State of the Union in the Drayage Industry

Agriculture Transportation Coalition
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Ken Kellaway- President & CEO
RoadOne IntermodaLogistics

Company Overview

RoadOne is a leading National provider of intermodal logistics service, delivering transportation, terminal management and distribution solutions across the United States.

Single Source Solutions That Connect

National Network

Value Add Services

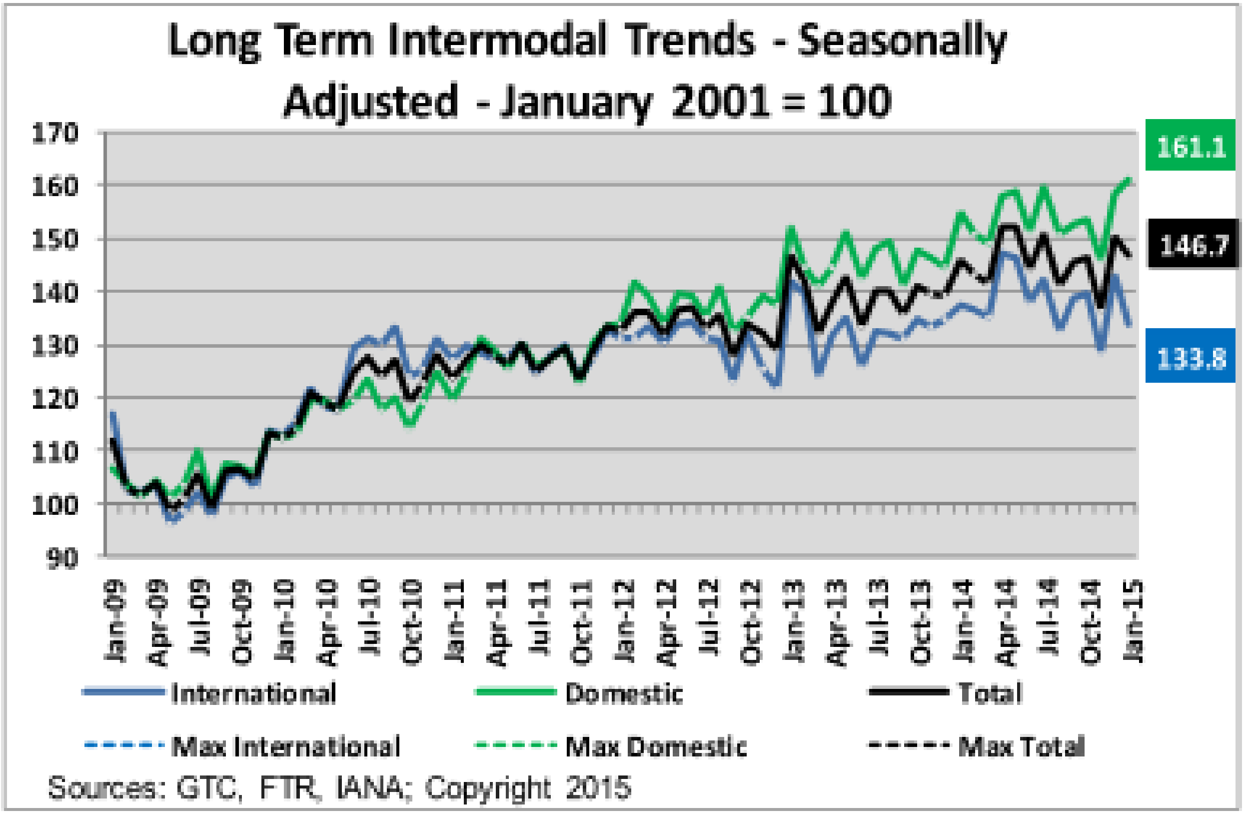
- ✓ Intermodal Trucking both Port & Rail Based
- ✓ Warehousing (Dry and Climate Controlled)
- ✓ Transloading, Cross Docking, &Pool Point Distribution
- ✓ Dedicated Truck Network Solutions
- ✓ TL and TLT Consolidation to major retailers

Single Source Solutions That Connect

RoadOne IntermodaLogistics
Solutions That Connect.

Intermodal Trucking Introduction

Intermodal trucking is a $15 billion segment of the transportation industry, approximately 70% international and 30% domestic

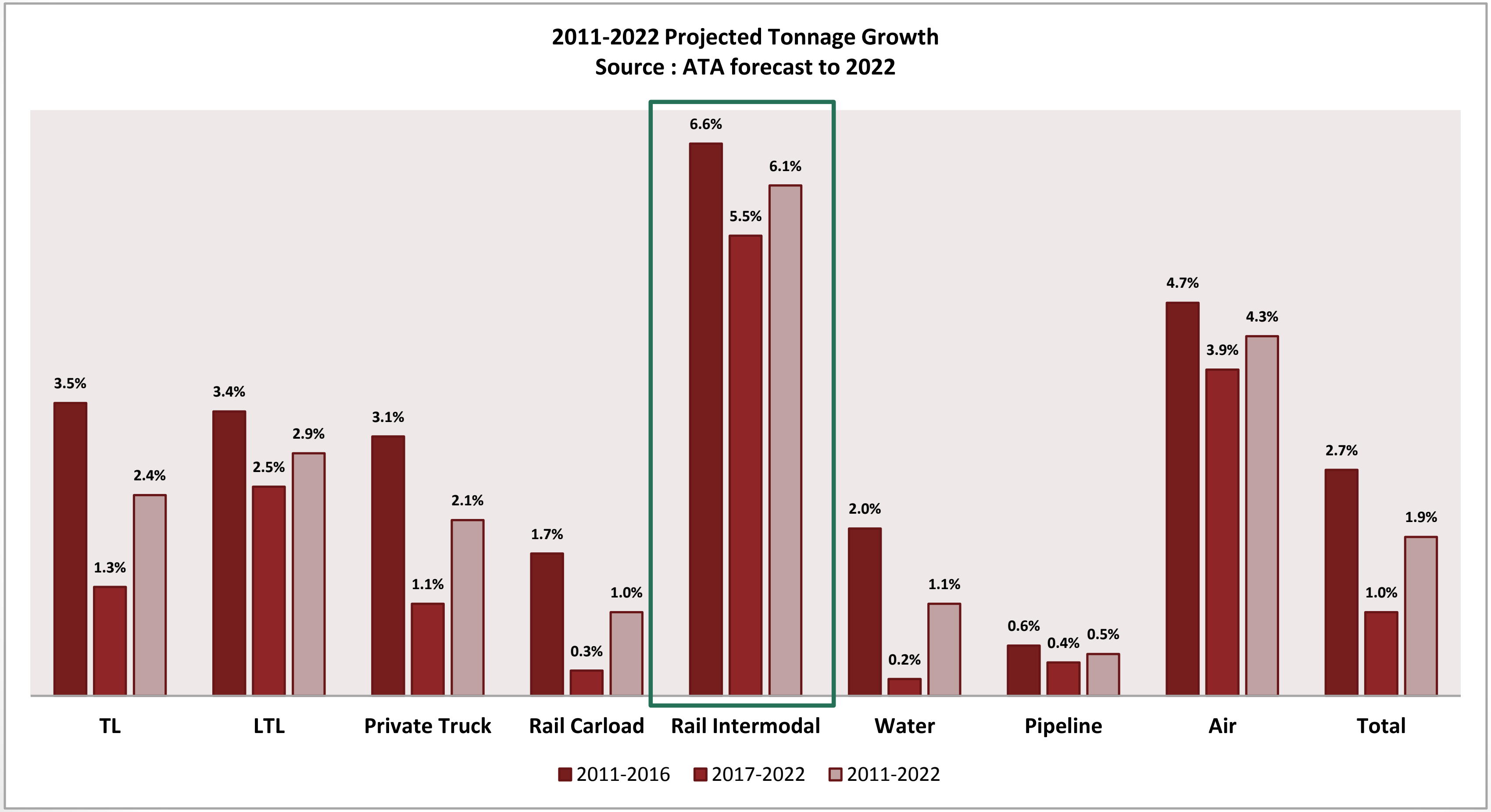


Intermodal growth has averaged approximately 2x GDP growth

2013- 2014 CAGR = >4.5% International and >5.5% Domestic

Domestic Intermodal

Intermodal is expected to be the fastest growing transportation segment over the next ten years



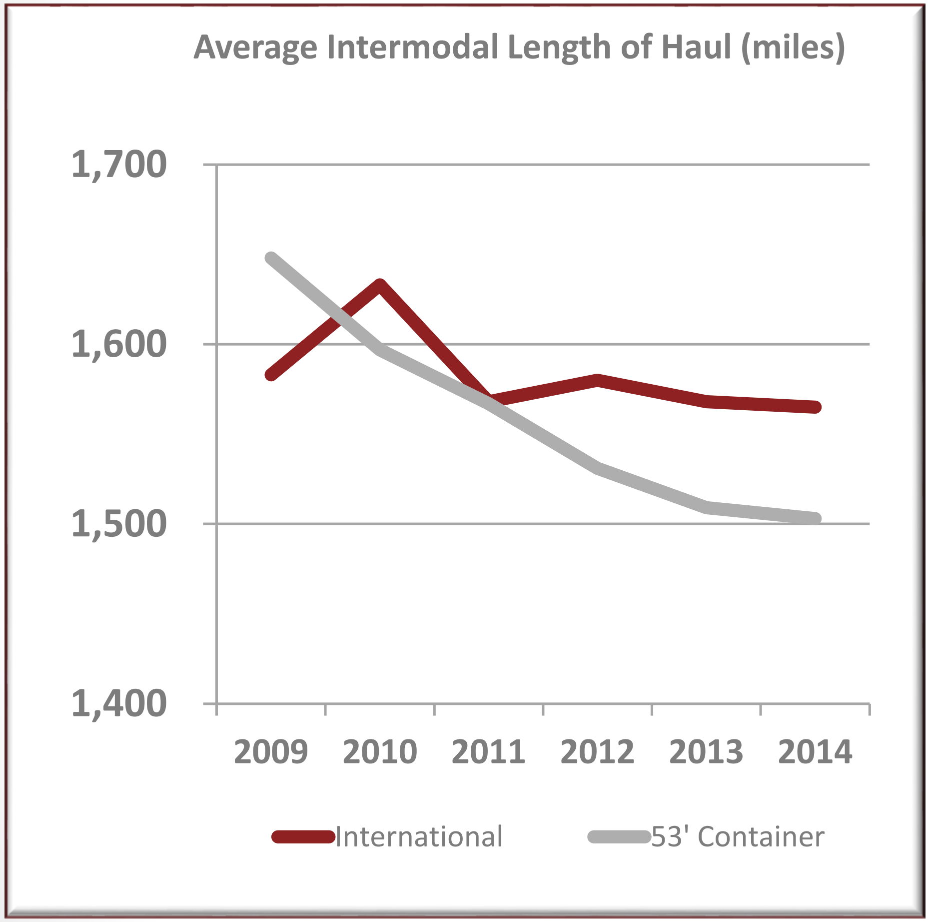
CSX and NS are making investments to support intermodal — high quality, modern, efficient routes to increase intermodal's attractiveness

Norfolk Southern Intermodal Map

Source: Norfolk Southern Railway website,

- NS Investments
  - $3 B in Crescent Corridor from New York to Memphis and New Orleans, new terminals in Birmingham, Charlotte, Memphis, and Greencastle, PA
  - $300 M in Meridian Speedway joint venture with Kansas City Southern connects Dallas to Meridian, MS and points East
  - $290 M in Heartland Corridor from the Port of Virginia to the Chicago, included tunnel expansion to support double stack trains
- CSX Investments
  - National Gateway project to support double stack intermodal from Mid-Atlantic ports to Midwestern markets
  - Opening new terminals in Central Florida, Pittsburg, and Montreal
  - Expanding major Northwest Ohio terminal that was opened in 2011
- YTD 2015 intermodal volume is up for eastern railroads CSX and NS, but down for western railroads BNSF and UP

Intermodal length of haul has been declining in both international and domestic



- Intermodal length of haul declined from 2009 to 2014
  - Domestic 53’ container length of haul has decreased by 9% - this change is due in part to the development of new shorter DST corridors in the East
  - ISO containers length of haul declined by 2% - this decline is driven by the shift to domestic transload on the west coast and all-water east coast service
- The “short-haul” intra-Southeast intermodal corridor was the fastest growth high volume corridor in 2014 with >10% annual growth rate
  - 3Q2014 domestic volume increased 11.7%
  - 3Q2014 international volume increased 12%
  - 4Q2014 combined annual growth was 12.8%

Source: FRT Intermodal Update, 4/2015; IANA 3Q2014 Intermodal Market Trends and Statistics; IANA 4Q2014 Corridor Growth Chart

International Intermodal

International intermodal trucking is a $10 billion portion of the port logistics market- *at the bottom of the funnel*

Global Logistics

Market Size: $7.3 Trillion

U.S. Logistics

Market Size: $1.5 Trillion

Port Logistics

Market Size Est. $40-$50 Billion*

International Intermodal Trucking

$10 Billion

Excludes Logistics. Activities:

- Outside the U.S. borders

Excludes Logistics Activities:

- From purely U.S. domestic freight
- Before manufacture and assembly
- After arriving at distribution center

Excludes Non-Intermodal Trucking Activities:

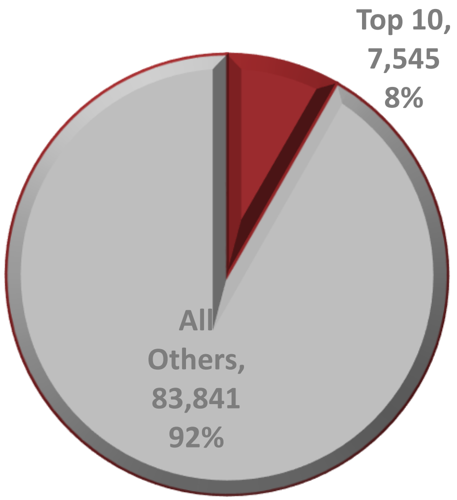
* Note: Estimate based on assumptions and analysis on port logistics sectors

Sources: Armstrong & Associates, Inc., U.S. Census, Dept. of Commerce, Intermodal Association of North America, American Association of Port Authorities, Clarendon Group Analysis

Intermodal Trucking Breakdown

There are about 5,000 for-hire intermodal trucking carriers, with the top 10 independent providers operating about 8 percent of total capacity

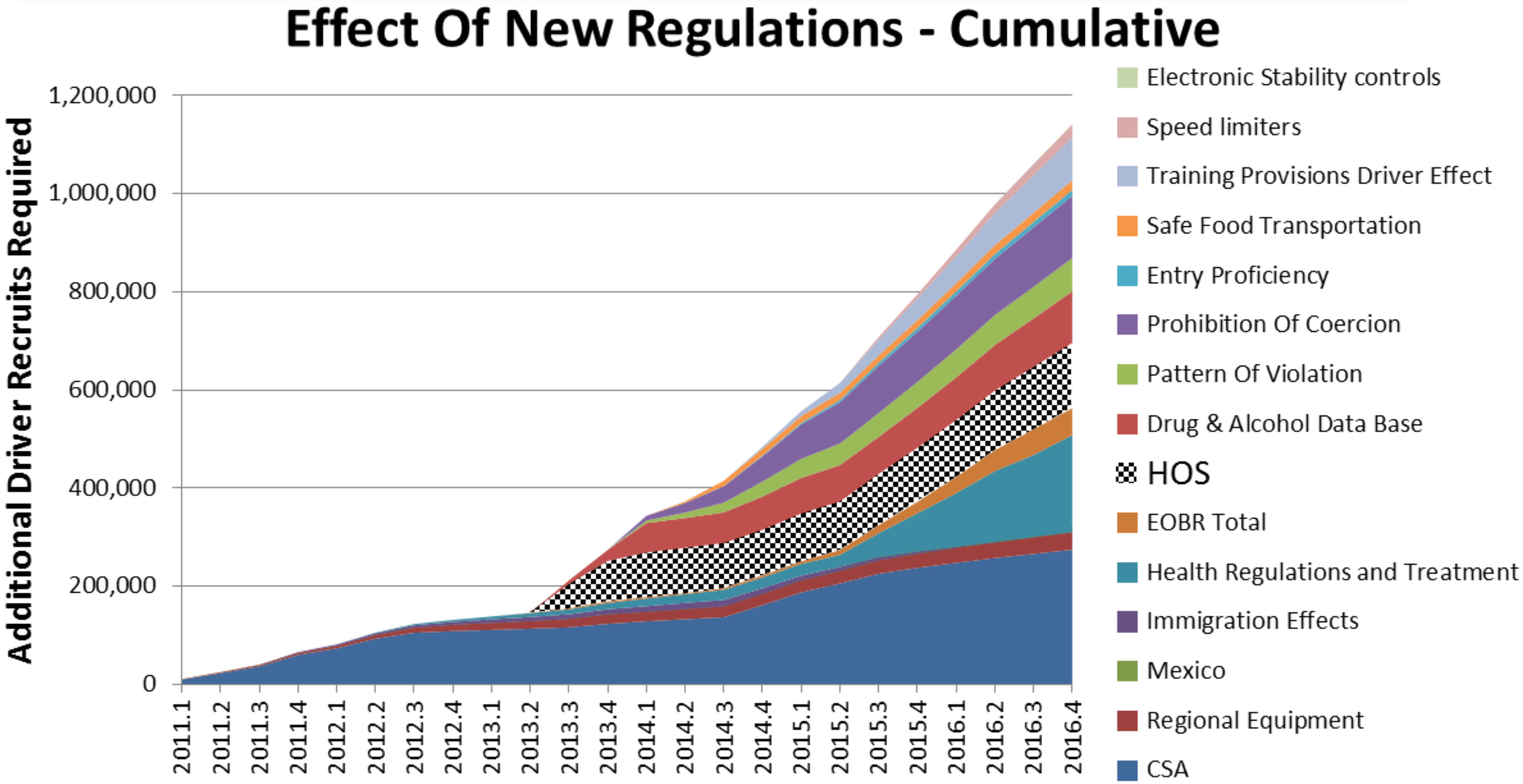
*** Highly Fragmented * High company turnover * Undercapitalized * Aging ownership**



Note: Clarendon estimates. Excludes integrated firms whose trucking primarily serve as an in-house fleet, such as JB Hunt, Schneider, Maersk/BTT and Hub/Comtrak

Source = Clarendon Group

EOBR is the next big hit from a long wave of regulatory change.



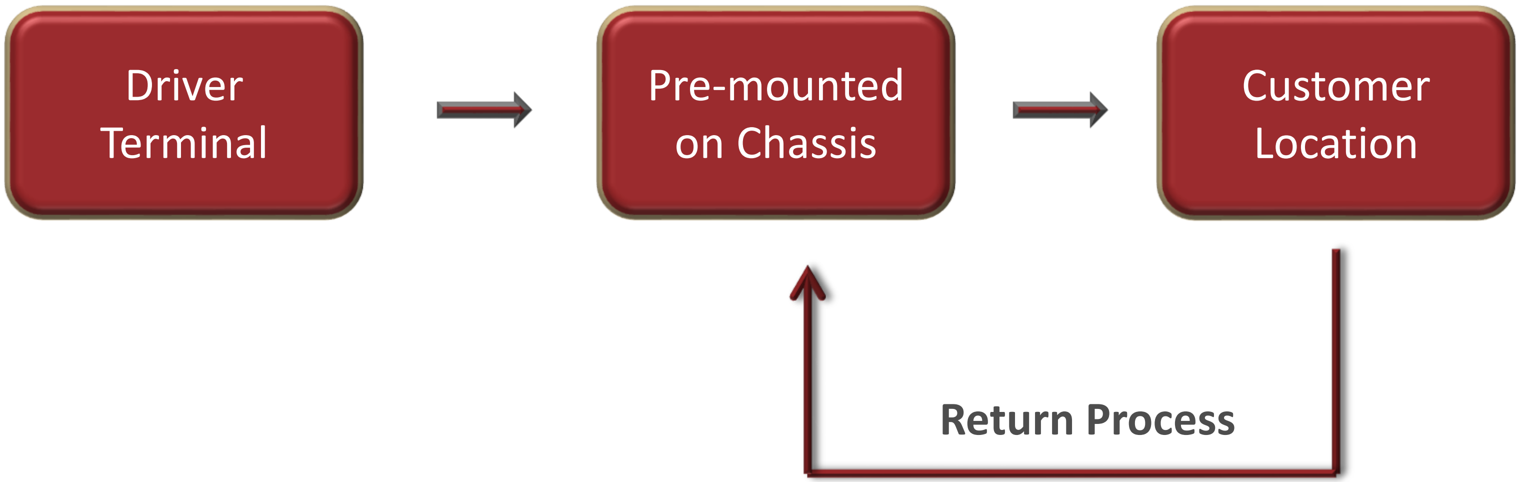
Sources: FTR Associates, Transportation Economics – TransSafe Consulting

This wave could last through the rest of the decade.

Hour of Service= 5% less capacity- 20% less applicants- 10% less efficient.

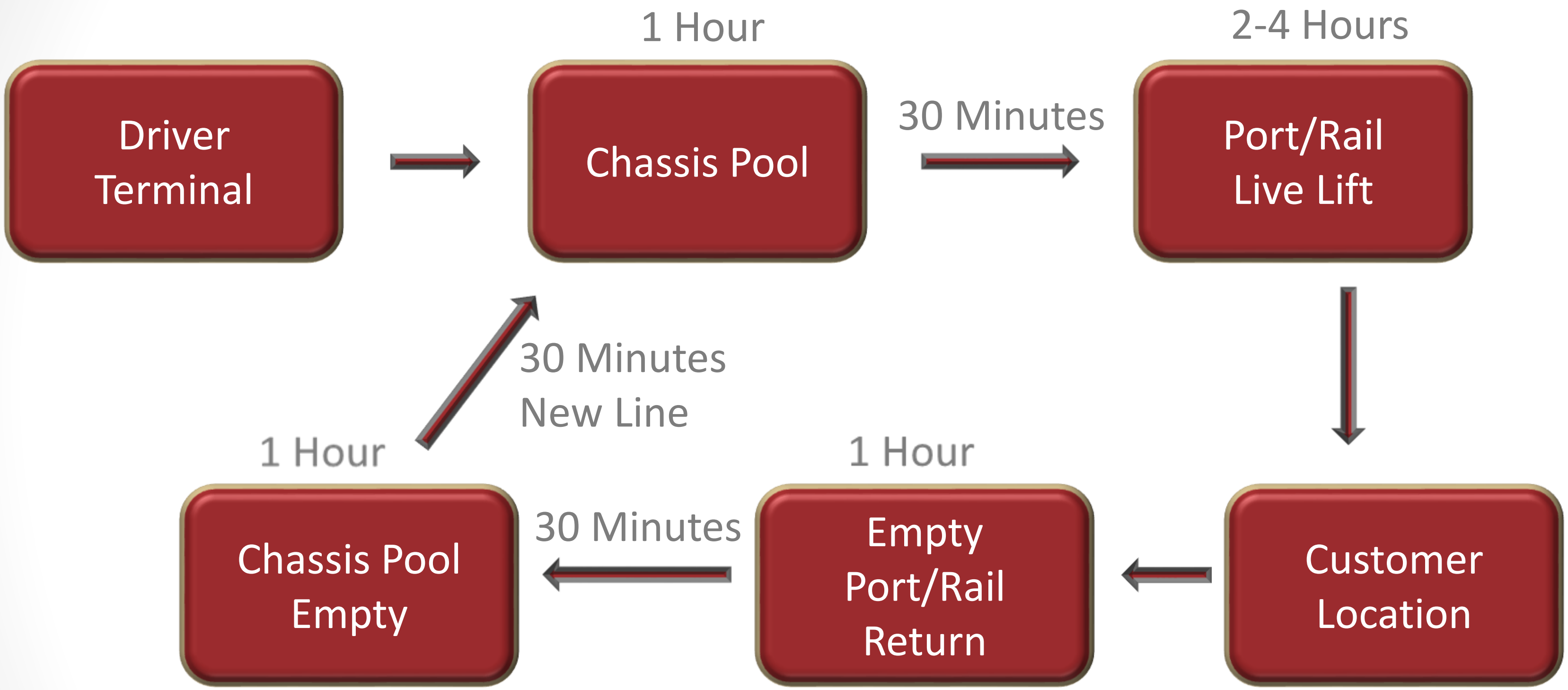
EOBR next big wave to hit in 2015- could reduce drayage capacity 20%

Past Port/Rail Terminal Equipment Cycle



<u>1 Hour = Full Cycle</u>

Current Port/Rail Terminal Equipment Cycle



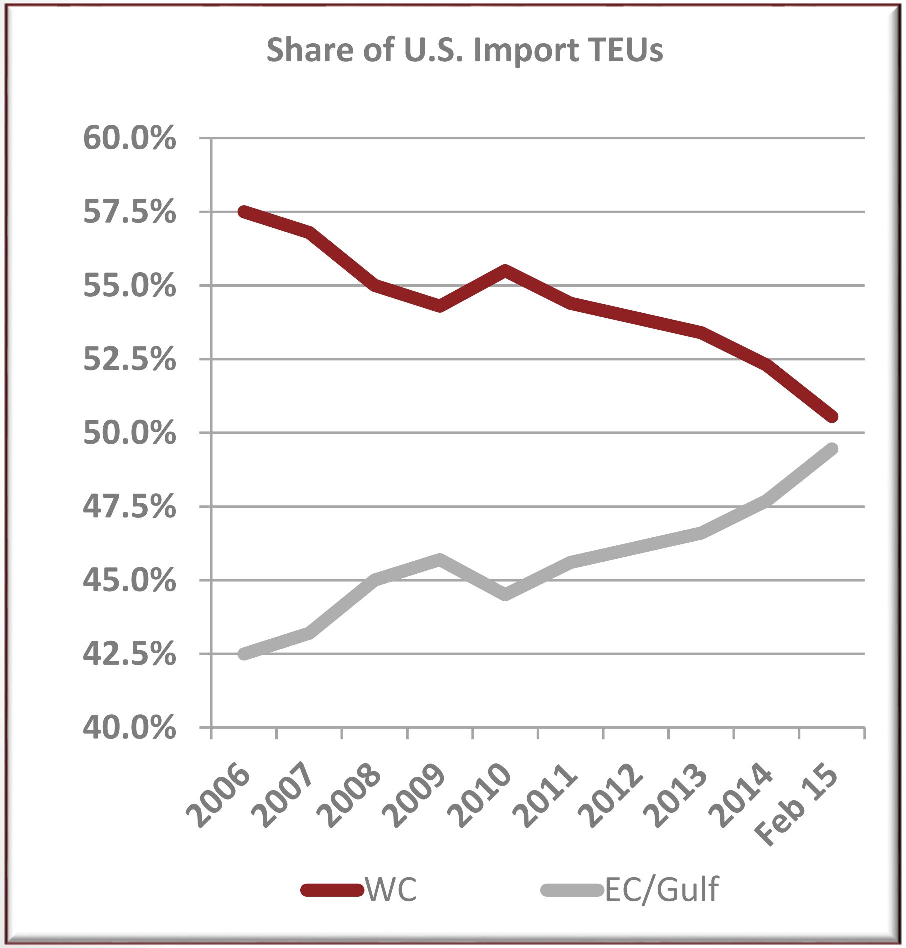
<u>3-6 Hours = Full Cycle</u>

- Port and Ramp operations need to focus on the true turn time at their Facilities and need to adjust gate hours to service their customers.
  <u>Gate turn times are NOT the total time it takes to pick up a box</u>

The West Coast Challenge- The Perfect Storm

- **Labor slow down "Safety Focus" due to PMA- ILWU negotiations**
- **Big Vessels plugging up terminals- Our new future- Maersk –** Generation EEE- 19,630 TEU- 11 on order
- **VSA fragmenting lines equipment among multiple terminals**
- **Declining Drayage capacity results in FREE TIME Chasing.**
  - Driver re-classification challenges- Independent to Company- Hub
  - Union pressure to organize Drayage- 6 companies under pressure
- **Rail congestion causes delays on-dock to load outbound**
- **Chassis conversion process from lines to pools.**
  - Wrong assets in the wrong location- dislocation issue .
  - Dislocation creates equipment shortage and delays.
  - Increased M & R issues and more OOS Chassis.
  - ILWU – increased inspection process on-dock
- **Result = Port congestion fees - $150- Reduced Free Time – 1 hour**
  - Delay Charges of $60-$90 per hour
  - Dedicated fleet Model growth/ Company Truck Model

While much west-to-east shift in cargo has already occurred, the canal expansion will continue the shift to East/Gulf coast ports. West coast port issues will add pressure as well



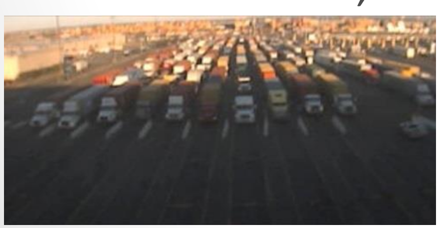
- Shift from west coast ports to east coast ports occurred over last decade
- 2014/2015 west coast labor issues exacerbated shift — may be short term
- Transit via all water to east coast could be + 2 weeks
- Many factors could impact the shift, including type and value of commodity, supply chain networks, port readiness and infrastructure, and relative economics
- Parsons Brinckerhoff estimates $100/container shipper savings
- Parsons Brinckerhoff (worked on Panama Canal study for U.S. DOT) expect some shifts, but not “explosive”
- Union Pacific Railway expects 3% shift
- Jones Lang LaSalle estimates 25% of Asia — west coast freight could shift to East

Source: Journal of Commerce; Stifel Nicolas; Parsons Brinckerhoff; Wall Street Journal

The Port Challenge Continues, Is Moving, and Is Systemic

- **Port of LA/LB**
  *6 Months of extensive delays *Cycle times exceeding 4 hours
  *Significant backlog still exists *Port Surcharges in place
  Port of NY/NJ
  *Delays for full pick up cycle up to 4 hours, historically 2 hours
  *Bad, Older Chassis *Volume Spikes *Lack of road infrastructure to handle lines *Police forcing drivers to circle
  *RAPID driver exit from industry
- **Port of Norfolk**
  *Total Cycle time has increased from 1 hour to 3.5 hours
  *Drivers preparing to strike *Port surcharges need to be put in place
  <u>Southeast Port Turn Times</u>
  -Jax, Sav, Charleston = **1 Hour**!

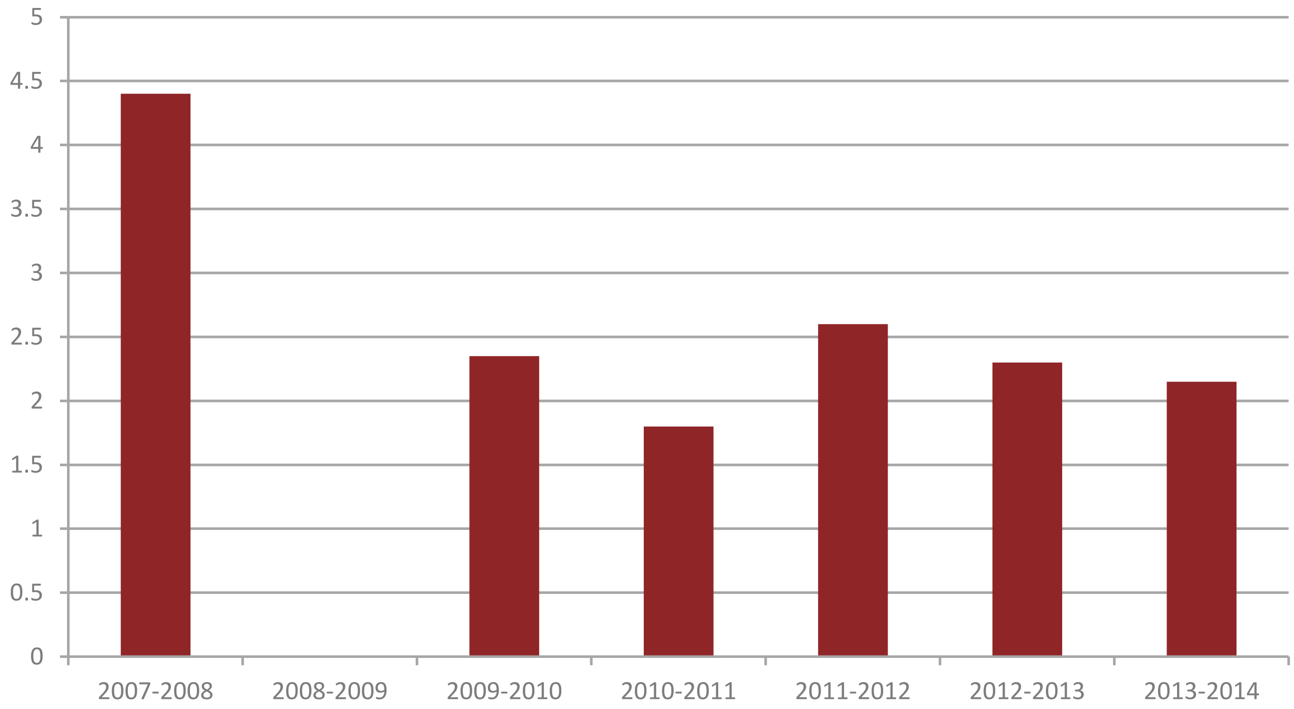
How long will it last?



The Intermodal Drayage Rate Challenge

- **Drayage rates must increase at a faster pace than truckload to offset key changes in cost due to;**
  - Clean truck initiatives in port areas ie CA- 2007 and newer.
  - Lower base rates in intermodal than other trucking sectors.
  - Low Tractor driver wages- Avg = $41K 12% below Labor Avg.
  - Chassis cost impact- Repositioning, M & R, Administration, Off site depots and increase delay times.
  - Dramatic increases in per diem rates, Demurrage,
  - Port and Rail delays – Live lift, gate delays, rail congestion.
  - Outside competition for drivers including; construction, domestic intermodal – carriers- ie JB Hunt, Hub, etc., E*commerce.
  - Continued supply and demand pressure – regulation ELB – 20%
  - John Larkin – Stifel *"We are heading towards a capacity crisis and it is going to get much worse"*

Rate Increases taking hold to offset 5 Year Consumer Price Index



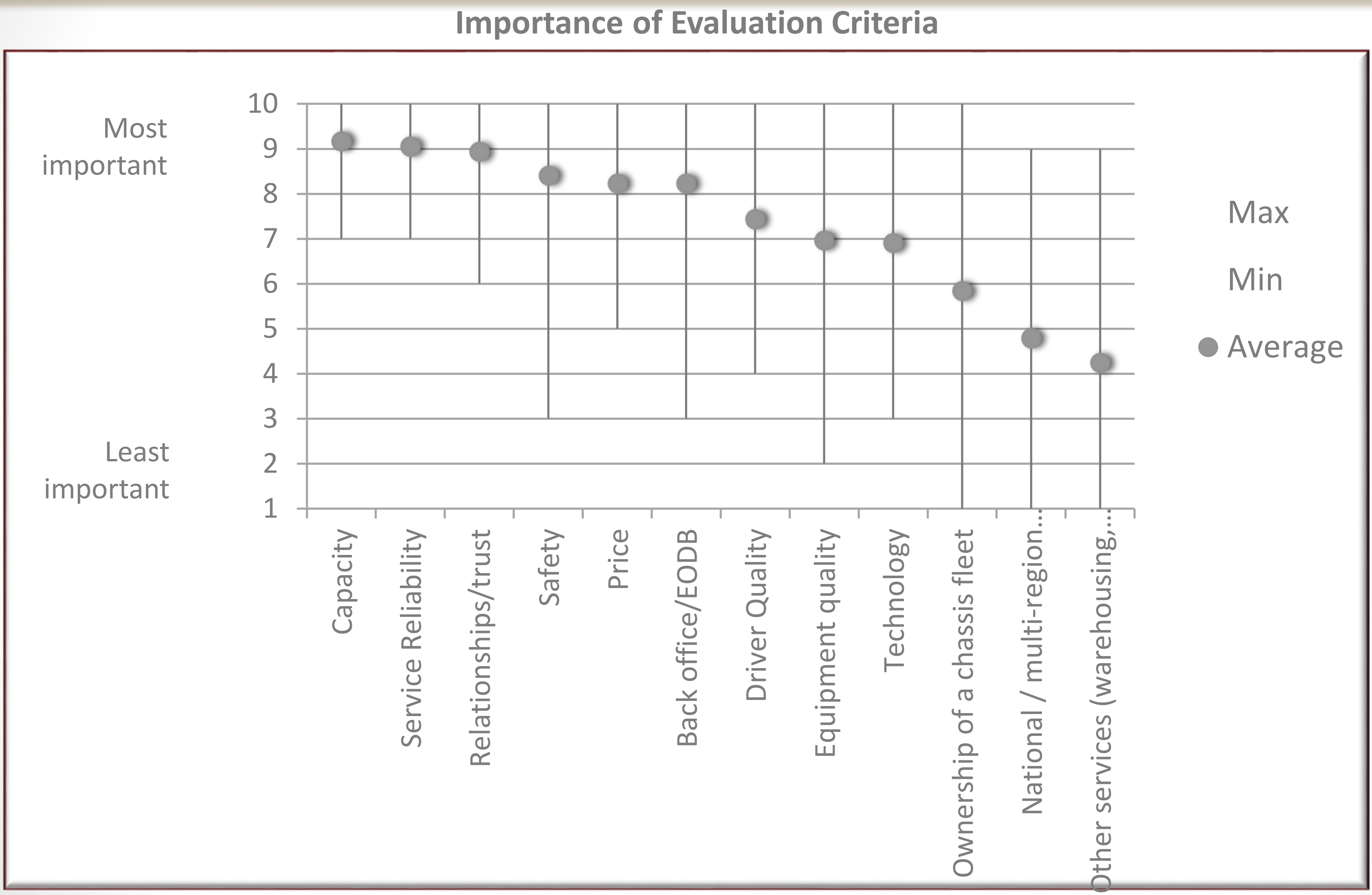
Total CPI = **15.6**

AVG CPI Adjustments= **2.228**

Drayage Rate adjustments are not keeping pace with CPI.

Single Source Solutions That Connect

Customers value capacity, service reliability and relationships/trust most of all



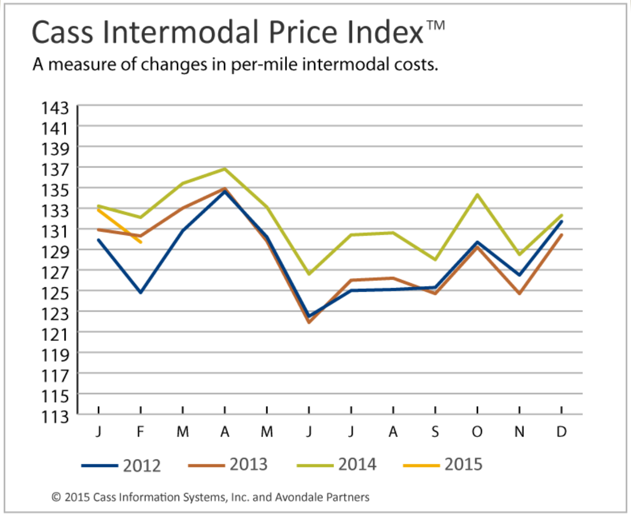
Single Source Solutions That Connect

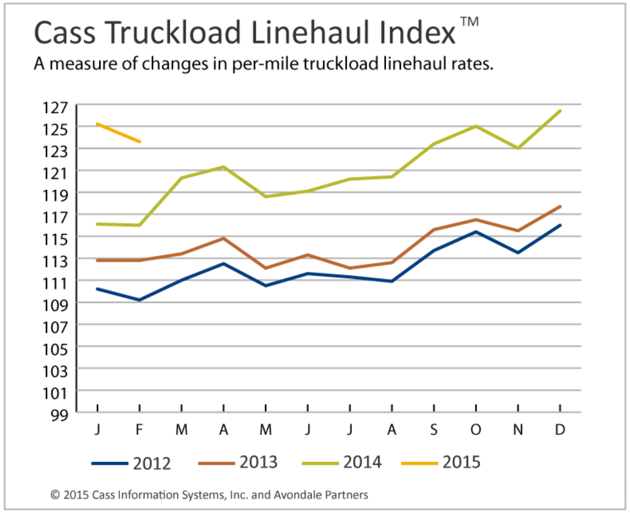
Interviews with competitors confirm that prices are increasing — and that capacity is the primary selling point in the marketplace

- The drayage industry has been consistently 15-20% short of drivers in the past year
- Capacity is the primary differentiator in the marketplace
- Working directly with BCOs can be more attractive because they are able to make operational changes to better utilize driver assets
- HOS and congestion at both west and east coast ports pose significant operating challenges for the drayage industry — both today and going forward
- Some drayage carriers are using declining fuel prices to raise driver compensation through the “extra” fuel surcharge — as many have held the fuel surcharge constant
- Base drayage rates are increasing across the board
- Accessorials are going up as well — this can pose operational challenges with some customers (e.g., Friday container availability)
- The chaos of the new chassis environment is improving — but increased maintenance costs for chassis have resulted in poor financial performance for most drayage companies last year

Truck rate increases were higher in 2014 — interviewees indicated that rates will continue to climb in 2015

- 2014 rate increases were stronger than prior years based on Cass price indices (ex. fuel)*
  - Intermodal rates were up 2.5%
  - Truckload rates were up 6%
- DAT truckload rates excluding fuel were up year over year (March 2015 vs March 2014)
  - Contract rates: 2015 rates up 5.5%
  - Spot rates: 2015 rates up 2.5%
- JOC article states drayage rates were flat to slightly up from 2011 to 2014
- According to our interviews, drayage rates increased over the last year and are expected to increase over the next 2 years

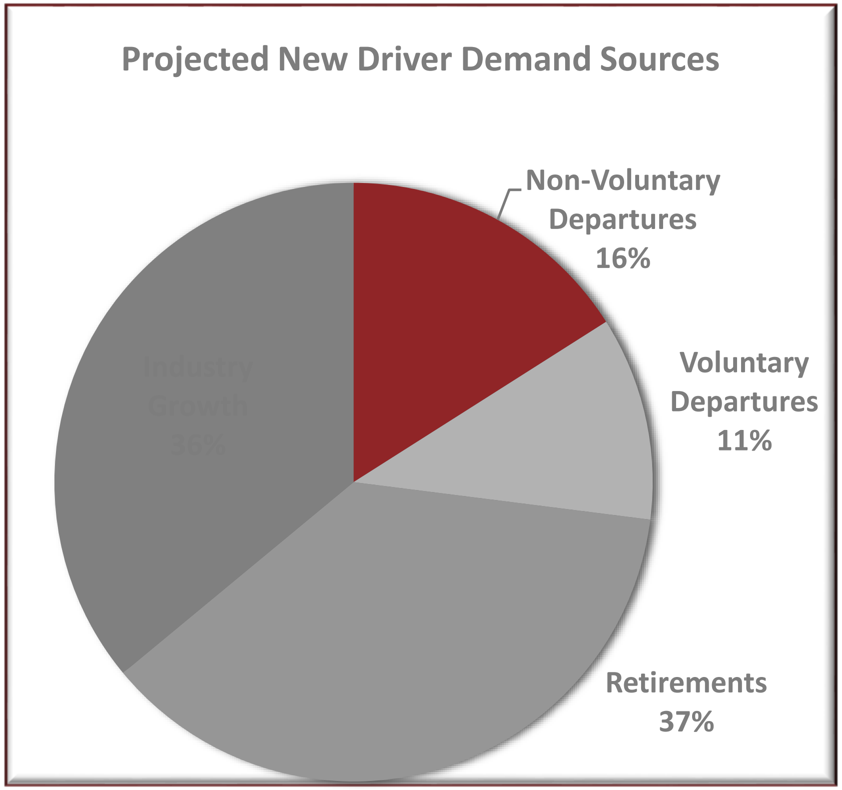




*Cass indices exclude fuel
Source: Cass Information Systems, DAT Solutions, Journal of Commerce; Interviews

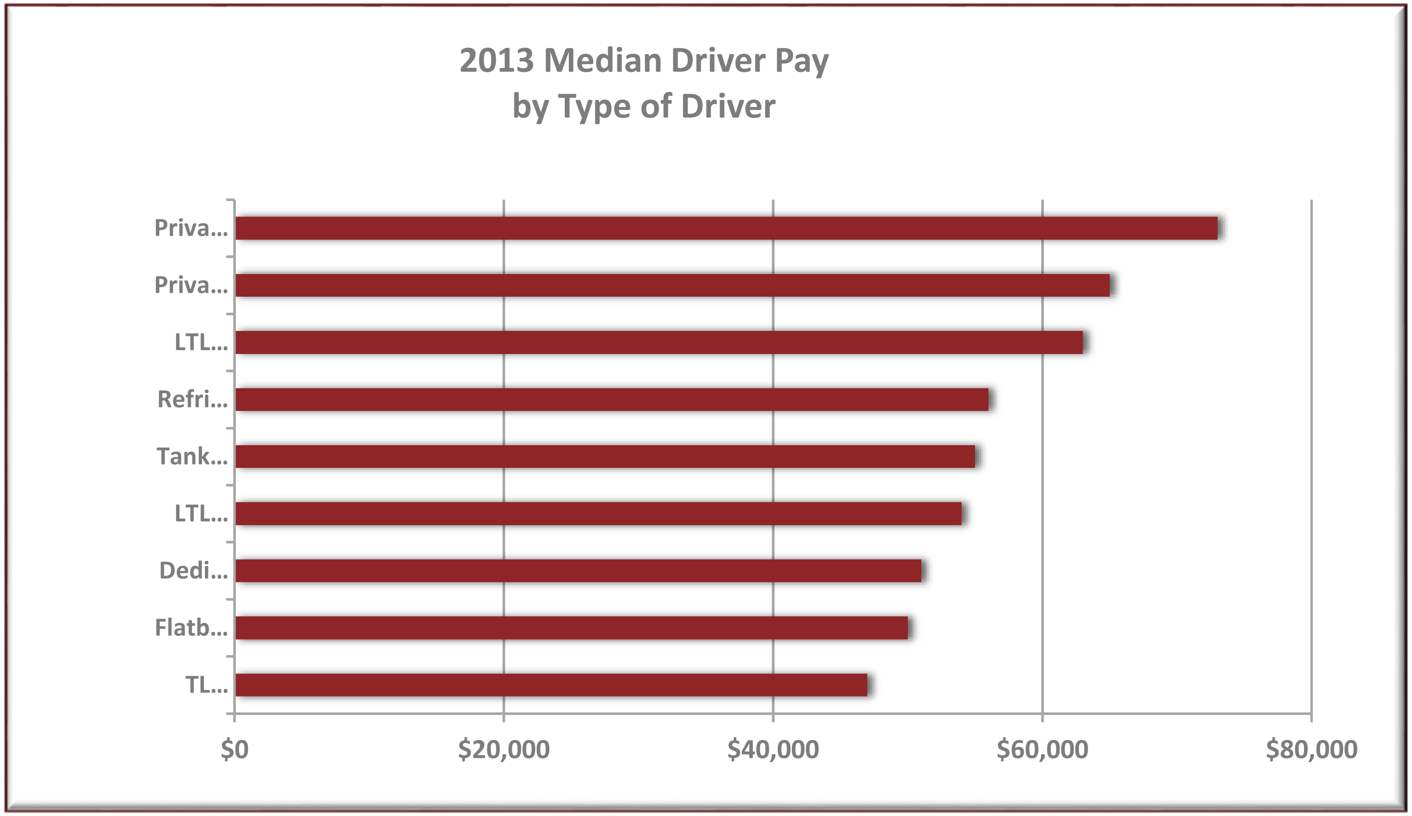
Growth in the trucking sector – coupled with retirement and replacement drivers are fueling the demand for drivers

- The ATA expects about 100,000 total new hires will be needed each year
- The majority of new drivers required are due to retirements and departures from the industry
- Drivers will become increasingly more selective in what sector they want to work in .
- Drivers will continue to reduce risk exposure due to regulation pressure, i.e. CSA alerts- overweight loads, etc.
- Driver options will continue to expand as economy strengthens , construction, final mile, UBER , etc.



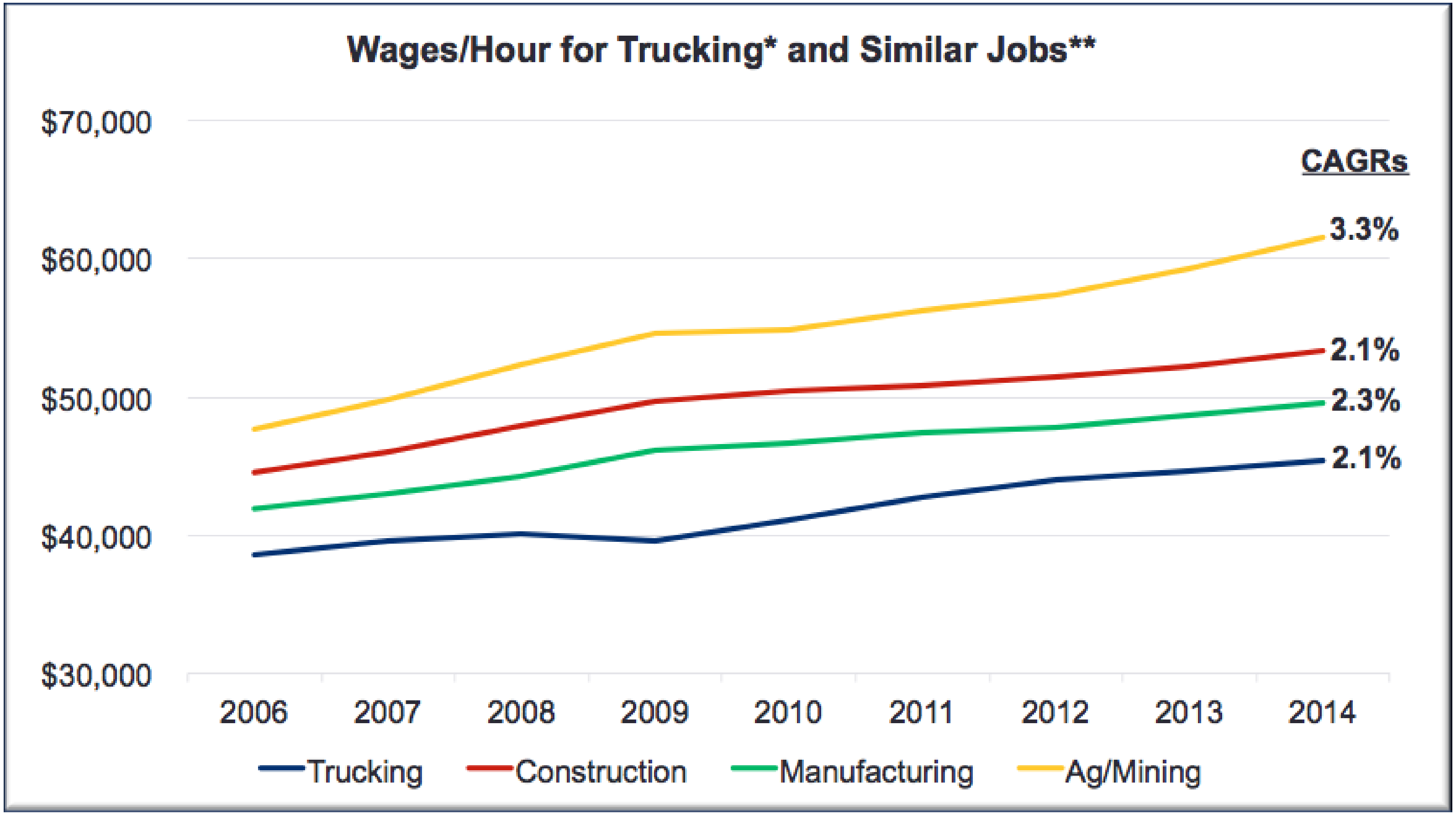
Source: U.S. DOT, U.S. Dept. of Labor, Bureau of Labor Statistics, and ATA

Industry-wide, truck driver pay range is estimated between $42,000 to $61,000 per year – drayage is at the low end of this range



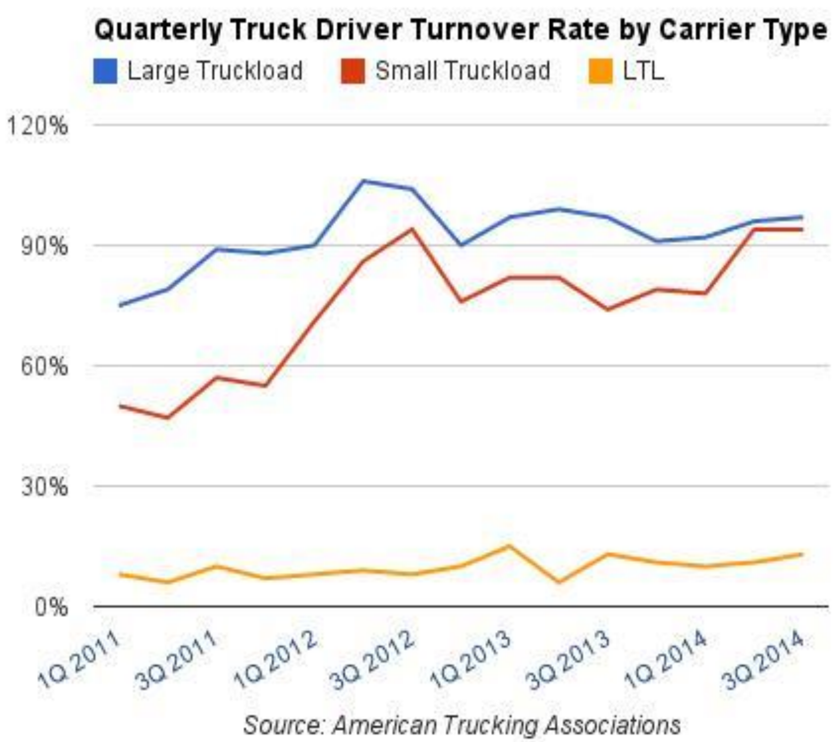
Source: Stifel Nicolaus / U.S. Bureau of Labor Statistics, ATA, National Private Truck Council/Logistics Management Magazine; National Transportation Institute

Truck driving competes with construction, manufacturing, and agriculture/mining for workers – all pay more than driving a truck



**Trucking wages include some supervisors, increasing the average when compared to "heavy and tractor-trailer truck drivers" alone*
***Based on 2,000 hours per year*
Source: U.S. Bureau of Labor Statistics

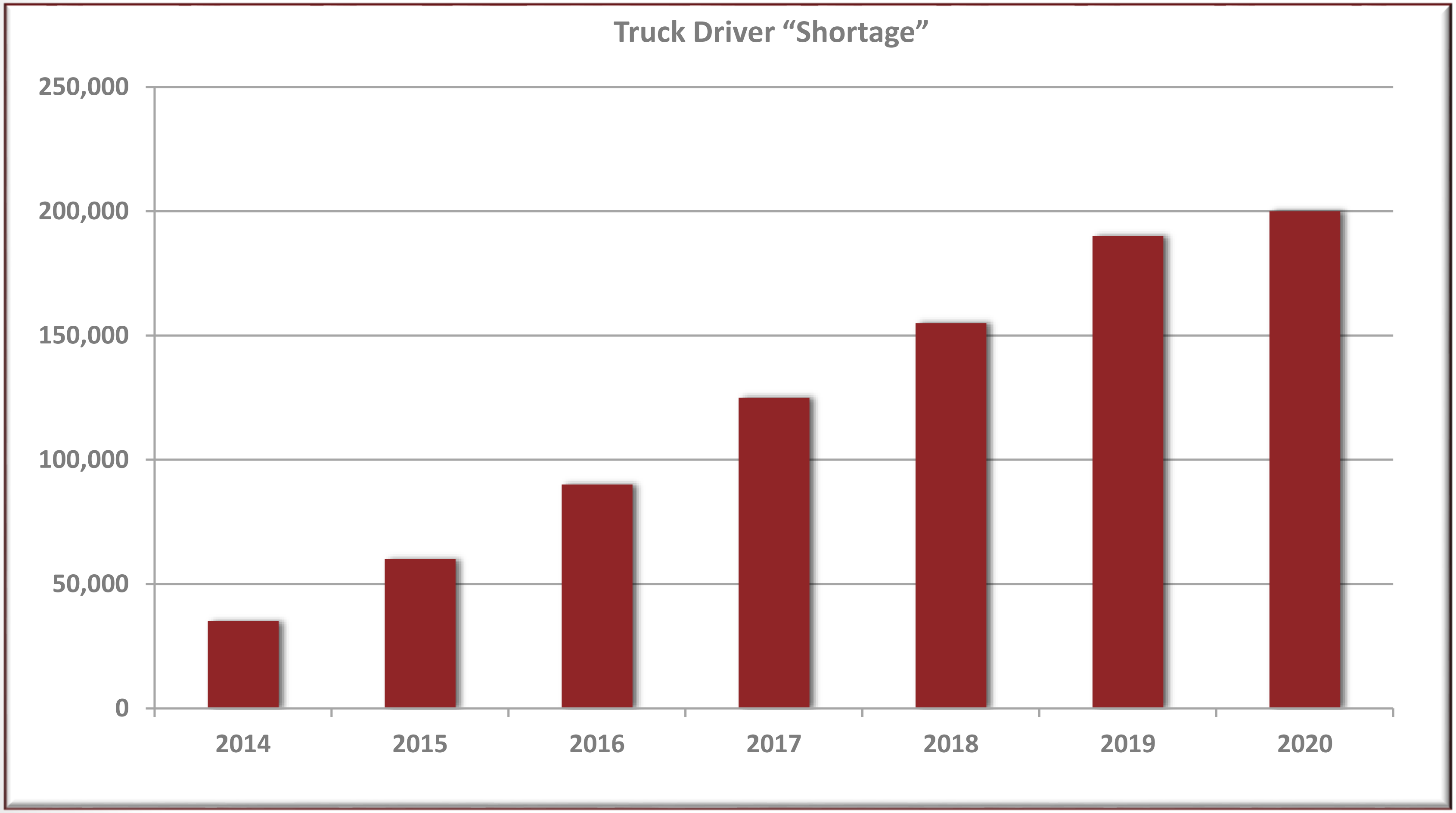
Truck driver turnover is high in TL and low in LTL — Drayage turnover is closer to TL



- Annual turnover at truckload carriers approaches 100%
- LTL carrier turnover is much lower at around 13%. Drivers are primarily pick-up and delivery drivers who are home each night
- Driver shortage puts increased leverage in the hands of a good driver
  - ATA estimates a shortage of 35,000 drivers, growing to 200,000 by 2020
  - Driver shortage exacerbated by numerous issues including revised driver hours of service rules, CSA driver compliance program, and increased congestion
  - Good drivers can chase signing bonus
- Drayage turnover likely between TL and LTL levels

Source: Journal of Commerce, ATA,

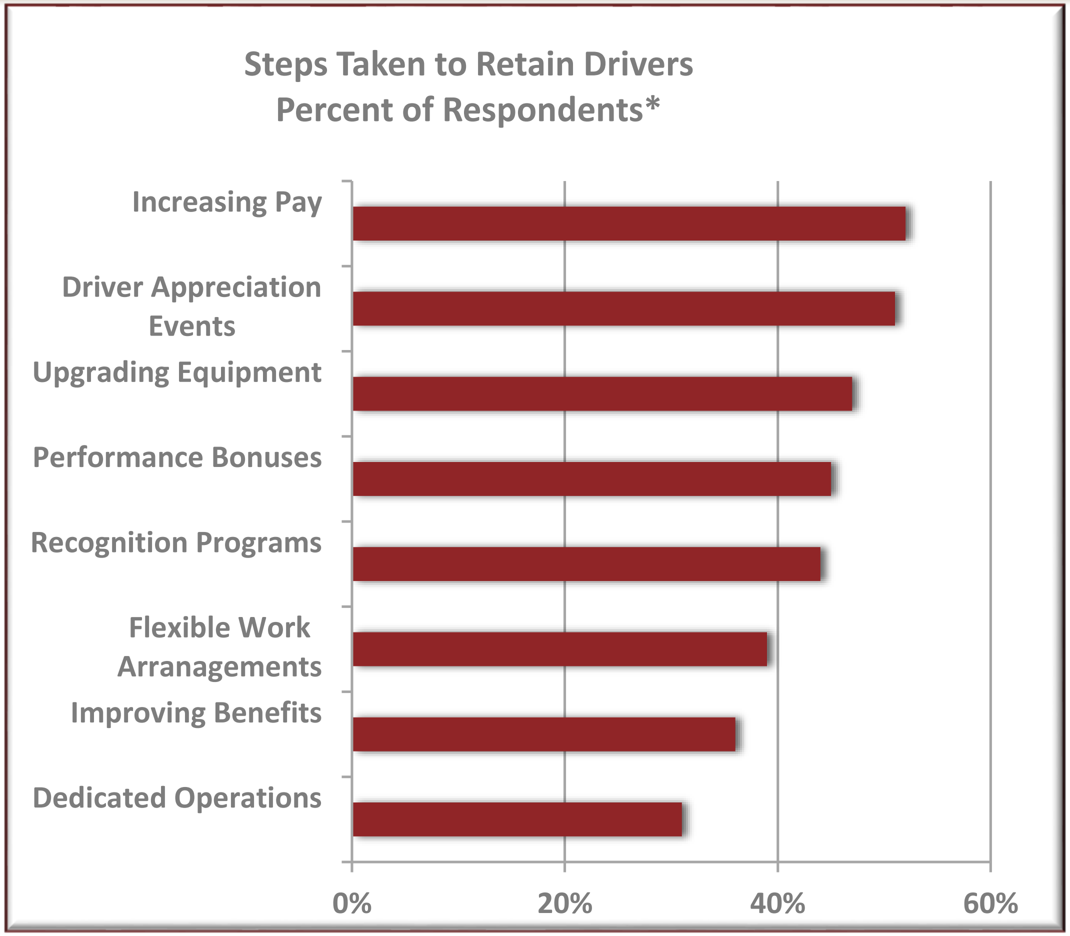
Taken together, the ATA estimates the U.S. trucking industry will need to attract an additional 200,000 drivers by 2020



Sources: ATA

To counter driver turnover, carriers are implementing a number of changes

- Improving compensation
  - Increasing pay
  - Increasing bonuses
  - Increasing benefits
- Improving working conditions
  - Improved equipment
  - Flexible working arrangement
  - Increased dedicated
- Increased recognition/ appreciation



**Based on company survey responses*
Source: HireRight 2015 Transportation Spotlight

The driver shortage in trucking is very real – higher wages would go a long way toward addressing, but this will require an increase in drayage rates

- Trucking typically competes for labor with manufacturing and construction – both of which can require lower skill, provide a better lifestyle and higher wages
- As manufacturing and construction recover, those industries draw labor away from trucking
- Within trucking, the private fleets provide the highest pay and have very low turnover – Drayage, a relatively small segment, pays the least and has the most significant shortage
- Solving the driver shortage for drayage will require annual income increasing over $60K, newer/better quality tractors, and improved lifestyle
- The average margin in drayage is around 5% with drivers pay comprising around 30% of the total drayage rate – an increase from the upper $40Ks to $60K+ cannot be absorbed without drayage rates rising
- If customers paid more for drayage, the driver shortage would largely be solved

International drayage pain points include port and terminal delays and chassis availability

Issue	Description	Impact
Port & Terminal Delays	• Long drayage wait times due to many factors: — Increasing intermodal volumes — ILWU work issues and rules — Larger ships unloading more containers — Less consistent rail service — Chassis displacement — High number of avoidable trouble tickets and gate processing delays — Inadequate notice of container yard closures — Need for new technology, processes	• Fewer revenue trips/day — Less company revenue per driver — Requires more drivers and equipment for the same volume • Driver compensation — paid for wait time? • Will BCO's pay for the inefficiencies?
Chassis	• Various models for chassis programs adding confusion and inefficiency • Condition of chassis has deteriorated, resulting in fewer ready chassis and higher maintenance cost • Can require additional truck moves to and from chassis yard — sometimes off-site	• Chassis shortages delaying loads • Added drayage company costs and inefficiencies

Source: Journal of Commerce articles, JOC 2014 TMS conference presentations; National Cooperative Freight Research Program Truck Drayage Productivity Guide

The driver shortage impacts both international and domestic

Issue	Description	Impact
Driver Shortage	• Long-term driver shortage issue — Driver requirements more strict ○ Hours of service limitations ○ Government CSA rules — Pay has been stagnant — Lifestyle not attractive — Inefficiencies require more drivers	• Driver pay very likely will have to rise • Driver capacity will be constrained • Renewed focus on recruitment, retention
Owner Operator Issues	• Owner operator trucks are the core of the drayage community • Owner operator fleet is 38,000 trucks below 2006 levels in 2013 • Trucks more expensive to buy due to engine requirements	• Need to have healthy owner-operator community to support drayage companies

Source: Journal of Commerce articles, JOC 2014 TMS conference presentations; National Cooperative Freight Research Program Truck Drayage Productivity Guide; Ken Kellaway 2014 Port Stakeholders Summit presentation; Commercial Carrier Journal; Zubrod/Clair experience

Solutions to Prevent the Drayage Industry from Becoming Extinct!

- Work in conjunction with shippers, railroads, ports and steamship lines to find ways to reduce inefficiencies in system and standardize the chassis process. *ONE UNIFORM SOLUTION - TTX LIKE – Grey Chassis Pools- Grey Containers!!*

- Increase velocity in system – i.e. more night gates, drops at destination, reduced port/ramp turn time, match imports and exports- load/load, faster roadability !

- Increase industry awareness of drayage issues and work to improve visibility within industry trade groups and government segments. " We need to be at the table."

- Establish stronger partnerships with customers and if a third party involved then all parties should be involved in process & pricing. If we don't fix the issues the FMC will or Sector will be Unionized.

- We must get paid for value added services. Need Standardized Terminal tariff with standard free time and compensation for delays.

- Pricing must rise equal to or greater than CPI and or cost increases in the market.