

QUALITY DISTRIBUTION INC
Form FWP
September 13, 2010

Investor Presentation
September 2010
Issuer
Free
Writing

Prospectus,
dated
September
13,
2010
Filed
pursuant
to
Rule
433
under
the
Securities
Act
of
1933
Supplementing
the
Preliminary
Prospectus,
dated
September
10,
2010
Registration Statement No. 333-166407

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following
information
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or
may

be
deemed
to
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identified
by,
among
other
things,
the
use
of
forward-looking
language,
such
as
believes,
expects,
estimates,
may,
will,
should,
could,
seeks,
plans,
intends,
anticipates
or scheduled to
or
the
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of
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those
terms
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Forward Looking Statements and Disclaimer

2

Quality Carriers

Boasso

Leading North American bulk chemical
tank network operator

Leading North American intermodal
container and depot services provider

Core carriers to blue-chip chemical companies

Variable cost-based, asset-light businesses

Strong cash flow generation

LTM Consolidated

Cash EPS

(1)

: \$1.46 per diluted share

Note:

Financial data for twelve month period ending June 30, 2010.

(1)

A reconciliation of LTM Consolidated Cash EPS can be found in the appendix.

(2)

Total Operating Revenues exclude fuel surcharge of \$70 million. Breakdown percentages include fuel surcharge of \$70 million

(3)

Segment

Operating

Income

excludes

Depreciation

and

Amortization,

as

presented

in

company

filings.

LTM Segment Operating Income

(3)

= \$58 million

Other

11%

Boasso

14%

Quality

Carriers

75%

Other

4%

Boasso

25%

Quality

Carriers

71%

Quality Distribution at a Glance

LTM Operating Revenues

(2)

= \$583 million

3
Overview of Asset-Light Business Model
Expenses
Capital
Equipment
Typical Revenue
Sharing and

Trailer Rent

(1)

Sales force

Insurance

Technology/Back Office

Corporate

Trailers

Average new cost of \$60,000

Useful life of 15-20 years

Can be 30+ years with maintenance

Leased to affiliates at attractive economics

Affiliates

Driver

Tractor operations

Trailer maintenance

Terminals

Fuel

Tractors

Average new cost of \$110,000

Useful life of 5-7 years

Required to lease trailers from QLTY

QLTY revenue split

15%

(+) Trailer rent:

8%

Net revenue:

23%

Source:

Management estimates.

Note:

Represents scenario where affiliate does not own trailers.

(1)

Represents typical revenue sharing and trailer rent arrangement with the affiliate.

(2)

Represents

typical

net

capex

profile.

Affiliate revenue split

85%

(-) Trailer rent:

(8%)

Net revenue:

77%

Key

Considerations

Asset light

low net capex

(2)

(<1% of revenue)

Control of customer relationships

Highly variable cost structure

Purchasing synergies from scale

Non-competes drive high retention

Responsible for maintaining trailer assets

Key affiliates generally well-capitalized and expected to grow

4

Transitioned to a Leaner,
Affiliates-Based Model

Transitioned 94% of company operated terminals to affiliates

Reduced affiliates from 53 to 30

Highly variable cost structure

Minimal net capex

requirements (~1% of revenue) result in higher free cash flow

Improved Debt Profile

Significantly enhanced liquidity position

Extended principal debt maturities to June 2013 or later

Retained attractive, low cost ABL facility (L + 200 bps)

Aggressively Reduced Costs

Achieved \$45 million in cost savings

Rationalized facilities and implemented purchase discounts

Lowered employee headcount by 58%

Reduced SG&A (travel, professional services, facility costs) meaningfully

Divested Non-Core Business

Sold tank wash business for \$13 million in Q4 2009

Redeployed capital to core businesses

Significantly reduced future environmental exposure

Repositioned to Maximize Earnings

5
Investment Highlights
Bulk Tank Industry
Leader
Blue-Chip
Customers in
Diverse Markets

Asset-Light and
High ROIC
Business Model
Seasoned
Management Team
Strong Safety Track
Record
Multiple Growth
Opportunities in an
Improving Market

6

Largest nationwide network

Majority of locations within close proximity of customer

Local operational excellence and account management

Density drives competitive pricing and higher margins

Substantial ability to add capacity

Strong presence in U.S., Canada, and Mexico

Freight mix provides advantage in driver recruiting
Leading Market Share Positions QLTY to

All others

43%

Schneider

4%

Quality

Distribution

14%

Dana

9%

Superior

5%

Ruan

6%

Trimac

7%

A&R

5%

Groendyke

4%

Foodliner

4%

(1)

Bulk Transporter May 2010 and Management estimates.

Estimated total market: \$4.0 billion

(1)

Chemical & Food Grade Transportation Market

(1)

Largest Tank Truck Network in North America

Leading Player in a Fragmented Market

Legend

Boasso

QCI

Driver Safety School

Mexican Partner

Our nationwide network allows us to provide exceptional customer service at attractive rates

7
Refining /
Water Treatment
13%
Paint & Coatings
12%
Consumer

11%
Housing / Construction

9%
Energy

9%
Agri / Food

8%
Electronics / Other

8%
Inks & Printing

5%
Adhesives &
Sealants

9%
Paper & Packaging

16%
Key Customer Relationships

Estimated End-Market Breakdown

(1)
Core carrier to top chemical companies across diverse end-markets
. Expand Blue Chip Customer Relationships

Business mix reduces cyclical impact

No major exposure to any single end-market

(1)
Management estimates.

Long standing relationships with major shippers

High service levels lead to customer loyalty / retention

8
Name
Title
Years at QLT
Years in Industry
Gary Enzor
CEO

6

10

Steve Attwood
President & COO

2

6

Joe Troy
CFO

<1

<1

(1)

Jon Gold
SVP, General Counsel and Secretary

6

8

Randy Strutz
SVP, Sales

<1

9

Scott Giroir
President, Boasso America

24

(2)

24

Management has a wide breadth of transportation experience
Seasoned Management Team

Experienced management team with strong operational background

Successfully navigated through the downturn and poised to benefit from a recovery

Demonstrated ability to make accretive acquisitions and divest non-core assets

(1)

Served 10 years at Walter Industries, Inc., including time as CFO.

(2)

Represents tenure at Boasso, which was acquired by QLTY in 2007.

9
Strong Safety Track Record
DOT Accident Ratings
1.8
2.0
0.8
0.7

0.6
0.5
0.7
0.7
1.0
0.3
0.3
0.2
0.2
1.7
0.0
0.5
1.0
1.5
2.0
2.5
2003
2004
2005
2006
2007
2008
2009
DOT Accident
DOT Preventable Accident
2003 2009 FMCSA DOT Tractor/Trailer National Average: 0.74
Improved safety has translated into financial benefits
Insurance Costs
\$32
\$23
\$19
\$13
\$24
\$15
\$14
\$0
\$10
\$20
\$30
\$40
2003
2004
2005
2006
2007
2008
2009
(\$ in millions)
Source:
Management estimates.

Source:
Management estimates.

10

Bolt-on Acquisitions

Significant number of potential
targets in fragmented
industry

Opportunistic investments with
significant synergy potential

New Affiliate Additions

Delivers incremental earnings with minimal capex

Highly accretive

Organic Trucking Growth

Increase volume share from customers

Excess trailer capacity capitalizes on economic recovery

Intermodal Growth (Boasso)

Capitalize on international trade growth

Fastest growing international chemical shipping method

Multiple Opportunities for Growth

Increase ROIC

Growth strategies

help drive

substantial earnings

expansion

Strong free cash

flow reduces high-

cost debt

11
20,000
25,000
30,000
35,000
1/5/07
8/14/07

3/23/08

10/31/08

6/9/09

1/17/10

8/27/10

Positioned to Capitalize on Improving Fundamentals

Source:

Association of American Railroads (AAR).

Note:

Carload data through 8/27/10.

Rolling 12-Week Average of Carloads of Chemicals on U.S. Railroads
(Carloads)

41 consecutive weeks of y-o-y carload improvement is a bullish sign

12

Recent Growth Achievements

Ample opportunities for future affiliation and share growth

\$3.3

\$21.8

\$0

\$10

\$20

\$30

2004

2009

(\$ in millions)

Ashland is a manufacturer and distributor of chemicals

Estimated annual bulk transportation spend of \$85mm

Had 80 carriers in 2006, many displaced by QLTY

QLTY is their #1 carrier, with more business than #2

through #6 combined

Share Growth Story

May 1, 2010

Addition of New Affiliate

F.T. Silfies

is a leading East Coast dry bulk carrier

Annual revenues ~\$20 million

Expected to be accretive to earnings in the near-term

Affiliate owns all equipment

Tractors: 139

Trailers: 310

Provides additional capacity on East Coast

Adds to market diversity

Source:

Management estimates.

13
Linden Bulk
10%
CBSL
10%
Dana/LTC
11%

Boasso
40%
Slay
7%
All others
22%
\$30
\$31
\$35
\$43
\$45
\$50
\$50
\$55
\$67
\$66
\$68
\$76
\$88
\$92
\$101
\$110
\$123
\$101
\$0
\$20
\$40
\$60
\$80
\$100
\$120
\$140
1992
1994
1996
1998
2000
2002
2004
2006
2008

Boasso s

International Growth Opportunity

Intermodal tank container market leader

Rapidly growing segment of the overall liquid bulk
chemical transportation sector

Increased construction of chemical plant infrastructure,
driven by basic manufacturing moving offshore

Chemicals trade has steadily increased since 1992 at a

7.4% CAGR, and at a 6.3% CAGR since 1999

June 2010 YTD, chemical trade up 18.4% y-o-y

U.S. Chemical Trade Data

Trade Growth Rate

Source:

USA Trade Online.

Boasso's

Leading Market Position

Estimated total market: \$230 million

Intermodal Container Market

(\$ in billions)

Source:

Management estimates.

Potential New Markets

St. Louis, Missouri

Long Beach, California

Norfolk, Virginia

Cincinnati, Ohio

Memphis, Tennessee

Tampico, Mexico

Boasso is the market leader in the fastest growing international chemical shipping market

14
Growth Through Acquisitions
Gross Revenue of Food & Chemical Transporters
Rank
% Market
Share
Average

Revenue

(\$ in mm)

1 to 10

59.6%

\$236

11 to 20

23.1%

92

21 to 30

10.7%

43

31 to 45

6.3%

17

Total Estimated Industry Revenue:

\$4 billion

Acquisition Targets

Chemical carriers

Fuel and energy carriers

Intermodal carriers or depot providers (Boasso)

Dry Bulk carriers

Transloading

facility operators

Disciplined Acquisition Criteria

Meets or exceeds ROIC hurdle rate

Accretive to earnings and cash flow in year 1

Low integration risk

Ability to rapidly affiliate carrier and achieve synergies

Financed primarily with existing low cost bank revolver

Highly fragmented industry provides opportunity for consolidation

Source:

Bulk Transporter May 2010 and Management estimates.

Financial Highlights
Joe Troy
CFO

16

Attractive & Improving Financial Characteristics

QLTY came out of the recession as a stronger, more profitable company

(1)

As of 6/30/2010.

(2)

As of 12/31/2009.

(3)

Consolidated Cash EPS defined as Consolidated EBITDA net of Net Capital Expenditures, Cash Interest and Cash Taxes, divided by Consolidated Cash EPS can be found in the appendix.

Simplified business model

Fewer, stronger affiliates poised for growth

Boasso

High growth, high margin, asset-light business

Leaner

cost

structure

\$45

million

of

achieved

cost

reductions

Net Capex

requirements: ~1% of revenue

Strong financial profile

Debt maturities: No significant maturities until mid-2013

Liquidity/ABL

availability:

\$48

million

(1)

NOLs:

~

\$95

million

(2)

Upward earnings and cash flow momentum

Strong

LTM

Consolidated

Cash

EPS

of

\$1.46

(3)

0.4%
9.0%
1.1%
0.5%
0%
5%
10%

QLTY

Truckload Average

Asset-light Average

Hybrid Average

17

Benefits and Valuation of Asset-Light Business Model

Comparison of QLTY versus Industry

(1)

QLTY's affiliate model significantly minimizes capex and maintenance requirements

Capital investment profile in line with asset-light and hybrid sector

Affiliate maintains trailers leased from QLTY

Affiliates typically are responsible for tractor spending while QLTY owns trailers

Trailers are less expensive and longer-lived assets

QLTY's

earnings

highly

efficient

-

generates

half

of

EBITDA

on

much

lower

asset

base

vs.

affiliates

EV

(4)

/ LTM

EBITDA

(5)

:

7.7x

6.9x

13.4x

12.6x

Tangible

Assets

(6)

/

LTM

Revenue

(3)

:

38%

81%

40%

24%

QLTY

multiple

near

Truckload

avg,

yet

capital

intensity

and

asset

ratio

similar

to

Hybrid

peers

LTM Net Capex as Percentage of LTM Revenue

(2)(3)

Note:

The companies making up the three groups above are:

Hybrid Logistics: Hub Group, Landstar System and Pacer International.

Asset-light Logistics: C.H. Robinson Worldwide, Echo Global Logistics, Expeditors International of Washington, Forward Air

Truckload: Celadon Group, Covenant Transportation, Heartland Express, Knight Transportation and Werner Enterprises.

(1)

Other companies may calculate figures and statistics (or the components thereof) used herein differently than we do and, as a result, our figures may differ from those of other companies. You should not place undue reliance on such comparisons.

(2)

Net Capex is calculated as gross capital expenditures less proceeds from asset disposals and is sourced from company filings.

(3)

Revenues are sourced from Factset for the most recently available LTM period and have not been adjusted for fuel surcharges.

(4)

Enterprise value is sourced from Factset and is based on the stock price as of 9/9/2010 and the most recently available balance sheet.

(5)

Reflects data for the most recently available LTM period, sourced from Factset (IBES consensus) for all companies including our company. Our presentation was \$58.4 million for the LTM 6/30/10 period as opposed to \$58.7 million sourced from Factset and used in the company's presentation.

(6)

Tangible assets for each company are calculated as total assets less intangible assets as of the date of the most recently available balance sheet.

18
\$48.6
\$58.0
\$51.6
\$58.4
7.4%
8.7%

9.2%

10.0%

2007

2008

2009

LTM

6/30/10

\$0.79

\$0.86

\$1.44

\$1.46

2007

2008

2009

LTM

6/30/10

Increasing Margins and Cash Earnings

Consolidated EBITDA

Consolidated Cash EPS

(2)

Cash EPS has improved as the business has transitioned to the asset-light model

(1)

Excluding fuel surcharge of \$95 million, \$145 million, \$54 million and \$70 million in 2007, 2008, 2009 and LTM 6/30/10 period

(2)

Consolidated Cash EPS defined as Consolidated EBITDA net of Net Capital Expenditures, Cash Interest and Cash Taxes, divided by the number of shares outstanding

Consolidated EBITDA and Consolidated Cash EPS can be found in the appendix.

Despite downturn, EBITDA margins

have improved each period

(\$ in millions)

(\$ in millions, except per share amounts)

Net Capex:	\$4.2	\$8.4	\$0.7
------------	-------	-------	-------

\$2.4

Cash Taxes:	\$0.4	\$2.0	\$0.2
-------------	-------	-------	-------

(\$0.2)

Operating

Revenues

(1)

:

\$657

\$670

\$560

\$583

19
\$137.9
\$155.9
\$120
\$140
\$160
Q2 2009

Q2 2010

Very strong second quarter performance

Return to positive y-o-y
operating revenue growth

Improvement in chemical market shipments

Successful focus on sales initiatives

Solid growth despite sale of tank wash business

Operating Revenues

(1)

Consolidated EBITDA

(2)

(\$ in millions)

Adjusted Net Income

(2)

(\$ in millions)

(\$ in millions)

\$12.4

\$16.7

\$10

\$15

\$20

Q2 2009

Q2 2010

\$0.3

\$2.2

\$0.0

\$2.0

\$4.0

Q2 2009

Q2 2010

Consolidated EBITDA up 34.4% vs. Q2 2009

Increase in volume and pricing

Leaner cost structure

Substantial increase in profitability vs. Q2 2009

Adj. Net Income

(2)

: \$2.2 million vs. \$0.3 million

Adj. EPS

(2)

: \$0.10 per share vs. \$0.02 per share

Q2 2010

Highlights

(1)

Excluding fuel surcharge of \$11.9 million and \$21.6 million in Q2 2009 and Q2 2010, respectively.

(2)

A reconciliation

of

Q2 09

and

Q2 10

Consolidated

EBITDA,

Adjusted

Net

Income

and

Adjusted

EPS

can

be

found

in

the

appendix.

20
As of
Cum. Multiple of
6/30/2010
LTM EBITDA
(1)
Cash & Equivalents

\$2.9
ABL Facility
\$79.5
1.4x
Capital Lease Obligations
14.2
1.6x
Total Secured Debt
\$93.7
1.6x
Senior Floating Rate Notes Due 2012
0.5
1.6x
10% Senior Notes Due 2013
134.5
3.9x
Total Senior Debt
\$228.7
3.9x
9% Senior Subordinated Notes Due 2010
16.0
4.2x
11.75% Senior Subordinated PIK Notes Due 2013
82.3
5.6x
Other Debt
11.7
5.8x
Discount on Notes
(7.5)
5.7x
Total Debt
\$331.2
5.7x
Market Capitalization
(2)
123.8
Enterprise Value
\$452.1
ABL Availability
\$47.8
Consolidated LTM EBITDA
(1)
\$58.4
Current Capitalization
(1)
(\$ in millions)
Utilize strong free cash flow to further improve balance sheet position
(1)
LTM EBITDA as of 6/30/2010. A reconciliation of Consolidated LTM EBITDA can be found in the appendix.

(2)

Based on share price of \$5.65 as of 9/9/10.

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Investment Highlights
Bulk Tank Industry
Leader
Blue-Chip
Customers in
Diverse Markets

Asset-Light and
High ROIC
Business Model
Seasoned
Management Team
Strong Safety Track
Record
Multiple Growth
Opportunities in an
Improving Market

23
Year Ended December 31,
3 Months Ended June 30,
YTD June 30,
LTM
2007A
2008A

2009A

2009A

2010A

2009A

2010A

6/30/10A

Net Income (Loss)

(\$7.6)

\$12.1

(\$180.5)

(\$186.2)

\$2.1

(\$186.5)

\$2.9

\$8.8

Adjustments:

Tax Provision

(2.1)

4.9

37.2

37.0

0.5

36.9

(0.2)

0.2

Loss (Gain) on Extinguishment of Debt

2.0

(16.2)

(1.9)

(0.7)

(1.2)

Goodwill Impairment Charge

148.6

148.6

148.6

Restructuring Charges

0.3

5.3

3.5

1.2

1.1

1.8

2.2	
3.9	
Interest, Net	
30.5	
35.1	
28.0	
6.4	
8.5	
13.3	
17.0	
31.7	
Depreciation & Amortization	
17.5	
21.0	
20.2	
5.3	
4.1	
10.6	
8.3	
17.9	
Other	
7.9	
(4.2)	
(3.7)	
0.2	
0.6	
0.3	
1.1	
(2.9)	
Consolidated EBITDA	
\$48.6	
\$58.0	
\$51.6	
\$12.4	
\$16.7	
\$24.4	
\$31.3	
\$58.4	
Consolidated EBITDA Reconciliation	
(\$ in millions)	
Source:	
Company filings.	

24
Year Ended December 31,
YTD June 30,
LTM
2007A
2008A
2009A

2009A
2010A
6/30/10A
Consolidated EBITDA
\$48.6
\$58.0
\$51.6
\$24.4
\$31.3
\$58.4
Adjustments
Cash Interest, Net
(28.9)
(30.7)
(22.7)
(12.6)
(15.6)
(25.6)
Cash Taxes
(0.4)
(2.0)
(0.2)
(0.7)
(0.3)
0.2
Purchases of PP&E
(10.6)
(14.8)
(8.2)
(5.7)
(5.7)
(8.2)
Sales of PP&E
6.4
6.3
7.5
5.1
3.3
5.7
Cash Net Income
\$15.2
\$16.9
\$28.0
\$10.5
\$13.0
\$30.5
Average Diluted Shares Outstanding
19.3
19.5
19.4

19.3

21.6

20.9

Consolidated Cash EPS

\$0.79

\$0.86

\$1.44

\$0.54

\$0.60

\$1.46

Consolidated Cash EPS Reconciliation

(\$ in millions)

Source:

Company filings.

25
Year Ended December 31,
3 Months Ended June 30,
YTD June 30,
LTM
2007A
2008A

2009A

2009A

2010A

2009A

2010A

6/30/10A

Net Income (Loss)

(\$7.6)

\$12.1

(\$180.5)

(\$186.2)

\$2.1

(\$186.5)

\$2.9

\$8.8

Adjustments:

Tax Provision

(2.1)

4.9

37.2

37.0

0.5

36.9

(0.2)

0.2

Adverse Insurance Claims Development

4.8

Refinancing Costs

2.3

Loss (Gain) on Extinguishment of Debt

2.0

(16.2)

(1.9)

(0.7)

(1.2)
Costs Related to Unconsummated Financial Transactions
1.6

Restructuring Charges

0.3
5.3
3.5
1.2
1.1
1.8
2.2
3.9
Goodwill Impairment Charge

148.6

148.6

148.6

Gain on Asset Sales

(2.1)

(7.1)

(7.1)

Gain on Pension Settlement

(3.4)

Adjusted Net Income (Loss) Before Income Taxes

(\$1.0)

\$0.6

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\$2.2
\$0.5
\$3.6
\$0.1
\$4.9
\$7.0
Provision for Income Taxes at 39%
(0.4)
0.2
0.9
0.2
1.4
0.0
1.9
2.7
Adjusted Net Income (Loss) (Tax Effectuated)
(\$0.6)
\$0.4
\$1.3
\$0.3
\$2.2
\$0.1
\$3.0
\$4.3
Average Diluted Shares Outstanding
19.4
19.5
19.4
19.4
21.7
19.3
21.6
20.9
Adjusted EPS
(\$0.03)
\$0.02
\$0.07
\$0.02
\$0.10
\$0.00
\$0.14
\$0.20
Adjusted Net Income and EPS Reconciliation
(\$ in millions)
Source:
Company filings.

26
Significant Cost Savings Achieved
\$4.3
\$4.0
\$2.5
\$2.8
\$3.9

\$4.3

\$11.4

\$12.0

Realized Cost Savings by Category

Cost savings have already been implemented and fully realized

Negotiated better quantity discounts

Decrease in professional fees, insurance premium reduction, facility rent terminations

Eliminated

401K

Match

and

changed

health

care

insurance

provider

(1)

Driver compensation adjustment

Reduced total employees by 58%

Cut corporate headcount by 34%

Total number of terminals reduced by 38%

Able to selectively cut the least profitable terminals

Fuel Stabilization

Communications

Change in Benefits

Change in Rebate

Program

Other

Headcount

Reductions

Terminal

Profitability

Total Cost Savings: \$45 million

(\$ in millions)

Various Reductions

Optimization of maintenance costs and reduction in long-haul reloadable freight, among others

Right-sized data network and changed to IP phone network

(1)

401K match has recently been reinstated.