Industry Update Report

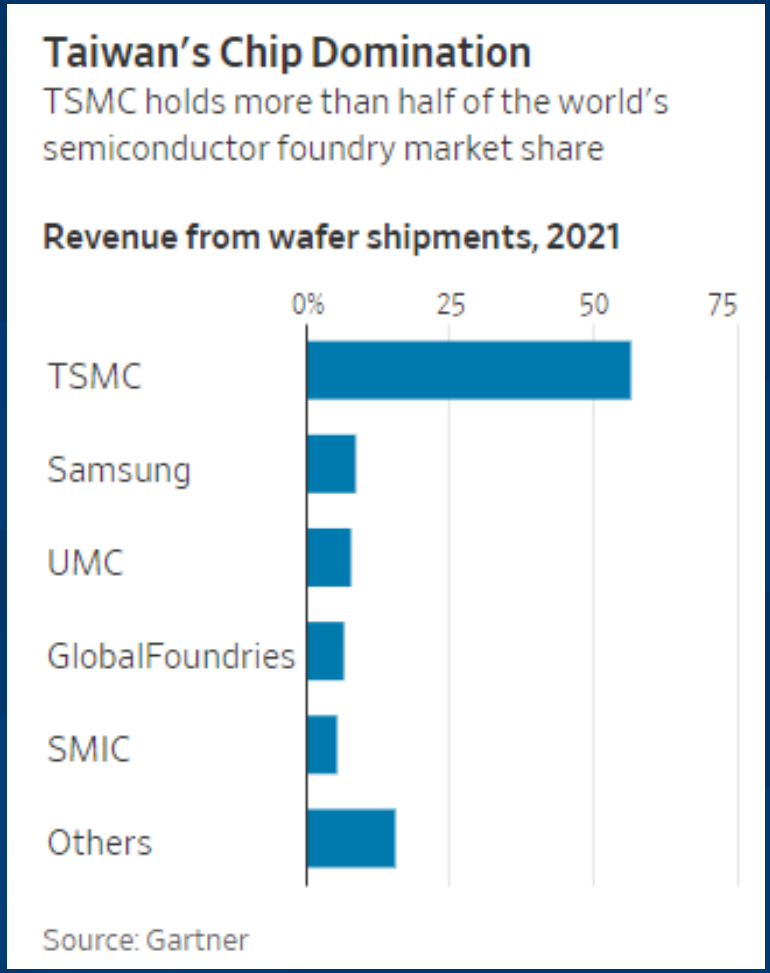
September 2022

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China Exports; Taiwan Concerns

China August Exports Slow

- China total exports up 7.1% y/y; down from 18% y/y in Jul
- US imports (Aug) from China down 3.7% y/y; drop in demand coupled with Covid-19 lockdowns (American Shipper, Freightwaves 9/9)
- 788,132 total TEU's imported into LA/LB (Aug); down 12% y/y (WSJ 9/22)
- China – US West Coast 40 FEU spot rates down 76% vs. Apr 2022 (Freightos Baltic Daily Index)
- China world's largest producer of steel; down 34% y/y (Trading Economics 9/21)
- China world's largest importer of oil & liquified petroleum gas for energy & manufacture of plastics
- Still no agreement for International Longshore & Warehouse Union; 22,000 west coast dockworkers at 29 ports - last agreement expired in Jul (WSJ 9/19)
- Fears over Chinese blockage of Taiwan / Taiwan strait
- Taiwan controls 70% global semiconductor supply led by Taiwan Semiconductor Manufacturing Company (TSMC)



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Freightos Baltic Index

China/East Asia to North American West Coast



China/East Asia to North America East Coast



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Drewry Weekly Assessment



Composite index decreased by 10% this week

- 30th consecutive weekly decrease

Drewry WCI Composite

- Currently $6,224 per 40' container.
- Peaked in Sept 2021 at $10,377 per 40'
- 71% higher than 5-year avg ($3,631)

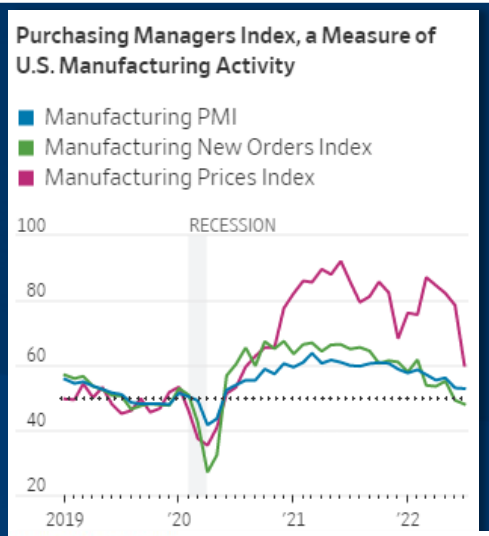
Route	8-Sep-22	15-Sep-22	22-Sep-22	Weekly change (%)	Annual change (%)
Composite Index	$5,379	$4,942	$4,472	-10% ▼	-57% ▼
Shanghai - Rotterdam	$7,435	$6,671	$6,027	-10% ▼	-58% ▼
Rotterdam - Shanghai	$1,082	$1,059	$1,006	-5% ▼	-38% ▼
Shanghai - Genoa	$7,884	$7,353	$6,419	-13% ▼	-53% ▼
Shanghai - Los Angeles	$4,782	$4,252	$3,779	-11% ▼	-70% ▼
Los Angeles - Shanghai	$1,260	$1,260	$1,282	2% ▲	-9% ▼
Shanghai - New York	$8,957	$8,477	$7,701	-9% ▼	-51% ▼
New York - Rotterdam	$1,279	$1,282	$1,255	-2% ▼	13% ▲
Rotterdam - New York	$6,688	$6,607	$6,737	2% ▲	9% ▲

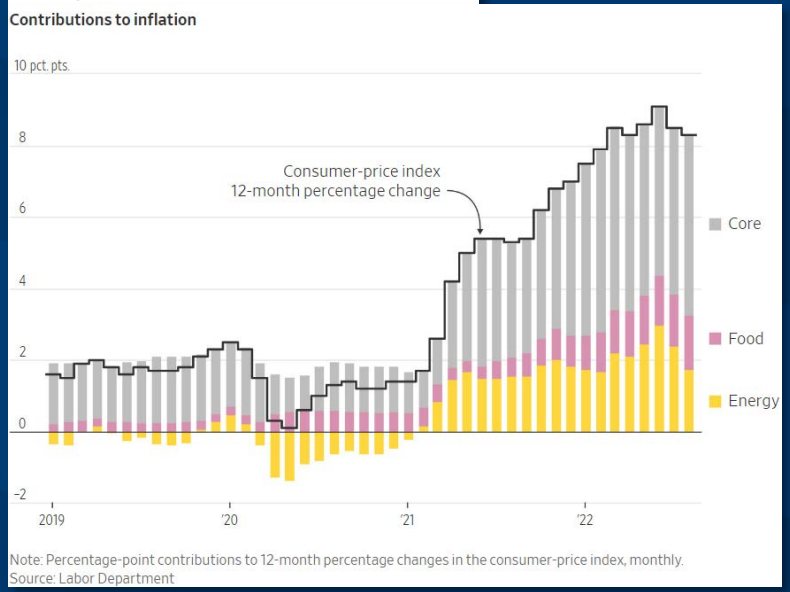
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Economic Indicators

QUICK FACTS

- CPI 8.3% Aug 2022; down from 9.1% Jun
- ICE US Dollar Index up 14% in 2022; best since 1985; fueled by Fed's rate increases - cheaper imports tailwind for inflation; good for US, bad for global
- US suppliers PPI up 8.7% y/y Aug
- 30 year fixed mortgage rate exceed 6%+ (Freddie Mac); highest since 2008
- Furniture & home furnishings mfg down 1.6% y/y; electronics & appliances down 5.7% y/y
- Fed raised rates 75 basis points (9/21); projects benchmark rate 4.25% Jan 2023
- US Jul PMI manufacturing slowest since Jun 2020; still expanding marginally; however down 18% from Jun *(ISM)*
- Inflation Recovery Act – $745B climate, energy programs & healthcare; tax credits for EV purchases; **carried interest unchanged;** taxes to increase
- GAP cutting 500 jobs; operating costs rising faster than sales
- Capex among S&P 500 companies growing at a faster pace than stock repurchases - first since Q1 2021 *(WSJ, 8/4)*





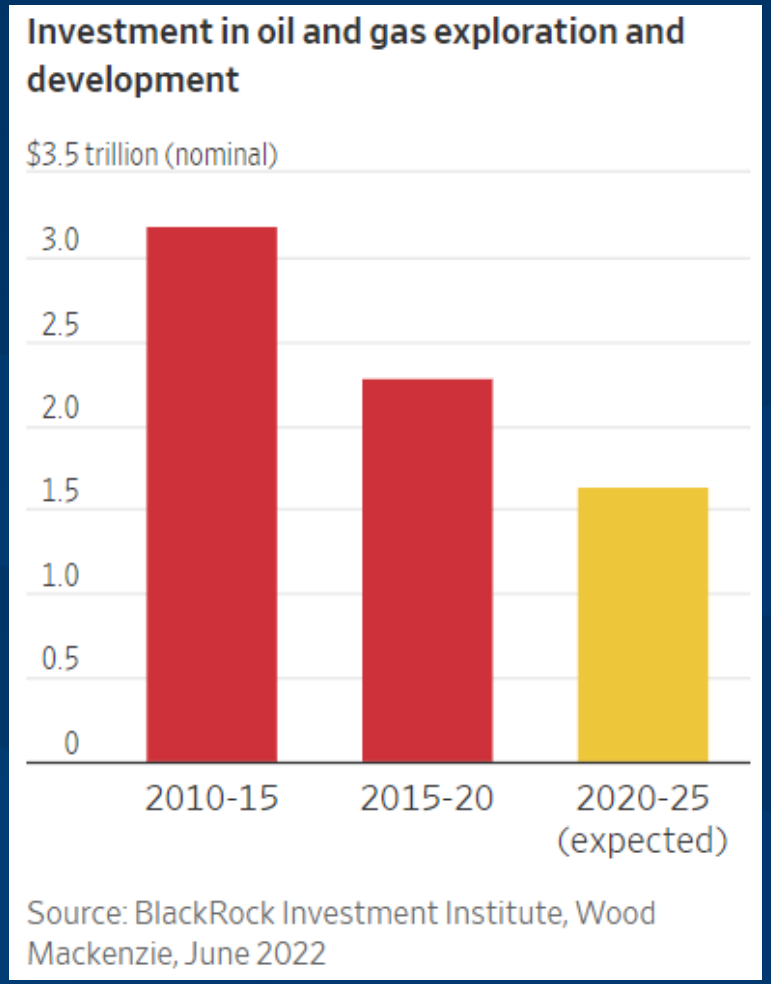
Energy & IRA 2022

Outlook Short Term

- U.S. crude benchmark West Texas Intermediate $86.15/barrel 9/19; $37.44/barrel Nov 2020
- Benchmark U.S. diesel $4.96 / gallon; down from $5.75 in Jun
- US emergency oil reserve at 430M barrels, lowest levels since 1984 (Reuters 9/12); Biden admin to release 1M barrels / day for 180 days; considering buying oil at/below $80/ barrel to refill reserve (Bloomberg 9/13)
- Demand moderated w/ China lockdowns; to rise as eases
- High LNG prices in Europe push manufacturing to US

Long Term Concerns

- High electricity & fuel prices create persistent pressure on inflation for extended period
- Energy represents just under 1/3 of 8.3% CPI Aug
- Inflation Reduction Act - $745 billion package grants & incentives reduce cost of clean energy & healthcare, along w/ tax reforms
- Medium & heavy-duty EV trucks & battery-charging infrastructure purchased after Dec. 31, 2022, qualify
- EV credit capped at $40,000 per vehicle & $100,000 per charger
- Some skepticism as Class 7 & Class 8 EV trucks can cost $300k



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Fuel Prices

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
Mar 08, 2022	$ 4.849
Mar 15, 2022	$ 5.250
Mar 22, 2022	$ 5.134
Mar 29, 2022	$ 5.185
Q1 AVERAGE	**$ 4.244**

Date	Diesel ($ per Gallon)
Apr 05, 2022	$ 5.144
Apr 12, 2022	$ 5.073
Apr 19, 2022	$ 5.101
Apr 26, 2022	$ 5.160
May 04, 2022	$ 5.509
May 10, 2022	$ 5.623
May 17, 2022	$ 5.613
May 24, 2022	$ 5.571
Jun 01, 2022	$ 5.539
Jun 07, 2022	$ 5.703
Jun 14, 2022	$ 5.718
Jun 21, 2022	$ 5.810
Jun 28, 2022	$ 5.783
Q2 AVERAGE	**$ 5.488**

Date	Diesel ($ per Gallon)
Jul 04, 2022	$ 5.675
Jul 12, 2022	$ 5.568
Jul 19, 2022	$ 5.432
Jul 26, 2022	$ 5.268
Aug 02, 2022	$ 5.138
Aug 09, 2022	$ 4.993
Aug 16, 2022	$ 4.911
Aug 23, 2022	$ 4.909
Aug 30, 2022	$ 5.115
Sep 07, 2022	$ 5.084
Sep 13, 2022	$ 5.033
Sep 20, 2022	$ 4.964
Sep 27, 2022	$ 4.889
Q3 AVERAGE	**$ 5.152**

Date	Diesel ($ per Gallon)
Q4 AVERAGE	

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Freight Inflation

- Monthly measure of aggregate US freight deliveries
- Includes all modes of transit
  - Full Truckload represents about 50%+ of data.
  - LTL, Parcel, and Rail other top modes of index.

August Shipment Counts

- Up 3.6% y/y
- Up from 1.9% y/y increase in July

August Freight Expenses

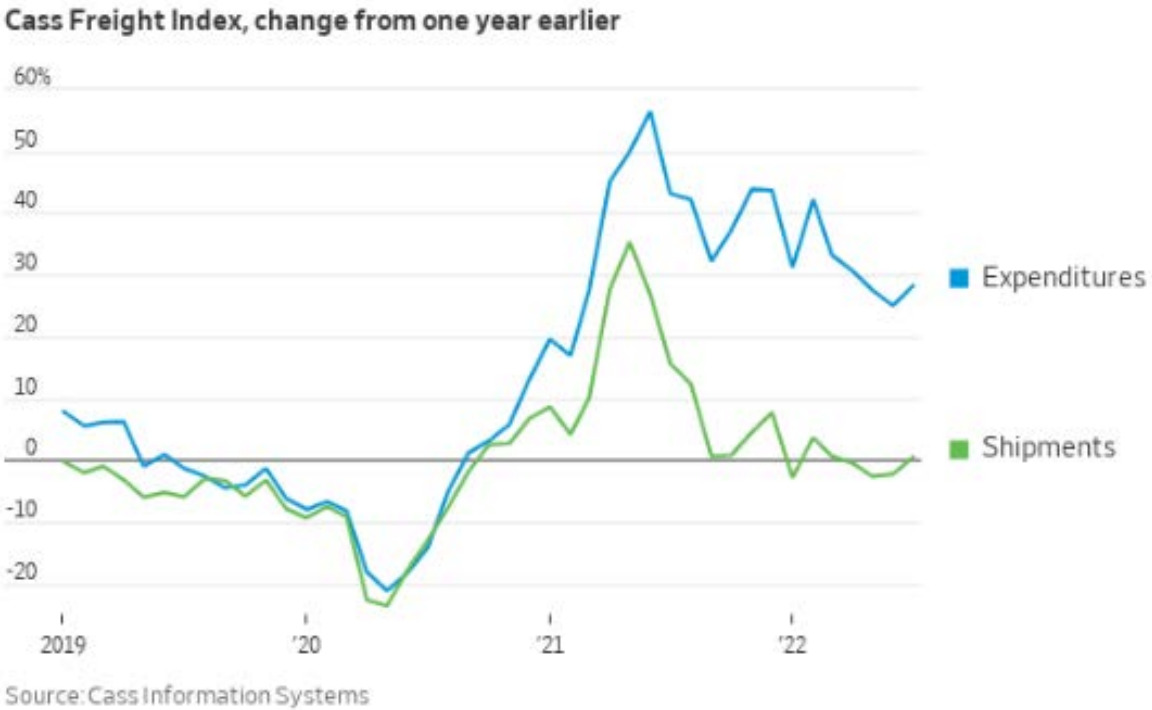
- Up 1.9% m/m in August after 3.0% decline in July
- Up 20.4% y/y
- Up 83.5% 2-year

TL Linehaul Index

- Up 7.4% y/y after rising 10.5 y/y in July

Implied Freight Increase

- Up 16.3% y/y decelerating quickly from the 26% y/y increase in July



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What is AB5?

AB5 – "Employees & Independent Contractors" Bill

- Controversial Law signed in 2020 (delayed due to prelim injunction) WITHOUT a carveout amendment for freight hauling owner operators
- Determines if subcontractors classify as employee or independent contractor
- "Miller vs. C H Robinson", declined hearing by US Supreme Court Jun 2022

Liability

- From 2010 to 2018, the average verdict size for a lawsuit above $1 million that involves a trucking crash has increased from $2.3 million to $22.3 million, (CNBC)
- Trucking insurance rates have increased up to 25% annually in 2019 & 2020, (CNBC)
- Substantial ambiguity for 3PL's & brokers on liability / responsibility in collisions and insurance coverages

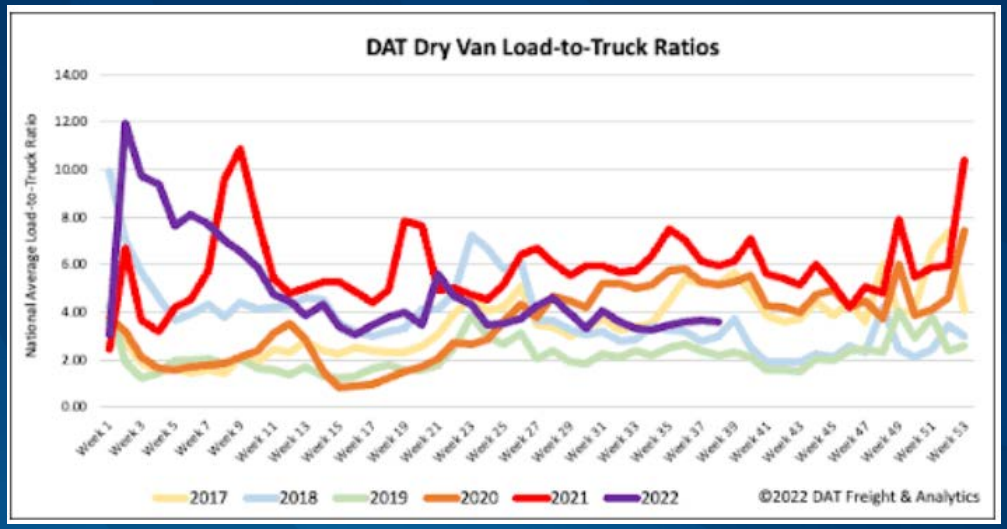
Devastate Capacity

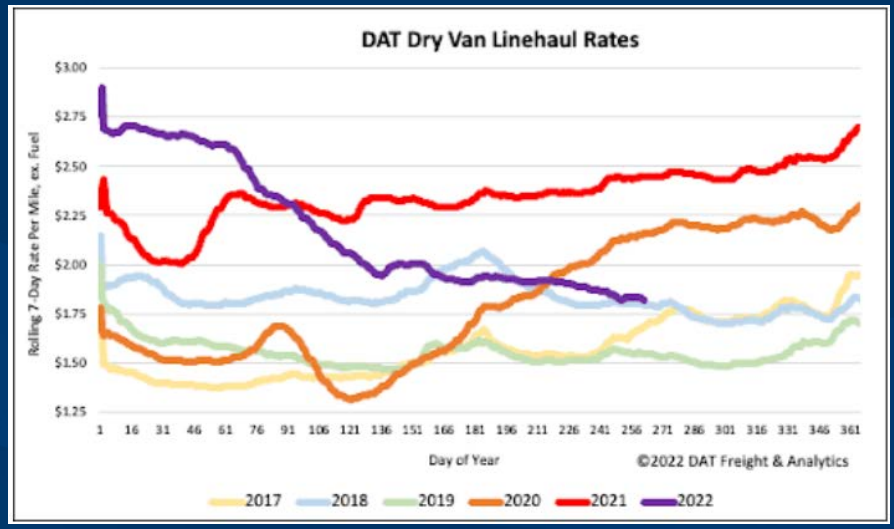
- Makes it difficult (even impossible) for trucking and logistics companies to classify workers as independent contractors
- Approximately 70,000 owner operators in California!
- Owner operators will need to sign on with larger trucking companies, seek to relocate outside of California or change occupation; exacerbate industry driver shortage currently at 80,000

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Load to Truck Ratio/Rates

DAT Market Conditions





Dry van load posts up 13% week over week

- Return to normal shipping patterns after short week from Labor Day
- Increase in activity moving OTR due to fear of railroad strike

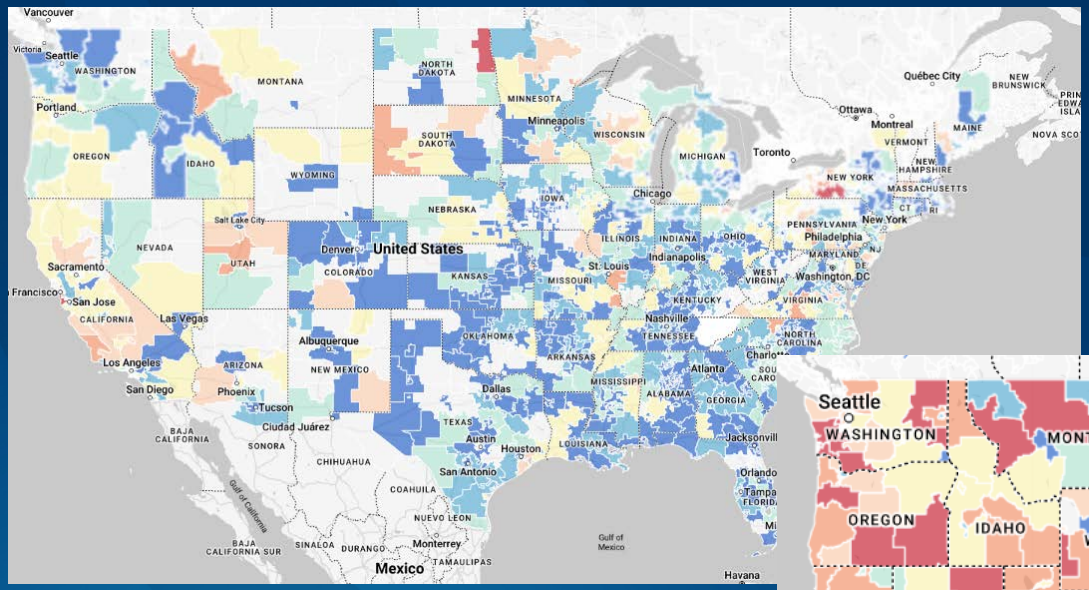
Dry van linehaul rates (without fuel)

- Remain relatively flat this month
- $0.63/mile lower than previous year's rate surge
- $0.21/mile higher than average pre-pandemic years

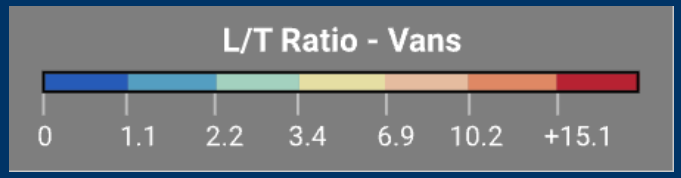
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Load to Truck Heat Map

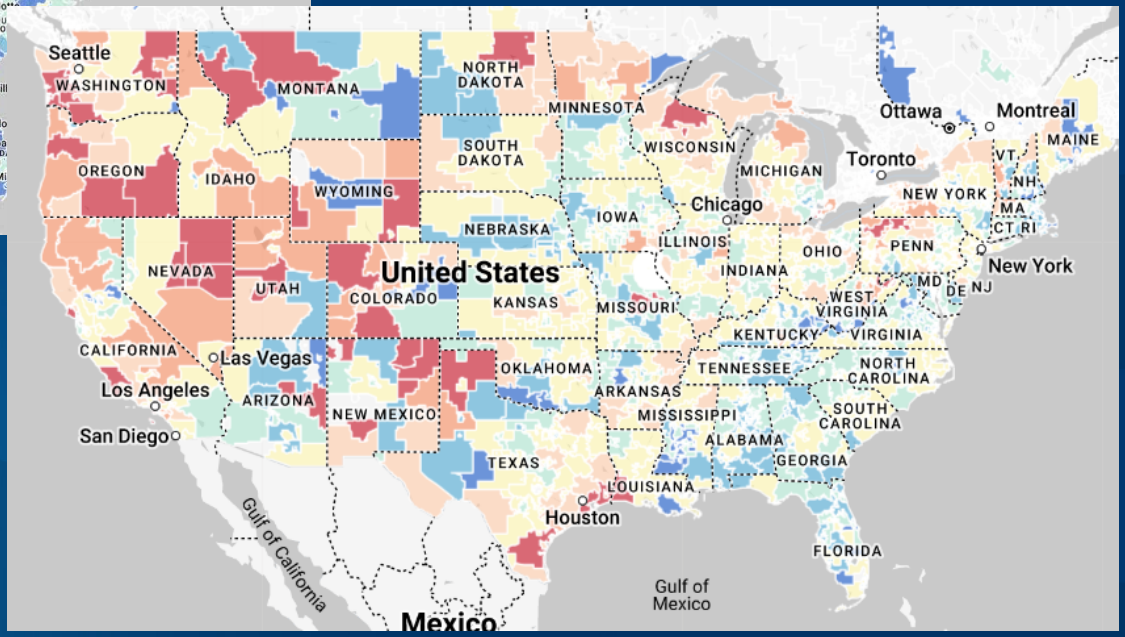
DAT Market Conditions



August 18, 2022



September 22, 2022



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LTL Carrier Q3 Updates

Old Dominion Freight Lines (ODFL)

- Rev up 14.5% y/y in Aug
- Rev / hundredweight up 18.1% so far Q3
- Tonnage up 10.9% Aug
- CapEx for 2022 – $835 million

ArcBest (ABF)

- Revenues up 18% y/y Aug
- Ship count up 5% y/y Aug
- Tonnage up 8% y/y Aug
- Rev / hundredweight up 9% y/y Aug

XPO (Q2)

- Rev / hundredweight up 10.6% *excluding* fuel
- 84.5 operating ratio
- **Shipment count down 5.5% y/y**

TForce (Q2)

- LTL rev up 39% y/y
- 90 operating ratio
- **Goal to shed 30% (former** UPS freight) freight doesn't fit TForce aspirational profile

YELLOW

- Revenues up 4% y/y Aug
- Rev / hundredweight up 19.9% y/y Aug
- **Ship count down 14.2% y/y Aug**
- Daily tonnage down 15.7% y/y Aug
- 93 operating ratio; best in 15 years

SAIA

- Weight / shipment up 2.3% y/y Aug
- **Daily ship count down 1.9% y/y Aug**
- Daily tonnage up 0.4% y/y Aug

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LTL Carrier Expansion

XPO

- Five new terminals with 345 doors opened past year; forecasts add'l 555 terminal doors in 2023
- XPO builds their own trailers; forecast 4,700 trailers produced out of plant in AR

SAIA

- Opened Macon, GA and Valdosta, GA – previously added West Chicago (2 Terminals) and West Virginia
- Plans to open 10 to 15 terminals in 2022 and relocate 10 facilities to larger locations
- Last year, added seven facilities and nearly 1,500 employees to accommodate record growth

Southeastern Freight Lines Opening Atlanta, GA (Union City), Columbus, GA; Carterville, GA; Houston, TX

- Increase dock doors = increased capacity
- Ability to load more direct – help maintain 99% On Time performance

Estes Express

- Opened Dallas / Ft Worth, TX (12o doors); Increased capacity by 200% at San Antonio, TX and 250% in Oklahoma City, OK
- Goal – reduce congestion, mitigate risk of damage
- Added 1,100 tractors and 1,000 pups across network & 450 terminal doors in 2021

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LTL Carrier Updates

Shipment Volumes Remain Down

- Most carriers reporting 4-6% decline in shipment counts per day
- Reduction not opening capacity
  - Drivers working max amount of overtime; still working overtime but not as many hours
  - Drivers getting burnt out
- Carriers remain selective about type of freight they accept – cautious of overlength freight

Fuel Costs Major Driver Revenue

- Fuel accounts for 20.7% of total cost per pound for LTL – up from 13.4% in 2021
- Major LTL carriers – average fuel costs increased from 34% in Q1 to 47.6% in Q2

Carriers Exploring Dynamic Pricing… Again

- Allows carriers to make more real time adjustments to pricing to help drive more shipments in need lanes on specific days
- Originally implemented by XPO and ABF in 2019; SAIA added in 2021
- Hot item back in 2019 – fizzled over past two years due to capacity crunch, not looking to add volumes

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Overlength Focus

Carrier	6	7	8	9	10	11	12	13	14	15	16	17	18	19
A Duie Pyle	$118.00 (6'6")		$295.00				$529.00				$646.00			
AAA Cooper			$250.00				$375.00				$535.00			
ABF Freight			$185.00				$300.00				$385.00			
Averitt Express			$160.00				$300.00				$750.00			
Daylight Transport			$200.00				$750.00							
Dayton Freight		$200.00			$285.00		$375.00		$450.00		$600.00		$750.00	
Dohrn			$85.00				$135.00				$185.00			
Estes Express			$225.00				$400.00				$750.00			
FedEx Freight			$181.00					$400.00						
New Penn			$250.00				$500.00				$1,000.00			
Oak Harbor										50% up of net freight charge				
Old Dominion			$1,000.00											
Penninsula Truck			$120.00				$300.00				$600.00			
Pitt Ohio		$115.00	$190.00				$450.00				$775.00			
R&L Carriers			$170.00				$300.00				$500.00			
Southeastern Freight Lines			$140.00				$250.00				$750.00			
T Force Freight			$250.00				$450.00							
USF Holland			$250.00				$500.00				$1,000.00			
USF Reddaway			$250.00				$500.00				$1,000.00			
Ward Trucking	$195.00 if 49" Wide or more		$175.00 / $195.00 (if 49" Wide or more)				$350.00			$525.00 / $675.00 if 49" Wide or more			$675.00 / $825.00 if 49" Wide or more	
XPO Freight			$234.00				$476.00				$1,187.00			
YRC			$250.00				$500.00				$1,000.00			

Overlength Charges shown above were pulled online from Carrier Rules Tariffs.

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KDL Recommendations

Modernize Logistics Solutions

- Focus on digitization, workflow automation.
- Risk mitigation
- Most effectively collaborate with shipper, carrier and logistics provider

Middleware

- Eliminate keystrokes involved with carrier selection, BOL creation, shipment execution.
- Connect fragmented systems – shippers often manually tie back quote & invoice cost to ERP for billing – results in gaps, lack of controls, missed billings - eroded margin
- Integration – automatically pull back costs, tracking numbers, carrier information to ERP

Input costs flow through to consumer

- Evaluate customer freight policies; Do you offer free freight based on order size?
- Small LTL shipments, single shipment pick up, remote location - could experience disproportionate impact with FUEL impact of transport charge
- Is freight being accounted for and charged back on NON-free freight orders?
- Capture data to measure how freight affects customer profitability (CPA)

Control Inbound Freight

- Control preferred method of transport
- Don't assume suppliers have better freight rates
- NO MORE PAPER ROUTING GUIDES!!
- Avoid suppliers marking up freight charges

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KDL Recommendations

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.

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
- New normal is delayed delivery, with longer delays to hot spots areas or when moving long distances if shipper is *PRICE* focused.
- 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

- Capacity, on time delivery trumps price.
- Weigh service more than cost when selecting carriers.
- Shipping guaranteed instead of standard LTL

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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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