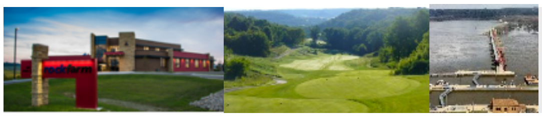


SUPPLY CHAIN DIGEST

INDUSTRY NEWS

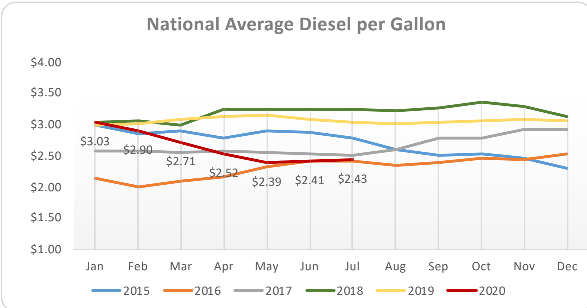
- Roadrunner Transportation Systems continues its transformation to focus on its LTL business after announcing plans to spin off its 3PL business, Ascent Global Logistics. The spin off to shareholders is expected to be completed in August.
- As a sign of our current environment, UPS exceeded 2nd quarter forecasts with a 13.4% increase in revenue and 8.8 percent increase in net income. UPS reported e-commerce demand was the driving force behind the increase in business as load capacity tightened with residential deliveries. On the other side of the earnings spectrum, Uber Freight announced 2nd quarter revenue increased 27% to $211 million and were able to stem losses to $49 million compared to the $52 2nd quarter loss in 2019.
- A good sign trucks are back on the road is the Class 8 truck orders exceeded the 19,000 unit replacement level. The 21,864 new Class 8 truck orders in July was the highest since October 2019.
- USPS stated the 2nd qtr financial results ended at a $2.2 billion loss. Postal officials are forecasting a loss of $20 billion over two years . Package deliveries for the USPS were up 50%, however declines in first class and business mail continued to decline.
- Old Dominion continues to expand their service network with 9 new freight terminals in new and existing markets through June of this year.
- Commercial Vehicle Safety Alliance's "Brake Safety Week" is being held August 23 - 29. The CVSA's "Safe Driver Week" was held in July after being postponed from May. Last year's CVSA 72 hour road check in June conducted 13,000 inspections.
- According to JOC.com and Jason Miller, associate professor of logistics at Michigan State University, the Small Business Administration oversaw the disbursement of approximately $7.6 billion in PPP loans of $150,000 to 11,738 trucking companies.
- Mixed projections on import container volume from Asia to the U.S.. However, one thing is for certain, spot rates are increasing. Recent spot rates are at a 10 year high with Shanghai to LAX at $3,167.

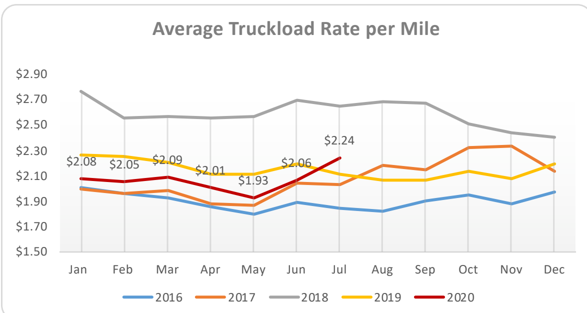
CARRIER STABILITY

July headlines brought us a number of carrier earning reports showcasing overall positive news as publicly held carriers weathered the shutdowns during the pandemic. The overall consensus was lower profits on lower revenues posted by publicly held carriers. The clear winner during the pandemic was Amazon which exceeded analyst forecasts. Online shopping became the norm for many consumers during the pandemic, which also ignited capacity challenges for Amazon as well as other delivery services.

The largest trucking bankruptcies were Falcon Transport and the recent Comcar Industries Chapter 7 filing. Falcon's shutdown at the end of April put an end to 117 years of freight hauling when 585 drivers and 723 trucks were taken off the road. As the pandemic took hold throughout May and into June, midsize to smaller carrier bankruptcy filings have increased. Fairfield Trucking, Ease In On Trucking, Deluxe Express, Alec Transport and Park Transportation to name the latest bankruptcy filings.

Looking ahead, smaller carriers will remain the challenge. The $7.6 billion in PPP loans to trucking companies has a timetable and if the economy and rates are not enough to keep carriers driving forward, we will see smaller carriers challenged to stay in business. The sense is that the PPP Loans kept carrier capacity available in June, however it did not lead to midsize and larger carriers adding capacity. Carriers in solid financial standing will be riding out the next year or two as we get settled into whatever the "new normal" may be like with or without restrictions. The challenge for shippers has begun.





Rockfarm Indexes

The Rockfarm truckload index increased 8% in the month of July breaking through all the trend lines for July since 2016. Moving from our low of $1.93 in May, the index has increased 14% in the last two months. Truck capacity has had limited availability moving through the end of the 2nd quarter into July which reflects within the shipment activity. Overall shipment activity has now regained strength with June and July shipment counts exceeding January and February activity within the Rockfarm truckload index. A peak into the first week in August and the truckload rate has jumped an additional 10% since July.

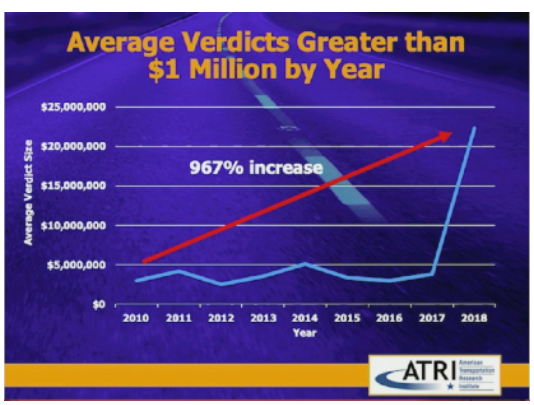
Fuel prices on the other hand remain eerily flat. The average cost per gallon for diesel is still resting at the $2.42 mark through the first part of August. The U.S. Energy Information Administration, EIA, is forecasting daily oil prices for Brent crude and West Texas Intermediaries (WTI) to remain flat for the remainder of 2020 at $43 a barrel for Brent crude and WTI at $40 a barrel. Projections for next year expect Brent crude to rise to $50 a barrel while WTI averages $46 a barrel. What we can look forward to is fuel being one less cost variable to be concerned with as we go through the remainder of the year.

The Insurance Impact on Small Carriers

Recent research by the American Transportation Research Institute (ATRI) has highlighted the impact insurance has on small carriers. According to ATRI's data, one of the impacts to higher insurance costs has been an increase in "nuclear verdicts" due to an accident. A nuclear verdict is typically defined as a verdict rendering $1 million or more in damages. When reviewed from 2005 through 2011 as compared to the period of 2012 through 2019 verdicts of $1 million to $2 million have increased 300% with close to 100 verdicts reported since 2012. As ATRI's chart shows below, average verdicts greater than $1 million by year has seen an incredible increase since 2017.

Top Carrier Issues in a Court Case

- Hours of Service Violations
- Driver History
- Controlled Substance
- Health Related Issue
- Sleep or Fatigue
- Driver Distraction
- Work Zone Construction



One of the challenges facing the trucking industry is proper defense strategies when a case does go to litigation. Smaller carriers are particularly challenged due to limited finances and legal resources to properly represent their case in court. The burden of defense falls upon the insurance company which increases expenses and therefore higher insurance premiums to the carriers. On the plaintiff side, litigation financing has taken hold where investment and capital venture companies finance litigation for plaintiffs. The financing provides the capital needed to cover front end expenses such as legal counsel, expert witnesses and other resources to achieve a favorable verdict. A favorable verdict to the plaintiff provides a return to the investment while a verdict favorable to the defendant, provides no return. Worldwide, litigation financing is a $400 billion dollar industry and growing. Litigation financing in the U.S. accounts for 2% of the market.

Carriers mitigating the impact of higher insurance premiums will have a culture of safety that includes driver training, management of driver citations and implementation of safety technologies all focused on avoiding crashes. The challenge for smaller carriers is the expense of such programs and the higher insurance premiums levied against carriers with less than 25 power units. Fleets with less than 25 power units will pay on average 57%

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more in insurance premiums than fleets with more than 25 power units. Going deeper, ATRI's findings illustrate that large fleets of 1,000 or more power units will expense $.049 cents per mile to insurance premiums while a small fleet will expense upwards of $.159 cents per mile for insurance premiums.

"What does this mean for shippers?" Proper vetting of your carriers is critical. A common tactic is for a plaintiff to file suit against any party linked to the actual case. For example, a driver crash injuring the plaintiff may trigger a suit to the actual carrier, the broker who arranged the transportation and the shipper who contracted the load. A proper carrier vetting process mitigates risk for the shipper and may be cause to be dismissed from the case altogether. A deeper dive below the standard onboarding packet is a critical function of your logistics team. The deeper dive should include an assessment of the carrier operations with focus on driver management and driver retention. A financial summary alongside a review credit management and collection processes can illustrate financial strength of the carrier, a key element in determining risk in the partnership.

COACHES CORNER: Truckload Factoring

A freight factoring company is a financial third party that provides funding to a carrier at a discount to the actual receivable owed to the carrier by the shipper or broker. Freight factoring typically comes with two options. The first is when the factoring company takes most of the ownership of the carrier receivable and bears the responsibility to collect. This is referred to as non-recourse factoring. In this case the factoring company will take a higher discount due to the collection risk. This type of factoring does not leave the carrier without risk depending on the shipper's credit history and debt rating. The second path is when the carrier still bears the risk of collecting the shipper or broker receivable but needs to speed up cash flow for expenses. This type of factoring is referred to as recourse.

Factoring companies play a role within a carrier or broker's financial stability by providing cashflow for operating expenses and minimizing resources chasing past due payments. In some cases, the factoring company acts as the accounting arm for small carriers providing web access to view financial and expense reports. Invoice funding is typically set up to be next day upon completion of the delivery and proper submission of the funding application. Most factoring companies prefer to have funding set up by account versus on a one by one basis. The standard factoring fee is 3% up to 6% with some cases reaching 10%.

For the shipper side there are a few things to be aware of. The first is factoring is also utilized by brokers. Be aware of this if you are using brokers that factor. To identify carriers and brokers using a factoring company, a quick review of your freight invoices will illustrate the third party bill to associated to a carrier or broker. The third party shown may be the factoring company. In the case of broker's factoring, this may be a sign the broker's financial strength is not what it needs to be. Secondly, extended credit terms have an impact on your freight cost. Cost can come in two-forms. First, smaller carriers accepting loads knowing their factoring expense is taking 2-5% of their revenue. Additionally, smaller and midsize carriers may not be able to participate in a shipper's carrier solution due to the extended payment terms leaving the shipper with fewer routing options and less competitive rates.

To add more robust routing options shippers may partner with a preferred broker that offers a next day quick pay program and rate transparency. Essentially allowing smaller carriers an avenue to remain cash positive and earn a higher yield per load with the shipper through a reduced next day quick pay fee. The benefit to the shipper is twofold. Carrier retention becomes strengthened and mitigates market capacity rate fluctuations while also maintaining one accounting channel internally as the broker manages multiple smaller carriers on behalf of the shippers network. Rockfarm's non-asset division still sees as high as 50% of the invoice activity going to factoring companies while 5% to 10% of the invoices are paid through our next day quick pay services. *For more information regarding Rockfarm's quick pay program and our enablement of your carrier solution please reach out to Brad Stewart at brad.stewart@rockfarm.com.*

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