

SMARTER PERSPECTIVE: TRANSPORTATION

Intermodal Chassis Market Update - Q2 2021

By Derek Brennan and Brendan Corboy

In this article we deliver a brief overview of the logistics associated with the import and export of containerized freight and provide our observations on the current state of the intermodal chassis market one year after freight traffic reached its lowest level of the ongoing pandemic.

Many of the conversations we conducted with lenders in response to our June 2020 Intermodal Chassis Market article indicated that a bit of a primer on the industry could be of assistance in helping our ABL and other readers better understand some of the operational challenges that businesses in their portfolios may presently be facing during COVID-19. With that in mind, we offer the following, as well as our observations and outlook for the industry over the balance of the year.

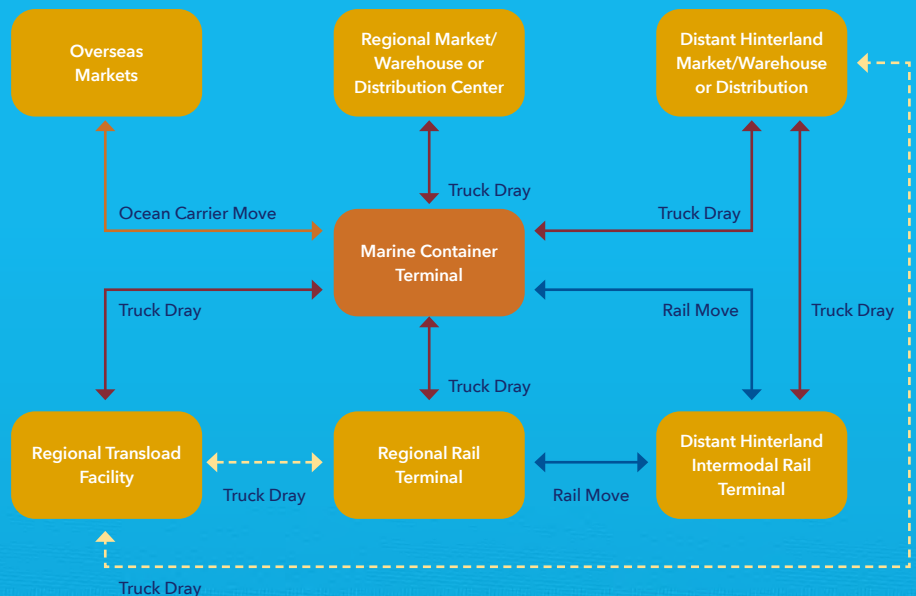
Industry at a Glance

Containerized shipping, which is performed by oceangoing vessels using standardized shipping containers, accounts for approximately 60% of the world's seaborne trade. At ports, shipping containers are placed on "intermodal chassis." These chassis are standardized trailers designed to connect to semi-tractors and facilitate the land transport of shipping containers.

Multiple entities are involved in the movement of shipping containers, including 1) intermodal equipment providers (IEPs), which own and provide

chassis for a fee; 2) ocean carriers, which transport cargo over water and; 3) motor carriers, which transport shipping containers over land via chassis.

Use of Chassis in Import and Export of Containerized Freight



Marine Chassis Move
 Domestic Chassis Move

Source: NCFRP Report, Guidebook for Assessing Evolving International Container Chassis Supply Models



The four main methods in which carriers obtain chassis are:



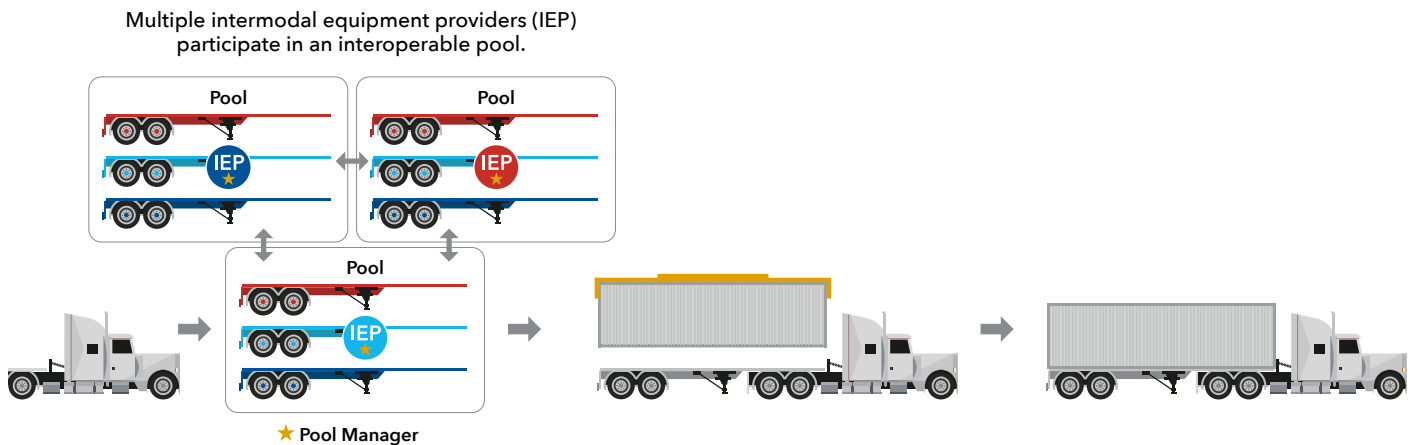
- 1 Single chassis provider:**
An individual intermodal equipment provider (IEP) owns chassis that are directly provided to shippers or motor carriers.



- 2 Motor carrier-controlled:**
A motor carrier owns or is responsible for a chassis that it has procured under a long-term lease.



- 3 Gray pool:**
A single manager, often a third party, oversees the operations of a pool that is made up of chassis contributed by multiple IEPs.



- 4 Pool-of-pools:**
Each IEP manages its respective chassis fleet, but each allow motor carriers to use any chassis among the fleets and to pick up and drop off chassis at any of the IEPs' multiple locations.

Current Market Challenges

There was a notable lull in the chassis market during Q1 and Q2 2020, as the world dealt with the early stages of COVID-19 and its economic impacts. Recovery was swift in the second half of the year, however, with overall industry performance for the year finishing nearly as strong as it did in 2018 when the market saw a significant spike in demand for new chassis ahead of the initial chassis tariffs of the time. For industry providers, the current challenge has now become properly forecasting demand and maintaining the flexibility to adjust capacity accordingly to remain both competitive and profitable. We believe this may well be the norm for successful operation during the foreseeable future.

Accordingly, U.S. chassis providers have been pivoting in 2021 to operating models that include private, proprietary pools to better serve customers who want and need to ensure that they have chassis precisely when and where they need them as the market recovers. Additionally, with the average age of the U.S. chassis fleet right now at more than 20 years old, large IEPs including TRAC Intermodal, DCLI, and Flexi-Van Leasing, among others, are also investing in both new and refurbished chassis this year. Enhancements will include features such as LED lights vs. traditional incandescent bulbs, radial tires replacing bias ply tires, ABS, weight sensors and GPS tracking systems. Additional innovations such as CIE's use of a cathode-metal

corrosion-resistant coating process in its new U.S. production facilities will also add to overall chassis longevity and ROI. Longevity may become more important if chassis import tariffs continue to choke the near term new chassis supply.

Meanwhile, the US International Trade Commission (ITC) ruled unanimously in mid-April that the Chinese government's subsidizing of China International Marine Chassis (CIMC) materially harms U.S. manufacturers. The decision paved the way for a duty of almost 40% (39.14%) which was legally placed on chassis beginning May 6 of this year. An interim 38% duty has been collected since Dec. 28 when the Department of Commerce issued its preliminary recommendation.

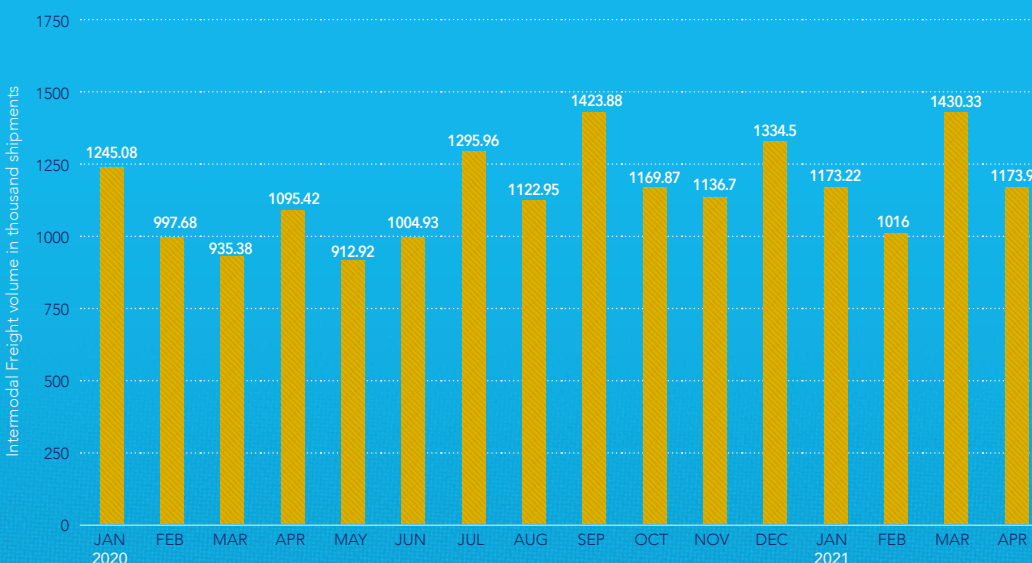
When we spoke with chassis providers while the case was pending, the overall sentiment seemed to be that they are primarily concerned about whether enough chassis units can be manufactured and delivered quickly enough to serve demand at U.S. ports and rail hubs. CIMC's move starting in early 2020 to establish U.S. production operations in Virginia and California as CIE Manufacturing, which was driven by the U.S./China trade war, may ultimately serve to alleviate some of those concerns. Regardless, large scale U.S. chassis providers including DCLI, Flexi-Van, TRAC Intermodal and others will ultimately see cost increases in the range of \$6,000 to \$10,000 on the purchase of chassis manufactured in China. These chassis cost increases are going to be passed down to

the chassis end users. Further commentary has shown that there will be an uptick in chassis production from other U.S.-based trailer manufacturers.

Chassis shortages occurred throughout 2020 and have continued into 2021, particularly in inland U.S. cities such as Chicago, Memphis, Cleveland and Columbus, Ohio. This has been part of a widespread slowdown based on labor shortages which have slowed the velocity of rail terminals, drayage, and receiver docks. The issues stem largely from increased shipping levels across the Midwest during COVID-19, resulting in issues with the longer dwell times. These dwell times, which have increased by approximately 30%, are one of the main issues currently facing the industry right now.

According to Freightways, Q4 2020 Intermodal volumes increased by 9.6% year-over-year. Of those gains, domestic containers rose 8.7%, international shipments grew 9.4% and trailers jumped 17.5%. IANA estimates that intermodal volumes could grow by 8% overall in 2021 after falling by 2% in 2020 due to sizable COVID-19 pandemic-induced volume losses in the first half of that year 2020. That said, we expect to see a potential shift beginning in third quarter 2021 as North American consumers return to restaurants, bars and vacationing, resulting in somewhat less discretionary spending on goods that require transport. However, this slowing effect may be mitigated by typical year-end holiday shipping.

Monthly Intermodal Freight Volume in the U.S.



Monthly intermodal freight volume in the U.S. has experienced significant fluctuations since the COVID-19 crisis began in early 2020. After returning to levels exceeding 1.4 million shipments last September, just slightly over 1 million shipments took place in February of 2021. That volume rebounded again the following month.

Details:
United States; AAR;
January 2020 to April 2021

Source: Statista

Outlook

In keeping with our thinking from mid-year 2020 and based upon ongoing feedback from the market, some of which we have shared above, Hilco anticipates that there will be significant new and used chassis purchase volume throughout the balance of 2021 as providers strive to position pooled and other fleets capable of flexing to meet the needs of both existing and new customers.

Our Valuations team has seen record levels of engagement by providers, their lenders and our partners who rely upon our expertise and appraisal accuracy as part of their work in the industry. If you are an ABL with chassis industry exposure in your portfolio, the current environment demands that you maintain a comprehensive understanding of the operational components and current market challenges of those businesses. With this in mind, we encourage you to reach out to us today to learn more about fleet valuation, disposition, acquisition and other considerations specific to this volatile period. We are here to help!

Hilco Global is one of the world's largest and most diversified business asset appraisers, valuation advisors, and monetization experts. A trusted resource to companies, their lenders and professional services advisors, Hilco Valuation Services provides value opinions across virtually every asset category. Our extensive experience in valuing and monetizing chassis assets is unsurpassed in the industry, with our valuation and M&E teams working closely together to deliver maximum accuracy and efficiency on behalf of our clients. With a dedicated team focusing on truck, trailer and chassis fleets, we have performed valuations on well over 1 million assets across transportation and logistics, covering \$2 billion in deployed capital. Hilco's track record in the liquidation of fleet assets for maximum valuation based on its understanding of realistic value and real challenges to an actual orderly liquidation process, is highly regarded across the

industry. Hilco Valuation Services has the ability to affirm asset values via proprietary market data and direct worldwide asset disposition and acquisition experiences. Access to this real-time information, in contrast with the aged data relied upon by others, ensures our clients more reliable valuations, which is crucial when financial and strategic decisions are being made.



DEREK BRENNAN, CEA IS SENIOR VICE PRESIDENT, FINANCIAL REPORTING AT HILCO VALUATION SERVICES

He joined Hilco in 2003 and has been in the auction, liquidation, and appraisal industry since 1996. Throughout his career, Derek has served as a valued consultant and advisor to financial institutions on hundreds of asset-based loan and recovery assignments. He is a recognized leader within the industry with extensive experience in transportation/logistics and expertise in specialty areas including: computers, construction, corrugating equipment, electronics, food and chemical processing, foundry and primary metals, metal working, metal forming, metal scrap handling equipment, mining, oil drilling equipment, packaging, plastics and rubber molding, textiles and woodworking. Previously, Derek served as an appraiser at Dovebid, which was later acquired by Liquidity Services, Inc.

Derek is a Certified Equipment Appraiser (CEA) and a member of the Association of Machinery and Equipment Appraisers (AMEA). He has completed both the American Society of Appraisers (ASA) Performing Machinery and Equipment Valuations for Financial Reporting Purposes and the Uniform Standards of Professional Appraisal Practice (USPAP) courses. He received his Bachelor of Science degree in Business Management from the University of Phoenix. Contact Derek at: 773.620.2011 or dbrennan@hilcoglobal.com



BRENDAN CORBOY IS A MANAGER IN THE ENTERPRISE VALUATION GROUP AT HILCO VALUATION SERVICES

Brendan joined Hilco in 2011 and has worked in various valuation disciplines since that time. Brendan has completed or managed valuation engagements and related financial analyses for organizations ranging from small, closely held companies with about \$1.0 million of revenue to very large organizations with revenues up to several billions of dollars. He has provided the following types of valuation consulting services: cash flow valuations, contract valuations, business and stock valuations, cost of capital analyses, valuations of patents, unpatented early-stage technologies, trademarks, proprietary processes, options, notes and restricted stock, as well as fairness opinions and other services. These have been performed for the following purposes: asset-based lending, estate and gift taxation, income taxation, buy/sell agreements, shareholder buyouts, management buyouts, leveraged buyouts, S Corporation conversions, financial reporting, collateralization, collateral monitoring, marital dissolution, dispute resolution, mergers and acquisitions, strategic planning, and others. Brendan has extensive experience in valuing cash flows tied to rental equipment and contracts in the transportation/logistics industry, along with expertise in rental cash flow valuations in other industries including construction, oil and gas, tank and container, waste management, video gaming terminals, and computer equipment, among others.

Brendan holds Bachelor of Science degrees in Accounting and Economics and an MBA from the University of Dayton. He is a Certified Public Accountant (CPA).

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