



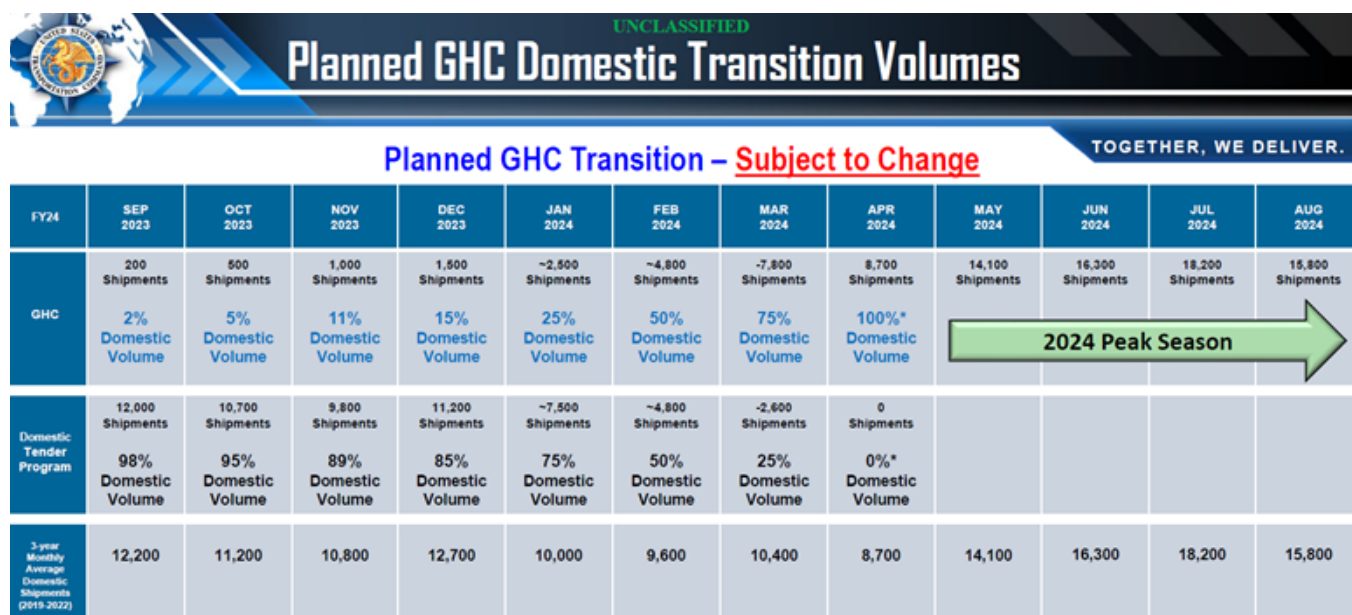
Tim Helenthal

CHAIRMAN & CEO

The Global Household Goods Contract (GHC) has been a topic of significant interest in recent years due to its dramatic impact on the long-distance moving market. Anticipating the ongoing attention this initiative will receive, we would like to update you on recent developments regarding the GHC implementation by providing some samples of the GHC pricing and an overview of the challenges with the Service Contract Act.

GHC IMPLEMENTATION TIMELINE

Following the final court challenges toward the end of 2022, the GHC was scheduled to commence a 9-month transition period. This transition period would lead to HomeSafe Alliance (HSA) moving a couple hundred shipments in September 2023. Each subsequent month would add additional volume, resulting in 100% of military domestic moves conducted under GHC by April 2024. The graphic below illustrates the anticipated timeline from earlier this year.

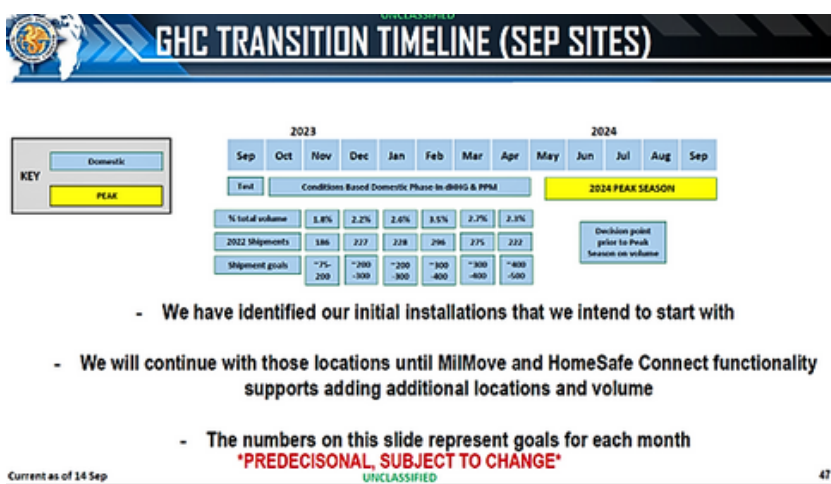


GHC Transition Timeline as of March 10, 2023

GHC Transition Timeline as of September 14, 2023

Currently, HSA has yet to initiate any shipments, but there is a sense of optimism that they will commence testing shipments in November and continue so through April 2024. In accordance with the presentation from September 14, HSA will decide on what to do for peak season.

United States Transportation Command (USTC) has made it clear that they expect to be moving shipments in the DP3 program during the 2024 peak moving season. It appears evident that HSA will not be able to substantially increase their volume during the peak moving season. As a result, we'll likely experience a somewhat regular peak military moving season.



After conducting a comprehensive review and in-depth research, we wish to inform you that we will be unable to provide any hauling for the GHC contract.

PRICING

Our analysis involved a meticulous comparison of GHC revenues against DP3 shipments and COD shipments, which revealed a significant decline in revenue, making it unprofitable for our drivers. It is worth noting that we employed HSA's rate calculator for this evaluation. (Regarding concerns about the rate calculator confidentiality, HSA told attendees at the IAM conference last week that it's not confidential, allowing us to share rates with you without reservation.)

Here are a couple of revenue comparisons on DP3 and GHC shipments. First, we compare the GHC rates to the 2019 400NG because the original pricing for GHC was constructed in 2019. This serves as a valuable reference point to understand the origins of the pricing structure. However, it's important to understand that HSA did have an opportunity to update their pricing when the contract was re-bid in 2021.

Sample Shipment #1

The shipment is 7,100 lbs. going 828 miles during peak season, from zip 063 to 201; delivering direct to residence includes unpacking. In 2019, our peak season average discount was 50%, so that is what I used to illustrate this example:

Using the 2019 400NG tariff, our hauler would have received \$4,107. Today, under the GHC, the hauler would receive \$3,350. That is about 18% less than what we received in 2019. For clarification, these are dollars paid to the hauling entity, not total revenue to the booker. This is a fair "apples to apples" comparison to what is in the HSA rate calculator.

Since 2019, the 400NG has had these annual baseline increases:

2020 – 3.7%

2021 – 1.08%

2022 – 3.4%

2023 – 8.22%

Using the 2023 400NG for the same shipment, the hauler gets \$5,398 and \$3,384 from GHC. That's a 37% reduction. (Note: this is at 50% discount moving at the end of June).

This comparison could be far less favorable if you're offered a consolidated load. According to HSA it is their intention to bundle shipments to offer 'full' trailer loads. Even though the hauler is paid the ATCs and FSC on the additional shipments, they will be paid at a lower linehaul rate based on the combined weight of the shipments. For example, the 7,100 lbs. shipment mentioned above, if combined with a 17,000 lb. shipment, would earn linehaul based on 24,100 lbs.

Here's how that consolidated load would work: The 7,100 lbs. shipment independently pays \$2827 for linehaul only. Under the same circumstance, a shipment weighing 17,000 would independently pay \$5,663. Total linehaul would therefore be \$8,490. However, when bundled at a 24,100 lb. rate, the linehaul is only \$7,520, a reduction of 14.6% on the linehaul.

Sample Shipment #2

This shipment is 18,300 lbs. going 2747 miles during non-peak season, from zip 930 to 330, delivering direct to residence with unpacking. In 2019, our non-peak season average discount was 67%.

Using the 2019 400NG tariff, our hauler would have received \$11,223. With GHC, the hauler gets \$12,026, which is an increase of 7.2%

However, as shown above the baseline tariff has increased since 2019. Using the current 2023 400NG the hauler gets \$14,952 vs. \$12,377 under HSA. That's a decrease of 17% off the rates during the slowest time of the year.

Again, there would be even less money if there was a consolidated load where the hauler is paid based on the lower rates at 24,000 lbs.

Although these are simply sample cases, they are indicative of consistent and substantial reductions in revenues, rendering this business unattractive. Furthermore, the SCA...if anyone can figure out how it can work in our industry, will certainly lead to additional expense in the form of compliance costs, further diminishing the attractiveness of this business.

SERVICE CONTRACT ACT

The GHC is a FAR-based contract that requires the use of the Service Contract Act (SCA). The SCA mandates additional record-keeping requirements, but most importantly, it requires that anyone working on the contract be paid prevailing hourly wages and benefits. The underlying objective of this legislation is to prevent companies from intentionally underbidding government contracts by underpaying labor. We are committed to ensuring that service providers get paid a fair amount. However, the way our industry works makes it impossible to implement.

The SCA has never applied to the DOD moving business before. Because we operated with a published tariff, we were exempt from the SCA.

I'll offer this as a disclaimer regarding our perspective on the implementation of the SCA. We have not allocated resources to hire the necessary attorneys and SCA experts to help develop a specific good-faith plan. The intricacies of this undertaking are exceedingly complex and have never been done on interstate HHG shipments at any volume before. The development of a comprehensive and detailed strategy will require significant consulting expenses, staff time, and programming effort. Given our existing reservations about the revenue generated from GHC shipments, those are extra costs we're not willing to bear at this moment. Consequently, the positions outlined here are our best understanding of how SCA would work based on our research and our attendance at several SCA webinars presented by transportation attorneys and professional SCA compliance experts.

It's crucial to remember that even if we can figure out all the 'devils in the details' of SCA, we will still need additional time to program our systems to ensure accurate driver compensation. This doesn't happen overnight. A considerable amount of effort has been put into getting HSAs and the DODs computer systems up and running for the new program requirements. Meanwhile, the service providers are entirely in the dark about what our new requirements are. This challenge is compounded by the fact that HSA has said they won't have a two-way interface with our IT system. Therefore, we expect to manually update shipment information in the HSA Connect system while simultaneously manually updating our systems. Each shipment will require data entry into two systems. Furthermore, our agents have their systems for compensating providers – once we establish how to pay drivers, our agents will also have to update their systems. Again, more money and time from the service providers.

When we operate with a tariff, professional van operators are incentivized to provide efficient service since they receive a percentage of the charges to the customer. The more efficiently a driver can load and unload a trailer, the more trips the driver can take, thereby increasing their potential earnings. With its requirement to pay by the hour, we think the SCA removes the economic incentive that typically rewards hard-working and efficient drivers, thus potentially hindering their ability to excel.

Under the SCA, drivers are required to pay their labor the prevailing wages and hourly benefits costs. The driver will be forced to conduct meticulous record-keeping regarding who they paid and how much. Additionally, if helpers receive hourly pay, there might be a lack of incentive for them to work efficiently. Historically, helpers were paid based on the weight of the shipment and recently, we've seen labor become a daily charge.

Carriers will also be required to pay drivers a prevailing wage for each hour they are 'on-duty' and have a military shipment on board. To illustrate the issue with this requirement, consider the following example: A driver picks up a GHC shipment in Chicago today with a destination of St. Louis. Tomorrow, the driver picks up a COD shipment in Milwaukee which is also bound for St. Louis. In this scenario, the carrier is obligated to pay the driver for time spent driving to Milwaukee because the military shipment was on board, and then also pay the driver for each hour coming from Milwaukee on route to the St. Louis destination. However, the carrier is only compensated for the miles/weight charge from Chicago to St. Louis, creating a disconnect between compensation and expenses.

When you add in additional shipments and stops along the way, it becomes evident that this situation becomes complicated and financially burdensome for the company paying the driver. It would also cover any time a driver went out of route for personal reasons, such as seeing a friend and then later being back 'on-duty' from that location. For example, suppose the aforementioned driver decides to go see a friend in Indianapolis while en route to St. Louis. The driver wouldn't be considered on duty to Indianapolis, so we wouldn't have to pay wages for that, but we'd be required to pay any additional hours when the driver is back on duty and heading towards St. Louis. That's an administrative nightmare and can be unfair to the driver or the carrier, depending on the situation.

It's also worth noting that the DOD forced a FAR-based contract on the industry, yet HSA's compensation model closely resembles how we get paid on a tariff – based on weights and miles. In fact, there's even a 135A charge, which is a tariff item, in the rate calculator. It raises questions about how they can be the prime contractor with an SCA requirement but put the entire burden of compliance from a risk and economic standpoint on us. For HSA to be compliant, I'd think they'll have to pay us based on pricing we give them on a per-job-basis, which includes the actual labor costs and other business expenses.

We'll continue to be actively engaged with what is happening with the GHC and provide updates as we receive them. Please email me at Tim.Helenthal@nationalvanlines.com with any questions.

A handwritten signature in black ink, appearing to read "Tim Helenthal". The signature is fluid and cursive, with a long horizontal stroke at the beginning.