

AAPA Shifting Trade Patterns

An Ocean (Container) Carrier's Perspective



Today's Agenda

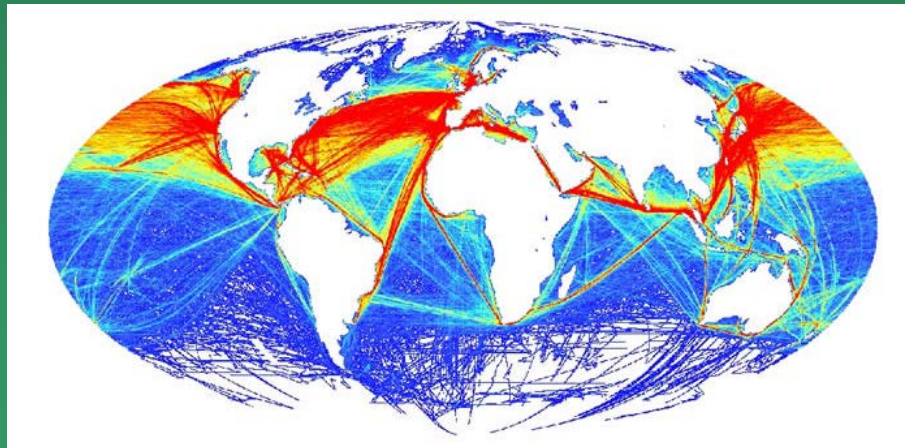
- ✓ Review the present
- ✓ Take a look back at proved to be a pretty good year by..... container shipping standards
- ✓ Speculate on where we may be headed

The Container Shipping Industry Today

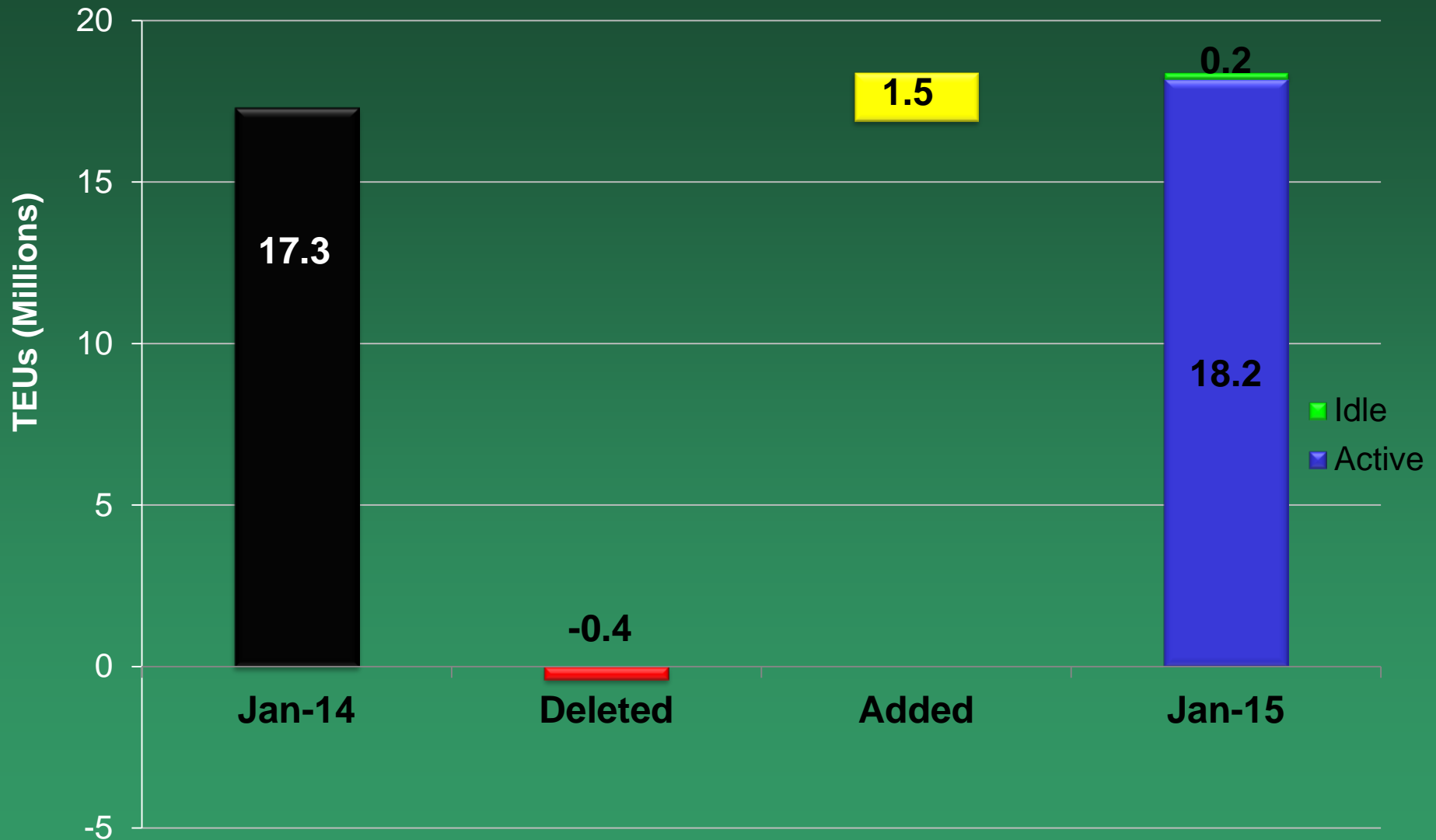


The Global Container Shipping Industry Today

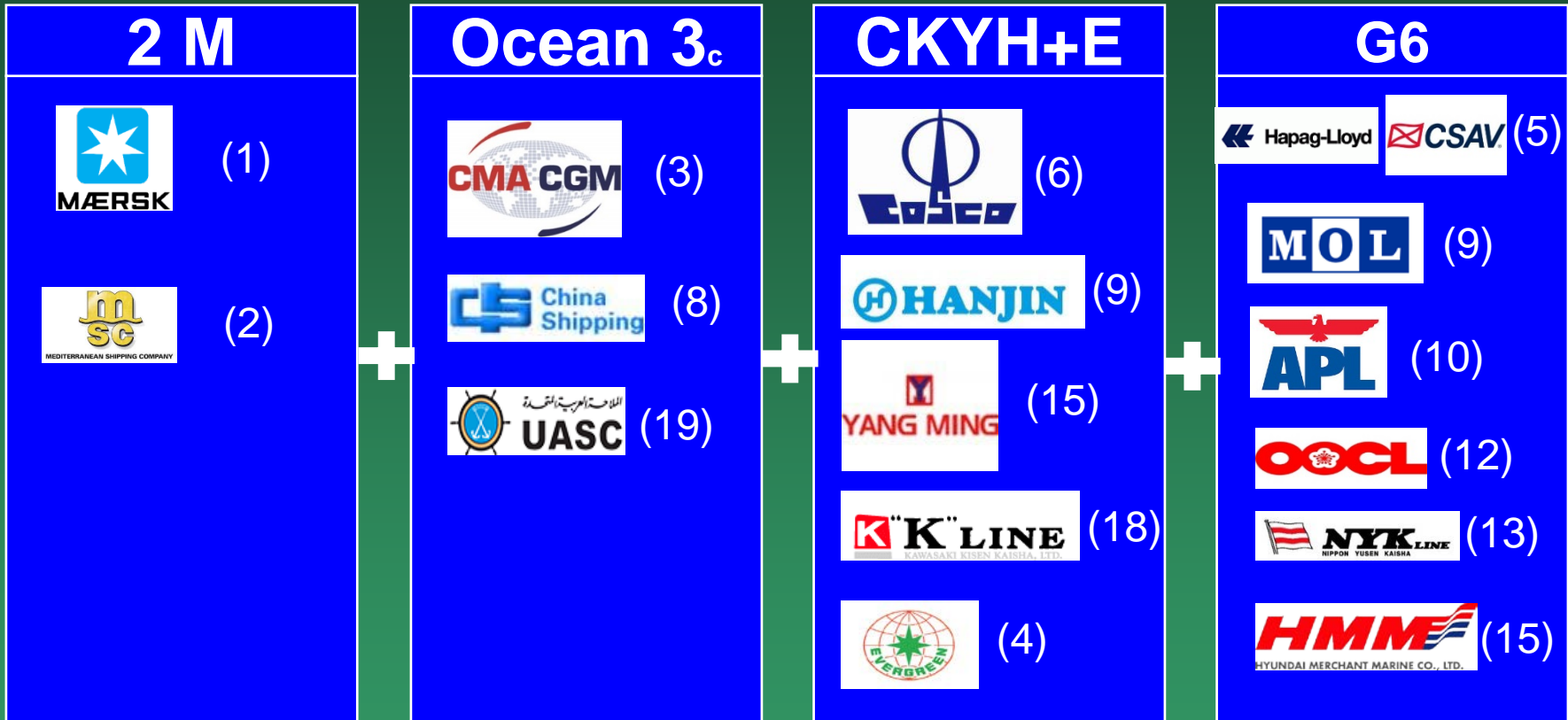
- Roughly 400 companies
- Operating 5,000+ ships (fully cellular) & 18+M TEUs of capacity
- Concentration: 16 of the top 20 lines belong to a consortia
- Profitably investing in capacity and delivering reliable service remains a daunting challenge
- The 20,000 TEU barrier has been cracked—reportedly!



How did we get here?



Concentration: 16 of the top 20 lines participate in consortia



Who is Left?



Who is Left?



(11)



(16)



(19)



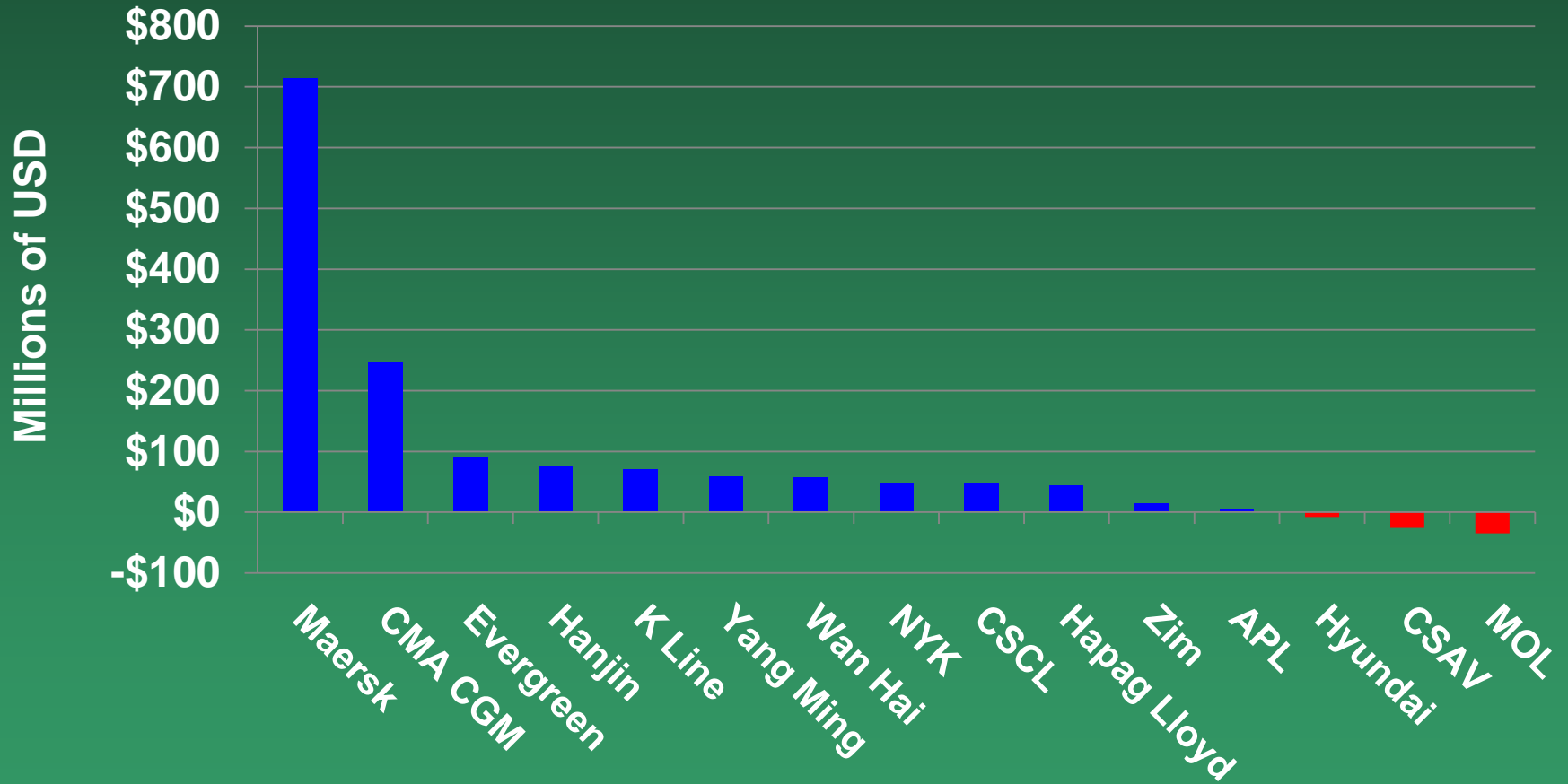
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The Container Shipping Industry: A look back at 2014



Fuel cost reductions alone should drive the industry to full year profitability

Global Container Industry Net Profit/Loss by Carrier
YTD 2014 (Q3)



2014 was a year of significant developments

- ✓ Cheap fuel
- ✓ The gray ship
- ✓ A new regulatory voice
- ✓ Hapag-CSAV transaction
- ✓ Big ships-a potential downside

Cheap Fuel: a windfall

Rotterdam 380 cst

Reported Price



Context

- A 49% decline in one year although the full benefits have not been realized
- Offset higher operating costs & low sulfur fuel premiums
- Today's prices approximate 2005

The gray ship was an innovative concept that could have transformed the industry

The Gray Ship

- Concept similar to the 1960s-1970s Latin American pooling agreements
- P3 significantly improved upon it by focusing on capacity
- Third party operator and mandated cost recovery addressed the industry's chronic challenge



A new regulatory voice derailed the gray ship concept

P3 Regulatory Math



US
FMC



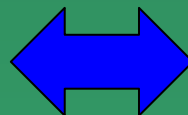
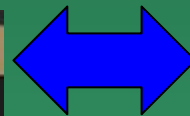
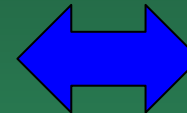
EU
Competition
Directorate



China
Ministry of
Commerce



2014 Transactions: is it a trend?



Big ships---potential waterside.....



- 7,400 ship moves with six cranes @ 35 mph =:
- Minimum 35 working hours
 - About 40 berth occupancy hours

& landside downsides



7,400 ship moves with a 40% intermodal split =:

- About 8-10,000 TEU storage slots (30-37 medium density RTG storage acres)
- 14-15 DSTs (20 cars each)
- 5,700-5,800 gates moves @ 1.3:1.0

The Container Shipping Industry

A look ahead to 2016 and



One thing will never change: The global profitability equation

System scale economies

+ Increased Efficiency

+ Higher Utilization

+ Balanced supply & demand

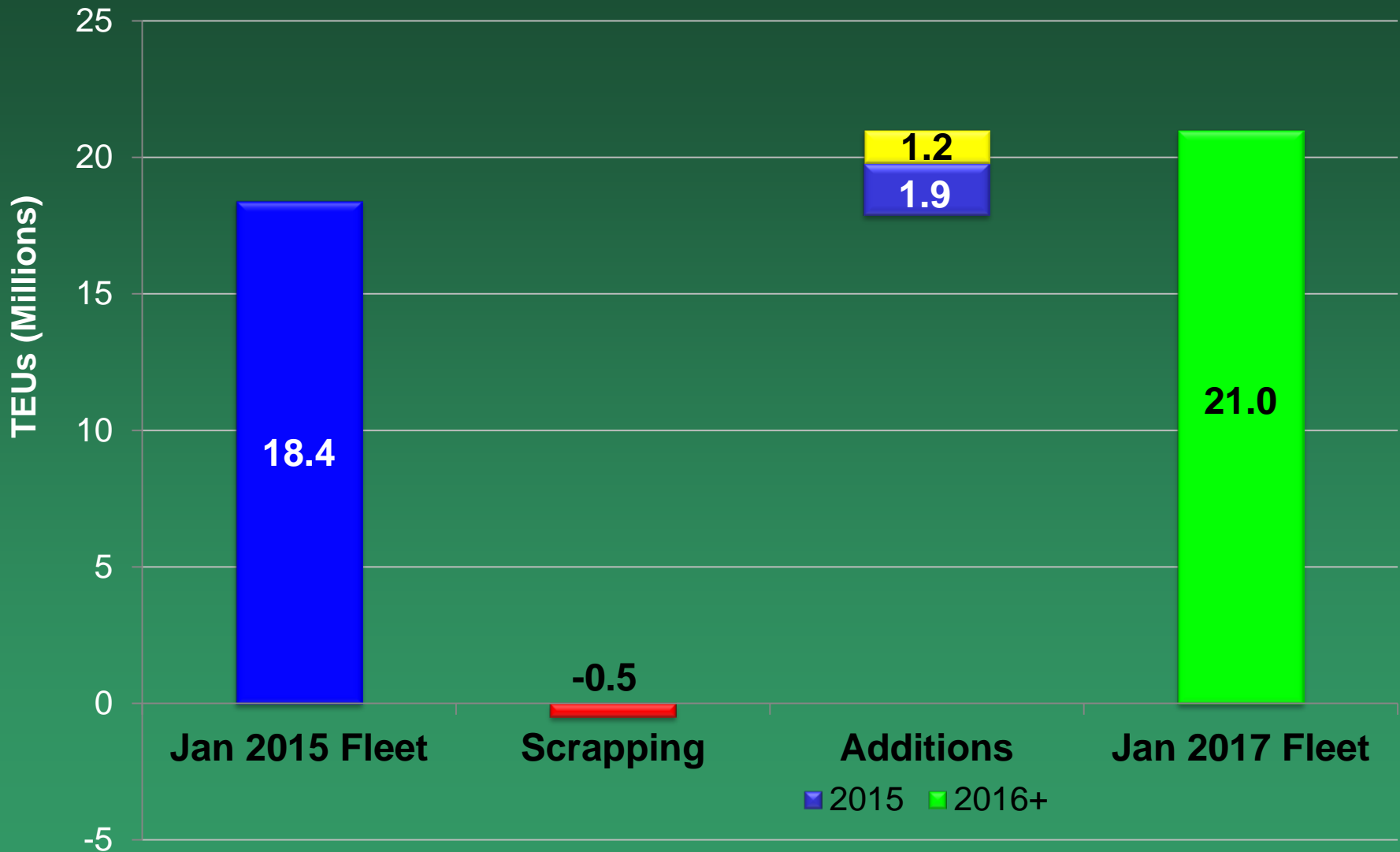
= Improved profitability

Never make predictions, especially about the future” [Casey Stengel]

- ✓ The Fleet
- ✓ Networks
- ✓ Operations
- ✓ Regulation
- ✓ M&A



The Future Container Fleet



The 20,000 TEU ship may already be here

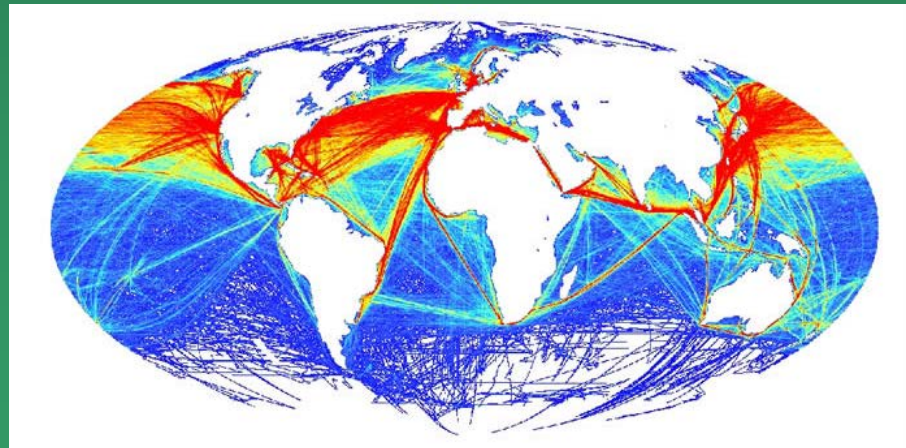
- Adding a tier in the hold and on deck increases a 19,000 TEU ship to 20,000+ TEUs
- Increasing the beam one row can increase capacity to 21,000+ TEUs



Evergreen ships would have a nominal capacity of almost 20,500 TEUs through such design adjustments while keeping the basic dimensions unchanged from an 18,000 TEU vessel

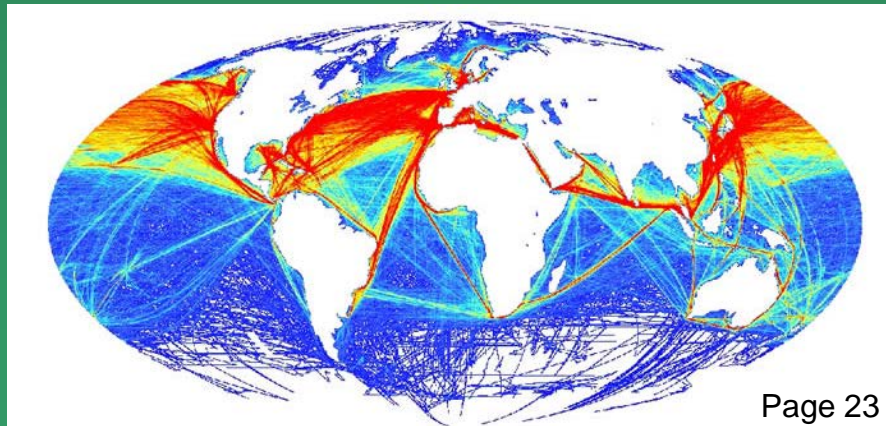
Hemispheric Networks

- 2015-2016: Likely Evolutionary vs Revolutionary
- 2017: Hemispheric
 - Asia-USEC via Panama: on average a 7,500-8,000 TEU ship will be a big ship; potential reductions in Suez services
 - Asia-US Gulf: combination of more strings; larger ships consistent with feeders & Houston's capabilities
 - Asia-ECSA: 8,000+ westbound via Cape of Good Hope
 - Asia-WCSA: increased feeder operations



Operations

- Slow steaming is likely to (should, must) continue
- Direct port calls by big ship strings will likely become more concentrated
- Hemispheric feeder operations are therefore likely to increase
 - Caribbean Basin, Central America, NCSA, WCSA (Ecuador/Colombia), intra-Brazil, US Gulf
- Terminal automation will be critical to realizing big ship scale economies



Regulation: a wild card

- The simple math says: *As concentration tightens supply, regulatory scrutiny will increase*
- The political wild card is the unknown
- What if:
 - COSCO/CSCCL merge?
 - CKHYE/Ocean Three become the W8-9?
 - The Japanese Lines consolidate under a government supported initiative?



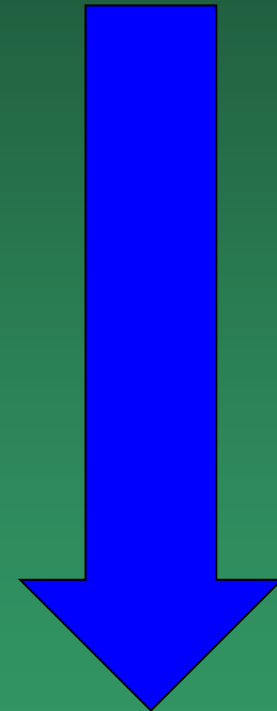
Former FMC Chairman Lidinsky (2014) called for and both the China Ministry of Transport and the EU Competition Directorate enthusiastically supported his call for a second global summit on the impact of super alliances and the challenges they pose to regulators

M&A: valuations, ROIs and regulators are the barriers

PROBABILITY

- ✓ The big continue to swallow the niche & regional?
- ✓ Independents (non-aligned): merge or are acquired
- ✓ Consortia increasingly cooperate
- ✓ Japanese & or Korean lines consolidate
- ✓ A major (two top 10s) transaction

Plausible



Unlikely

Today's Agenda in review

- *Review where we are at: arguably I at least accomplished this*
- *Take a look back at what proved to be a pretty good year by: tough to argue with unsubstantiated facts*
- *Speculate on where we may be headed: hopefully kept most everyone awake and maybe even provoked some thought*

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Thank You