

...Excellence in Bulk Commodity Distribution

Trucking Capacity, a Limiting Factor for Growth in the Cement Industry?

PCA
America's Cement Manufacturers™

Presentation to Manufacturing Committee
Chicago, IL August 25, 2014

Sebastian L. Seifarth
VP Sales and Marketing
Schilli Corporation (TTI/BTC/CCI/MDS)
Direct: 636-717-2653
Cell: 734-747-2129
sseifarth@schillicorp.com



... A Schilli Corporation company



Agenda

- 1. Brief Introduction of Schilli Corporation**
- 2. Overview of Current Dry Bulk Trucking Environment**
 - Driver Shortage
 - Changing Regulations
 - Cost of Doing Business
 - Trucking for the Cement Industry
- 3. Capacity and Rate Outlook**
- 4. Possible Solutions**
- 5. Summary and Conclusions**
- 6. Q & A**



...Excellence in Bulk Commodity Distribution



INTRODUCTION OF SCHILLI CORPORATION

... A Schilli Corporation company



...Excellence in Bulk Commodity Distribution

Introduction to Schilli Corporation

- **Based in St. Louis, MO**
- **Founded in 1962 by Robert B. Schilli**
- **Offer diverse road transportation services:**
 - Comprehensive dedicated transportation management
 - Dry and liquid bulk product road transportation
 - Trans-loading (rail-truck/truck-rail/intermodal)
- **Privately Owned**
- **Financially Sound: 2014 Projected Revenue - \$50 million**
- **Operates in 48 states, Canada and Mexico**
- **\$10 Million Liability Insurance Coverage**



... A Schilli Corporation company



...Excellence in Bulk Commodity Distribution

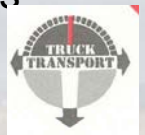
Introduction to Schilli Corporation (Continued)

Schilli Corporation has a diverse portfolio of five (5) subsidiaries that serve customers from 18 facilities across the region:

- **Contractors Cartage, Inc.**
 - Specializing in Dry Bulk in the Midwest
- **Material Delivery Service, Inc.**
 - Specializing in Dry and Liquid Bulk Transportation in the South
- **Keightley Bros., Inc.**
 - Specializing in cement transportation in the St. Louis area
- **Truck Transport, Inc.**
 - Specializing in the transportation of Chemicals and Petroleum Products in 48 States, Canada & Mexico
- **Bulk Transport Company** - Full Service, dedicated, asset based transportation management



KEIGHTLEY BROS. INC.



BULK
TRANSPORT COMPANY
ST. LOUIS, MO

Schilli Corporation also owns Piston Tank Corporation, which is specialized on moving viscous products.



... A Schilli Corporation company

...Excellence in Bulk Commodity Distribution

Schilli Corporation Locations – Focus on Midwest and South



MDS, CCI and KBI, specialize in the hauling of cementitious products.

- ▲ Driver Domicile
- Truck Terminal



... A Schilli Corporation company

...Excellence in Bulk Commodity Distribution



OVERVIEW OF CURRENT DRY BULK TRUCKING ENVIRONMENT

... A Schilli Corporation company



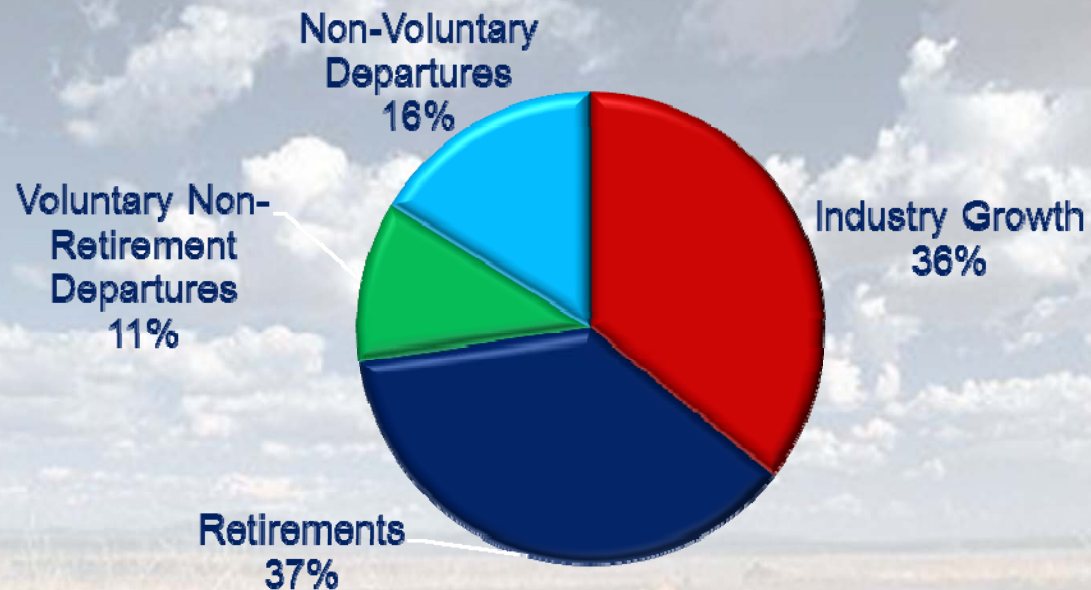
Background

- **Improving Economy**
 - Construction Sector is recovering and projecting steady growth
 - Petro-Chemical Sector continues to go strong
 - Overall Demand and Industrial Output is increasing
- **Shippers try to fall back on trucking when their primary mode of transport experiences problems**
- **Supply for pneumatic capacity cannot keep up with that growth**
- **This is not predicted to change**
- **A paradigm shift is necessary to break the old cycle**
- **Many companies have realized that trucking capacity could become a limiting factor to their growth**



Driver Shortage

Driver Shortage is projected to be 100,000 – 200,000 drivers per year for the next 10 Years

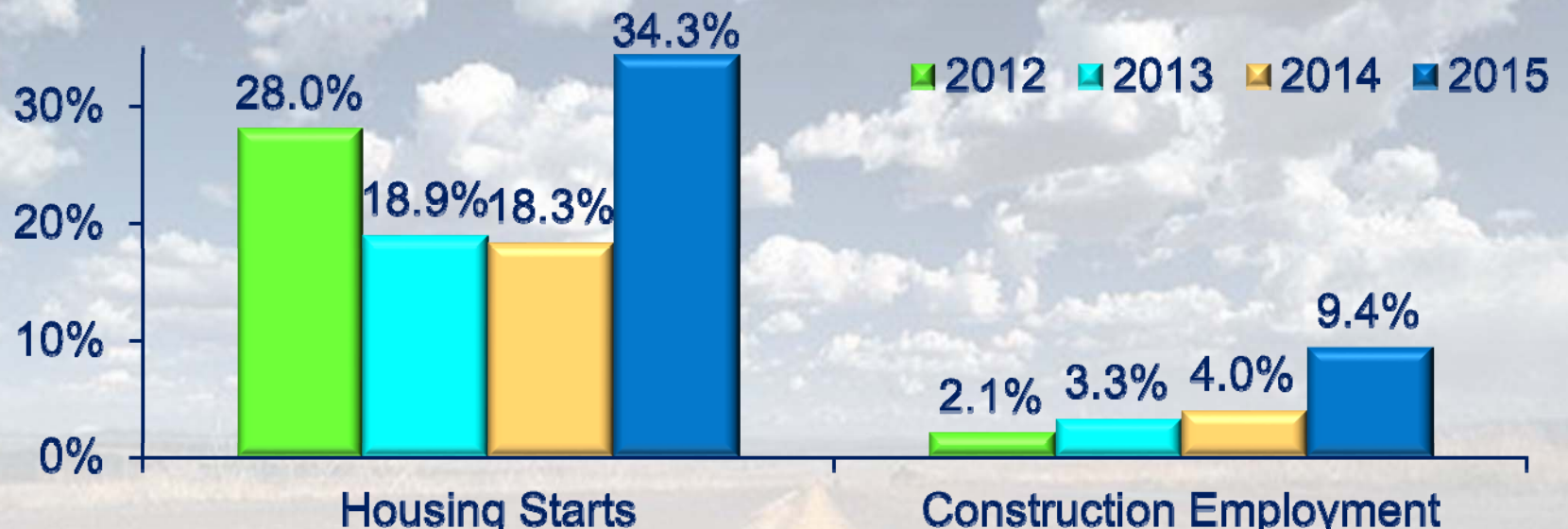


Source: ATA Benchmarking Guide for Driver Recruitment & Retention



Driver Shortage

Many Drivers are leaving the Trucking Industry to go to work in construction

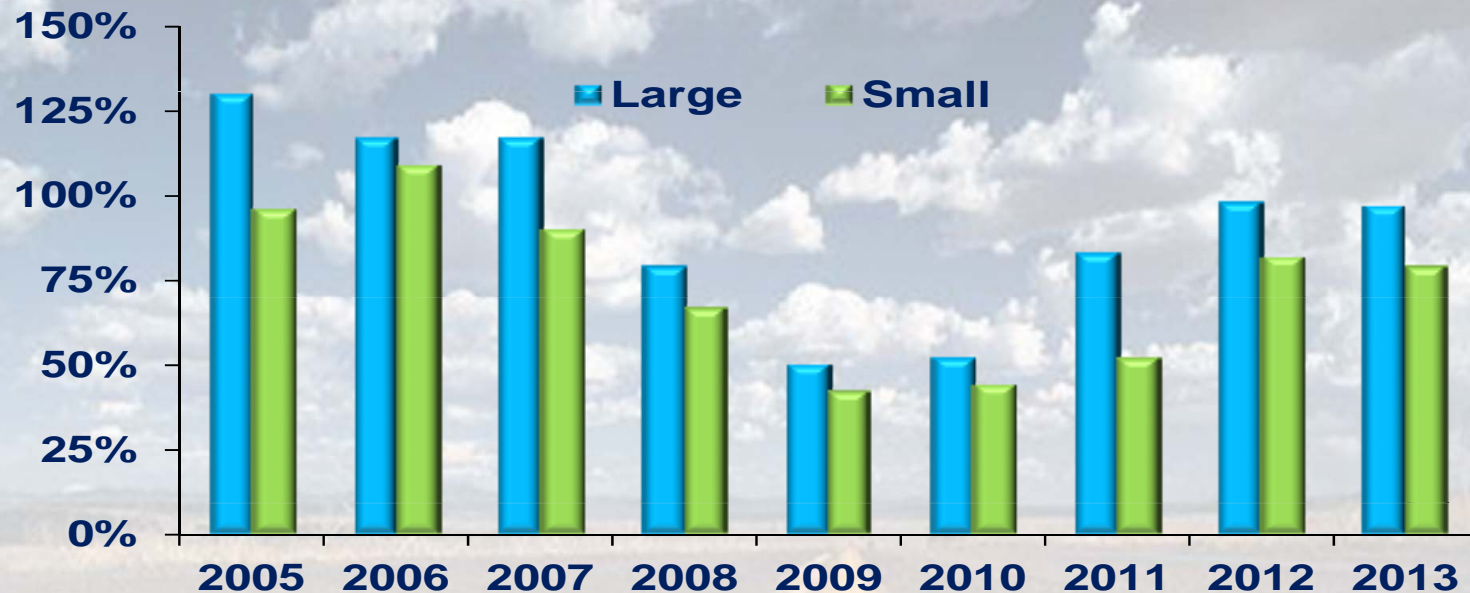


Sources: Census Bureau, Department of Labor, and ATA



...Excellence in Bulk Commodity Distribution

Truck Driver Turnover Rates Remain Very High



Source: ATA

... A Schilli Corporation company



...Excellence in *Bulk Commodity Distribution*

Ever Changing Regulations

- Hours of Service
- E-Logs
- CSA
- Tolls vs. Taxes



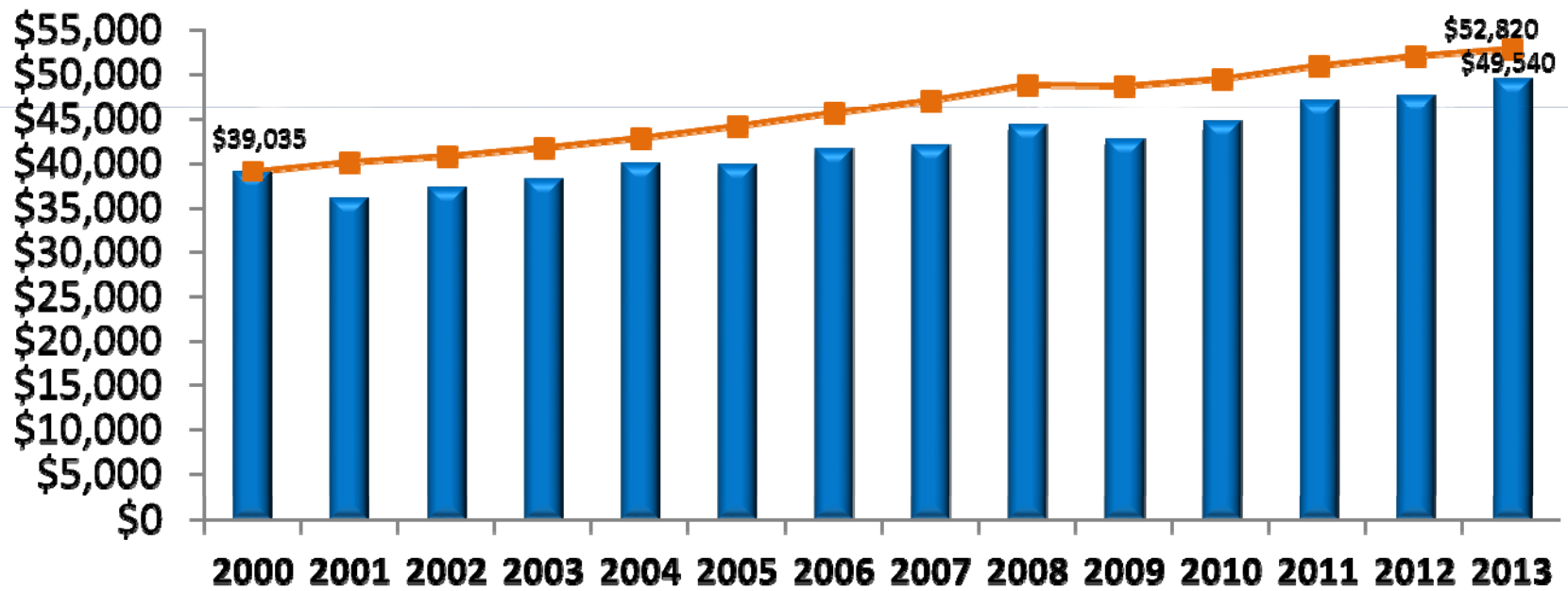
... A *Schilli Corporation* company



...Excellence in Bulk Commodity Distribution

Driver Costs are Trending Up

Average Annual Pay for an Over-the-Road Tractor-Trailer Driver in the For-Hire Truckload Industry



Sources: American Trucking Associations and BLS

Note: Same cost escalation is experienced for mechanics

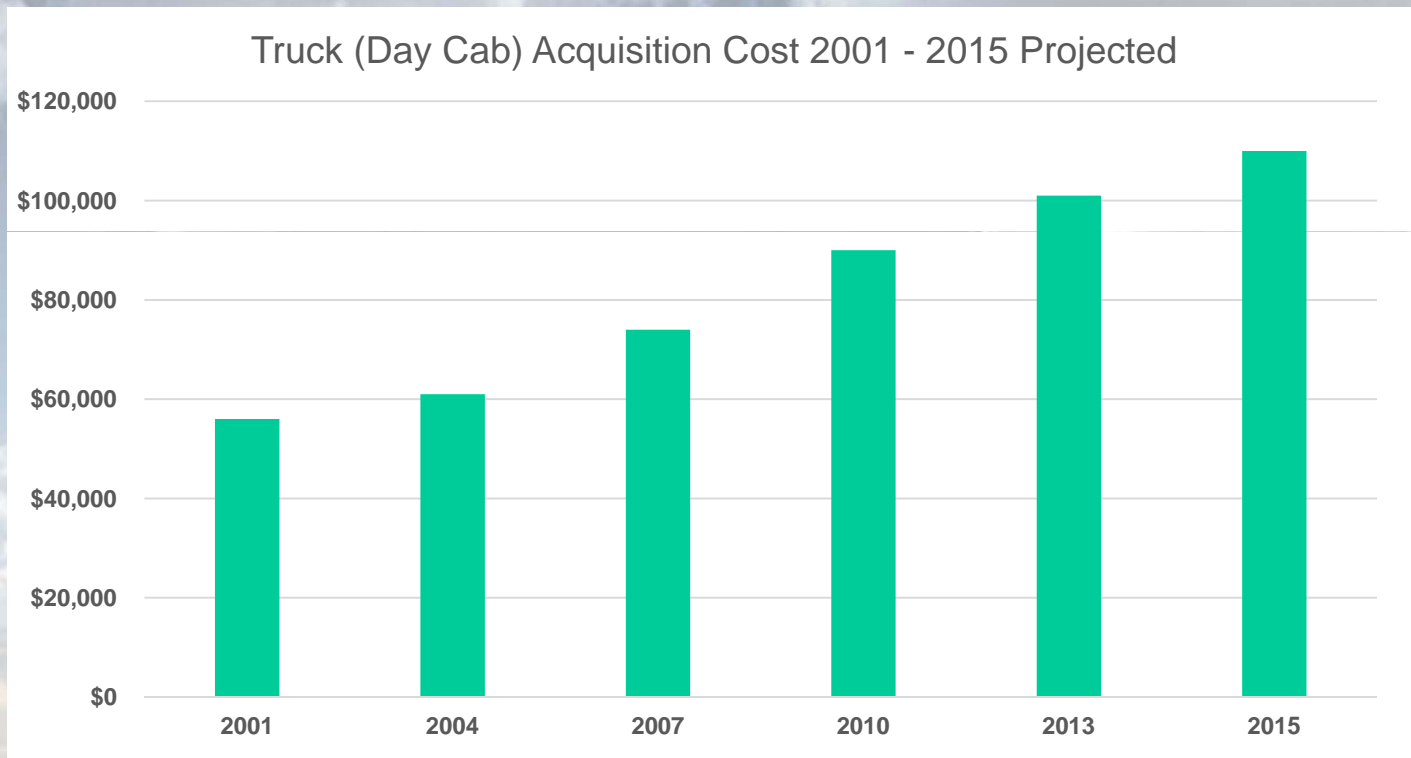
... A Schilli Corporation company



...Excellence in Bulk Commodity Distribution

Equipment Costs are Trending Up

Motor Carriers Are Struggling to Replace Their Trucks



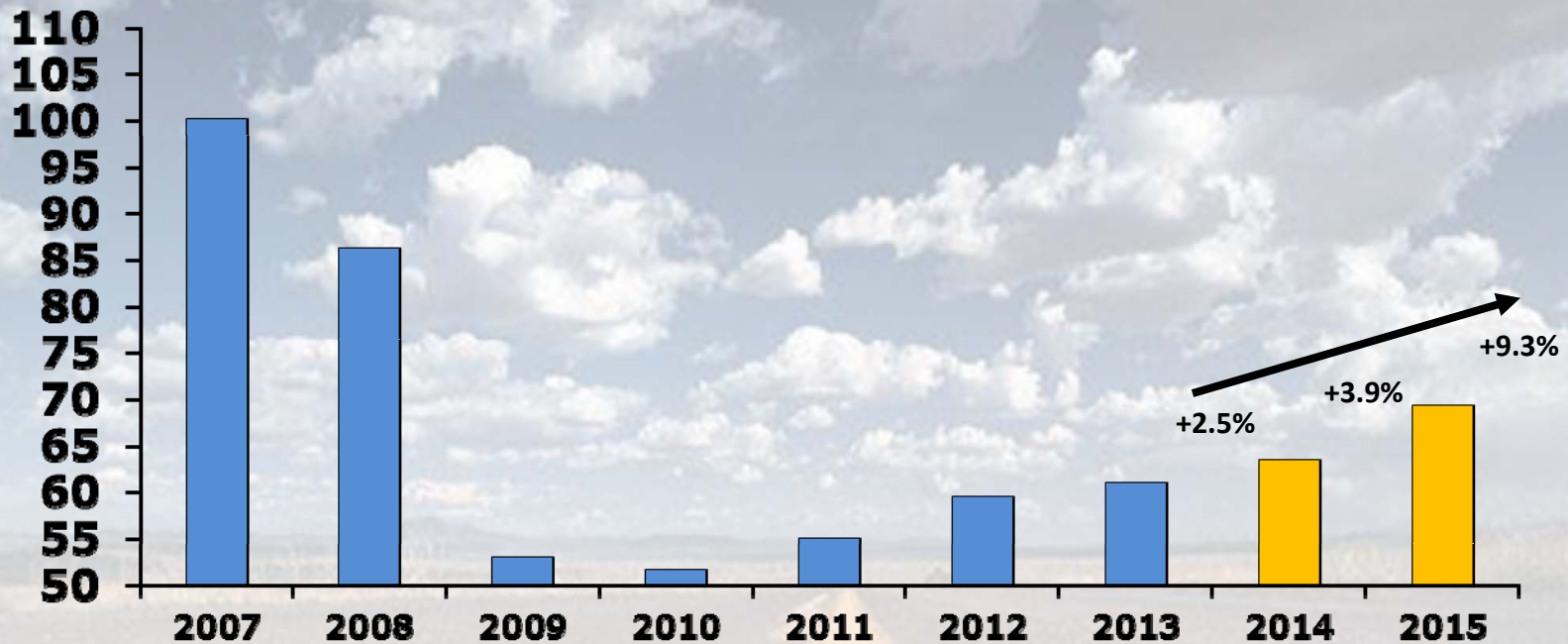
Note: Costs for a new truck and cement trailer approaches \$200,000 per unit.
This investment is necessary to attract and retain drivers.

... A Schilli Corporation company



Demand for Drivers is Up

U.S. Cement Production Increase will require more drivers



Sources: Federal Reserve, IHS, & ATA



...Excellence in Bulk Commodity Distribution

Demand for Drivers is Up

Increased Annual Housing Starts Draws Drivers

(Millions of Units)

2014 will be the highest level since 2007.



Sources: Census Bureau and ATA



... A Schilli Corporation company



Demand for Drivers is Up

Increased Consumer Spending will require more goods to be transported
(Annual Percent Change)



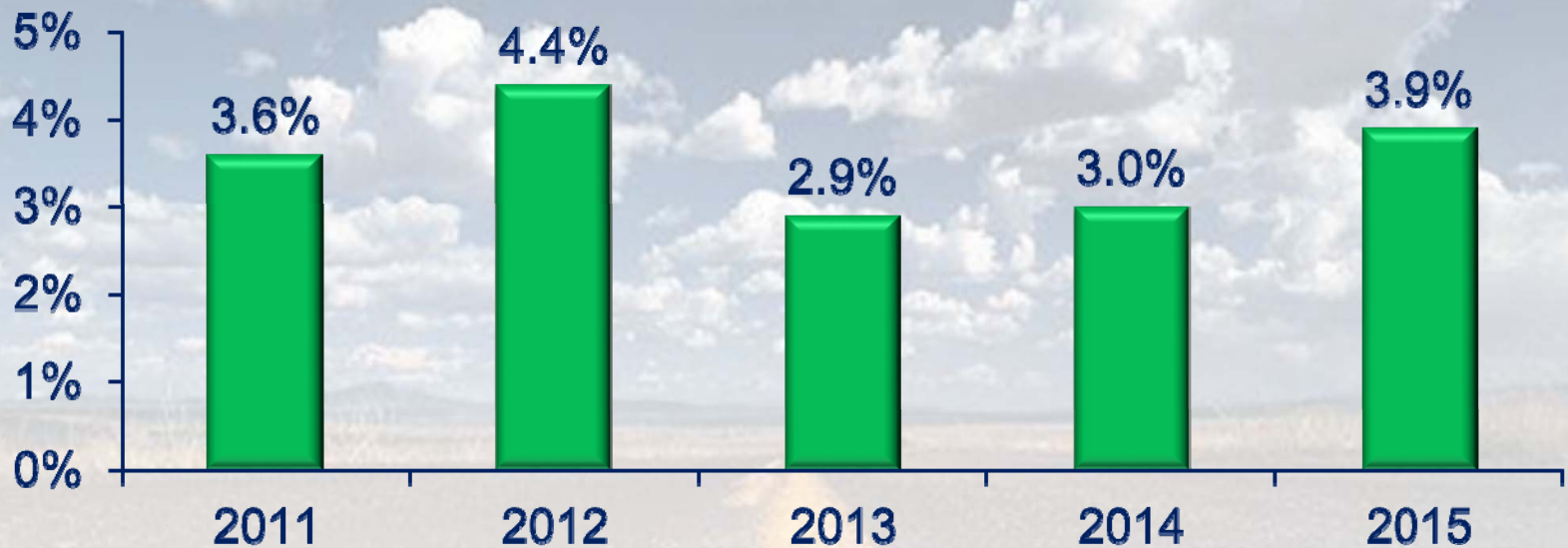
Sources: BEA and ATA



Demand for Drivers is Up

Increased Factory Output fuels demand for drivers

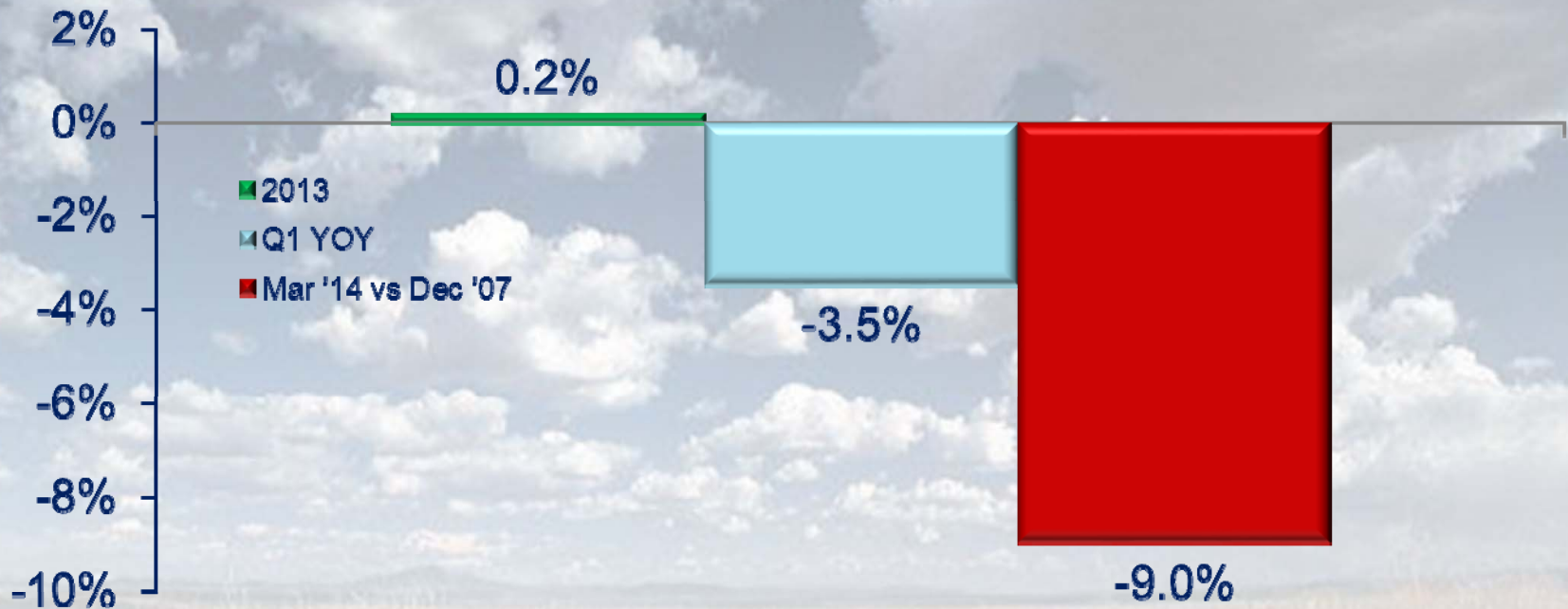
(Annual Percent Change)



Sources: Federal Reserve and ATA



At the same time trucking capacity has been shrinking since 2013



Includes all types of truckload carriers

Source: ATA's *Trucking Activity Report*



What is the Trucking Industry doing to attract and retain drivers?

- **Provide a “driver friendly” environment**
 - Treat drivers with respect
 - Competitive Compensation Package – Year-round
 - Minimum weekly salary guarantees or similar models
 - Provide a healthy, safe environment (Health coach initiative)
 - Quality equipment
 - Get drivers home most nights
- **Aggressive recruiting program**
 - Bonuses (hiring, referral, safety)
 - Recruiting advertising
 - In-house and/or external recruiters
- **Training Programs**
- **Safety Bonuses**



Cement Industry Especially Vulnerable

- Cement Industry competes for drivers with other growing industry sectors
- Cement Industry as a whole is not particularly attractive for drivers
 - Steep seasonal demand changes
 - Labor intensive (loading/unloading)
 - Frequent last minute order changes or cancellations
 - No advanced ordering - “You call we haul”
 - “Feast or famine”
 - Require drivers with at least two years experience
 - Price sensitive commodity pricing
 - Old model of releasing drivers in the winter and asking them to return in the summer is no longer working
 - For example, driver turnover for LTL is only 11%
- Many carriers shifted capacity to oil/gas and (petro) chemicals



...Excellence in Bulk Commodity Distribution



CAPACITY AND RATE OUTLOOK

... A Schilli Corporation company



...Excellence in *Bulk Commodity Distribution*

Capacity Outlook

- There are no indications that the trucking capacity shortage will change as long as the economy continues to grow
- Much capacity could be added by using current equipment and drivers more efficiently
- A paradigm shift is required to solve this problem



Rate Outlook

- Cost Inflationary environment
- Demand exceeding supply
- Driver shortage is limiting capability to add capacity
- Developing a “driver friendly” environment adds cost

As a result of above, costs for transportation are trending up

This is necessary for the carrier industry to be able to invest into new equipment, which has been getting older and retaining drivers.



...Excellence in Bulk Commodity Distribution



OVERVIEW OF OPTIONS TO SECURE CAPACITY

... A Schilli Corporation company



Possible Solutions to Secure Capacity

Not Recommended

- Invite more carriers into a market, because they will recruit from the same driver pool
- Treat transportation like a procurement commodity
- Switch all business to FOB

Recommended....

- Enter into carrier partnerships
- Dedicate equipment
- Help your carriers retain drivers by providing weekly revenue guarantees
- Be driver/carrier friendly
- Coordinate I/B loads with O/B loads (i.e. fly ash with cement)



...Excellence in Bulk Commodity Distribution



DESCRIPTION OF DEDICATED FLEET MODEL

... A Schilli Corporation company



The Dedicated Fleet Model

- **Like having an in-house fleet without hassle of ownership:**
 - **Driver Recruiting/Retention & Management**
 - **Equipment Acquisition**
 - **Equipment Maintenance**
 - **Keeping up with Regulations**
- **Increased capacity you can count on. The trucks, drivers and trailers would be 100% dedicated**
- **CAPEX Dollars can be invested into manufacturing assets rather than investing in transportation equipment**
- **Trucks can be equipped with state of the art communication and tracking devices making it easy to manage the fleet**



The Dedicated Fleet Model (Continued)

- **Improved service and safety performance.**
The same drivers will always manage your loads. You will get experienced personnel having in mind your specific safety, loading, unloading and customer service requirements
- **As long as you fully utilize the equipment, there will be no extra cost for receiving guaranteed capacity**
- **Program allows us to attract and retain quality drivers**



Various Options of Implementations

Two specific models seem to gain traction in the market place:

1. **Minimum Weekly Revenue Guarantees**
2. **Fixed/Variable Pricing Structure**



...Excellence in Bulk Commodity Distribution



SUMMARY & CONCLUSIONS

... A Schilli Corporation company



Summary and Conclusions

- 1. Demand for trucking capacity exceeds supply. The main problem is the driver shortage.**
- 2. This is not predicted to change and will push transportation costs upwards**
- 3. A paradigm shift is necessary**
- 4. The cement industry is especially challenged to attract capacity**
- 5. The good news – new win-win, dedicated models gain acceptance in the market**
- 6. There will be increasing competition for trucking capacity**
- 7. If properly managed, dedicating capacity does not increase logistics costs**



...Excellence in Bulk Commodity Distribution



Q & A

... A Schilli Corporation company



...Excellence in Bulk Commodity Distribution

Thank You!



... A Schilli Corporation company