ACT NOW IN THE AMERICAS!
PREPARE FOR THE POST-COVID CRISIS
THE PANDEMIC & YOUR AUTO-MOBILITY SUPPLY CHAIN

15 JULY 2020

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Spencer Ruhlin
Sector Head
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PREPARE FOR THE POST-COVID CRISIS
THE PANDEMIC & YOUR AUTO-MOBILITY SUPPLY CHAIN

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AGENDA

Tracking the trends: When the new normal is reached, what comes next?

Gopal R
Global Vice President, Transportation & Logistics Practice
Frost & Sullivan

Setting priorities: Market intelligence to help you minimize service disruption

Andreas Von Pohl
SVP Air Freight
DHL Global Forwarding Americas

Goetz Alebrand
SVP Head Ocean Freight
DHL Global Forwarding Americas

Panel discussion - Getting ready: What this means for logistics professionals and for customers

Gopal R  Andreas Von Pohl  Goetz Alebrand  Mirko Woitzik
Gopal r
Global Vice President
Transportation & Logistics
Frost & Sullivan

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Tracking the Trends: New normal and what comes next?

An executive insight
July 15, 2020

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The Growth Pipeline™ Company
Powering clients to a future shaped by growth
CHANGING BUSINESS SCENARIO
Concurrent demand and supply shock impacted the ecosystem

Today’s Norms...

- Plant Closures
- Cargo Capacity Challenges
- Border Closures
- Business Continuity
- Demand Supply Shocks
- Emergency Response Systems
- Stimulus Initiatives
- Air Travel Restrictions
- Work From Home
- Health Hazards
- Social Distancing
- E Commerce

Source: Frost & Sullivan analysis
CHINA AS A MAJOR SOURCE OF IMPORTS

- Major Countries hit by Covid-19 contribute nearly 70% of Global GDP.
- Top 20 exporting economies under stress, countries hit hard account 50% of global trade.
- Chinese exports: 12% of World Exports, High reliance causing disruptions in global supply chain

Share of Chinese Imports, Global, 2019

<table>
<thead>
<tr>
<th>Region</th>
<th>Share of Imports from China (%)</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td></td>
<td>360</td>
</tr>
<tr>
<td>Africa</td>
<td></td>
<td>113</td>
</tr>
<tr>
<td>Middle East</td>
<td></td>
<td>136</td>
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</tr>
<tr>
<td>North America</td>
<td></td>
<td>501</td>
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<tr>
<td>Central and Eastern Europe</td>
<td></td>
<td>63</td>
</tr>
<tr>
<td>European Union</td>
<td></td>
<td>428</td>
</tr>
</tbody>
</table>

Impacted Economies in Top 10 GDP List, 2019

- Figures indicate value of imports in Billion US dollars
- Europe, North America and ASEAN accounted for $1.2 trillion of imports from China in 2019

Figure (in Map above) indicate GDP in Trillion US dollars

Source: Frost & Sullivan analysis
World trade growth expected to decline by 20% in 2020

Global Merchandise Trade, 2001-2021

Potential Trade Loss (Optimistic to Pessimistic Scenario)

$2.5 to $6 Trillion

SARS = Severe Acute Respiratory Syndrome, MERS = Middle East Respiratory Syndrome

Source: WTO, Industry sources, and Frost & Sullivan analysis
COVID-19 IMPACT ON KEY REGIONS AND COUNTRIES

DEVELOPED COUNTRIES TO BE HIT HARD IN 2020, RECESSION TO BE PRONOUNCED ACROSS THE DEVELOPED WORLD.

GDP Growth, Select Countries and Regions, 2019-2021

Note: The data and analysis stands updated as of 07th July

Source: IMF; Frost & Sullivan
NORTH AMERICA: TRADE IMPLICATION

Key indicators impacted due to challenges posed by Covid disruptions

Value Added by Transportation, United States, 2019 Q1-2020 Q1

Exports, United States, Jan 2020 - May 2020

Transportation and Warehousing

Value Added Growth (%)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>2019 Q1</th>
<th>2019 Q2</th>
<th>2019 Q3</th>
<th>2019 Q4</th>
<th>2020 Q1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value Added Growth (%)</td>
<td>4.0</td>
<td>2.0</td>
<td>0.0</td>
<td>-2.0</td>
<td>-8.0</td>
</tr>
</tbody>
</table>

Exports of Goods and Services

Exports of Goods and Services

<table>
<thead>
<tr>
<th>Month</th>
<th>2019 Q1</th>
<th>2019 Q2</th>
<th>2019 Q3</th>
<th>2019 Q4</th>
<th>2020 Q1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports Growth (%)</td>
<td>-3.1 %</td>
<td>-30.1 %</td>
<td>-15.0 %</td>
<td>-10.1 %</td>
<td>-5.0 %</td>
</tr>
</tbody>
</table>

Note: Q3 values are estimates

Trans border - Total North American Freight

Source: Bureau of Economic Analysis and Frost & Sullivan analysis
SUPPLY CHAIN DISRUPTIONS
Ocean Freight Trade lane implications – Capacity challenges on most regional lanes

North America - China
Asia – Middle East
Europe – Middle East
North America – Europe
Europe – China
North America – South America
North America - Asia
North America – North America
Europe - Asia
Asia - China
Asia – Asia
Europe – Europe

Ports with significant decline in cargo volume and operational constraints
Indicates share of ocean freight port capacity (%) of world total

Source: UNCTAD and Frost & Sullivan
OCEAN FREIGHT CAPACITY CONSTRAINTS

Ocean Freight Trade lane implications - Fewer vessels from APAC resulting in equipment shortage for trade

- Carriers slowly back to normal operations
- Manpower shortages at port terminals, blank sailings
- Port congestions

Normal or Low impact: 0-20% cargo constraints
Moderate impact: 30-50% cargo capacity constraints
Severe impact: 50-90% cargo capacity constraints

Global top 20 ports with major container throughput traffic, 2019

% represents share of total inter-regional trans-shipments

- <10 MT
- 10-25 MT
- >25 MT

MT: Million TEUs

Source: UNCTAD and Frost & Sullivan
AIR FREIGHT CAPACITY UNDER SEVERE STRAIN

Air Freight Capacity Volume by Major Trade Lanes, Global, 2020

Top 20 airports with major air cargo traffic in 2019
% represents share of a trade lane in total international FTK

- Normal or Low impact: 0-20% cargo capacity reduction
- Moderate impact: 30-50% cargo capacity reduction
- Severe impact: 50-90% cargo capacity reduction

Blue circle indicates share of international cargo and figures in red indicate contraction in growth rate in Jan - May 2020.

Source: IATA and Frost & Sullivan analysis
Transportation & Logistics is directly dependent on the global economic growth and trade; IMF has projected the global economic growth to decline to -4.9% in 2020 and recover by 5.4% in 2021.

**Optimistic Scenario**: Growth is expected to be null in 2020 and recover at 8% in 2021 driven by aggressive economy boosting initiatives.

**Pessimistic Scenario**: Shut down of manufacturing plants and hit on economic activities create a higher impact, contracting by 1% in 2020 and growth at 6% in 2021.

Source: IMF and Frost & Sullivan analysis
TRANSFORMATIONS TO EMBRACE...

Digital Reality

Marketplace Everywhere

Big Data

Autonomous World

Rise of Digital Platform

‘Uberization’ of Logistics

Source: Frost & Sullivan
INNOVATE & GROW OPPORTUNITIES

Post Covid-19, think different and holistic

Capture the Value Chain of Customer Vertical

Build Flexible Capability and Capacity

Strengthen Regional & Global Links

Empower E-commerce of Brands

Focus on SME Solutions

Source: Frost & Sullivan
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Dubai, UAE
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AIRFREIGHT STATE OF THE INDUSTRY
POST PANDEMIC
## Summary

### Demand
- Global airfreight demand continued to decrease with -27.7% year-on-year in April 2020.
- The drop in demand is driven by the disruption in worldwide industry and consumer demand.
- In absolute terms the decrease is particularly due to less airfreight in the Engineering & Manufacturing (-173k tons in Q1 YoY) and Consumer (107k tons in Q1 YoY) sector.

### Capacity
- The COVID-19 outbreak led to significant worldwide double-digit capacity reductions.
- The decrease in scheduled capacity continued to outpace the decrease in demand: -38.3% in April and -51.9% in May year-on-year.

### Rates
- Spot rates increased significantly due to the sudden decrease in capacity and increase in demand for charters.
- As global demand for Personal Protective Equipment (PPE) starts to ease, spot rates are reversing - still above pre-COVID-19 levels.

### Carriers
- Carriers suspended the majority of widebody passenger services due to global travel restrictions. Some carriers raised additional freighter capacity to meet demand.
- Despite implemented cost control measures, carriers reported significant deterioration in profits.

### Airports
- HKG - 38.8% Apr 2020 vs Apr 2019
- LAX - 8.9% Apr 2020 vs Apr 2019
- AMS - 26.4% Apr 2020 vs Apr 2019

### Jet fuel
- Jet fuel price developments signal initial signs of recovery as crude oil supply cuts came into effect.
- Despite recent signs of recovery, jet fuel price still remains 60.1% below the jet fuel price at beginning of 2020.

### Regulation
- Several governments made substantial financial aids available to carriers (e.g. wage subsidies, equity financing, cash injections etc.) in order to keep the industry operational.

Capacity Development on Passenger Aircraft since January 2019

Capacity on Passenger Aircraft

1,800,000
400,000
200,000
1,200,000
1,000,000
600,000
2,400,000
800,000
2,200,000
2,000,000
1,600,000
1,400,000


Carriers suspended the majority of widebody passenger services due to global travel restrictions.

Capacity on passenger aircraft decreased at a double-digit pace month-on-month from February to May 2020.

Comparing available capacity on passenger aircraft in May 2020 to the same time one year ago, capacity decreased by -77.7%.

Source: Seabury Capacity Data
DGF Market update – The 5 Key Elements

**Capacity**
- PAX flights – how quickly will they return? How soon will passenger confidence return?
- Cargo flights - lack of equipment drives decisions on where cargo flights are positioned

**Frequency**
- PAX flights will be dependent on passenger demands
- Cargo flights will chase highest yields

**Locations & Lanes** – Carrier Infrastructure not yet clear
- Thin Routes – smaller wide bodies and even narrow bodies in certain theaters of operations
- Number of Hubs, sub Hubs
- Ground handling e.g. Swissport etc.

**Supplier Health**
- Airlines like Avianca, Thai, LATAM having either declared bankruptcy or filing chapter 11.
- What will be the fate of airlines that do not receive National support?

**Demand** – extraordinary demand (PPE, pharma, essentials, etc.)
- Some signs of a decrease, but will this affect current ghost flights?
- Pandemic second wave – how might this affect demand (PPE, pharma, essentials, etc.)?
- A proven vaccine – will the sudden confidence overwhelm current capacity?

**Best Practice = Learn from our experience, prepare for anything, and be the first to react!**
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OCEAN FREIGHT MARKET UPDATE AND OUTLOOK
Ocean Carriers’ financial health

Carriers have successfully preserved revenue by managing supply throughout the COVID-19 crisis.

Looking at the EBIT trend in the last quarters, Carriers have showed financial resilience.

This along the capacity restraints puts pressure on Ocean Freight rates.
Market outlook for 2020 - 2021

- Volatility in service provision and spot rates will continue throughout 2020 and into 2021.
- Carriers’ focus on profitability over market share will continue into 2021.
- Majority of carriers are now receiving government financial support.
- Carriers’ weapon of choice to manage supply will remain ‘blank’ sailings.
- Carriers’ may reduce workforces further which may negatively impact customer service levels.
- 3 vessel sharing alliances = easy for carriers to adjust capacity to match demand.
- Carriers will accelerate drive towards digitalization to reduce operational costs.
Container trade is expected to return to pre-COVID-19 levels by end of 2022

Seabury analysis showed that already before the COVID-19 crises containerized trade grew only modestly by **1.7% in 2019**

Containerized trade is expected to decline by **-14% this year**, the largest year-on-year decline on record

In 2021 we will start to see a recovery toward pre-COVID-19 volumes

Container trade will almost be back at 2019 levels in 2022, and is estimated to grow by **~3%** after that

Source: Seabury Global Ocean Trade Forecast Database; volume on Y axis in million TEU Growth 2020-20, 2010-19, & 2019-24 measured as CAGR
Freight rates increased globally from Dec to Jan as IMO2020 was implemented by the ocean carriers.

Rates declined slightly following the Lunar New Year Holiday in Asia and the initial impact of COVID-19.

From February onwards rates have increased despite the collapse in oil/bunker prices.

Carriers have learned hard lessons from the Global Financial Crisis in 2010 and Hanjin’s collapse in 2016, tightening capacity to increase rates.
GETTING READY: WHAT THIS MEANS FOR LOGISTICS PROFESSIONALS AND FOR CUSTOMERS

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KEY DISCUSSION TOPICS

- How do you see the market development in regards to capacity and demand till end of the year?
- Is there a particular strategy that you have seen worked well during the crisis?
- What are the learnings you can take away from the crisis management?
- What is the outlook for 2021?
CONTACT US
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THANK YOU

15 JULY 2020

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