YRC Worldwide Continues to Struggle, but Keeps Finding Ways to Cut Costs and Raise Cash

Union Concessions, Terminal Sales/Leasebacks Provide Some Breathing Room; Cash Flow Needs to Improve Quickly to Satisfy the Debt Holders

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As with many companies these days, YRC Worldwide (Yellow Roadway) is finding that the debt that helped it grow in good times is now a potentially fatal albatross around its neck as the freight industry navigates tumultuous times.

Earlier in this decade, the former Yellow Freight acquired competitors such as Roadway Express and US Freightways to become the giant of the less-than-truckload (LTL) industry.

Now, however, it struggles to survive, with its ability to service its debt and meet so called "covenants" attached to that debt in real doubt.

The company recently bought some time when it renegotiated the terms of its debt agreements that extended some credit lines that were to have expired in April. But the leash isn't long.

According to **Ed Wolfe** of Wolfe Research, an analyst firm that covers the transportation industry, with the new agreement "YRCW won a lifeline from its banks but seemingly only for another few quarters, as the new terms require a major operating turnaround by 2Q:09 with even further improvement in 2H:09 despite few signs of such improvement in the market place."

YRC, however, is making lots of moves. It finished its operational integration of the former Yellow and Roadway networks in December, which should allow it to slash costs. That will be in part by reducing redundant capacity and getting higher utilization on the routes that remain for the integrated network. In some cases, it may be dropping customers on poorly utilized routes.

"We are now over 27 months into a freight recession that is the worst I have seen during my 37 years in this industry," Arkansas Best CEO Robert Davidson said in a statement accompanying the company's Q4 earnings report.

Yellow has said that, independently, each of the networks was lately running at only 75% utilization.

The integration will also allow YRC to eliminate more jobs to save money. It let go 12% of its workforce in 2008, and more layoffs are to come in 2009.

Earlier this year, the company also achieved an unprecedented wage reduction of 10% with the teamsters union, which will save it as much as $250 million annually.

Keeping the Bankers Happy

Of late, YRC has been making some deals on its real estate to improve its balance sheet and get closer to meeting its loan covenants.

In the past few weeks, YRC has done two sale and lease-back transactions on its freight terminals. For example, earlier this week, YRC Worldwide sold to and leased back from Estes Express Lines a

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package of LTL terminals for $122 million. A similar deal raising $102 million was concluded a few weeks earlier.

Those deals raise badly needed cash, but will result in higher operating costs down the road as it now rents terminals it used to own.

It is a brutal environment right now for most carriers.

"We are now over 27 months into a freight recession that is the worst I have seen during my 37 years in this industry," Arkansas Best CEO **Robert Davidson** said in a statement accompanying the company's Q4 earnings report.

But YRC has fallen harder than many, which isn't unexpected, according to its CEO **Bill Zollars.**

"The reality is that because we're the biggest, we have the most infrastructure and therefore the most operating leverage, and therefore we're hit the most," Zollars says.

While the stocks of its publicly traded competitors have also been hit hard, none have felt the impact as strongly as YRC, which at one point saw its stock fall from a 52-week high of $22.52 per share to just $1.20, as investors worried about a bankruptcy filing that would wipe out equity holders. The stock is currently trading at about $2.86 per share.

Expectedly, Zollars continues to be optimistic.

"We're very confident the path we're on is the path to success and will lead us to be very much stronger this year," he wrote earlier this year in a note to shareholders, citing the hundreds of millions in cost reductions that the company was achieving.