Digitalized Carriers Driving 2X Better Shareholder Value

The digitalization of the freight industry is creating a more integrated logistics ecosystem. Shippers who have become accustomed to digitalized services are embracing the technologies, and carrier innovators are reaping the rewards. Carriers that have successfully navigated this digital transformation are seeing market values at multiples two times higher than their non-digitalized industry peers.

For example, Maersk and Hapag-Lloyd were two of the first carriers to embrace digitalization, and the results have been substantial. Their market cap to EBITDA ratio is almost twice that of non-digitalized carriers. This market reality does not bode well for non-digitalized carriers who continue down the same path with their current business models.

Despite being early adopters to digitalization, Maersk and Hapag-Lloyd do not hold a monopoly on this new wave of ocean carrier innovation. Their asset-heavy, vertically integrated digital model required substantial investment and continues to be a Closed Freight Network (CFN), as their monetization services are currently not open to other carriers.

At BlueX, we created the market-leading Open Freight Marketplace (OFM). The key benefit to OFM is that it enables carriers to monetize their container shipments better than any distribution channel in the world. With the shift in customer expectations and the need to monetize containers more effectively, it is a financial imperative that ocean freight carriers look to other sources of revenue to safeguard their enterprises.

Why Freight Digitalization Matters

By all measures, the container shipping industry is enormous and growing.

- 90% of all global freight is shipped via ocean
- $7 Trillion of goods are shipped annually
- TEU volumes nearly quadrupled over the last 20 years (1995-2016)

In such a growing market, one would expect industry players to demonstrate reasonable returns. However, the average return on invested capital (ROIC) for container carriers for the last 20 years has been a mere 2.6%. In other words, carriers have not been able to return their weighted average cost of capital, which is between 8-10%.[1]

[1] Brave New World? Container Transport in 2043, McKinsey & Company, 2018, pg 27.

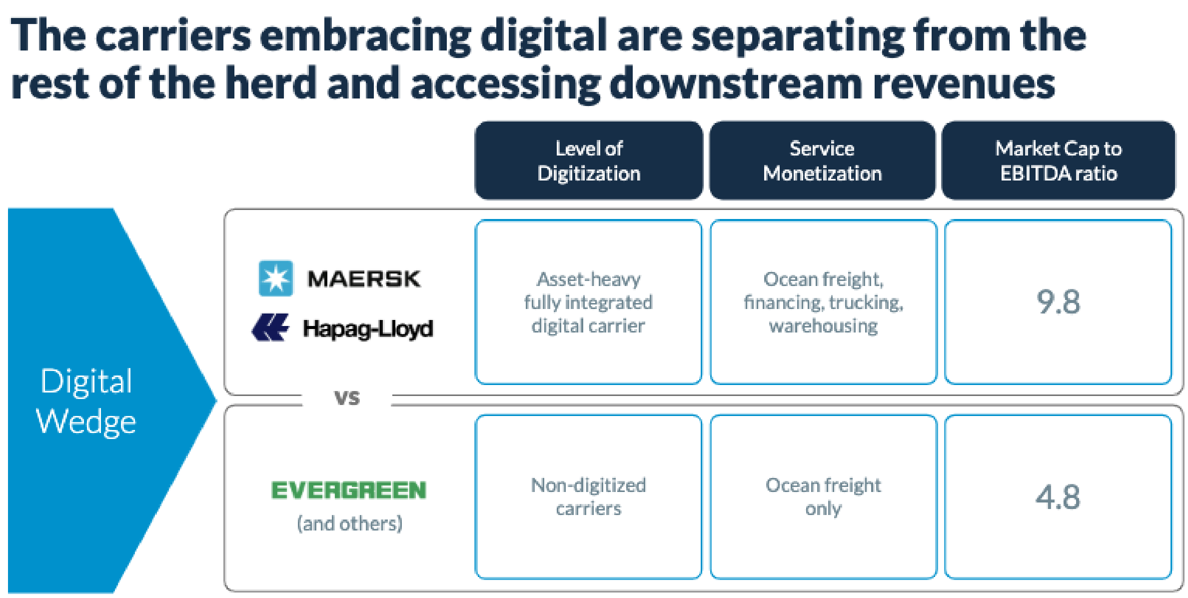
With that said, the 2.6% ROIC result is an average, and averages can be deceiving. Top performers in the industry see significantly higher returns. Carriers that listen to their customers' needs and digitize those needs are having a very different experience. Nowhere is the difference more pronounced than with contrasting the non-digitalized carriers with Maersk and Hapag-Lloyd, who are the leaders in digital transformation and revenue diversification.

Carriers Embracing Digitalization are Differentiating Themselves from the Pack

Two carriers that have been making the shift to digital over the last several years have been Maersk and Hapag-Lloyd. These carriers proved the viability and benefits of digitalization with the implementations of their Closed Freight Network, albeit with massive investment.

These digitalized carriers have not only made investments in their digital transformation but have also invested in integrated logistics. They achieved this by investing in trade-services like trucking, warehousing, and financing, which bring a more diversified set of revenue streams.

The investment community has taken notice and valued their efforts at a significant premium to other carriers (average of 9.8x vs. 5.7x Market Cap to EBITDA ratio), demonstrating a growing digital wedge between those executing on a digital strategy and those that are falling behind.



Market Capitalization to EBITDA Quantifies the Digital Wedge

It is helpful to look at Maersk and Hapag-Lloyd's market capitalization to EBITDA ratio to help quantify the impact of their differing approaches. The higher multiples are a clear indicator that the market is favoring the new digitized business models of Maersk and Hapag-Lloyd compared to their non-digitalized competitors.

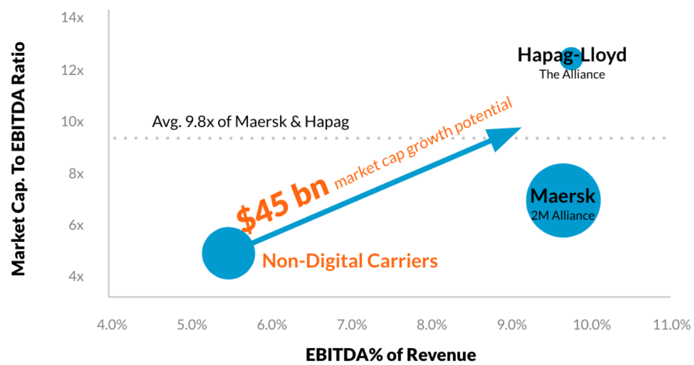
Carriers	**Market Cap. (US $mm)**	**Market Cap. / EBITDA**
Maersk	$28,221	7.4
Hapag-Lloyd	$15,315	12.1
Average Non-digitalized Carriers*	$3,669	5.7

** Includes averages of Cosco, HMM, ONE, Evergreen, Wan Hai, Yang Ming*

Non-digital Carriers Have Potential for $45B in Market Growth

Non-digitalized carriers are leaving tremendous value on the table by not further digitizing their businesses and enabling downstream trade service revenue. By analyzing the top publicly traded non-digitalized carrier's, we estimate there to be $45 billion of market cap value that is not being captured.

Our pipeline ships 25% of global volume... Non-digital carriers with $45B in market cap growth potential



Carriers	Market Cap. (USD $bn)	Market Cap/ EBITDA
Maersk	28.2	7.4x
Hapag-Lloyd	15.3	12.1x
Non-digital Carriers*	21.0	5.7x

**Source: 2018 public financials; Market caps as of November 2019*

** Includes average of Cosco, HMM, ONE, Evergreen, Wan Hai, Yang Ming; other carriers in pipeline are not public*

13 Privileged & Confidential

More importantly, Maersk and Hapag-Lloyd's efforts are boosting their competitiveness by creating a gravitational pull of partners into their closed ecosystems. If trends continue, non-digitalized carriers will not only see eroding margins but will also see themselves limited in their potential ecosystem relationships where Closed Freight Networks dominate.

Market Pressures Forcing Digitalization

Ocean Freight Rate Uncertainty in 2019 and Beyond

There has always been a level of uncertainty for ocean carriers, as market volatility is a reality of the industry. However, peak seasons have not given carriers the boost to their rates as expected in the last several years, with carrier financial returns consequently suffering.

With the China-US trade war continuing to reduce global trade, and fears of yet another global recession, it's no wonder Hapag-Lloyd and Maersk decided to move to diversify their revenue stream. Steady container volumes cannot be depended upon in carrier business models where demand is so heavily dependent on freight prices. Like many carriers, Maersk and Hapag-Lloyd recognized that the volatility of container volumes was not a stable model for future revenue growth.

Indeed, container volumes shipped are affected by a myriad of factors, but many carriers have reacted by continuing to grow their fleets and inventory alone (i.e., 20,000 TEU container ships). Maersk has seen a boost to its profits by pushing forward with a different **monetization strategy**.

“Today up to 80% of our earnings comes from container shipping,” Maersk Chief Executive Soren Skou said in an interview. “Hopefully a couple of years from now will be much closer to a 50-50 scenario between ocean and non-ocean services.”[2]

Revenue Diversification is Needed as Fleet Scale is No Longer Enough

By banding together, the three largest ocean shipping carrier alliances account for 80% of world container trade. This allows carriers to offer more sailing options with fewer vessels and lower operational costs. Ocean carrier alliances were a natural step towards better efficiency in the industry, and the largest include The Ocean Alliance, The Alliance, and The 2M Alliance.

However, despite the operational advantages of alliances, they only facilitate efficiency for the supply-side and are missing the most critical component for ocean carrier revenue optimization.

Most carriers are failing to innovate and lack the efficiency needed to remain profitable in the ever-changing freight industry. By increasing their fleets out of fear of being left behind by their competitors, carriers are not genuinely innovating. Maersk, the industry’s 800lb gorilla, has already announced that it will restrain from purchasing new vessels, particularly the 20,000+ TEU ships, and expand their integrated logistics instead. In other words, they are working towards long-term profitability through container monetization, instead of focusing on only increasing shipping volume.

Return on Invested Capital Improvements Will Only Come From Innovation

With a dismal 2.6% average ROIC over the last 20 years, carriers cannot continue to approach problems in the same way. Improvements will require an innovative approach that will not only improve customer experience but also enable access to new channels of revenue for carriers. Such a framework requires new technology which current systems are incapable of supporting. For example, shipping one refrigerated container of goods from East Africa to Europe can require 30 people with 200 interactions. Although this is an extreme case, it does illustrate the ineffectiveness of current technology and operating procedures.

[2]https://www.wsj.com/articles/maersk-ceo-wants-half-its-earnings-to-come-from-inland-logistics-11561580963

Maersk and Hapag-Lloyd understand the necessity of freightech and recognize the reality that many carriers are edging towards an unsustainable business model. As stated by JOC in June 2018, carriers could be sidelined to fill the role of only providing vessel capacity and deriving profits from timing the buying, selling, and chartering of ships. It is little wonder that Maersk wants to reinvent itself as an 'integrated carrier' in logistics.

Digitalization and Ocean Carriers - Creating a Monetizable Ecosystem

Digitalization is summarized as innovating business models by transitioning them into digitalized spaces and platforms. From United Airlines to Amazon, businesses are digitalizing their organizations to create streamlined and efficient customer experiences. Airline carriers revolutionized their entire business models for increased profitability and efficiency in the early 1990s. There are many lessons that the airline industry experienced that can be used as a model for the container shipping industry. Maersk and Hapag-Lloyd appear to be embracing these lessons as they race towards an integrated logistics Closed Freight Network.

The Asset Heavy, Closed Freight Network Approach – Maersk and Hapag Lloyd

Maersk and Hapag-Lloyd have taken an asset-heavy approach to innovation. They purchased assets like trucks, warehouses, and freight forwarder operations, as well as invested heavily in digitalization. While this path may have been the right path for these carriers, most carriers cannot take this capital intensive approach. As such, an asset-light approach can be a much better alternative.

Maersk and Hapag-Lloyd are the first to challenge the current ocean carrier business model. Maersk in particular has pushed for digital disruption after their loss of $151 million in the second quarter of 2016. They recognized that weak demand and excess supply were only going to continue to erode their profitability. With that said, Hapag-Lloyd is estimating that their current plans for full digitalization will only be completed by 2023 and require significant additional investment.

Through digitalization, Hapag-Lloyd and Maersk laid down the foundation for an integrated transport and logistics carrier service that will go beyond shipping containers. They are setting themselves up for container monetization by:

- Consolidating all bookings in one digital space
- Streamlining the booking process to be faster
- Offering cargo real-time tracking capabilities

For Maersk, digitalization is only facilitating a grander scheme. As part of their end-to-end customer solution, they will also provide inland services. This includes everything from warehousing, cargo insurance, freight financing, and many more services that are usually organized by 3PL providers. Maersk's goal is to disrupt the entire supply chain while diversifying its revenue channels via these end-to-end solutions.

Although the Maersk and Hapag-Lloyd business model has many attributes, it may not make sense for the currently non-digitalized carriers to 'imitate' their model. For many carriers, developing a closed network of end-to-end customer solutions requires a massive investment of capital, time, and expertise that might not be available.

With Maersk and Hapag-Lloyd pushing the freight industry, change is now set in motion. Within the next five to ten years, all ocean carriers will need to compete against digital entrants, and they will not be able to only rely on their existing industry relationships to retain and gain customers.

The Open Freight Marketplace: The Asset-Light Carrier Platform

To help carriers execute against their digitally integrated logistics strategy, BlueX created the CarrierX Open Freight Marketplace. The platform includes:

1. A white-label platform for booking and integrated logistics.

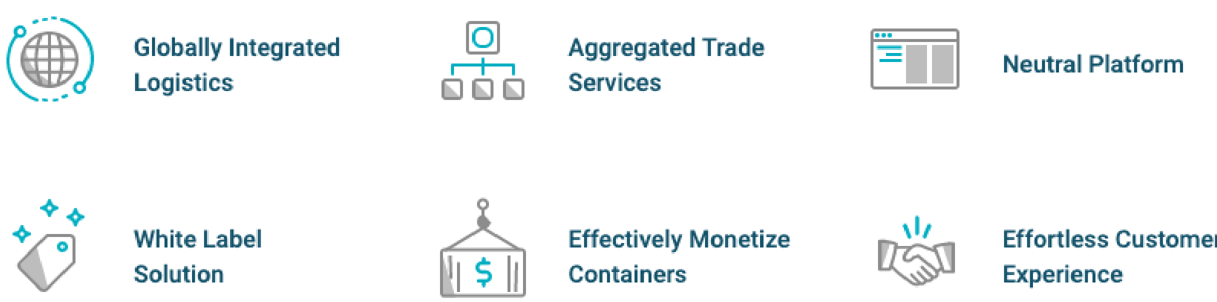
2. An ecosystem for supply chain partners
3. A marketplace of trade services

fits:

- Integrating in-land Services
- Providing a Digital booking platform

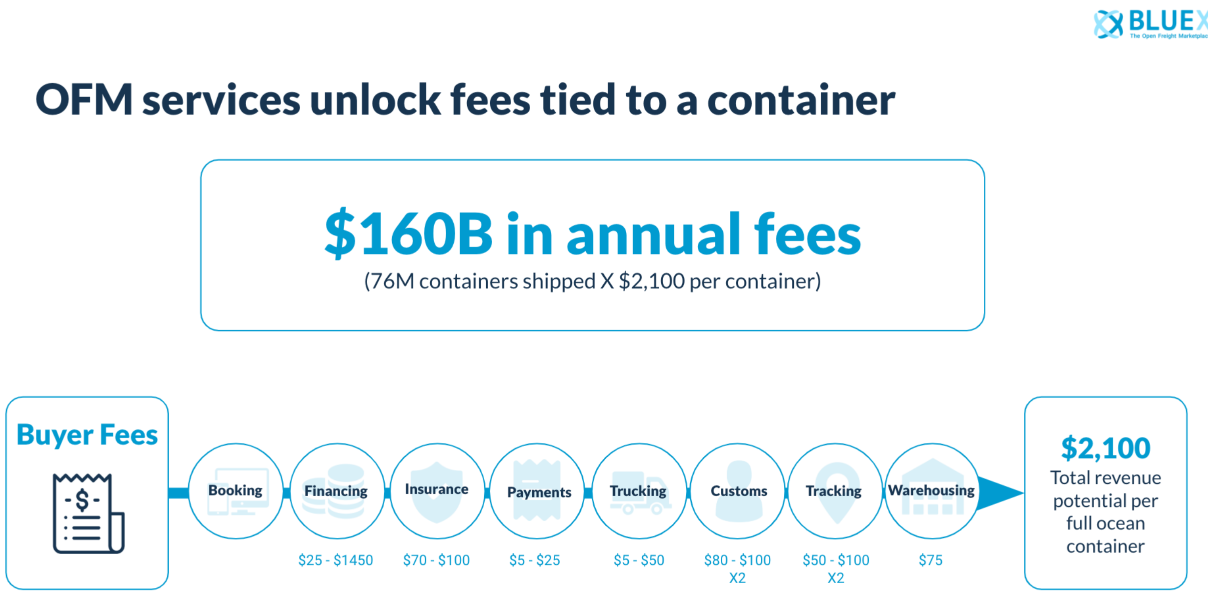
- Effectively Monetizing Containers
- Providing a Neutral Platform

- Globally Integrated Logistics
- Effortless Customer Experience



We are connecting carriers, trade services, and customers in one digital space at speeds unheard of in the industry. Recent deployments were executed in a matter of months allowing carriers to begin benefitting from additional revenue sources immediately.

These additional revenue sources include all the down-stream services associated with a container shipment. Additional trade service fees may be up to $2,100 per container totalling $160 billion in fees for the industry. Sharing in these fees is what the OFM brings to carriers who embrace the platform.



Begin Your Digital Transformation on the Open Freight Marketplace

For carriers wanting to better monetize their containers and provide a more seamless customer experience, the CarrierX Open Freight Marketplace is the first step in a rapid transformation.

By joining the Open Freight Marketplace, you can be both asset-light and digitally agile, all the while increasing revenue, efficiency, and shareholder value.

To learn more, contact us at:
sales@bluextrade.com
