

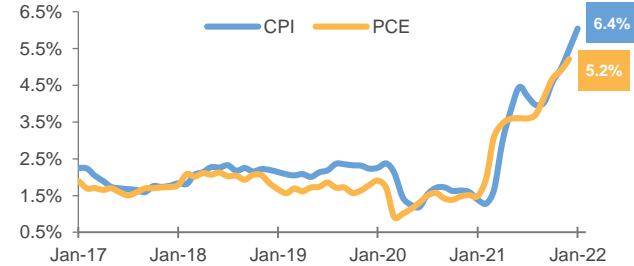
Logistics & Supply Chain market update

Industry Consulting Team | Q1 2022

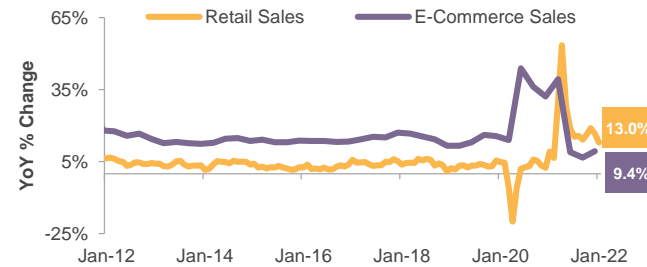
Strong Consumer & Industrial Demand Despite Headwinds

- **Real GDP growth for Q4 was 7.0%**, while 2021 recorded 5.7% growth, capping a year catalyzed by resilient consumer spending and extreme supply chain disruptions. 2022 shows continued strength with **January Retail Sales marking the strongest monthly gain since last March, rising by 3.4%**.
- Inflation measures continue to rise and face new pressures with the war in Ukraine added to the soup of conditions pushing up prices. The **Personal Consumption Expenditure index**, the preferred measure of the Federal Reserve, **registered it's highest reading in 38 years at 5.2%**. Some transitory elements of inflation are starting to ease, including used car prices and consumer goods prices - each down slightly in February.
- Consumer goods spending should cool through 2022 as services start to gain traction in a more fully reopened economy, and demand pressures mount from geopolitical tensions. Industrial activity will get a boost with increased infrastructure spending and higher commodity prices that incentivize raw material production.

Inflation Measures



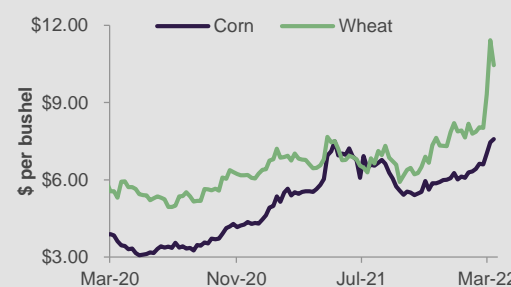
Retail Sales vs. E-Commerce Sales



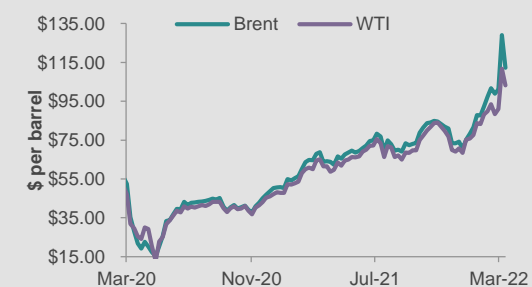
Supply Chain Setbacks from the Russian-Ukraine Conflict

- The escalating crisis in Eastern Europe has led to a dramatic rise in commodity prices. Oil and natural gas are obvious pressure points as Russia supplies 10% of global oil exports, and 30% of Europe's natural gas. Combined, Russia and Ukraine also account for 30% of global wheat exports and Russia supplies 40% of the world's palladium, 10% of nickel, and 6% of aluminum.
- Many ocean carriers and freight forwarders have suspended services to Russia. These disruptions are expected to cause more strain on the supply chain as cargo remains stranded in ports and adds to continued productivity losses on terminals. Disruptions combined with increases in oil prices threaten to drive up shipping costs even further.

Corn & Wheat Prices (CBOT)



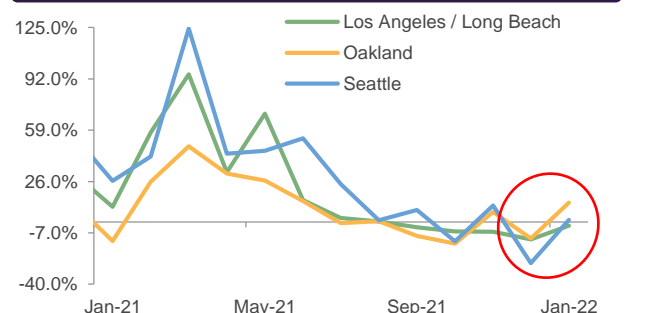
Oil Prices (ICE)



Port Congestion and High Shipping Costs Continue

- While some measures of port constraints have eased during the annual lull of Chinese New Year, long ship queues are expected to remain persistent throughout the year on both US coasts, while long dwell times for cargo continue to persist. Shippers have found it difficult to clear warehouses, preventing cargo on port from being able to find a home -- leading shippers to pay exorbitant costs to effectively store goods on port. A shortage of warehouse dock workers and drivers will continue to be a major bottleneck, while there are some signs that depleted stimulus and rising pay are pulling some workers back into the labor pool.

West Coast Monthly Imports, YOY



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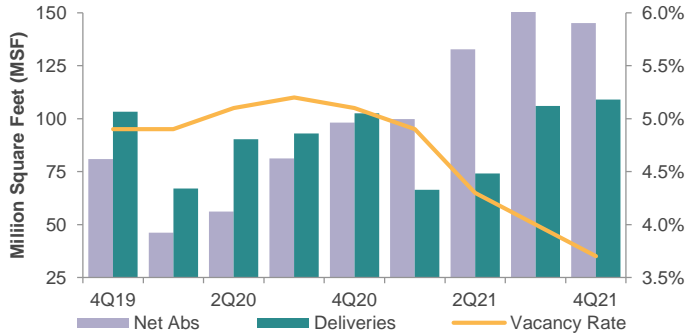
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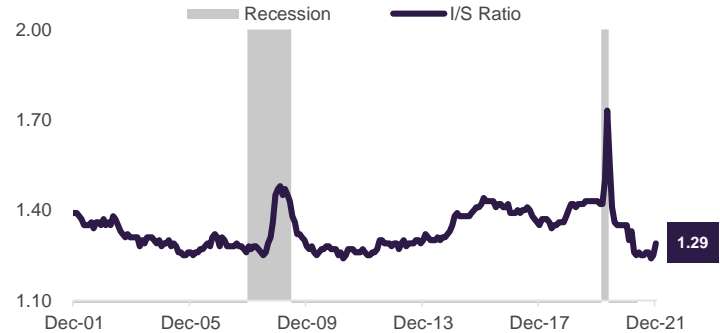
Record Demand for Warehouse Space as Restocking Begins

- Demand for warehouse space continued to be strong in Q4 as **145.2 million square feet (MSF) went under contract**. The quarter capped an entire year where demand outpaced supply.
- **Leasing activity exceeded 500 MSF for the first time ever** despite rising rents and increased competition for warehouse/distribution space. Among the industries that were most active in leasing were Logistics & Distribution and 3rd Party Logistics (3PL). Logistics providers sought to increase their capacity and location to meet growing consumer demand and greater expectations for fast delivery times.
- Limited warehouse capacity has been met with a simultaneous increase in inventories due to restocking activity as companies shift to a just-in-case management strategy. The Logistics Managers' Index (LMI) recorded a year's worth of readings above levels classified as "significant expansion." As transportation capacity remains tight, inventory is slow to move efficiently. Even still, Inventory-to-Sales ratios remain near record lows given strong consumer demand.

Industrial Warehouse Capacity

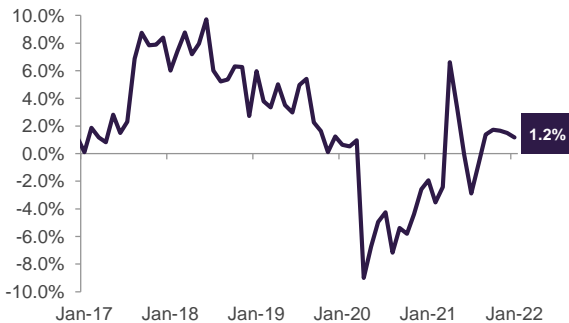


Inventory-to-Sales Ratio



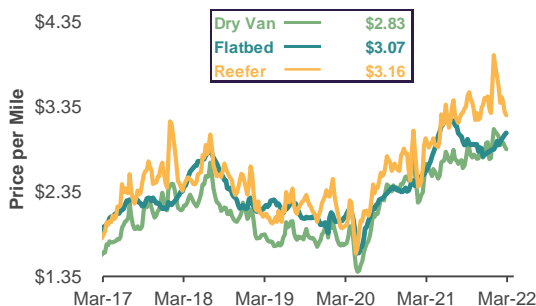
Trucking Activity Picks Up as Rail Remains Constrained

ATA Truck Tonnage, YOY Growth

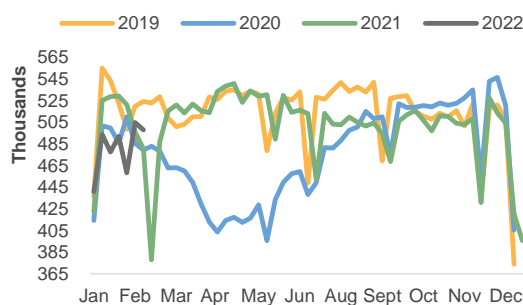


- Due to rising retail sales and factory output, **truck tonnage rose 1.2% in January compared to levels one year ago**, marking the fifth consecutive month for a year-over-year increase.
- Despite record levels of cargo towards the end of 2020 and the beginning of 2021, the latter half of 2021 saw a slow down in overall freight volumes as cargo got stranded on vessels and ports creating downstream bottlenecks.
- The trucking industry is still reckoning with a secular labor shortage that has caused **spot rates to increase by about 65% since February 2020**. Trucking companies were offering large sign-on bonuses to attract new truckers amid a run-up in freight demand from the pandemic.

Truck Spot Pricing



Weekly Rail Carloads + Intermodal















- Shortages of labor, equipment, and warehouse space have caused shippers to choose trucking over rail to avoid further uncertainty. For the first six weeks of 2022, **intermodal units were down 5% from the previous year**.

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Active M&A Market with New Opportunities for Diversification

- Transportation & Logistics M&A activity has remained strong throughout 2021 and in the beginning of 2022 as buyers have accumulated cash from record earnings and higher valuations have brought sellers to the table.
- Notable activity includes another LTL acquisition from Knight-Swift of Midwest Motor Express. The transaction follows the AAA Cooper deal announced during summer 2021. We could see more of these marriages as TL and LTL freight lines continue to blur.
- Record profits have given shippers such as Maersk the ability to amass large cash sums that have been put towards the acquisition of logistics and supply chain companies. Maersk's acquisition of Pilot Freight Services expands services in the big and bulky last mile space.

Acquiror	Target	Details
		RLS Logistics, the 3PL and cold-chain solutions provider, announced the acquisition of Hutt Trucking & Logistics propelling the Company into the top 10 of cold-chain providers in North America
		GXO Logistics announced the acquisition of Clipper Logistics. The acquisition expands GXO's e-commerce and e-fulfillment services with access to a shared network of 50 facilities across Europe
		AP Moller-Maersk, one of the largest shipping companies in the world, announced the acquisition of Pilot Freight services, a leading first, middle, and final mile company. Pilot gives Maersk more reach into logistics services complementing other recent acquisitions
		JB Hunt announced the acquisition of Zenith Freight Line. Zenith provides specialized LTL services for furniture companies. The acquisition will expand JBH's final mile business
		The clothing retailer acquired Quiet Logistics, a logistics company that operates fulfillment centers across the US. The acquisition follows a recent trend of retailers acquiring logistics companies as a way to stay competitive and meet consumer demands
		Knight-Swift's acquisition of MME expands its LTL services and presence in 15 states. MME is the 2 nd LTL acquisition in 2021 following the acquisition of AAA Cooper Transportation in July

Supply Chain Issues Cause Companies to Rethink Manufacturing Operations

- Amid supply chain issues and elevated freight rates on shipping and trucking, many companies have announced plans to begin onshoring/reshoring operations back to North America. Auto and tech companies alike have announced the intention to bring manufacturing and jobs closer to the end consumer.
- General Motors shared plans to spend \$4 billion to expand electric vehicle and battery production in Michigan.
- Toyota announced a \$1.3 billion battery plant in North Carolina which will create almost 2,000 jobs.
- The Biden Administration announced \$52 billion in subsidies on domestic chip manufacturing which has shown to incentivize major players including Intel, Micron Technologies, and Samsung to expand US semiconductor production.



Sources: Bloomberg, Wall Street Journal, American Trucking Associations, Institute for Supply Management, Cass Information Systems, AAR's Rail Time Indicators, IATA, US Census Bureau, Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve Economic Data, FreightWaves, Colliers, CBRE, Cushman & Wakefield, Company Earnings Reports, US Port Websites, New York Times, CapIQ, the Chicago Board of Trade, and Intercontinental Exchange