LOGISTICS SECTOR OVERVIEW

1. State of the industry
   • Customs
   • Air
   • Ocean
   • Domestic

2. Future Outlook & Trends

3. Finding the Signal in the Noise
## 2019 Volumes

<table>
<thead>
<tr>
<th>Mode</th>
<th>Air</th>
<th>Ocean</th>
<th>Transcon</th>
<th>Customs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>955,000,000+</td>
<td>1,125,000+</td>
<td>1,500,000,000+</td>
<td>5,000,000+</td>
</tr>
<tr>
<td>(kgs)</td>
<td></td>
<td>(TEUs)</td>
<td>(kgs)</td>
<td>(entries)</td>
</tr>
<tr>
<td></td>
<td>67,108,000+</td>
<td>1,324,000+</td>
<td>80,094,000+</td>
<td>17,600,000+</td>
</tr>
<tr>
<td>(kgs)</td>
<td></td>
<td>(TEUs)</td>
<td>(kgs)</td>
<td>(sq ft)</td>
</tr>
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### Order Management

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<th>Air</th>
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<th>Distribution</th>
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<td>(TEUs)</td>
<td>(kgs)</td>
<td>(sq ft)</td>
</tr>
</tbody>
</table>
To create unlimited opportunities for our people through sustainable growth and strategic focus, inspiring our premier customer-focused logistics organization.

Vision

Mission

To set the standard for excellence in global logistics through total commitment to quality in people and customer service, with superior financial results.
Pre-COVID-19

- Trade Impacts
- State of the industry

Current

- Focus on Execution
- Capacity & Demand

Future

- Carrier Landscape
- Logistics Providers
- Digital Disruptors
- Additional Impacts
Understanding = Complexity can lead to opportunity
Global Infrastructure
Local Expertise
Knowledge Based Approach

2020 OUTLOOK BACKDROP

2020

STRENGTHS

CHALLENGES

OPPORTUNITIES

THREATS

Global Pandemic
Post Entry
Monitoring
Complexity

Compliance controls upstream
Data and Reporting
Strategic Relationships
Innovation

Political & Economic Uncertainty
Global Pandemic
Government Audits
AIR MARKET
DEMAND

**Air trade growth by Industry, April - May 2020**

**Absolute change (thousand tonnes) and YoY growth (%)**

- **Machinery Parts**: 33, **5%**
- **Chemicals**: -16, **5%**
- **Consumer Goods**: -79, **40%**
- **Temperature Control**: -141, **26%**
- **Live Animals**: -12, **46%**
- **Capital Equipment**: -64, **28%**
- **Automotive**: -88, **51%**
- **Raw Materials**: -207, **29%**
- **Special Handling**: -14, **42%**
- **High Technology**: -69, **11%**
- **Fashion Goods**: -88, **33%**
- **All industries**: -744, **20%**

**Top-10 commodity increases, April - May 2020**

**Absolute change (thousand tonnes)**

- **Face masks**: 235, **56**
- **Medical gowns**: 15
- **Medical gloves**: 14
- **Laptops**: 10
- **Nonwoven fabrics**: 9
- **Men's woven garments**: 8
- **Ventilators**: 7
- **Medicaments**: 7
- **Laptops parts**: 6
- **Disinfectants**: 6

_without increase in PPE products trades losses would have surmounted to over 1 million tonnes in April and May_
Over 1,600 widebody passenger aircraft have been retrieved since April...

However, the redeployment of aircraft has been limited compared to the more than 3,000 widebody aircraft grounded since the COVID outbreak.

Monthly net changes to the global widebody passenger fleet, Dec 2019 - Jun 2020

Number of widebody aircraft added/removed

Source: Seabury
WHAT TO EXPECT

PAX Travel
- 84 Billion dollar loss – 3x higher
- Travel will remain uncertain through 2021 and beyond
- Virtual Meetings

Operations
- Smaller Fleets
- Limiting secondary routes
- Closing low cost airlines
- Outsourcing
- Digitization

Financials
- Raising capital
- Postponing Orders
- Concerned with fuel volatility
- Early Retirement schemes

Labor
- Health and Safety
- Added processes to operations
- Specific Country Regulations

Capacity Agreements
- Cargo revenue must offset PAX losses
- PAX Freighters
- Short-Term deals
- Two-Way Segments
- Freighters will play a key role

more uncertainty...
OCEAN MARKET
OCEAN MARKET LEVERS

**Capacity**
- Existing fleet
- New
- Scrapped
- Charter market
- Growth +/-

**Demand**
- GDP
- Global Trade +/-

**Operating Expense**
- Fuel
- Assets
- Terminals
- Labor
- Technology

**Financial Performance**
- Carriers earnings
- Rates/revenue
- Operating expense
- Debt to equity
- Cost of capital

**Outside Factors**
- Environmental
- Cyber-Security
- Labor
- Political
- Regulatory
C O N S O L I D A T I O N
3 alliances, 9 global carriers

Current Alliances

April 2020: HMM Joins THE Alliance

Alliance Capacities:

- 2M Alliance: 7.93 Million TEU
- Ocean Alliance: 7.73 Million TEU
- THE Alliance: 5.09 Million TEU

Source: Alphaliner
DEMAND

Industry Summary

Absolute change in TEU and YoY % growth

<table>
<thead>
<tr>
<th>Industry</th>
<th>January 2020-June 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Temperature Control</td>
<td>5% (+217,156)</td>
</tr>
<tr>
<td>High Technology</td>
<td>6% (+83,153)</td>
</tr>
<tr>
<td>Special Handling</td>
<td>-22% (-28,468)</td>
</tr>
<tr>
<td>Chemicals</td>
<td>-1% (-39,445)</td>
</tr>
<tr>
<td>Machinery Parts</td>
<td>-4% (-206,406)</td>
</tr>
<tr>
<td>Capital Equipment</td>
<td>-10% (-259,435)</td>
</tr>
<tr>
<td>Fashion Goods</td>
<td>-18% (-403,578)</td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>-9% (-755,561)</td>
</tr>
<tr>
<td>Automotive</td>
<td>-18% (-952,033)</td>
</tr>
<tr>
<td>Raw Materials</td>
<td>-4% (-1,413,932)</td>
</tr>
</tbody>
</table>

Total volume in TEU and YoY % growth

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</table>
DEMAND

US imports from Asia return to year-on-year gain in July

Total monthly TEU volume of US container imports from Asia, with year-over-year change

Source: IHS Markit

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SUPPLY - CAPACITY
WHERE ARE WE NOW?

SUPPLY & DEMAND CYCLE

- Rates Fall
- Capacity Surplus
- Capacity Increased
- Demand Decreased
- Rates Increase
- Capacity Reduced
- Demand Increased
- Capacity Shortage
DOMESTIC MARKET
STATE OF TRUCKING

- Jul-20 Y/Y % -5.7%
- Index
- Y/Y % Δ

- Cass TL Linehaul Index (Jan 2005 = 100)
- 15%
- 10%
- 5%
- 0%
- -5%
- -10%
- Nov 05
- Apr 06
- Sep 06
- Dec 06
- Jul 07
- Oct 07
- May 08
- Aug 09
- Mar 10
- Jun 10
- Nov 10
- Apr 11
- Sep 11
- Dec 11
- Jul 12
- Oct 12
- May 13
- Aug 13
- Mar 14
- Jun 14
- Nov 14
- Apr 15
- Sep 15
- Dec 15
- Jul 16
- Oct 16
- May 17
- Aug 17
- Mar 18
- Jun 18
- Nov 18
- Apr 19
- Sep 19
- Jan 20
- Jun 20

- Y/Y % Change
- $2.39
- $2.22
- $2.04
- $1.81
- $2.35
- $2.29
- $2.20

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STATE OF WAREHOUSING & DRY VAN
FUTURE OUTLOOK & TRENDS
TECHNOLOGY

High Enthusiasm

AI
Digital Twin
Algorithms
API
Digital Documents

Assess  Leverage  Lead

Low Customer Value  High Customer Value
AGILITY AS COMPETITIVE ADVANTAGE

Flexibility
The ability to respond to disruptions
- Design for postponement
- Propagate visibility across the supply chain

Adaptability
The ability to react and exploit opportunities
- Implementing new business models or products
- Identify and evaluate alternate supply sources

Inventory Policies
Increase safety stock levels to account for the supply shortage.
Increasing safety stock may be preferred to an increase in buffer/cycle stock where profit resides.

Supplier Distribution
Qualify additional supply sources to spread sourcing across other countries/suppliers and build redundancy.

Delivery strategy
Evaluate a direct delivery model to understand if products can bypass the DC. Expand the DC footprint could provide redundancy in inventory.

Demand Prioritization
Collaborate with the Sales team to determine customer prioritization and quantity splits.
SUPPLY CHAIN HEALTH CHECK

<table>
<thead>
<tr>
<th>Health Indicators</th>
<th>Health Marker</th>
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</thead>
<tbody>
<tr>
<td>Changing customer footprint, shifting demand, shift in delivery model (B2C, B2B, ecomm)</td>
<td>• Geographic footprint (volume by customer)</td>
</tr>
<tr>
<td>Supplier concentration, sole sourcing, shifting supplier footprint</td>
<td>• Customer lane / Division lanes</td>
</tr>
<tr>
<td></td>
<td>• Demand trend over time</td>
</tr>
<tr>
<td>Multiple modes, shifting modes, underutilized conveyances, premium freight, carrier diversity</td>
<td>• Geographic footprint (volume by supplier)</td>
</tr>
<tr>
<td></td>
<td>• Supply diversity w/in a commodity (if provided)</td>
</tr>
<tr>
<td></td>
<td>• Supply trend over time</td>
</tr>
<tr>
<td>Unbalanced inventory placement within the network, inconsistent inventory demand</td>
<td>• Geographic footprint (volume by carrier &amp; mode)</td>
</tr>
<tr>
<td></td>
<td>• Transportation trend over time</td>
</tr>
<tr>
<td>Data availability and integrity of results, Lack of data across business segments, quality and quantity of data available</td>
<td>• Right inventory (evaluate freight spend by mode)</td>
</tr>
<tr>
<td></td>
<td>• Right place (distance between origin – destination is minimal)</td>
</tr>
<tr>
<td></td>
<td>• Right time (Level load demand pattern)</td>
</tr>
<tr>
<td></td>
<td>• Quality of the data: Null values, Inconsistencies</td>
</tr>
<tr>
<td></td>
<td>• Visibility in the data: missing data elements, limited data availability/quantity of records</td>
</tr>
</tbody>
</table>
PACE OF VISIBILITY
SIGNAL IN THE NOISE

• Never waste a good crisis – heed lessons left and right
• Ensure you have the right alignment with partners
• Rates will eventually (2021) stabilize but expect them to remain higher as capacity remains tight across all modes
• Space and Flexibility is the name of the game, to manage through the Supply/Demand imbalance
• Ocean carriers financials will improve (much needed) but still remain unstable
• Transit times will be volatile – Carrier, terminals, truckers, chassis, space all contribute
• Possible consolidation across all sectors
• Just in Case vs. Just in Time
• Tariffs and Politics will continue to disrupt
QUESTIONS?

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