SCOUT LOGISTICS

REEFER MARKET REPORT

November 2020

Supply

Reviewing the Chart of the Week provided by Freightwaves in Figure 1.1 below, we can see the Reefer Outbound Tender Rejection Index (ROTRI) and Van Outbound Tender Rejection Index (VOTRI), while Figure 1.2 covers the total combined rejection index.

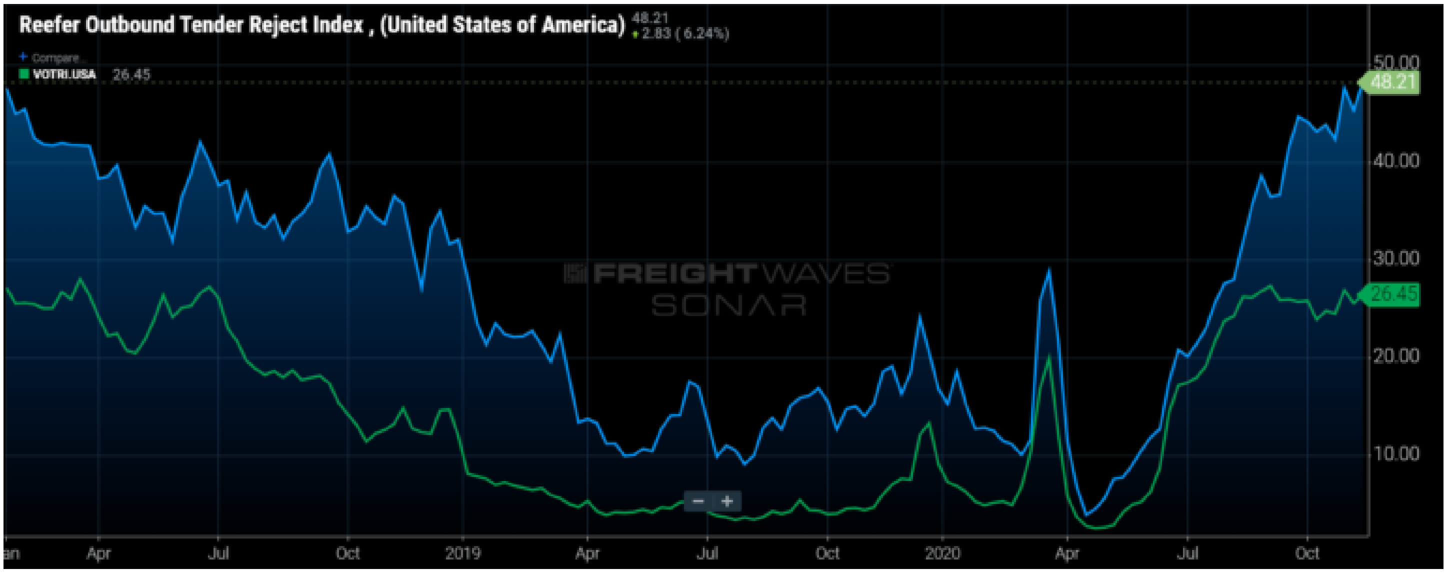

Figure 1.1

For the first time ever since the index's creation, the ROTRI topped ***48%***. These numbers come from measurements at which the carriers decline to move a truckload, electronically submitted by their customers.

This index ratio directly correlates to the extremes we have seen the spot market rates going to. The more rejections of contracts that take place the higher the spot market rates go, as those trucks are then moving over to the now more

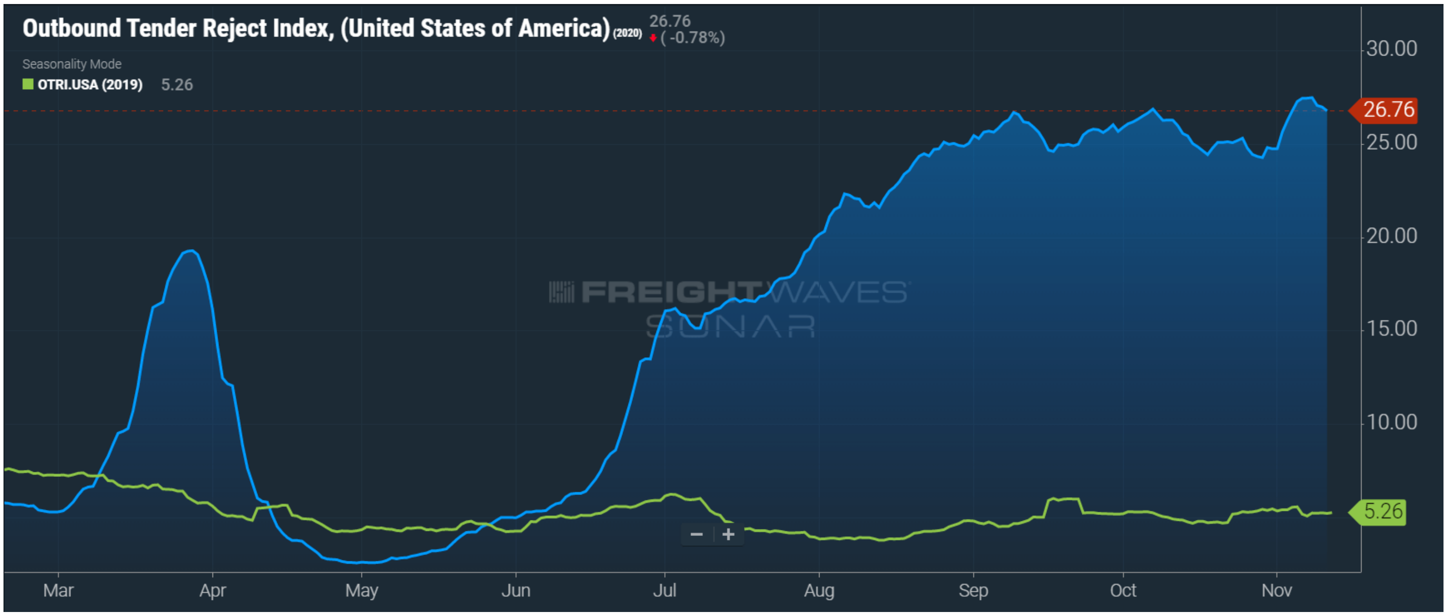

Figure 1.2

lucrative spot markets which increases the rates exponentially. Trucks are able to obtain a much higher rate and choose the lanes that they would prefer to work, which is more and more prevalent in the industry today with safety concerns surrounding COVID-19 in larger city centers.

The correlation of the two indexes, Van and Reefer, used to be very comparable. From May to mid-August, both indexes climbed together at an average of about 29 basis points (bps) for reefer and 22 bps for vans. Since then, reefers have skyrocketed to an average 55 bps per day rise as opposed to vans slowing down to 11 bps per day. This has caused the upwards pressure on reefer rates that we have continued to see since the beginning of the pandemic shift in March and April.

In figure 1.2 on the previous page we can once again see drastically inflated figures compared to previous years. The last peak took place in October at 26.86%, and in November the index broke new records again at 27.47%. This increase is more than ***<u>400%</u>*** year-over-year.

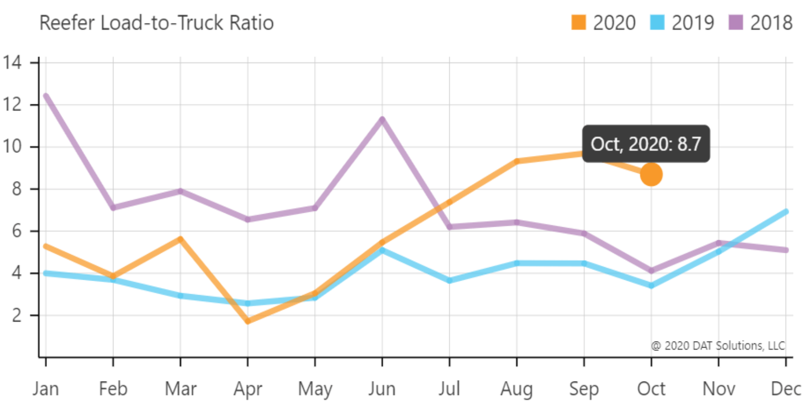

Figure 1.3

The figure to the left is taken from DAT Solutions and shows us the Reefer Load-to-Truck Ratio. This measures the total number of loads posted on DAT compared to the number of trucks posted, in this scenario, specifically related to reefers only. In October, the ratio was 8.7 loads for every one truck. This figure is an increase of 155% year-over-year at a time when demand generally lightens up.

Figure 1.4 gives us a look at the reefer ratio to date as compared to the ratios in mid-October and end of October. You can see that demand slightly lightened up closer to the end of October, however the following trend shows us that conditions remain to be tight and gives us a look at what we can expect to see coming into the peak shipping season. In November there were close to 12 loads posted for every truck.

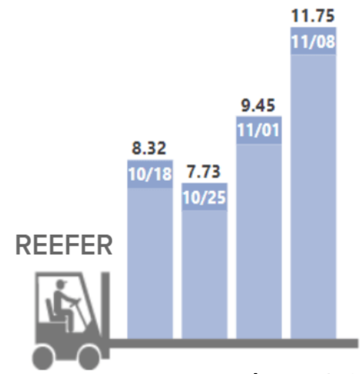

Figure 1.4

It goes without saying that we are seeing an unprecedented lack of supply, however it is not due to a lack of equipment but more because of a shortage of drivers themselves.
Paul Kreos, market insights leader, North America, for Thermo King advised during a webinar that the trucking industry has about 80,000 fewer available drivers compared to a year ago. This is due to a combination of the federal stimulus cheques increasing unemployment benefits, CDL Drug & Alcohol Clearinghouse tests, and a 40% drop in CDL training due to closures. 40,000 drivers were removed from the workforce by CDL alone, about 1% of the driving force, from January to September due to failed drug test results. When you add this loss to the drivers who are simply not working, realizing they can make more money by staying home than going on the road, it puts a major strain on the available workforce. In addition to the lack of drivers, more and more are moving away from fleets and over to owner-operator style operations in order to chase and take advantage of the higher paying opportunities in the spot marketplace. Reviewing FTR Transport Intelligence for new motor carrier registrations, we see an increase of close to 10,000 in the third quarter of 2020 alone, an all-time record.

Demand

When looking at the demand side of things, we can clearly see that tenders continue to be pushed at record volumes. The Outbound Tender Volume Index posted by Freightwaves gives us a look at total tenders across all modes of transportation. When compared to 2019 as a baseline, volumes were up 65% year-over-year compared to November.

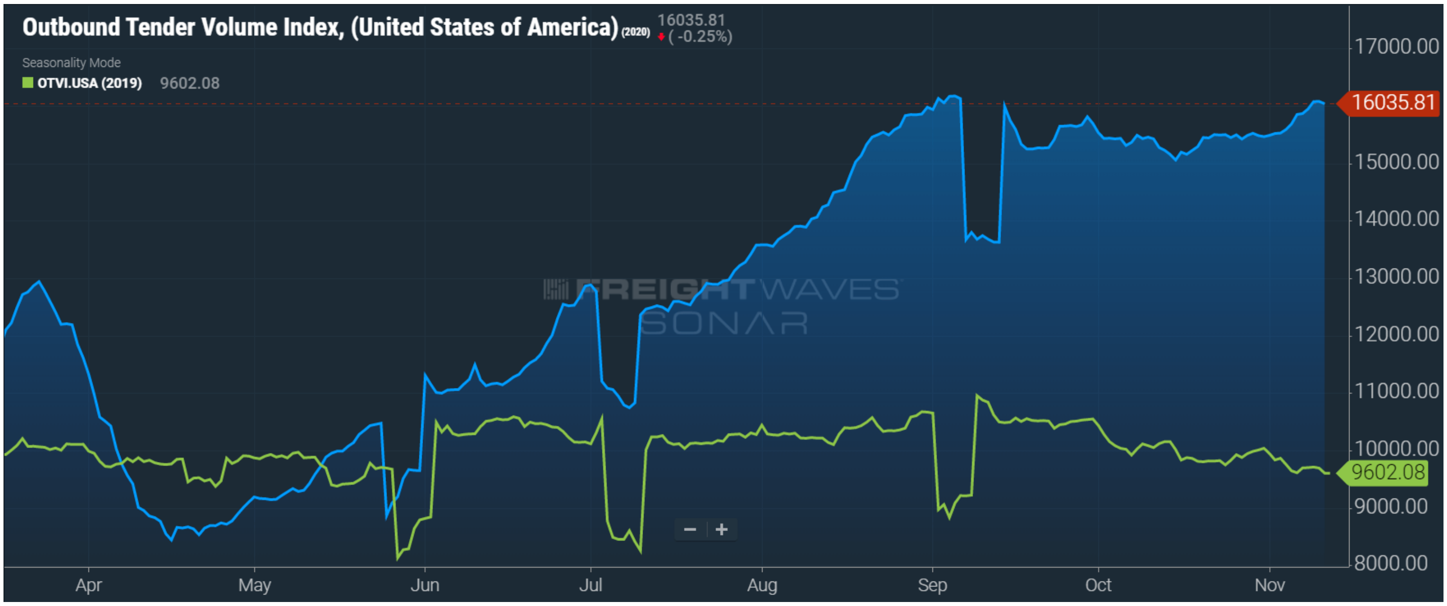

Figure 2.1

DAT Trendlines™ *powered by* DAT iQ	WEEK NOV 02 - NOV 08 VS. OCT 26 - NOV 01	MONTH OCT 2020 VS. SEP 2020	YEAR OCT 2020 VS. OCT 2019
Spot Load Posts	+3.5%	-5.9%	+122.1%

Figure 2.2

DAT Trendlines gives us three very easy figures of Spot Load Posts comparing the first week of November to the last week of October, well as October of this year to September, and finally October of this year to October of last year. We can see that as expected, things slow down in October, and as November began tender volumes started to ramp back up. Although we did see a decrease when looking on a weekly basis, this year is still seeing an increase of 122% for posts on DAT when comparing to the same time last year. This is telling us that the demand for transportation continues its heightened trend since COVID-19 began.

Rates

Truck rates continue to rise across all modes of transportation, breaking already never before seen record highs. When reviewing DAT's findings, we can see that reefer spot rates are trending higher and are now sitting at an average of $2.47 USD per mile. Figure 3.1 shows us a map with the previous week's average outbound reefer rate for each region.

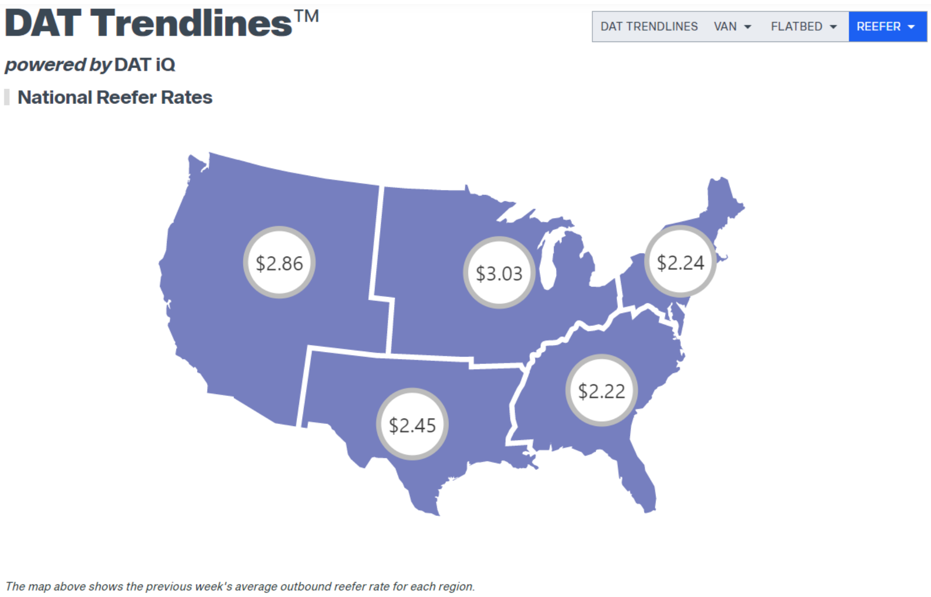

Figure 3.1

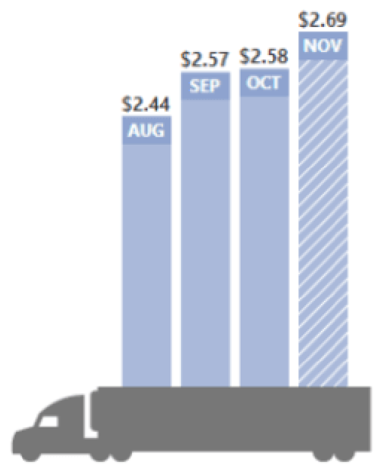

Figure 3.2

When reviewing two separate subsets of our own Scout Logistics data, we compared some of our major customer's loads and what we have paid to the trucks over the last three months. The first set of data (figure 3.3) took 384 loads out of California, Arizona and Washington going to New York. The second set (figure 3.4) was 343 loads from California, Arizona and Washington going to Connecticut, Florida and Maryland.

You can see that our averages fall more or less into what we would expect from DAT, with the exception that we often pride ourselves on providing exceptional service to our customers and the best rates in the industry. Looking at this data you can see that rings true. This is the backbone of Scout's carrier relationships spanning upwards of 25 years and an on-time delivery rate of over 99%.

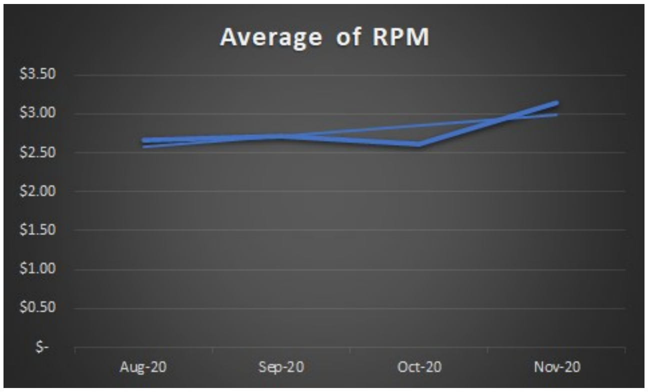

Figure 3.3

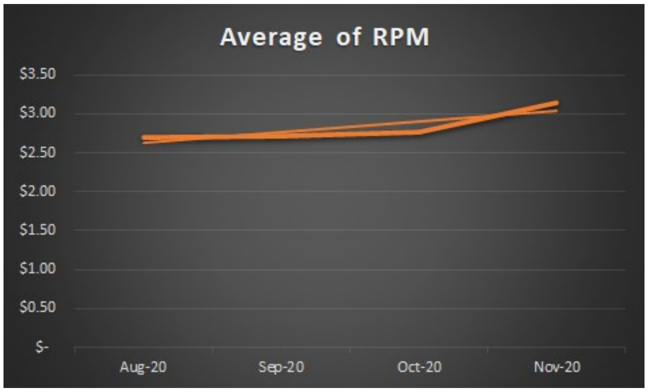

Figure 3.4

Not only are rates to the trucks and capacity companies higher than ever, but so is the rate per mile paid to the drivers themselves. It is great to see that the workers are not being taken advantage of and paid their fair share of the profits earned for the work they put in.

A Texas based company, Stevens Transport, recently announced it has increased compensation by as much as 14% to reward drivers for their hard work and dedication. The increased compensation package recently took effect, where starting pay in the OTR division is as high as 54 cents per mile dependant on experience. The dedicated division could receive up to 62 cents per mile.

When comparing rates at around 60 cents per mile to the majority of 28 to 40 cents in the past, this is a huge jump. The new economy for a truck driver is looking up. Ten hours averaging 600 miles a day is $360 per day. Over seven days, that is $2,500 a week!

Report Summary

- The OTRI continues to climb to unprecedented levels, with exceptional increases in the ROTRI section.
- OTRI directly correlates with spot market rates.
- While all transport types are seeing increases in rate and tightness in ratio, reefer trucks are starting to take the lead in both categories.
- Current loads per truck in the reefer category is almost 12.
- Lack of capacity is due to drivers as opposed to equipment. This is because of federal stimulus cheques, CDL Drug & Alcohol Clearinghouse tests, and closure of CDL training facilities.
- Demand is up 65% year-over-year when compared to November.
- Spot load posts on DAT have increased by 122% year-over-year.
- Reefer spot rates have hit an average of $2.69 in November.
- Scout Logistics is paying on average over the past three months $2.82 per mile.