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INTERMODAL ASSOCIATION OF NORTH AMERICA

Managing for Operational and Financial Performance In A Period of Uncertainty

Intermodal Operators in the COVID-19 Crisis

June 2nd 2020, 2:00 PM ET

Housekeeping

- Audience will be muted
- A question & answer session will follow the presentation
- Submit questions at any time via the Questions pane in the Control Panel
- A recorded version of this webinar, including the slides, will be available in the near future

Our Presenters

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• More than 20 years of experience to help companies resolve complex supply chain and distribution challenges • Focused on improving the supply chain performance of transportation and distribution-intensive companies • Led profitability improvement initiative for North American container terminal • Supports operational improvement of third-party logistics services providers • Led project management office for large-scale transformation of a $7 billion global food business	• Over 25 years industry, consulting, and public policy experience transportation • Led and identified EBITDA improvements of $8 to 14 million for a US port group • Led operational improvement program for port terminal company operating at more than 15 terminals • Led successful post-merger integration for the operations organization of a major North American railroad • For two major US airports, led initiative to improve revenue through terminal improvement, real estate development, and other areas	• Managed due diligence assessments focused on identifying financial upside and operational risks associated with transactions in the shipping industry on behalf of numerous financial and strategic investors • Led post-merger integration effort for international engineering firm’s acquisition of US-based highway construction firm • Identified and executed transformative cost savings initiatives at variety of clients

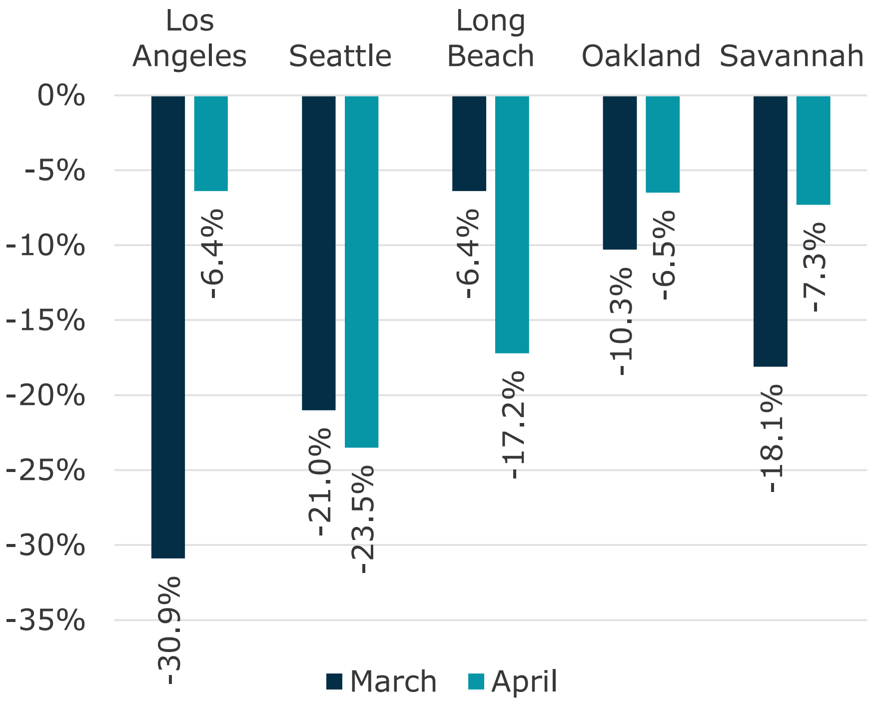
The COVID-19 crisis has had major impact on intermodal – operators can take steps now to manage for an uncertain future

- The COVID-19 crisis has put significant downward pressure on GDP and container volumes
  - Short-term indicators: increased blank sailings, PO cancellations, and lower TEU volumes
  - Longer term: analysts revising GDP forecasts downward – from +3% ➡ -5 to 6% or more
- There is substantial uncertainty in how deep the recession will be, so the container volume in the second half of 2020 and in 2021 is still very unclear
- This combination of downturn and uncertainty puts a dual challenge on intermodal operators
  - How to maintain margin and cash flow in a substantial economic downtown
  - How to address this significant volume uncertainty given high fixed costs of the operation
- Intermodal operates in an environment that doesn't always adapt well to changes in volumes (high fixed costs, variable costs are not as variable as hoped, long-term partnerships)
- Given the deep trough in Q2, for the annual volume to be down only 5% for the year would require very rapid, steep recovery in Q3 and Q4, pressuring capacity and productivity
- Operators should act now to prepare for this TEU volume uncertainty across three phases
  - 'Red' phase – near-term steps to get through the crisis
  - 'Amber' phase – positioning for a smooth and profitable recovery
  - 'Green' phase – operating in the 'New Normal' post-crisis

COVID-19 is driving a substantial hit to GDP and container volumes – with progressive downgrades in the last 8 weeks

Near term US volume drops

YOY container volume change, March and April 2020



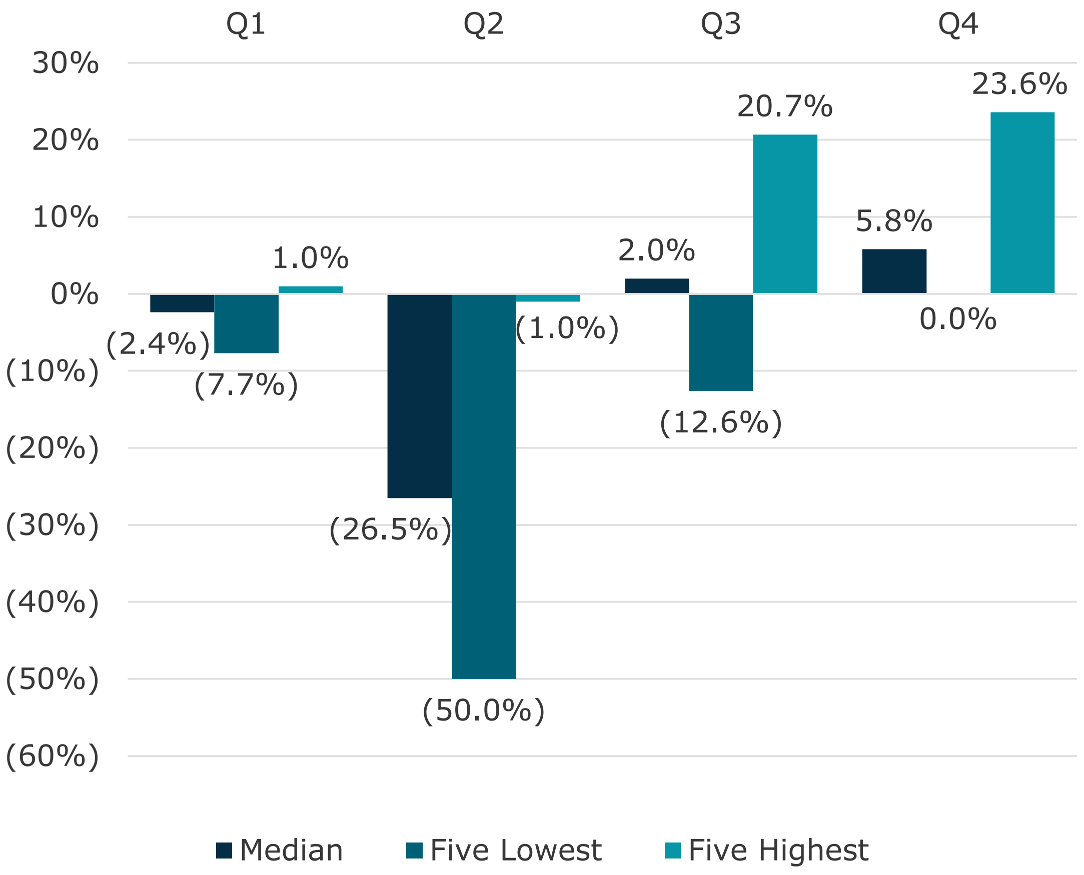
2020 forecast reductions

- Medium and long-term impact still uncertain
- Analysts have revised 2020 GDP and container volumes forecasts downward substantially
  - 2020 GDP
    - Fitch revised forecast: US down 5.6%, global down 4.6% (5/26/20)
  - 2020 container volume
    - Clarkson downgraded 2020 global growth outlook to negative 10.3%, from +2.4% in February. Transpacific trade also forecast at negative 11.3% (5/25/20)

Source: American Shipper, 4/7/20, Fitch, Clarkson Maritime, J.P. Morgan, HSBC, S&P, IHS

The common thread among analyst projections is uncertainty – leading economists have vastly different perspectives for 2H 2020

US GDP 2020 YoY change – NABE Economist forecast

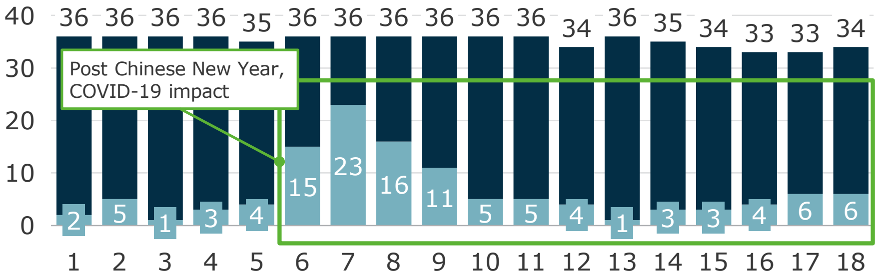


- April 2020 survey from National Association of Business Economists reveals unprecedented disagreement on GDP outlook
- Median forecasts among the 45 economists surveyed track with YoY forecasts of major analysts, but there is huge variance
  - Five lowest Q3 forecasts averaged –12.6% YOY change for the quarter, while the five highest averaged +20.7%
- Multiple sources of uncertainty will likely continue this lack of consensus, such as:
  - Epidemiological uncertainty associated with COVID-19
  - Economic uncertainty of how and when consumer activity will recover
  - Political uncertainty of trade policy and economic stimulus

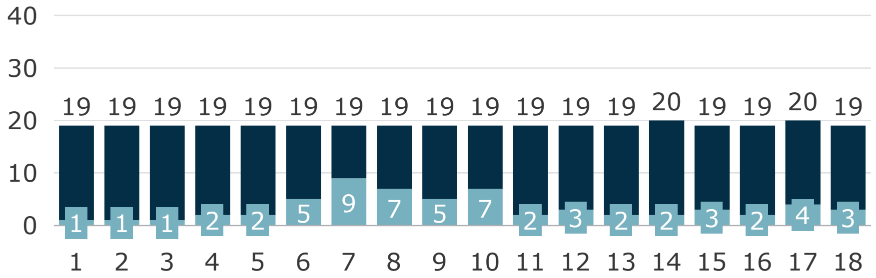
Source: NABE, Forbes

The pandemic is causing intense disruption in the terminal and shipping space – blank sailings trends show increasing disruption

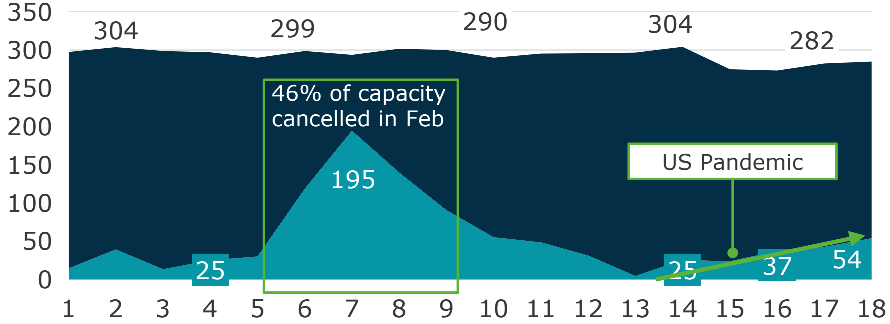
F.E. Asia – N.A. West Coast Blank Sailings (YTD April 2020 by departure date by week number)

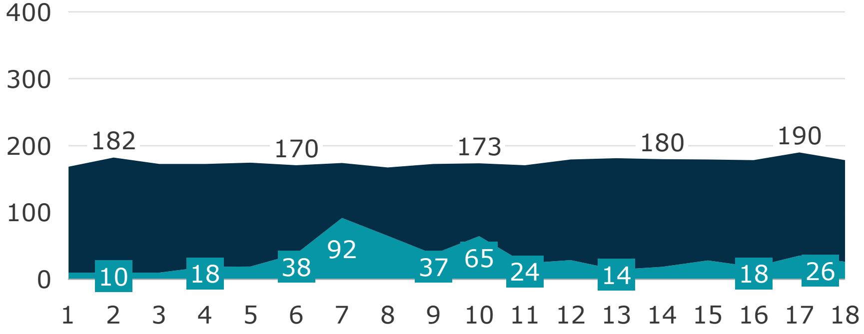


F.E. Asia – N.A. East Coast Blank Sailings (YTD April 2020 by departure date by week number)



Dispatched Sailings Blank Sailings





Capacity (TEU, 000s, total Sailings) Capacity TEU (000's)-Blank Sailings

117 of 634 Sailings and 19% of capacity cancelled during this period

61 of 344 Sailings and 18% of capacity cancelled during this period

Source: Alphaliner; AlixPartners analysis

How operators can address this crisis – near term

RED ZONE: IN CRISIS

Focus on cash	Prevent operational problems	Variabilize costs
• Adopt 'Cash is King' culture • Look at all levers to rapidly conserve cash • Centralize key cash decisions • Recover trapped cash • Develop rolling 13 week cash flow forecast • Assess timing of projects and prepare to suspend/prioritize activity	• Assess risks across each inputs to operation (labor, maintenance, facility services, supplies) • Ensure contingencies are in place to maintain operation • Identify peaks and valleys in activity across operations – ensure resources are effectively redeployed	• Scrutinize variable costs (labor/crewing, equipment) as volumes quickly shift down and back up • Identify productivity leakage as volume shifts, and identify how to better monitor and address • Ask "what are the core versus non-core activities?" • Dispose of non-core assets as appropriate • Rationalize SG&A/overhead

Emerging from the crisis – medium term

AMBER ZONE: EMERGE FROM CRISIS

Institutionalize improvements

- Build on initial cost-reduction steps to ensure they are sustainable
- Build out foundation for ongoing improvements (IT systems, tracking, etc.)
- Seek and institutionalize procurement savings opportunities
- Work with customers to streamline operational handoffs and transactions

Prevent liquidity shortages

- Ensure ongoing cash availability to support critical value chains
- Preserve minimum liquidity necessary for operations
- Assess liquidity positions of customers and vendors
- Build liquidity buffers

Identify go-forward commercial opportunities

- Understand demand shifts moving forward (locations, lanes, etc.) and mobilize to serve this demand
- Anticipate and effectively charge for services customers seek in this new environment (storage, etc.)
- Leverage lower activity level to improve service levels to retain/attract customers

Post-crisis, there will likely be structural changes – rewarding nimble operations and risk resilience

GREEN ZONE: POST-CRISIS

Customers have tossed out old paradigms

- Don't assume that as volume recovers, customer will revert to previous norms
- Just like you, your customers are scrutinizing costs and are seeking supply chain efficiencies
- Different modal choices, lanes, sources, and destinations may emerge

Competitors will have become more efficient

- The crisis has placed a spotlight core functions – winning players will have streamlined cost structures
- Productivity initiatives – once a 'nice-to-have' become critical for survival
- Overhead expenditures that don't clearly contribute to EBITDA will have been scrutinized and reduced

The economics of asset ownership have changed

- After years of relatively stable demand, recent shocks have underscored risks of asset ownership, such as rolling stock
- As many operators seek to variabilize costs, the premium paid to asset owners may rise
- Companies should carefully scrutinize the risks/rewards of asset ownership in this new environment

Seven key ways that intermodal operators can act quickly and decisively to address the emerging market dynamics

1 Manage for cash	• Understand your cash position under different scenarios • Project your cash balances up to early 2021, with weekly forecast for next three months
2 Review CapEx program	• Consider delaying capital projects and delivery of some capital equipment • Smartly defer maintenance CapEx
3 Review relationships and terms	• Work with vendors on payment terms • Monitor customers carefully to defend against late payments • Implement necessary surcharges, collect accessorials
4 Aggressively target fixed costs	• Seek ways to simplify SG&A organizational functions with a lower cost base • Identify non-personnel SG&A costs that can be scaled back
5 Make variable costs truly variable	• Identify and implement efficiency improvements across I/M operations • Assess labor productivity scenarios at multiple levels of volume, and look for ways to better scale operations up or down without loss of efficiency
6 Seek procurement savings opportunities	• Scrutinize external spend and identify opportunities for savings from vendors • Manage demand – buy only what is truly needed • Seek better payment terms with vendors
7 Drive revenue with value-add services	• Anticipate and effectively charge for services customers seek in this new environment (e.g., storage) • Leverage lower activity to improve service levels to retain/attract customers

Q&A

Please type your questions
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