FREIGHTWAVES SONAR

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SONAR Customers Outperform

OCTOBER 2021

WHITE PAPER

SONAR Customers Outperform

In this report, we put forth an interesting, and admittedly imperfect, way to demonstrate SONAR's value: publicly traded carriers and freight brokers that use SONAR have outperformed those that do not.

- The average stock price of SONAR customers over the past five years has appreciated by 114%, while non-SONAR companies' stock has increased by 96%.
- Over the past year, the average SONAR customer stock price increased by 56% compared to a 35% increase for non-SONAR companies.
- The average earnings of the SONAR customers have increased by nearly 400% in the past five years, and nearly 500% in the past year. In comparison, non-SONAR companies' average earnings per share have increased by 105% over the past five years and 98% year-over-year (y/y).

We understand the obvious pushback – as we all learned in Statistics 101, we are discussing a correlation, which does not demonstrate causation. We can brainstorm numerous reasons why there would be a correlation between SONAR subscribers and their performance – SONAR users are likely better capitalized than non-SONAR users so they are in the best position to "spend money to make money" and may be the same companies that have the youngest equipment fleets and are able to pay competitive salaries. It's also possible that SONAR subscribers are the same companies that buy all available freight data (so you could also say that Brand X's customers also outperform).

Also, one could argue the sample size we used was limited. The group of publicly traded SONAR customers in the sample included eight asset-based truckload carriers, four non-asset based logistics companies and three LTL carriers. The group of non-SONAR customers included three truckload carriers and five non-asset based logistics companies. We are not legally permitted to publish our customers' names.

Still, we believe that the freight carriers and brokers that generate long-term share price outperformance do so because they generate returns on invested capital that are superior to their peers. It follows that the most efficient users of capital in the freight industry find SONAR to be a worthwhile investment.

To name just a few broad use cases:

- Freight brokers use SONAR to understand local freight markets inside and out in order to maximize volume and margins.
- Carriers use SONAR to take a disciplined approach to deployment, accepting only loads that will improve fleet utilization.
- Shippers use SONAR to manage day-to-day freight flows, benchmark rates against peers, make modal decisions, prepare for negotiations and hold carriers accountable for their service levels.

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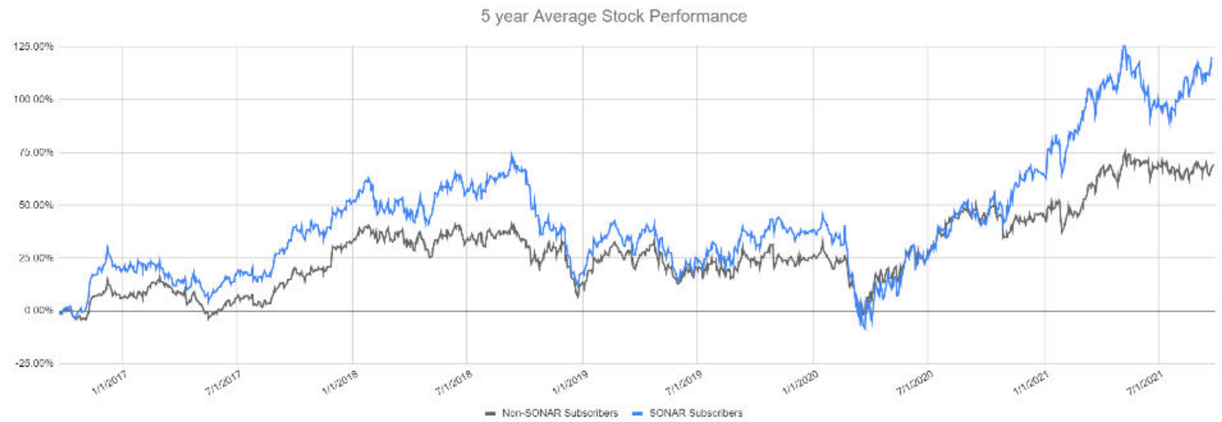
SONAR customers outperform their competitors as well as the broader market

FreightWaves SONAR, the company's flagship SaaS product, is designed to allow subscribers to benchmark, analyze, monitor and forecast the freight markets, at a market level. Subscribers include some of the largest publicly traded companies in the transportation industry; they have found value in the software.



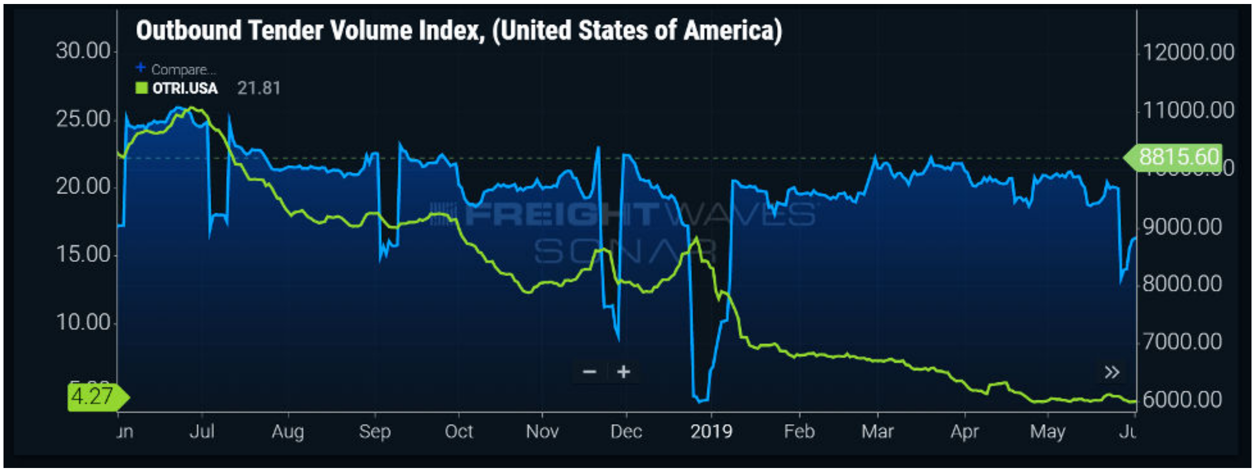
(Source: Google Finance, FreightWaves analysis)

When looking at comparisons of the companies that have opted to add SONAR to their repertoire compared to those that have yet to add the data platform, the average stock price of SONAR subscribers over the past five years has appreciated by 114%, while the stock of non-SONAR companies has increased by 96%. Over the past year, the appreciation in the average stock price is even greater with the average SONAR subscriber's stock price increasing by 56% – compared to a 35% increase for non-SONAR companies.

The benefits aren't only limited to the public markets' perception; operationally, earnings improvements of SONAR customers compared to those that aren't customers have been even more extreme. The average earnings of the SONAR subscribers have increased by nearly 400% in the past five years, and nearly 500% in the past year (although second quarter earnings in 2020 were deeply depressed). In comparison, non-SONAR companies' average earnings per share have increased by 105% over the past five years and 98% y/y.

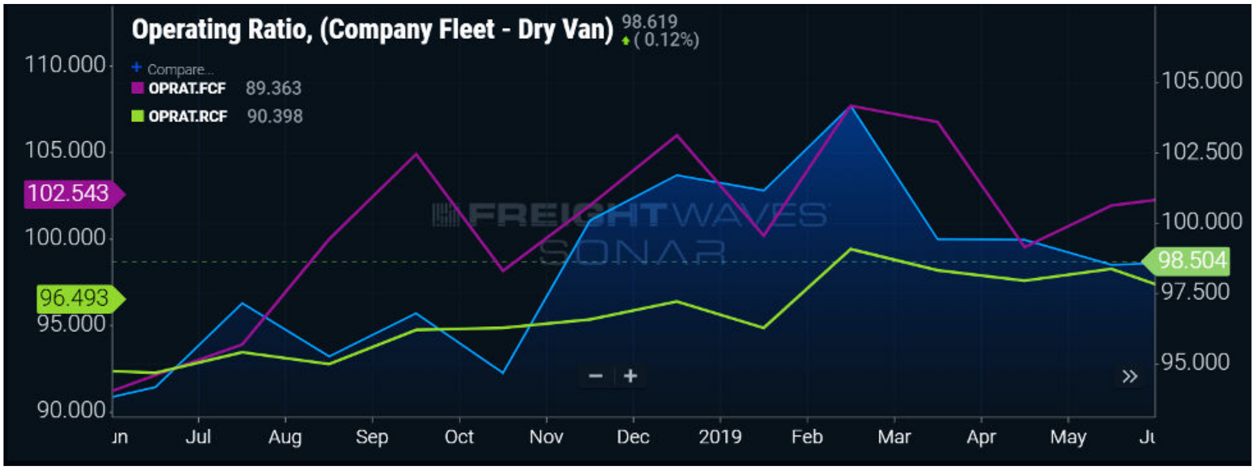
Publicly traded carriers/brokers that invested in SONAR were able to better navigate and emerge from the freight downcycle of 2018-19

In an effort to capitalize on the bull market of 2018, cash-flush carriers sought to expand upon their available capacity with a surge of orders for new Class 8 trucks. The rapid influx of new equipment coming online led to a swift infusion of capacity into the market, far outweighing the stagnating levels of demand, which declined over 6% through the first half of 2019. With volumes sliding, capacity was now readily available and sent the national tender rejection index below 5%.



(Chart:FreightWaves SONAR National Outbound Tender Volume Index through the 2018-2019 downturn {Blue} compared to the Outbound Tender Rejection Index {Green})

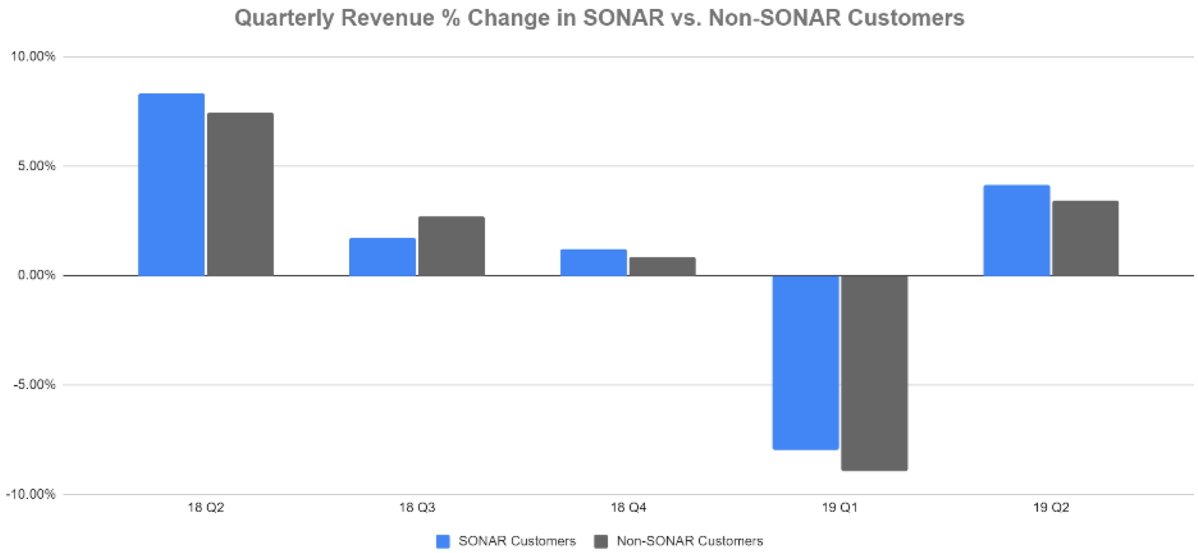
The steep oversupply of capacity quickly depressed rates, significantly lowering carriers' revenue per truck per week. Asset-based carriers that had enhanced their company fleets through 2018 were at an obvious disadvantage, as new insurance, maintenance and licensing fees were not properly offset by the reduction in volume, rates and asset utilization. For a period of roughly four months, company fleets' dry van and flatbed operating ratios surpassed 100, meaning that over 100% of earned revenue was covering the cost of doing business.



(Chart:FreightWaves SONAR Operating Ratios of company fleet dry van {Blue} flatbed {Purple} and reefer {Green})

Nearly 700 trucking companies went out of business in the first half of 2019 alone. For those that were able to survive, access to sufficient capital helped to mitigate the damaging effects of the down cycle. While the market conditions were unique to no one, the ability of some carriers and brokers to invest in new equipment, systems, human capital and freight data helped them better navigate the choppy waters. Publicly traded companies within the sector are typically the most capitalized, and more readily able to make such investments.

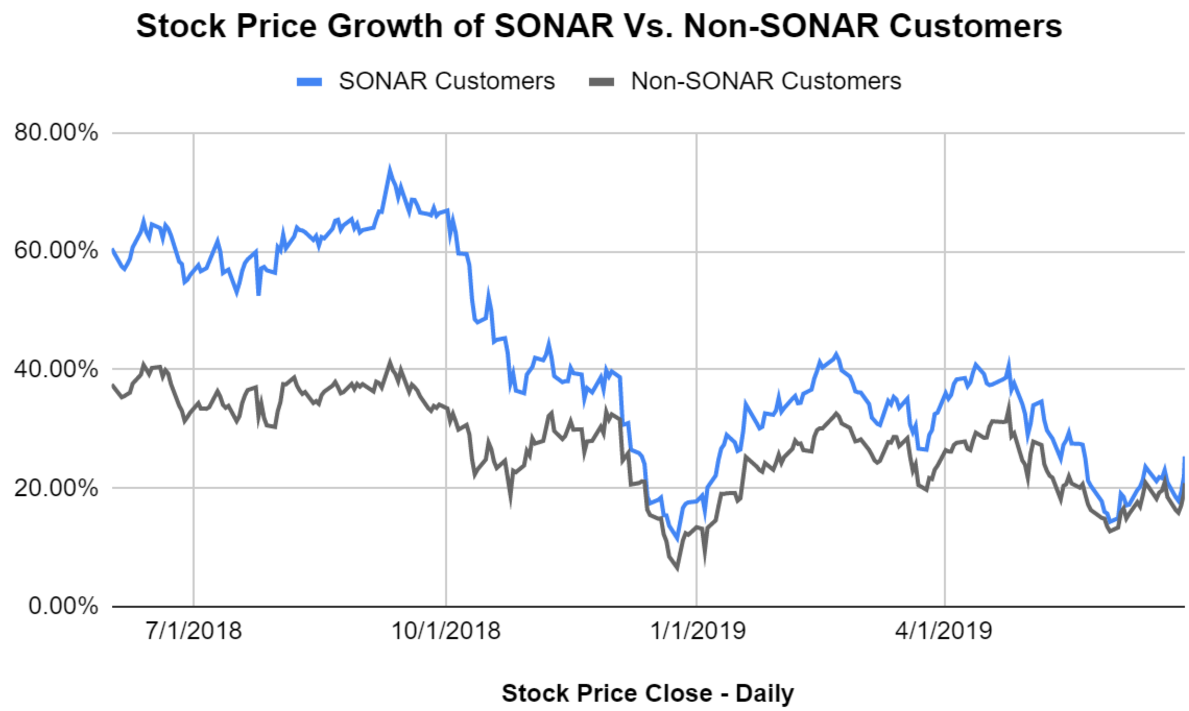
FreightWaves tracked the performance of several publicly traded carriers and brokers through this freight downturn, and compared those who subscribed to FreightWaves SONAR to those that did not. By providing real-time insight to freight market volatility, carriers/brokers could optimize their asset utilization by opportunistically allocating and positioning their assets to take advantage of changing market conditions, while simultaneously forecasting volumes, rates and capacity to increase margins.



(Chart: Koyfin; FreightWaves analysis)

As a result, SONAR users saw less severe quarterly revenue contraction through the first quarter of 2019, and rebounded with more significant quarterly revenue growth through the second quarter of 2019. This performance was seen in the financial health of the companies evaluated, as the earnings per share of SONAR customers was higher leading into, during and departing the downturn.

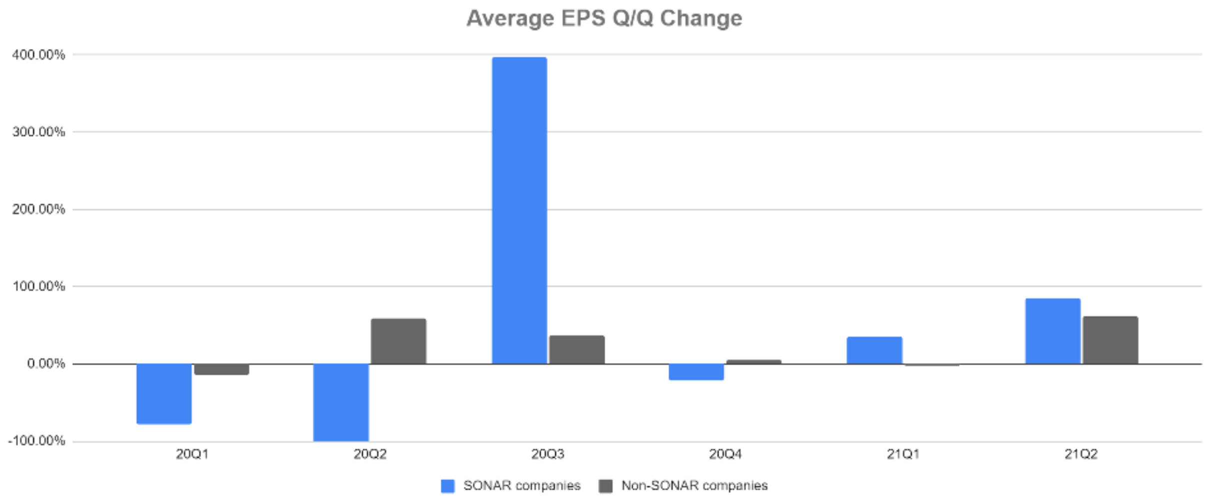
Confidence in publicly traded companies within the sector was generally higher for those that utilized SONAR. The daily growth rate of SONAR users' stock valuations was around 5% higher during the down cycle than companies that did not invest in SONAR. As market conditions began to reach their inflection point in 2019, SONAR users' stock growth increased at a rate around 10% higher than that of non-SONAR users.



(Source: Google Finance, FreightWaves analysis)

SONAR Customers perform better the longer the upcycle lasts

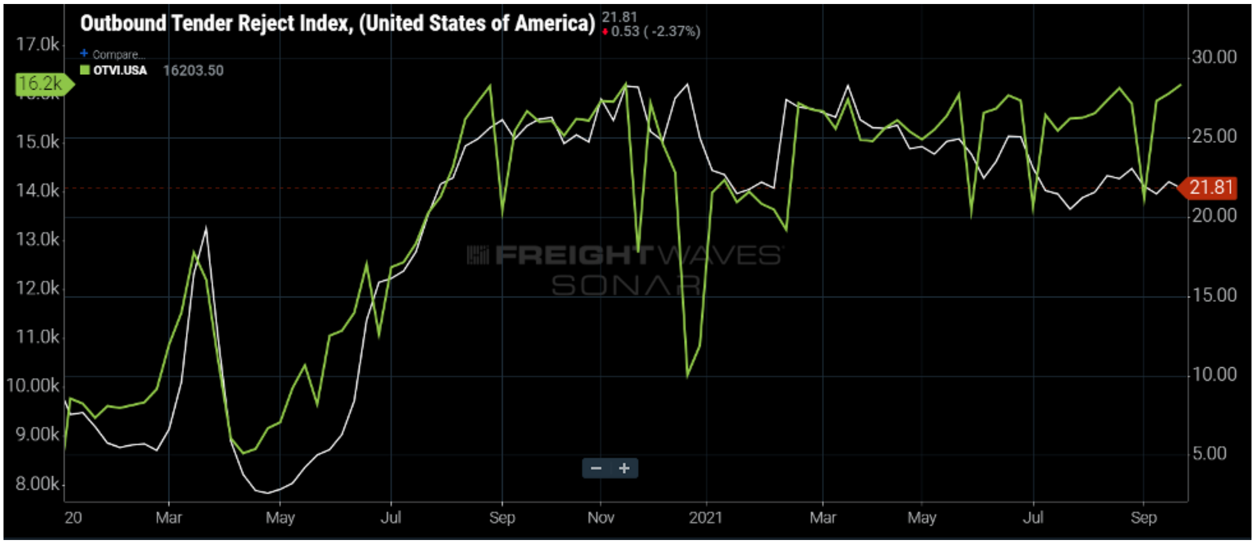
There were plenty of surprises for transportation companies that really damaged earnings growth in 2020. As previously mentioned, SONAR customers performed better in a prolonged down cycle compared to non-SONAR companies, but what about a significant downward shock followed by an 18+-month upcycle? Both SONAR subscribers and non-subscribers experienced increases across the board in revenue growth during 2020 and the first half of 2021, but SONAR subscribers were able to grow their bottom lines faster than non-SONAR customers in the beginning of 2021.



(Chart: Koyfin; FreightWaves analysis)

The initial downturn in the first and second quarters of 2020 was a difficult time for not only SONAR subscribers but many companies across the country, both in and out of the transportation industry. As capacity tightened and volume levels quickly recovered (setting new highs on a seemingly daily basis), SONAR subscribers were able to recover margins, and grow the bottom line faster sequentially than non-SONAR companies.

The idea behind SONAR is to give companies real-time data that allows carriers to place assets in markets that are more profitable, provides brokers data to make faster, more accurate pricing decisions around markets and allows shippers to target lanes that are causing trouble within networks and have targeted discussions with service providers.



(Chart: FreightWaves SONAR: Outbound Tender Volume Index [green, left axis] and Outbound Tender Reject Index [white, right axis])

The chart above shows what transportation companies have dealt with since the beginning of 2020. The Outbound Tender Volume Index (OTVI), measured by shippers' requests for capacity, fell off a cliff in the second quarter of 2020, even after being at significantly depressed levels to begin the year. The Outbound Tender Reject Index (OTRI), a measure of relative capacity in the market, followed suit as capacity loosened extremely quickly, resulting in the lowest rejection rate of all time (~2%).

What followed was unexpected by many, as freight volume rose to record high levels and capacity tightened faster than it had ever done so in the past, leading to rejections eclipsing 25% by the fourth quarter of 2020. Rejection rates have subsequently fallen off slightly, as contract rates have been rebid to record high levels. However, freight volumes are still unrelenting, which is likely to lead to record revenue numbers for transportation companies (both SONAR subscribers and non-SONAR companies), when third quarter results are announced.

(Source: Google Finance, FreightWaves analysis: SONAR subscribers' stock prices have increased by over 50% since the beginning of 2020, while non-SONAR companies' stock prices have increased 33%)

The public markets, like in the previous downturn, have rewarded SONAR subscribers since the beginning of 2020. The average stock price across SONAR companies has increased by nearly 60% since the beginning of 2020. Compared to the S&P 500, SONAR companies have outperformed the broader market by 25 percentage points. At the same time, non-SONAR companies' average stock price has appreciated by 33%, which is roughly in line with the S&P 500 over the same time frame.

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