Fleet Sentiment Focus Group

Report

June 3, 2020

We decided to check back in with (30) regular members of our Fleet Sentiment focus group to get some insight into how the pandemic is affecting their business and spending plans for equipment as well as parts and service.

A quick look at the 30 fleet representatives that responded to us between May 20 – May 30*

- Total Class 8 Trucks in operation 20,000+
- Average # Class 8 trucks 677
- Median # Class 8 trucks 85
- Both for-hire and private fleets
- Primarily OTR, but also P&D, vocational, refuse and other duty cycles
- Primarily U.S.-based with (1) Canadian fleet represented
- Varied freight/work
- Varied trailer types – Total # 90,000+

**an excel file is available with all participant demographics along with individual answers to our questions*

<u>Key points from May 2020</u>

- The "how's business" rating (3.3) is the lowest since 2009/2010
- The average percent of capacity being utilized = 84%
- Only (5) had plans to place orders for Class 8 trucks in the next (3) months and just (3) expected to place orders for trailers
- Half of the respondents expected to purchase less equipment '20 vs. '19. On average, fleets expect a 29% drop in their Class 8 purchases '20 vs. '19 and a 37% drop in trailer purchases. Only (2) fleets expect 2020 purchases to exceed 2019 purchases (Class 8's).
- Removing FET for equipment purchases would have some impact on the group's plans (2.8 rating on a scale of 1-5)
- The used market for this group, which typically sells used vehicles rather than buying them, is pretty bad (2.3 rating)
- For 70% of these fleets, spending on parts and service is expected to remain stable through 2020 with an overall expected decline of 6% ('20 vs. '19) for the group
- We had very few reported part shortages or equipment delays
- 6.6 was the average MPG for this mixed group of fleets.

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Business Outlook

The How's Business rating is generated by the following inquiry: "*Considering all factors that impact your company including the COVID-19 pandemic, on a scale of 1-5 (with 1 being poor and 5 being excellent) in your opinion, what is the overall outlook for your fleet in the next (3) months?*"

Our fleet panel is generally positive in its outlook (for their fleet) despite industry challenges. The current 3.3 rating, while significantly lower than the average of the ratings we received during 2018 (the last full year of Fleet Sentiment surveys), it's still on the positive side of the scale.

The largest fleets represented (>2500 Class 8 trucks) were doing the best with fleets operating between 25-100 Class 8 trucks rating their business outlook on the high side of the scale as well. This group is made up of many vocational fleets including a refuse/recycling company that was very positive (5). Mid-size OTR operators (100-500 Class 8 trucks) and very small fleets had lower average ratings.

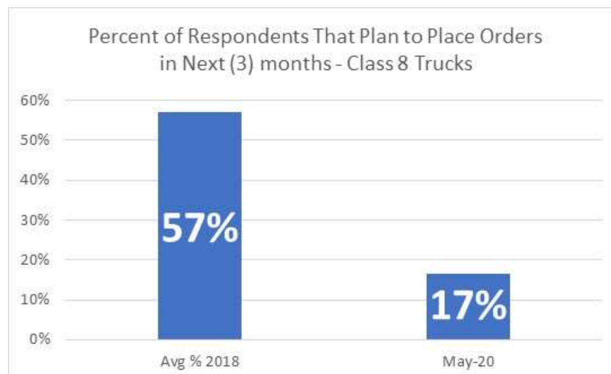
Capacity Utilization

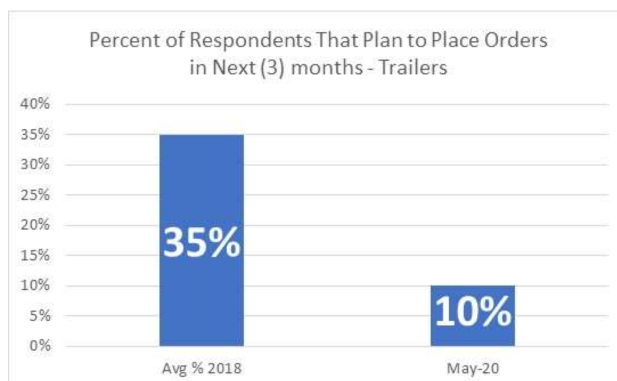
We asked, "*Currently, what % of your total capacity (for hauling freight or doing work) is being utilized?*"

The average for the group was **84%**

Equipment Purchase Plans

Equipment purchase plans for the next (3) months are very weak. Only (5) members of our group had any plans at all to place orders for Class 8 trucks and even fewer (3) planned to place orders for trailers. A quick view of the charts below comparing that activity to the averages in 2018 gives a pretty clear picture.





For those planning to place orders – the orders would equal about 14% of current inventory of Class 8 trucks and a mere 4% of trailer inventory. Most of these orders are

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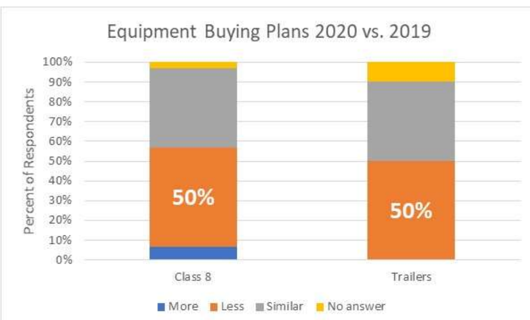
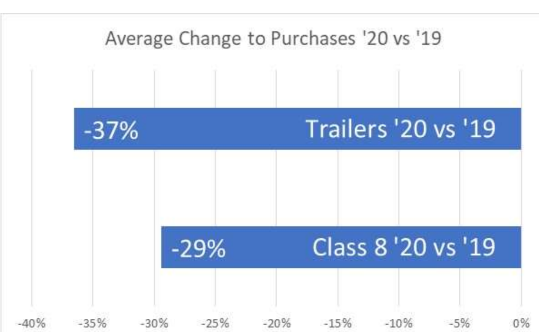
expected to start being delivered in 3-6 months.

More importantly for planning purposes, we wanted to know how all of 2020 purchases were going to compare to last year. While 50% of the fleets do expect to purchase fewer trucks and trailers (in some cases a lot fewer) this year than last year, in a positive light, the same percentage expect to place similar orders to 2019 with a few planning to buy more



I can't calculate the net number of units, even from this group, because of the way we asked the question and the fact that we don't know how many they bought in 2019. 75% less from a fleet with a total of 20 Class 8 trucks is not going to have the same impact on suppliers and manufacturers as a larger fleet with similar reduction. But we do know that across the entire group the average planned reduction in orders is significant.



Much of the reported reduced equipment purchase plans again come from the 100-500 Class 8 sized fleets. The largest fleets, as a group, don't look too negative ('20 vs '19) with one planning to actually increase purchases; however, another fairly significant size fleet looks to be zeroing out his equipment purchases this year.

When asked what would change their 2020 equipment purchase plans, most referenced the amount of freight/business demand and the pace of the recovery with the associated improvement and stabilization in rates.

A few indicated that "nothing would change these plans" because "it's too late to recover enough to treat 2020 as if it were normal" or simply because "these are our plans for 2020"

"Possible additions of strong OEM and financial incentives" could convince one fleet to order more, with the "the result being to pull ahead truck replacement schedules".

One fleet has some trucks set aside that they are trying to sell (have a buyer, but no final contract yet) – they could put these trucks back in service to increase their capacity "if things get crazy and we can find drivers" – rather than increase any new equipment orders.

When asked separately if removing the FET on equipment would spur increased purchases – on a scale of 1-5 with 1=no impact to 5=major impact on the decision, the average rating calculated to **2.83.**

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Used Equipment Market

Our panel is mostly sellers not buyers of used equipment so the view is from that perspective.

On a scale of 1-5 with 1=poor to 5=excellent, the average rating was **2.3**, so not very good…for sellers of equipment

Basically "prices are low and getting them sold is even slower"

Comments from respondents mostly fell into (2) categories – "too many used trucks on the market" and "no buyers."

There were other individual problems including the age of the trucks they are trying to sell "which no one wants"

The pandemic-specific issue of "people not being able to get out (through auctions or otherwise) to see the equipment puts another hindrance to moving used vehicles.

A California-based fleet, in part, put some blame here on CARB "COVID-19 and the crushing of the economy combined with crushing regs from CARB"

Parts and Service Spending

We made a cursory inquiry about parts and service spending expected for 2020 vs. 2019.

About a third of the respondents indicated they thought they would spend less in 2020 due to:

- Fewer miles being run
- Newer equipment in their vehicle inventory

The majority of respondents didn't think there would necessarily be any difference regardless of the current situation and one fleet indicated they might spend more *"Because we're running our equipment out longer, we'll have to do more maintenance."*

The net result indicated for this group: their parts and service spending would **decline 6% 2020 vs. 2019**

As a direct impact of what's been happening with closures, etc. due to pandemic, one fleet is "rethinking strategy to make sure parts are available when needed. Logistics challenges are affecting 'just-in-time' availability"

As ever, any plan for parts and service spending is always subject to unexpected and/or major breakdowns

Other than the respondent quoted above regarding logistics challenges, very few respondents indicated (in May) that they were experiencing any part shortages and/or delays from OEM's.

Average MPG's

Across this group of various fleet business models, the average Class 8 MPG was reported as 6.6 (with a median of 6.725).

I asked the respondents to share their best practices for improving mpg at their fleet. I am including all the answers here so readers of this report (especially fleets) may be able to benefit from what others are doing:

- Re-programming of some operational parameters
- Newer equipment

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- Speed at 65mph, % minute idle shutdown, battery-powered APU's
- Oil engine, gear ratio's, aerodynamics
- Weight reduction
- AMT's and adaptive cruise
- Running lighter weight freight in flat lands
- Newer equipment helps keep it higher…but idle time in our case sends it down
- Newer vehicle aero, automatic transmissions, lower RPM
- Reduced speeds and driver controls
- Navistar LT chassis and Cummins/Eaton driveline package
- Updating our equipment regularly
- Set idle limits. Tire inflation systems. Lightweight components. Speed limit. Low HP engines
- Automatics, wide-based tires
- Fuel efficient tires
- Telematics and in-cab cameras for targeting unsafe behavior
- Slower speed, maintenance
- Automatic transmissions
- Newer equipment
- EPA 2013 and 2017 emissions improvements
- Different rear end ratio's on trucks recently purchased
- Slowdown, use hill momentum
- Reduced idle/APU installs

<u>Overall comments</u>

Again, I'll share all the added comments I received to be sure the readers get the full picture from our focus group – who we depend on for their insight; AND much appreciate their help.

- Not too bad, we have units parked depending on the customer and if they are working or not. Other segments of the business are booming
- Idle has gone up from low freight volumes
- WE need for struggling companies to finally give up and die off, then the market will clear so that TL rates and used equipment prices and new equipment orders will normalize. Make no mistake, I'm not advocating for any government intervention, in fact, I'm advocating for the opposite; just leave us and our market alone and we'll sort it out over the next 6 months.
- As a total, we have been very busy…there have been a few days that things drop a bit but all in all, we have been quite busy
- The industry and people in it have always stepped up to challenges. This is just another variation. Stay safe, don't panic, view long term, think outside the "limits"
- If you can afford it there are some great deals on new equipment out there
- The guys behind the wheel are finally being recognized. I hope that recognition does not fade with COVID. Also, where we struggled to hire drivers, we are fully staffed for the first time in 5 years! We have picked up drivers that have been laid off. We are not just trying folks to fill seats but good solid drivers

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- The pandemic has made the general public see truck drivers in a different light. Our drivers are still worried about COVID but at least feel appreciated for the first time in a long time
- Still hard to find qualified drivers/techs. I would purchase more equipment if I could hire them
- Rates need to drastically increase or more companies will close
- Too much supply and not enough demand is causing low rates

Please contact me if you have any comments regarding the contents of this report OR if you have suggested questions for the next time we reach out to our panel – likely late summer.

Thanks for taking the time to read our report, I hope it's been valuable to you.

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