

## Survey Summary

**July European Forwarding Index Stable - Airfreight Still Strong, Seafreight Still Drags**

*In July, the Stifel Logistics Confidence Index (LCI) declined slightly, falling 0.7% sequentially from June and settling in at 56.4, where it has more-or-less traded since November 2013. By averaging out current market volumes with the near-term outlook and airfreight results with seafreight results, the continuity in index readings that we have seen over the past year-and-a-half tells us that Europe-based trade flows remain stable (but with greater exports and weaker imports due to the weak euro), despite economic headlines about Greece, the viability of the EU, and market volatility in China. Looking at the data more granularly, we see trends developing over specific modes, lanes, and time frames (which we cover infra in more detail), but the overall picture, in our view, is one of slow global growth that when framed against persistent yield pressure and fair valuation compels Hold ratings on the common shares of the Europe-based freight forwarders in our coverage.*

- In July, the overall LCI decreased sequentially by 0.4 index points to a reading of 56.4—less than 5% off of its September 2014 peak, and just shy of 20% above its October 2012 trough. The conclusion, in our view, is that Europe-centric global trade remains stable.
- Within the aggregated results, this month saw a convergence in the present market volumes and the six-month outlook (shown in **Exhibit 1**), as the former rose 1.9 points sequentially to 53.1, and the latter backpedaled 2.7 points to 59.8—both values above the 50.0 threshold indicating growth. We believe this trade-off is a good one, all else equal, because the outlook for the back half of the year has been and remains comfortably optimistic despite this month's slight deceleration.
- By mode, our prediction earlier in the year for a strong airfreight backdrop in 2015 against a tepid sea freight environment seems to be holding true, with the theme visible in the absolute airfreight logistics confidence reading eclipsing the absolute seafreight logistics confidence reading in March 2015 (shown in **Exhibit 2**).
- Looking more closely at airfreight, July's 55.4 indicator for current volumes marks the 13th consecutive month of expansion, off just 0.2 points from last month's record high. By lane, current U.S.-based trade expanded sequentially, while current Asia-Europe head-haul and Europe-Asia back-haul declined sequentially. Notably, current volumes on all lanes registered above 50.0, indicating expansion, including the traditionally soft U.S. to Europe route, which crossed into black after three months of contraction. Regarding the six-month outlook, all lanes tapered sequentially, but remain quite healthy on an absolute basis.
- On the ocean side, current demand levels increased from June by 3.9 index points on average across all measured lanes, taking the index back into growth territory after two months of deviation into the red. All lanes contributed to the sequential improvement, although the European import lanes improved the most (after having fallen the most last month). As with airfreight, the six-month outlook decelerated on all lanes, but the absolute results continue to suggest growth nonetheless.
- Question of the month - "On European lanes, what percentage of revenue do you derive from forwarding activities, customs clearance activities, and consulting/trade management activities?" Nearly 30% of respondents indicated that they derive over half of their revenue from forwarding, while 57% of respondents derive less than 5% of consolidated revenues from either customs clearance or consulting/trade management. These results suggest to us that there is significant room for growth in the latter two service areas, especially as forwarding customers continue to globalize, and as supply chains expand beyond national boundaries.

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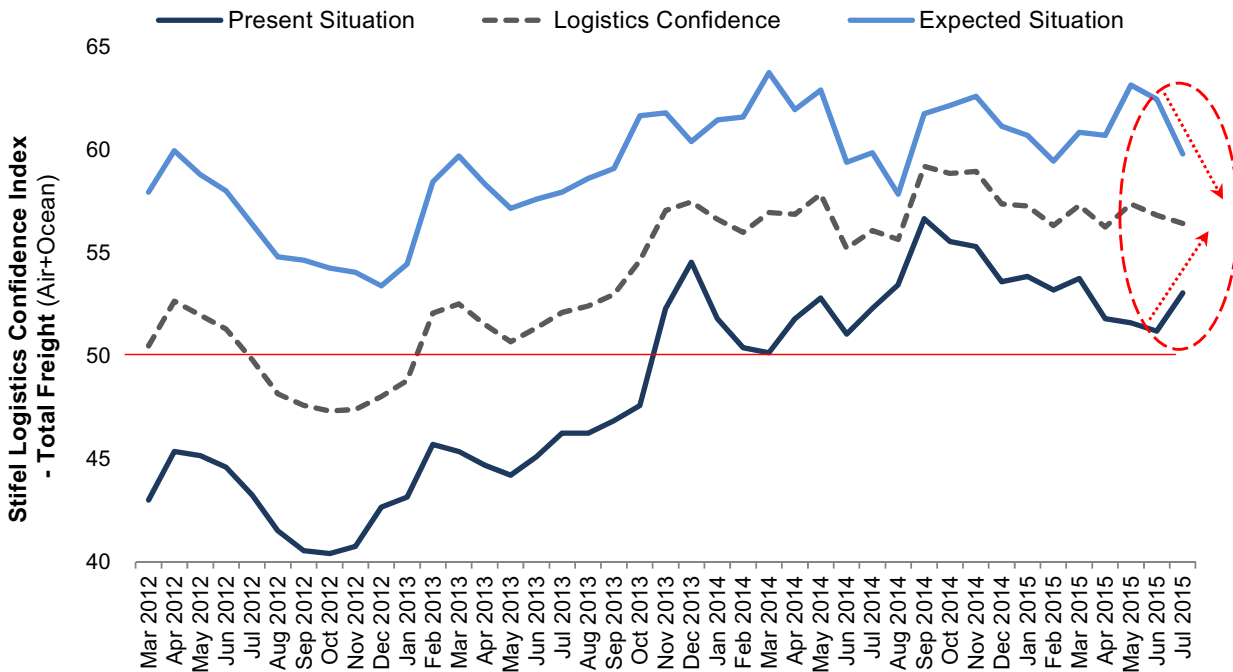
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- Investment conclusions:** Within our coverage list, Panalpina (PWTN-SIX, CHF 118.60, Hold) is the Europe-based forwarder most likely to benefit from a strong airfreight environment, which could drive top line surprise, in our view. However, valuation and slow progress with internal restructuring continue to inform our Hold Rating. Likewise, we remain Hold-rated on Kuehne + Nagel (KNIN-SIX, CHF 132.00) and DHL (DPW.XE, EUR 28.49) given slow European growth, currency headwinds, and fair valuation. We still believe that Kuehne + Nagel is the most stable and highest-quality forwarding operation of the three, that Panalpina has the most long-term opportunity for margin expansion/capital appreciation, and that DP DHL is best poised to benefit from material improvements in European economic growth, although its forwarding business remains only a part of the company's earnings story.

Prices as of 7/21/15 close.

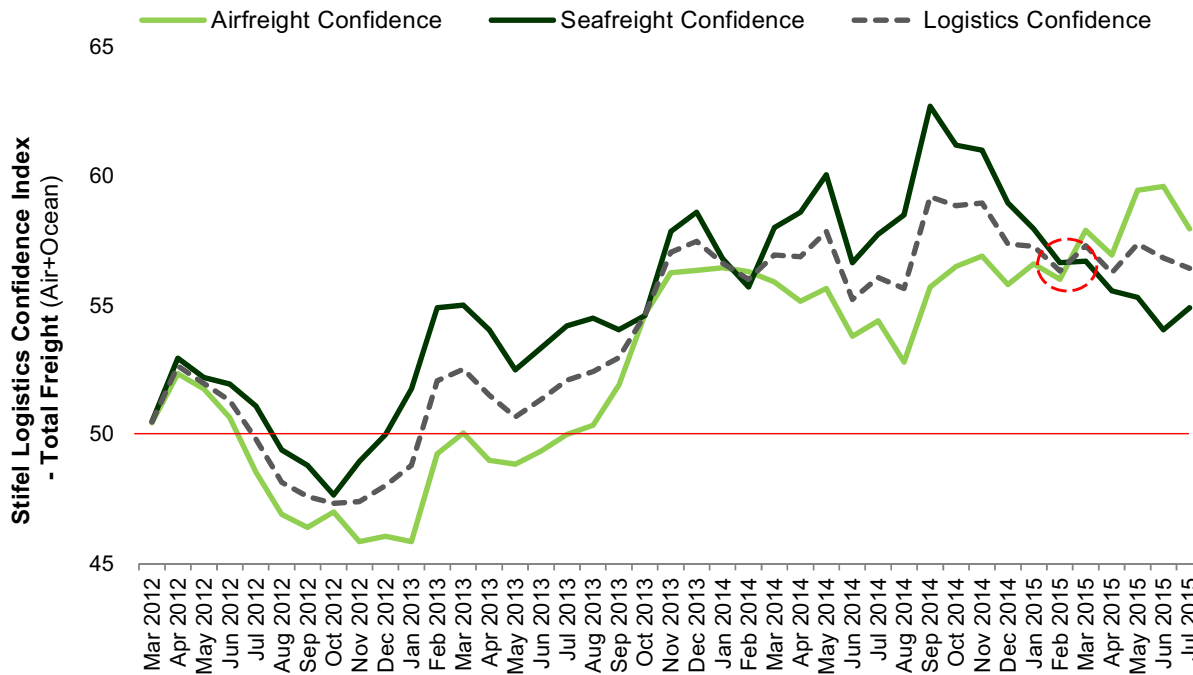
To participate in next month's survey and receive an advanced copy of the results, please use the following link: <https://www.surveymonkey.com/r/StifelAug15>

Exhibit 1: Survey results indicated a convergence in current and 6-month expected results, leading to a stable overall LCI reading



Source: Stifel Logistics Confidence Index

**Exhibit 2: On an absolute basis, airfreight logistics confidence exceeded seafreight in March 2015; we believe relative airfreight volumes should remain strong for the remainder of 2015**



Source: Stifel Logistics Confidence Index

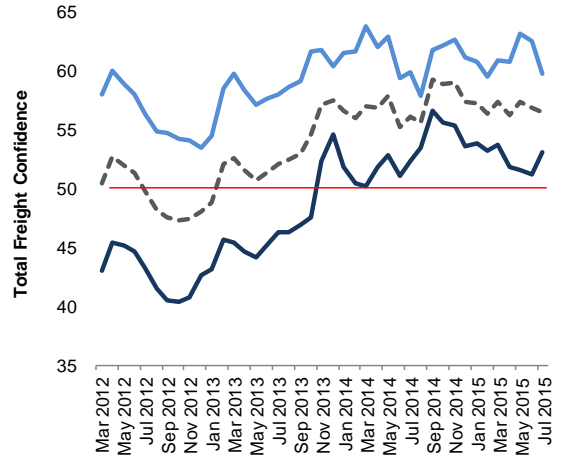
## Overview – July 2015

The July Logistics Confidence Index fell by a marginal 0.4 points from June to a reading of 56.4, but the results were more positive, in our view, than the raw numbers let on. Aggregate current ocean volumes returned to black after two months of contraction, while airfreight remains stable. The driver of the overall index decline ultimately came from some tempering of the six-month outlook, which has been and still remains quite robust.

Results by mode: the overall airfreight index fell 1.6 points to 58.0, with a 0.2 point drop in the present situation, while the expected situation declined 3.1 points. The overall sea freight index gained 0.9 points with a 3.9 point recovery in the present situation offsetting a 2.2 point decline in the expected situation.

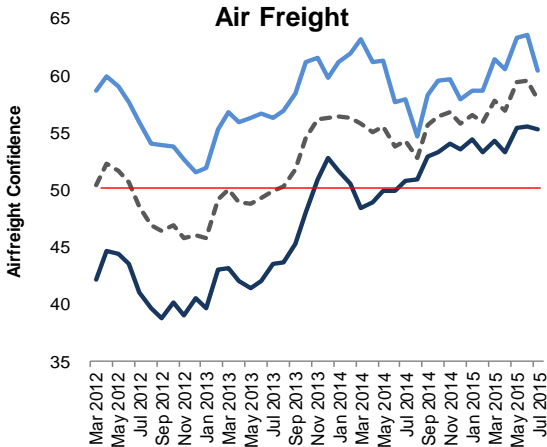
For July's monthly question, we asked respondents to report their revenue breakdown from various logistics activities on European lanes. The results indicate that ~30% generate more than half of their revenue from forwarding activities, while 56.9% generate less than 5% from customs clearance, and 57.6% generate less than 5% from consulting/trade management services.

### Total Freight

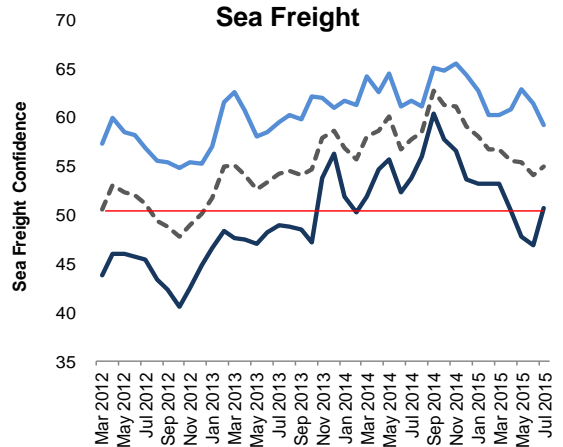


The logistics situation index illustrates current condition faced by forwarders, while the logistics expectations index shows how the situation is expected to develop over the next six months. The logistics confidence index, an average of both the present situation and expected situation indices, expresses overall confidence in the market.

### Air Freight



### Sea Freight



— Present Situation    - - - Logistics Confidence    — Expected Situation

	Present Situation	Expected Situation	Confidence
<b>Mode</b>	<b>Jul 2015</b>	<b>Jan 2016</b>	<b>Average</b>
Air Freight	55.4	60.5	58.0
Sea Freight	50.7	59.1	54.9
<b>Total Freight</b>	<b>53.1</b>	<b>59.8</b>	<b>56.4</b>

Source for all data and graphs: Stifel Logistics Confidence Index

## Air Freight Confidence Index

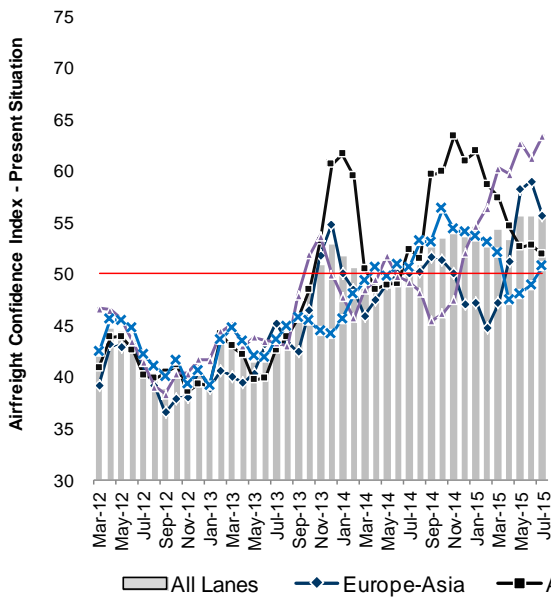
The total airfreight logistics confidence index fell 1.6 points to 58.0 in July 2015. This month's reading was 3.6 points higher than it was in July 2014, and a full 8.0 points higher than in July 2013, suggesting that the market continues to improve from its 2012 sovereign debt crisis-driven slump.

In terms of the present situation, the airfreight index registered only a slight decline of 0.2 points from last month's record 55.6. By and large, the market remains robust, and continues to support our belief that airfreight should remain strong through 2015.

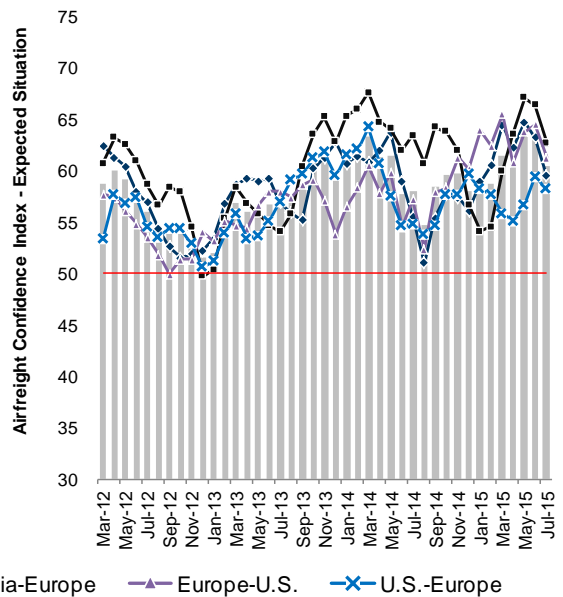
Present situation results from the individual lanes were mixed, with both the Asia to Europe head-haul and the Europe to Asia backhaul registering declines—down 0.9 points to 51.9 and 3.4 points to 55.6, respectively. The Europe to U.S. lane, however, gained 2.2 points to reach 63.4, while the U.S. to Europe lane rose 1.8 points and crossed into expansion territory at 50.7.

For the six month outlook, the expected situation index for total airfreight tempered slightly, losing 3.1 points to reach a still-optimistic 60.5. All reported lanes lost some steam, with Asia to Europe and Europe to Asia both falling 3.7 points to 62.7 and 59.5, respectively. Europe to the U.S. was down 3.2 points to 61.3, and the U.S. to Europe lane lost 1.2 points to 58.2.

**Current Market**



**Six-Month Outlook**



All Lanes
  Europe-Asia
  Asia-Europe
  Europe-U.S.
  U.S.-Europe

Trade Lane	Air Freight		
	Jul 2015	Jan 2016	Confidence
Europe-Asia	55.6	59.5	57.6
Asia-Europe	51.9	62.7	57.3
Europe-U.S.	63.4	61.3	62.4
U.S.-Europe	50.7	58.2	54.5
<b>Total Index</b>	<b>55.4</b>	<b>60.5</b>	<b>58.0</b>

Source for all data and graphs: Stifel Logistics Confidence Index

## Sea Freight Confidence Index

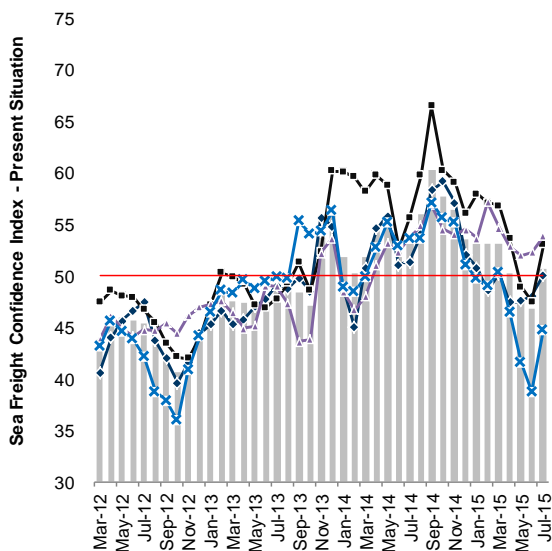
For sea freight, the logistics confidence index rose 0.8 points to 54.9 in July. Compared with the same month in 2014, the index was 2.8 points lower, but it was up 0.7 points compared to July 2013. These results suggest, in our view, that in a longer-term context, the sea freight market remains challenged.

Nearer-term, the market showed some improvement. For the present situation, the index rose 3.9 points sequentially to 50.7, returning to (slight) growth after two months of contraction. All lanes improved over last month's disappointing results, with the U.S. to Europe lane up 6.1 points to 44.8, Asia to Europe up 5.5 points to 53.0, Europe to Asia up 2.0 points to 50.1, and Europe to the U.S. up 1.6 points to 53.9.

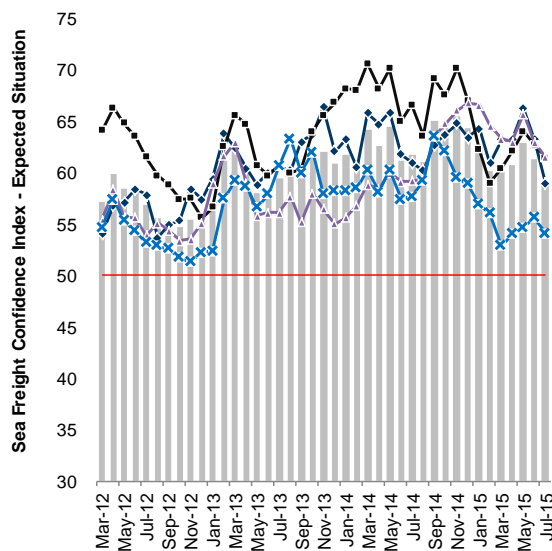
The expected situation index for sea freight, on the other hand, lost 2.2 points sequentially, dragging down the blended logistics confidence indicator, but the loss was less significant in our view, as six-month expectations for sea freight remain for growth—above the threshold 50-mark at 59.1.

All lanes declined with regard to expectations. Europe to Asia lost the most ground, down 4.4 points to 58.9, while the U.S. to Europe and Europe to U.S. lanes both decreased by 1.5 points to 54.1 and 61.5, respectively. The Asia to Europe lane lost 1.4 points, falling to 61.4.

**Current Market**



**Six-Month Outlook**



All Lanes    
  Europe-Asia    
  Asia-Europe    
  Europe-U.S.    
  U.S.-Europe

Sea Freight			
Trade Lane	Jul 2015	Jan 2016	Confidence
Europe-Asia	50.1	58.9	54.5
Asia-Europe	53.0	61.4	57.2
Europe-U.S.	53.9	61.5	57.7
U.S.-Europe	44.8	54.1	49.5
<b>Total Index</b>	<b>50.7</b>	<b>59.1</b>	<b>54.9</b>

Source for all data and graphs: Stifel Logistics Confidence Index

## **Methodology**

The Stifel Logistics Confidence Index is calculated based on responses from a monthly survey, completed by a number of logistics professionals. The survey questions participants as to volumes that they are currently experiencing, relative to the time of year, as well as how they expect volumes to develop over the next six months. The total index covers four European based trade lanes, including:

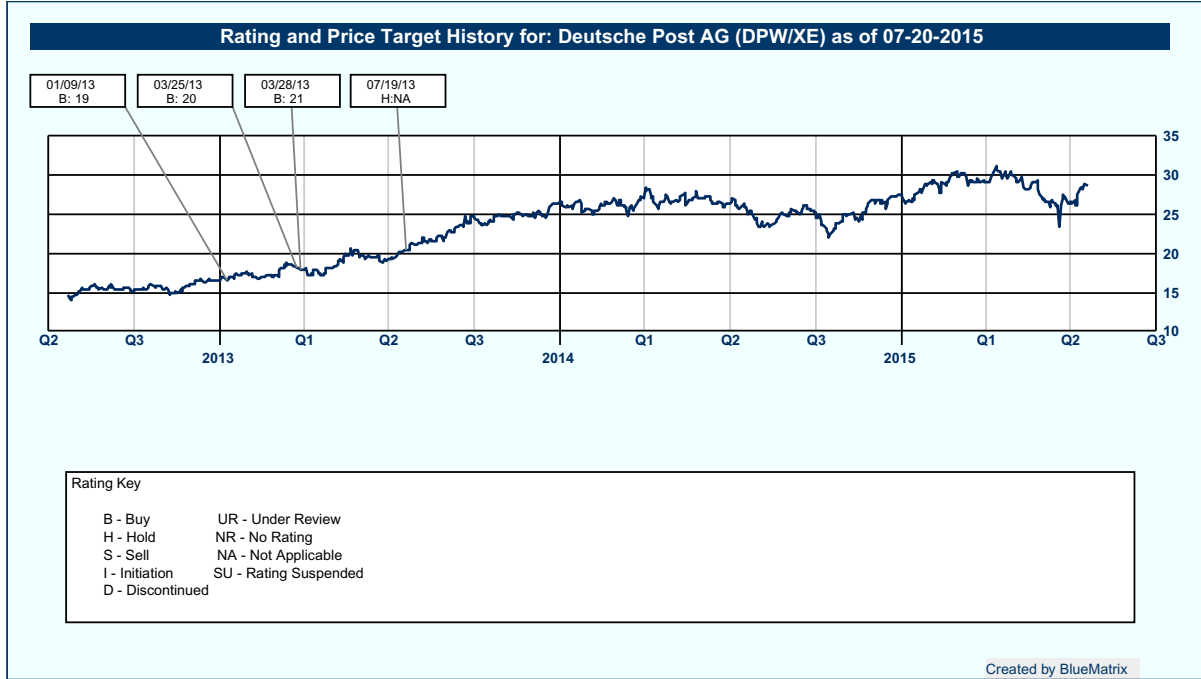
- Europe to Asia
- Asia to Europe
- Europe to U.S.
- U.S. to Europe

These trade lanes form four sub-indices, from which an overall index for both the air freight industry and sea freight industry is calculated. An index value of 50 indicates no change in the volumes of partaking logistics companies; above 50 indicates higher volumes, while below 50 indicates lower volumes.

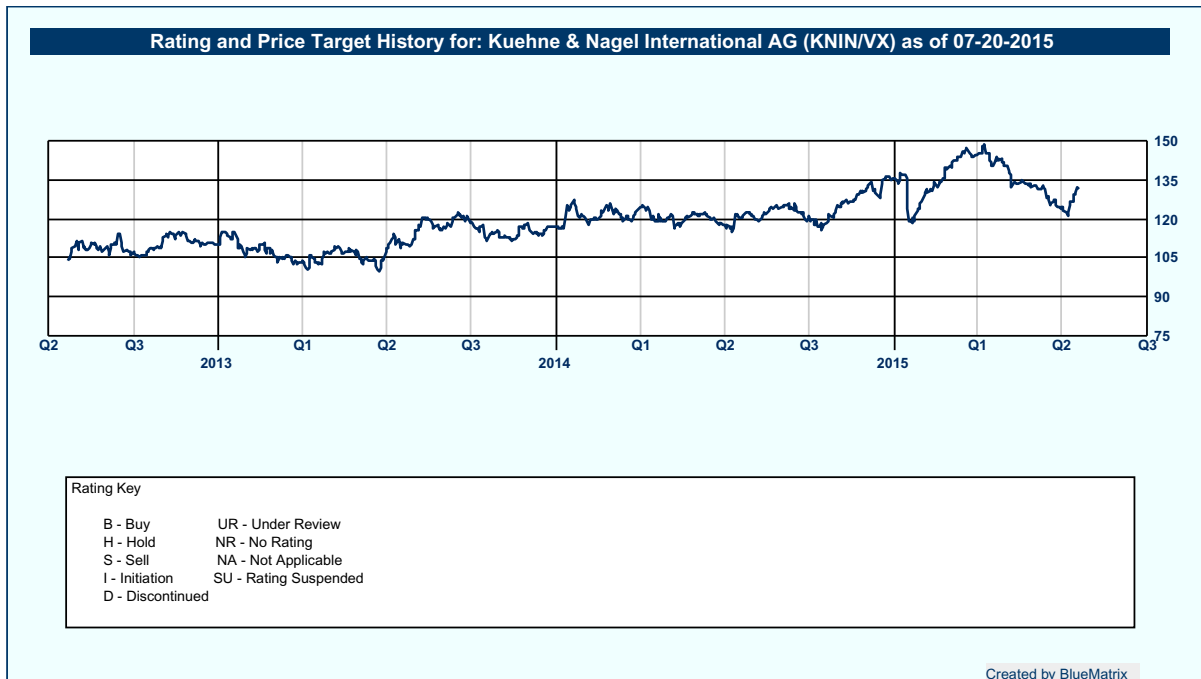
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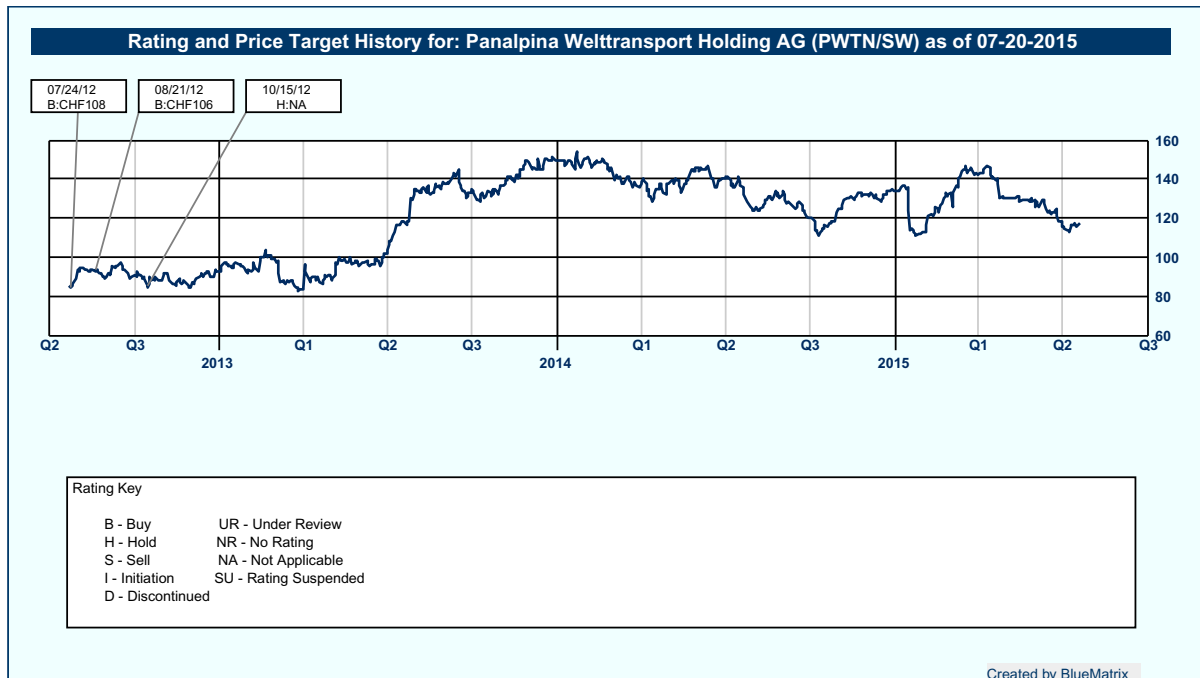


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