THE FLD WHITEPAPER SERIES

FOUR INDICATIONS FLEET HAS FOUND ITS NEXT NORMAL

SUMMER 2022

FLD Remarketing

Remarketing Without Risk.

As everyone on the planet knows, the last two years have been perhaps the most challenging the modern world has ever faced. From sickness to shortages to being locked up at home for weeks and months at a time, just about everyone has suffered in some way due to the pandemic.

For people in the fleet world, the pandemic has been especially challenging given the long periods with no travel, the inability to see customers and friends, and crippling shortages that have targeted the automotive industry. In today's fleet world, "business as usual " is a thing of the past, while surviving in the face of adversity has become the order of the day.

But despite these once in a lifetime challenges there have been many silver linings. And while many challenges remain, there seems to be a strong indication that the world – including our industry – is falling back into predictable patterns, and that we have entered what many refer to as the "new normal." And while many challenges remain, in our opinion as both a leader and a pioneer in the fleet space, there seems to be a strong indication that the world – including our industry – is falling back into predictable patterns, and that we have entered what many refer to as the "new normal."

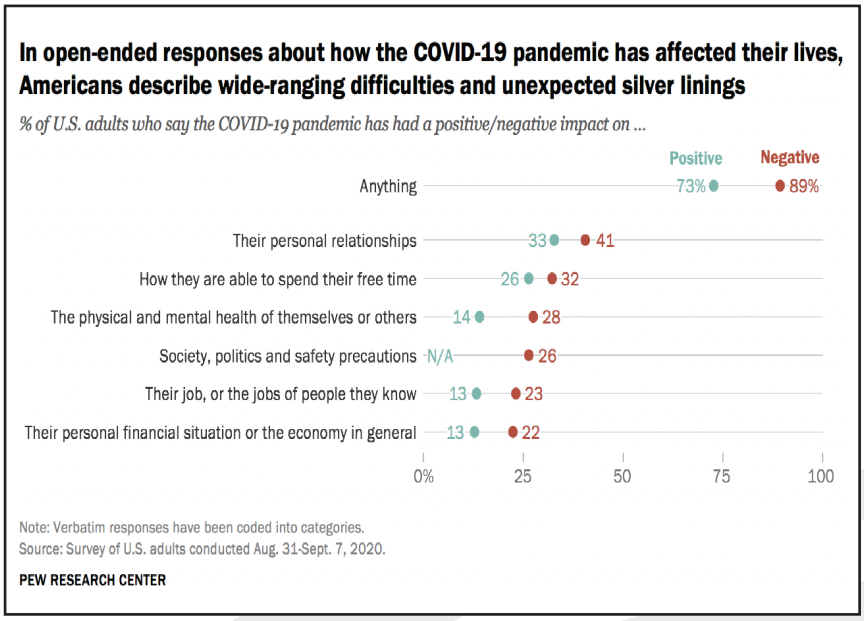
Of course, yet another round of Covid could change the way things are headed, here are four reasons we believe fleet has already entered what we believe will be a sustained period of normalcy.

PEOPLE ARE ENGAGED, ENTHUSED AND EMERGING FROM THE LIMITATIONS BROUGHT ON BY COVID

As it has for most Americans, the Covid pandemic was hard on fleet professionals. From being locked inside for months at a time to going months without seeing friends and colleagues to being forced to work from home, the pandemic forced all of us to adjust in ways we could hardly of imagined.

According to many researchers including those at the CDC, Americans suffered greatly during the pandemic. From reporting a loss of quality of life to increased incidents of depression and isolation, the two years since Covid first arrived on our shores have been tough on the vast majority of the country. As the chart from the PEW Research Center indicates, nearly 2 out of 3 Americans reported suffering negative consequences from their pandemic experience. This includes such wide ranging topics as job security, personal relationships, and even how they viewed issues around politics.

For fleet professionals, the fallout from Covid started just days after the end of the 2020 NTEA Work Truck Show, with most attendees arriving back home within days of the first lockdowns being announced. And while the 2020 event was well attended, an air of the unknown seemed to cast a pall over the week's events, as people seemed unsure of how to react to the quick-developing news.



According to the PEW Institute, nearly 2 of 3 Americans reported suffering negative consequences from the pandemic.

Within a week of the show's end, travel restrictions had been put in place. People were asked to wear masks. And what started out as a 14-day lock down to "stop the spread' stretched into weeks and months, instantly altering people's daily routines and decimating the rhythm of life including beloved events like March Madness, holidays (Easter 2020 being the first victim) and even such mundane activities as grocery shopping or getting one's haircut.

For fleet, the emergence of the pandemic also meant the cancellation of important events, starting with the NAFA I & E held in the Spring. Soon, the Global Fleet Conference was canceled, while the annual AFLA conference, one of the industry's most popular, opted for what turned out to be a poorly attended virtual event that drew roughly 20% of the usual participants. By the end of the year, fleet professionals seemed tired and worn out by the pandemic, heading into a sea of unknowns as 2021 crept in to view. By March, the 2021 NTEA Work Truck Show also opted to go virtual as well, with participants asked to sit for long hours staring at their computer screens in hopes they could re-kindle just some of the spark that was so evident at in person events for years. And while it tried to return to an in person event by delaying its show by 6 months, the 2021 NAFA I & E held in Pittsburgh proved little more than a shell of its former self with barely a few hundred people – and just a smattering of booths on the show floor.

These stark reminders left everyone sad, frustrated, and – frankly – unsure of what might come next. But just as it seemed doing everything virtually would become the new normal, something no one expected happened. The 2021 AFLA event returned with a bang as some 300 professionals descended on San Antonio. And while attendance was only roughly 70% of what it was in most years, people were engaged, enthused and – some would say – giddy at the prospect of spending time with friends and colleagues. Masks came off. Hugs abound. And handshakes were many.

Since that watershed event, the fleet world – and the events that define it – have sprung back to life. Most notably at the 2022 NTEA Work Truck Show, an event that was not only well-attended, but jam packed with active participants, over the top booths, and in person events more reminiscent of previous years. When the 2022 NAFA I & E returned a month later with perhaps its most robust event in years (including a 20% increase in the number of attendees from 2019 to 2022) it was obvious that the industry had all but come full circle.

Today, fleet professionals – as well as those from many industries – seem active, engaged and excited about the prospects for a brighter next few years. Business travel has recovered, car rentals have returned, and people from all walks of life and all means of business are once again embracing the possibilities, a sure sign that life – the fleet space included – has entered what can be described as a consistent new normal.

More than four-in-ten Americans say their lives have changed in a major way

% saying that, as a result of the coronavirus outbreak, their personal life has ...

	Changed in a major way	Changed, but only a little bit	Stayed about the same
All adults	44	44	12
Men	41	46	12
Women	47	41	11
White	45	45	10
Black	34	43	22
Hispanic	47	43	10
Ages 18-29	43	45	12
30-49	46	43	10
50-64	42	42	16
65+	45	45	9
Postgrad	61	34	5
Bachelor's degree	54	40	5
Some college	43	45	12
HS or less	35	48	16
Upper income	54	39	6
Middle income	44	45	10
Lower income	39	44	16
COVID-19 state health impact to date			
High	51	39	9
Medium	43	44	12
Low	40	47	13

Note: Share of respondents who didn't offer an answer not shown. Whites and blacks include those who report being only one race and are non-Hispanic. Hispanics are of any race. "Some college" includes those with an associate degree and those who attended college but did not obtain a degree. Family income tiers are based on adjusted 2018 earnings. COVID-19 state health impact is based on per-capita cases and/or total number of cases. See Appendix for details.
Source: Survey of U.S. adults conducted March 19-24, 2020.
"Most Americans Say Coronavirus Outbreak Has Impacted Their Lives"

PEW RESEARCH CENTER

THE EV EXPLOSION PULLS INDUSTRY FROM ITS MALAISE

As anyone who's attended a trade show, read an industry pub, or sat through a webinar over the past 6 months can tell you, EV's have taken the industry by storm. From existing OEM's like Ford and GM essentially going "all in" on EV's, to fleet service providers trying to grab their piece of the pie, the phenomenon has the entire space re-energized. This excitement only seems to be further proof that the industry is finally reaching a place where it can feel comfortable to venture out from under its pandemic induced malaise.

In fact, a recent qualitative study of FLD customers, suppliers and partners shows that every corner of the industry is throwing not just their energy – but their energy, time and money in to figuring out how to take advantage of EV opportunities. And while questions about limited vehicle range and lack of charging infrastructure persist, that hasn't stopped most fleet entities from figuring out how best to position themselves for maximum exposure as this once in a lifetime sea change takes hold.

This collective shift to all things EV's is yet another example of why fleet appears to be returning to a new normal. And while our research shows that the closer a fleet entity is to actually deploying electric vehicles or providing EV services, just about every corner of the industry is actively engaged in figuring out their place in the brave new world of electrification.

For manufacturers and those who will make the components that will push EV's into the marketplace, the proliferation of EV's is very real, and most seem focused on making those goals happen. For example, factories are re-tooling their manufacturing. Meanwhile, fleets and vehicle buyers are opening their check-books, and at this point it would be hard to imagine the OEM's reversing course away from EV's and back towards internal combustion engines. And while there seems to be plenty of concern over what will happen if Republicans take back the US House of Representatives in the mid-term election. Will green initiatives fall by the wayside? Will sustainability even be a part of the corporate mantra? And will issues around vehicle range and lack of charging infrastructure hobble efforts to grow the phenomenon. Regardless of the answers to these important questions, virtually no one believes the auto manufacturers will about face as they hurriedly move to introduce new models and work to make the electrification a part of their everyday story.

And while the excitement over EV's seems to wane the further fleet entities are from deploying or supplying them, that hasn't stopped anyone from recognizing that EV's are going to be a central theme of fleet's "new normal" for a long time.

According to several FMC executives we spoke with, the OEM's have done a solid job of convincing them that the EV phenomenon is reaching critical mass and that they can expect to start integrating EV's in to their client's existing fleets within the next year. For fleet service providers who provide everything from transport to maintenance to remarketing services, the day when EV's dominate might still seem a few years away, but they too are rapidly adopting them as part of their new normal.

As far as the fleet managers we interviewed, most said the day when EV's represent the majority of their assets seem a ways off, especially for bigger fleets. Echoing sentiments we heard from several fleet managers an industry veteran who oversees more than 20,000 work units worldwide told us that the idea that the majority of his fleet will consist of EV's simply doesn't add up

Regardless, the excitement around EV's has been contagious and just another example of how fleet may be more focused on moving forward than looking back. And while the journey to electrification definitely won't be a straight line, don't expect the excitement over this once in a lifetime phenomenon to go away any time soon.

FINDING NEW WAYS TO THRIVE IN AN AGE OF SHORTAGES

Of all the things that prove that fleet has entered a new normal, perhaps nothing is a bigger indicator than the way fleets and service providers have adapted to doing more with less. From labor and vehicles to microchip and equipment shortages, the past two years has forced the entire industry to find new and inventive ways to operate in a world where getting the things we need and want isn't always guaranteed. And fleet managers themselves are being forced to do more with less of everything, including staff.

And while these shortages initially crippled many segments of society and industry, one of the most surprising – and pleasing – aspects of the pandemic was seeing people from all walks of life work together to learn new ways to not only survive but thrive. This has been especially true in the fleet space where early assessments pointed to a nearly 80% reduction in available new vehicles each of the last two years. Given that the industry has traditionally needed several million new vehicles each year, experts had wondered (often aloud) how the industry could muddle through in the face of such daunting figures.

But a funny thing happened on the path back to normalcy. Instead of caving in the face of adversity, fleet people simply battened down the hatches and learned how to do more with less, no easy feat given that shortages have hardly been limited to vehicles.

According to figures released by the White House in April, Americans saved more money during the last two years than in any similar period since records we're kept. Coupled with behaviors learned during the pandemic, this has driven new home prices to their highest levels in 14 years, and new vehicle prices to the highest levels in 15 years.

In fact, the fleet space has learned to do a whole lot more than it probably ever thought possible. That included a diverse array of needs from people to vehicle parts to rubber to manufacture tires. And while microchips were the one item that caused the biggest ripple effect, fleet folks should give themselves a collective "pat" on the back for finding a slew of new and inventive ways to get more value – and in many cases miles - from the things they did have. This includes the vehicles themselves, as evidenced by the fact most fleets are keeping vehicles longer than the traditional 3 to 5 years that have been an industry standard for decades. As vehicle remarketers, this is something we have experienced first-hand. And while this situation has caused the prices everyone pays for used vehicles to rise, both fleets and service providers have found ways around the deficit.

Perhaps the biggest example of this is the way fleets made do with the vehicles they did have, hardly the easiest task for an industry accustomed to ordering new vehicles at will for more than half a century. So while most entities within the industry have definitely suffered, perhaps the silver lining in the last two years of disruption is that fleets have learned to wring every last bit of value out of the used vehicles perhaps the biggest silver lining. So while it may be several years until a return to the "good old days" of plenty, the fleets and service providers that have successfully navigated the age of Covid will undoubtedly find easier sledding in the months and years ahead.

TRADITIONAL ECONOMIC INDICATORS FALLING INTO PREDICTABLE PATTERNS

Every quarter for the past 5 years, the team here at FLD produces what we call the "White Metal Market Report," and in depth look at the topics and trends affecting the wholesale medium duty truck market. It's a labor of love we send to clients and industry influencers to help them better grasp not just what's happening in the marketplace today, but where we see things headed over the coming months and years ahead.

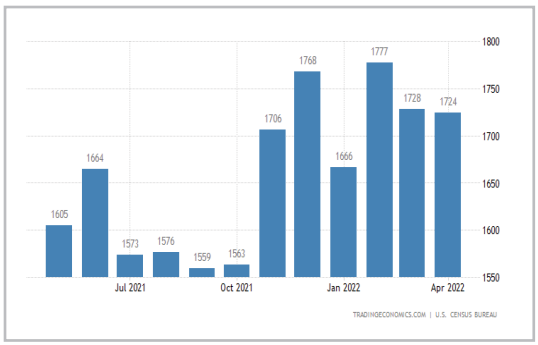
The well-distributed piece is developed using input from a slew of economic data, traditional indicators and anecdotal information, and is written by our resident expert Bill Bishop, SVP of Sales and Marketing, and a 30-year plus veteran of the fleet and wholesale truck space. Not surprisingly, one of the most important set of numbers he follows every quarter are four charts that forecast not only the current health of medium duty wholesale, but usually offer a solid temperature check on how the fleet industry is fairing.

Heading in to the first quarter of 2020, these charts were showing some mildly positive numbers, leading us to tell the industry that its prospects for a bright 2020 – after a steady 2019 -were all but guaranteed. Little did any of us know what was lurking around the corner, but within days of the first pandemic lockdowns, the economic indicators we had come to rely on for so many years essentially became worthless, practically overnight.

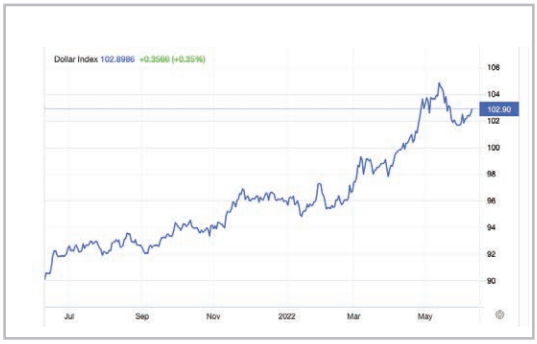
As the charts demonstrate, these indicators went positively haywire at the beginning of Q2 2020. This included housing starts coming to a virtual stop. The price of oil plummeting to historic lows, and the unemployment rate skyrocketing to numbers no one had seen since the Great Depression. All of the sudden, predicting what appeared to be normal by using these indicators was like looking through dark glasses, a little foggy, as were the other indicators we traditionally kept an eye on including x, y and z. But somewhere in the process of watching these numbers stagnate at unfathomable lows, we noticed a strange phenomenon. They stopped ticking downward. And while we didn't notice if initially, fleet entities somehow learned to deal with the pain and find new and inventive ways to survive.

Over the past year, this moderating trend has continued, and looking back over the past few quarters, we have noticed these charts have actually stabilized and fallen into somewhat predictable patterns. And while it's likely that negative pressure or a return to Covid era concerns could send them in to a tailspin, we believe these charts are another indication that fleet – and most likely the country in general – has fallen into its next normal, a positive sign given the incredible pain we saw in these charts. Today, unemployment has steadily dropped to near what they were before the pandemic started. And while gas prices have all but doubled in the last two years, ravenous demand for goods and services has ensured that fleet – and most likely many other industries - have absorbed the pain and accepted today's economic indicators as part of the world's new normal.

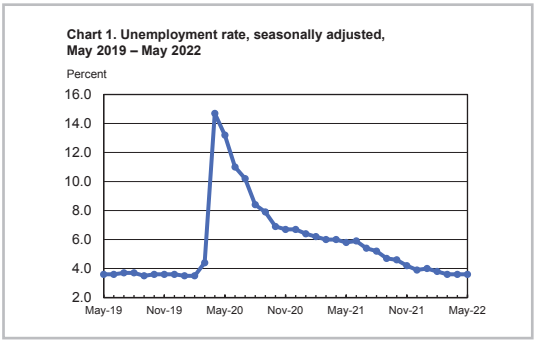
U.S. HOUSING STARTS



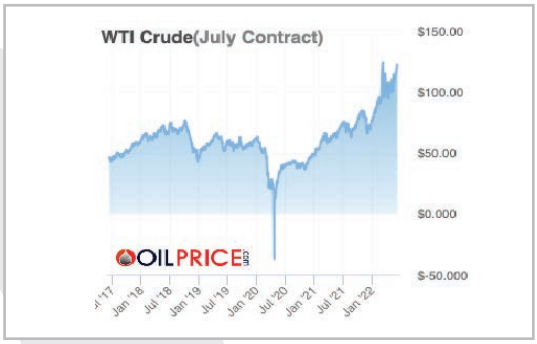
DOLLAR INDEX



THE UNEMPLOYMENT INDEX



CRUDE OIL PRICE HISTORY



As these charts show, traditional economic indicators went haywire during the pandemic years, but have slowly started to moderate and - in some cases - drop in to more predictable patterns over the last half of 2021 and on in to 2022.

CONCLUSION

As a small knit company that's definitely found its new normal in what can only be described as a sea of chaos, the team here at FLD is encouraged by what we're seeing across the industry today. Business picking up for many. Unbridled enthusiasm over a topic like EV's. And just a small hint that negatives around supply chain, labor shortages and traditional economic indicators are reversing course. It's a testament to the never say die spirit we've loved about the fleet industry for years. So while it may be a little too soon to say the industry is out of the woods, we're confident that things are heading in the right direction. And that fleet people are gradually settling in to their "new normal." In our opinion, that's a good thing, and something we'll for sure keep our eye on. For now, let's just say that we're busily going about the day- to -day things we need to be focused on in an effort to return to stable footing.

For more information, or to schedule a conversation on how your fleet can thrive and not just survive during challenging times like the chip shortage, give us a call at 1-800-754-1522, or log on to fldinc.com or vehicleremarketing.com today.

FLD Remarketing
Remarketing Without Risk.