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Agricultural Transportation Coalition Annual Meeting
Long Beach, June 7, 2017

Bill Rooney – VP, Strategic Development Kuehne + Nagel

Agenda

Topic 1	Carrier Industry Structure
Topic 2	What Has This Structure Yielded?
Topic 3	Recent Industry Outcomes
Topic 4	Where Are We Now?
Topic 5	Where Are We Headed?

Morgan Stanley
MORGAN STANLEY RESEARCH
Freight Transport 2012e– AAA+ Rated Industry
November 2011

Container shipping "rational" but structurally challenged

1. Commodity service
2. Capital intensive
3. Fragmented
4. Family and government ownership prevents a shake out
5. Artificially low cost of capital (direct and indirect)
6. Largest clients well organised and exploit weakness

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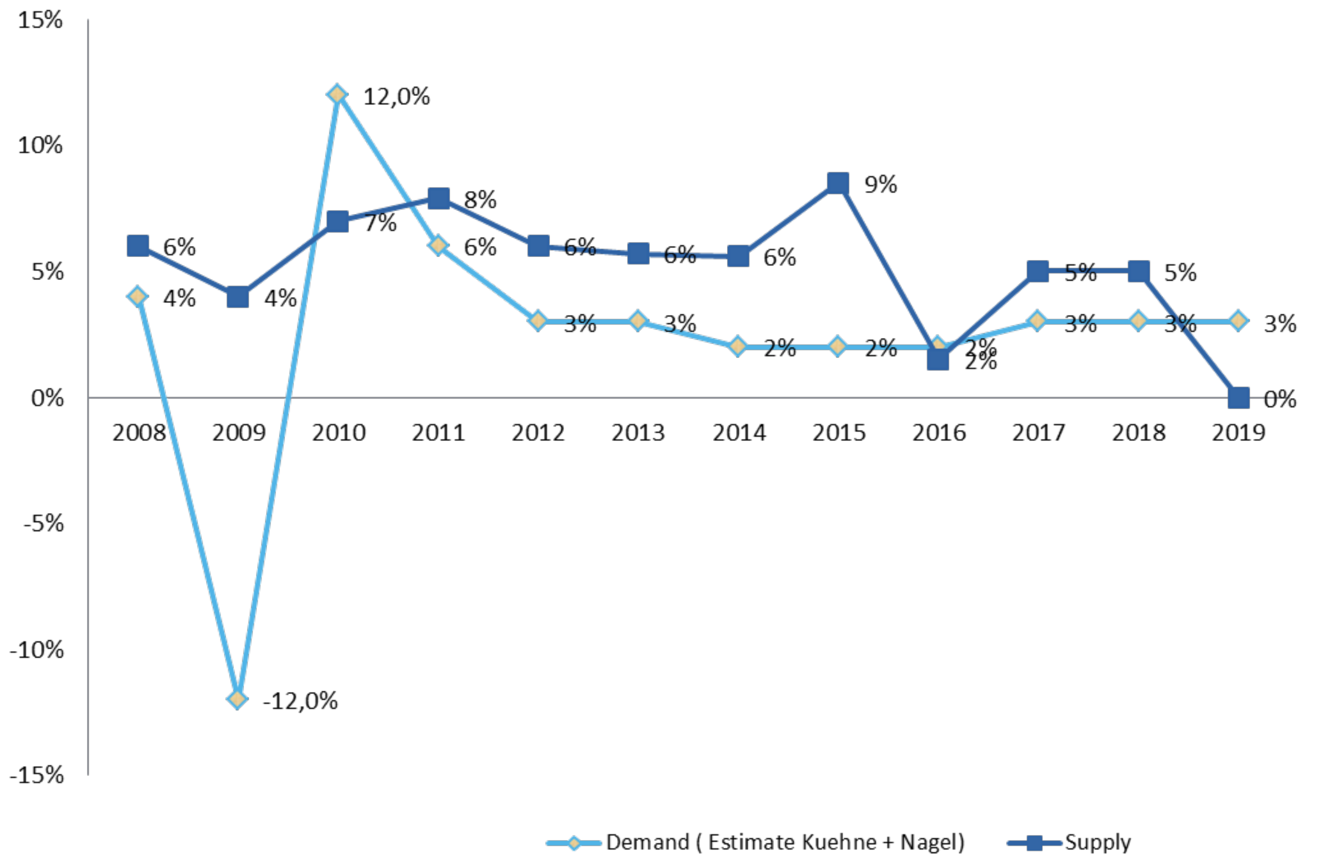
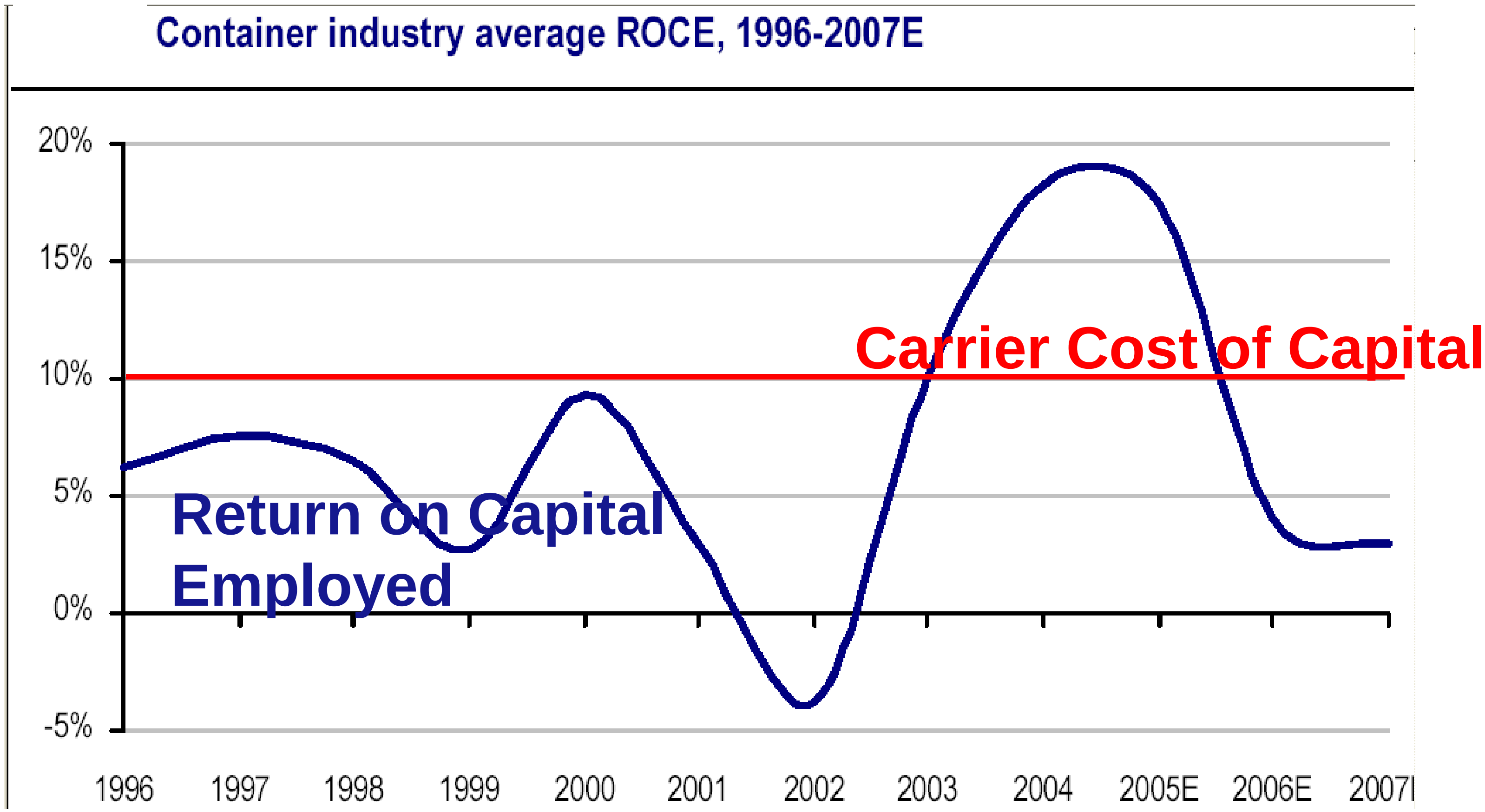
Global Supply and Demand in Container Shipping

Oversupply coming to an end

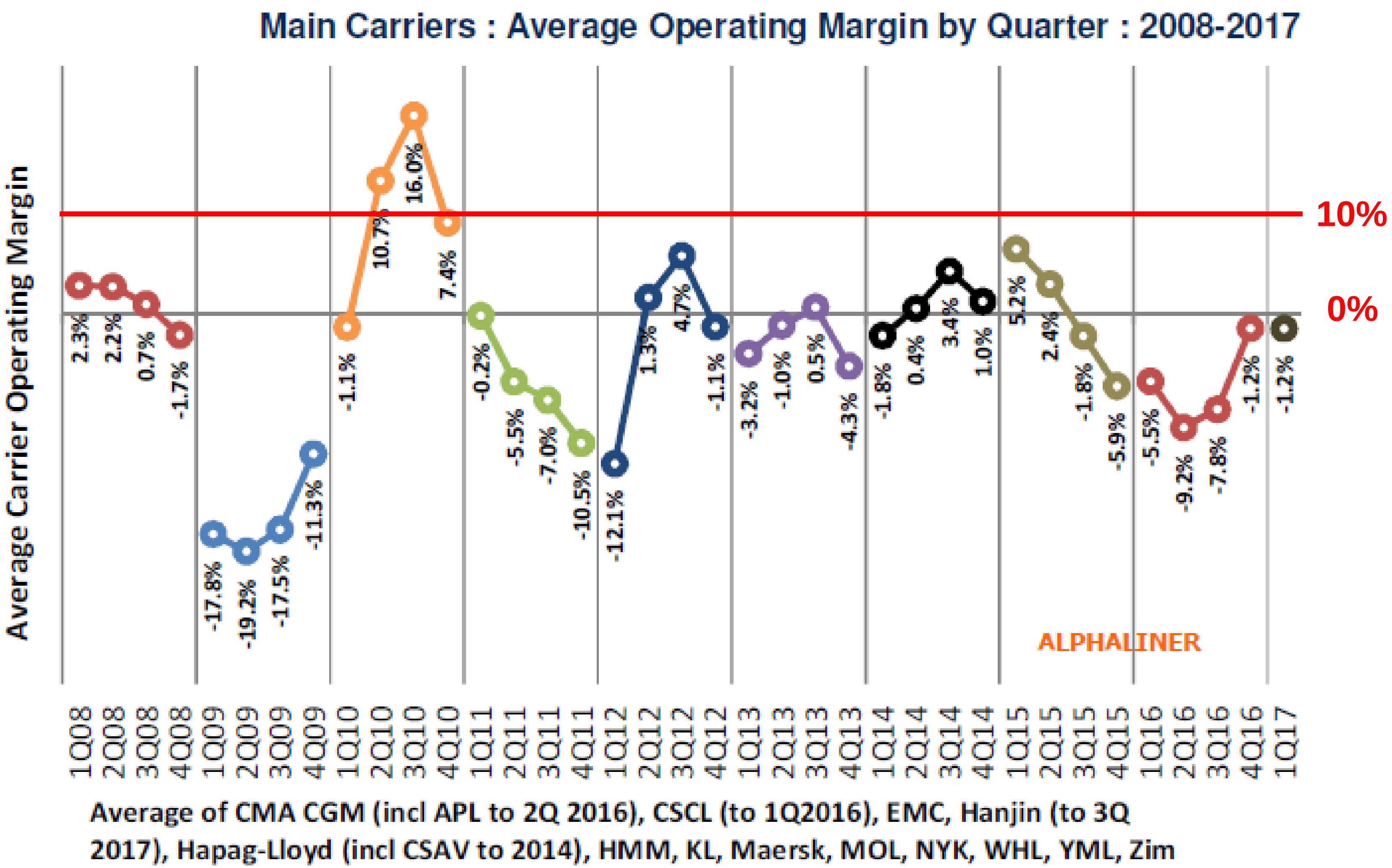


Carrier Financial Return



Source: UBS (except CCOC)

Carrier EBIT/Operating Margin



Source: AlphaLiner

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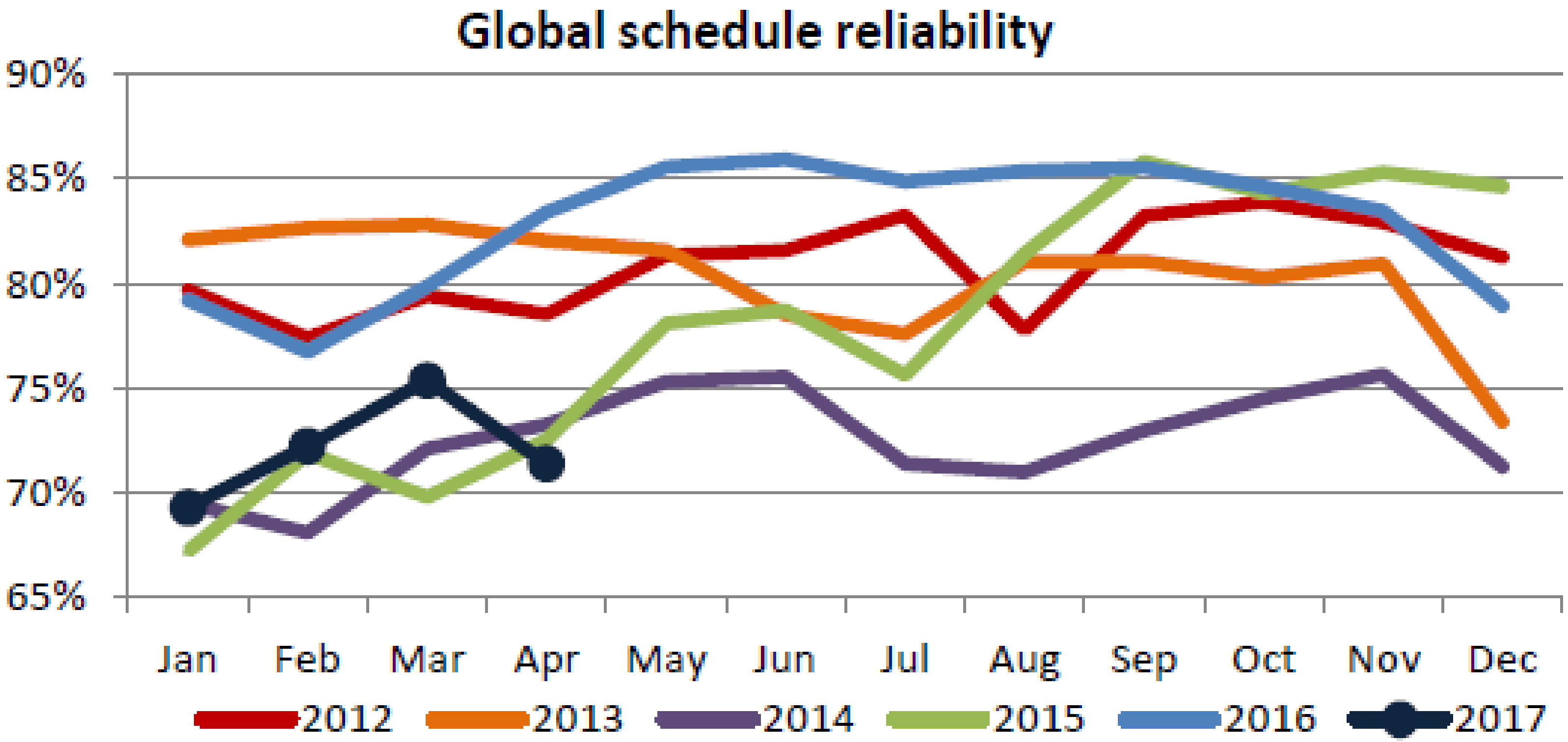

Source: SeaIntel

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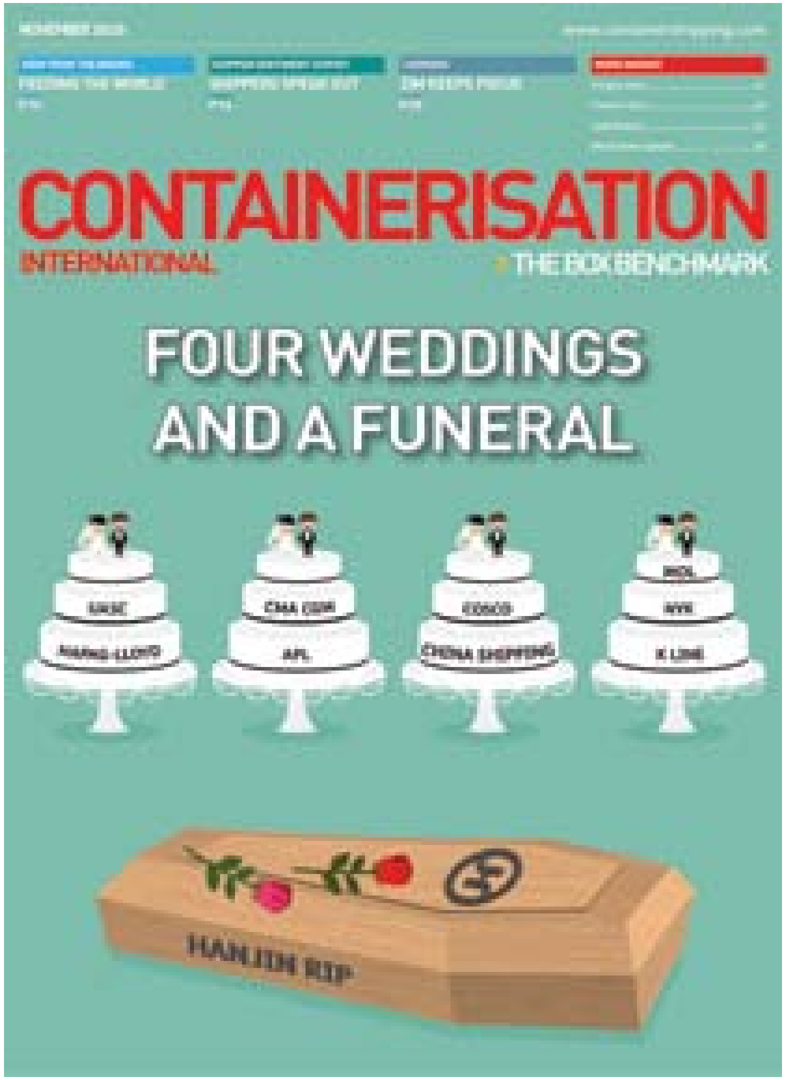
Four (make that five) Weddings and a Funeral



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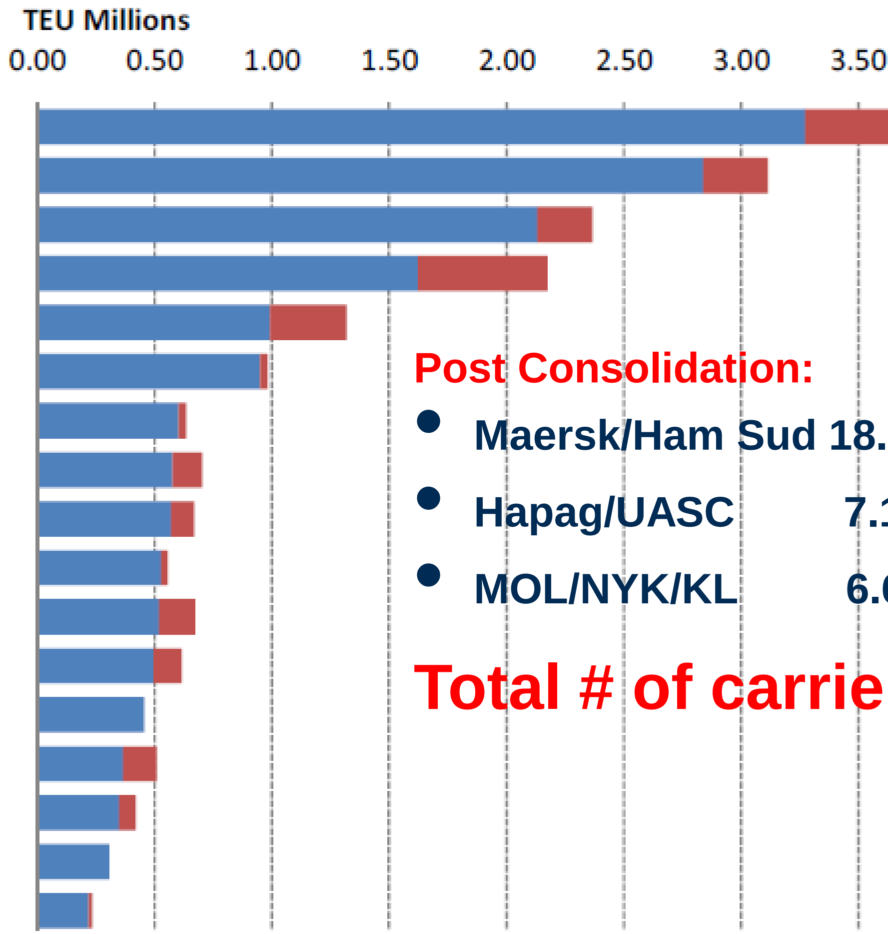
Fleet Size by Carrier

As at 1 January 2017

		Market Share
1	APM-Maersk	15.8%
2	MSC	13.7%
3	CMA CGM	10.3%
4	COSCO Shg	7.8%
5	Evergreen	4.8%
6	Hapag-Lloyd	4.6%
7	Hamburg Süd	2.9%
8	OOCL	2.8%
9	Yang Ming	2.8%
10	UASC	2.5%
11	NYK Line	2.5%
12	MOL	2.4%
13	Hyundai M.M.	2.2%
14	PIL	1.8%
15	K Line	1.7%
16	Zim	1.5%
17	Wan Hai	1.1%



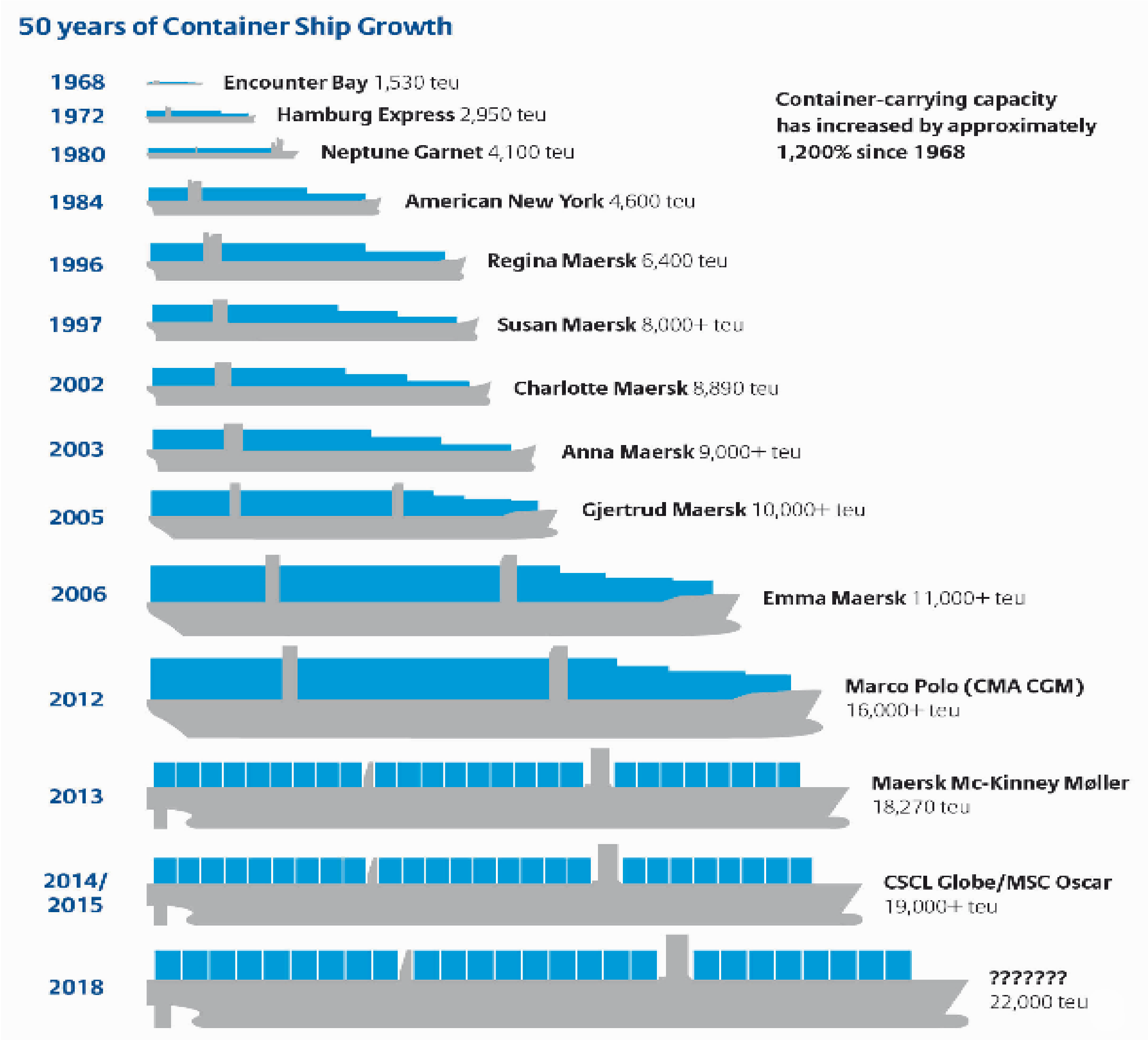
Post Consolidation:

- **Maersk/Ham Sud 18.7%**
- **Hapag/UASC 7.1%**
- **MOL/NYK/KL 6.6%**

Total # of carriers: 13

Source: Alphaliner

Average Vessel Size



Source: World Shipping Council

New Alliance Lineup in 2017

2M	Ocean Alliance	THE Alliance	Unaffiliated
• Maersk/Ham Sud • MSC • HMM	• CMA/APL • COSCO • EMC • OOCL	• Hapag/UASC • Ocean Network Express • YML	• Zim • PIL • WHL

Percent of Global Container Vessel Fleet

32.9%	26.5%	19.8%	7.8%

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Two Competing Future Scenarios

(A) Financing fatigue, carrier financial armageddon and industry consolidation will trigger a push to higher and maybe much higher rates

(B) Continued capacity overhang and government subsidies will prevent rates from increasing (or increasing significantly) and will drive continued rate volatility

Which will it be?

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Wedding Number 6? Do I hear 7?

"OOCL, YANG MING CAUGHT UP IN M&A SPECULATION"

Source: JOC

What about HMM?

Could We End Up with Only 8 Real Carrier Choices?

Yes.....and it could be likely vs. just possible!

Stranger Than Fiction?

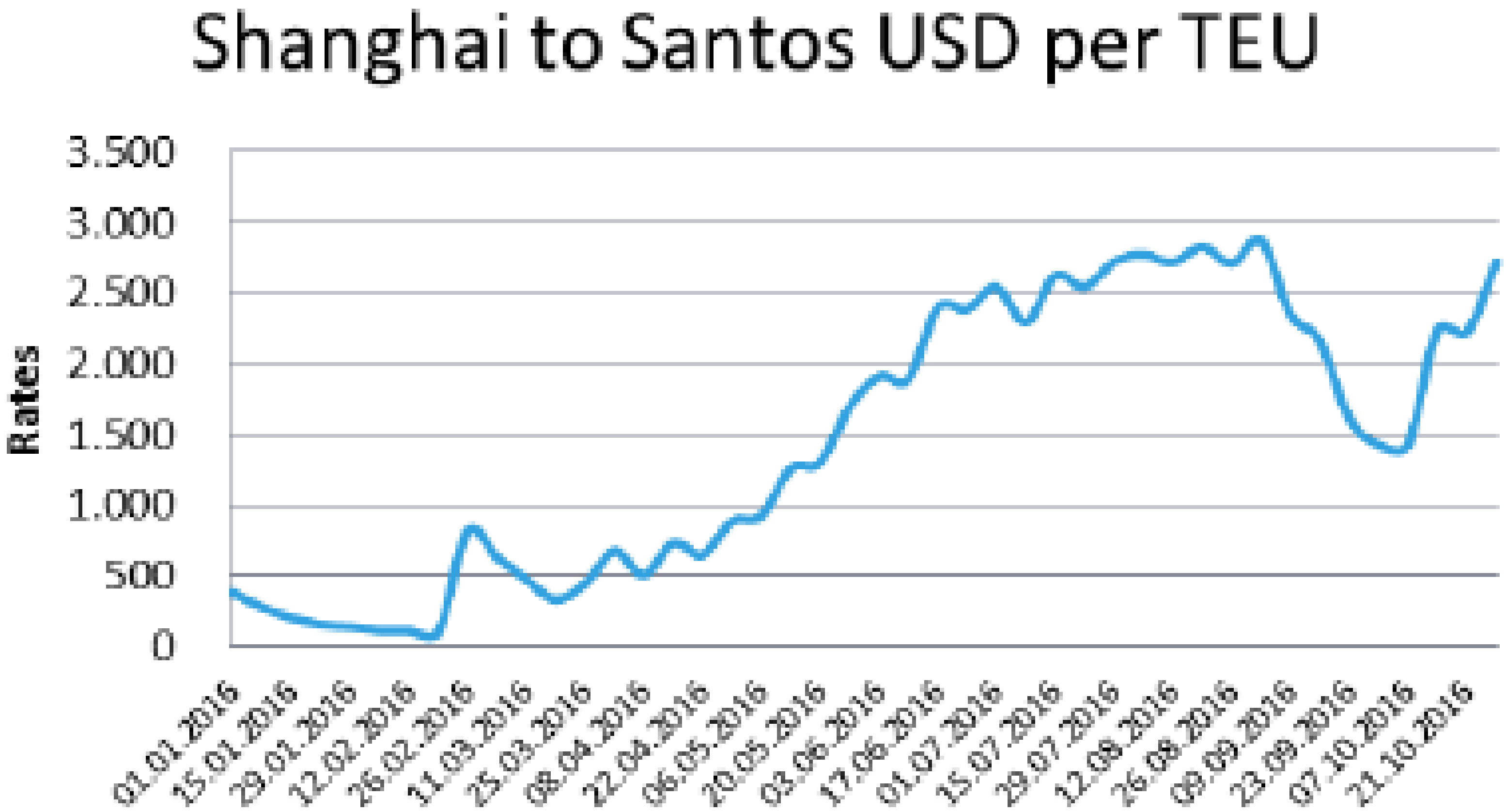


Table 5.2 FORECAST ESTIMATED AVERAGE UNIT RATE, GLOBAL CONTAINER MARKET* ($ PER TEU)

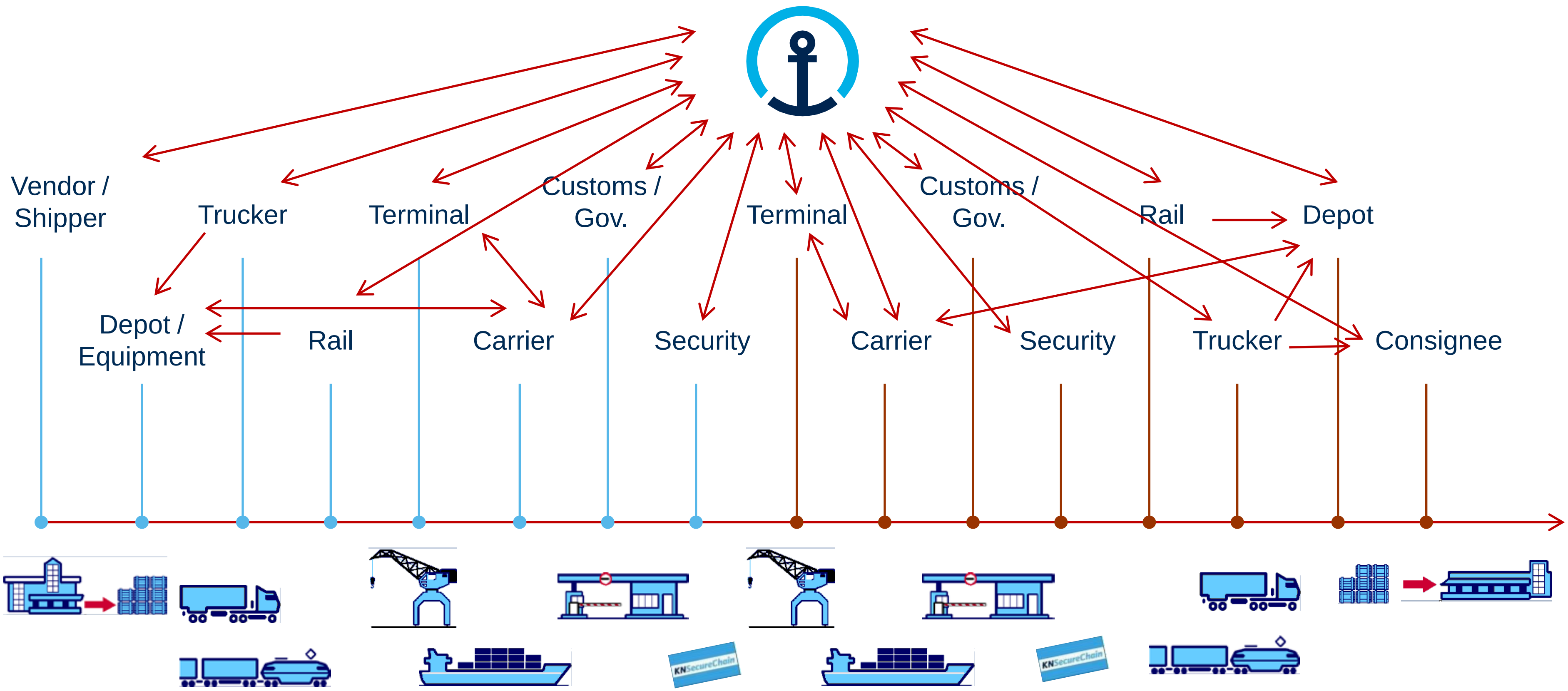
Year	Global Supply/Demand Index	% Change	Weighted Global Freight Rate Including Fuel Charges	% Change
2013	94.9	0.4%	1,024	-4.4%
2014	95.0	0.2%	983	-4.0%
2015	89.1	-6.2%	834	-15.1%
2016	89.9	0.9%	758	-9.2%
2017**	90.0	0.1%	842	11.1%
2018**	88.9	-1.2%	874	3.9%

Source: Drewry Maritime Research

Change Drivers In Our Future

- Suppliers of carrier capital requiring higher returns
- More carrier market power (only 8 choices?)
- Slower trade growth: 3ish% vs 6%
- Internet based retailing & shorter delivery times
- Bigger ships & their impact on service & terminals
- Cargo control by large internet platforms(eg Amazon)
- Terminals' direct involvement with shippers
- Environmental protection (.5% sulfur content fuel in 2020)
- ELD trucking requirement
- Stevedore labor: the monopolies still exist

Up to 16 Unreliable Touchpoints



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Questions