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April 30 - May 2, 2017
Paradise Point Resort & Spa
San Diego, CA
CHANGES IMPACTING TRANSPORTATION CAPACITY

... World Dynamics & Economy, Technology & Demographics
AGENDA

Speaker Introduction

World Dynamics Impacting the Economy

U.S. Economy & it’s Effect on Transportation/Capacity

Technology and the Pace of Change

Regulatory Environment

Driver Shortage Challenges – Trends

Key Take Ways

Company Background & Conclusion
BREXIT | EU founded Nov. ’93. Two year process (Theresa May / Parliament)

NEW ADMINISTRATION | deregulation? Prior administration overturned thousands of years of precedent in numerous departments (e.g. NLRB, EPA), will these decisions be overturned?

Dec. ‘16 OPEC | Org of Petrol Export Co’s deal to limit production (Russia, Iran, Iraq, Kuwait, SA, Venezuela, etc.) — no effect, capacity elsewhere (e.g. shale), oil prices depressed but potential “wild card” (dynamics in the Middle East, supply disruptions potentially problematic)

Cuba opens, Venezuela withers, Russia

CYBER SECURITY/HACKING | e.g. DNC, Yahoo 1B Dec. ‘16, Target, Botnet wipeouts, Ransomware …
Presidents keep approx. 60% of promises | 538 stat analysis web site

Goal of 4% growth/yr | 2x avg. of recent years

Global trade in flux, work on trade imbalance

Tariffs? Trade barriers? Higher costs, lower exports?

Lower corporate taxes, repatriate offshore $
The Economy

Trucking revenue $700B+ for 3 years | commencing 2014; 70% of nation’s freight (ATA)

Job Growth Since Great Recession | Lost 8.7 m jobs late ’07 – early 10 |
Since then, added the 8.7 m + gained 7 m jobs from ’10 to Present (5%) — per BLS

GDP (Measurement of goods/services produced) | economists predict 2.5 - 3% in ’17-’19 (-8% in ‘09)

ST IR | Fed raised STI rate from 0.5% to 0.75% 12/16 (only 2d time in a decade, first was Dec. ‘15) & again in March, ’17 to .75-1% range (was 5% prior to ’08) to stave off inflation (vs. lowering to stimulate econ.) —Fed target of 2% inflation — (every 1% increase = $470B in soaring int. charges)

Unemployment Rate | 9-10% ’09-’10; 5% in ’15/’16 | Consumer confidence level hit highest level in past 9 yrs, 227,000 jobs added in Jan. ’17 (equally b/t retail, bus svcs, construction, financial) but also 15,000 temp job (LEADING INDICATOR?) increase in Jan. ’17 (3% increase YoY), but unemployment ticked up to 4.8% end of Jan. ’17 b/c more entering work force. Staffing Industry Analysts predict 180,000 jobs/mo will be added in ’17. “Middle Skill” job gap — require more experience than high school diploma but less than college (e.g. truck driver), and fewer Americans have these skills.

S&P 500 — 8 yr Bull run | 2d longest in history, 2x the normal. THAN TRIPLED SINCE LOWS OF 3/09 (9-21-16)
**Economic Backdrop**

- **GDP Growth Rates**
  - 2013: 3.1%, 2014: 4%, 2015: 2.3%, 2016: 2%, 2017: 2.6%, 2018: 2%

- **S-T Interest Rates**
  - Federal Funds Rate (2008-2018)

- **US Inflation Rate**
  - 2012-2018: Declining trend

- **Unemployment Rate (BLS)**
  - 2006-2016: Rising to peak in 2010, then declining
1.) Fragile but more optimistic business & consumer confidence (modestly improving numbers & job growth), nervousness about the future, lack of confidence in gov’t

- Consumers concerned about jobs, funding for retirement, escalating costs (healthcare, housing, education …)
- Continued spending to make life easier (cars/truck sales, electronics/tech, entertainment)
- Political frustration — low trust, weak candidates, mere talk & “window dressing” vs. confronting major issues (e.g. debt, education, immigration, SS/Medicare, pension reform, crime, terrorism)

2.) Fed Reserve used monetary policy to stimulate economy — impact is interest rates at artificially low levels, policy choices favoring borrowers vs. savers

- Politics will favor infrastructure building projects (e.g. roads, bridges, trans) to boost economic growth
3.) **Global economies not contributing much to US economy**

- European & Japan headwinds (aging pop, negative int. rates)
- China stabilized/low growth, Brazil/Russia contracting, India still strong growth

4.) **Increasing inflationary pressures**

- Housing, medical costs, energy rebounding a bit
- Modest wage inflation
- Global competition helping to keep prices down
- Significant corporate cost cutting pressure

Impending tax policy & regulatory changes | New fed/state political players | Impact of high Govt/corporate/consumer debt levels limiting financial flexibility | Increasing anti-globalization sentiment … May impact future growth
Employment 2017

156k job gain 12/16, 227k 1/17, 235k in Feb.’17 (50k/mo more than expected last 2 months (BLS))

Unemployment ticked up to 4.7% (Jan. 1, ‘17) as more entered workforce

Labor shortages with staffing co’s, engineering, all infrastructure, many trades, teachers ...

Labor participation rate near all time lows as more baby boomers retire - LPR at 77% for ages 25-54 | down from pre-recession levels

Wages increased 2.9% in ‘16 (BLS), further increases should help LPR

Robotics/automation

Migration to warmer climates, bigger cities (CHI, ATL, SF...) vs. “Rust belt”

Some outsourcing IT to Indian staffing firms (H1B’s) – NM, MP, UC San Fran med. center
Economic Growth Would Further Exacerbate Capacity

• Tight capacity exists and will remain in an environment where the GDP is 2% - 2.5%.
• Many economist predict GDP growth of 2-3% into 2017
• If growth of 3% or more occurs, capacity is going to go from tight to extremely tight. Trump is shooting for 4% growth.
• “Cap Ex Boom” (after yrs. of buybacks/cash hoarding)

Source: Witte Econometric
"I THINK I'M GONNA NEED A LONGER EXTENSION CORD..."
Every Industry Is Shifting

Leaders are creating new experiences through a new kind of business model

- Consumer Goods
- High Tech
- Education
- Cloud Services
- Healthcare
- IoT
- Media
- Communication

Credit: Zoura
Companies are going to employ fewer people “to get a lot more done .... It’s the path technology is taking. The biggest difference between now and the past is the speed of change. I don’t think people realize how quickly this is happening.”

Mark Cuban (Dallas Mavericks/Shark Tank)

Mass unemployment “is going to be a massive social challenge. There will be fewer and fewer jobs that a robot cannot do better (than a human).”

Elon Musk (Tesla co-founder, SpaceX founder)

“When A.I. is built into computers, connected to the Internet of Things, objects and the cloud will surpass the human brain ... causing profound societal impact.”

Masayoshi Son (Softbank CEO, launched $100B fund focused on AI/IoT, bought ARM Holdings for $32B – 99% of smart ph chips and chips that will be in 80% of I of T devices; believes that
Insourcing transportation | e.g. Prime Air / Cincy Hub

Packaging for sustainability, cost savings

Amazon Go — Grab & Go grocery store | (cell ph log in, machine learning, artificial intel, sensors, food stamps)

“Dash” button on staple items | (e.g. Huggies, Tide) synched to Amazon acct for re-order

“Smart” appliances | touch screens, voice preloaded with info to facilitate ordering

Mobile pay apps on phones, watches | Remote/Digital banking/fin. services by smartphone and web

Drones & “manned aerial fulfillment center” blimps | (UPS — “van top” delivery drone)
The Pace of Tech Innovation in Transportation

- EOBR’s, forward/backward in-cab cameras
- Platooning | e.g. Omnitracs/Peloton, V-v comm & speed control, drivers steer
- Driverless trucks (Otto/Uber)
- Lane departure technology/speed limiters
- Stability control
- Nicola hydrogen-electric fuel cell battery pack
- Predictive cruise control
- Enhanced routing software
- Passenger-carrying drones | e.g. Urban Aeronautics “Cormorant” & Autonomous flying cars/“air taxies” (Airbus) with multiple rotors & electric battery powered engine
- “Smart” glasses (Vuzix) and Finger Trigger Gloves (KoamTac) for barcoding
Regulatory Environment
“These rules are exacerbating the current driver shortage making equipment costs significantly more expensive, and increasing the financial risks smaller, less well-capitalized fleets are facing.”

– Dr. Mary Holcomb (Univ. of TN SC professor), in John Schultz’ article “Trucking Regulations: Caught in a Web”, *Logistics Management* (10/1/15)
Regulatory Changes have impacted productivity and accelerated the driver shortage.
Smaller Carriers and Owner-Operators are leaving the industry.
Drivers with endorsements (e.g. Hazmat) aren’t renewing, higher entry level training requirements, etc.
Class Action Lawsuits | e.g. CA –
Walmart settled for $55m relating to off-duty pay; Penske Log settled for 750k over meal periods; Oct. ‘16 Schneider National settled for $28M over meal/rest breaks; June ‘16 Pacer Cartage settled for $4.25M over improper IC classification claim.

Tightening Trucking Insurance Market | Zurich and others pulling out of the market

Drug Legalization / Drug
Focus on Safety & Compliance

$9 Billion spent annually on safety training and technology – ATA Jan ‘17
CDL Driver Landscape
Challenges Abound
The acute capacity shortage resulting from deteriorating driver demographics and the onslaught of productivity sapping regulations is expected to create the mother of all capacity shortages as early as 2016 or as late as 2019, depending on the rate of economic growth and the final timetable under which federal safety-oriented trucking regulations are fully implemented. While trucking supply/demand tightness has softened somewhat over the short term, the long term outlook calls for extreme...
Driver Demographics | A Snapshot

Median age 46.5 years (vs. 42.4 the rest)

25-34 y.o. in trucking down by half (Millennials)

Much lower life expectancy
200+ pounds

Doesn’t work-out (10% regularly do)

Irregular sleep patterns

Fast food diet

Smoker, drinks off-duty

Infrequent home time

High stress
ATA – approaching 4 million truck drivers (9M in industry), of which 350,000 are O/O’s.
Analysts project nearly 200,000 shortage by 2024; and ATA says we’ll need another 890,000 CDL’s by 2025 to meet rising demand (states issue 300-400k/yr but lose many)
Causes:

- Increased Freight Demand
  - Consistent “Modest” Tonnage Growth

- Shrinking Driver Pool Demographic
  - 1 in 6 Drivers is over 55
  - Less Than 25% are under 35

- CSA Impact
  - Eliminating “Bad Drivers”

- Hours of Service Changes
  - Less Driving Time
  - Less Overall Work Time
  - 3% to 8% Productivity Loss

- Entry Level Challenges
  - Truck Driving Perception
    - 171st of 200 Occupations
    - Low Pay for Work Time
    - Poor Work Conditions
    - Limited Growth Potential

This Persistent Driver Shortage Due to ...

Driver Wages & The Driver Shortage

The gap between the U.S. average wage and the average truck driver wage has been increasing.

The Journal of Commerce  (BLS - $20 avg., 40k+ avg. for all drivers)
The Real Cost of Turnover

The Average cost to replace a driver is between $5,000 - $8,000

These costs include:
- Drug tests
- Background checks
- Job Advertising
- Recruiter cost
- Sign-on bonus
- Training
- Orientation and Onboarding
- Loss of Productivity
- Lost Utilization
- Increased incident rate

- Private Fleets have the Lowest Turnover at around 14%, compared to Dedicated Carriers at 38% and TL carriers, which are between 75-90%*
- The Turnover Rate will impact service and cost and must be considered in selecting a transportation model.

* According to ATA reports and the NPTC Benchmarking Survey
Minimize Driver Turnover

What do drivers want?

What is the ONE reason you'd consider switching carriers?

- Appreciation
- Clear career path
- Choice of routes/hauls
- More home time
- Newer truck
- Big sign-on bonus
- More money

• Fleets must provide drivers what is important to them:
  - Good Compensation and Benefits
  - Steady Work Schedules
  - Respect and Recognition
  - Safety First Workplace
  - Good Orientation and Training Programs
  - Safe and Clean Equipment
  - A Positive Work Environment
These eleven 2016 NPTC Driver All Stars have driven enough miles to circle the globe over 800 times... When you have been in motion for over 20 million miles collectively, it probably feels pretty good to stand still for a picture.
Competing Interests to Secure Driver/Fleet Capacity

BALANCE

Safety & Compliance

Cost Control

Service & Flexibility
Most Successful Co’s are ....

Reinventing themselves - not merely products or services, but solutions based on partnership relationships

Preparing for acute labor shortage (across our US infrastructure)

Adjusting to the millennial workforce

Prioritizing Supply Chain management (weakness will be exploited)

Expanding markets to boost profits

Investing in innovation
Recommendations For Your Supply Chain

“Control your own destiny or someone else will.”
(Jack Welch)

Focus on quality and differentiation

Take (tough) steps now to secure options, expand markets, reduce risk — no silver bullet — proactive analysis and implementation

Modify & invest in operations and infrastructure to enhance driver recruiting and retention (e.g. more regional, home time, load quality, less lifting)

Position technology to work as something “for” the driver instead of “to” the driver

Embrace technology, change is happening with or without you
Review fleet, carrier, o/o & 3PL options to determine best fit. Your best option may be hybrid fleet operations.

PRIVATE FLEETS may be best positioned for success from a driver stability standpoint, or if control or service is a top priority.

CARRIERS may be most cost-effective if minimal backhaul opportunity, less static freight levels, less JIT, if plenty of capacity exists.

DEDICATED may work if you don’t want to deal with equipment and personnel control.
Founded in 1973

Privately Owned Company | All owners actively work at CPC

Customers are Primarily Fortune 1000 “Private Fleets”

3,700 Drivers + Warehouse, Dispatchers, On-sites through our 27 offices

Operations in 45 States, Canada and Puerto Rico

“Permanent” Customer and Driver Relationships — many have been with us 20, 30 or even 40 years

Non-asset based, focus on personnel
Sample Clients (Enduring Partnerships)
All Over North America
IN THE LAST 15 YEARS, ABOUT HALF OF THE FORTUNE 500 COMPANIES HAVE DISAPPEARED

Only 12% of Fortune 500 firms in 1955 remained on the list in 2015

Survivors: GE, IBM (Watson), Exxon