August 3, 2023

Catering to the winners – SONAR subscribers beat the market

In this report, we revisit an October 2021 report that highlighted how the shares of publicly traded SONAR subscribers outperformed their peer groups.

We did not suggest in that report that subscribing to SONAR was driving that outperformance, and we do not suggest anything similar here. In fact, we consider the opposite to be more plausible — companies in a strong financial position, of which stock price outperformance is one indicator, more often make discretionary investments, such as in third-party data and analytical tools.

Therefore, it would not surprise us if other freight data providers can also make the claim — that their customers also outperformed the market. Companies that prioritize market intelligence might subscribe to every data source they can get their hands on.

What's changed since we wrote the October 2021 report is that the freight market weakened (we'll save colorful words like "bloodbath" for other reports) and the SONAR customer base has diversified to include more shippers, primarily in the CPG, retail and consumer-discretionary verticals.

Outperformance wasn't universal for SONAR customers — this time around, freight (carriers/brokers/logistics) and retail companies outperformed their benchmarks (the Dow Transport Index and the S&P Retail Index, respectively) while our CPG customers underperformed the Consumer Staples Index. Overall, the total list of SONAR customers, which also includes a handful of companies in the automotive, consumer-discretionary and financial verticals, outperformed the S&P 500.

Near-term volatility aside, we believe companies with long-term share price outperformance do so because they generate superior returns on invested capital. We take solace in seeing companies with track records of effectively deploying capital also considering SONAR a worthwhile investment.

Here are a few highlights:

- Since April 2018, the average stock price of SONAR customers increased 87%, while the S&P 500 increased 69%.
- Shares of freight and logistics companies (carriers and 3PLs) that are SONAR subscribers posted a 168% return since April 2018 versus a 57% return for the Dow Transport Index.
- Since April 2018, the index of SONAR retail customers posted a total return of 71% versus the S&P Retail Select Industry Index of 50%.
- SONAR subscribers in the CPG industry underperformed their peer group, returning 58% since April 2018 versus the iShares U.S. Consumer Staples ETF (IYK) of 100%.

SONAR subscribers find use cases as diverse as the industries they participate in — we offer a few examples in the following pages.

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SONAR customers find a wide range of use cases to fit specific needs.

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.

In the early days of SONAR, which launched in April 2018, subscribers primarily consisted of freight industry participants. The SONAR customer base was especially weighted toward freight brokerages and asset-based carriers that also have a brokerage division — the brokerage division was most often the segment that subscribed to SONAR.

In the years since, the SONAR subscriber base has greatly diversified and now includes not only some of the largest transportation and logistics companies but also financial analysts and consultants, government agencies and major shippers in CPG, retail, consumer-discretionary and automotive industries.

They have found value in the software with use cases that include:

- **Freight brokers and 3PLs** use SONAR to understand local freight markets inside and out to maximize margins on each load.

- **Carriers** use SONAR to take a disciplined approach to equipment deployment, accepting only loads that will positively contribute to fleet utilization. In addition, the high-frequency data contained in SONAR gives carriers an early heads-up on when the freight markets are turning, which lends itself to disciplined investment in new and existing equipment.

- **Shippers**, including those in the **CPG**, **retail** and **automotive** industries, use SONAR to manage day-to-day freight flows, benchmark freight rates against peers, make modal decisions (e.g., truckload versus rail intermodal), prepare for negotiations and RFPs and hold carriers accountable for their service levels, such as their rates of tender acceptance. Shippers also use SONAR to assist in strategic decision-making, such as site selection.

- **Financial institutions** use the high-frequency data to identify changes in industry trends before they are known to the public markets and priced into securities. One example includes using ocean tender data to forecast the impact that import demand will have on domestic truckload and rail intermodal volume.

- **Government agencies** use SONAR to help understand disruptions in supply chains and make decisions on which locations funding and grants are most needed.

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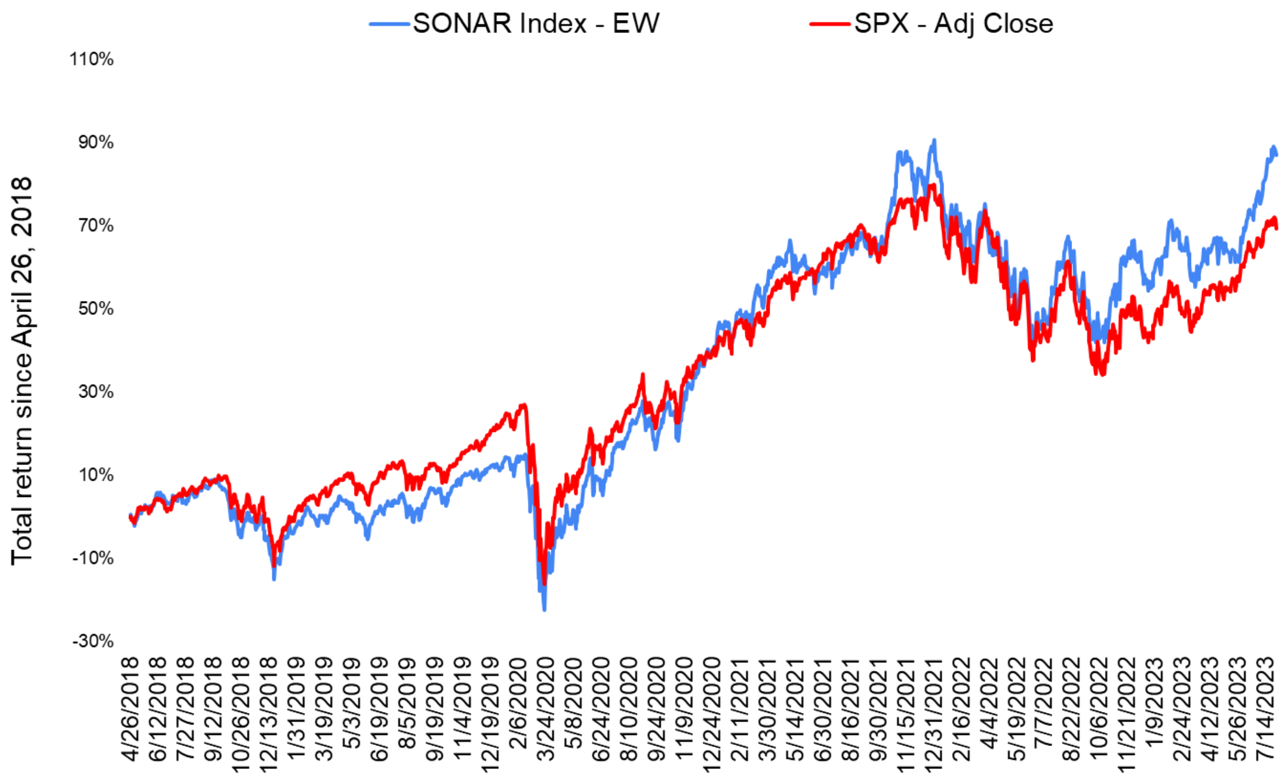
Publicly traded SONAR customers outperform the broader market.



(Source: Yahoo Finance, FreightWaves analysis)

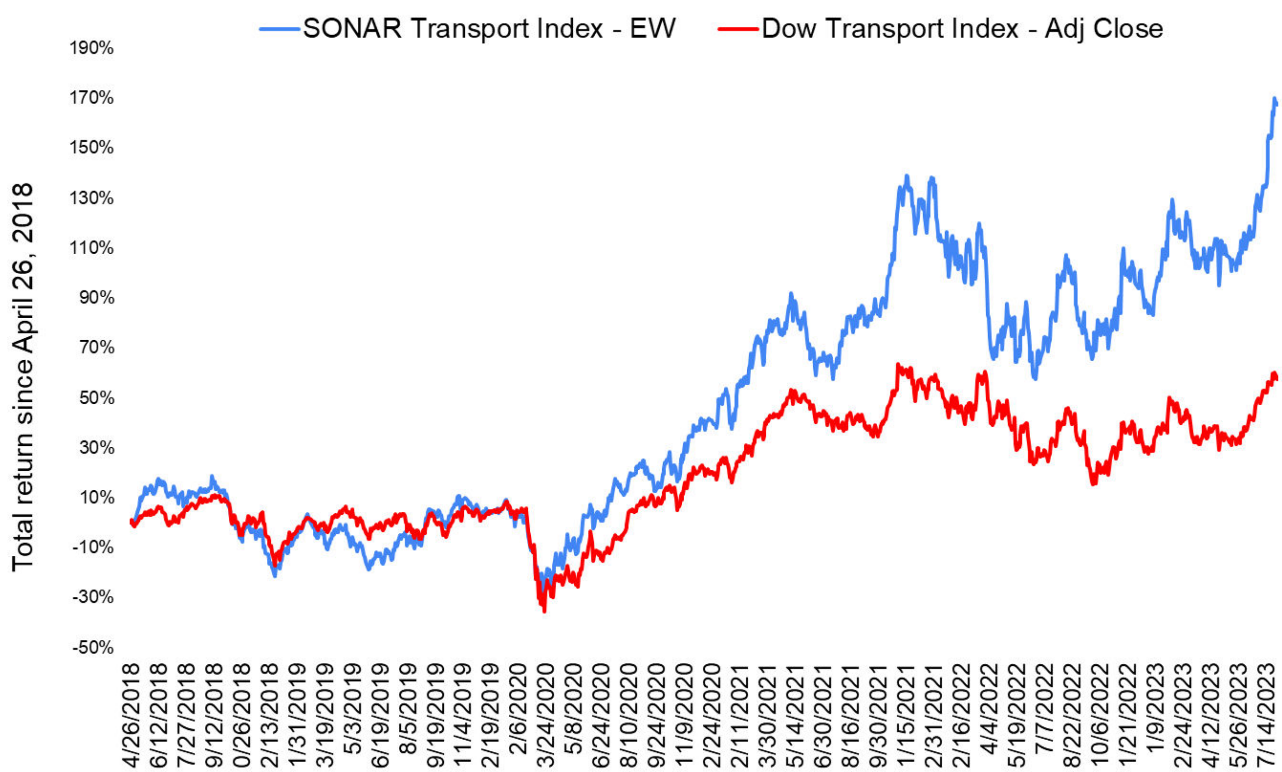
An equal-weighted index of 44 publicly traded current SONAR customers has outperformed the broader market since April 2018, the month that FreightWaves launched SONAR. That index is made up of 22% carriers/3PLs, 64% shippers, 7% packaging and 7% others.

SONAR customers underperformed the S&P in the first year after SONAR was introduced — we attribute that to the oversupply of transportation capacity in 2019, the same market conditions that led to many high-profile carrier bankruptcies that year. SONAR customers then outperformed the market during the first year and a half of the pandemic as carriers and brokers benefited from strong demand amid robust goods spending (heavily subsidized by the government) and CPG companies benefited from demand that was so strong they often had to outsource manufacturing to produce enough volume to fill shelves and satisfy newfound demand levels.

We believe that volatility in freight markets makes high-frequency freight data more valuable — it broadens the demand for transportation intelligence to companies that might otherwise not consider transportation and logistics as a core part of their business. The index of SONAR customers and the S&P then came into roughly alignment in 2022 as the freight markets loosened. In the past 12 months, the index of SONAR customers began to outperform again as some analysts started to make calls that spot rates in the freight market were close to their bottom, spurring some early cycle optimism in the space.

Of course, the S&P is not weighted anywhere close to the weightings of our custom SONAR index (it's closer to 27% tech, 14% health care and 12% financials, among others) and it is market-cap weighted — we never suggested this was going to be a perfect comparison. For something at least a little closer to apples to apples, we look at sector-specific benchmarks in the following pages.

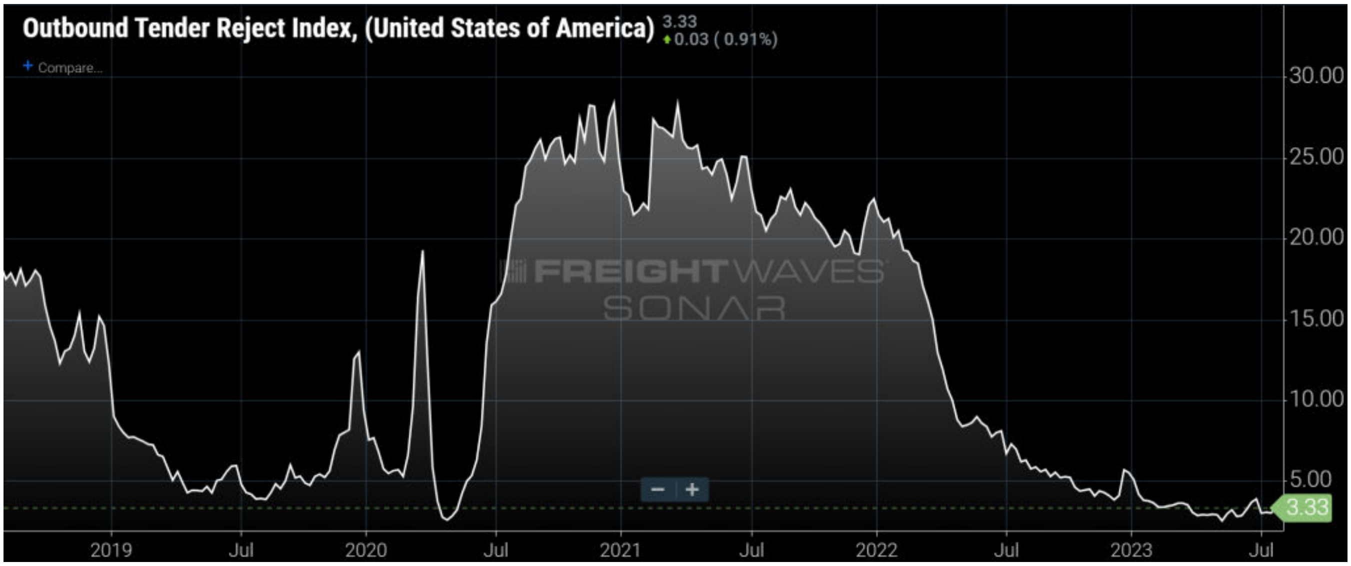
Transportation SONAR subscribers (includes carriers/brokers/3PLs/logistics companies) showed the most outperformance versus their comparable index. The strong surge in the SONAR Transport Index year to date partially reflects appreciation in LTL carriers as the market anticipated Yellow's exit.



(Source: Yahoo Finance, FreightWaves analysis)

Carriers use SONAR for market-level insights to guide pricing and network balance.

Predicting the freight markets can seem difficult or impossible. But high-frequency data that provides reliable market insights allows carriers to react quickly to changes in market conditions. Perhaps the best example of that is the spring and summer of 2020 — seemingly everyone expected pandemic uncertainty to cause a freight market collapse as part of a broader severe recession. Of course, it didn't turn out that way and spiking freight volume, tender rejections and spot rates told carriers to price appropriately and hold back some equipment for the spot market.



Since early 2020, tender rejections gave early indications of capacity tightness in Q2 2020, the market being "toppy" in early 2021 and further loosening in early 2022. The data currently shows a lack of tightening despite an unseasonal pickup in tender volume in July. (SONAR: OTRI)

Similarly, SONAR's high-frequency data gave carriers an early indication of deteriorating conditions, starting with the market looking "toppy" in early 2021 with severe loosening in early 2022. Falling metrics at that time alerted carriers that it was time to pull back on investments in equipment (or sell equipment on the used market while prices were still high) and redouble efforts to maintain relationships with high-quality contractual shippers, such as CPG companies, known for providing steady freight volume at all points in the economic cycle.

Even when macro data sets show stable market conditions, the granular nature of data contained in SONAR (at the metro area and lane-specific levels and broken down by length of haul and equipment type) enable carriers to improve network balance by more fully understanding the market conditions that await them at their destination. Carriers are also able to use tender lead times as a way to see shippers' reaction to market conditions.

While regional and long-haul carriers find value in seeing market conditions at their destinations, drayage carriers can benefit from seeing tender rejection data that is specific to the short lengths of haul they are running and can see inbound rail intermodal volume into their region to get an early look at market conditions in the following days.

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Brokers utilize SONAR to maximize margins on day-to-day loads.

Many 3PLs aspire to be true partners with their shippers, working in a collaborative manner or even overseeing the entirety of their supply chain. But the transactional nature of the brokerage model is still the practice that dominates the sector, with individual brokers compensated based on the margins they earn on each load.

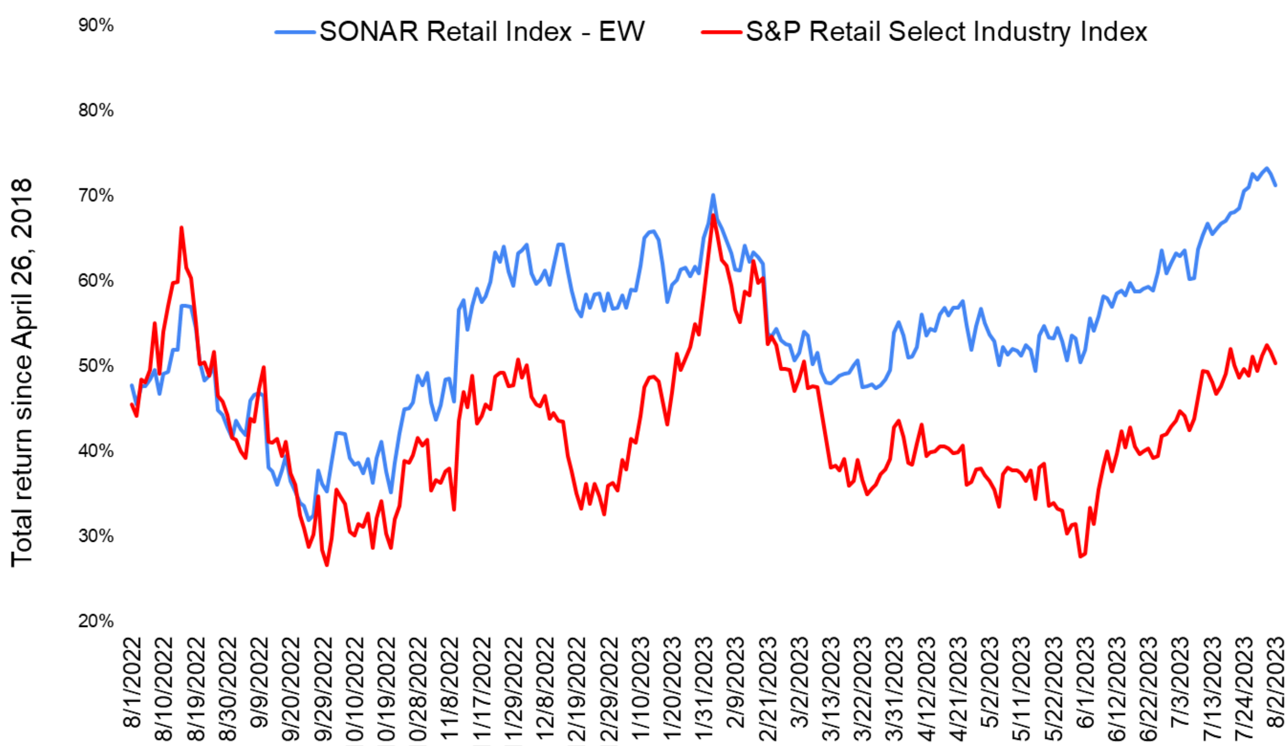
SONAR shows that other brokers are currently paying an average of $2.20 per mile in the dense LA-Dallas lane (range of $2.10-$2.27). That rate has been creeping higher since mid-June but remains below the prevailing contract rate of $2.58 per mile. (SONAR Market Dashboard)

Spot rates contained in SONAR TRAC give brokers visibility into the rates that other brokers are paying for carrier capacity on a transactional basis. That helps brokers maximize margins and prioritize their calls in the order of loads with the highest margin potential or in the order of loads that will be the most challenging to cover.

Shippers' SONAR use cases include both tactical and strategic decision-making.

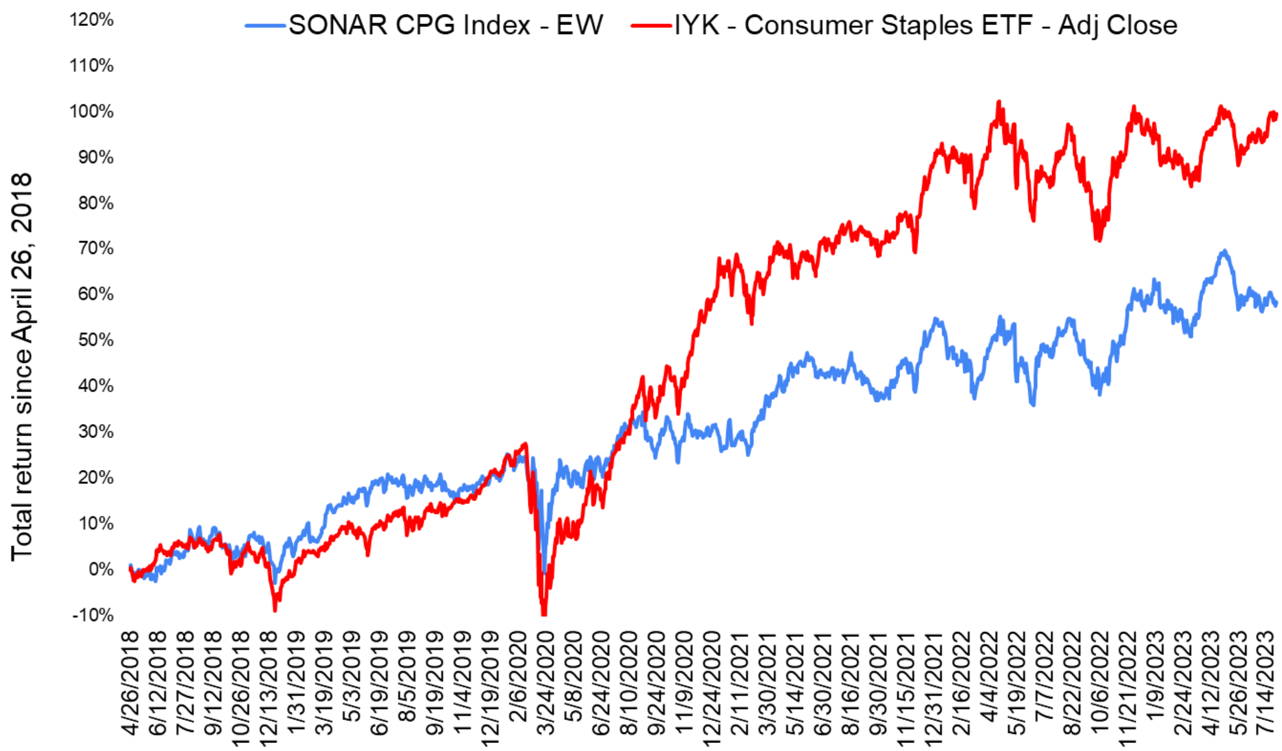
Shippers that use SONAR come from a wide range of verticals, moving everything from auto parts to electronics to highly specialized consumer-discretionary items. Two shipper verticals in which there is a concentration of SONAR customers are the retail and the CPG industries. Since SONAR's inception, our retail customers have outperformed their benchmark (the S&P Retail Index) while our CPG customers have underperformed their benchmark (S&P Consumer Staples Index). While demand in both sectors surged during the pandemic (and has seen some demand retreat since), we attribute CPG underperformance to investor concerns regarding private-label growth and promotions (i.e., that discounting will erode margins).

SONAR retail customers have outperformed the S&P Retail Index — with lots of volatility along the way.



(Source: Yahoo Finance, FreightWaves analysis)

Meanwhile, SONAR CPG customers have underperformed the market since SONAR's inception.



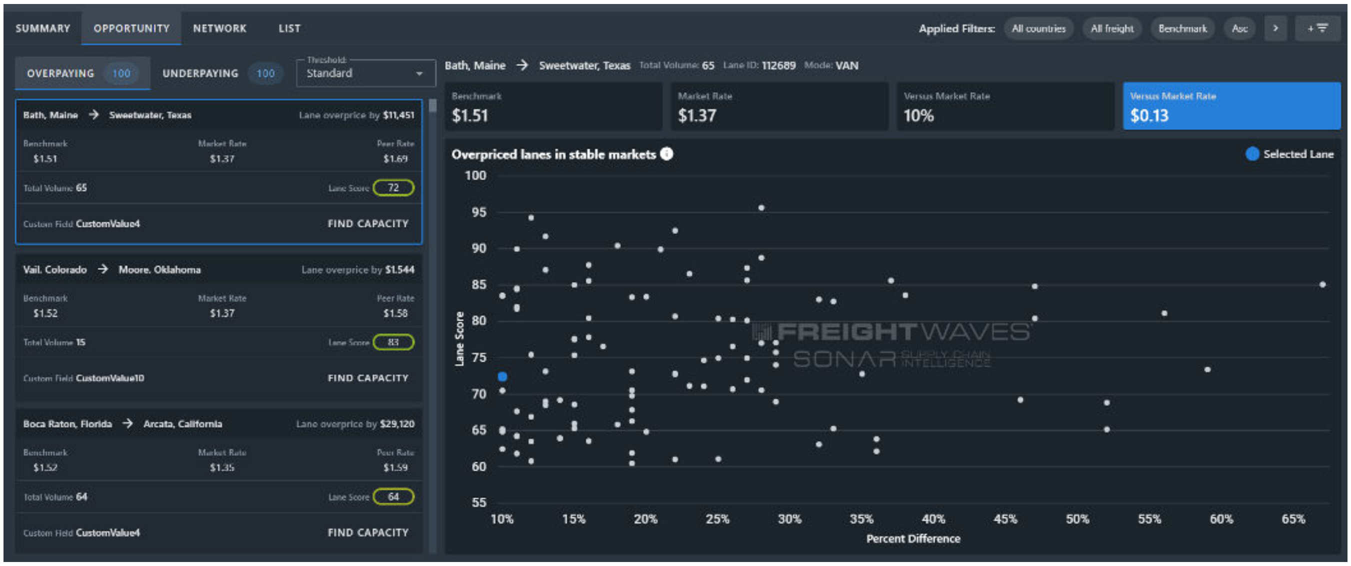
(Source: Yahoo Finance, FreightWaves analysis)

There is a great deal of overlap between how retailers and CPG companies utilize the data contained in SONAR.

For example, companies in both verticals:

- Use **tender volume data** to see daily changes in freight market demand.
- Use **tender acceptance/rejection data** to see carriers' reactions to current market conditions.
- Use **contract rate data** to assist with bids **(see illustration below)**.
- Use tender rejection/acceptance data to hold carriers accountable for delivering acceptable service levels (which can include both tender acceptance as well as on-time performance).
- Quantify the risk of routing guides breaking down by seeing the cost of moving freight on demand through SONAR **spot rate data**.
- Use **rail intermodal volume data** to see which lanes have sufficient density to "take trucks off the road" and compare rates across modes.
- Use freight patterns for strategic decision-making, such as site selection, distribution center addition/consolidation and port diversification strategies.

Shippers use contract rate data when putting freight out to bid.



The SONAR SCI application shows shippers where they are out of alignment with the market to avoid both overpayment and service-related issues. (SONAR SCI)

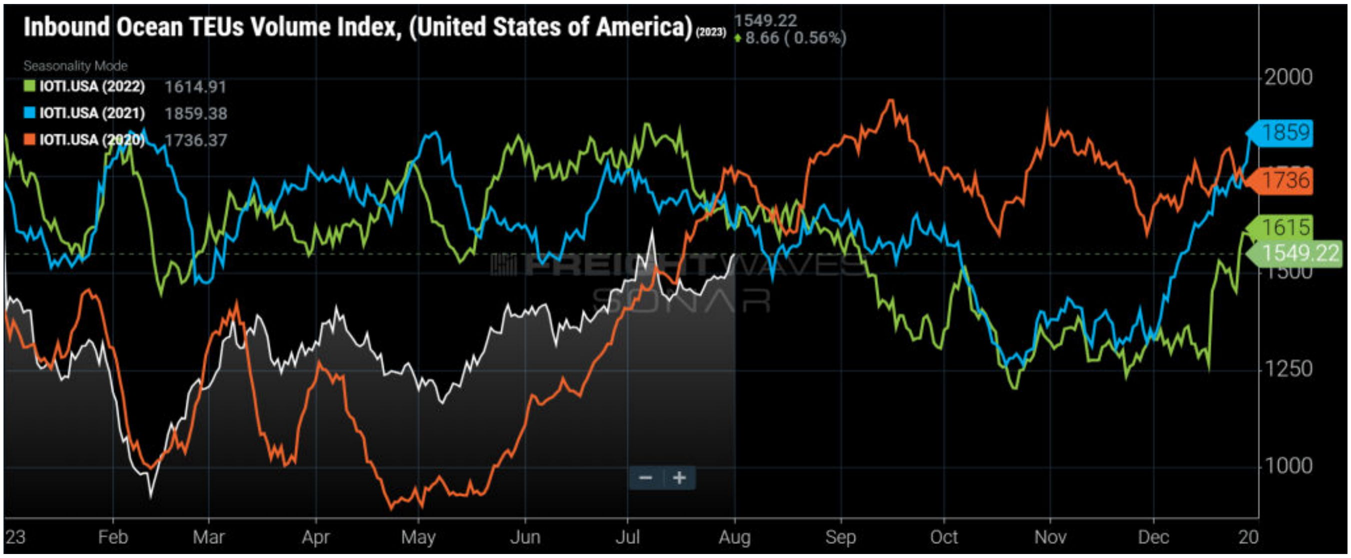
When preparing for a bid, or just managing their carrier networks, shippers need to know the prevailing contract rates in their lanes. Shippers can use the opportunity view in the SONAR Supply Chain Intelligence (SCI) tool to first focus on the low-hanging fruit, or lanes where rates are most misaligned with the market. Those include lanes where shippers are potentially overpaying and can save on their transportation spend, or lanes where they are underpaying, and therefore, service and overall acceptance may be an issue — both can be an issue for shippers.

This process allows shippers to better align rates with market conditions for the most favorable overall outcome for the shipper. As an added bonus, shippers also have access to our “Find Capacity” feature where they are also able to broaden their networks to more carriers or brokers that serve their lanes with the required equipment types.

Retailers make heavier use of ocean data.

Retailers’ supply chains are generally longer, with a heavy reliance on imports from goods manufactured overseas. In contrast, CPG items are typically manufactured domestically and often involve more points of handling to get ingredients to manufacturing locations.

Therefore, retailers make heavier use of SONAR ocean data while both retailers and CPGs make heavy use of truckload and rail intermodal data.



Ocean data contained in SONAR is a leading indicator of import volume, based on the data of ocean booking at overseas locations. Last year, it gave retailers an early indication that ocean markets were loosening. Ocean bookings remain below year-ago levels, which suggests this fall will also lack a robust peak season. (SONAR)

Sign up for a SONAR demo here.