.2%
Panalpina Welttransport Holding (PWTN-CH)		Hold	CHF 149.00	23.7	3,901.9	4.6	372.0	3,534.4	NM	NM	33.6x	4.8x	2.0x	18.4x	24.6x	12.1x	29.3x	2.3%	6.1%	6.5%	2.2	1.3%	3.0%
<b>Roadrunner Transportation Svcs. (RRTS)</b>		<b>Buy</b>	<b>25.70</b>	<b>38.5</b>	<b>989.5</b>	<b>192.6</b>	<b>5.4</b>	<b>1,176.7</b>	<b>22.2x</b>	<b>19.9x</b>	<b>18.4x</b>	<b>2.0x</b>	<b>0.9x</b>	<b>10.4x</b>	<b>11.6x</b>	<b>10.7x</b>	<b>13.8x</b>	<b>6.3%</b>	<b>11.0%</b>	<b>8.7%</b>	<b>1.2</b>	<b>0.0%</b>	<b>4.6%</b>
Universal Truckload Svcs. (UACL)		Buy	27.08	30.1	816.1	124.0	5.5	934.6	20.1x	15.5x	13.1x	8.6x	0.9x	7.2x	8.6x	8.3x	10.5x	21.1%	48.7%	30.2%	0.7	1.0%	5.0%
UTi Worldwide (UTIW)		Buy	15.03	104.8	1,574.4	460.6	171.2	4,486.4	30.7x	NM	23.9x	2.0x	2.9x	21.2x	NM	22.4x	NM	-0.2%	-0.5%	0.5%	1.6	0.4%	5.6%
XPO Logistics, Inc. (XPO)		Hold	25.41	57.5	1,462.0	113.9	67.3	1,508.6	NM	NM	NM	3.2x	17.5x	NM	NM	NM	NM	-9.2%	-14.1%	NM	NM	0.0%	NM
<b>Min</b>					320.3	0.0	5.4	280.6	19.3x	15.5x	13.1x	2.0x	0.9x	7.2x	8.6x	4.9x	10.5x	-9.2%	-14.1%	0.5%	0.7	0.0%	-1.7%
<b>Mean</b>					3,752.3	228.5	268.3	3,919.1	23.9x	22.8x	21.1x	4.4x	3.5x	11.8x	13.0x	11.2x	15.5x	7.5%	16.3%	13.9%	1.5	0.8%	3.5%
<b>Median</b>					1,522.3	83.4	105.4	2,018.9	23.0x	23.4x	20.9x	3.5x	2.3x	10.6x	11.6x	10.8x	14.5x	7.1%	13.9%	14.6%	1.4	0.5%	3.9%
<b>Max</b>					15,658.4	1,237.5	1,310.3	14,847.9	30.7x	30.6x	33.6x	8.6x	17.5x	21.2x	24.6x	22.4x	29.3x	21.1%	48.7%	30.2%	2.2	3.0%	5.6%
<b>Stifel Transportation Average</b>					<b>8,968.2</b>	<b>1,601.3</b>	<b>430.4</b>	<b>10,231.5</b>	<b>21.8x</b>	<b>20.8x</b>	<b>18.1x</b>	<b>3.5x</b>	<b>2.2x</b>	<b>9.0x</b>	<b>9.7x</b>	<b>8.4x</b>	<b>14.6x</b>	<b>5.3%</b>	<b>14.9%</b>	<b>10.6%</b>	<b>1.4</b>	<b>0.9%</b>	<b>4.0%</b>

(a) Total Enterprise Value = Market Capitalization of Equity + Total Debt - Cash + Market Value of Minority Interest  
 (b) Stifel estimates for those rated and First Call mean estimates for unrated securities  
 (c) Enterprise value adjusted to include the capitalization of off balance sheet operating leases with lease expense (or rent expense) being added back to EBITDA for the valuation multiple calculation  
 (d) 2014E P/E divided by First Call mean or Stifel estimated long-term growth rate  
 Excludes non-recurring items  
 Calculations may vary due to rounding  
 Source: Company data, First Call, and Stifel estimates

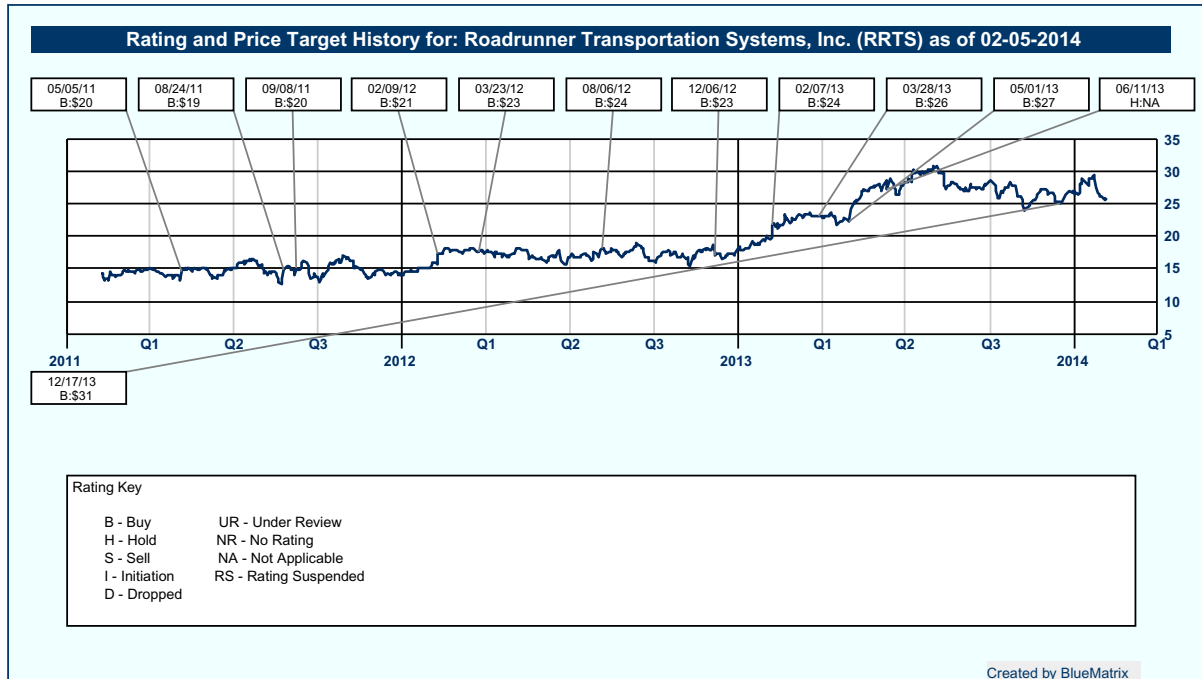






**Important Disclosures and Certifications**

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. For our European Conflicts Management Policy go to the research page at [www.stifel.com](http://www.stifel.com).



**For a price chart with our ratings and target price changes for RRTS go to <http://sf.bluematrix.com/bluematrix/Disclosure?ticker=RRTS>**

Roadrunner Transportation Systems, Inc. is a client of Stifel or an affiliate or was a client of Stifel or an affiliate within the past 12 months.

Roadrunner Transportation Systems, Inc. is provided with non-securities related services by Stifel or an affiliate or was provided with non-securities related services by Stifel or an affiliate within the past 12 months.

Stifel expects to receive or intends to seek compensation for investment banking services from Roadrunner Transportation Systems, Inc. in the next 3 months.

Stifel makes a market in the securities of Roadrunner Transportation Systems, Inc..

Stifel or an affiliate has received compensation for non-securities related services from Roadrunner Transportation Systems, Inc. in the past 12 months.

Stifel research analysts receive compensation that is based upon (among other factors) Stifel's overall investment banking revenues.

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

**BUY** -For U.S. securities we expect the stock to outperform the S&P 500 by more than 10% over the next 12 months. For Canadian securities we expect the stock to outperform the S&P/TSX Composite Index by more than 10% over the next 12 months. For other non-U.S. securities we expect the stock to outperform the MSCI World Index by more than 10% over the next 12 months. For yield-sensitive securities, we expect a total return in excess of 12% over the next 12 months for U.S. securities as compared to the S&P 500, for Canadian securities as compared to the S&P/TSX Composite Index, and for other non-U.S. securities as compared to the MSCI World Index.

**HOLD** -For U.S. securities we expect the stock to perform within 10% (plus or minus) of the S&P 500 over the next 12 months. For Canadian securities we expect the stock to perform within 10% (plus or minus) of the S&P/TSX Composite Index. For other non-U.S. securities we expect the stock to perform within 10% (plus or minus) of the MSCI World Index. A Hold rating is also used for yield-sensitive securities where we are comfortable with the safety of the dividend,

but believe that upside in the share price is limited.

SELL -For U.S. securities we expect the stock to underperform the S&P 500 by more than 10% over the next 12 months and believe the stock could decline in value. For Canadian securities we expect the stock to underperform the S&P/TSX Composite Index by more than 10% over the next 12 months and believe the stock could decline in value. For other non-U.S. securities we expect the stock to underperform the MSCI World Index by more than 10% over the next 12 months and believe the stock could decline in value.

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

Within the last 12 months, Stifel or an affiliate has provided investment banking services for 19%, 9% and 0% of the companies whose shares are rated Buy, Hold and Sell, respectively.

#### **Additional Disclosures**

*Stifel acted as a financial advisor to Marisol International LLC in connection with its acquisition by Roadrunner Transportation Systems, Inc.*

Please visit the Research Page at [www.stifel.com](http://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 Buy-rated 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.

Stifel is a multi-disciplined financial services firm that 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. Moreover, Stifel and its affiliates and their respective shareholders, directors, officers and/or employees, may from time to time have long or short positions in such securities or in options or other derivative instruments based thereon.

These materials have been approved by Stifel Europe Limited, authorized and regulated by the Financial Conduct Authority (FCA) in the UK, in connection with its distribution to professional clients and eligible counterparties in the European Economic Area. (Stifel Europe Limited home office: London +44 20 7557 6030.) No investments or services mentioned are available in the European Economic Area to retail clients or to anyone in Canada other than a Designated Institution. This investment research report is classified as objective for the purposes of the FCA rules. Please contact a Stifel entity in your jurisdiction if you require additional information.

#### **Additional Information Is Available Upon Request**

© 2014 Stifel, Nicolaus & Company, Incorporated, One South Street, Baltimore, MD 21202.

© 2014 Stifel Nicolaus Canada Inc. 79 Wellington Street West, 21st Floor Toronto, ON M5K 1B7.

All rights reserved.