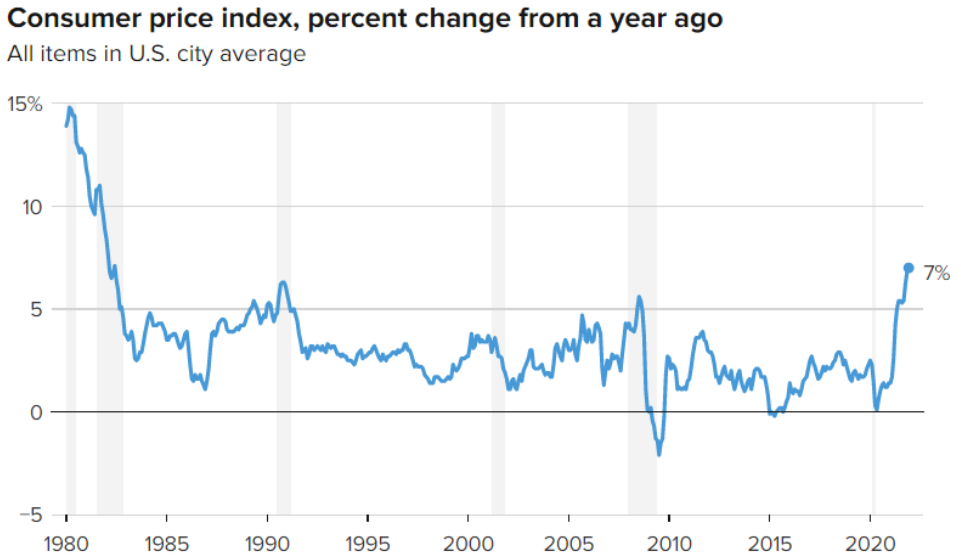
# Industry Update Report

Mar 2022

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# Inflation at 40-Year High



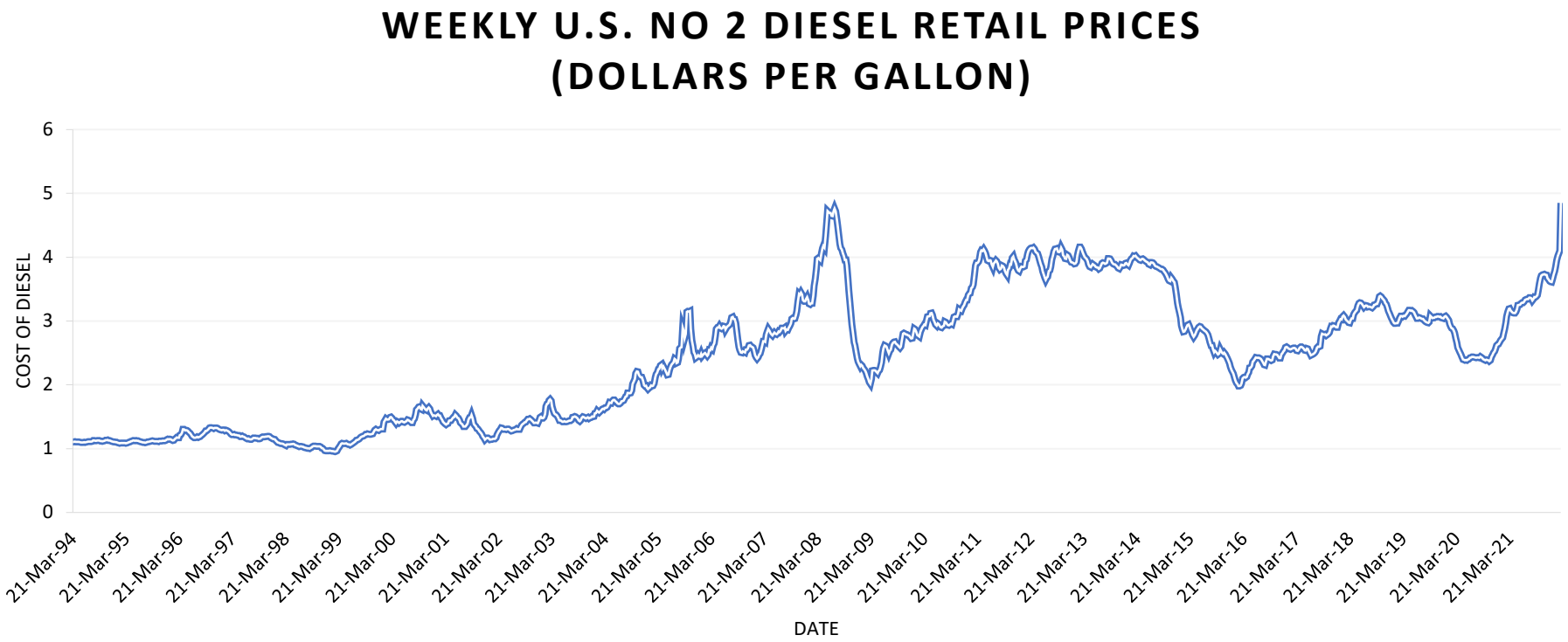

## Inflation drivers picking up speed

- CPI (Feb) up 7.9%, PPI 9.7% (Jan); Feb data out Mar 15th
- Crude oil hit $130 barrel in March, currently $108
- Groceries 8.6%, new cars 12%, used cars 41%
- Russia key producer of metals and grains; world's 3rd largest producer of nickel — component in stainless steel and lithium-ion batteries.
- Russia 40% global production palladium; auto-catalyst metal automakers catalytic converters
- Further hamper supply disruption in automotive and plane production; fertilizer production



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# Fuel Price Update…




- **Average Cost of Diesel jumps from $4.104 to $4.849 (Mar 8th) - Average Cost of Diesel in Q1 of 2021 - $2.913**
- **Expect future increases with US ban on Russian oil imports**
  - BP PLC plans to exit nearly 20% stake Rosneft (Russia government controlled), Shell exiting joint venture with Gazprom and quit financing role of Nord Stream 2 gas pipeline.

# Russia Corporate Blow Back




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# Parcel Impacts of War

**Peak Surcharge Increasing – War Surcharge; effective Mar 21st**

- Applies to many international parcel and freight shipments.
- Surcharge increasing by 20 to 30 cents per kilogram for most Asia-Pacific shipments
    - Will also apply on shipments moving through FedEx intra-European network (TNT Express)

**Suspending Operations**

- Applies on all service to Ukraine, Russia and Belarus.
- Due to safety of its employees, sanctions imposed on Russia by EU, Canada, UK and US.

**Increase in diesel & jet fuel trigger fuel surcharge increases**

- .75 cent jump largest week over week largest since 1994
- FedEx Ground customers face 15.25% fuel surcharge on all shipments, effective Mar 14th.
- Effective March 21, UPS customers will pay 14.5% fuel surcharge on each ground delivery
- FedEx Express, the company's air and international unit, customers face surcharges of nearly 20%
- Mar 21, UPS' domestic jet fuel surcharges hit 20%, export levies exceed 24% and import charges surpass 30%.

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# So Cal Backlogs Update

**Container Waiting Times**

- Still 33.8% of import containers waiting 5 or more days – before COVID containers moved in less than 4 days with rail containers moving in less than 2 days.

**Shortages in Supply Chain**

- Critical shortage of warehouse space, shipping containers, rail cars, trucks, chassis.
- Drivers – still short over 80,000
- Warehouse workers – sowing 400,000 nationwide / 8,000-10,000 in So Cal Down to 74 ships (2/23)

**24 Hour Operation – Few Takers**

- Warehouses primarily only open during normal business hours.
- Trucker side – 30% of after hour appointments unused every day.






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# US Port Productivity Issues

**World Bank and IHS Market Study - Port Performance**

- Reviewed 351 Global Ports - LA ranked 328, Long Beach ranked 333
- China and Middle East at the top of the list

**Where does US fall short?**

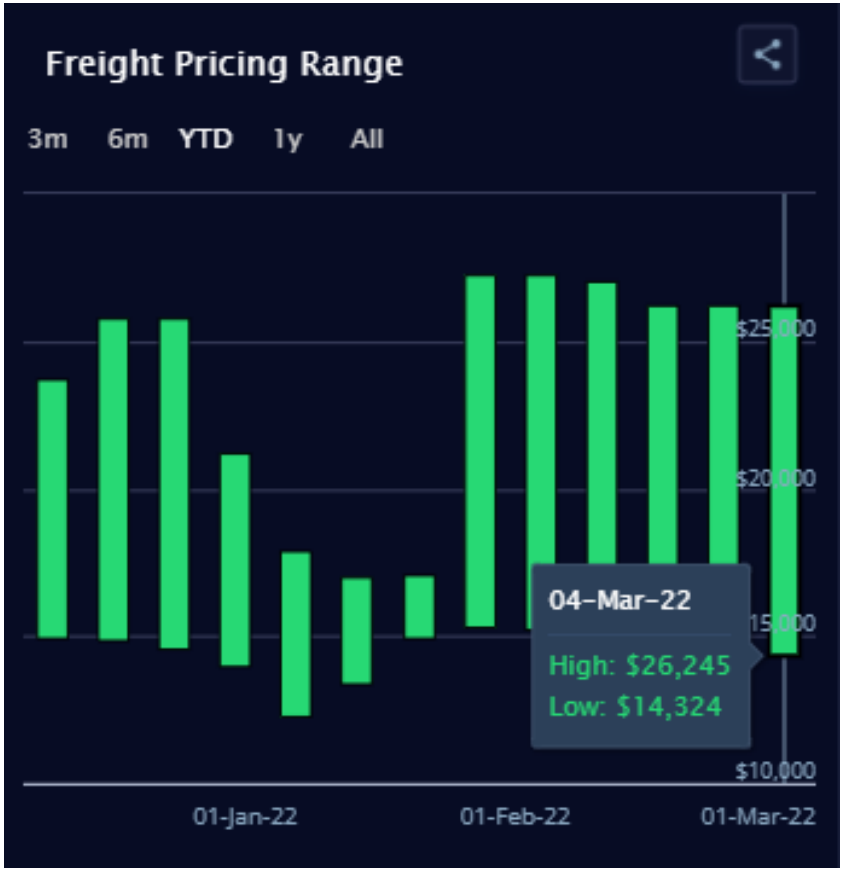
- Automation - Only 5% of ports around the world automated.
  - AI reduces # workers, reduces human errors/delay, unload ships faster, allows ports to stay operational at night.
  - McKinsey & Company study showed successfully automated port improve productivity by 35%, reduce operating expenses by 50%.
  - Tianjin Port – recent global operation efficiency record – 35.2 units per hour per key operation lines for containers.
  - Will be key discussion piece in the upcoming ILWU contract negotiation.
- Feeder ships
  - Many countries – Massive ships deliver to largest ports – use smaller feeder ships to transfer containers to smaller ports.
  - US – Jones Act of 1920 – requires goods transferred between US ports to be on US built, owned, crewed vessels only.
    - Too costly – end up unloading at main ports and use land transportation.



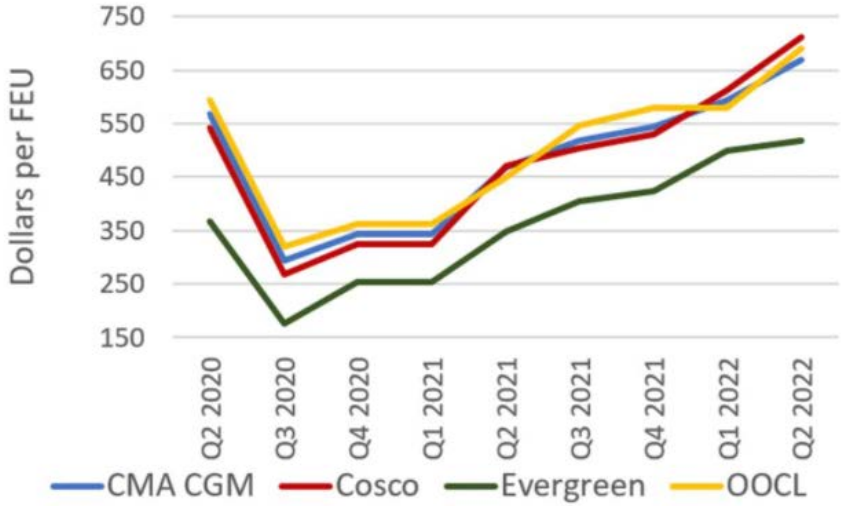
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# Container Rates

**Freightos Spot Data – CN to West Coast**




**Asia-West Coast BAFs**




- Containers prices stay high – expected further increases due to fuel prices.
- Container shipping lines pass along higher fuel costs via quarterly Bunker Adjustment Fees (BAF) and Emergency Bunker Surcharges
  - Expect substantial increases



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# Inventory Impacting Cash

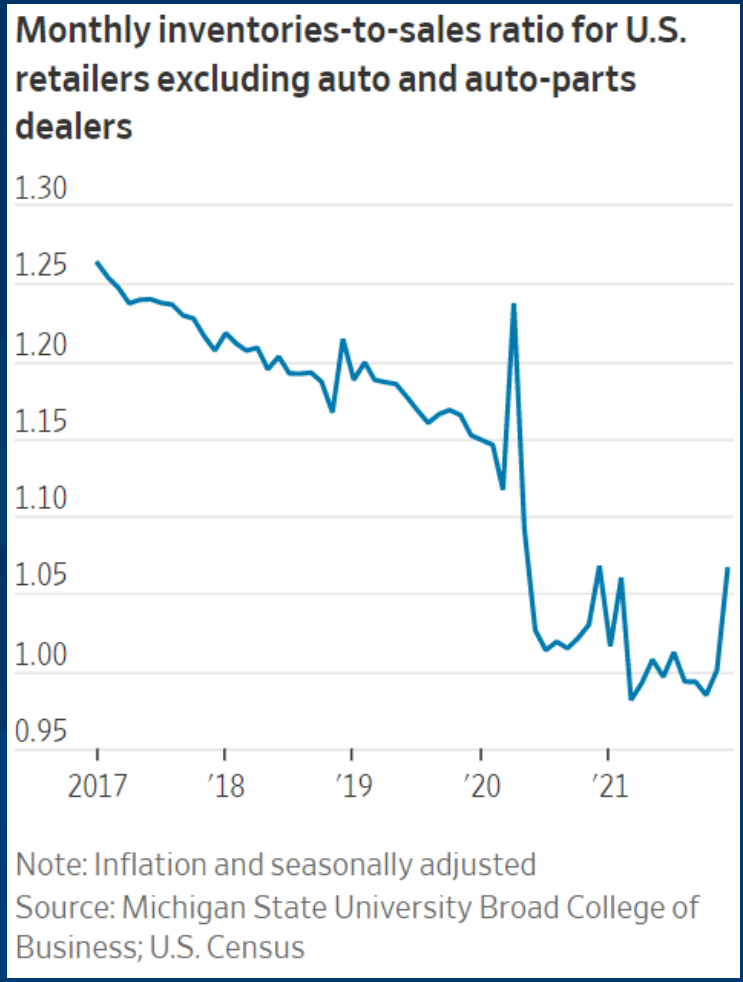
**Costs of Holding Inventory Increasing**

- Transit times have tripled so companies need three times the amount of working capital
- Buyer and suppliers forced to extend pay terms and obtain new financing.

**Inventory to Sales Levels**

- Remains near the lowest point in records going back 30 years.
- Inventory delays resulting in lost business, companies forced to pay high container or air freight rates to bring materials in.
- Companies seek additional financing to cover higher cost.
- Companies forced to pay suppliers early, extend pay terms to their customers due to delays.

Large, Late Merchandise Orders Are Raising Companies' Inventory Costs - WSJ






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# Cass Information Index

- Monthly measurement of aggregate deliveries of US Freight
- Includes all modes of transit
  - Truckloads represents about 50% of data.
  - International Data not included

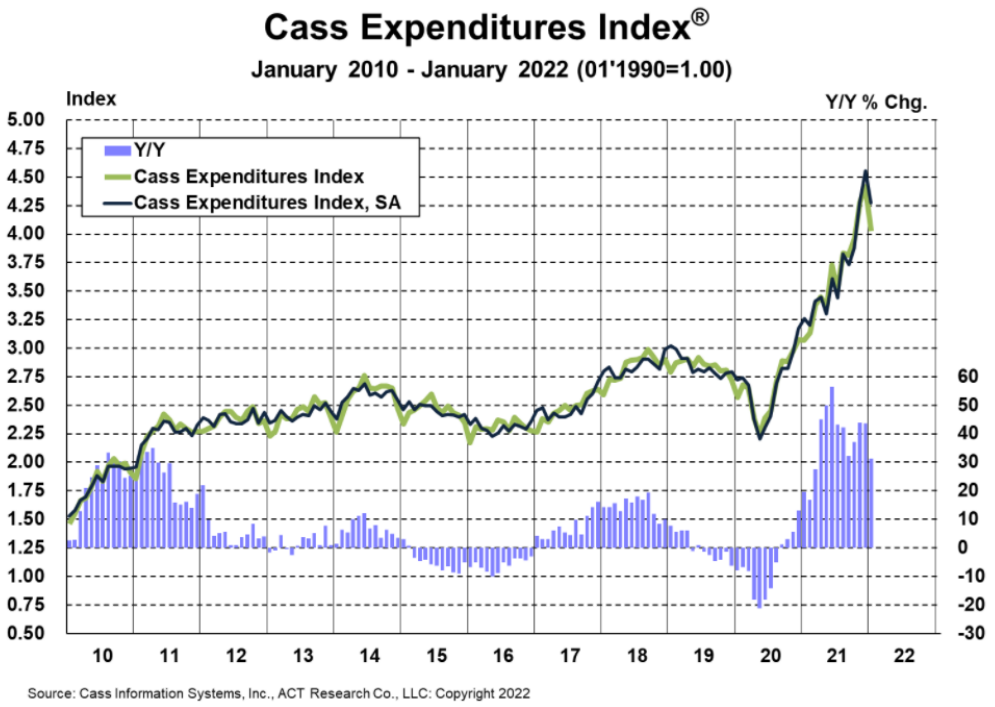
- Jan shipment counts down 2.9% YOY – down 10.8% from Dec 21
- Jan freight expenses
  - Up 31% YOY
  - Down 8.9% from Dec 21
- Implied Freight Rate Increase
  - Up 35% YOY
  - Up 33% from Dec 21

**Shipment count down 2.9% YOY - (down 10.8 from Dec)**

**Freight expenses (Dec) up 43.6% YOY, up 62.3% from Dec 2019**

**Implied freight rates** (freight costs/shipments) **up 33.4% YOY**

- Truckload more than half the index freight spend.
- LTL, Parcel and Rail other top modes on index.




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# LTL Very Bullish

| | Revenue | | Shipments | | Weight/Shipment | | Tonnage | | Revenue/cwt | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Jan | Feb | Jan | Feb | Jan | Feb | Jan | Feb | Jan | Feb |
| ArcBest | 22.4% | 24.0% | -0.8% | -1.0% | 3.0% | 5.0% | 2.1% | 4.0% | 19.9% | 19.0% |
| Old Dominion | 25.7% | 38.3% | 10.2% | 19.8% | -2.2% | -1.3% | 7.7% | 18.3% | 16.8% | 16.8% |
| Saia | N/A | N/A | 1.3% | 15.8% | 6.2% | 2.8% | 7.6% | 19.1% | N/A | N/A |
| Yellow | TBA | TBA | TBA | TBA | TBA | TBA | -14.0% | TBA | TBA | TBA |

**LTL market grew 20% (2021) totaling $50.7 Billion in revenues.**

- LTL market tonnage (2021) grew 7.7%; shipment count grew 7.1%
- ArcBest (ABF)
  - 24.0% yoy increase in revenues (Feb), 10.7% increase in yield, tonnage up 4%
  - $100M share repurchase (Jan 2022)
  - Forecast to double revenue by 2025 to $8B
- Old Dominion (ODFL)
  - 38.3% YOY increase in revenues, 16.8% increase in yield, tonnage up 18.3%.
  - Opening 8-10 new terminals in 2022
- Revenue increases:
  - Growing industrial output & rapidly expanding e-commerce fulfillment platforms
  - Focus on yield, shipper of choice & shed less desirable freight
  - Customer rate hikes & increased fuel surcharges

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# LTL Updates

**Canada Backlogs Being Experienced**

- US carriers embargoed northbound freight due to border crossing blockages from protestors.
- Embargos lifted in mid-February
- Canada carriers experiencing heavy backlogs – some over 40 trailers behind
  - Higher volume of inbound freight
  - Winter storms issues
  - Staff Shortages – if you don't feel well, don't come in, doesn't require testing

**Knight-Swift**

- Largest US truckload operator; acquired AAA Cooper, Midwest Motor Express in 2021
- Plans to expand its foothold in the LTL sector in 2022
- "Our goal is to amass high-quality, well-run regional LTL players that we'll operate as different brands but connect behind the scenes." - *Dave Jackson CEO Feb 2021*

**XPO Splitting North American businesses**

- North American brokerage division will be spun off from the LTL network; domestic intermodal division will be sold.
- Renewed focus on the LTL franchise
- Investors benefit when companies are run by a management team focused on a single sector


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# Load to Truck Ratios

| INDUSTRY TRENDS | WEEK FEB 21 - FEB 27 VS. FEB 14 - FEB 20 | MONTH FEB 2022 VS. JAN 2022 | YEAR FEB 2022 VS. FEB 2021 |
|---|---|---|---|
| Spot Load Posts | +3.3% | -17.5% | +17.5% |
| Spot Truck Posts | +0.4% | -1.5% | +7.0% |
| Van Load-To-Truck | -5.3% | -22.1% | -2.9% |
| Van Spot Rates | +0.5% | -0.1% | +28.8% |
| Flatbed Load-To-Truck | +15.2% | -4.2% | +33.9% |
| Flatbed Spot Rates | +1.4% | +1.6% | +23.9% |
| Reefer Load-To-Truck | -2.5% | -32.4% | -13.2% |
| Reefer Spot Rates | -0.5% | -1.8% | +30.9% |

- **Spot posts dropping causing Load to Truck ratios to decline with all equipment types to close out Feb.**
- **Rates staying high with Van and Flatbeds but seeing a decline in costs of reefers.**

## National Average Rates

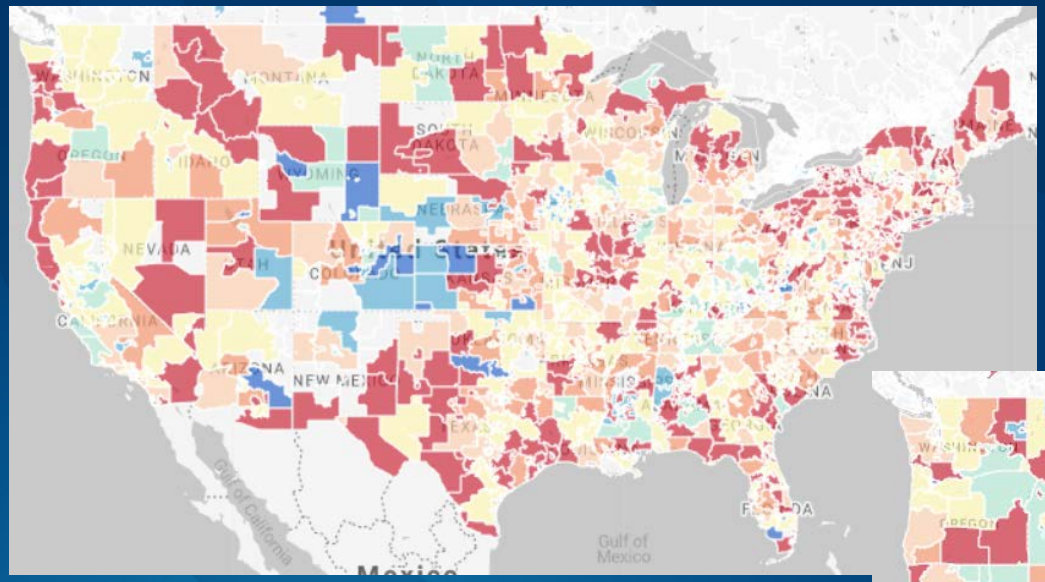



**DAT Trendlines™**
*powered by DAT iQ*

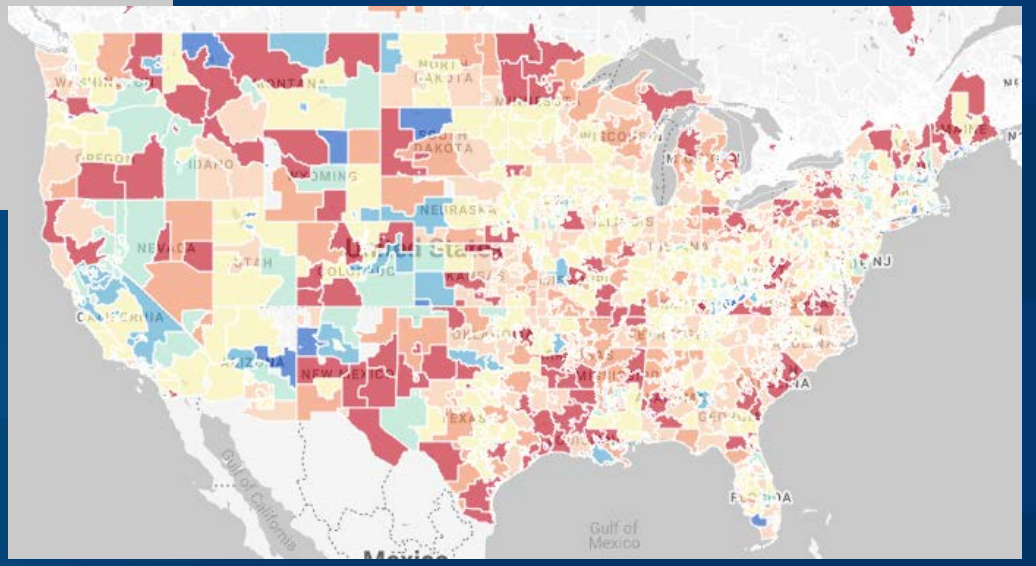
# Load to Truck Heat Map

DAT Market Conditions

January 24th to January 31st



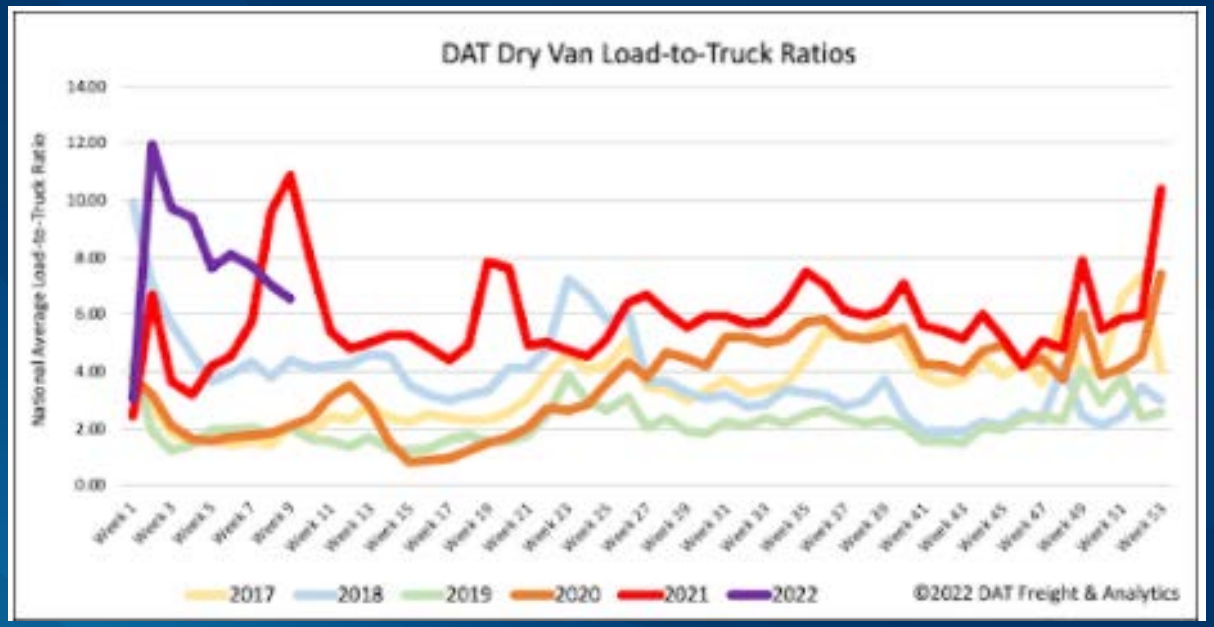

February 25th to March 4th



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# Load to Truck Heat Map

## DAT Market Conditions




- **Dry van posted loads – volumes dropped for third week in row.**
  - **Down almost 30% from last year – still almost double the volume from the same week in 2018.**
- **Tender volume trends show tendered load volumes picking up during first week of March.**



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# Fuel Price Update…

| Date | Diesel ($ per Gallon) |
|---|---|
| Jan 05, 2021 | $ 2.640 |
| Jan 12, 2021 | $ 2.670 |
| Jan 19, 2021 | $ 2.696 |
| Jan 26, 2021 | $ 2.716 |
| Feb 02, 2021 | $ 2.738 |
| Feb 09, 2021 | $ 2.801 |
| Feb 17, 2021 | $ 2.876 |
| Feb 23, 2021 | $ 2.973 |
| Mar 02, 2021 | $ 3.072 |
| Mar 09, 2021 | $ 3.143 |
| Mar 16, 2021 | $ 3.191 |
| Mar 23, 2021 | $ 3.194 |
| Mar 30, 2021 | $ 3.161 |
| **Q1 AVERAGE** | **$ 2.913** |

| Date | Diesel ($ per Gallon) |
|---|---|
| Apr 06, 2021 | $ 3.144 |
| Apr 13, 2021 | $ 3.129 |
| Apr 20, 2021 | $ 3.124 |
| Apr 27, 2021 | $ 3.124 |
| May 04, 2021 | $ 3.142 |
| May 11, 2021 | $ 3.186 |
| May 18, 2021 | $ 3.249 |
| May 25, 2021 | $ 3.253 |
| Jun 02, 2021 | $ 3.255 |
| Jun 08, 2021 | $ 3.274 |
| Jun 15, 2021 | $ 3.286 |
| Jun 22, 2021 | $ 3.287 |
| Jun 29, 2021 | $ 3.300 |
| **Q2 AVERAGE** | **$ 3.212** |

| Date | Diesel ($ per Gallon) |
|---|---|
| Jul 06, 2021 | $ 3.331 |
| Jul 13, 2021 | $ 3.338 |
| Jul 20, 2021 | $ 3.344 |
| Jul 27, 2021 | $ 3.342 |
| Aug 03, 2021 | $ 3.367 |
| Aug 10, 2021 | $ 3.364 |
| Aug 17, 2021 | $ 3.356 |
| Aug 24, 2021 | $ 3.324 |
| Aug 31, 2021 | $ 3.339 |
| Sep 08, 2021 | $ 3.373 |
| Sep 14, 2021 | $ 3.372 |
| Sep 21, 2021 | $ 3.385 |
| Sep 28, 2021 | $ 3.406 |
| **Q3 AVERAGE** | **$ 3.357** |

| Date | Diesel ($ per Gallon) |
|---|---|
| Oct 05, 2021 | $ 3.477 |
| Oct 13, 2021 | $ 3.586 |
| Oct 19, 2021 | $ 3.671 |
| Oct 26, 2021 | $ 3.713 |
| Nov 02, 2021 | $ 3.727 |
| Nov 09, 2021 | $ 3.730 |
| Nov 16, 2021 | $ 3.734 |
| Nov 23, 2021 | $ 3.724 |
| Nov 30, 2021 | $ 3.720 |
| Dec 07, 2021 | $ 3.674 |
| Dec 14, 2021 | $ 3.649 |
| Dec 21, 2021 | $ 3.626 |
| Dec 28, 2021 | $ 3.615 |
| **Q4 AVERAGE** | **$ 3.665** |

| Date | Diesel ($ per Gallon) |
|---|---|
| Jan 04, 2022 | $ 3.613 |
| Jan 11, 2022 | $ 3.657 |
| Jan 19, 2022 | $ 3.725 |
| Jan 25, 2022 | $ 3.780 |
| Feb 01, 2022 | $ 3.846 |
| Feb 08, 2022 | $ 3.951 |
| Feb 15, 2022 | $ 4.019 |
| Feb 23, 2022 | $ 4.055 |
| Mar 01, 2022 | $ 4.104 |
| **Q1 AVERAGE** | **$ 3.861** |

| Date | Diesel ($ per Gallon) |
|---|---|
| **Q2 AVERAGE** | |

| Date | Diesel ($ per Gallon) |
|---|---|
| **Q3 AVERAGE** | |

| Date | Diesel ($ per Gallon) |
|---|---|
| **Q4 AVERAGE** | |

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# KDL Recommendations

**Modernize Logistics Solutions**

- Focus on digitization, workflow automation.
- Risk mitigation
- Eliminate key strokes involved with carrier selection, BOL creation, shipment execution.
- Access to pertinent data directly in your ERP.

**Middleware**

- Disconnect between quoted and invoiced – Systems disconnected. Customers rely on manually tying back costs to ERP for billing – results in gaps, lack of controls, missed billings.
- Need for system integration – automatically pull back costs, tracking numbers, carrier information to ERP.

**Input costs flow through to consumer**

- Develop freight policy – is freight being charged back, are you marking up?
- Need to capture data
- Measure and evaluate to ensure policies are met.

**Control Inbound Freight**

- Don't want to assume supplier has better freight program.
- Vendors are marking up freight – cost avoidance opportunity.
- No control on the carriers being used.

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# KDL Recommendations

**Educate your Customers, Customer Service/Sales Team**

- Amid disruption, opportunity to differentiate from other companies not planning as well
- Make it a priority to inform all parties
- The new normal is a delayed delivery with longer delays to hot spots areas or when moving long distances.
- Route appropriately – send dedicated if the order is urgent.
- On INTL side, expect delays at the port.  Vessel bunching causes additional days to unload containers.

**Capability Trumps Price**

- Weigh service more than cost when selecting carriers.
- Shipping guaranteed instead of standard LTL

**Be a "Shipper of Choice"**

- Reduce times to load and unload a carrier.
- Mindful of pick-up caps, any near-term capacity constraints
- Shippers pledge to utilize an electronic bill of lading based on industry standards.
- Provide advanced notice on pickups
- Prevent small, single shipment pickups – consolidate onto carriers already scheduled to come in.
- Provide accurate handling dimensions, weights, descriptions, package types, counts and service requirements on BOL.
- Carriers honor handling unit dims and weights, allow appropriate (maybe 5%) tolerance for corrections.

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# KDL Recommendations

**Consider Packaging Improvements**

- Carrier damages on the rise
- Can't afford rework - Lack of inventory , labor shortage.

**Intelligent Route Planning**

- ***Prioritize Loads*** – capacity is tight. Some orders may need to go out in front of others. Be aware and adjust schedules as needed.
- ***Schedule Early*** **–** Its more difficult to secure a same day driver. Communicate expected ship dates in advance so providers can preplan their loads.
- **Ship next day orders during the week –** Drivers are less interested in shipping a next day load on Fridays. Use Fridays for longer hauls and try to move next day lanes up in the week.
- **Ship Dedicated –** Be aware if orders are hot. Move them on dedicated trucks and don't risk sending in LTL market.

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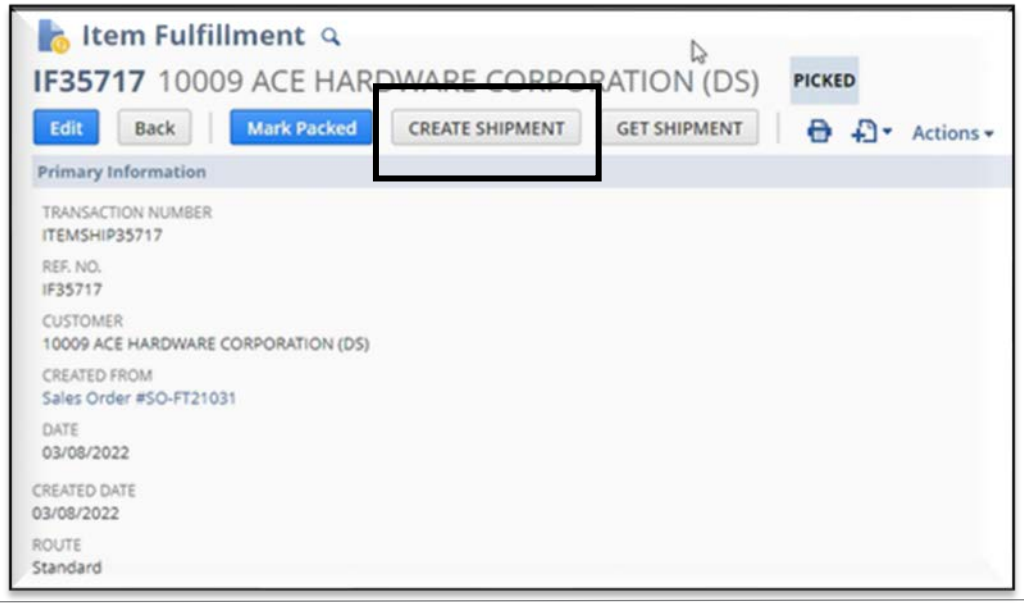
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# FLETCHER TERRY PROCESS

Use NetSuite to locate the order and edit

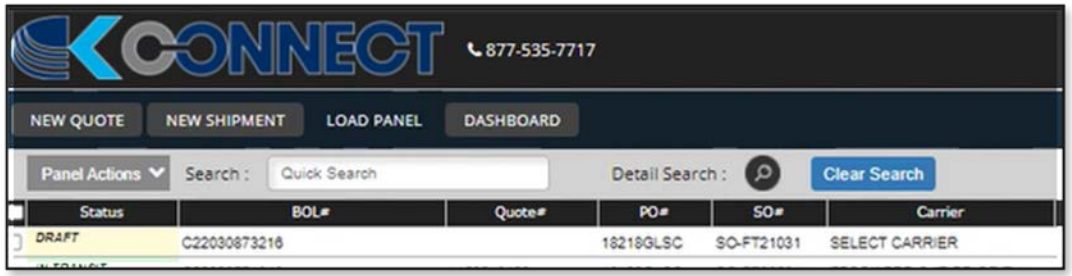



Utilize the command button to send the order to the TMS as a draft shipment

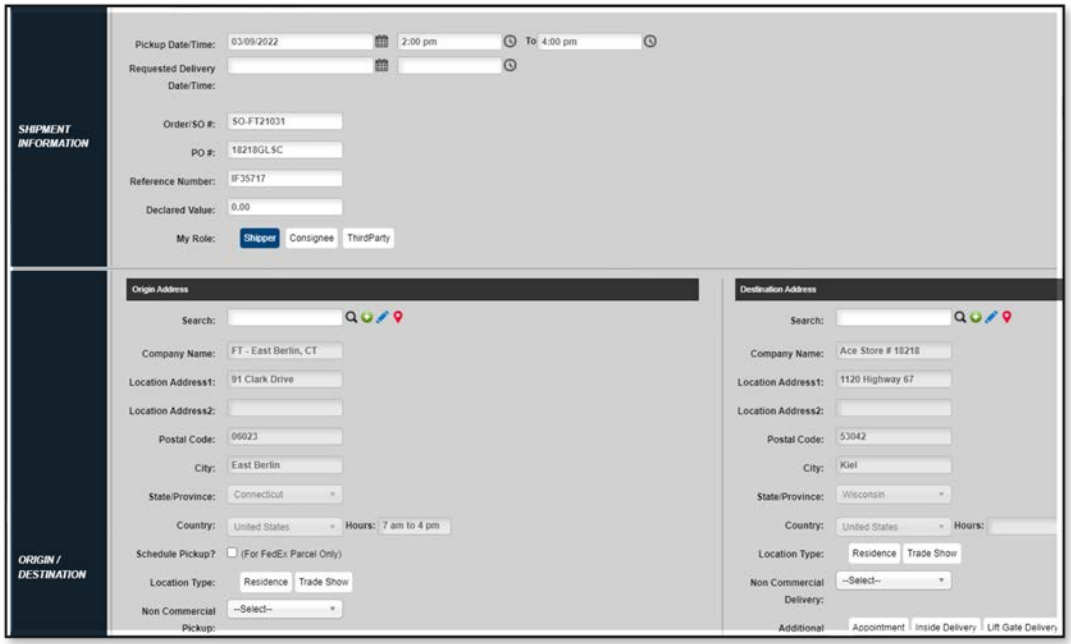


# FLETCHER TERRY PROCESS

Locate the draft item in the TMS and open for editing




Quickly scan the order information to ensure accuracy



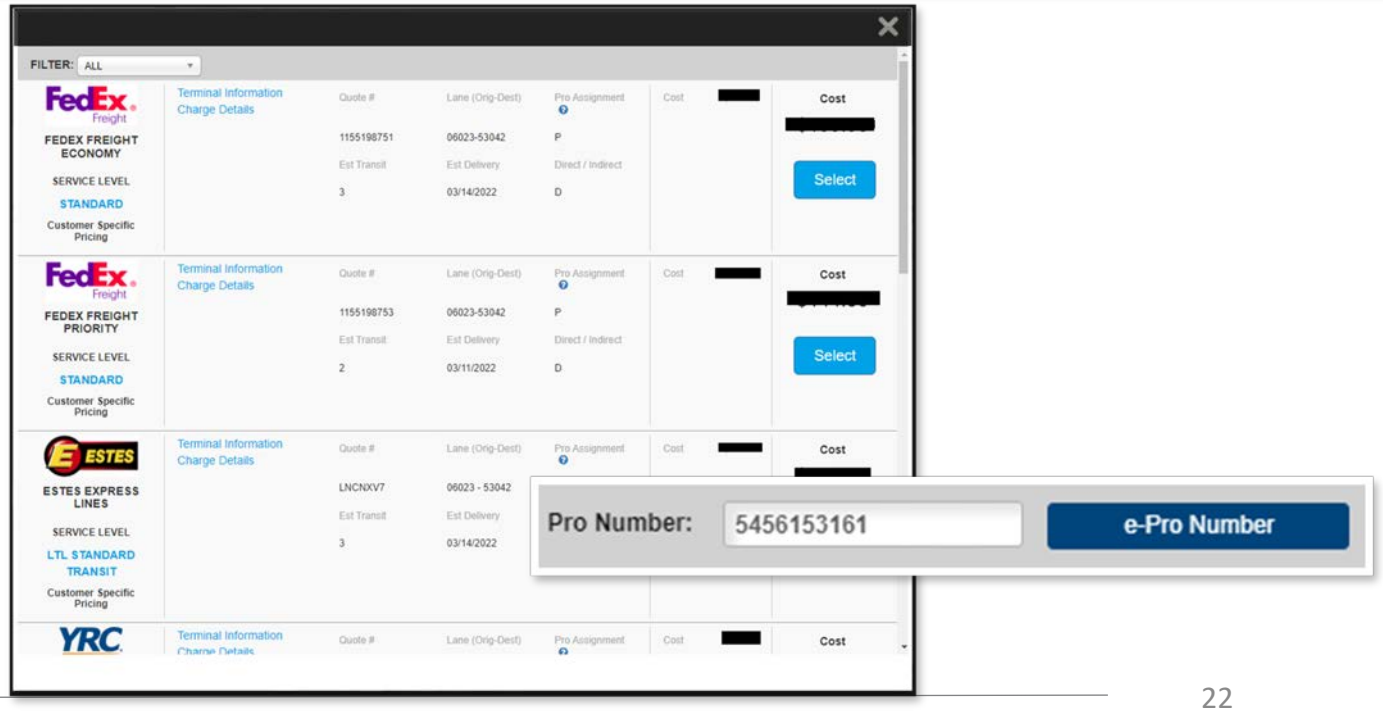
# FLETCHER TERRY PROCESS

Since full product information isn't available in NetSuite, update with true product info, save and run rates



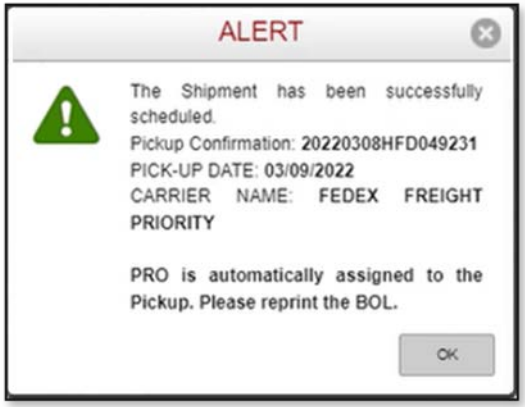

Select a carrier from the options provided.

Click the e-pro button to assign a pro from an electronic block of pros

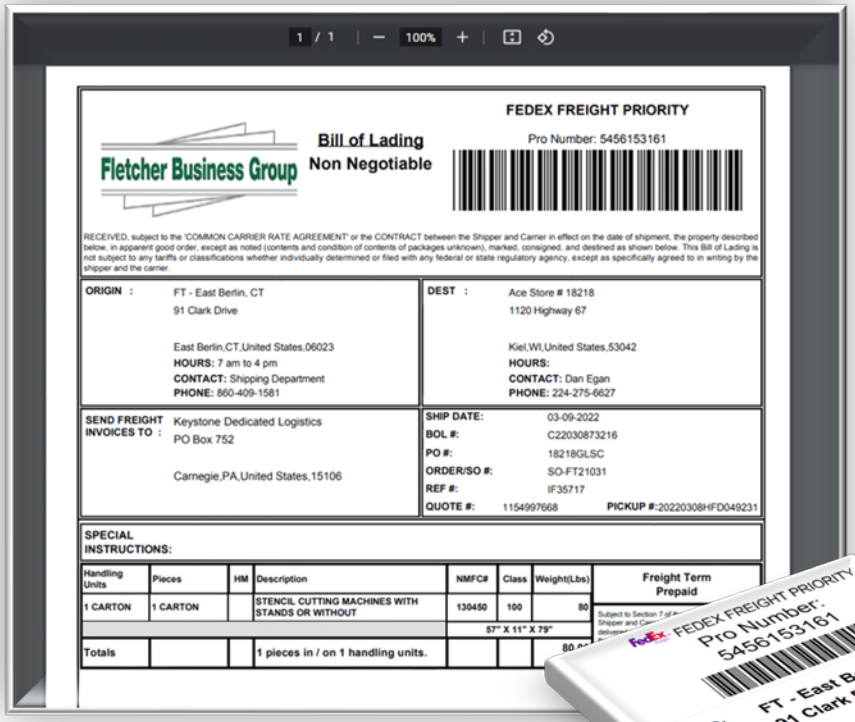


# FLETCHER TERRY PROCESS

Schedule the shipment




Print BOL

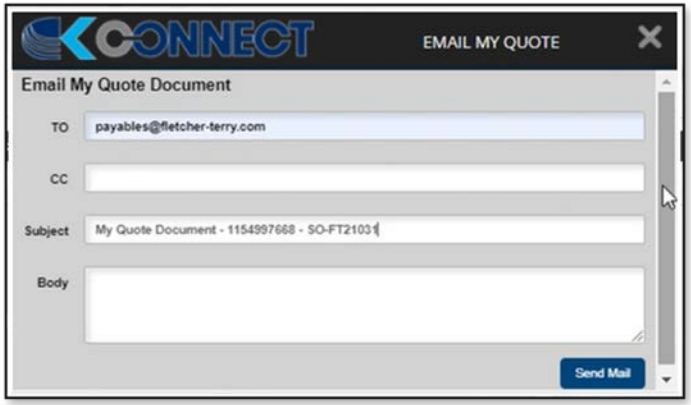



Print Label



# FLETCHER TERRY PROCESS

Email Quote to Accounting

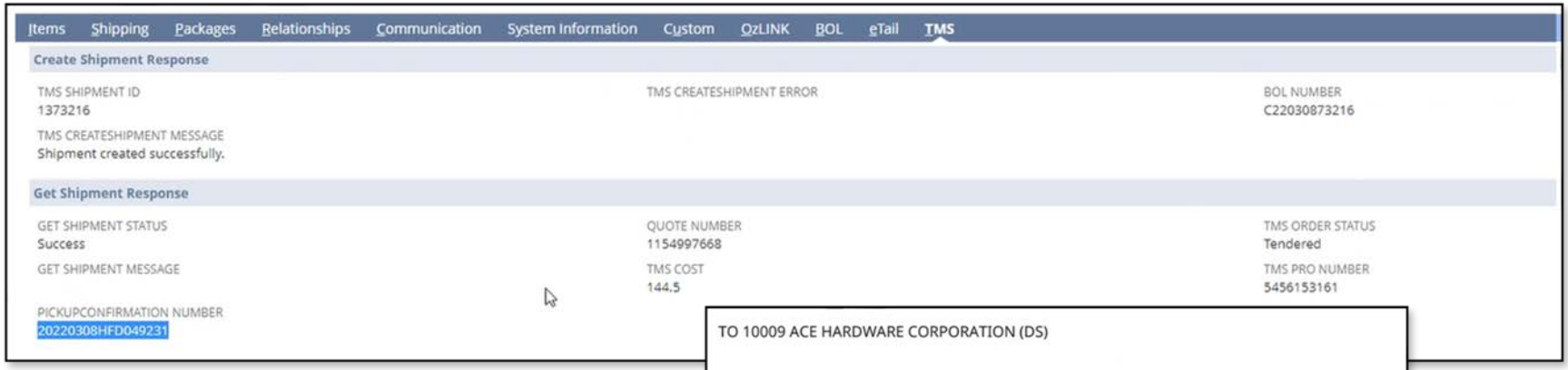



To Finalize in NetSuite, click Get Shipment Button. Both buttons will be inactive when process is complete



# FLETCHER TERRY PROCESS

All necessary information from TMS transferred back into NetSuite




And available for pick ticket creation

