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US LTL companies intensify push to open new terminals

Saia will open 11 terminals in the third quarter after adding six and relocating two in the second quarter. Photo credit: Wirestock Creators / Shutterstock.com.

William B. Cassidy, Senior Editor | Jul 26, 2024, 4:36 PM EDT

The race to buy less-than-truckload (LTL) terminals has now become a race to open them, despite a freight market that trucking companies say remains underwhelming.

Georgia-based LTL carrier Saia opened six terminals in the second quarter and relocated two others. The company plans to open another nine terminals in the third quarter after cutting the ribbons at facilities in Stockton, Calif., and Davenport, Iowa, this week.

And more dormant facilities are being readied for reopening. In total, Saia purchased 28 terminals from bankrupt Yellow for $243.6 million after the company's collapse last year.

“We’re very pleased with the progress of our new terminal openings,” Saia CEO Frederick J. Holzgrefe told Wall Street analysts Friday during a second-quarter earnings call.

However, the costs of new facilities don’t end at the initial price tag.

“New terminals and investments require extensive recruiting, onboarding and training to achieve success,” Holzgrefe said. As a result, the terminals are increasing costs and squeezing Saia’s profit margins — even as the company’s net profit rose 12.3% to $102.5 million in the second quarter.

Second quarter shipments per day leaped 18.1% year over year at Saia, pushing its second-quarter revenue up 18.5% to $823.2 million.

But the terminals Saia opened in the second quarter operated at a combined loss, and the facilities it has opened in the last three years have a 95% operating ratio, Holzgrefe said. However, Saia’s older terminals operated at a combined 82.2% operating ratio.

“While the new terminals are dragging margins in the near-term, these investments in service and capacity are critical to creating long-term value,” Holzgrefe said, adding that every new or relocated terminal “moves us closer to the customer.”

Despite higher terminal costs, Saia’s operating margin remains high, with the company reporting an 83.3% operating ratio for the second quarter, up only 60 basis points from a year ago. That translates to a 16.7% operating margin for the quarter.

That’s hardly enough to discourage the company from its long-term growth plan.

More LTL openings

Other carriers that bought large numbers of terminals from Yellow are keeping pace with Saia.

“Since acquiring AAA Cooper Transportation and Midwest Motor Express in 2021, we have acquired or assumed the leases on 56 additional properties,” Knight-Swift Transportation Holdings CEO Adam Miller said during his company’s earnings call this week.

Knight-Swift is the largest US truckload operator and a fast-growing LTL provider. In the second quarter, the company’s LTL revenue rose 15.1% year over year, while shipments per day jumped 8.4%.

“We opened 11 new locations during the second quarter and expect to open another 20 terminals by the end of 2024,” Miller said. “Overall, the 38 locations planned to open in 2024 will add over 1,000 doors to our network, representing a 22% increase to our door count.”

Knight-Swift’s LTL operating ratio rose 60 basis points to 89.2% in the quarter from a year ago, rendering an operating margin of 10.8%. While lower than the company would likely want it to be, the trucking holding firm sees it as a temporary financial obstacle.

“While these new locations initially bring margin headwinds in the form of setup costs and operational inefficiencies, we expect that as the locations continue to scale and particularly as they participate in the next bid cycle, they will help drive growth and margin expansion in the business,” Miller said.

XPO and Estes Express Lines have been opening terminals, too, as have regional carriers such as A. Duie Pyle, which opened a terminal in Queens, NY, last month.

The additional capacity hasn’t had a measurable impact on pricing, LTL executives say. That’s because there’s still less capacity in the LTL market than before Yellow’s collapse.

“I think the pricing environment has been very rational,” Saia’s Holzgrefe said, adding the company’s average contract renewal rate in the second quarter was 8.4%.

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