AgTC Agriculture Transportation Coalition

What Lies Ahead?

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Logistics Transformation Solutions

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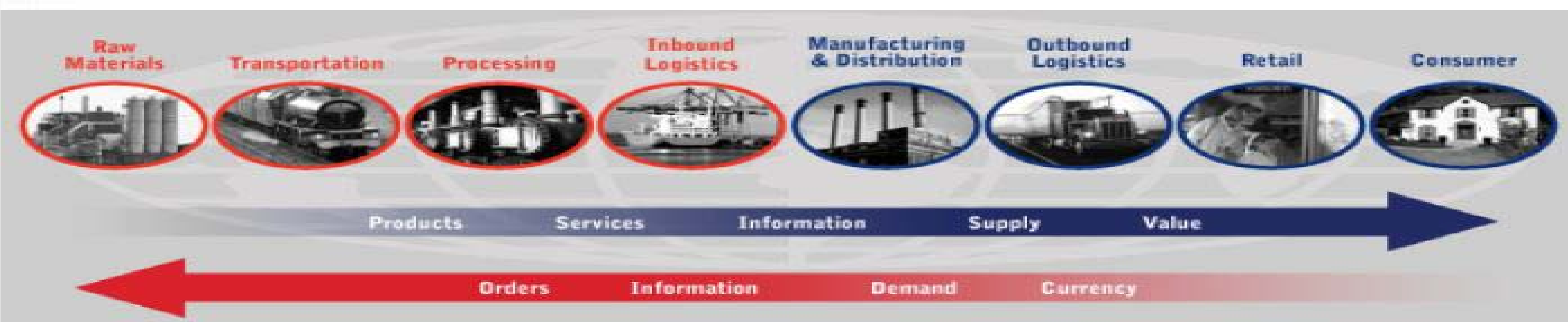
Logistics Transformation Solutions, LLC

- **Founded: October, 2016**
- **Global Supply Chain & Maritime Consulting**
  - o **Logistics & Supply Chain Optimization**
  - o **Strategic Advisory Services – P&L Enhancement**
  - o **Carriers, Terminals, Ports, BCOs, 3PLs, Associations**
- **Headquarters: Orange County, CA**
- **Executive Expertise – Proven Results**
- **Customized – Confidential – Solutions**
- **Commercial – Operational – Organizational**
- **Cost Analysis – P&L Improvement**



Industry Transformation

Carrier Transformation

- Financial Distress Causing Industry consolidation (M&A, Bankruptcies)
- Alliance Realignment Transition
- Cost Reduction – Service Impacts
- Regulatory Challenges
- Technology – Service &Terminal

Customer Transformation

- Supply Chain Uncertainty & Disruption
- Reduced Service Options & Frequency
- Changing Trade Flows & Competition
- Ocean Cost ↓ Other Cost ↑
- Technology – Supply Chain

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2017 Big Bang Carrier Consolidation

MEGA-ALLIANCE TRANSITION STRUCTURE

PAST

2M	Maersk
	MSC
O3	CMA-CGM
	China Shpg
	UASC
CKYHE	COSCO
	K-Line
	Yang Ming
	Hanjin
	Evergreen
G6	APL
	HMM
	MOL
	Hapag Lloyd
	NYK
	OOCL

PRESENT

April 2017

2M+HMM	Maersk (Hamburg Sud)
	MSC
	HMM
OCEAN	CMA-CGM (APL)
	China COSCO
	Evergreen
	OOCL
THE	Hapag (UASC)
	NYK — ONE
	MOL — ONE
	K-Line — ONE
	Yang Ming
	~~Hanjin~~

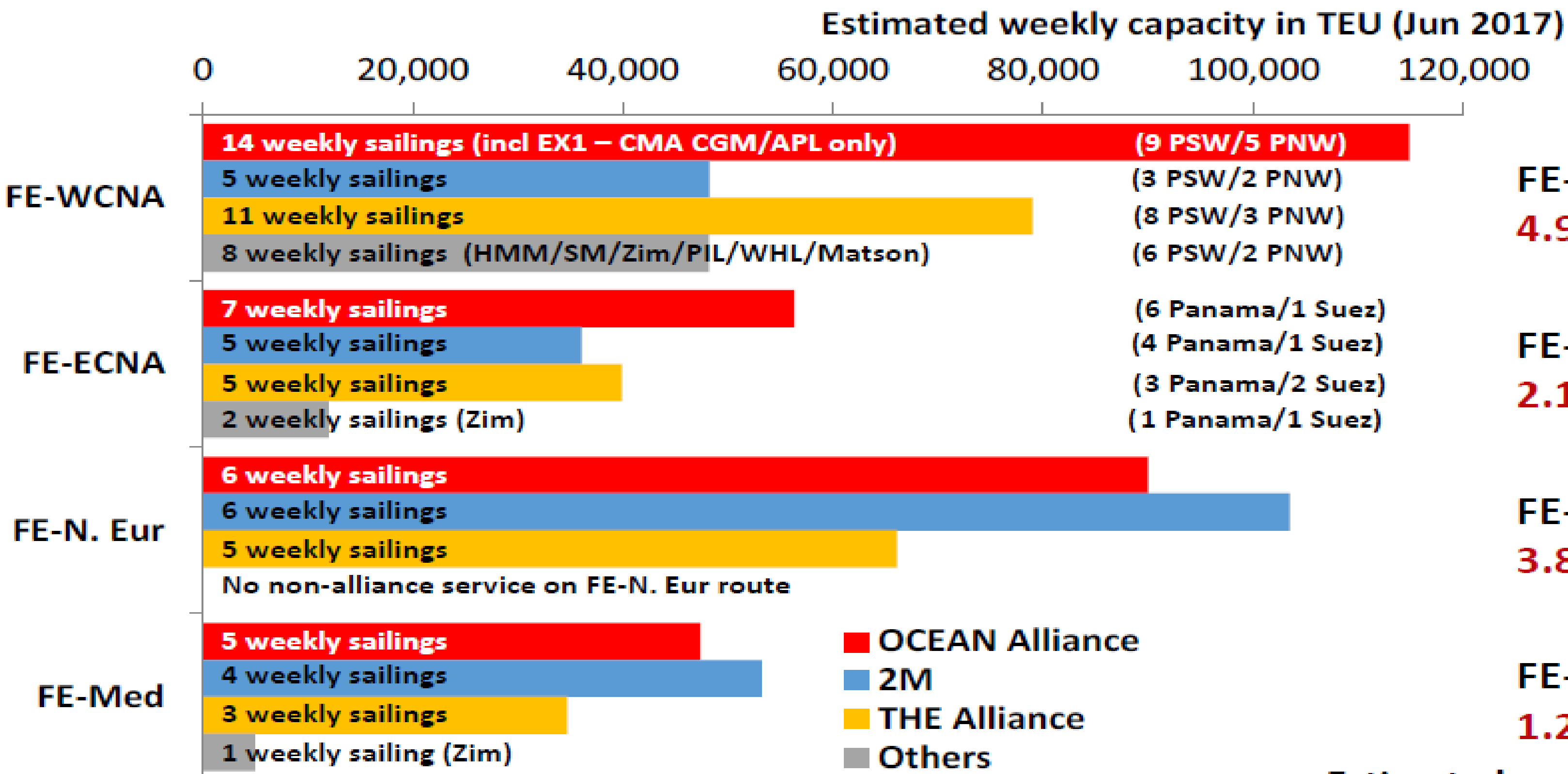
4 Mega Alliances & 16 Carriers

3 Mega Alliances & 12 → 10 Carriers

1st Time in History Simultaneous Alliance Realignment

New Global Alliance Networks

New Alliances from April 2017



FE-WCNA
4.9% (5.4%)

FE-ECNA
2.1% (9.6%)

FE-N. Eur
3.8% (7.4%)

FE-Med
1.2% (5.5%)

Estimated capacity increase
2017 vs 2016
(Peak Season Deployment)
(vs current Feb 2017)

- Capacity increases across all main trades
- Hanjin's capacity removed fully replaced

Alphaliner

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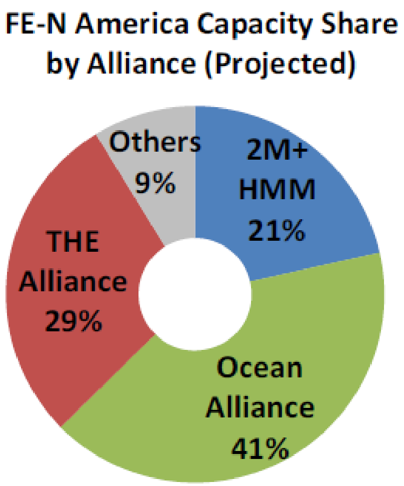
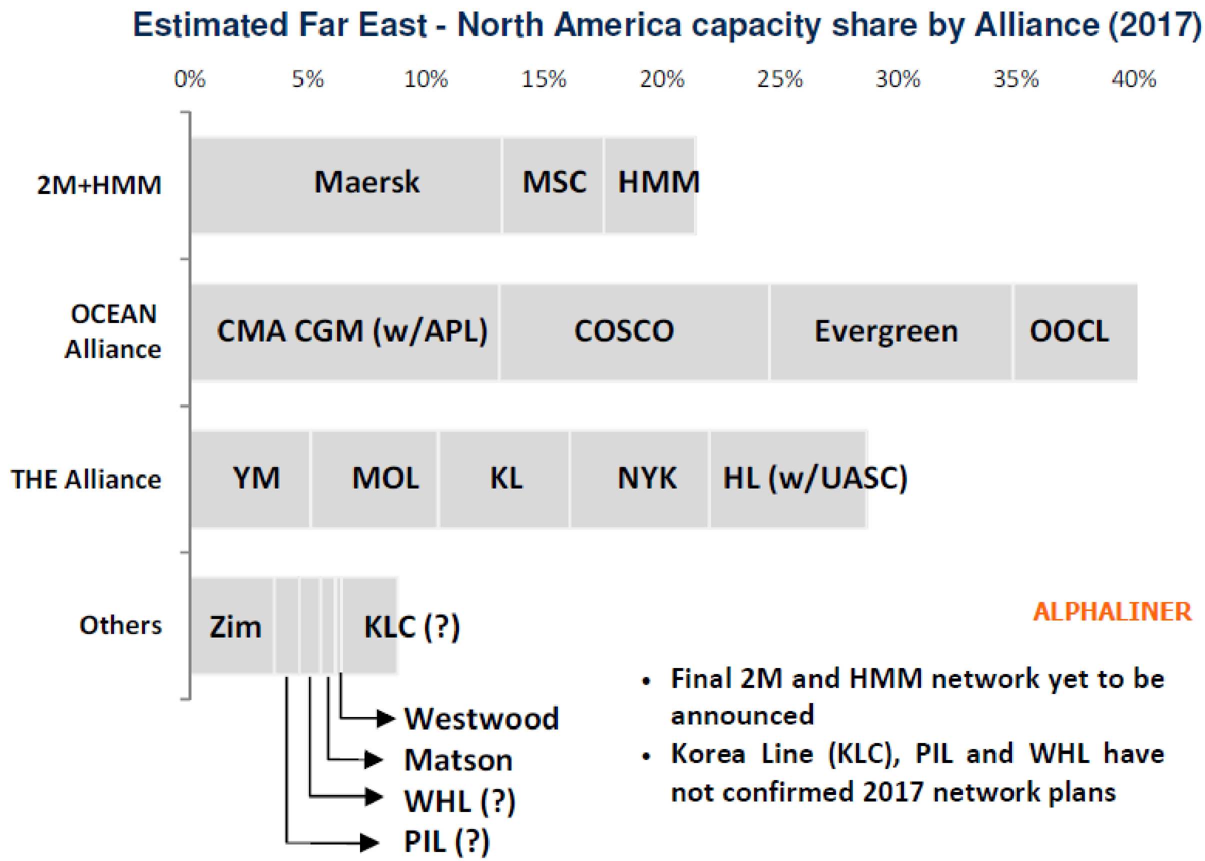
Transpacific Alliance Share





- Final 2M and HMM network yet to be announced
- Korea Line (KLC), PIL and WHL have not confirmed 2017 network plans

- **3 Mega Alliances will control 91% of TP capacity**
- **PSW Rate Pressure => Independent Carrier Impact**

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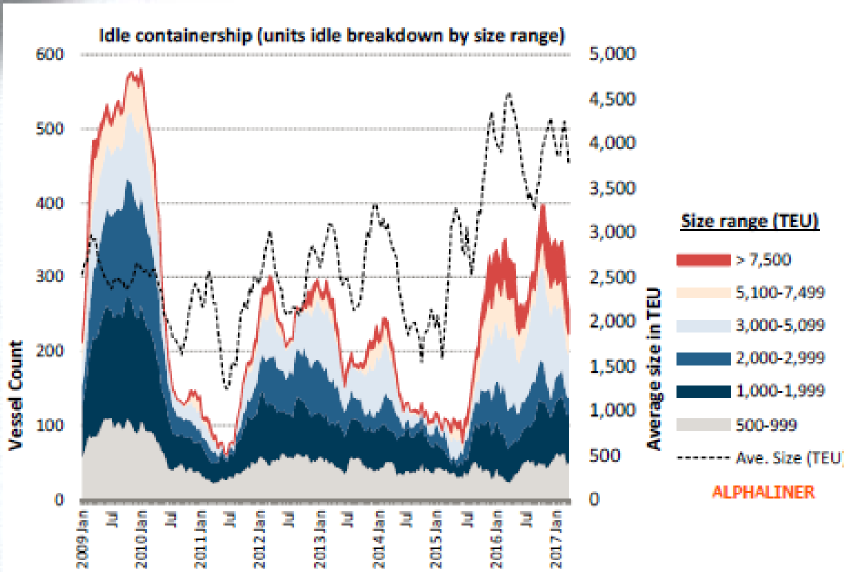
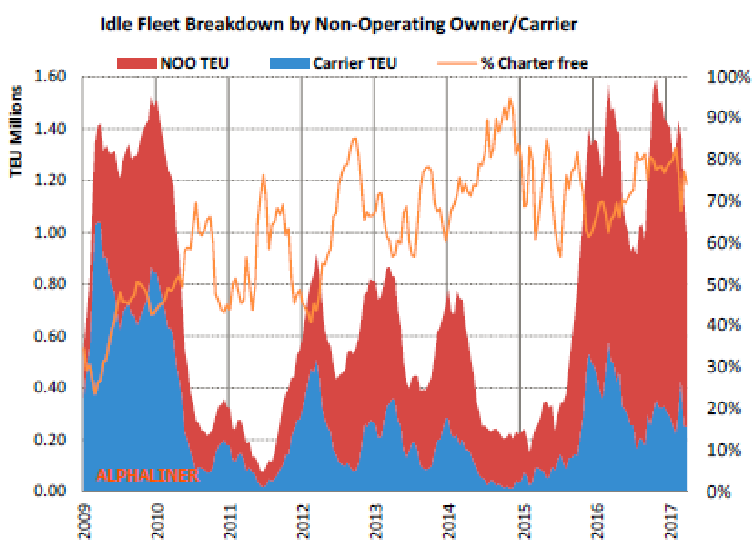
Idle Container Fleet





- **Idle Fleet**
  - ✓ 260 Vessels
  - ✓ 1 Mil TEUs
  - ✓ Larger Vessels
- **Non-Operator Owners Carrying Cost Burden**
- **30% Surplus Capacity**
- **Slow Steaming Remains**

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Industry Outlook-What Lies Ahead?

1. **Mega-Alliance Re-shuffle & Consolidation**
   - Service Impacts – More Density - Less Frequency
   - Rate Impacts – Competition & Differentiation
   - E-W Hub with N-S Spoke Service Configuration

2. **Terminal Impacts - New Alliances**
   - Cargo Volume & Flow Changes – Growing Pains
   - Carrier Equity Terminal Selection Impacts
   - Terminals Have Become Key Selection Criteria

3. **Intermodal Cargo Flow Impacts**
   - New Co-loading Density Schemes for On-Dock
   - Discretionary Cargo – Gateway Market Grab
   - ECAW Competition – RIPI Expansion

4. **Truck Power Impacts**
   - Re-optimize Truck Dispatch Based on New Deployments & Terminal Schedules
   - Increased Adoption of Appointment Systems
   - Electronic Logging Device (ELD) Regulation

Industry Outlook-What Lies Ahead?

5. Trump Presidency – Trade Impacts

- Potential Tariff & Trade Wars Impacting Volume
- Increased Focus on Exports & Infrastructure
- Business Tax Reductions - Improved Earnings

6. Overcapacity Continues => Rate Pressure

- Fcst +2.4% Demand vs. Fcst +3.1% Supply Growth
- 7% Container Fleet Idled => 1+ Million TEUs
- Fundamentals Remain Unfavorable for Carriers
- Rate Bottom ‘16 => Moderate Recovery
- Fuel Costs Have Doubled Since Bottom in ‘16

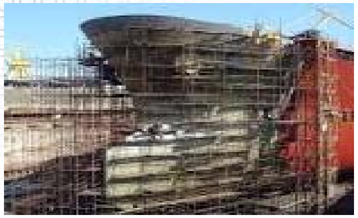
7. Carrier Focus on P&L Improvement

- Cost Reductions – Automation & Off-shoring
- Increased Focus on Spot Market Segment
- Are Customers Willing to Pay for Service?

Industry Outlook – What Lies Ahead?

8. BCO & NVO/3PL Impacts

- **Hanjin Lessons Learned – Rates Not Sustainable**
  - How to Identify & Mitigate Risk Potential – Red Flags
  - Other Stakeholders at Risk – i.e. Ship Owners
  - Next Event Will Likely Be Less Telegraphed
- **Carrier & Alliance Selection**
  - Diversification vs. Consolidation Strategy
  - Service Integrity, Terminal Efficiency & Customer Service
  - Value-Based Contracts (Mutual Win-Win)



9. Shipbuilding

- **New Order Book is Contracting to Lowest Levels**
- **Shipyards Offer Significant New-Build Discounts**
- **Perpetuates Overcapacity Problem**

10. Customer & Carrier Cooperation

- **Carrier Consolidation will Change Landscape**
- **Rate Levels Will Impact Speed of Consolidation**
- **Careful Selection & Re-defined Partnerships**

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Q & A

Thank You

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