Private Fleet Performance Improvement

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Transportation and Logistics Advisors, LLC

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Agenda

- **Why Do Private Fleets Have High Costs?**
- Why Can Private Fleets Have Service Issues?
- Options For Improving Cost And Service
- Examples

There are many good reasons why companies have private fleets

- Need for specialized equipment
- Need for specialized services
  - (e.g., driver partial assembly upon delivery)
- Branding and advertising
  - On the truck, the trailer, and driver uniform
- Control over the customer experience
  - Driver professionalism, uniform, knowledge of processes
- Control over capacity availability

Photo Source: https://www.fleetadvantage.com/news/the-private-fleet-advantage

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While some private fleets have scale and are efficient, most are small and lack scale. Result is the benefits come at a significant cost. Lack of scale results in:

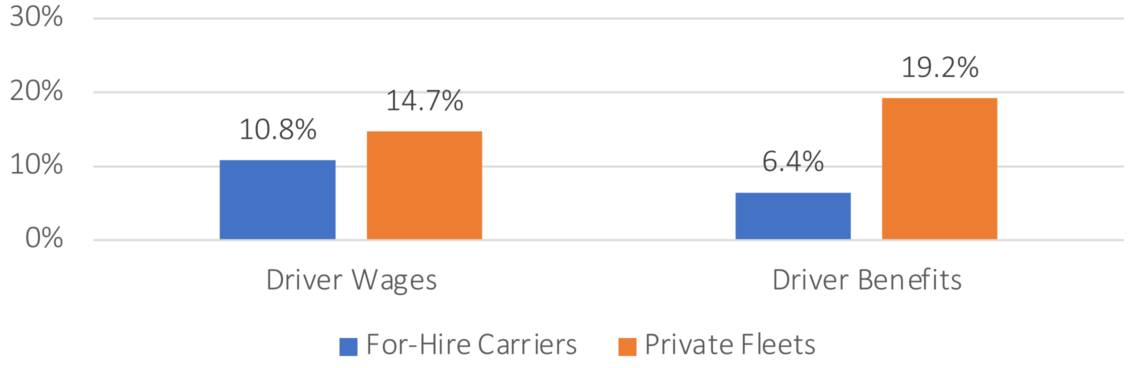
- High Operating Costs - 2021 marginal cost/mile for private fleets averaged $2.50, about 35% higher than the for-hire carrier at $1.86
- High ownership cost
  - Trucks are either purchased at full retail, or leased as full service lease (FSL) with a margin to the lessor
- High maintenance costs
  - Can't afford in-house maintenance
  - Pay full retail on the road, or get through FLS with margin to lessor
- High fuel costs
  - Often lack volume discounts and sophisticated fuel management technology
- High driver wages
  - Can't afford sophisticated driver recruiting team and thus use wage as the recruiting tool
  - High benefit costs as all employees are required to be on one benefit plan, and competitive driver benefit plans are often lower cost than overall company
- Low productivity
  - Need to "build the church for Easter Sunday," with trucks and drivers sitting during down periods
  - Limited ability to handle third-party freight to minimize empty miles
  - Limited ability to network flow the trucks to maximize financial performance
- Lack of management sophistication and tools
  - High-cost technology purchases can only be spread over a small fleet
  - High cost to maintain and integrate/use sophisticated technology
  - Limited ability to hire talented management

Sources: ATRI "An Analysis of the Operational Costs of Trucking" annual reports; TandLA knowledge and experience

The driver cost issue for private fleets is real, this is the result of both high wages and benefits, and low productivity

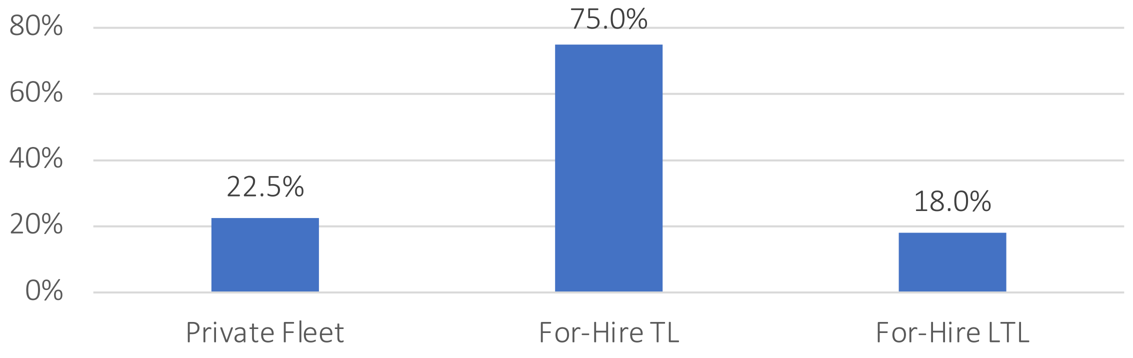
- Private fleet drivers cost nearly double that of for-hire carriers on a per-mile basis
  - Private fleet driver costs averaged $1.42/mile in 2020, vs. $0.74/mile for for-hire carriers
- Additionally, private fleet driver costs are increasing more quickly than those of for-hire carriers

Driver Costs/Mile Annual Percentage Change 2021 vs. 2020



- While some private fleets justify their high costs as a way to keep low driver turnover, the turnover of for-hire LTL carriers is actually lower, and the premium versus TL for-hire carriers is often just too large

2021 Driver Turnover



Sources: ATRI "An Analysis of the Operational Costs of Trucking" annual reports; TandLA knowledge and experience

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Low productivity is typically a major driver of high private fleets costs

- Have to have too many trucks, trailers and drivers – needed to serve the peaks
  - Limited opportunities to use in other services through the troughs
- Integer issues for small facilities
  - Can’t add a half a truck
- Trailers are not filled - 81% of Private truck loads are less than full, as shipping more quickly is prioritized over freight optimization
- High percentage of empty miles
  - Lack sophistication to manage back-haul initiatives
    - Lack capacity management technology
    - Lack backhaul management capabilities
  - Lack technology and management processes to blend in-bound and out-bound movements
  - Lack technology and management processes to dynamically build routes
  - Lack data, technology, and business base to network flow trucks

Sources: ATRI “An Analysis of the Operational Costs of Trucking” annual reports; TandLA knowledge and experience

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Private Fleet can Create Limits to Company Growth/Profitability

- Lack surge capacity
  - May be off-set by excess assets and drivers that add to the cost problem
- Lack technology to manage service quality, such as real-time tracking
- Limited ability to reach distant customers cost and service effectively
  - Low productivity and high empty mile costs – exacerbated in long-haul markets
  - Lack of overnight capabilities
    - Sleeper cab trucks
    - Hotel and driver away from home expense management programs
    - Truck cost management away from home (maintenance, fuel, parking, pivot points to drop trailers)
- Impact on fleet capacity due to additional time needed to get truck back from distant customers
- Clouded customer profitability
  - Most companies use standard delivery costs
  - Frequently over-cost close-in customers – potentially leading to lost bids that could have been profitable
  - Potential under costing distant customers – potentially taking money losing orders

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In today's world, there is no reason to stay with a traditional high cost/moderate service private fleet

- The cost to improve and "professionalize" a private fleet has been falling
  - More and lower cost technology available then ever
  - Easier to source third-party freight to improve productivity and efficiency than ever before
  - More available options to "take apart" full-service lease and source assets and services separately, or to obtain more competitive full-service leases
- Plentiful array of options to outsource with an unlimited set service options/models
  - Look and feel of a private fleet is commonplace – third-party trucks, trailers and driver uniforms in the shipper's livery
  - Ability to bring minimal to sophisticated technology solutions – for productivity/cost control, and for improving customer experience
  - Many flavors of dedicated – full dedicated, third-party backhaul, surge drivers/convert to teams, surge trucks and drivers, third-party business to use trucks and drivers during lulls/down periods, etc.
- Many blended options
  - Shipper owned/controlled trailers with third-party trucks and drivers – often best for specialized trailers and to control flexibility
  - Private fleet for short-haul day-trips and third-party dedicated for over the road with brokered backhaul
  - Private fleet or dedicated for short-haul and one-way truck for long haul
  - Private fleet for larger locations and outsourced dedicated for smaller locations
- Opportunity to combine fleet change with network changes – change from long-haul dedicated multi-stop to one-way full TL to an in-market distribution center with local delivery – better service, easier to manage capacity, improved driver satisfaction/lower turnover

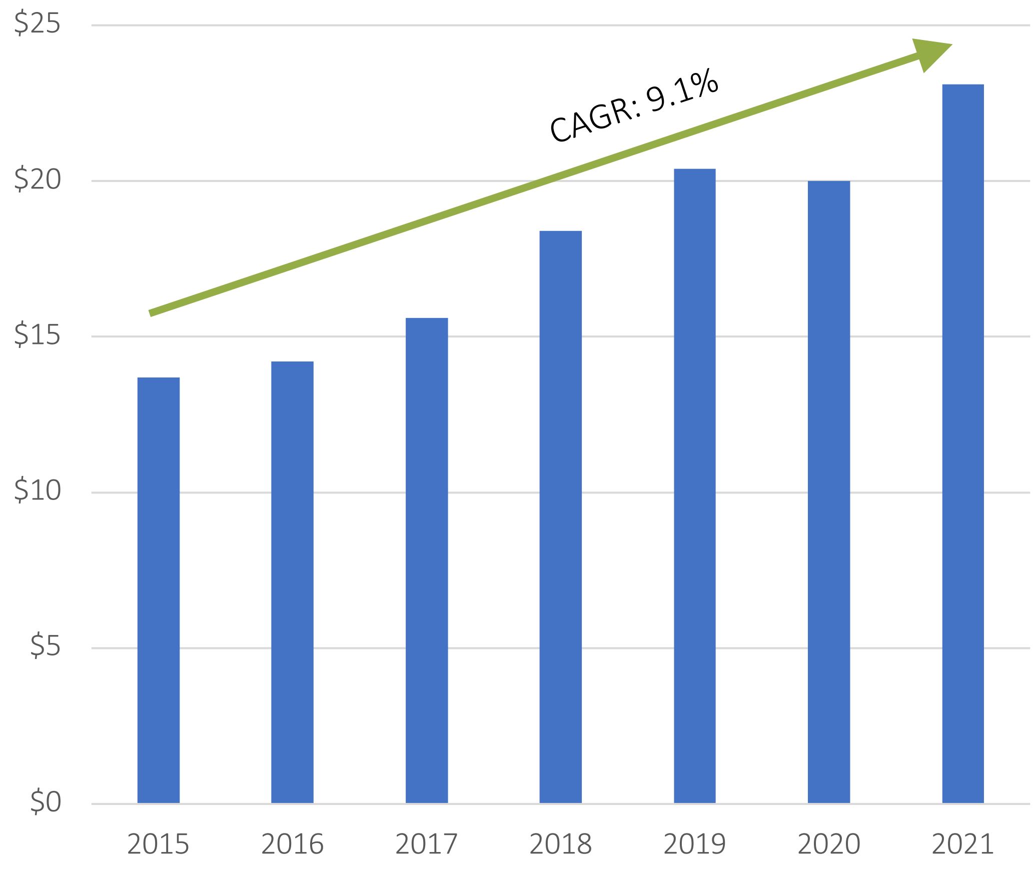
Option: “Professionalize” the Fleet - Convert the Fleet into a “Real” Truck Line

- Create a P&L and a separate company that provides trucking
- Add trucking software, management, and processes
- Move the drivers into the new entity with trucking competitive wages and benefits
- Make the fleet significantly larger – get scale
- Add significant amount of inbound freight
  - Either change the terms of purchase, or become the carrier for the supplier
- Add third-party business that is synergistic to the point that the private fleets business is a small percentage
  - Fill backhauls, inbound and outbound
  - Keep trucks productively running through downturns (by season, by business cycle, by day of the week)
  - Have enough scale that surge capacity can be shifted to the private fleet business without becoming a noticeable loss to third-party customers

Option: Third-Party, Traditional Dedicated

- 3rd party owned and operated but with company logos, uniforms, etc.
  - Leverage truckline scale
  - Leverage truckline technology
  - Leverage truckline driver recruit/management and cost/benefits
  - Step out of the liability chain
  - Look and feel the same as private fleet
  - Negative investment – sell the assets
  - If specialized trailers, trailers can be kept (small investment and preserves options)
- Leverage truckline's business base and brokerage capability to fill back hauls and cyclical troughs
- Draw on truckline's non-dedicated fleet and drivers for surge capacity

Estimated Dedicated Trucking Market ($B)



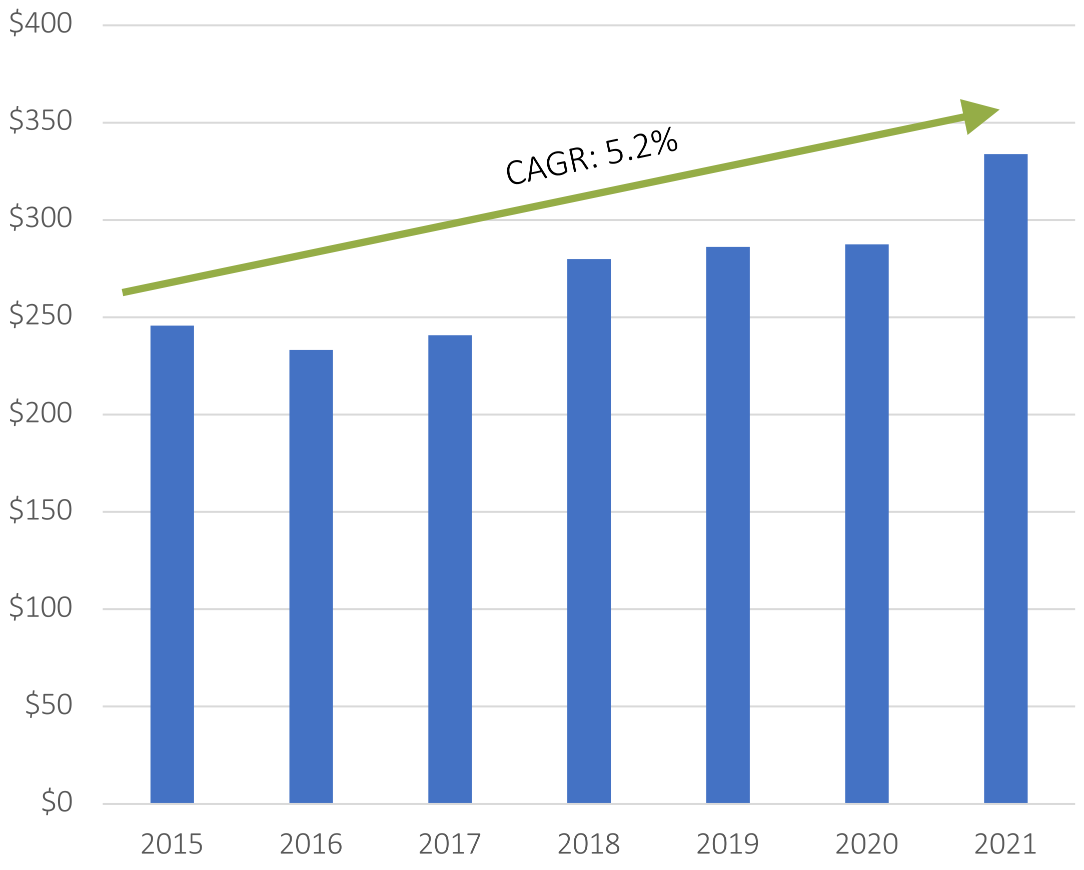
Sources: Armstrong Associates; TandLA knowledge and experience

Option: Third-Party, Contract/Non-Dedicated

- Shift to a third-party contract with capacity and service guarantees, but uses carrier's one-way fleet
- Lower cost for longer haul moves
- Removes productivity risks
- Good low-cost option to reach distant customers
- Negative investment – sell private fleet assets
- Works best for non-specialized trailers

- Trade-offs:
  - Not shipper branded
  - Service implications of using many different drivers
  - May have limited savings for short-haul and non-cyclical business

Estimated Non-Dedicated For-Hire Truckload Market ($B)



Sources: ATA; CSCMP; TandLA knowledge and experience

Option: Various Blended Options Based on Shipper Needs

Example Options	Private Fleet or Dedicated For-Hire Truck	Non-Dedicated For-Hire Truckload
By Distance	• Close in shipments	• Long-haul shipments
By Business Consistency	• Consistent/high volume moves/lanes	• Inconsistent/low volume moves/ lanes
By Base and Promotional Demands	• Baseline business volume	• All seasonal and promotional peaks
By Location Volume	• Higher volume locations	• Lower volume locations

- Get high utilization out of the private fleet/dedicated operation
- Use non-dedicated for-hire for longer moves and less efficient operations
  - The carrier can create the efficiencies utilizing volume from across their customer base

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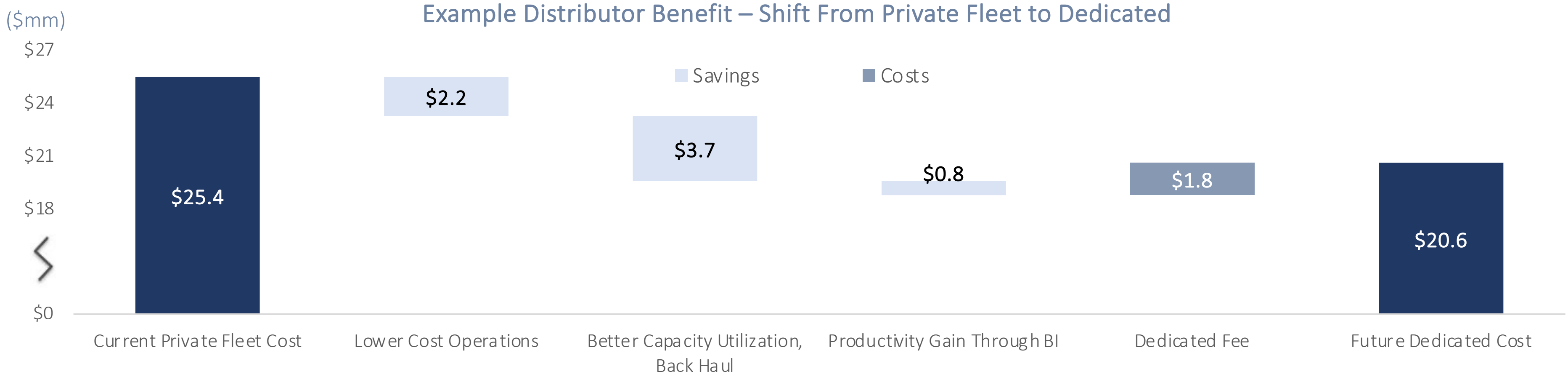
Switching a private fleet to dedicated increased EBITDA by 9.5%

Example Company: Mid-market PE owned specialty distributor

Company Background	Tactical Improvement Selected	Results
• Mid-market PE-owned specialty distributor • Revenue: $450mm • EBITDA: $51mm • Transportation spend: $31.4mm • Private fleet percent of transp. 81% • On-time rate: 92.7%	• Improve efficiency and productivity of private fleet. Options include: – Outsource to a dedicated provider – Add systems, processes, and management to make private fleet world class • Option selected: convert to a dedicated trucking provider	• Total transportation savings of $4.9 mm (19.1%) • Contracted minimum on-time rate: 95.5% • EBITDA increase of $4.9mm (9.5%) • At 8.5x EBITDA multiple, increase of $41mm to valuation



Current Private Fleet Cost
- Private fleet of 51 trucks, company drivers
- Spend of ~$25.4mm

Lower Cost Operations
- Scale, processes to lower truck acquisition, maintenance & fuel costs
- Lower driver recruiting and compensation
- ~8.6% savings

Better Capacity Utilization, Back Haul
- Dedicated needs 45.7 avg. trucks
- Use 43 trucks 80%, flex to 51
- 8 avg. trucks brokered out when not needed
- ~14.6% savings

Productivity Gain Through BI
- Improved fleet productivity
- Improved on-time performance
- ~3.1% savings

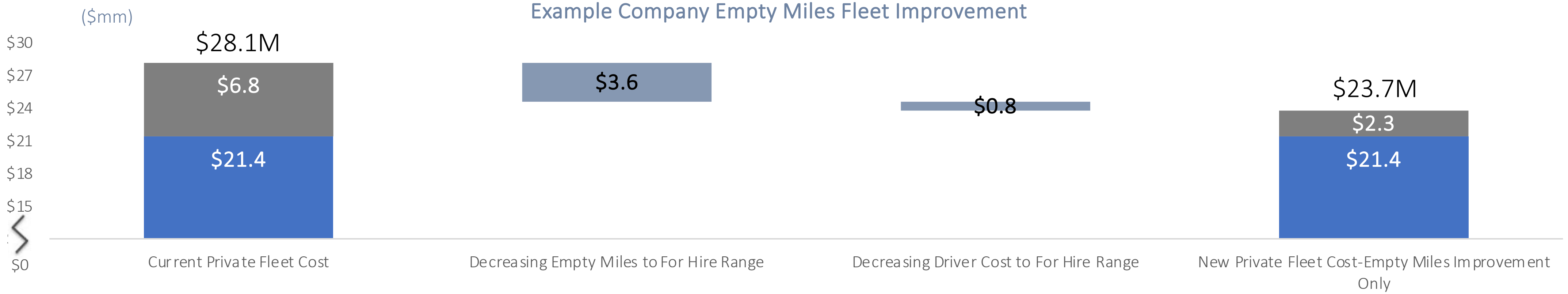
Dedicated Fee
- Dedicated provider management fee
- ~9.8% of expected transportation spend
- ~7% of historic spend

Future Dedicated Cost
- Dedicated future spend of ~$20.6mm
- Savings of ~$4.8mm, or about ~18.9%

Decreased empty miles, either through running a private fleet like a truckline, or using a for-hire provider, can create significant savings. Increased EBITDA by 4.1%

Example Company Improvement

Company Background	Tactical Improvement Selected	Results
• 125 truck private fleet • Average empty mile of 24% - equal to private fleet industry average • Average margin cost/mile of $2.50 – equal to private fleet industry average	• Decrease empty miles to 11.25%, a typical truckload carrier empty mile share • Could be through running the private fleet as a truckline, or through use of for-hire carriers • Assumes backhaul freight revenue only off-sets costs • Assumes same miles/truck/year for private fleet and for-hire carrier	• Loaded miles cost assumed constant at $21.4M • Empty miles cost decreased from $6.8M to $2.3M • Empty miles cost savings of almost 2/3 • Total cost savings of almost 16%



- Total spend of ~$28.1M
- $6.8M spend on empty miles

- Decrease of empty miles from 24% to 11% saves $3.6M

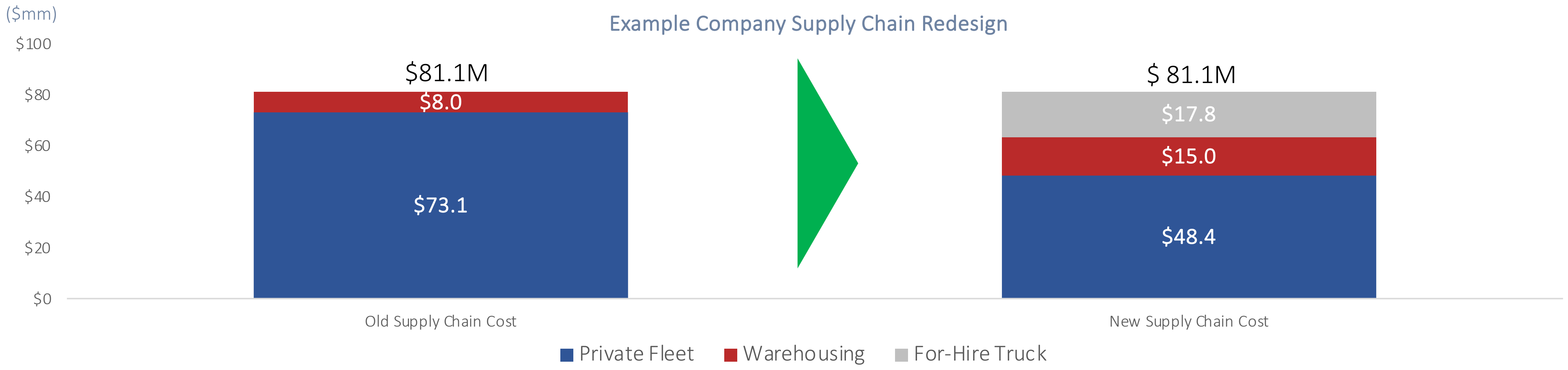
- Decrease of empty miles driver cost from $2.50/mile to $1.86/mile saves $0.8M

- Total spend of $23.7M by improving empty miles cost only

Change private fleet and DC network, increased service quality and resulted in increased business. Sales and EBITDA increased by 8.2%, with a negative investment (divest assets)

Example Company Improvement

Company Background	Strategic and Tactical Improvement Selected	Results
• 325 truck private fleet, 750 trailers • 1 regional DC • One-third of fleet for medium and long-haul moves • Medium and long-haul moves with 4-5 order to delivery cycle	• Decreased private fleet to 215 trucks and 500 trailers, used only for local metro deliveries • Sold 110 trucks for ~\$7M and 250 trailers for ~\$7M • Medium and long-haul trucking via for-hire carriers • Opened new small "in market" DCs for fast moving items • Order to delivery in target metro areas reduced to 1 to 2 days	• Increased revenue and EBITDA by 8.2% due to faster delivery times opening new customer opportunities • Cost neutral, as decreased transportation covers increased warehousing cost • Negative investment from divesting ~\$14M of assets



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