

Survey Summary

May Forwarding Volumes Slog Along Amid Elevated Capacity, Inventories, and Macro Uncertainty; 2016 Expectations Remain Muted

Well, 1Q16 earnings are in, and it was a challenging environment to say the least. Among the publicly-traded freight forwarders, even well-managed, industry high-flyers faced volume headwinds; and for most, tight cost controls were not enough to prevent margin compression due to slower-than-expected business trends. Still, some management teams were guardedly optimistic, calling for slow (and above-market) improvement in an otherwise stagnant environment, which is consistent with this month's Stifel Logistics Confidence Index readings. In May, volumes continued to slog along—better than the bottom found earlier this year, but not much. Six-month expectations, which now reach out to November, are also uninspired and seem to indicate that not just the large, publicly-traded forwarding company management teams, but also the broader industry, expects 2016 to be a no-growth year—at least as far as Europe is concerned. In this environment, we see little, if any upside potential in European-based freight forwarding stocks, including DHL Global Forwarding (DPW.XE, EUR 26.86, Hold), DSV AIS (DSV-KO, DKK 294.40, Hold), Kuehne + Nagel (KNIN-SIX, CHF 134.30, Hold), and Panalpina (PWTN-SIX, CHF 114.00, Hold). Our lone Buy recommendation among the forwarding group is U.S.-based Expeditors International of Washington (EXPD, \$47.35, Buy), which we prefer for its market share growth opportunity, flexible cost model, valuation, and strong operational execution.

- **The overall LCI slid 0.3 points from April to 47.2.** The May index is approximately 2 points above the December 2015 trough, but it remains below the 50.0 threshold for growth, where it has been for the last eight months. For approximately the last four months, the index has stagnated around the 47-level, and we believe it is not likely to grow significantly from here for the remainder of 2016.
- **Airfreight results were the bright(er) spot in May's results, finally reaching the break-even 50.0 mark after seven months of consecutive contraction.** The improvement was driven by a 1.2 point improvement in current volumes, offset slightly by a 0.5 point paring-back in 6-month expected volumes. On a lane-by-lane basis, Europe-Asia improved the most, but also remains the weakest of the Europe-based lanes on an absolute basis. Europe-U.S. and the reverse U.S.-Europe trade lanes also improved marginally, while the Asia-Europe lane contracted by 1.0 and 1.3 points in terms of current volumes and expected volumes, respectively.
- **Ocean freight LCI results were more negative, as three out of four lanes contracted in terms of current freight flows versus last month, and three out of four contracted in terms of expected, six-month volume trends.** Turning first to present volumes only U.S.-Europe improved, and it was a marginal improvement at 0.3 points vs. February. That lane is still the strongest on an absolute basis, though, which could be indicative of healthy relative demand fundamentals in the U.S., in our view. For the six-month outlook, only Asia-Europe improved among the major Europe-based trades, suggesting that the overall marketplace anticipates a soft finish to 2016.
- **Question of the month:** We asked respondents about the importance of IT in the selection of a freight forwarding partner, with 36% citing it as a crucial factor, 60% stating that it was an important, but only one of many factors, and 2% stating that IT was not critical to the decision process. Interestingly, 1% said that IT had become commoditized and was no longer a differentiator. In the second part of the survey, 32% of respondents indicated that visibility was the most important among IT capabilities. Integration/inter-connectivity/EDI was seen as the most important functionality by 24% of responses, quotations/bookings/billing were seen as most important by 8%, and only 5% were concerned with ease-of-use.

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All relevant disclosures and certifications appear on pages 8 - 12 of this report.

- **Investment conclusions:** As we approach the midpoint for the year, our expectation for a tepid 2016 volume environment is ringing true. Trade and economic uncertainty continues to loom, underlying carrier capacity remains in oversupply, and global inventories are still elevated, in our view. With limited opportunities for top line growth, most of the large-scale, publicly-traded forwarders have been squeezing as much as possible from operating margins, but there is little upside to earnings growth without improving revenues. The exception, we believe, is Buy-rated EXPD, as it has market share growth potential, significant share buyback in place, above-average returns, and more reasonable valuation than other high-quality peers.

To participate in next month's survey, and in order to receive an advanced copy of the results, please visit <https://www.surveymonkey.co.uk/r/StifelJun16> .

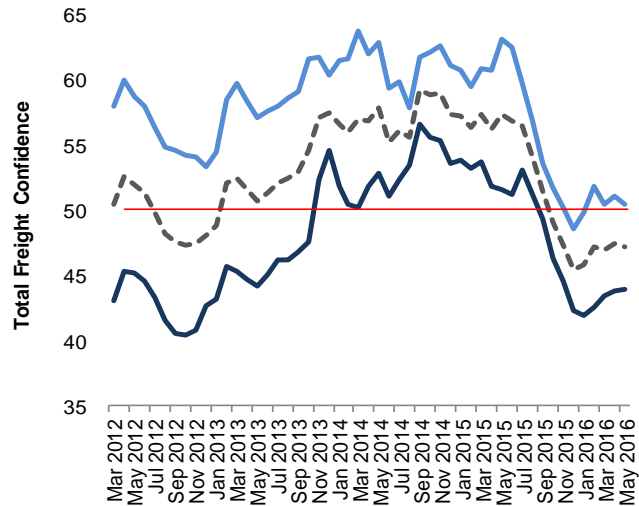
Overview – May 2016

Logistics confidence remained negative in May, with a marginal month on month decline. The total Index decreased by 0.3 points from the previous month, remaining 10.2 points below May 2015, and 10.7 points lower than in May 2014.

The air freight Index marked a fifth successive month of performance gains, with a 0.4 point sequential improvement, bringing the overall total up to the crucial 50 point mark for the first time since September 2015. The overall sea freight Index did not fare so well, declining by 0.8 points to 44.5.

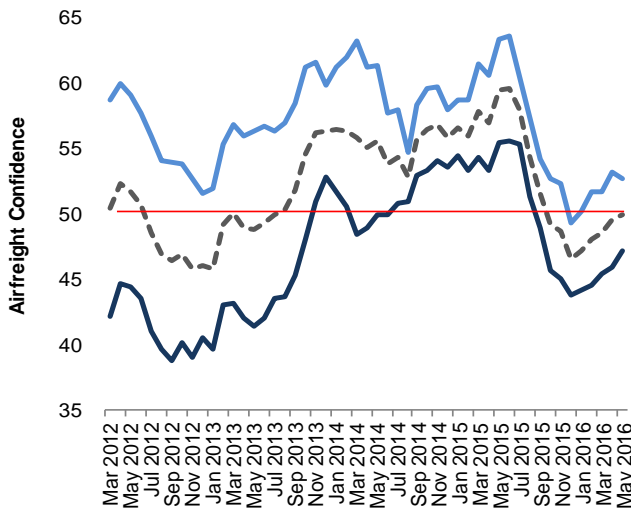
The May one-off question concerned the importance of IT as a factor in selecting a freight forwarding partner. A 60% majority believe IT is just one of many factors in the decision, 36% stated that it was crucial, only 2% said it was not critical, and 1% argued that it has become commoditized and is no longer a differentiator. Still, among IT capabilities, 32% of responses saw visibility as most important. Integration, interconnectivity, and EDI were second with 24%. Quotations, bookings, and billing were third at 8%, and 5% were most concerned with ease-of-use.

Total Freight

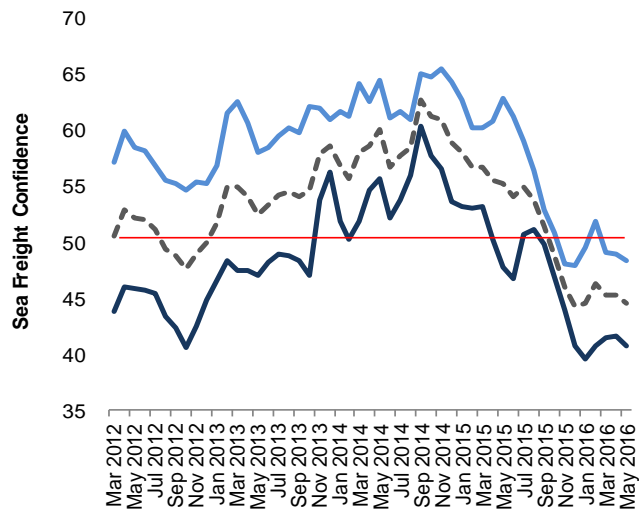


The logistics situation index illustrates current condition faced by forwarders, while the logistics expectations index shows how the situation is expected to develop over the next six months. The logistics confidence index, an average of both the present situation and expected situation indices, expresses overall confidence in the market.

Air Freight



Sea Freight



— Present Situation - - - Logistics Confidence — Expected Situation

	Present Situation	Expected Situation	Confidence
Mode	May 2016	Nov 2016	Average
Air Freight	47.2	52.7	50.0
Sea Freight	40.7	48.3	44.5
Total Freight	44.0	50.5	47.2

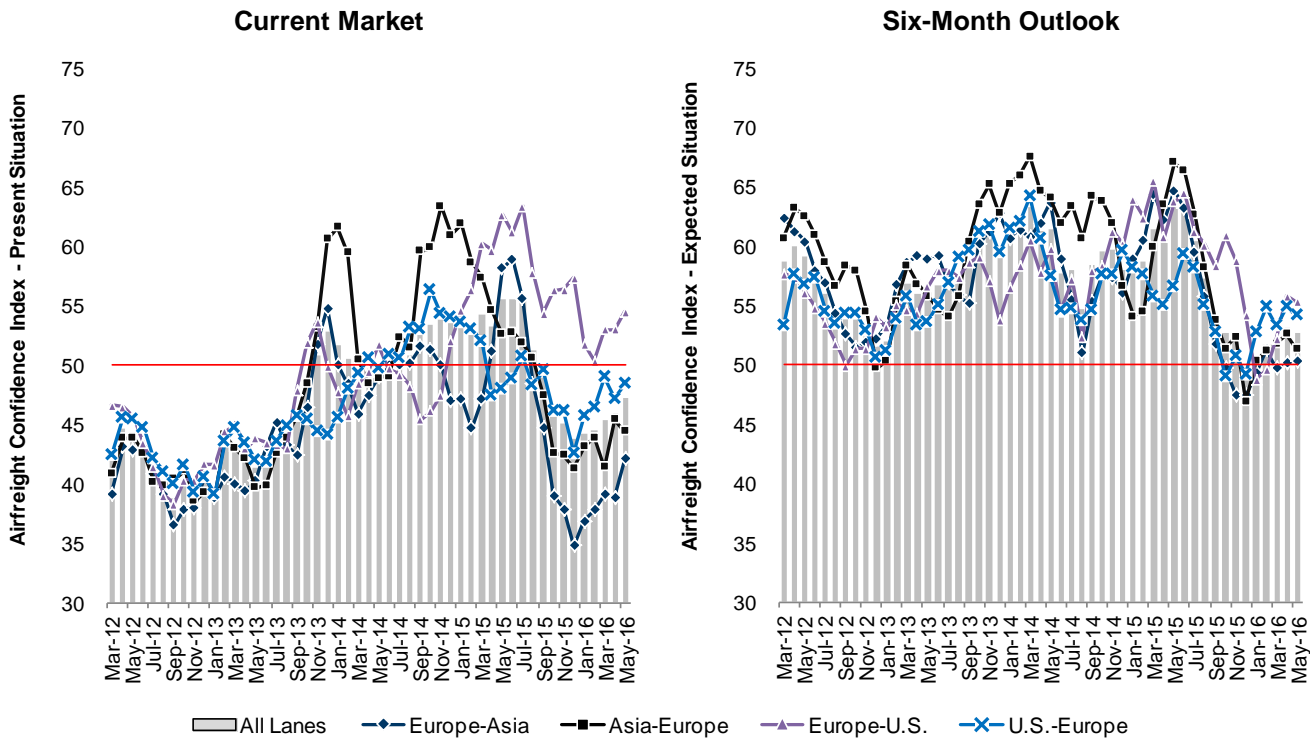
Source for all data and graphs: Stifel Logistics Confidence Index

Air Freight Confidence Index

The air freight logistics confidence Index gained 0.4 points in May 2016, totaling 50.0. This result is 9.5 points below that for May 2015, and 5.7 points lower than in May 2014.

The present situation (indicative of current volumes) results rose by 1.2 points to 47.2. This was chiefly derived from a 3.2 point gain in the Europe to Asia lane, which was nonetheless the poorest performing of the lanes at 42.1. Two of the other three lanes noted gains, with Europe to U.S. continuing as the strongest lane and rising 1.5 points to 54.5, and the converse U.S. to Europe gaining 1.2 points to 48.4. Asia to Europe was the only share loser, with an index reading of 44.4—down 1.0 points versus the previous month.

In the expected outlook (indicative of volume expectations six months from now), the results by lane were almost unanimously negative, aside from a 0.1 point gain on the Europe to Asia lane. Asia to Europe fell the furthest, with a 1.3 point decline to 51.3. Meanwhile Europe to U.S. declined by 0.5 points to 55.3, and U.S. to Europe lost 0.7 points to 54.2.



Trade Lane	Air Freight		
	May 2016	Nov 2016	Confidence
Europe-Asia	42.1	50.3	46.2
Asia-Europe	44.4	51.3	47.9
Europe-U.S.	54.5	55.3	54.9
U.S.-Europe	48.4	54.2	51.3
Total Index	47.2	52.7	50.0

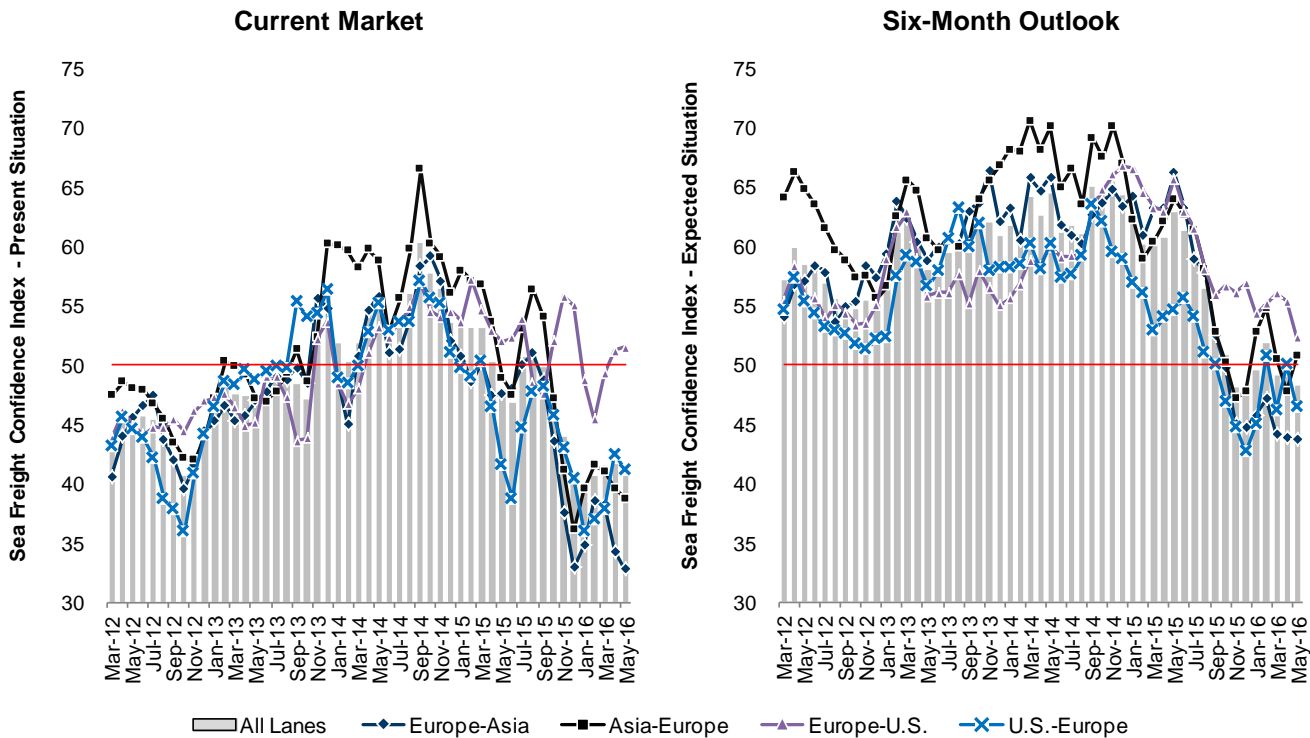
Source for all data and graphs: Stifel Logistics Confidence Index

Sea Freight Confidence Index

The logistics confidence Index for sea freight declined to 44.5, precipitated by declining confidence in both the present and expected situations. The present situation fell by 0.9 points to 40.7, whilst the expected situation fell 0.7 points to 48.3.

In the case of the present situation, three of the four lanes saw month on month declines, led by a 1.5 point fall on the Europe to Asia lane, which has hit its lowest ever point at 32.8. In addition, U.S. to Europe declined by 1.3 points to 41.2, and Asia to Europe fell 0.9 points to 38.7. Europe to U.S. was the only lane to buck the trend, with a 0.3 point improvement over April and bringing the total absolute reading up to 51.5.

The expected situation Index for sea freight also fell, losing 0.7 points against the April total. While a significant 2.9 point gain saw the Asia to Europe lane rise above 50 points to 50.7, it was more than offset by declines in the Europe to U.S. and U.S. to Europe lanes of 3.1 and 3.6 points, respectively. The remaining lane, Europe to Asia, saw a 0.2 point decline, which brought its relative index value to 43.7.



Legend: All Lanes (grey square), Europe-Asia (blue diamond), Asia-Europe (black square), Europe-U.S. (purple triangle), U.S.-Europe (light blue cross)

Sea Freight			
Trade Lane	May 2016	Nov 2016	Confidence
Europe-Asia	32.8	43.7	38.3
Asia-Europe	38.7	50.7	44.7
Europe-U.S.	51.5	52.3	51.9
U.S.-Europe	41.2	46.4	43.8
Total Index	40.7	48.3	44.5

Source for all data and graphs: Stifel Logistics Confidence Index

Methodology

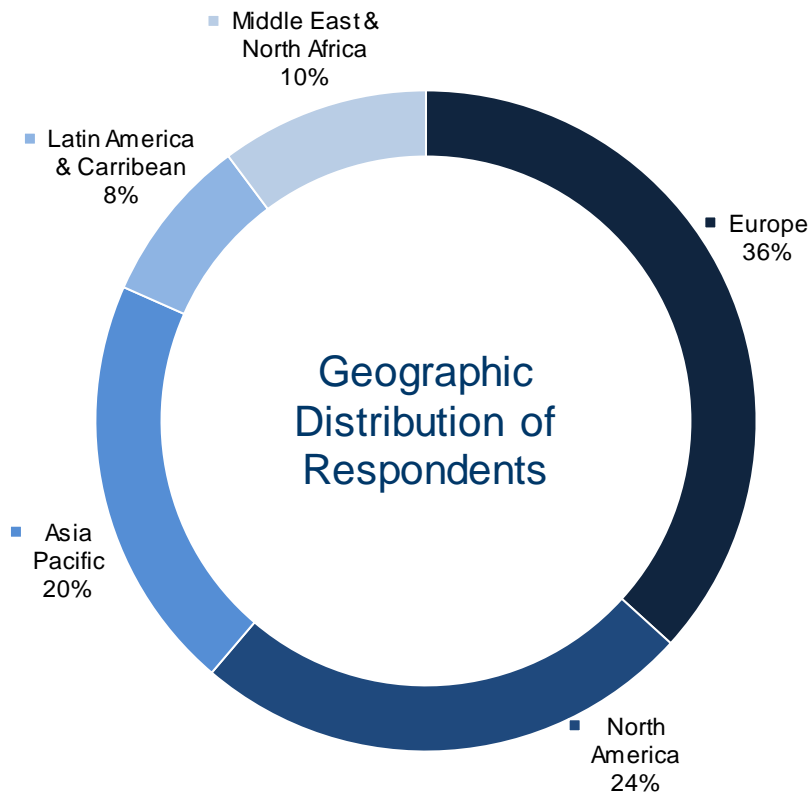
The Stifel Logistics Confidence Index is calculated based on approximately 200 responses from a monthly survey, administered and analyzed by a number of logistics professionals. The survey questions participants as to volumes that they are currently experiencing, relative to the time of year, as well as how they expect volumes to develop over the next six months. The total index covers four European-based trade lanes, including:

- Europe to Asia
- Asia to Europe
- Europe to U.S.
- U.S. to Europe

These trade lanes form four sub-indices, from which an overall index for both the air freight industry and sea freight industry is calculated. An index value of 50 indicates no change in the volumes of partaking logistics companies; above 50 indicates higher volumes, while below 50 indicates lower volumes.

To participate in next month's survey, and in order to receive an advanced copy of the results, please use the following link: <https://www.surveymonkey.co.uk/r/StifelJun16>

Geographic Distribution of Stifel LCI Respondents



Source for all data and graphs: Stifel Logistics Confidence Index



Equity Comps - Transportation

Comparative Valuation Matrix

(figures in \$US millions, except per share amounts)

Company name (Ticker)	Rating	Closing		Market cap.	Total Debt	Cash & equiv.	TEV ^(a)	Equity value as a multiple of				Enterprise value as a multiple of												
		Price 5/16/2016	Diluted S/O					Earnings per Share			Book value	2016E		2017E		TTM	TTM	TTM	TTM	TTM	TTM	PEG ratio ^(d)	Div. Yield	2016E FCF Yld
								2015A ^(b)	2016E ^(b)	2017E ^(b)		Revenue	EBITDA	EBITDA	EBITDAR ^(c)									
Global Integrators																								
Deutsche Post DHL (DPW-DE)	Hold	€ 26.86	1,259.8	38,335.3	6,433.6	3,412.3	44,016.2	16.9x	14.0x	13.4x	2.9x	0.6x	7.3x	7.6x	6.8x	11.1x	5.8%	21.8%	16.3%	0.9	3.2%	10.2%		
FedEx Corp. (FDX)	Buy	158.59	287.9	45,663.5	8,488.0	2,841.0	51,310.5	16.1x	13.8x	12.3x	3.2x	1.0x	6.1x	6.9x	6.8x	10.7x	7.7%	18.9%	13.2%	1.1	0.6%	4.0%		
TNT Express NV (TNTE-NL)	NC	€ 7.99	545.2	4,935.0	207.3	814.3	4,394.9	NM	27.5x	21.0x	1.8x	0.4x	NE	9.7x	7.5x	25.1x	3.0%	5.5%	3.2%	1.8	0.0%	NM		
United Parcel Service (UPS)	Hold	101.65	896.2	91,097.7	14,587.0	6,267.0	99,417.7	18.7x	17.6x	16.9x	NM	1.7x	9.6x	9.9x	9.5x	12.5x	13.1%	232.4%	32.7%	1.6	3.1%	6.7%		
	Min			4,935.0	207.3	814.3	4,394.9	16.1x	13.8x	12.3x	1.8x	0.4x	6.1x	6.9x	6.8x	10.7x	3.0%	5.5%	3.2%	0.9	0.0%	4.0%		
	Mean			45,007.9	7,429.0	3,333.7	49,784.8	17.2x	18.3x	15.9x	2.6x	0.9x	7.7x	8.5x	7.6x	14.9x	7.4%	69.6%	16.4%	1.4	1.7%	7.0%		
	Median			41,999.4	7,460.8	3,126.6	47,663.4	16.9x	15.8x	15.2x	2.9x	0.8x	7.3x	8.7x	7.1x	11.8x	6.8%	20.4%	14.8%	1.4	1.8%	6.7%		
	Max			91,097.7	14,587.0	6,267.0	99,417.7	18.7x	27.5x	21.0x	3.2x	1.7x	9.6x	9.9x	9.5x	25.1x	13.1%	232.4%	32.7%	1.8	3.2%	10.2%		
Stifel Transportation Average				9,534.0	2,415.4	532.6	11,081.2	14.6x	16.1x	14.2x	2.8x	1.8x	7.5x	8.0x	7.0x	11.6x	7.0%	21.3%	14.4%	1.3	1.3%	4.9%		
Non-Asset-Based Forwarding / Logistics																								
C.H. Robinson Worldwide (CHRW)	Buy	72.44	144.3	10,452.2	970.0	179.4	11,242.8	20.5x	18.7x	17.0x	8.8x	5.5x	11.4x	13.1x	11.6x	12.8x	16.3%	46.8%	25.0%	2.0	2.4%	0.8%		
DSV A/S (DSV-DK)	Hold	DKK 294.40	181.3	8,131.6	2,371.9	413.6	10,138.5	22.9x	21.6x	18.7x	4.0x	4.8x	2.5x	16.1x	1.4x	19.1x	6.9%	25.3%	12.3%	1.4	0.5%	5.6%		
Echo Global Logistics (ECHO)	Buy	22.12	30.2	668.5	205.5	43.5	830.5	19.1x	18.4x	14.7x	1.8x	2.0x	9.8x	11.1x	10.6x	13.2x	6.8%	12.7%	11.0%	1.0	0.0%	1.6%		
Expeditors International (EXPD)	Buy	47.35	182.1	8,622.6	0.0	1,013.9	7,648.8	19.7x	19.7x	17.9x	4.8x	3.5x	10.2x	10.2x	9.8x	10.9x	15.9%	24.1%	23.8%	2.0	1.7%	5.5%		
Forward Air Corp. (FWRD)	Hold	43.06	30.6	1,319.0	70.6	38.0	1,351.5	19.1x	18.3x	16.6x	2.6x	1.4x	8.7x	9.4x	8.4x	12.7x	10.1%	14.3%	12.2%	1.7	1.1%	2.5%		
Hub Group (HUBG)	Hold	37.52	35.1	1,318.1	125.1	200.3	1,243.0	18.7x	16.7x	15.6x	2.1x	3.2x	7.4x	8.9x	8.6x	9.5x	6.5%	13.3%	11.5%	1.2	0.0%	3.8%		
Kuehne + Nagel International AG (KNIN-CH)	Hold	CHF 134.30	120.0	16,119.5	16.6	948.5	15,256.2	23.5x	21.7x	20.4x	6.8x	2.2x	13.6x	14.3x	13.1x	15.9x	11.5%	31.2%	30.1%	2.2	5.2%	3.5%		
Landstar System (LSTR)	Hold	64.81	42.7	2,766.3	124.5	156.3	2,734.5	19.2x	19.9x	18.4x	5.7x	0.8x	10.8x	10.1x	9.9x	11.4x	15.4%	30.4%	24.9%	1.7	0.5%	6.7%		
Panalpina Welttransport Holding (PWTN-CH)	Hold	CHF 114.00	23.7	2,706.0	0.2	451.7	2,254.4	30.9x	27.7x	20.8x	4.0x	1.4x	12.4x	13.8x	12.6x	18.0x	5.1%	13.5%	13.7%	1.8	1.9%	4.3%		
Roadrunner Transportation Svcs. (RRTS)	Buy	7.81	38.3	298.9	416.1	8.1	706.9	6.2x	8.7x	6.5x	0.5x	1.0x	6.5x	6.1x	5.5x	8.7x	3.0%	6.4%	5.0%	0.6	0.0%	13.3%		
Universal Logistics Holdings, Inc. (ULH)	Buy	13.59	28.4	386.0	233.4	11.7	607.7	9.9x	10.5x	9.7x	2.8x	0.5x	6.2x	5.7x	5.4x	8.4x	7.3%	28.2%	12.2%	0.5	2.1%	-3.7%		
XPO Logistics, Inc. (XPO)	Buy	25.75	139.1	3,582.4	5,513.4	279.0	8,816.8	NM	35.8x	15.1x	1.2x	0.8x	7.1x	14.9x	NM	NM	-0.5%	-1.5%	NM	1.2	0.0%	-8.6%		
	Min			298.9	0.0	8.1	607.7	6.2x	8.7x	6.5x	0.5x	0.5x	2.5x	5.7x	1.4x	8.4x	-0.5%	-1.5%	5.0%	0.5	0.0%	-8.6%		
	Mean			4,697.6	837.3	312.0	5,236.0	19.1x	19.8x	16.0x	3.8x	2.3x	8.9x	11.1x	8.8x	12.8x	8.7%	20.4%	16.5%	1.4	1.3%	2.9%		
	Median			2,736.1	165.3	189.8	2,494.5	19.2x	19.2x	16.8x	3.4x	1.7x	9.3x	10.7x	9.8x	12.7x	7.1%	19.2%	12.3%	1.6	0.8%	3.6%		
	Max			16,119.5	5,513.4	1,013.9	15,256.2	30.9x	35.8x	20.8x	8.8x	5.5x	13.6x	16.1x	13.1x	19.1x	16.3%	46.8%	30.1%	2.2	5.2%	13.3%		
Stifel Transportation Average				9,534.0	2,415.4	532.6	11,081.2	14.6x	16.1x	14.2x	2.8x	1.8x	7.5x	8.0x	7.0x	11.6x	7.0%	21.3%	14.4%	1.3	1.3%	4.9%		

(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) 2016E P/E divided by First Call mean or Stifel estimated long-term growth rate

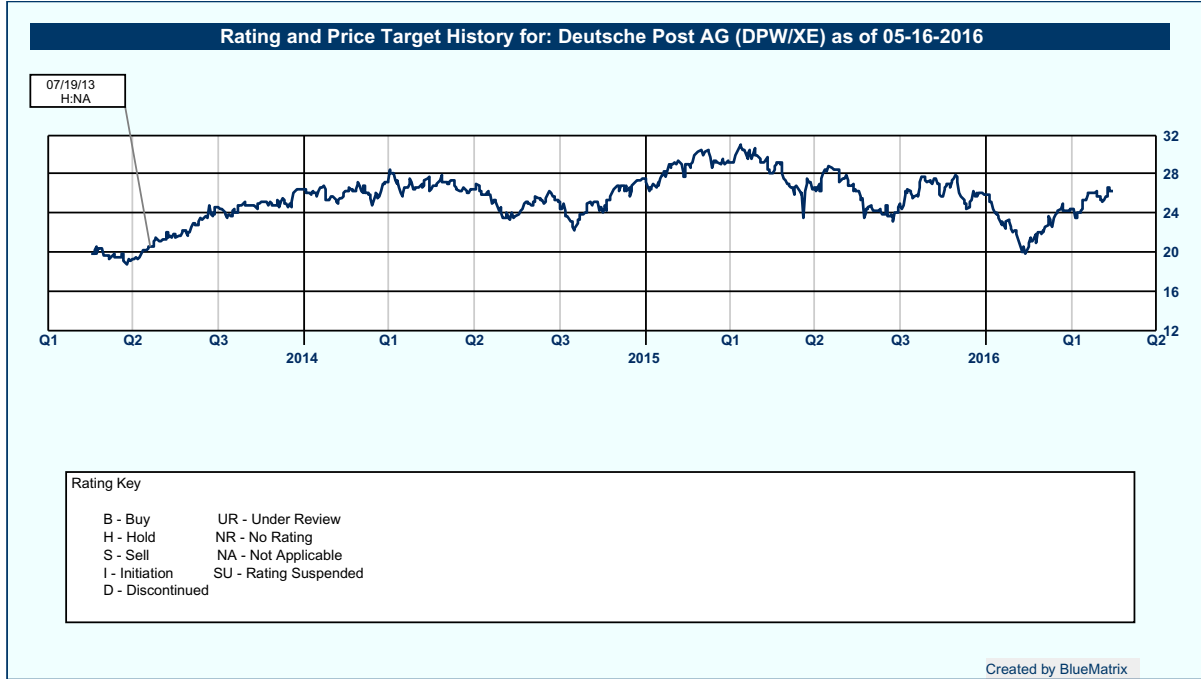
Excludes non-recurring items

Calculations may vary due to rounding

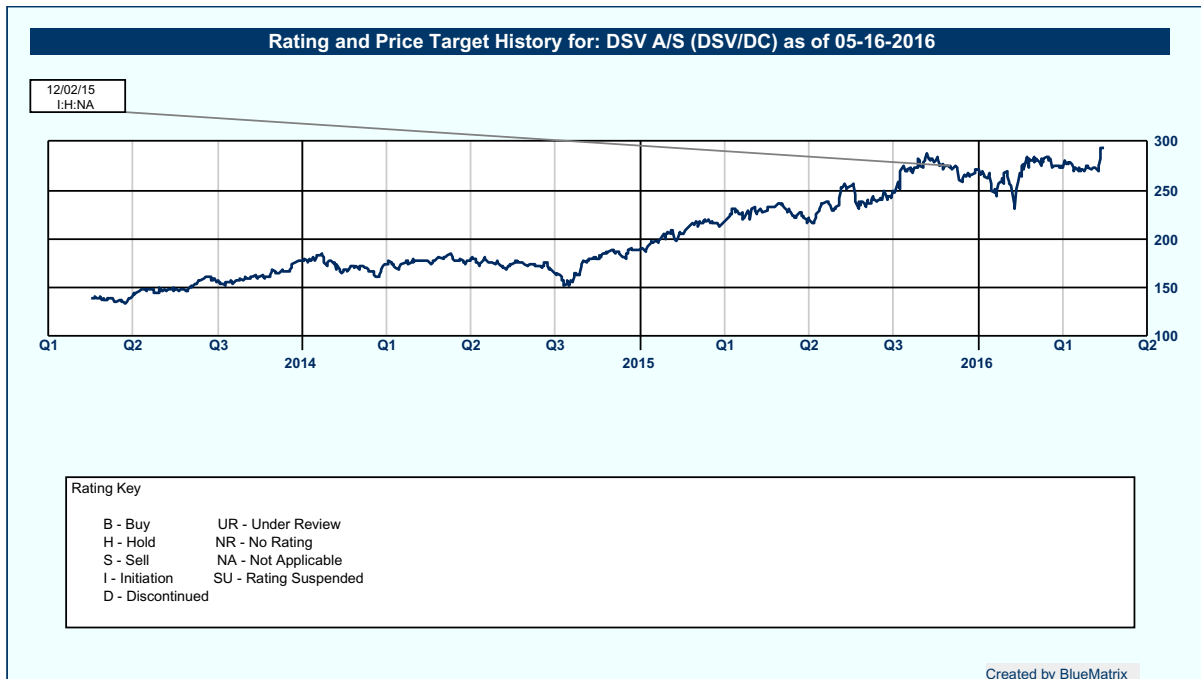
Source: Company data, First Call, and Stifel estimates

Important Disclosures and Certifications

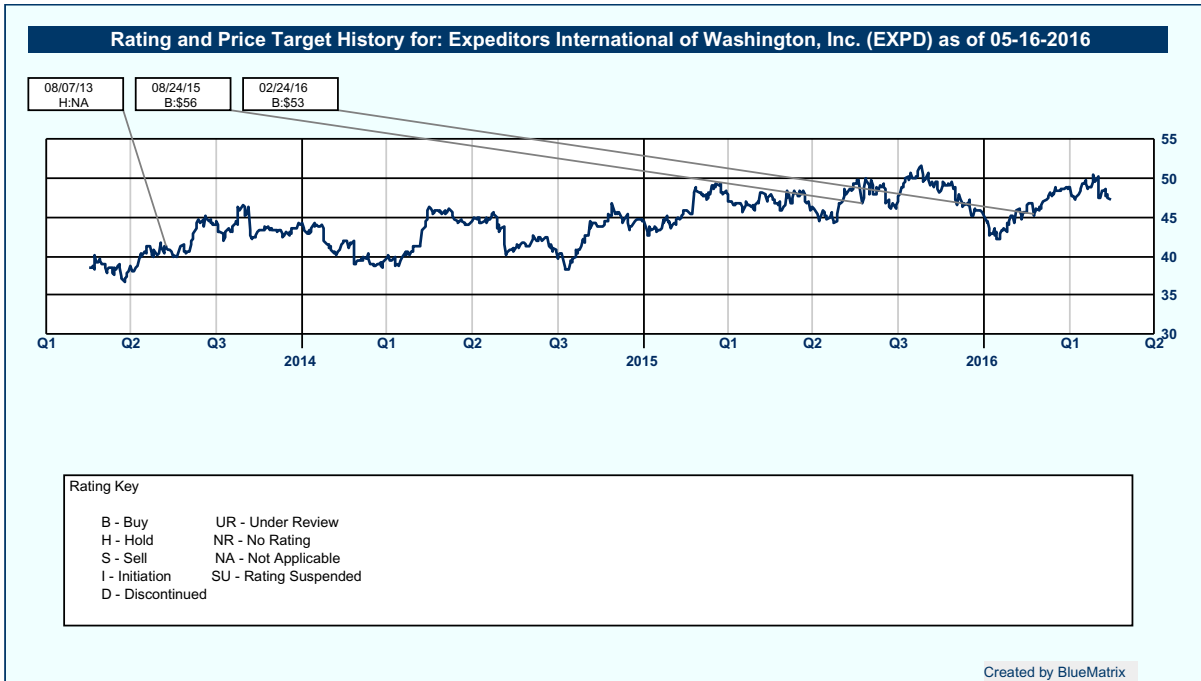
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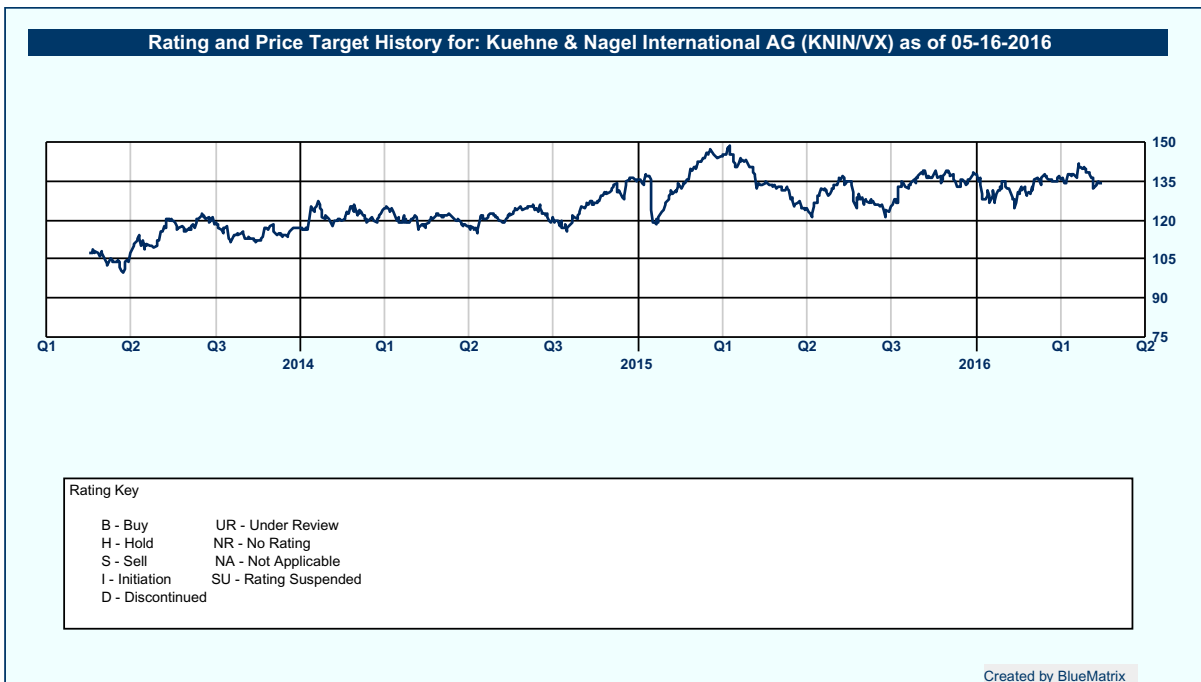
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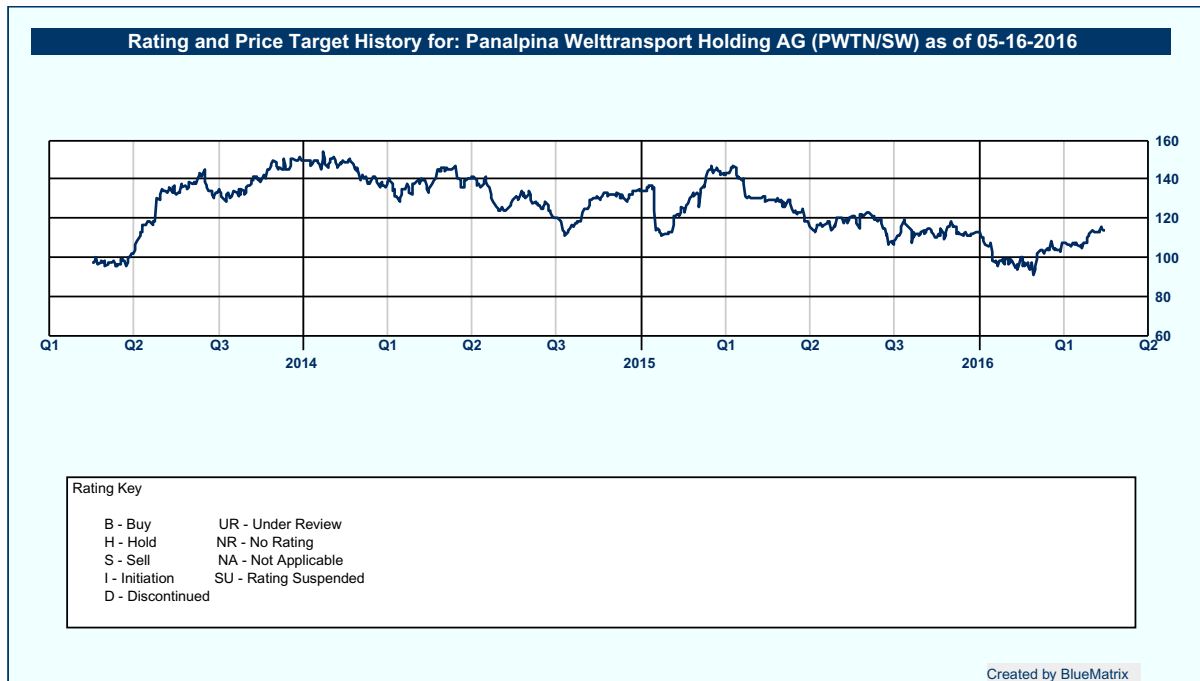
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Our investment rating system is three tiered, defined as follows:

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.

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