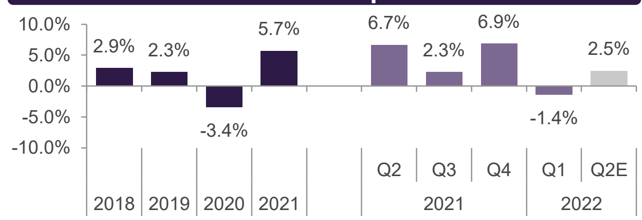
Logistics & Supply Chain Update

Industry Consulting Team | Q2 2022

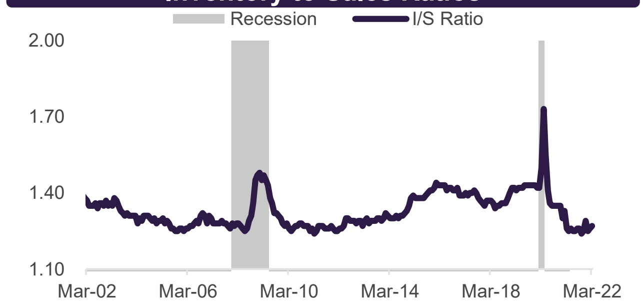
Economic backdrop: down but not out

- US GDP declined 1.4% in the first quarter amid continued supply-chain constraints, a widening trade imbalance, elevated inflation and a war in Europe. However, Q2 GDP estimates were raised by the Atlanta Federal Reserve in May from 1.8% to 2.5%, on the heels of stronger than expected April retails sales which rose 0.9% from March (+1.3% excluding gasoline retail sales).
- Inventory-to-sales ratios remain low; however, a burgeoning inventory build in certain retail goods underscores changing consumer patterns including a shift from goods to services and away from discretionary to essential. Big-box retailers noted the shift in their latest earnings reports. Walmart cited customer order sizes increased in Q1 yet were concentrated in fewer categories like grocery and gaming - while a broader array of "general merchandise" saw declines in the quarter. Inflation is accelerating the spending shift, but consumers are still buffeted with over $2 trillion in excess savings built up during the pandemic, along with rising wages that will help cushion higher costs and a growing preference for more travel and leisure spending.

GDP Growth & Expectations



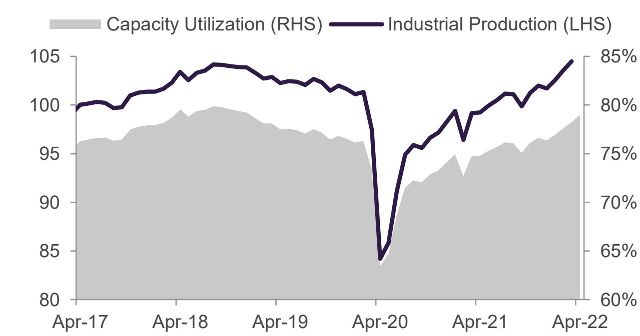
Inventory to Sales Ratios



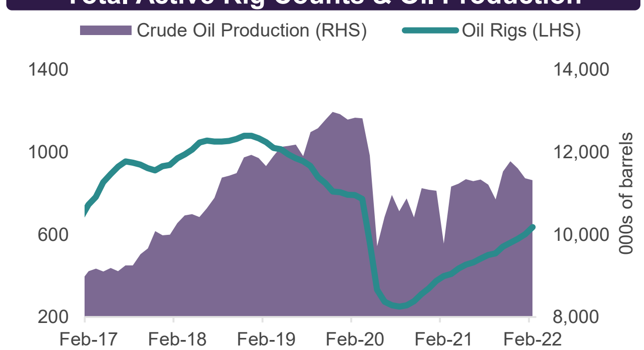
Industrial activity will bring more balance to freight demand

- Concerns are growing that inflation and interest rate hikes are starting to weigh on growth. The Federal Reserve is actively trying to flush out the excess demand that built up during the pandemic and led to supply shortages and inflation. More balanced demand is welcome if inflation and supply chain pressures ease; however, whether the broader economy will land soft or hard is up for debate, but there are some strong tailwinds that we see as encouraging:
- **Infrastructure spending** has barely begun and will accelerate industrial activity as the $1.2 trillion package slowly gets deployed. Industrial production rose 1.1% in April and has risen steadily over the last few months. Capacity utilization is also moving up, approaching 80% in the U.S., indicating supply constraints are waning
- **Inbound volumes** are strong at U.S. ports (particularly on the East Coast) even in the face of lower production in China. As China moves closer to ending COVID lockdowns a backlog of imports will arrive, lifting freight demand
- **Export growth** will rebound as supply constraints improve and energy / agricultural production ramp up to meet foreign demand created from energy, mining, and agriculture shortages in Russia and Ukraine. Equipment availability, particularly export containers, have been in short supply over the course of the pandemic limiting the amount of product that can reach U.S. ports for export. Improving equipment supply will aid foreign demand for U.S. goods
- **Elevated commodity prices** are stimulating energy & mining production. While oil & gas companies are more cautious in this cycle (investors focused on dividends and buybacks) production and rig counts are rising. Baker Hughes total active rig counts are up for 9 straight weeks through May to 728, a 60% increase over the last two quarters

Industrial Production & Capacity Utilization



Total Active Rig Counts & Oil Production



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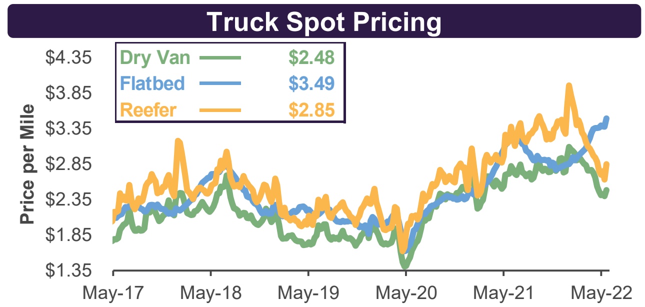
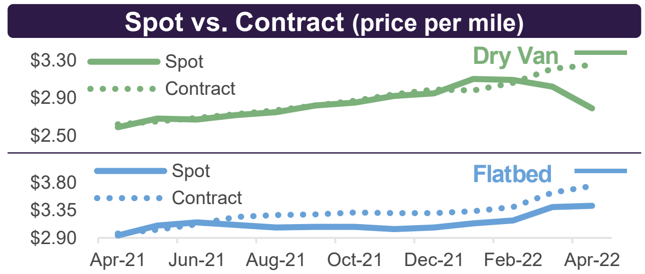
Equipment Availability and a Change in Market Pricing





- Spot dry van truckload pricing has trended lower over the last few months. However, broader pricing indices including contract freight continue to show overall strength. Segments benefiting on both the spot and contract side include flatbed and specialty as industrial activity ramps up. The data in our view still reflects underlying strength in freight conditions with some definite pockets of weakness as consumer spending patterns normalize.
- Spot market declines may be attributed to shippers looking to secure more predictable contracted capacity heading into this year's peak season. Additionally, smaller operators in the spot market may be leaving their independent status to join company fleets as the expense base for owner / operators increases (mainly for equipment and fuel). Fuel surcharges are less prevalent for smaller carriers that operate in the spot market and therefore represents a much greater expense in a rising diesel cost environment.
- In many ways equipment availability is becoming as big of a problem as the driver shortage. Despite strong demand from fleets, Class 8 sales fell 40% in April and were down 33% YoY due largely to shortages in production materials (namely semiconductors). For the trucks that are available, fleets are paying record prices as new and used equipment have more than doubled. In the used market, it's been reported that 4-year-old sleeper tractors have sold for around $120K, while the same trucks pre-pandemic would have been $30-50K. We expect these elevated conditions to normalize over the next year as supply/demand forces start to balance out.

Recent Transportation & Logistics M&A Activity

Acquiror	Target	Details
Forward Air Corporation	Edgmon Trucking	In the latest addition to Forward Air's intermodal business, the Company acquired Edgmon Trucking out of Washington which serves the ports of Seattle and Tacoma. The deal follows recent acquisitions of BarOle Trucking and TKI Intermodal over the past 6 months
ECHO	Roadtex Transportation Corporation	Echo Global Logistics announced the acquisition of New Jersey-based Roadtex Transportation Corp. Roadtex provides temperature-controlled supply chain services across 32 facilities. The deal gives Echo a national warehouse platform to expand their brokerage and transportation management services to big box retailers
shopify	Deliverr	Shopify, the e-commerce company, agreed to buy Deliverr for $2.1B. The acquisition will give Shopify strong fulfillment capabilities to compete with Amazon. Deliverr will merge with Shopify's exiting fulfillment business, expanding its control and visibility to the supply chain
Lineage	VersaCold Logistics Services	Lineage continues its consolidation in the cold storage space with the acquisition of VersaCold, one of the leading providers in Canada. VersaCold will expand the Lineage business in Canada with 114 million cubic feet of warehouse and 361,000 pallet positions across 24 facilities
STG Logistics Our People Are the Difference	XPO Logistics Intermodal	STG Logistics acquired the intermodal division of XPO logistics for $710M. STG has been growing services in drayage, transloading, and warehousing gradually, and the acquisition from XPO will give the Company 48 locations, 11,000 containers, 2,200 tractors, and 5,2000 chassis making STG more vertically integrated

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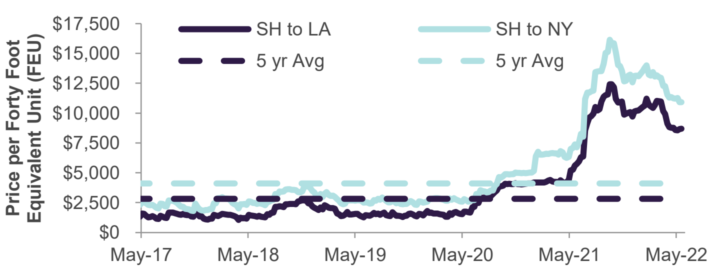
U.S. Port & Maritime Update

- East Coast ports continue to see record TEU growth even as West Coast ports are contracting. West Coast ports have been doubly challenged by falling volumes drops as a result of ports closures in China (zero COVID policy) and labor negotiations that threaten to disrupt port productivity:
    - China lockdowns have caused production shortages and decreased exports from China. Given that 20% of all US imports come from China, disruptions in Shanghai have material impacts to incoming volumes, particularly on the West Coast. The most recent example of impact can be seen in Oakland where port volumes have fallen 11% through April compared to the same timeline last year.
    - Existing longshore worker contracts are set to expire July 1st affecting almost 22,400 dockworkers across 29 ports. Negotiations are expected to cover dock work rules, automation, and worker pay & benefits. Many shippers have begun to divert imports to the East Coast anticipating that talks will cause disruptions like what was seen in 2014-2015. The last time contract negotiations occurred, western ports experienced long backlogs and a 50% drop in workers productivity.

	2021				2022			
(in 000s)	TEUs	YoY % Δ	TEUs	YoY % Δ	TEUs	YoY % Δ	TEUs	YoY % Δ
West Coast Ports:	FY		YTD		YTD		April	
Los Angeles	10,678	15.9%	3,539	42.2%	3,569	0.8%	887	(6.3%)
Long Beach	9,384	15.7%	3,122	41.8%	3,281	5.1%	821	10.0%
Seattle / Tacoma	3,736	12.5%	1,200	15.8%	1,168	(2.5%)	267	(12.2%)
Oakland	2,448	(0.5%)	853	8.5%	791	(11.2%)	188	(15.0%)
Total West Coast	**30,984**	**11.8%**	**9,922**		**9,896**		**2,589**	
East Coast Ports:	FY		YTD		YTD		April	
New York / New Jersey*	8,986	18.5%	2,136	21.6%	2,386	11.7%	862	9.2%
Savannah	5,613	19.9%	1,815	28.2%	1,878	3.4%	496	6.2%
Virginia	3,523	25.2%	1,085	26.0%	1,196	10.2%	323	12.9%
Houston	3,453	15.5%	1,027	3.3%	1,238	20.5%	334	21.3%
Charleston	2,751	19.1%	872	13.3%	985	12.9%	264	17.3%
Total East Coast	**24,326**	**16.0%**	**6,936**		**7,683**		**2,280**	

Container Shipping Price Index: China to U.S.

- The price to ship a forty-foot equivalent unit from Shanghai to the U.S. has fallen from pandemic highs over the last 3 months but remains well above 5-year averages. Normalization of freight demand and closures in China seem to have given some relief to rates, but it remains to be seen where rates will go once congestion unwinds, lockdowns end, and inventories normalize.



Sources: Bloomberg, Wall Street Journal, American Trucking Associations, Institute for Supply Management, Cass Information Systems, US Census Bureau, Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve Economic Data, FreightWaves, Company Earnings Reports, US Port Websites, New York Times, CapIQ, the Chicago Board of Trade, and Intercontinental Exchange, DAT Freight & Analytics, Baker Hughes, US Energy Information Administration