



Supply chain update

July 2022



Supply chain overview



1 What is happening in the global supply chain?

2 Update on the cost conditions that are driving inflation.

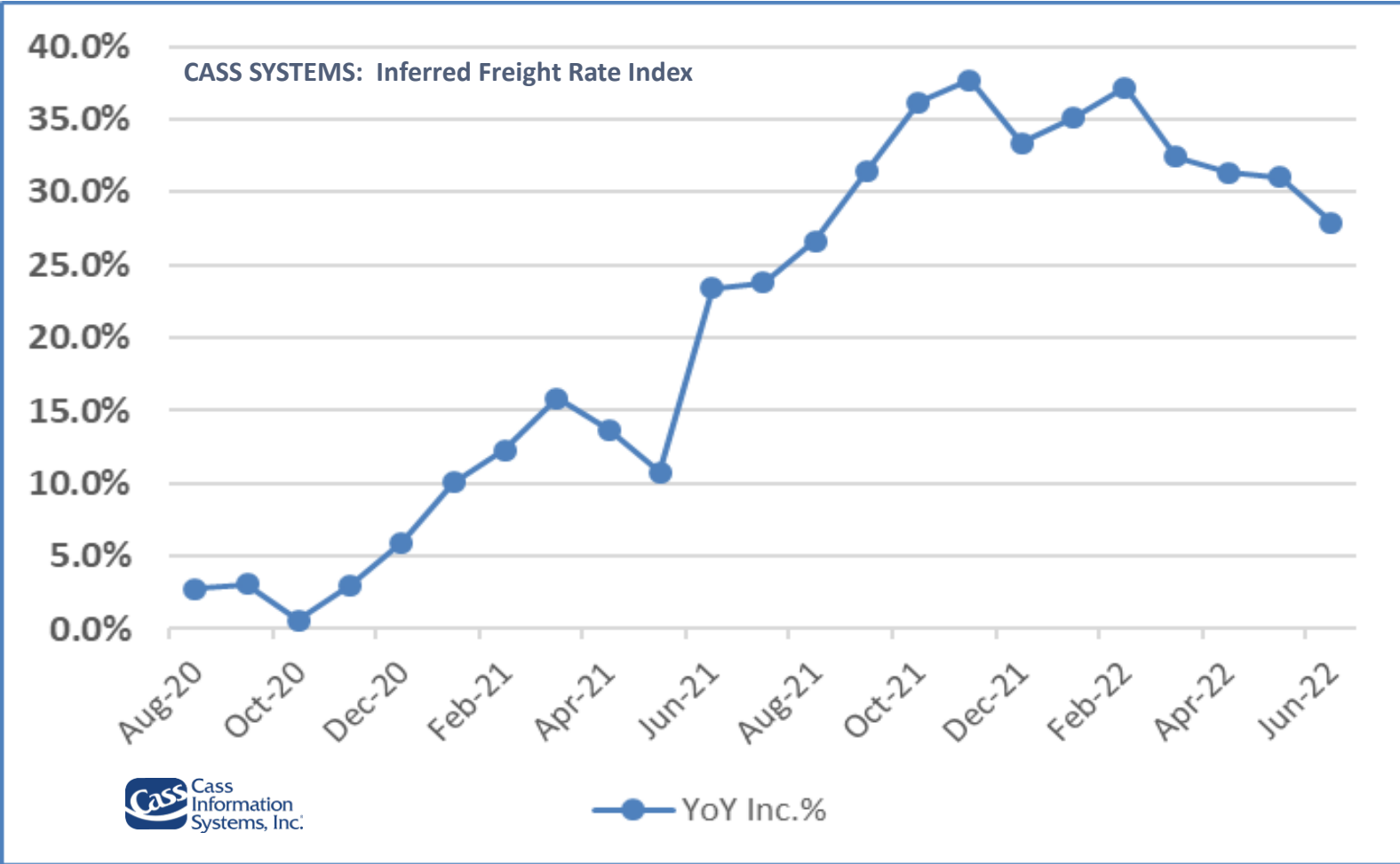
3 What is Medline doing to mitigate these global impacts?



Supply Chain Challenges

Domestic freight costs

Year over year freight rate movement across all modes

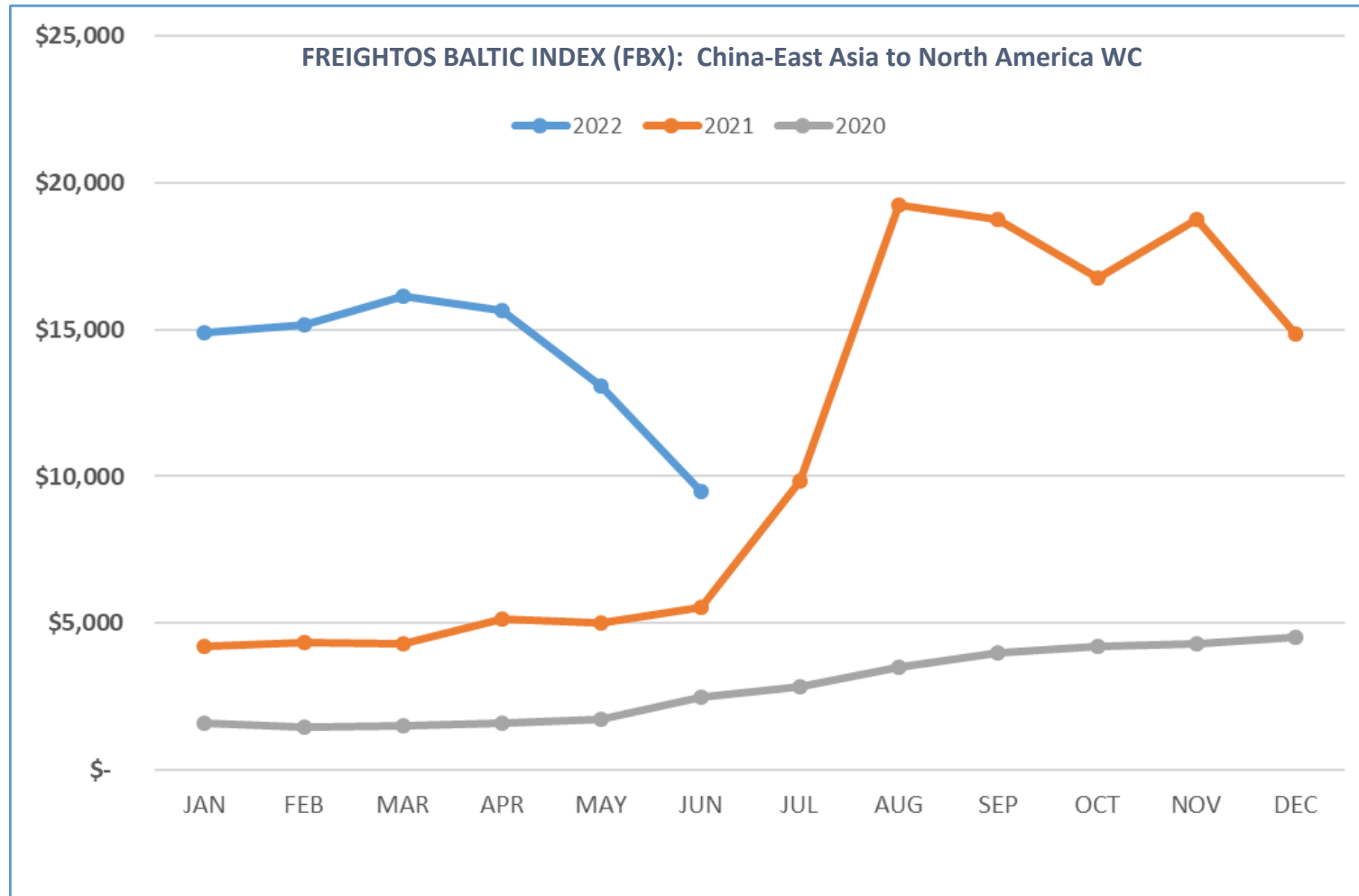


- Rates up 25%+ in June 2022 vs. August 2020
- Increases in freight rates reflect changes across all Modes of transportation
- Data source: CASS Freight Payment Systems

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Import freight costs

Demand up YoY, but pace is slowing. CN port lockdowns may impact this trend..

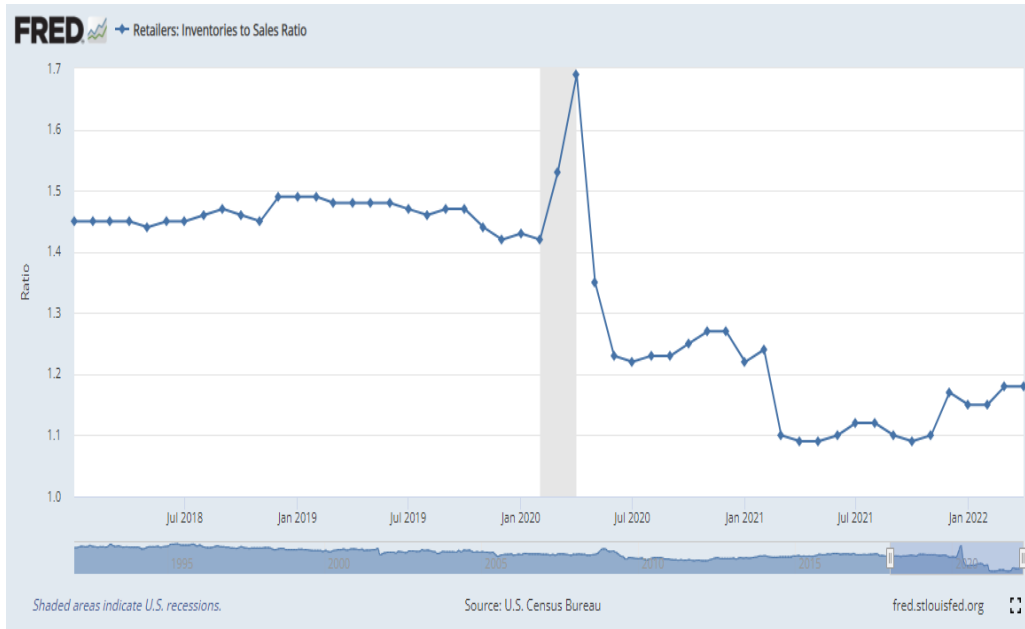


- **Spot rates** "easing", but still holding at record YoY highs
- Premiums, in addition to spot quotes, common-place in the market
- Spots rates in the \$9K to \$10K range

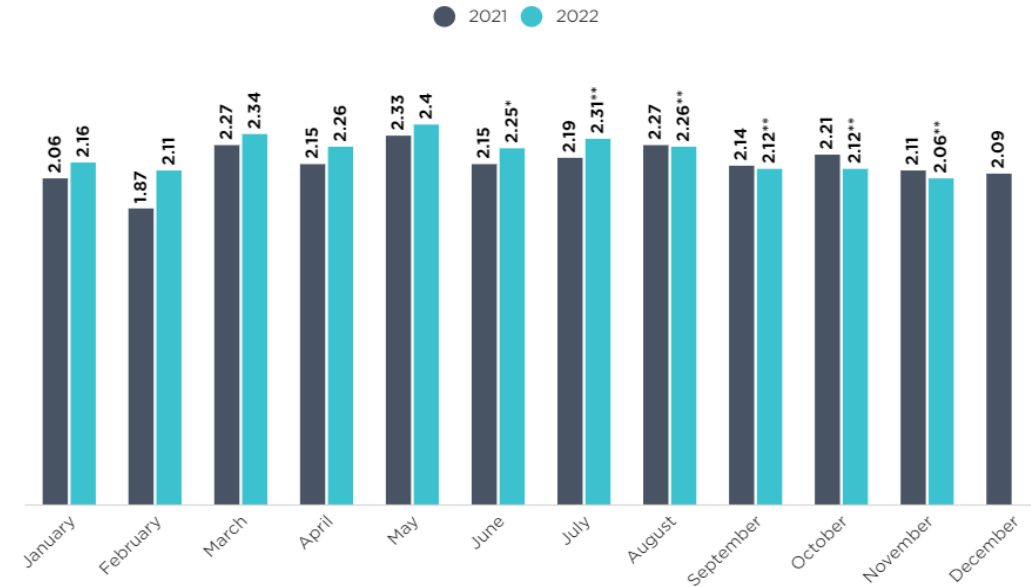
Record import volume carries into 2022



Retail inventory levels rising



2022 Retailer import forecast



Source: NRF/Hackett Associates Global Port Tracker *Estimated **Forecast

- “Imports will ease the back half of the year – but expected to finish above 2021 record levels.” (NRF 06/8/22)
- 2022 Port Tracker illustrates YoY gains in the first six months of the year

JAN	FEB	MAR	APR	MAY	JUN
5%	13%	3%	5%	6%	5%

Global shipping challenges cause delays



60% of global goods move by container

Ocean

Shipping time
2x – 3x longer



Empty shipping containers are needed in Asia to ship medical supplies back to the U.S.



Lack of empty containers causing 1-2 week backlog in Asian ports



U.S. typically returns 1 empty container for every 2 it receives; currently 1 container sent back for every 3-4 received



Container shipping rates up to 5-7x higher

WC Ports

Delays on arrival
3x longer



Ships wait longer to dock, and unloading times are longer too



Container ships anchoring 7-8 days while awaiting dock space



With fewer workers available due to COVID, offloading can take 2x longer



2-3 week delays

Land

Driver shortages and rail delays limit delivery capacity



A dramatic increase in e-commerce is exacerbating the shortage of commercial drivers



62% increase in e-commerce over past year exacerbating driver shortage



Truck driver availability at lowest point in 3 years



Freight volume by truck up 37% over last year



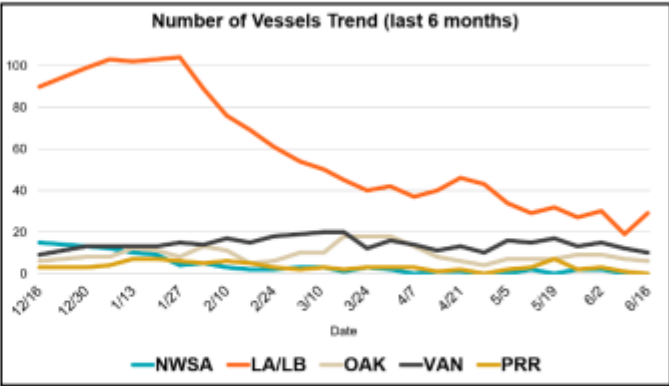
Port status

Market: Port Status

As of 06/16

29 Ships at anchor or drifting outside CA Ports.

Port	At Anchor / Drifting as of 6/16/22
NWSA	0
LA/LB	29*
Oakland	6*
Vancouver	10
Prince Rupert	0



* These totals incorporate the new container vessel queuing process for [LA/LB](#) and [Oakland](#).

- USWC port improvement stalls as negotiations linger.
 - Ship dwell down to 7-9 day delays in LA/LB. Lack of chassis and dray carrier capacity causing pinch points
 - USEC has become a bigger pain point with 60+ vessels at anchor waiting to unload
- Shanghai lockdowns removed. Port slowly ramps back up toward historic norms.
 - Concerns over a pent up “demand surge” have not materialized as of yet.
 - Productivity not back to 100%, as trucker testing requirements and labor shortfalls remain.
- Liners “blank” approximately 12% of vessel capacity from Asia to the US in June
- Congestion will remain into Q3 of 2022. Rates to stay elevated thru 2022

West coast backlogs improving



Chart: American Shipper based on data from Marine Exchange of Southern California



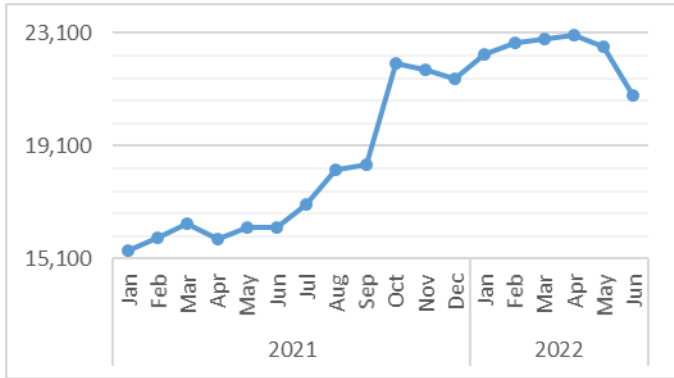


Cost Conditions

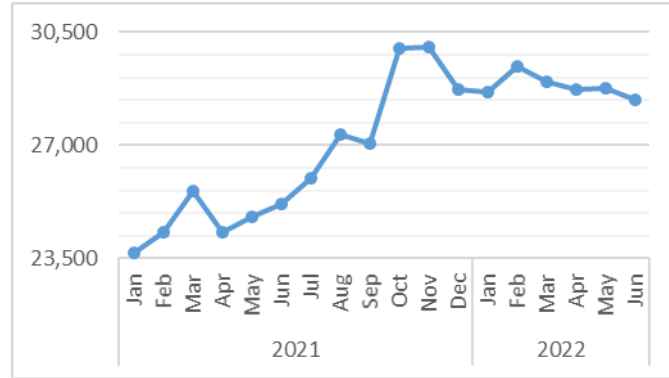
Material Inflation



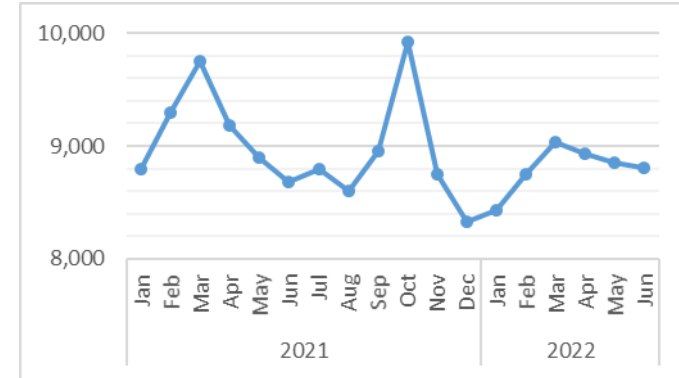
Cotton +38.1% QTD vpy ↑



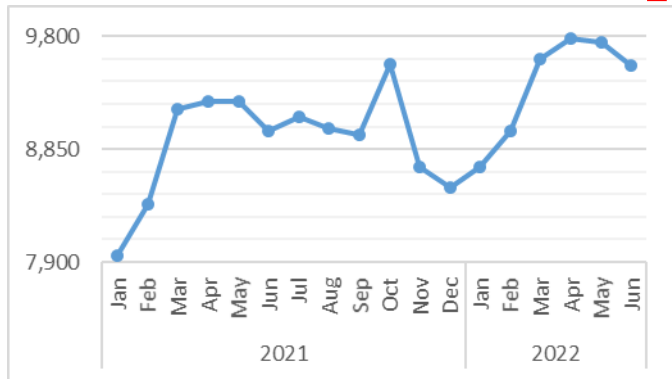
YARN +18.3% QTD vpy ↑



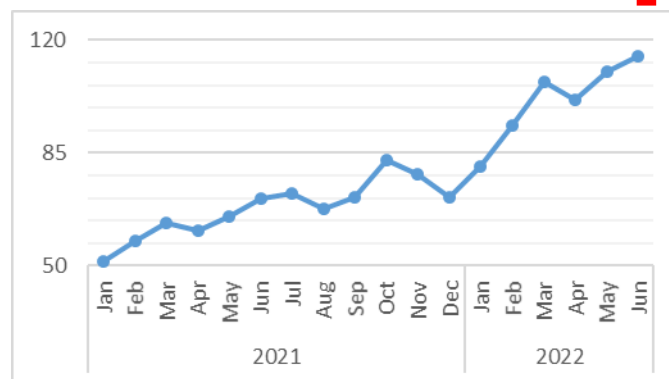
Polypropylene -0.67% QTD vpy ↓



HD Polyethylene +5.7% QTD vpy ↑



Crude Oil +65.5% QTD vpy ↑



Customer delivery expense trends



The driver shortage continues to worsen



Contributing factors

COVID-19

- 40% drop in CDL training due to school closures
- OTR truckload driver count hit lowest point since 2012

Rising recruiting costs

- In 2020, the cost per applicant in June was 60% higher than it was in January
- Carriers with over \$30 million in annual revenue had a 98% turnover rate (ATA)
- TL sector turnover rate: 90%; local and LTL turnover rate: 10%

Sources: Freightwaves 4.6.21

How does inflation work?

Inflation represents the rate at which the cost of goods and services increase over a period of time

Demand-Pull



When demand for goods/services exceeds production capacity.

Cost-Push



When production and raw material cost increases

Built-In



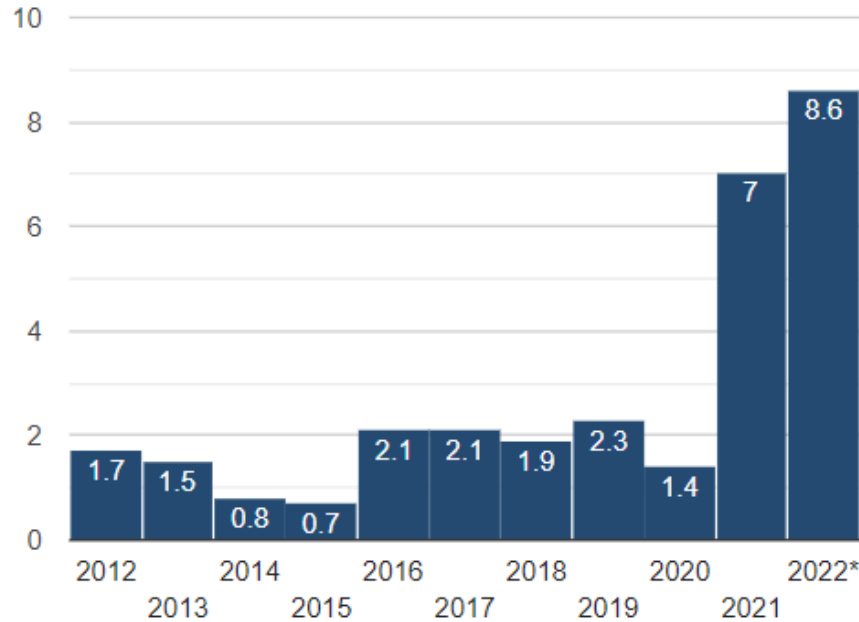
When prices rise, wages rise too, in order to maintain living costs.

Source: <https://www.investopedia.com/terms/i/inflation.asp>

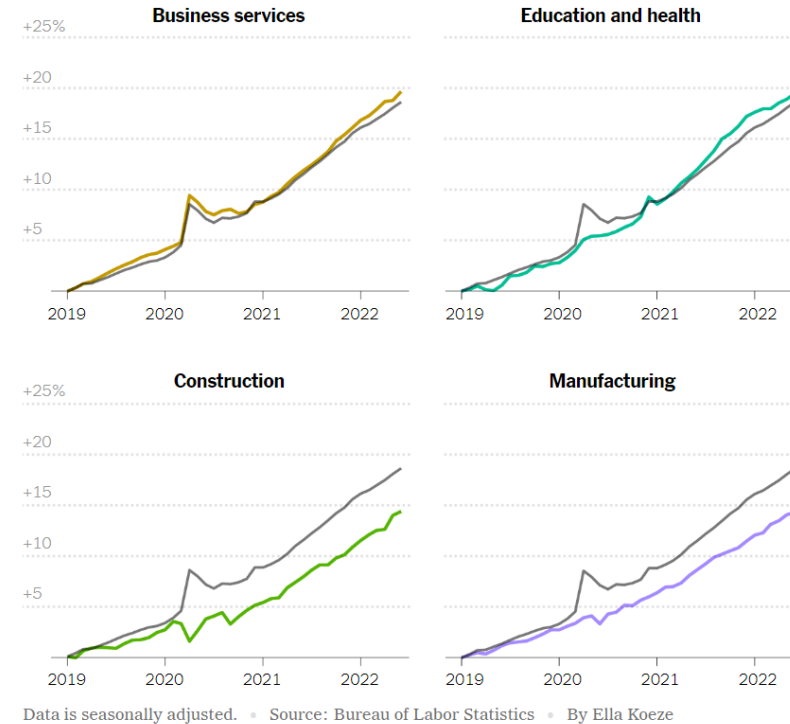
Inflation / Wages



Chart: United States Annual Inflation Rates (2012 to 2022)



The annual inflation rate for the United States is 8.6% for the 12 months ended May 2022, the largest annual increase since December 1981, and after rising 8.3% previously, according to U.S. Labor Department data published June 10.



Wages continue to climb rapidly; average hourly earnings picked up by 5.1 percent in the year through June.

Recent pay gains have been fast enough that they make it difficult for rapid inflation to slow. That is because as companies pay more, they typically try to cover their costs by raising prices.

15 *The latest inflation data (12-month based) is displayed in the chart's final column





Medline actions

Medline action plans

- **Expanded carrier options** across all three alliances.
 - Additional partners brought on thru 2022
 - Partnering with China, EU and US based NVOCC providers
- Negotiated priority access on **expedited services** from Asia to the USWC: Air and ocean—direct calls to specific terminals.
- **Premium contract rate** tiers engaged to protect capacity and support growth
- Implemented **3PL solutions** to navigate pinch points in Asia and the US



Medline action plans

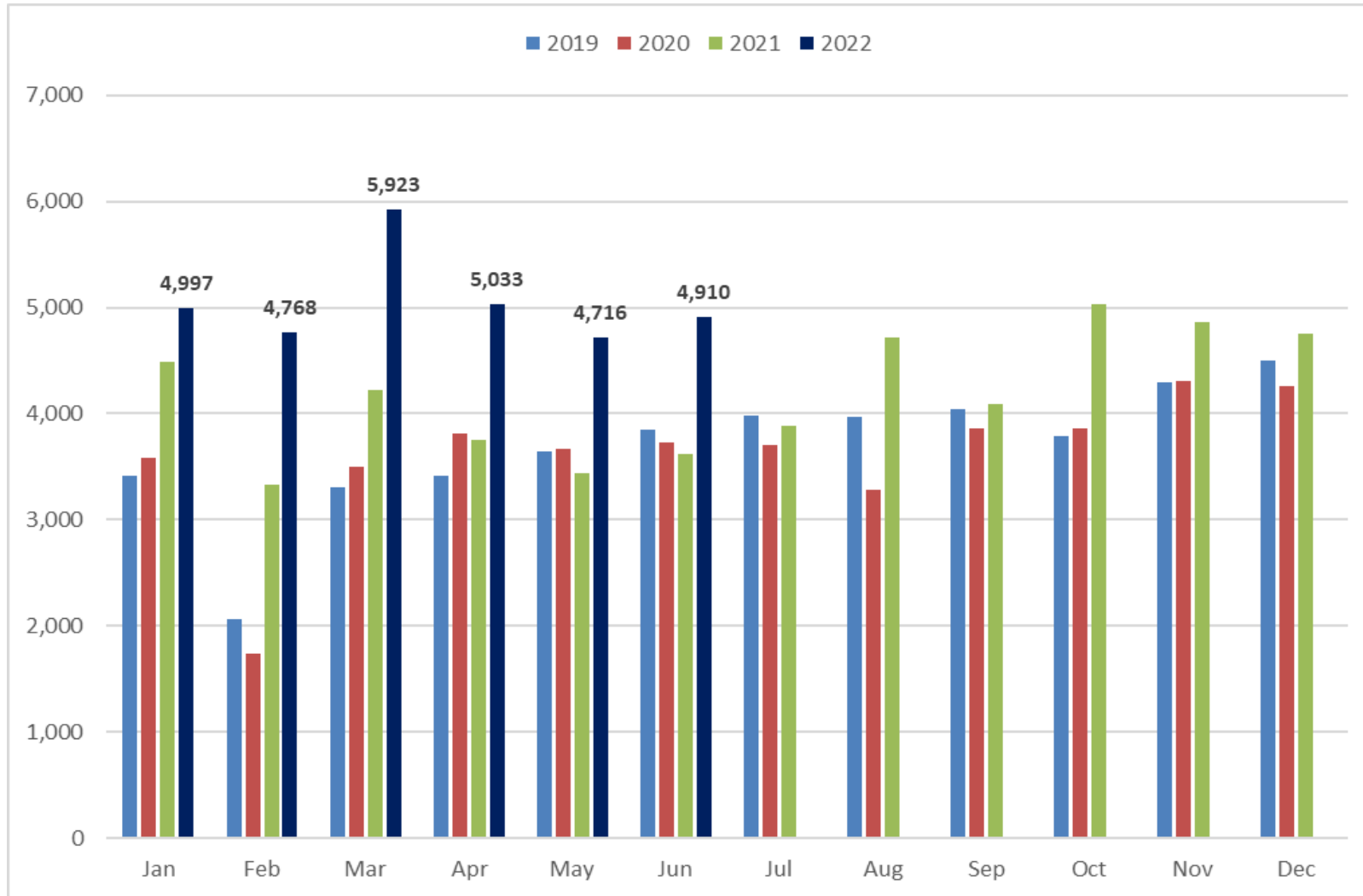
- Expanded transship network
 - Operating high velocity import deconsolidation centers on both coasts
- Shifting cargo to bypass extreme congestion
 - Increased USEC routings by 33% YTD. “Directs” ramped up 40% YoY
 - Expanded entry points (Houston, Seattle, Prince Rupert, Norfolk, etc..)
- Increases in target inventory levels across all channels
 - Accommodations for increased transit time and increased risk
 - Pro-Active reporting on items at risk
 - Medline containers sailing from Asia up 30% YTD.
 - Earlier than normal ordering for Chinese New Year factory shutdowns



New Savannah Site: 1.3M square feet. Opened Mar 31

Medline action plans

No. of Monthly FEUs sailed into NA: 2019 thru June 2022



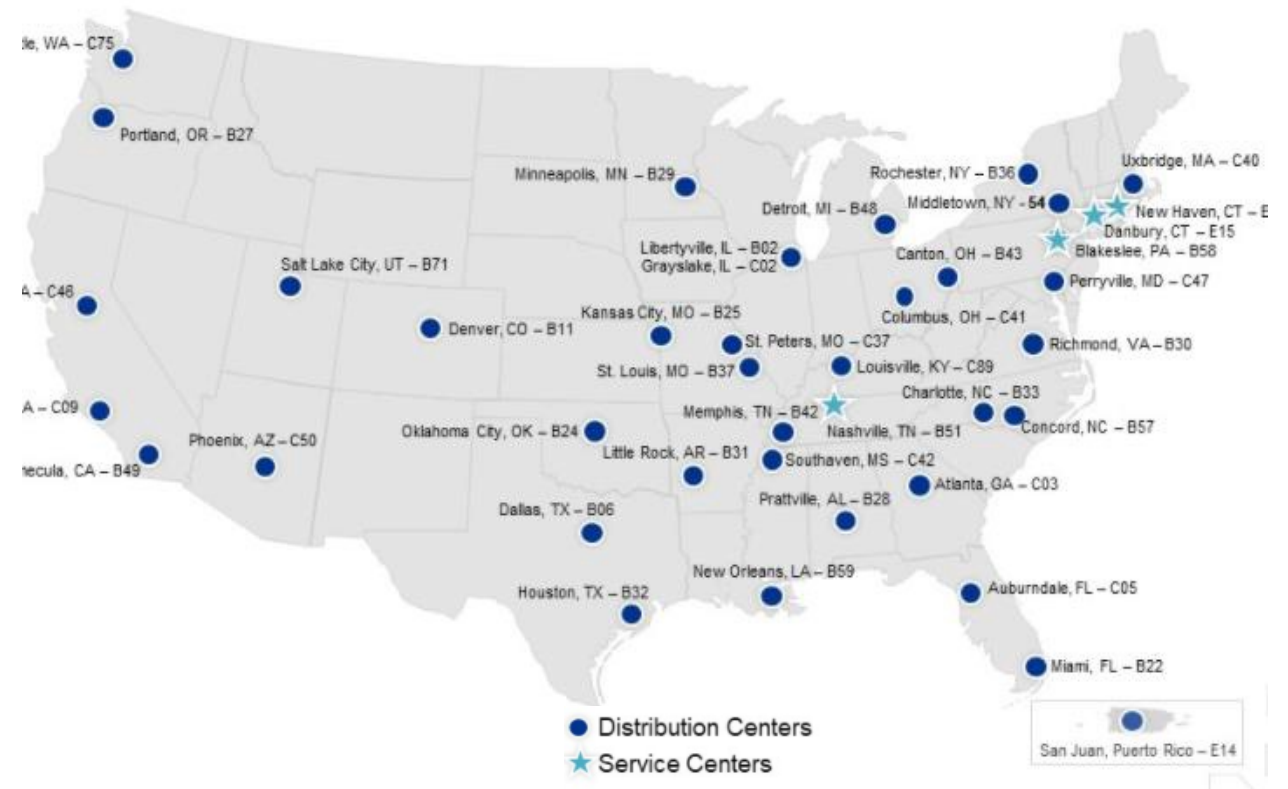
- **Despite major disruptions** in the back half of 2021, the last eight months recorded record monthly sailings into the US for Medline.
- Momentum continues to build in Q2 2022 - but at significantly higher cost base.

Medline action plans



- **Leveraging the network to protect supply**
 - Shifting cargo to help plug in gaps
 - Inventory rebalancing
- **Expedited freight options**
 - Premium options activated
 - Transships and hubs
 - Increased 220% YTD
- **Dock prioritization tools**
- **Rescue capabilities**
 - MedTrans
- **Customer Emergency Response Tool – CERT™**
 - Helps ensure you have the PPE you need
 - Medline owned inventory with a monthly subscription fee

42 DCs = Greater resiliency

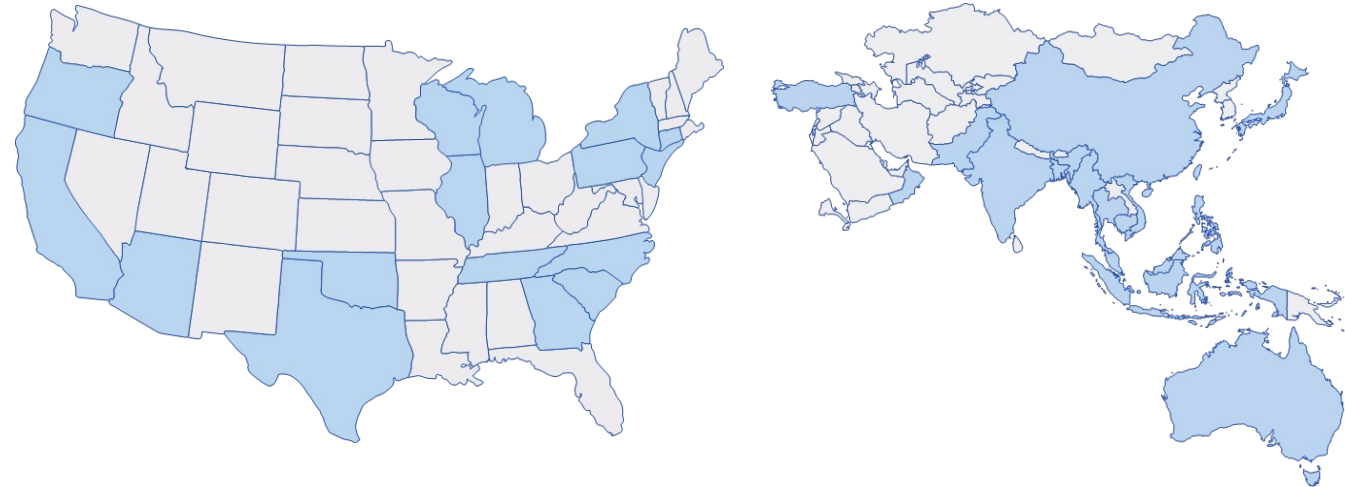


U.S. and global footprint

Medline manufacturing and sourcing partnerships



Medline has a diverse and expanding supply chain based on **Medline-owned domestic manufacturing** and a global base of **manufacturing and sourcing partnerships across 20+ countries** in Europe, Asia and Australia.



20+
North American
manufacturing
facilities

>50%
Medline-brand
sales are products
manufactured
in North America

45+
U.S. Distribution
Centers

Global footprint
of partnerships
in **more than
20 countries**

PPE
diversification
5 finished goods
7 manufacturing
locations

Ownership of our supply chain Matters



Medline Brand Product complete control over production, quality and cost



- Largest privately held manufacturer of healthcare supplies in the US
- 120,000+ Medline-brand products addressing all med-surg and lab needs
- Growing network of 30+ manufacturing centers in 8 countries
- Flexibility to make products to customer specifications

Medline Warehouses strategically located close to our customers to maximize service



- Expanding network of 75+ distribution centers worldwide
- Next-day delivery to 99% of the US
- 2+ months of inventory held for each customer
- AI and robot-assisted technology for efficient, complete and on-time order fulfillment

Medline drivers and trucks Helps to enable supply chain continuity



- 1300+ MedTrans trucks nationwide
- Medline-employed drivers and team of external parcel and LTL delivery partners
- Dynamic route planning system for reduced emissions and max cube
- Allows rapid response during natural disasters



Thank you