What Lies Ahead?

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Logistics Transformation Solutions, LLC

- Founded: October, 2016
- Global Supply Chain & Maritime Consulting
  - Logistics & Supply Chain Optimization
  - Strategic Advisory Services – P&L Enhancement
  - 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

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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
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
- MOL
- K-Line
- 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

Estimated weekly capacity in TEU (Jun 2017)

- FE-WCNA
  - 14 weekly sailings (incl EX1 – CMA CGM/APL only) (9 PSW/5 PNW)
  - 5 weekly sailings
  - 11 weekly sailings
  - 8 weekly sailings (HMM/SM/Zim/PIL/WHN/Matson)
  - FE-WCNA 4.9% (5.4%)

- FE-ECNA
  - 7 weekly sailings
  - 5 weekly sailings
  - 5 weekly sailings
  - 2 weekly sailings (Zim)
  - FE-ECNA 2.1% (9.6%)

- FE-N. Eur
  - 6 weekly sailings
  - 6 weekly sailings
  - 5 weekly sailings
  - No non-alliance service on FE-N. Eur route
  - FE-N. Eur 3.8% (7.4%)

- FE-Med
  - 5 weekly sailings
  - 4 weekly sailings
  - 3 weekly sailings
  - 1 weekly sailing (Zim)
  - OCEAN Alliance
  - 2M
  - THE Alliance
  - Others
  - FE-Med 1.2% (5.5%)

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

Alphaliner

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

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3 Mega Alliances will control 91% of TP capacity

PSW Rate Pressure => Independent Carrier Impact
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?
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
Q & A

Thank You

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