Projecting EBITDA Post-COVID

February 14, 2023

T and LA

Transportation and Logistics Advisors, LLC

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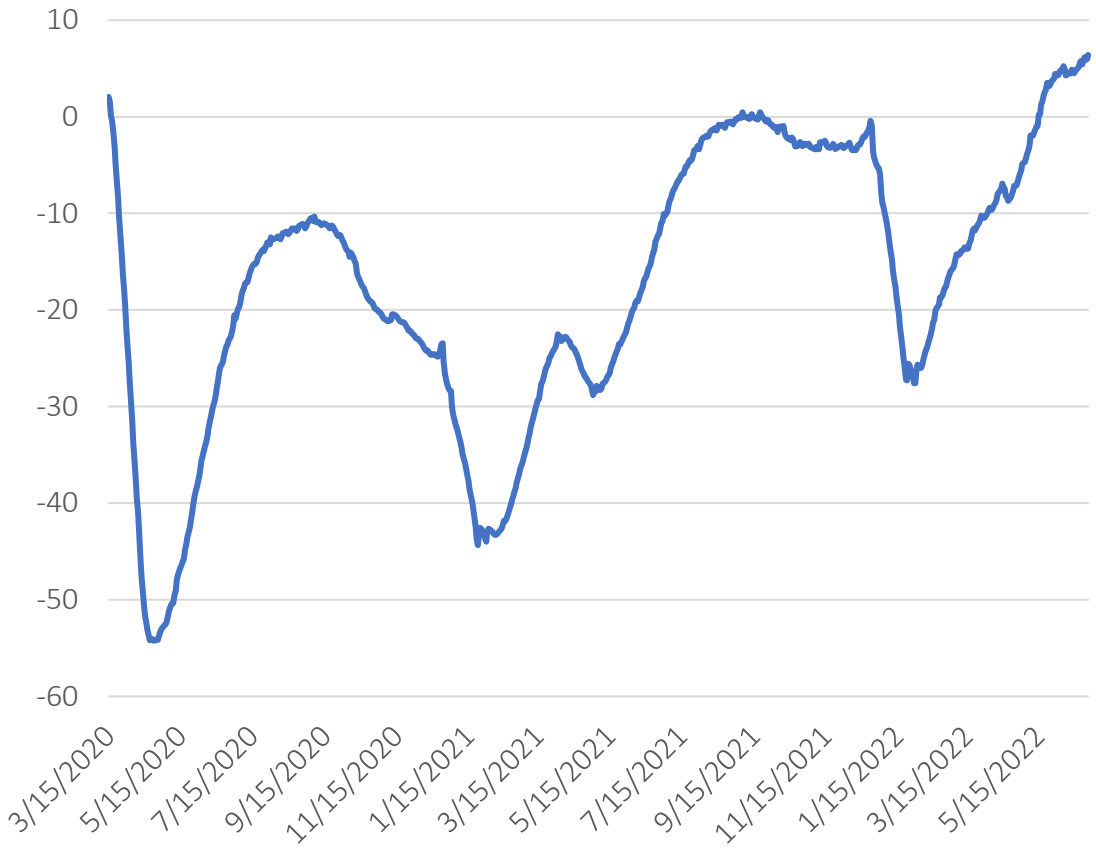
Disruptions from the COVID era resulted in non-linear performance, which has made it difficult to understand expected future EBITDA performance, and thus valuation

- COVID shut downs and COVID lifestyle changed demand for many products and services
  - Increased demand for some categories
    - eCommerce/home delivery
    - “Life at home” products such as exercise equipment and home office equipment
  - Decreased demand for other categories
    - Leisure travel
    - Food service
  - Changed “normal buying patterns” for consumer non-durables
    - Toilet paper delivered to the home vs pick up in the store
- Supply chain changes and challenges had significant non-linear impacts on transportation/logistics providers
  - Some products, parts, and services were in short supply
  - Labor shortages were experienced in many industries
  - Capacity crunch led to higher rates and profitability for many transportation/logistics companies

COVID shutdowns and COVID lifestyle resulted in more time at home, and increased eCommerce sales

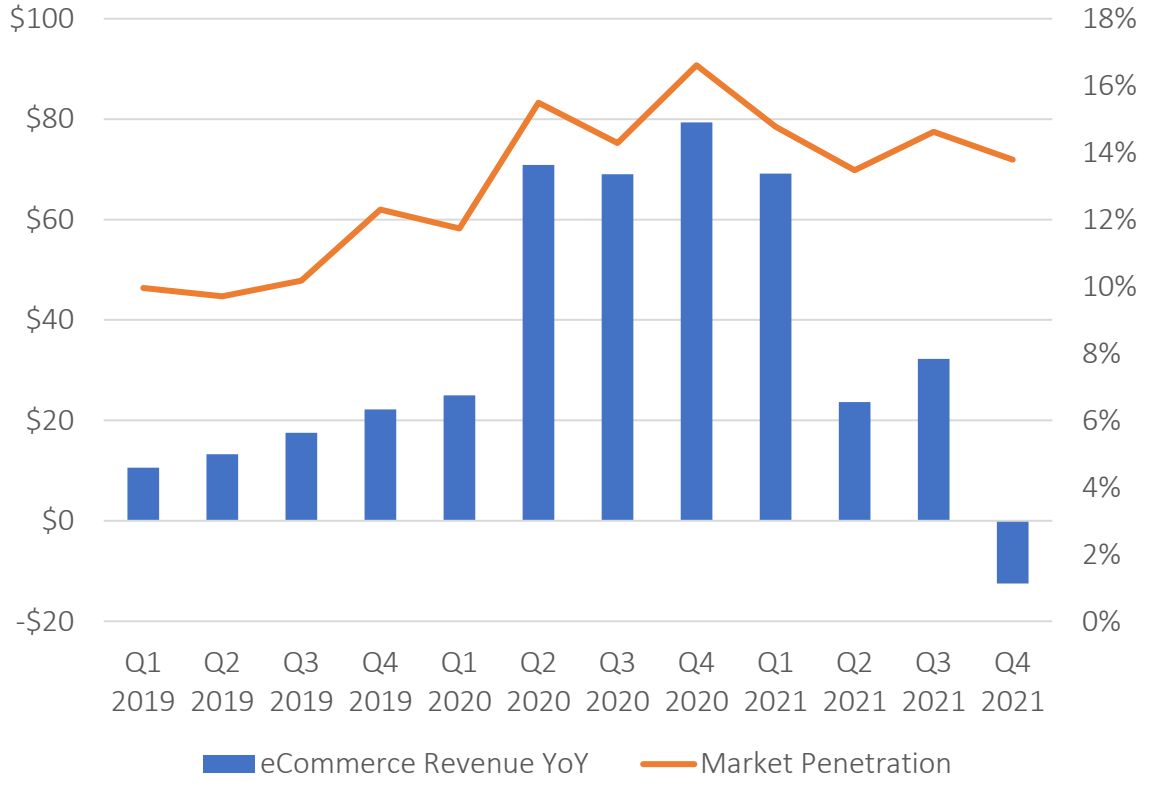
COVID Shutdowns: More Time At Home

Change in Mobility, Mar 2020-Jun 2022*



Increase in eCommerce

US eCommerce Revenue Increase YoY ($B) and eCommerce Penetration Rate



*Scale is compared to the 1/3/2020-2/6/2020 period; Mobility is defined as the average number of visits to retail and recreational locations excluding grocery and pharmacy per person per day in Canada

Sources: Google Community Mobility Data; US Census Bureau

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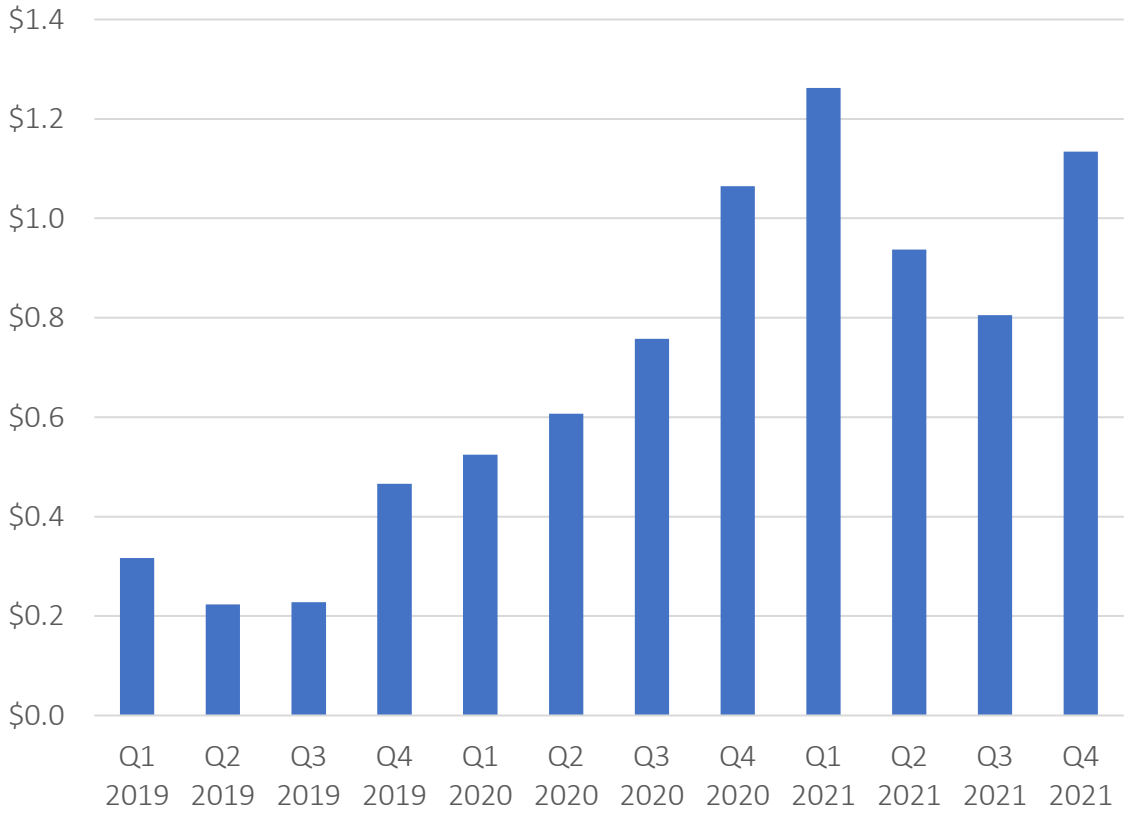
This resulted in some product categories and companies winning… and others losing

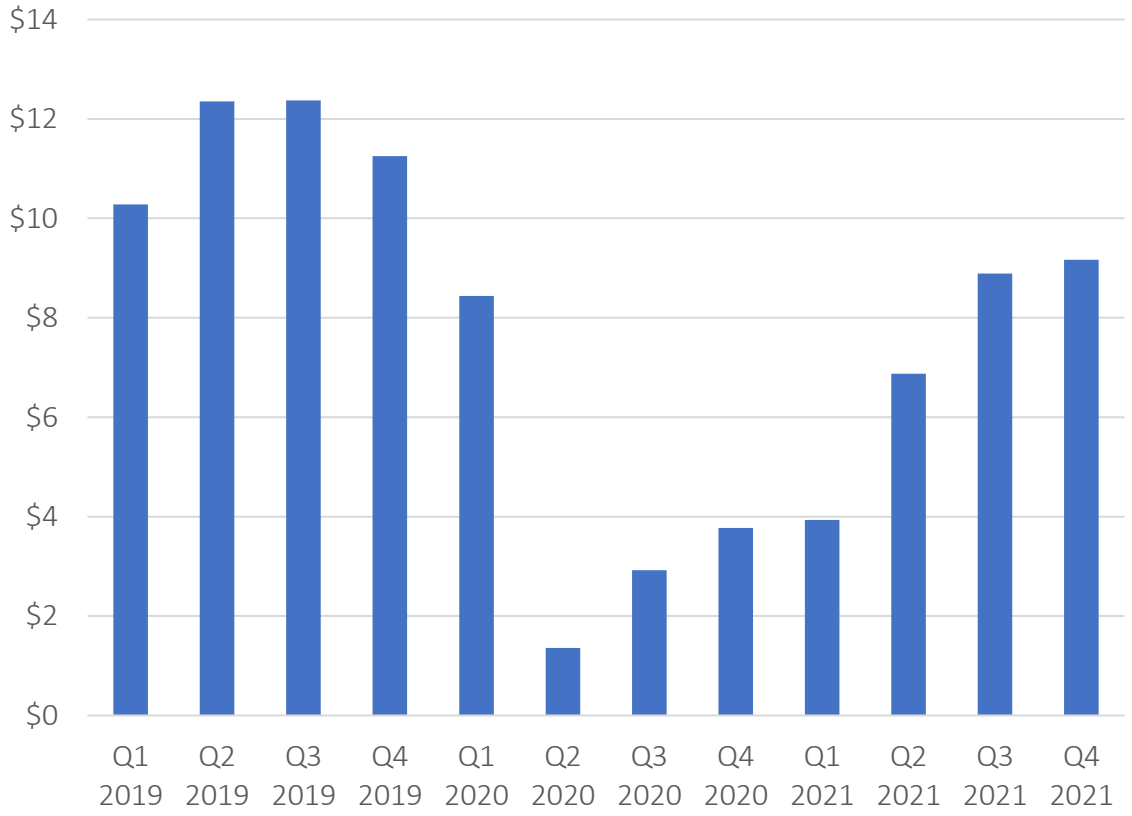
Surge in "Life at Home" Products

Peloton Revenue, 2019-2021 ($B)



Leisure and Business Travel Cut

Delta Airlines Revenue ($B)*



* Excludes Air Cargo Revenue

Sources: Peloton; Delta Financial Filings

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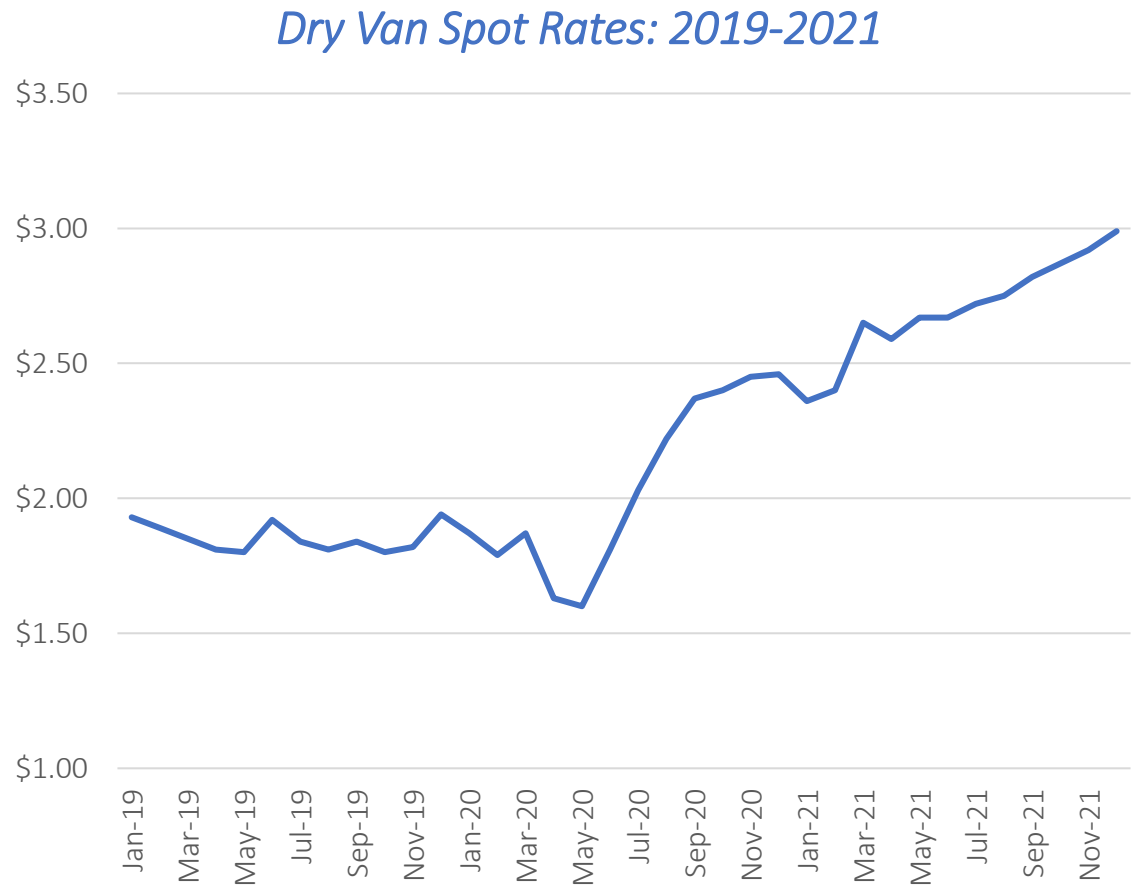
Supply chain shortages and network congestion caused significant transportation rates increases

Supply Shortages and Congestion

- Second half 2021, ports of Los Angeles and Long Beach "experienced a backlog of ships waiting to get into the port, prompting attention from the White House and a move to 24/7 operations. At the time, there were about 70 ships waiting to get into one of the ports"
- Summer 2021, Union Pacific Railroad suspended shipments from the West Coast to Chicago in order to "help ease 'significant congestion' at inland terminals, especially Chicago, and at the ports
- Peloton experienced "an imbalance of supply and demand… causing elongated order-to-delivery windows for [their] customers"
- Coca-Cola dealt with "increased costs, disruption of supply or shortages of raw materials, fuel and other supplies" for many of their products
- Apple expected iPhone supply to be "temporarily constrained" due to parts shortages and manufacturing difficulties

Transportation Rates Increased Significantly



Sources: Apple Investor update; Coca-Cola Company earnings reports; DAT; FreightWaves; Peloton earnings reports; Spectrum News

But with so many of these changes being “one-time,” and not linear, how do we know what the likely future revenues and EBITDA will be?

Did COVID accelerate and pull forward growth that would have happened anyway?

- Did COVID pull forward and accelerate changes already occurring in the market?
  - Non-durable consumables change in % eCommerce accelerated and now growing from a higher base?
- Did COVID pull forward demand creating a hole in future sales?
  - Capital items pull-forward resulting in a hole as future sales we pulled forward and “everyone now has one” – home office furniture, home exercise equipment

Did COVID create an opportunity for excess one-time sales that will not likely be repeated?

- Face masks
- Disinfectant wipes

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Despite all of the complexity of COVID and post-COVID impacts, likely future EBITDA can be estimated, and clarity added

TandLA Process for EBITDA Clarity

- Develop a "but-for" case, similar to litigation damages cases
  - As if COVID never happened, what would growth and EBITDA have been?
- What were/are the underlying secular trends driving growth and profitability in an industry segment?
- How was the specific company position for those secular trends?

- How did COVID impact the industry segment and the specific company?
  - Product by product
- What does it mean for potential future performance?
  - Did it accelerate the conversion to eCommerce
  - Did it pull forward demand, leaving a hole for later

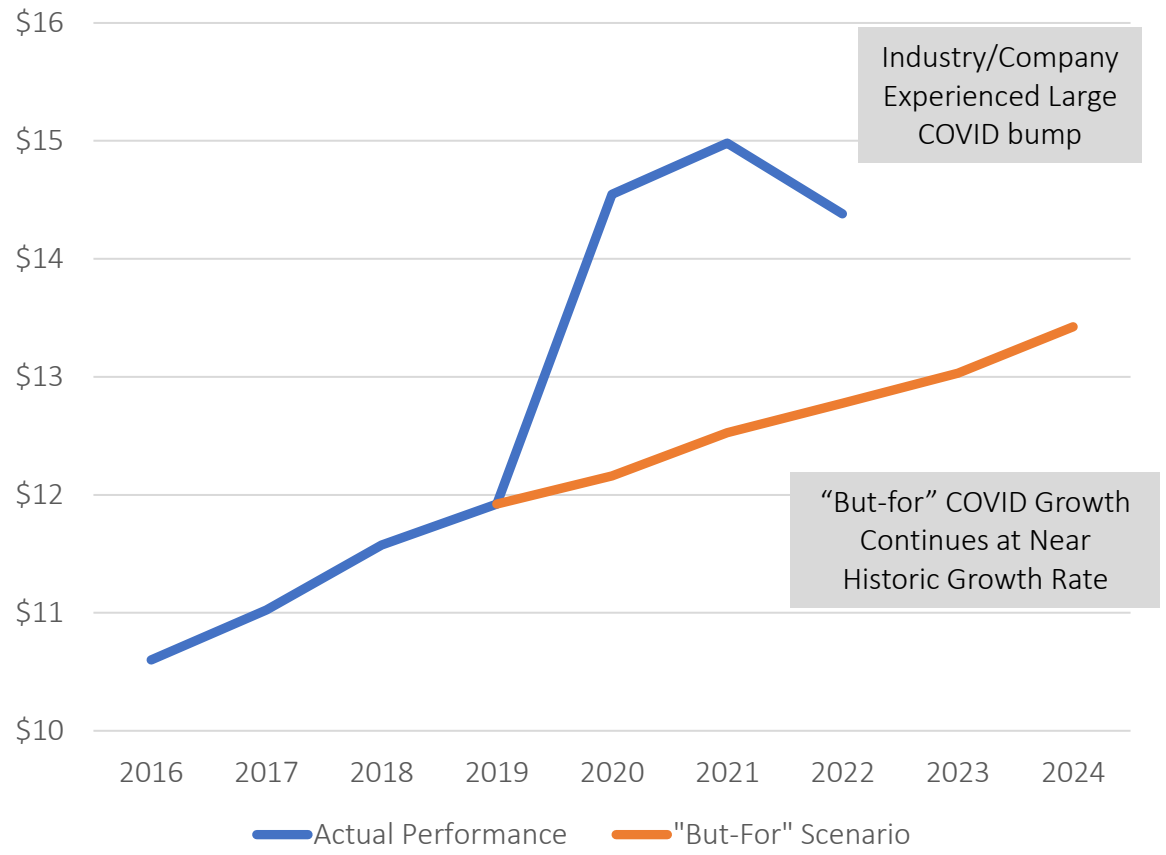
- What is the "gap" actual vs "but-for"
- What are the implications by company and product for returning to the "but-for"
- Will differ by industry segment and product
- Can differ by company within an industry segment

The "But-For" case shows what expected performance could have been if there had never been a COVID pandemic – creates a baseline

Process For Estimation

- Utilize historic growth rates and profitability to assess the pre-COVID trend
- Incorporate secular trends that are likely to increase or decrease future growth vs. the historical growth rates
- Incorporate cyclical trends as relevant by industry segment or company to calibrate the pre-COVID starting point and to understand where we are currently in a cycle
- Identify company-specific trends that could result in performance above or below the industry or trendline
  - Growth
  - Profitability/margins

Illustrative Company/Industry Size ($B)



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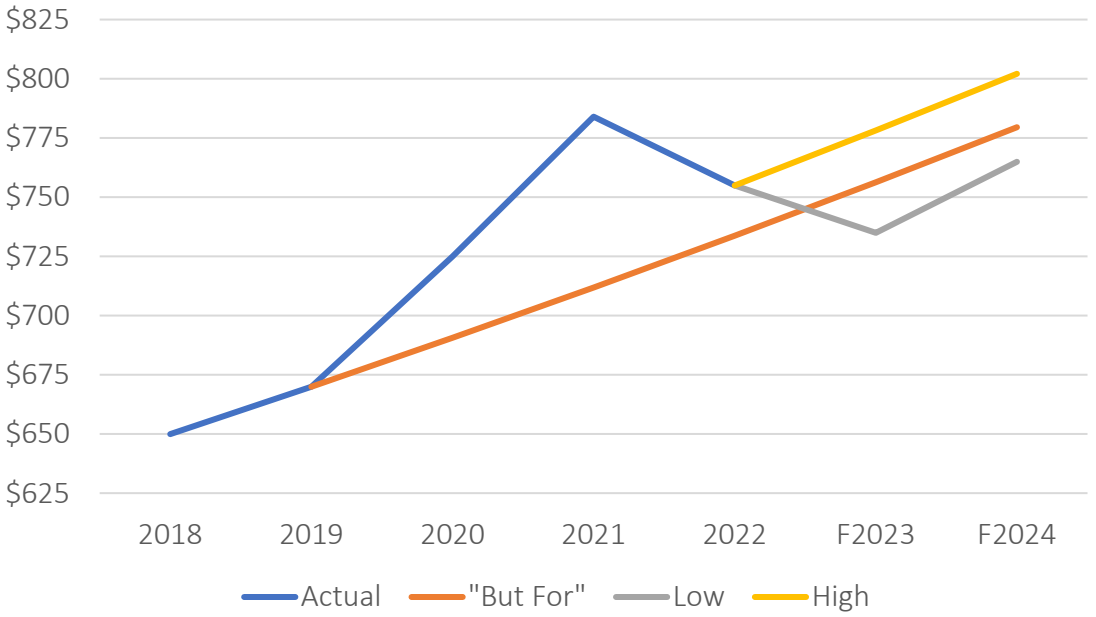
Short-term COVID impacts are very company and industry specific – not just whether they got a boost or drag, but also how consumer behavior may have changed

Example COVID Impacts

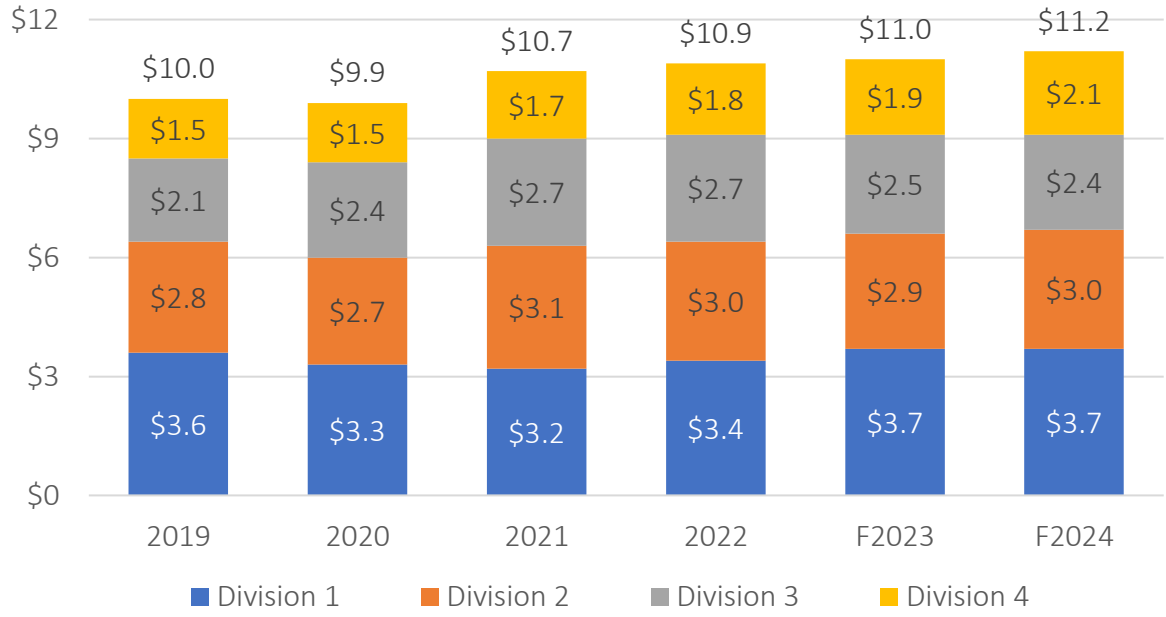
	Pulled Forward Relatively Fixed Demand	Demand Spike That Increased Base	Demand Decline
Demand Change	• COVID increased demand in the short-term as consumers stocked up or moved up demand	• Demand spiked and changed customer behavior or a secular shift so demand will continue from an elevated level	• Demand fell significantly during COVID due to lock down, COVID protocols, and health risks
Example Case	• Dishwasher demand increased as new home construction and home remodeling spiked	• eCommerce penetration in Canada exploded in 2020 and 2021, and likely pulled back somewhat in 2022 • Consumer toilet paper demand spiked with lockdowns. Increased work from home is lasting secular shift	• Commercial airlines suffered as business and leisure travel declined significantly
Impact	• Likely pulled forward demand that will create a demand hole before reverting to the long-term "but-for" case	• Short-term correction from spike, but then continued growth from a higher base than in the "but-for" case	• Perishable service, so past decline is lost. Some pent-up demand, but also secular shift away from business travel; Potentially back to long-term "but-for" case

Create scenarios of potential future performance by business line to assess go-forward performance

Create Scenarios



Roll Up To Company-Level Performance



- Low and High scenarios assess the performance due to various potential industry or company characteristics coming out of COVID
  - Higher base for 2023 could be due to secular shift benefiting that product category or company
  - Lower base for 2023 could be due to secular shift away from a category or because a relatively fixed demand was "pulled forward"

- Each division within the company had a different COVID impact, so a company-wide view is not enough
- In this example, some company divisions benefited and some were hurt by COVID, also with varying repercussions for the economic re-opening

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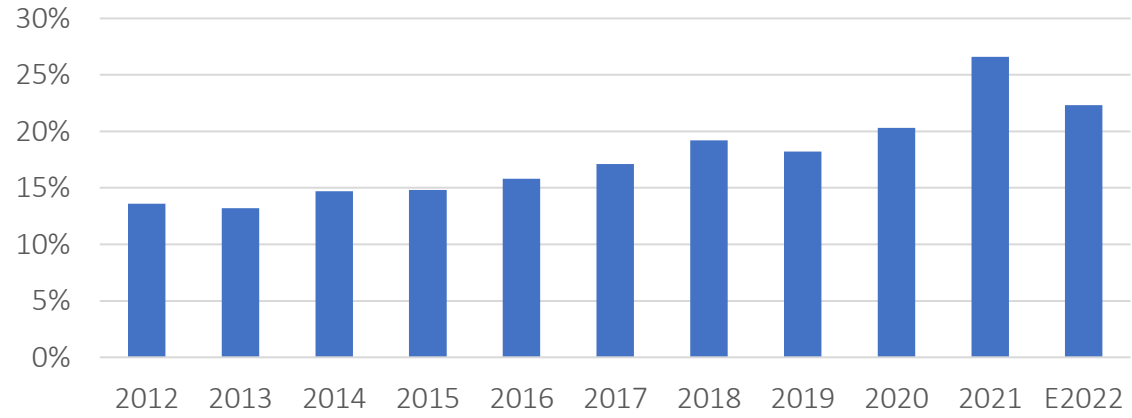
Truckload broker performance is really a combination of many factors

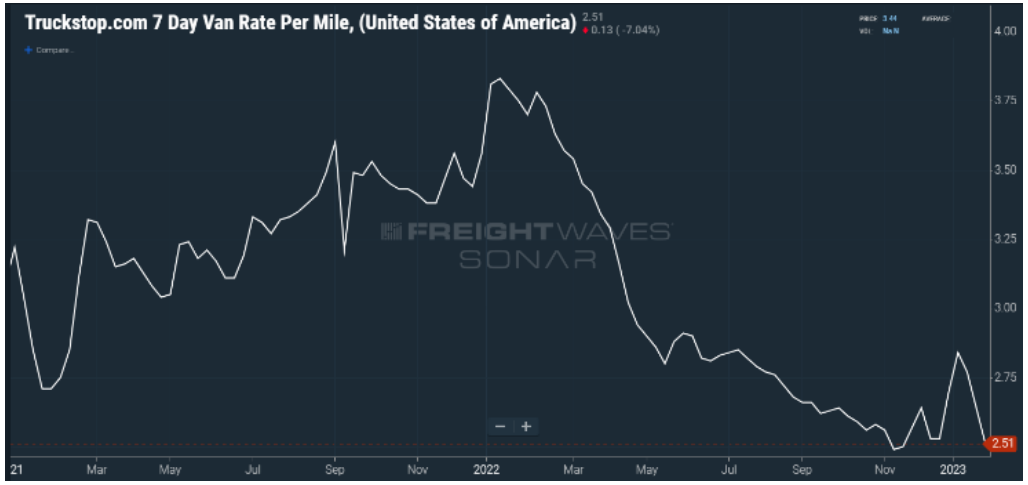
Influences on Truckload Brokerage Performance

- Underlying trucking market volume growth impacts the total number of loads to be moved, either by brokers or carriers directly. Faster volume growth can result in a "tighter" transportation demand/supply balance
- Underlying trucking market rate growth impacts the average spend per shipment for shippers. Truckload rates have traditionally increased, but at a relatively slow rate because the industry is so competitive. Underlying cost factors, such as truck driver wages, fuel costs, equipment cost, and fuel cost play a large role in truckload rate increases
- Brokerage share of trucking volume has grown as brokers Improved their value proposition and technology, and as they handle more contract business in addition to spot
- Brokerage rate levels are influenced by the overall demand/supply balance in the market. Broker spot can be lower than contract rates or higher depending on the characteristics of the market at any given time
- Broker margins are dependent on many factors, but primarily the broker's ability to pass on cost increases to shippers and/or maintain shipper rates as costs decline
- Company-specific execution

Brokerage Share of Trucking Market



Dry Van Spot Rates, Jan. 2021-Jan. 2023



Source: Armstrong & Associates; CH Robinson; FreightWaves; XPO; TandLA Knowledge and Estimates

The truckload brokerage industry spiked in 2021 and declined in 2022

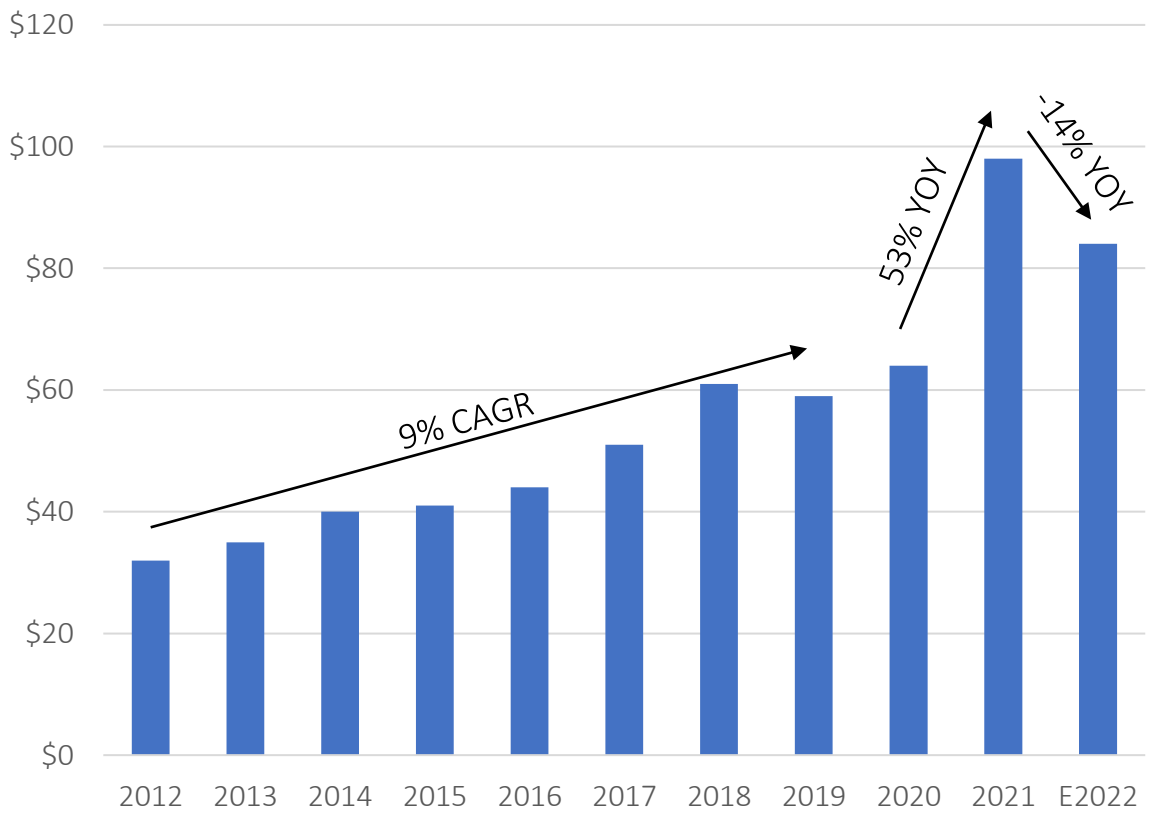
Pre-COVID Strong Brokerage Market Growth

- Relatively strong truckload brokerage growth from 2012 to 2019
  - For-hire truckload market growth of 3.3%/year from 2012-2019, a combination of slow volume increases and rate increases
  - Truck brokerage gaining share of trucking at an average rate of 4.2%/year from 2012-2019

COVID Drove Even Stronger Brokerage Market Growth

- Truckload volumes flat to down from pre-COVID levels
- Lack of trucking capacity and supply chain chaos make transportation planning and execution more difficult
- Trucking rates increased substantially – much more than volume decline
- Shippers/receivers needed brokers to find capacity, increasing broker market share

Estimated Truckload Brokerage Market ($B)



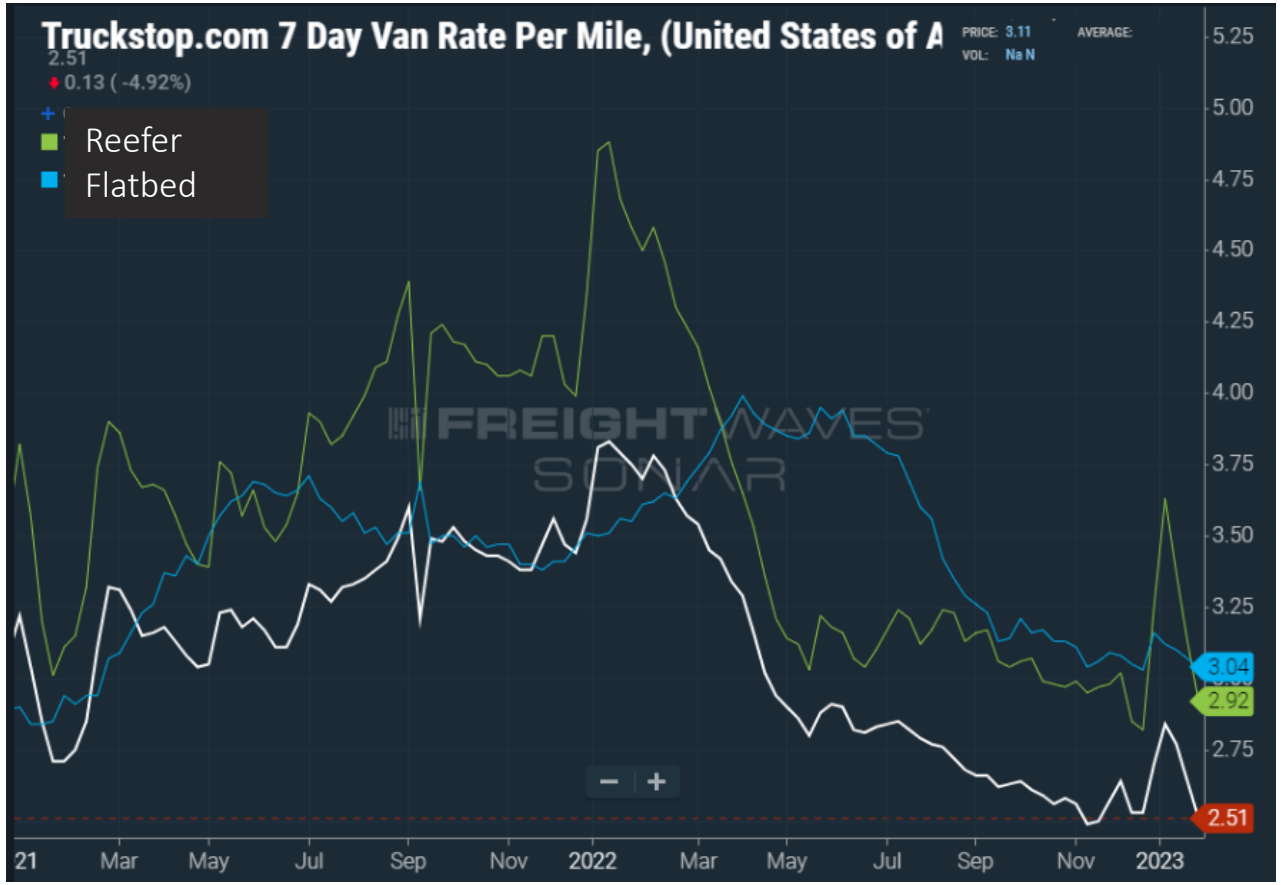
Source: ATA; CH Robinson; CSCMP; XPO; TandLA Knowledge

At an even greater level of detail, industry sub-segment and customer-specific analysis can improve the scenarios

Detailed Industry/Customer Differences

- Dry van vs. reefer vs. flatbed markets are very different
  - Trailer types are very different
  - Commodities hauled are very different
  - Differences in the degree of live load/unload
  - Seasonality issues not aligned
- Customer base differences can be significant
  - Retailer vs. manufactures
  - Exposure to imports
  - Specific commodities handled even within a trailer type (e.g., frozen TV dinners vs. cut flowers vs. protect from freezing in reefer trailers)
  - Service requirements (e.g., transit times, on-time performance)

Spot Truckload Rates/Mile by Equipment Type



Source: FreightWaves; TandLA Knowledge

eCommerce in Canada exploded in 2020 and 2021, before falling back some in 2022

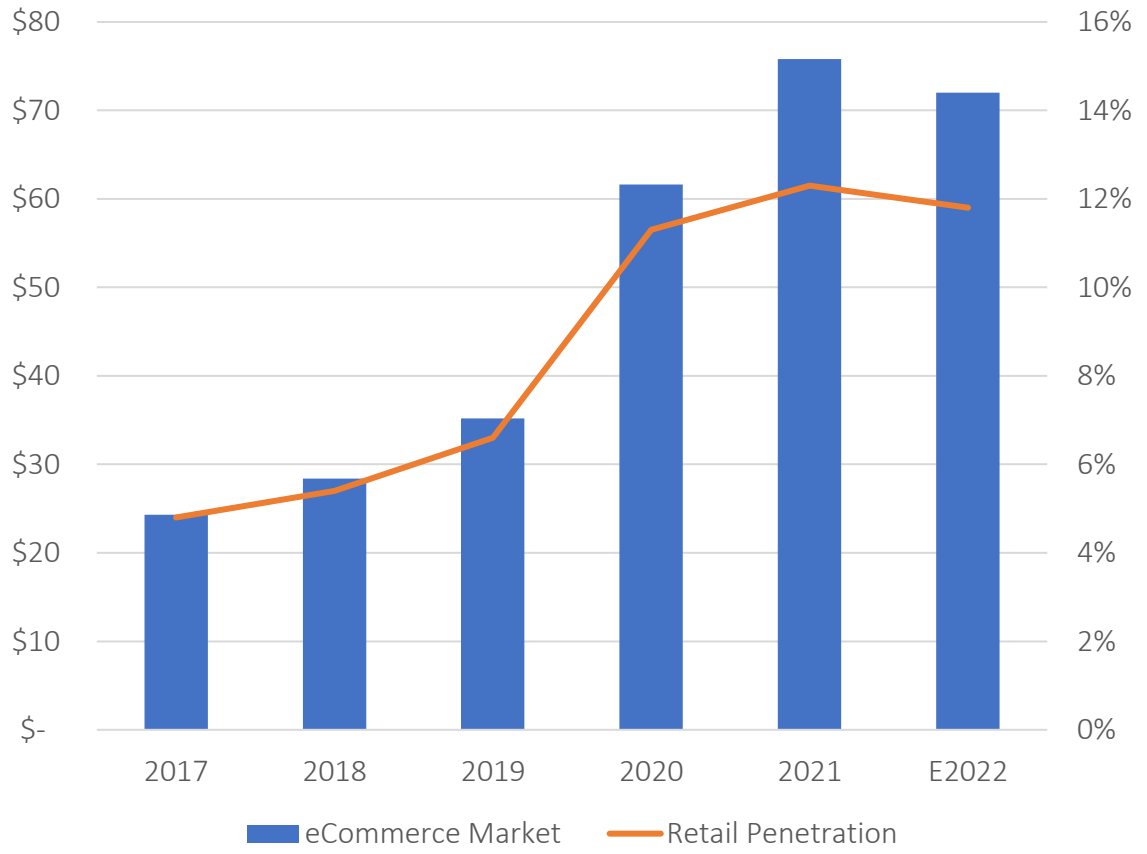
Pre-COVID Market Penetration Much Lower than US

- Consistently market penetration growth, but well below 10% of Canadian retail sales
- Well below the estimated US eCommerce penetration rate
- 20% CAGR from 2017-2019

COVID Drove Huge Canadian eCommerce Market Growth

- 47% CAGR from 2019-2021, including a 75% increase in 2021 alone
- Slight decrease in 2022, but still considerably higher than pre-COVID levels
- Market Penetration now closer to US levels, but still below

Estimated Canadian eCommerce Market ($B) and Penetration



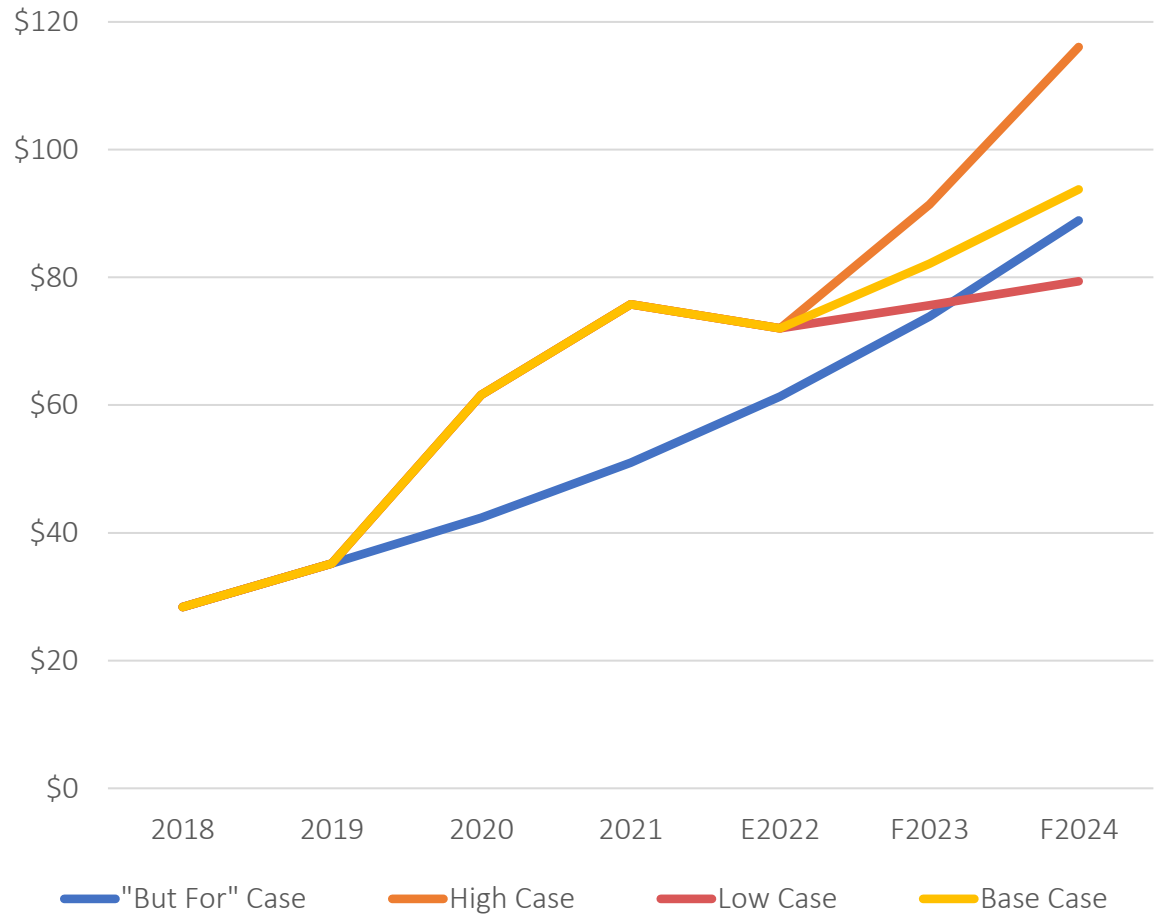
Source: eMarketer; TandLA knowledge and analysis

Scenarios can model what the market may do in 2023 and forward

Potential Scenarios

- "But For" case continues growth at pre-COVID levels
- High case assumes that the "But For" case growth rate continues from the higher E2022 level and comes in line with the eCommerce market penetration rate of the US
- Base case assumes a slower growth path that eventually comes back to the "But For" case
- Low Case projects slowed growth with market penetration regressing to similar levels to pre-COVID and falling below the "But For" case

Estimated Canadian eCommerce Market ($B)



Sources: eMarketer; TandLA Knowledge and Analysis

3PL cold warehousing generally received a boost from COVID due to strong food sales and supply chain chaos

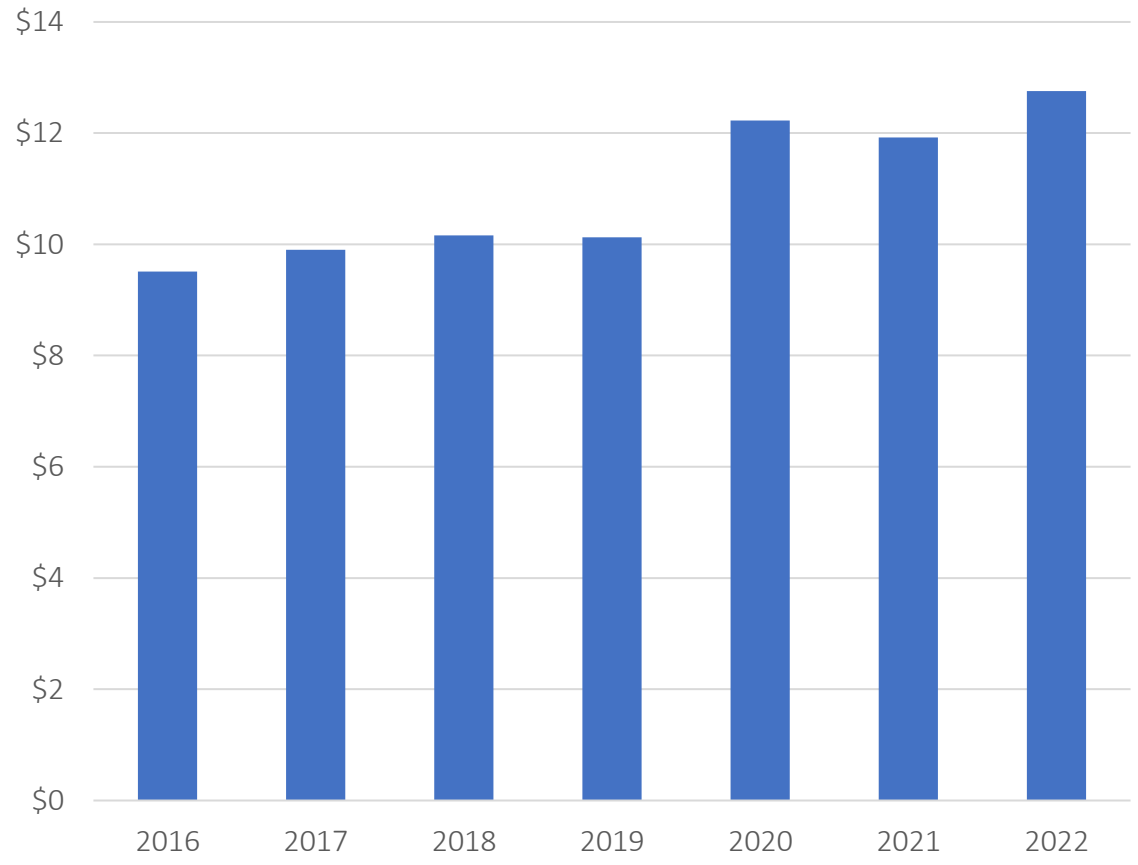
Pre-COVID Market Slow, Steady Growth

- 2.1% CAGR from 2016-19 in 3PL Cold Storage
- Growth was never more than 5% YoY
- Consistent, slow growth year-to-year
- High cost of facilities limits the amount of speculative construction
- Many cold storage product categories are relatively slow growth (e.g., food)

COVID Drove Increased Warehousing Needs

- Supply chain chaos increase the need for storage space, helping to drive up rates
- Differed widely by product category and in different parts of the supply chain, but temperature-controlled food typically performed strongly
  - Some product categories such as frozen meals increased strongly
- 2020 growth estimated at 21%

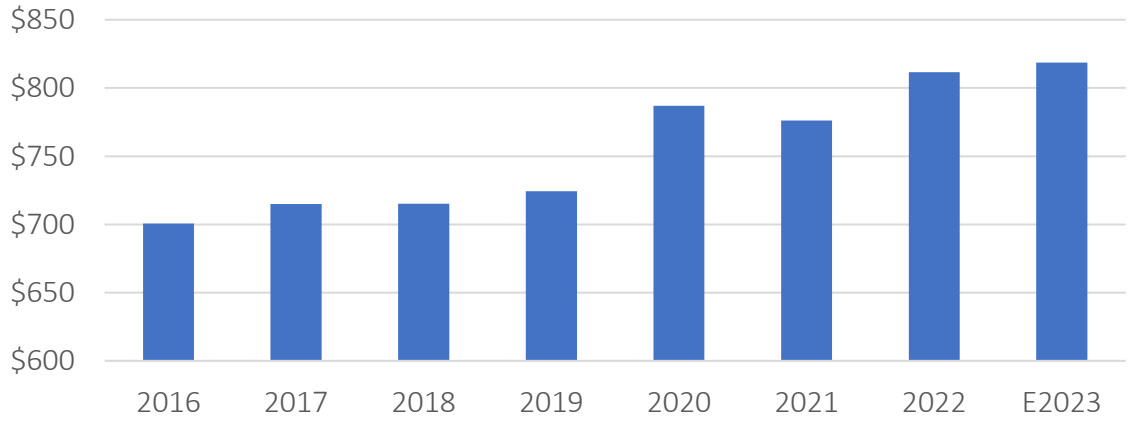
Estimated 3PL Cold Storage Warehousing Market ($B)



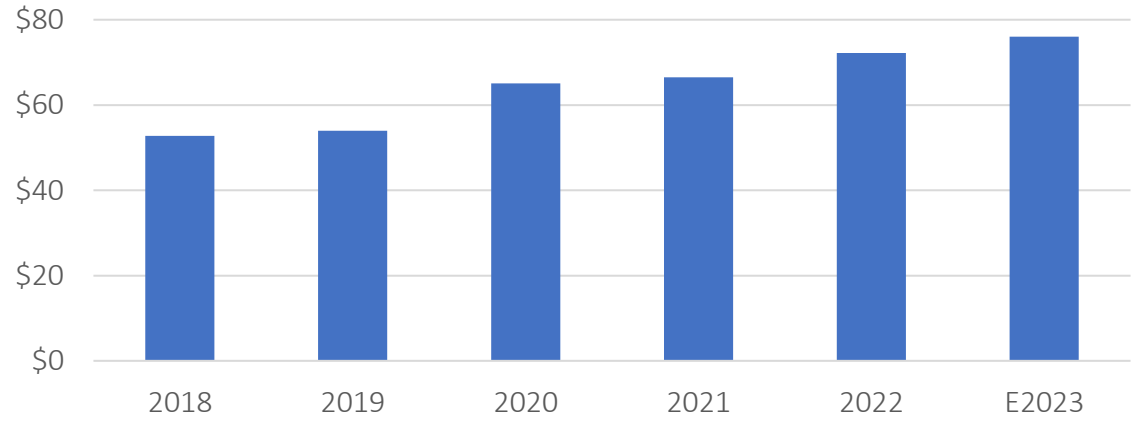
Source: Americold, TandLA Knowledge and Analysis

Customer base matters – a hypothetical warehousing provider with a mix of products could see very different performance across customers

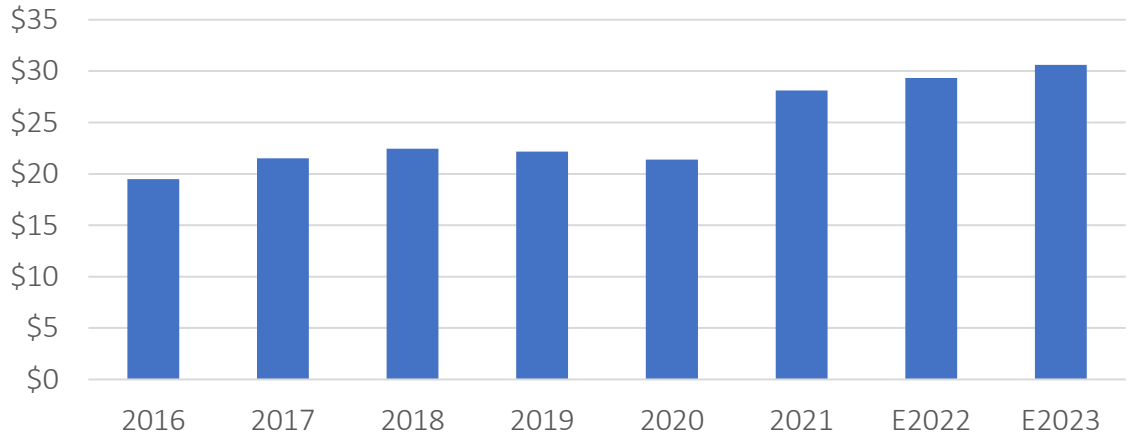
Grocery/Food ($B)



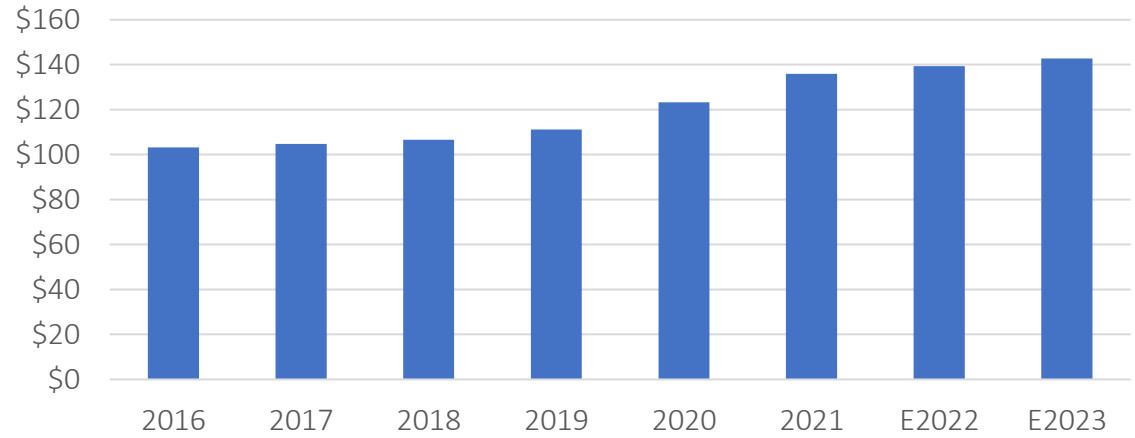
Frozen Meals ($B)



Seafood ($B)



Meat Consumption ($B)



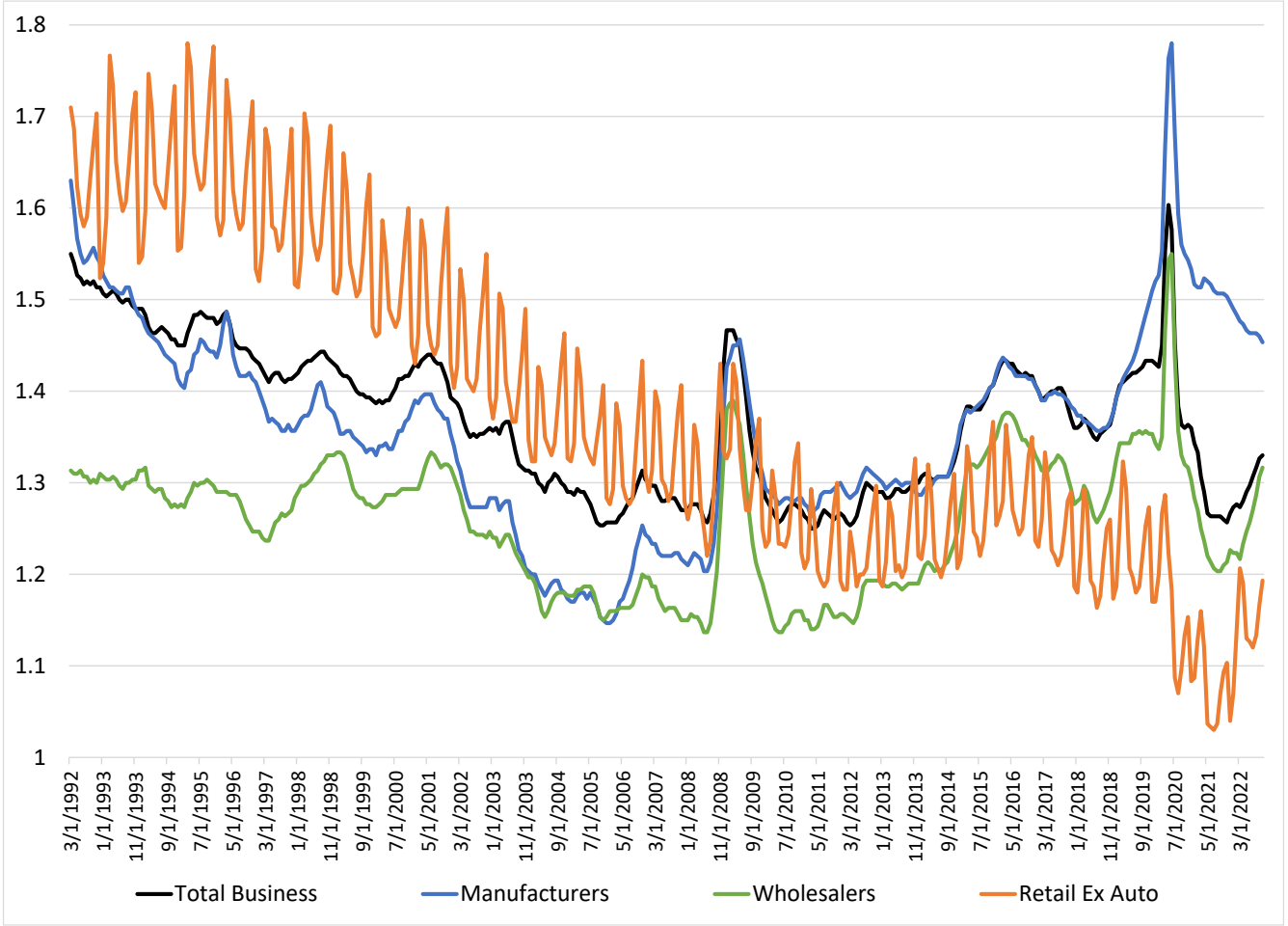
Source: IBISWorld, American Frozen Food Institute, NOAA, USDA

Also, where the customer is in the supply chain may mean higher or lower average inventory levels

Trends in inventory levels

- Total inventory to sales are at relatively low historic levels, but there are significant differences in the details
- The further back in the supply chain, the more inventory, with manufacturers hold the most inventory based on historic levels, followed by wholesalers. Retailer inventories are still relatively low
  - Manufacturing inventories are the highest they have been since the 1990s. However manufacturing inventories are the only major subsegment that has been in decline since mid-2021
  - Wholesaler inventory levels are at or below 2014-2019 levels, but above levels from 2003-2014, and are rising quickly
  - Retail inventories are at historic pre-COVID lows, but have started to increase recently. Retail inventories also differ widely based on the specific retailer sub-category (e.g., home improvement vs. department stores)

*Inventory to Sales Ratio: 1992 – 10/2022**



*Rolling 3 months

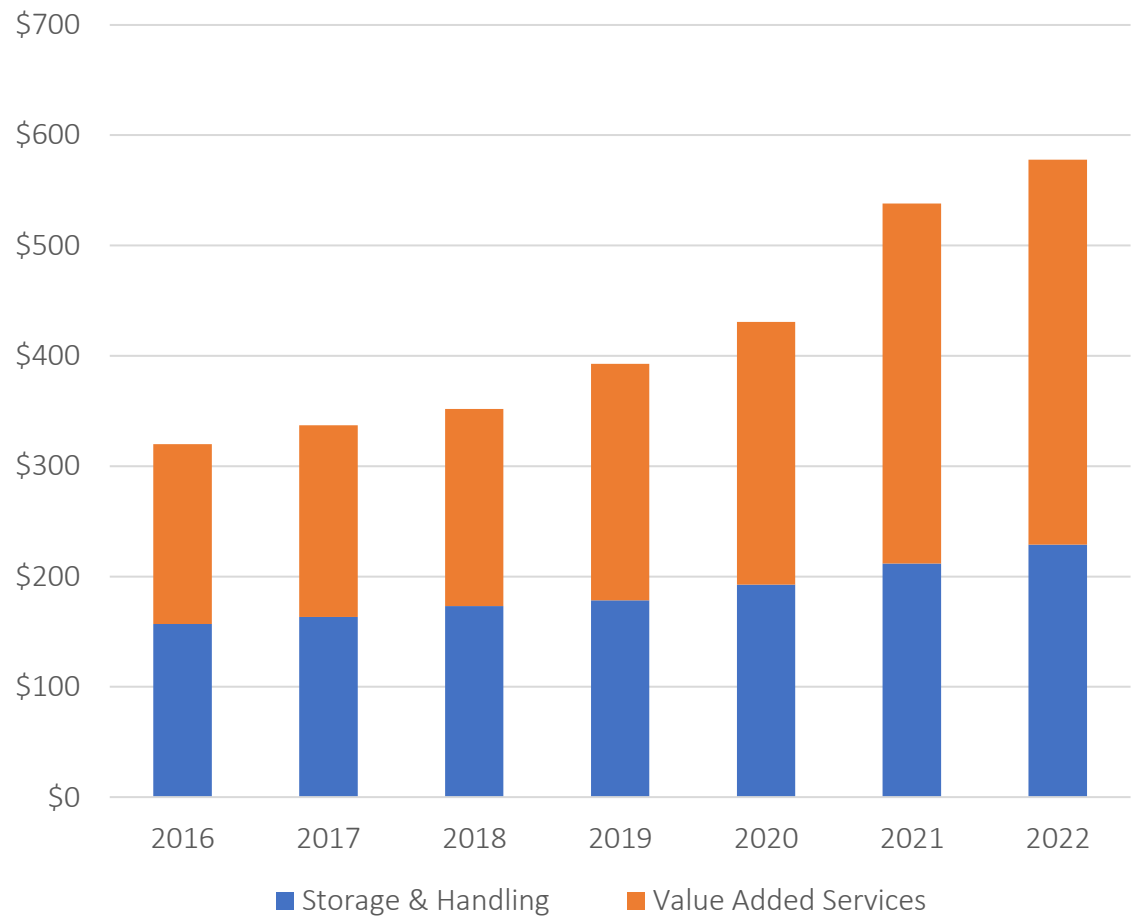
Sources: US Census Bureau

Storage and handling revenues could behave differently as well

Trends in storage/rent and value adding warehouse services

- Each subset of revenue has grown at a different rate both pre-COVID and since 2020
- Value adding services revenue grew at a faster rate than storage and handling, with a CAGR of 9.6% from 2016-19 compared to the storage and handling CAGR of 4.3% in the same stretch
- From 2020-2022, this trend continued, with the value added services revenue CAGR of 21.0% and the storage and handling CAGR of 9.0%

Example Cold Storage 3PL Revenue Split ($M)



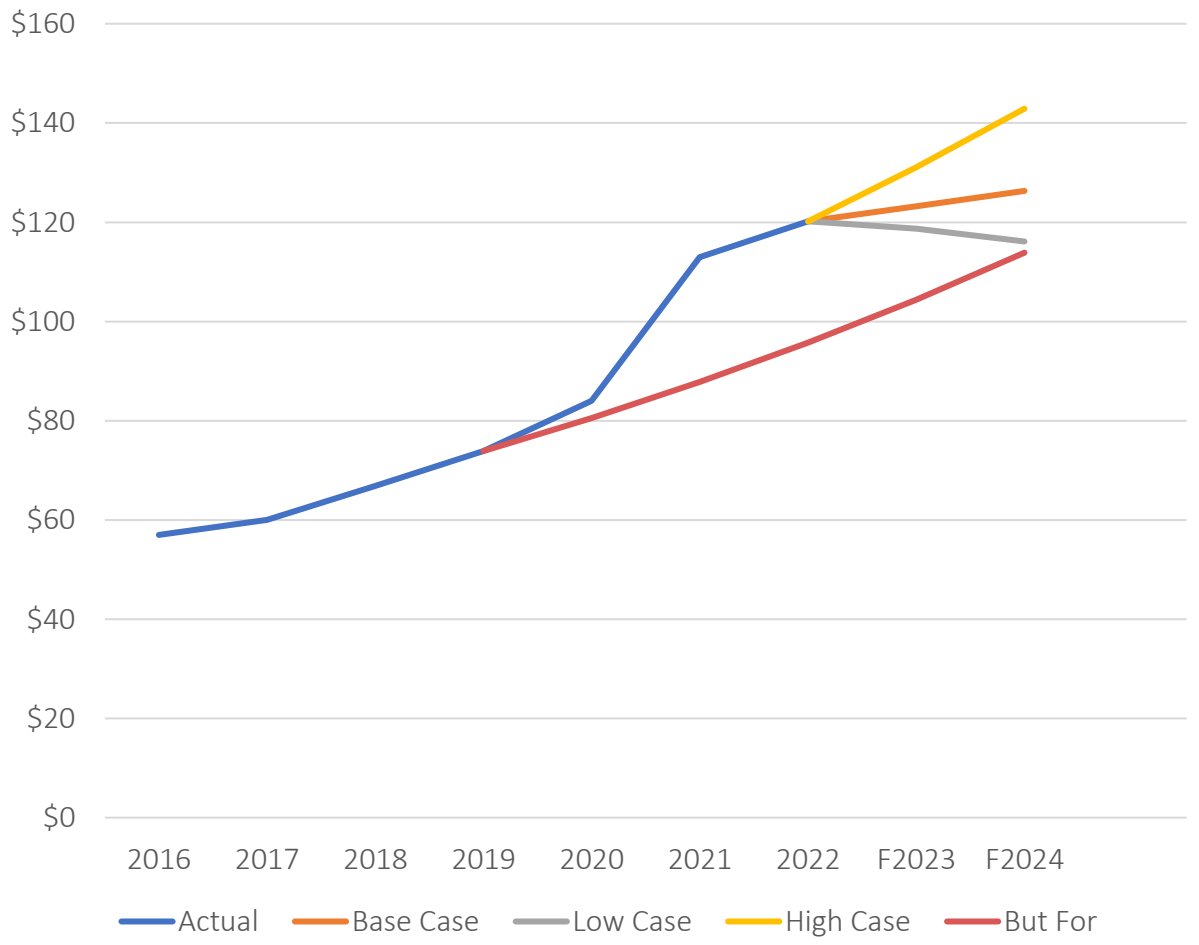
Source: TandLA example case

For a hypothetical warehousing provide future performance scenarios vary widely

Possible Scenarios

- "But For" case continues growth at pre-COVID levels of revenue growth and EBITDA margin growth
- High case assumes the "But For" growth rate in revenue and EBITDA margin continues from the higher 2022 level
- Base case assumes that revenue growth, but more slowly than in the pre-COVID timeframe, and with a slight EBITDA margin decline from the strong COVID period
- Low case projects a decline toward the "But For" case as the COVID gains cannibalize future demand and EBITDA margin gains. Longer term EBITDA grows back to the "But For" case

Example Cold Storage 3PL EBITDA Scenarios ($M)



Source: TandLA example case