CARRIER DIRECT

Freight Market Perspective

Survival of the Smartest: Freight's New Competitive Frontiers

2H 2015

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- Organic / Inorganic Growth Opportunities
- Operating Model and Technology Strategies

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- Implementation Support of Strategic Initiatives
- Sales and Operations Management
- Personnel Enablement

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- Yield Management Framework Development
- LTL Data Analytics and Pattern Identification
- New Service and Market Pricing Guidance

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Worldwide Express Global Logistics
Menlo Logistics
WERNER
Blue Grace Logistics
J.B. HUNT
COYOTE
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PITT OHIO Supply Chain • Ground • LTL • TL
Con-way Multimodal
Yusen Logistics
SHIFT Freight
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PLS Logistics Services
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PROTRANS A perfect fit
TMW Systems
evans A Logistics Services Company

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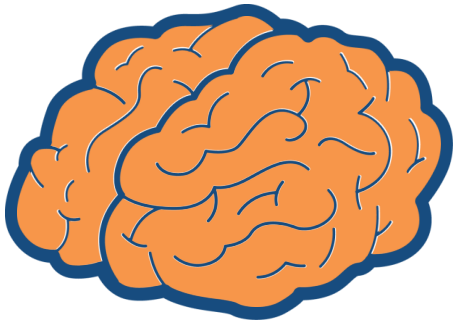
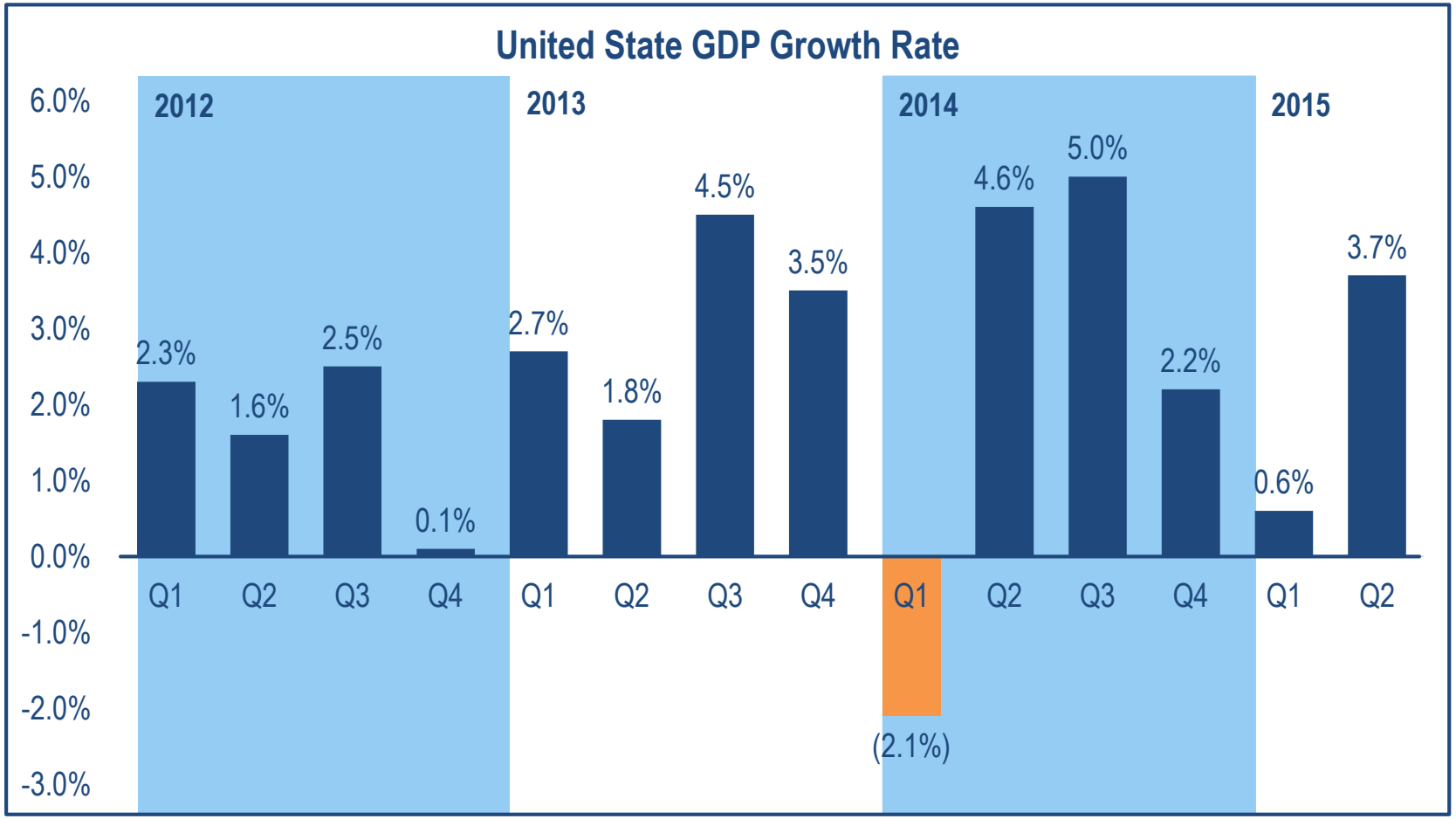
Happenings in the Freight World

What's Ahead for the Freight Market



Survival of the Smartest

Economists have been unwavering in expecting only moderate growth out of the economy, as positive domestic indicators have buoyed the tumultuous recovery that we've seen abroad

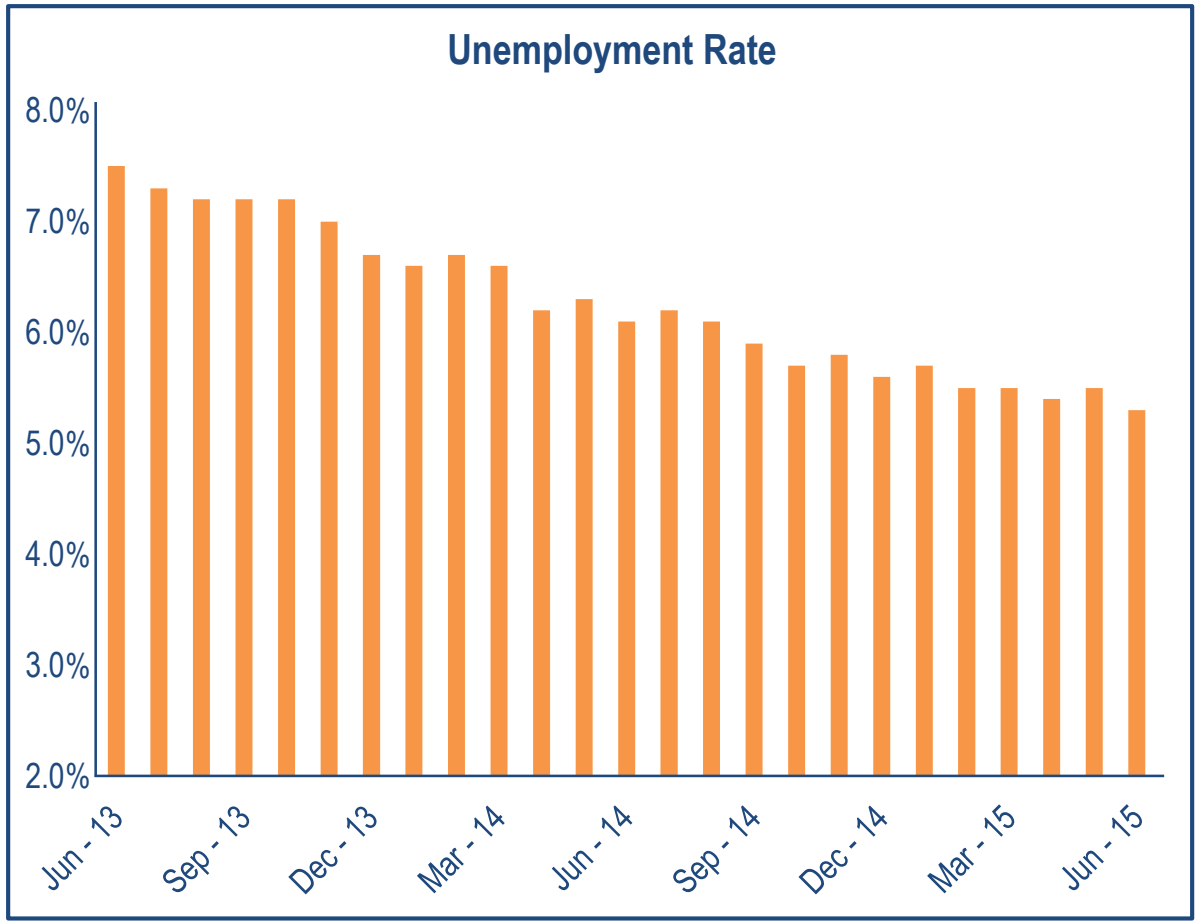


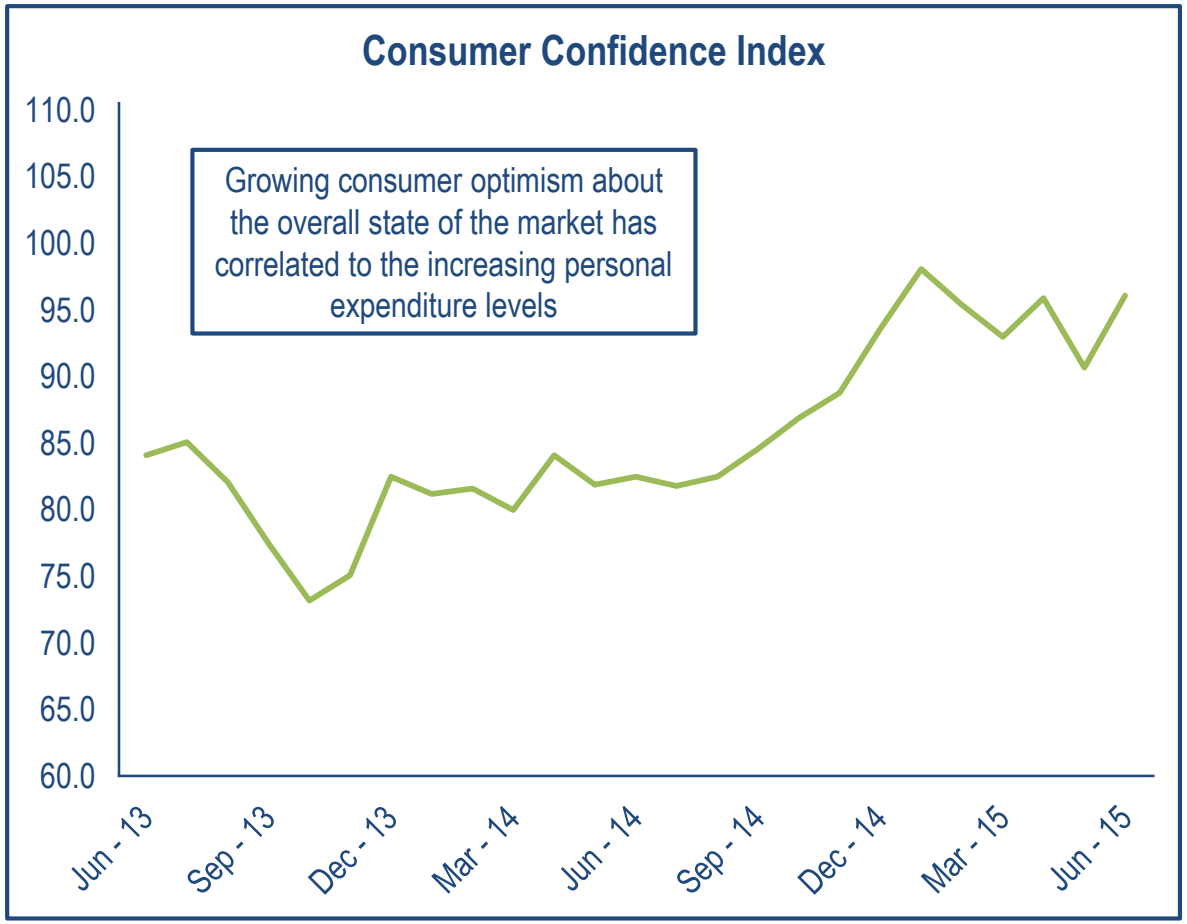
Source: Bureau of Economic Analysis, Reuters, International Monetary Fund

US GDP Growth Outlook

- Forecasters are anticipating growth for the third and fourth quarters at 2.7% and 2.8%, respectively, potentially adding demand pressure to the already tight capacity market
- Barring any major shocks to the economy, the International Monetary Fund is projecting GDP growth to reach 3% in 2016
- Economic forecasts for the coming quarters are buoyed by anticipated increased in personal expenditures (expected to rise by 1.5% for 2015)
- Citing employment pressure stemming from payroll gains, economists have revised unemployment forecasts down to 5.3% from 5.4%, despite reduced expectations that employers will be adding workers

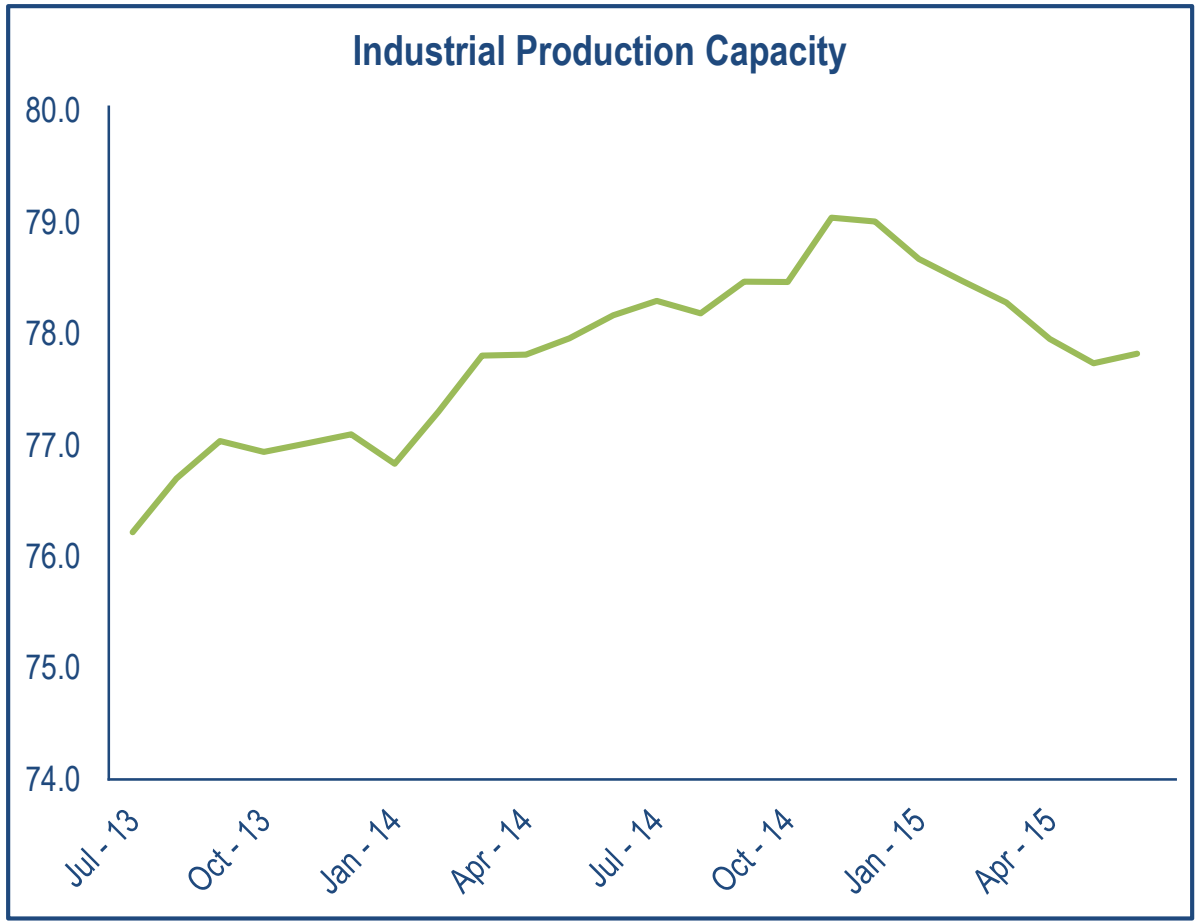
The US economy has continued to show modest growth, benefitting from continuously improving unemployment rates and consumer confidence levels that have injected demand into the marketplace

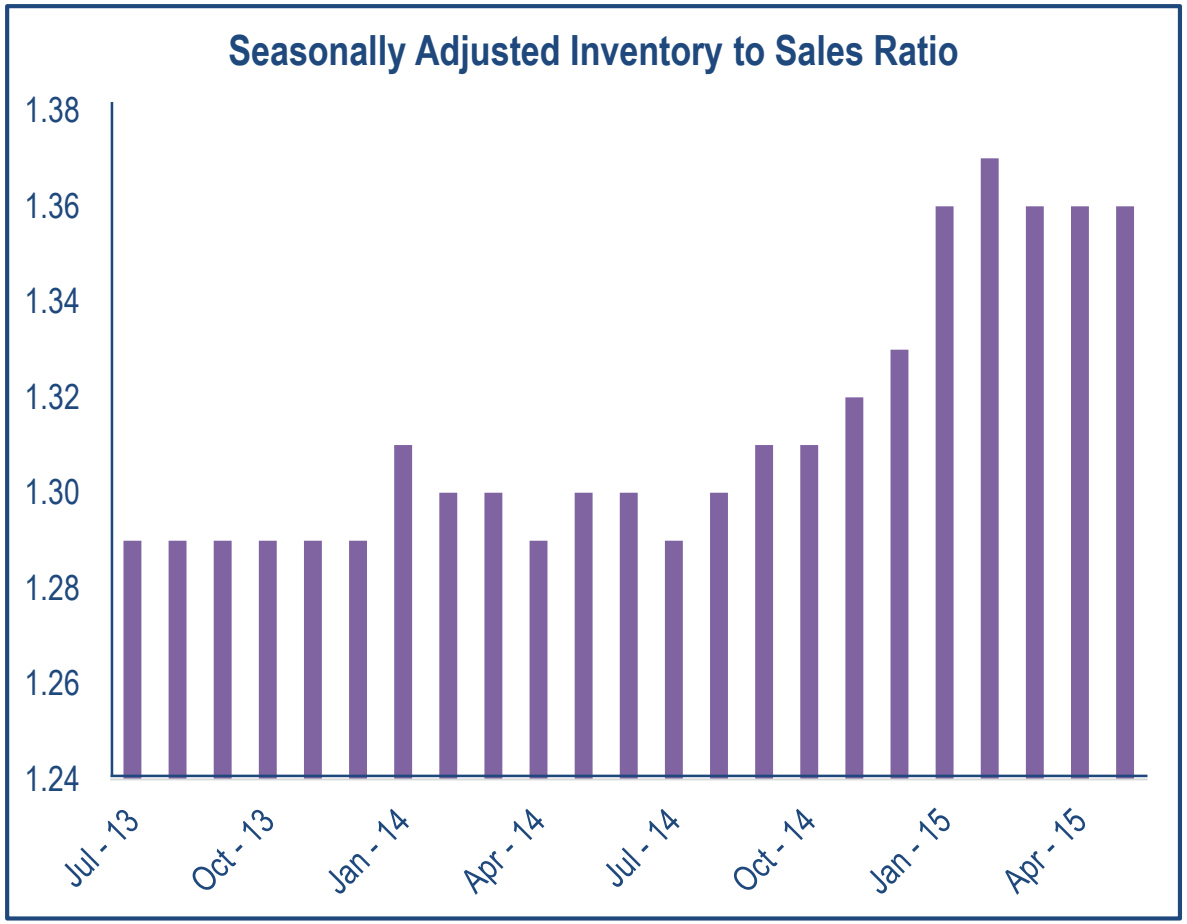




Source: Bureau of Economic Analysis, University of Michigan

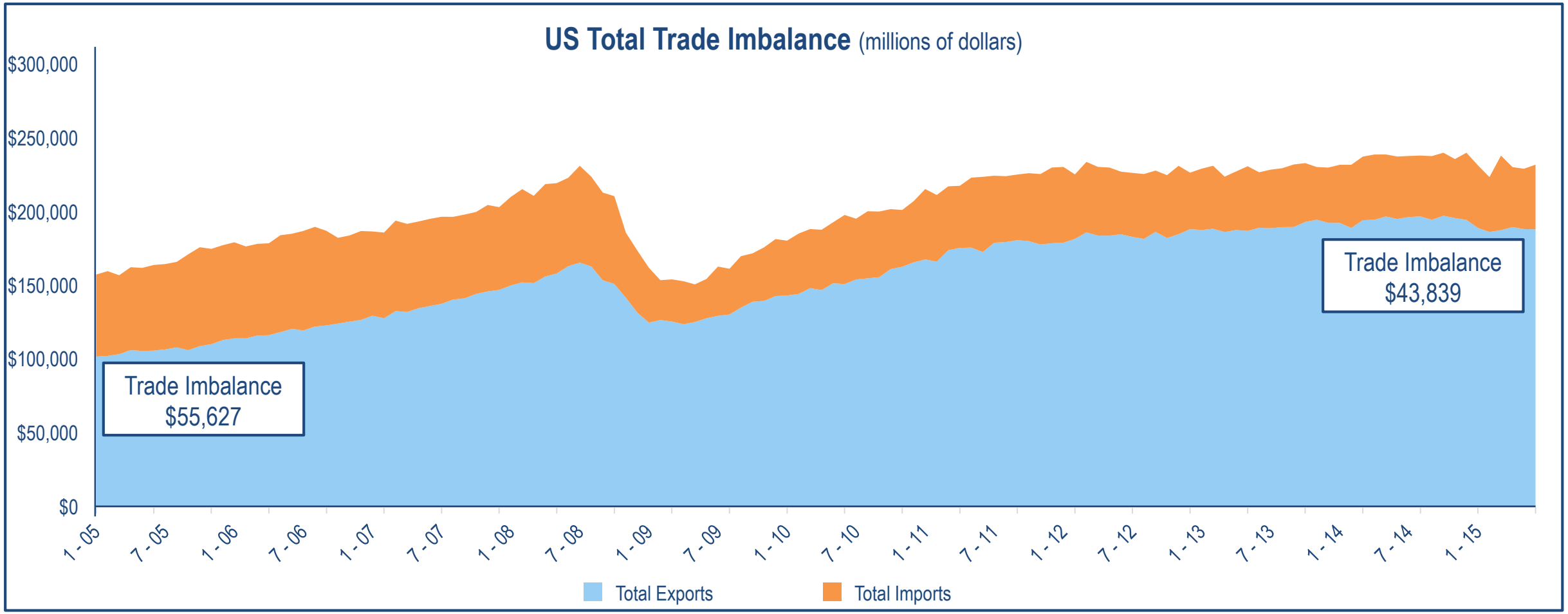
While the economy has positive indications from unemployment levels and consumer confidence, industrial production and inventory levels have the potential to bring dark clouds to America's strong GDP growth





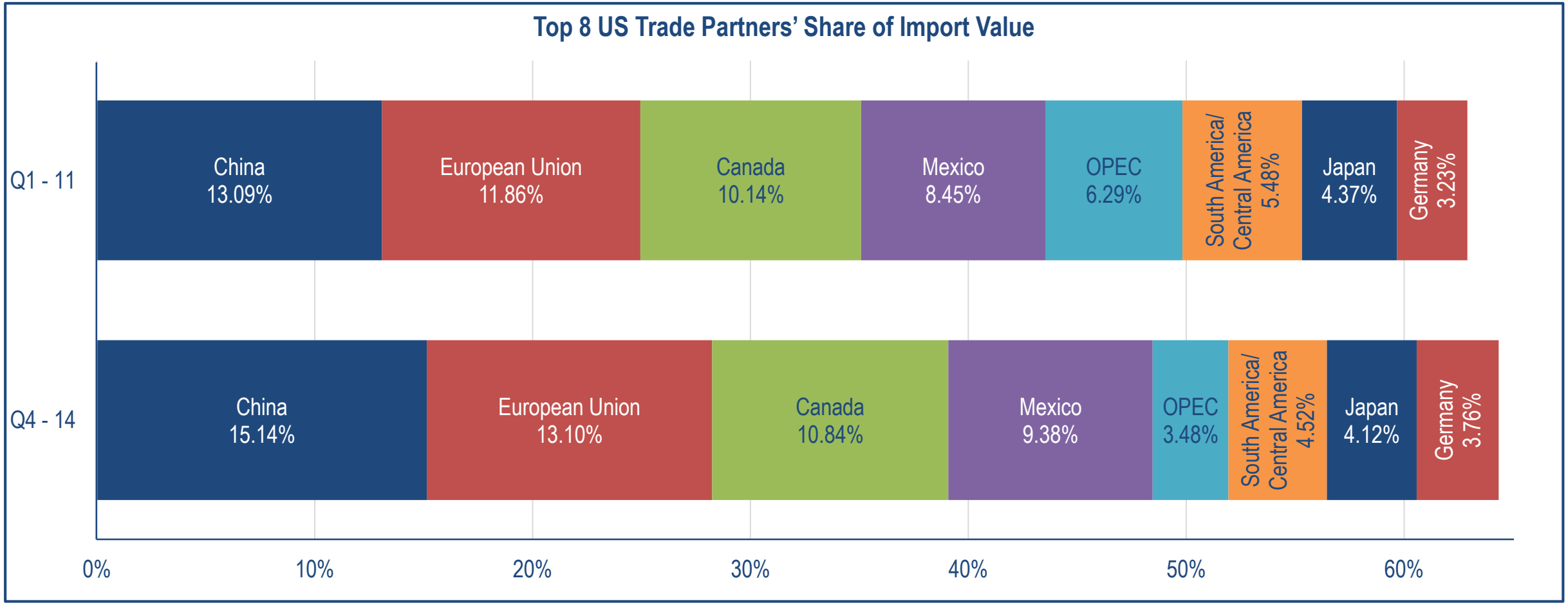
Source: Bureau of Economic Analysis

Slumping Chinese import volumes and manufacturers right-shoring their operations have relieved the West Coast of some pressure, though 3PLs and shippers are still looking for ways to mitigate supply chain risk



Source: Bureau of Economic Analysis

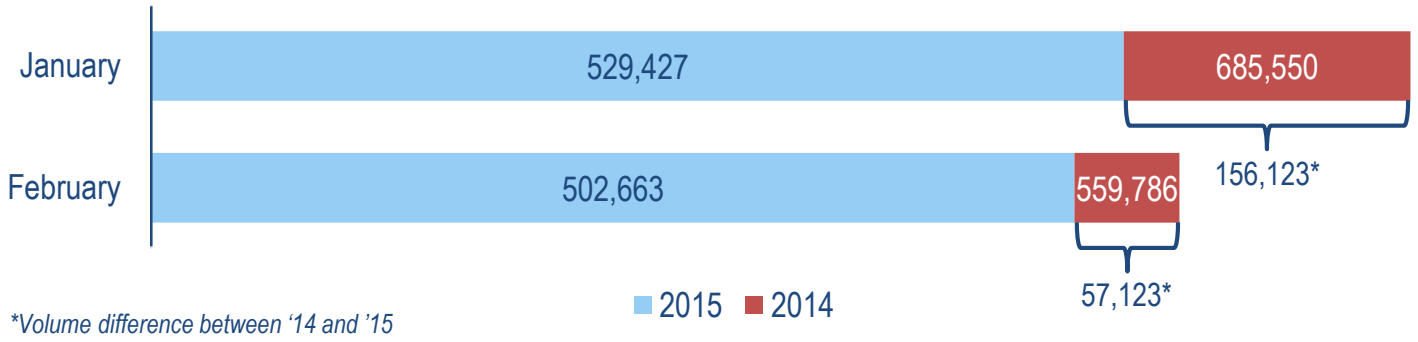
Increasing transportation costs, time zone alignment and speed to market advantages have catalyzed Mexican, Canadian and Central American manufacturing, helping to counter-balance Chinese trade growth



Source: Bureau of Economic Analysis

The massive supply chain impact our nation felt from relying too heavily on the California ports as the primary gateway into our nation has driven shippers to consider other means of importing their materials

How Badly Did the Strikes Hurt? (TEU volume through Port of LA, Oakland)



Panama Canal Expansion: Present and Future

After the expansion, the canal will be able to handle ships with up to 13,000 TEUs, more than doubling the current limit of 5,000 TEUs

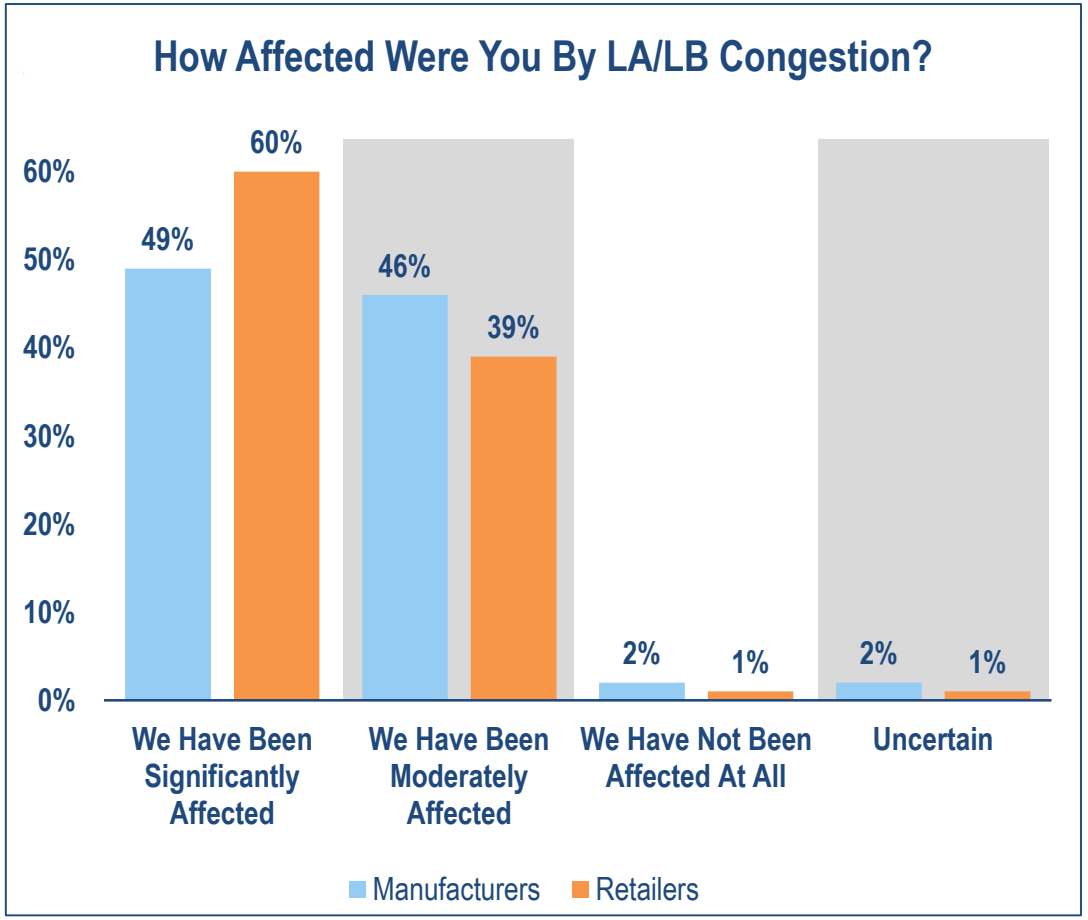
...Represents 1,000 TEUs ...Present Vessel Capacity ...Future Vessel Capacity

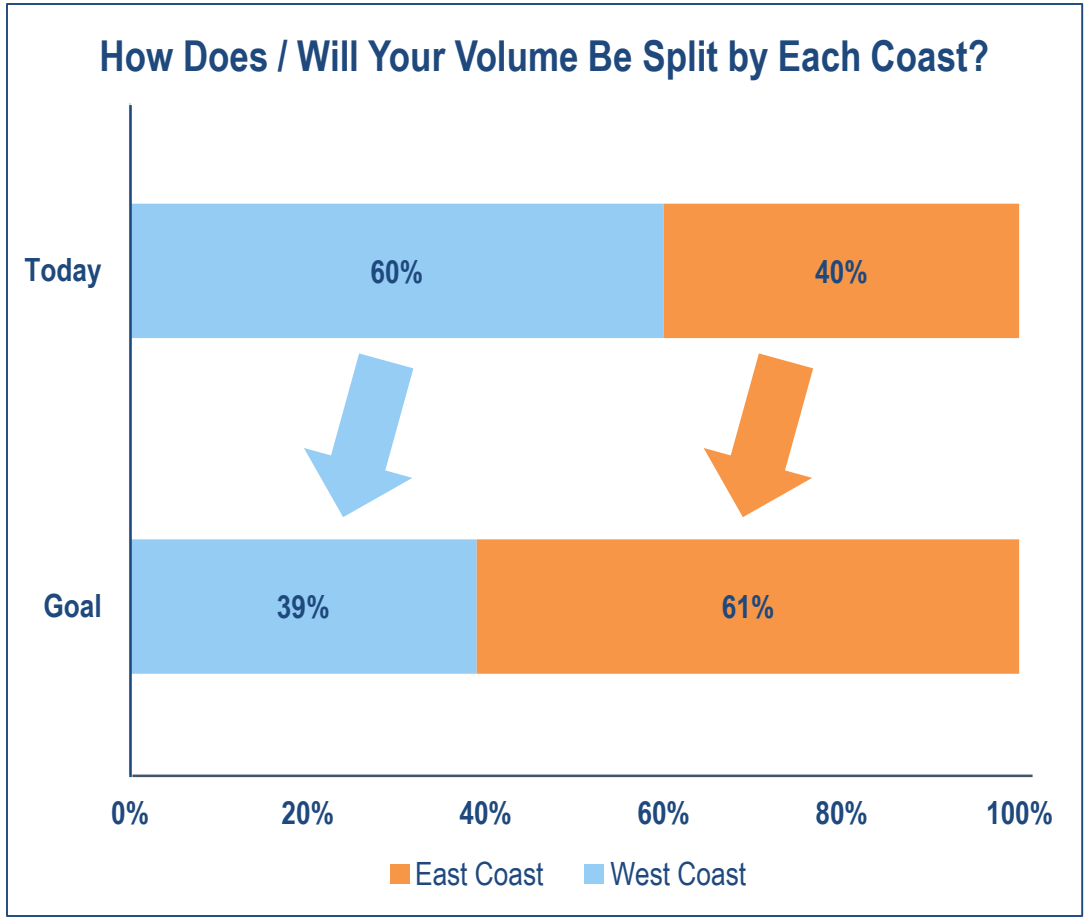
Source: Panama Canal; Port Websites, Transport Topics, Wall Street Journal

Impact from the Port Strikes

- In 2014, the National Association of Manufacturers estimated that a five-day stoppage in port operations would cost America $1.9B daily
- Total cost to retailers, including rerouting and carrying costs, were estimated to top $7B in 2015
- Washington apple exporters estimated that almost $100M of apples spoiled as a result of the port strikes and not being able to shipped to other markets or processors
- In February, BNSF, the largest truck-rail carrier cut reduced weekly train departures from 60 to 30, or roughly 7,500 shipments
- The North American Meat Institute calculated weekly loses of $85M due to exports sitting in freezers in California, rather than being delivered to buyers abroad

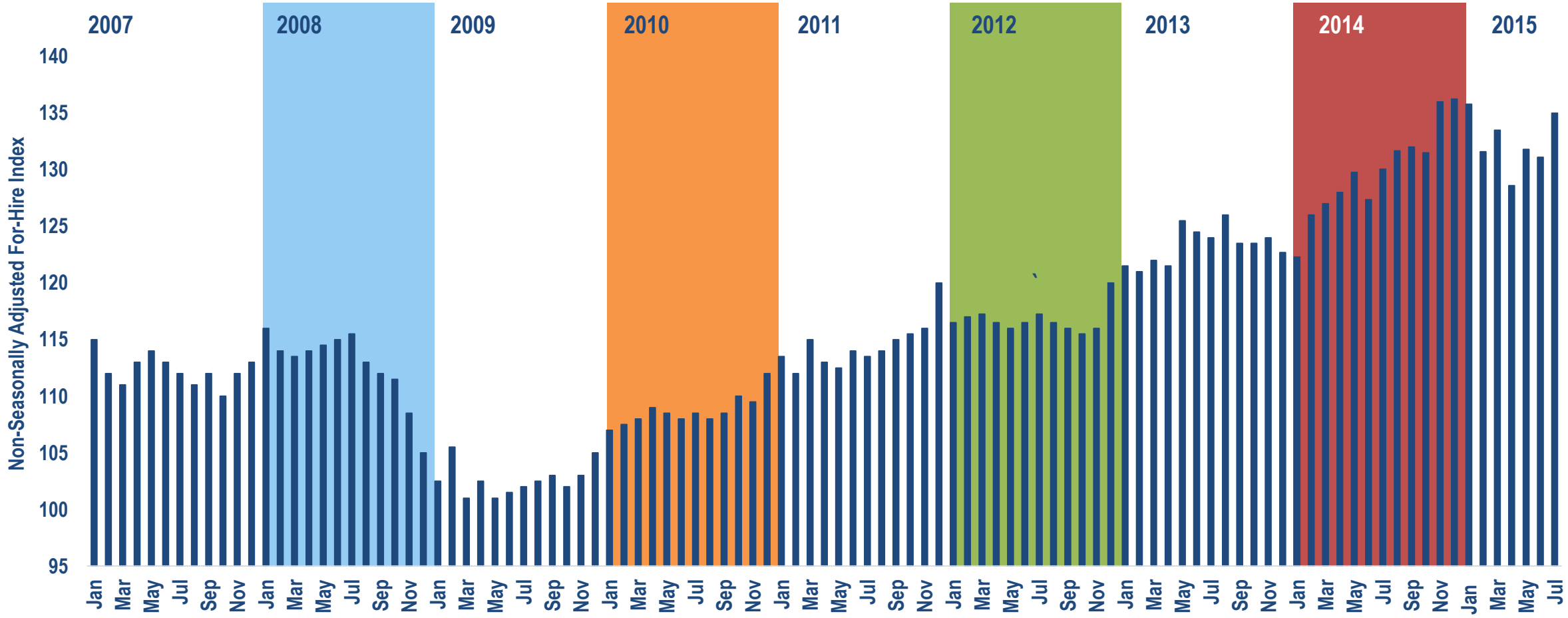
The West Coast port strikes impacted domestic supply chain on unprecedented levels, compelling nearly all manufacturers and retailers to rethink supply chain strategies and evaluate opportunities for diversification





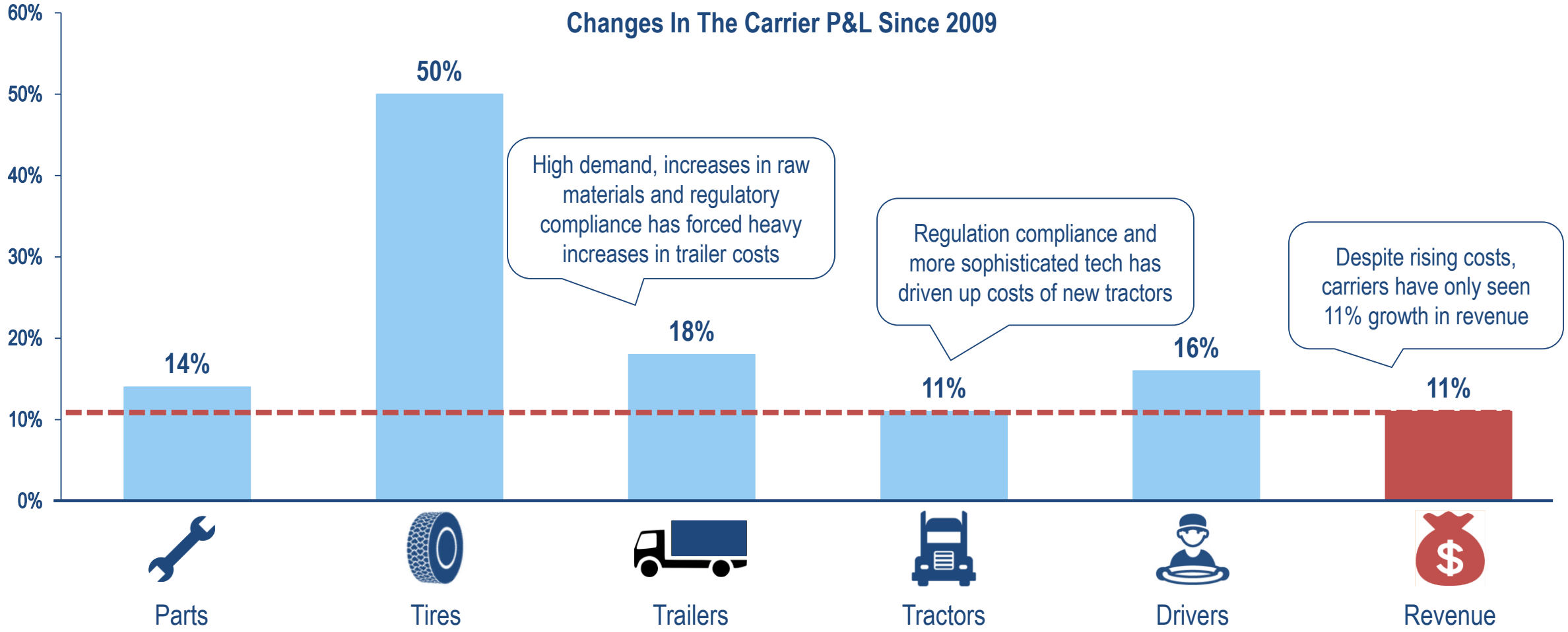
Source: American Shipper, March 2015

Continuous growth in tonnage levels from 2009 have led to record levels of freight being moved so far in 2015, lending carriers the upper hand in negotiations as the value of their capacity has consistently climbed



Source: Transport Topics, American Trucking Association

Since 2009 the growth of carriers' core operating expenses (excluding fuel) have increased at a rate faster than most carriers' revenue, challenging their ability to generate strong profits despite tonnage growth



Source: University of North Florida

Despite high initial costs, dimensioners have helped LTL carriers gain better visibility and knowledge of the costs in their network to augment low profit margins and ultimately, carriers' return on invested capital

How Carriers are Benefitting

- Capturing otherwise lost revenue from misclassed shipments that aren't inspected (some report payoffs as quickly as 20 days)
- Greater ability to profile customers and types of freight to better gauge freight costs
- Better knowledge of freight moving in their networks, along with a greater understanding of how that freight impacts margin levels
- Ability to more intelligently price freight based on historical profit data and how it operates within your network today

How 3PLs are Benefitting

- Ability to engage carriers as a partner with their margin in mind though improved profit visibility
- Improved chances of passing on increased shipment costs due to improved W&I documentation, such as pictures
- Improved shipper relationships due to the educational conversations that must occur when discussing W&I issues

LTL Carriers Using Dimensioners Today*

SAIA®
ESTES®
SOUTHEASTERN FREIGHT LINES™
OLD DOMINION FREIGHT LINE
SHIFT FREIGHT
A.DuiePYLE™
YRC® FREIGHT
PITT OHIO
SUPPLY CHAIN • GROUND • LTL • TL
Roadrunner Transportation Systems
DAYTON FREIGHT

Not a comprehensive listing of carriers using dimensioning technology

Source: Transport Topics, Company News Releases, CarrierDirect Research

The Coyote acquisition showcases the strategic impact that technology and a best-in-class brokerage create in optimizing an asset network and capturing synergies through enhanced customer offerings

How Coyote's acquisition will shape the industry over the coming years

Tech is King

- Coyote's best-in-class truckload technology grants UPS access to purchased transportation to better manage costs during peak season
- Post-integration, Coyote's tech will enable improved network management for UPS enterprises

Asset Network Optimization

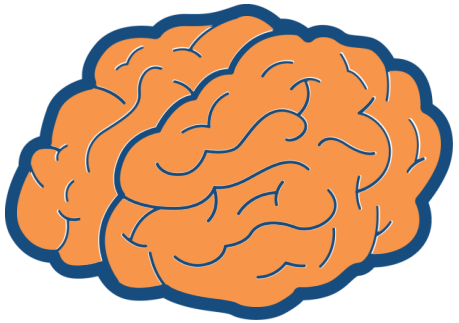
- Leveraging Coyote's truckload density will help UPS to limit backhaul and deadhead miles and in their asset fleet
- In turn, Coyote can now offer a superior service-level product at highly competitive rates to shippers

Transportation is Agnostic

- Carriers' relationship with Coyote will continue to evolve due to their strategic, network-based platform
- The value of capacity won't change, meaning Coyote will continue to provide purchased transportation to LTL carriers

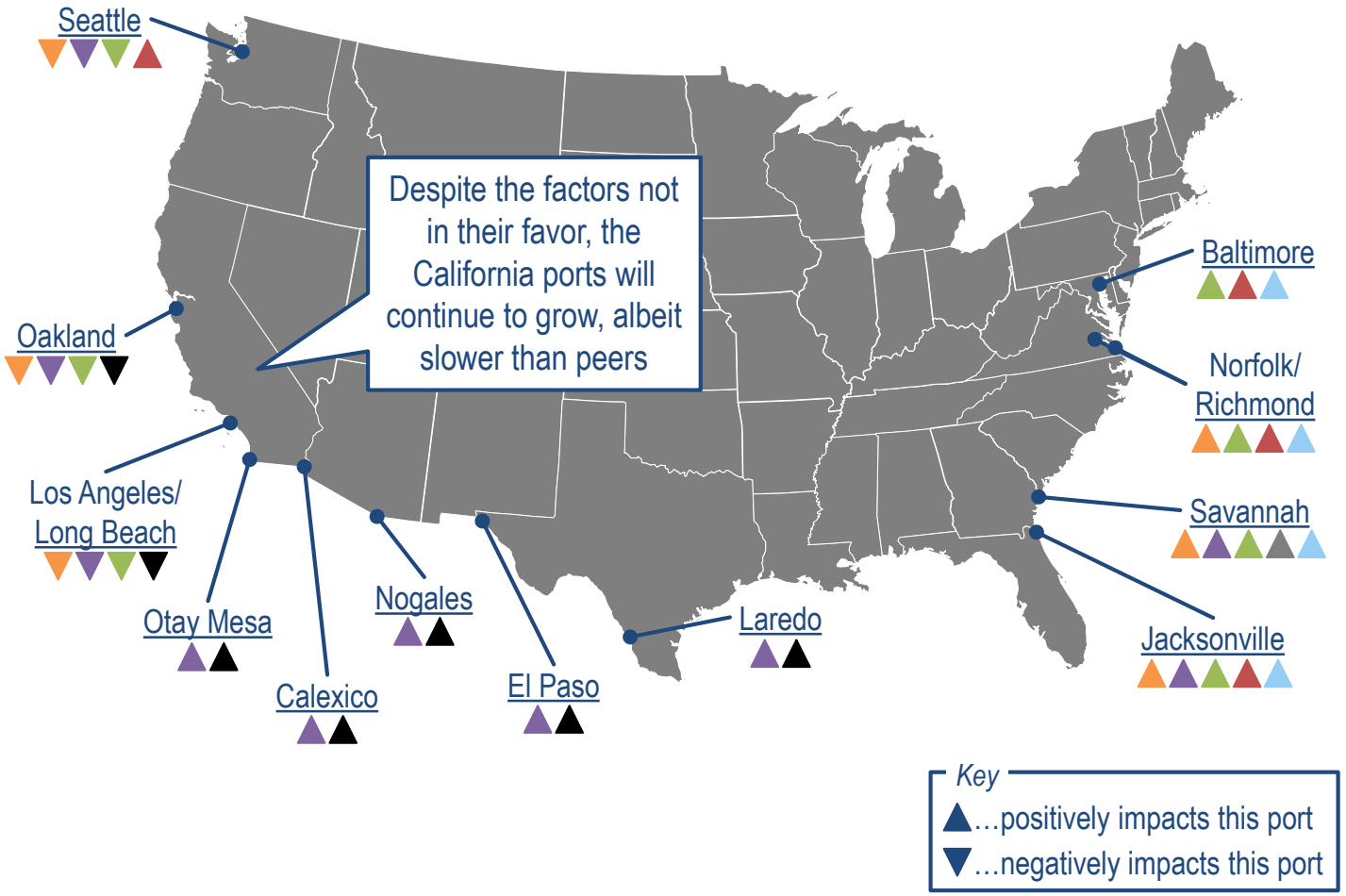
Happenings in the Freight World

What's Ahead for the Freight Market



Survival of the Smartest

The United States will begin to see a major, systemic shift in freight flows across the nation as shippers attempt to mitigate their supply chain risk and improve supply chain efficiency, speed and performance



- **Strikes expose supply chain risk from low diversification**
  - An estimated 500,000 shipments stopped at the Calif. ports paralyzed supply chains across the nation
- **Manufacturers deciding to right shore their operations**
  - Faster speed to market, similar labor costs and time zone alignment is driving manufacturers to move operations
- **Panama Canal expansion and increased throughput**
  - Once complete, Post-Panamax vessels with up to 13,000 TEUs can use the canal, doubling current capacity
- **Lower transportation costs through 'vacuum' markets**
  - Shippers who divert freight to 'vacuum' markets will capture extra cost savings and improved service levels
- **Ability to handle larger ships and in turn, more freight**
  - Ports have already expanded so they can handle Panamax ocean vessels
- **Increased trade with Mexico and ease of execution**
  - Industry leaders like Werner, ProTrans and DHL are greasing the tracks for easier commerce with Mexico

Source: Transport Topics, Company News Releases, CarrierDirect Research

Though truckload rates aren't expected to take large hikes unless annual GDP growth exceeds 2.5%, the overarching reality is that while capacity may ebb and flow in the short-term, it won't loosen up for 5+ years

Factors Impacting Capacity

Tightens Capacity ↑

Driver Pay
What it is
Low pay doesn't motivate young people to get CDLs
Why does it matter
Aging driver population isn't getting reinforcements
Who will it impact First
Carriers / Shippers / 3PLs

HOS Restart Rule
What it is
Highway bill may not push back HOS restart rule
Why does it matter
Less road time could limit capacity by 1-3%
Who will it impact First
Carriers / Shippers / 3PLs

ELDs
What it is
Legally mandated electronic logging devices
Why does it matter
More regulation; new costs for owner ops / small fleets
Who will it impact First
Owner ops / small fleets
Transactional FTL brokers

Hair Drug Testing
What it is
DOT mandated hair drug testing for Class 8 drivers
Why does it matter
Hair testing is 5-10x more accurate than urine testing, meaning more drivers could be caught
Who will it impact First
Owner ops / small fleets

Loosens Capacity ↓

Twin 33' Trailers
What it is
33' pup trailers for LTL carriers
Why does it matter
Twin 33s have 24.5% more feet than a dry van
Who will it impact First
LTL carriers / large truckload carriers

Platooning
What it is
Wirelessly linked trucks forming road trains to boost fuel efficiency
Why does it matter
Enables carriers to grow margins and reinvest in themselves
Who will it impact First
Truckload / LTL carriers

Autonomous Trucks
What it is
Trucks with advanced autopilot features and safety features
Why does it matter
More driver downtime so they can perform more tasks and earn more
Who will it impact First
Large truckload carriers

Carriers' Brokerages
What it is
Carriers growing their capacity offering with their brokerage groups
Why does it matter
Strong carriers will eat market share and manage asset capacity better
Who will it impact First
Truckload carriers

Mexican Carriers
What it is
Mexican carriers can now apply for US authority
Why does it matter
May bring more capacity into the market
Who will it impact First
Owner ops / small fleets

Source: Transport Topics, Company News Releases, CarrierDirect Research

The information about a shipment is now more important than the shipment itself as the strategic importance of supply chain efficiency grows and the costs associated with poor execution are magnified

	Negative Impacts of EDI on Carriers	Negative Impacts of EDI on 3PLs	Why API (web services) is Better
Rating Bureau (manual entry, not EDI)	▪ Complex tariffs lead to long wait times before customers can implement new pricing ▪ Increased likelihood of billing errors due to mistakes made when loading pricing	▪ Complex pricing agreements result in inflated costs from loading and managing the pricing agreements ▪ Manual management creates high administrative and maintenance costs	▪ Pricing is accessed directly from the server, also limiting billing issues ▪ Enables access to volume LTL pricing and capacity so 3PLs can capture discounted lanes better
Dispatching	▪ EDI 204s infrequently contain all shipment info needed to effectively plan for pickups ▪ Seconds matter, but EDI dispatches can be delayed by 5-120 minutes	▪ Increased call volume to double check if carriers received tenders and once again to ensure that pickup was successful ▪ Error code delays increase customer churn and can take 2 hours to receive	▪ Direct, server-to-server connectivity returns pick up numbers, verifying transmission on shipment tenders ▪ Real-time connectivity confirms pickup success
Tracking	▪ Customer service suffers from poor shipment status visibility ▪ Reps compensate for stale EDI data by calling and emailing carriers for updates more frequently	▪ Reps don't trust EDI status updates due to the delay, leading them to call carriers to check on shipments, rather than booking more freight or calling shippers	▪ Real time data lowers inbound and outbound call volume that interrupts work flow, increasing employee productivity ▪ Higher 3PL value add results in less 3PL employee churn

Source: Transport Topics, CarrierDirect Research

Now that Uber has claimed its first casualties with traditional taxi service providers, it's rather clear that Uber (or another tech company) will add transportation to the list of industries its already disrupted

UBER

Industries Already Impacted

- Taxi Services
- Valet Services
- Traffic Ticket Revenue
- Car Sales Volume
- Car Repair Cost
- Oil Demand

Future Impacts to Transportation

?

Potential impacts as Uber approaches conventional transportation will be far reaching

High returns and the opportunity to leave a mark on a structurally central industry is driving up investment in tech; these are three of the most important companies that will sculpt the future of trucking

Company Name: Peloton

PE / VC Funding: Yes

What They Do: Truck technology platform utilizing vehicle-vehicle communication to link trucks

Why They Matter: Platooning can save up to 7% of fuel between the lead and following truck

Website: www.peloton-tech.com

Company Name: project44

PE / VC Funding: Yes

What They Do: Provide the fastest real-time data connectivity and offer a Dynamic LTL Pricing Engine

Why They Matter: Information about freight is more valuable than freight itself, plus EDI doesn't work

Website: www.p-44.com

Company Name: Trucker Path

PE / VC Funding: Yes

What They Do: Tech platform that provides navigational assistance, load sourcing and freight tracking

Why They Matter: Both drivers and carriers are drawn to the app because it makes their lives easier

Website: www.truckerpath.com

While new tech platforms are helping to transform how the industry behaves, these established players are showcasing their best-in-class results and operations that continue to disrupt the status quo

	COYOTE	ECHO	FedEx Freight	WERNER	Worldwide EXPRESS Global Logistics
What They're Doing Right	Superior truckload competency has allowed them to create a niche service offering of providing purchased transportation to major LTL carriers	Strong management and culture has enabled the sales force to develop a competency with moving both truckload and LTL freight	Acquiring market share though intelligent and selective engagement of the 3PL marketplace while continuing to be a premium service provider	Experienced management and asset backed solutions provides a strategic global transportation network, with fully developed 3PL, brokerage and intermodal offerings	Sales swagger and a competitive culture has led WWE to dominate SMB market small pack by reselling Big Brown and to become the biggest private LTL 3PL
Why They'll Keep Winning	Now that the industry is agnostic, Big Brown's biggest benefit will be capacity during peak season, but carriers will continue investing in the relationship	New technology from the recent Command acquisition fortifies Echo's position as a premium truckload provider and modal-dominating 3PL	The momentum will continue as FedEx further masters 3PL engagement and partnership to help balance their network	Organizational commitment to continued investment in technology, talent and infrastructure. Werner's re-investment model will continue to deliver customer value	Expect to see the growth momentum last as WWE expands modal offerings, giving their sales team more ammo and using APIs to gain better data access

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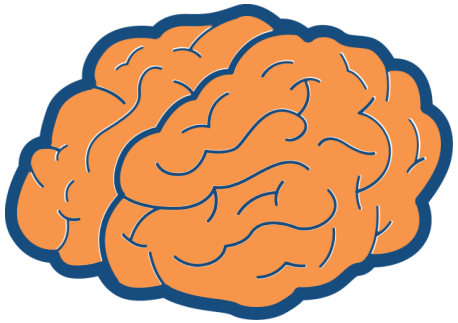
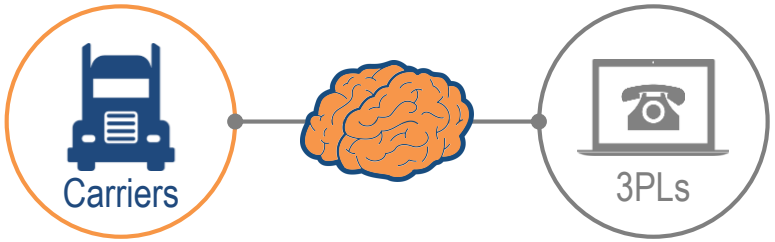
What's Ahead for the Freight Market



Survival of the Smartest

Survival of the Smartest

The future's winners in transportation and logistics will be the companies that can outsmart their competitors by magnifying their strengths



Broker Freight Like the Best

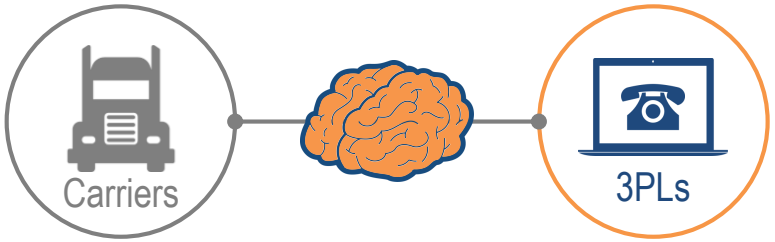
- Build a brokerage able to compete with the best, then use that density to decrease backhaul and deadhead miles
- Service asset overflow with brokered capacity, rather than aimlessly expanding capacity
- Use asset-light operations to counterweight asset network variability

Intelligently Align with 3PLs

- Create pricing complimentary to asset movement and only give it to a select 3PLs that focus on true partnership
- Give Most Favored Nation status to those 3PLs by adopting a multi-year strategy
- Engage 3PLs to help lower margin by sharing margin and operating information

Ditch EDI

- EDI shipment tenders can take up to 2 hours to be received, adversely impacting perceived performance
- Using EDI for shipment status provides customers with stale data, increasing inbound calls
- Rate requests can't be logged and stored with EDI, which drastically limits data intelligence



Dynamically Manage Margin

- Understand customer behavior, such as rate elasticity, to harness the opportunity to maximize margin through psychology rather than pricing
- Invest in technology that recognizes shipping patterns to make it easier for shippers to move freight while simultaneously growing profit

Ditch EDI

- Information about freight is now more important than the freight itself, meaning old data negatively impacts margins and increases churn
- Transition away from EDI quickly, since stale data restricts the ability to efficiently allocate resources (e.g. employee time, capital)

Empathize with Carriers

- Start dialogue with carriers to create strategies that balance their network and improve operating performance
- Identify the frivolous day-to-day costs 3PLs contribute to and implement SOPs to lower those costs, such as high inbound call volume to track freight (see 'Ditch EDI)

CARRIER DIRECT

CarrierDirect, LLC

105 West Adams, Suite 3010
Chicago, IL 60603
@CarrierDirect
CarrierDirect
www.carrierdirect.co

Erik Malin

Executive Vice President
erik@carrierdirect.co
ErikMalin